

Creating value from regeneration

David Partridge explains, from a developer's perspective, how a multi-tiered approach is part of a successful regeneration plan.

Creating value through the pro-active development of land involves, in a simplistic form, securing a site, achieving planning permission, building a building, attracting an occupier and then crystallising value.

However, the Argent Group also uses as fundamental to its approach the creation of new environments, or 'places', to anchor the development in the minds of the local people. We achieve this by concentrating first on establishing a new public realm at the heart of our projects. At Brindleyplace, for instance, the central square, complete with sculpture, fountains and landscaping, was laid out and constructed before a single commercial building had been commenced; a new bridge over the canal connected this space to Birmingham's International Convention Centre. Immediately, the development became part of the mental map of the city by giving people the opportunity to flow through it.

Connectivity

This theme of connectivity is the second major facet of our approach. Accessibility to public transport is becoming more and more crucial to living and working patterns in all of our cities, and there is no better opportunity to capitalise on this than at King's Cross where local, national and international travel is so highly concentrated. In the same way, our scheme at Piccadilly Place in Manchester is connected directly to Manchester Piccadilly station by a new footbridge that we have built.

These two attributes of our development approach allow previously redundant, often post-industrial, sites to be opened up to the city around them and to establish themselves as addresses in their own right. This immediately turns their value round to something comparable with (although initially at a discount to) the prime pitch. At the same time, the very fact of rendering the land more accessible increases the regeneration prospects of the surrounding area.

In order to turn those prospects into reality it is then crucial to focus on achieving a critical mass of development, to sustain a high level of public usage. This involves creating a mix of uses from commercial to residential and retail to leisure, so as to maintain the flow of people (the life blood of the city) all through the day, all through the week and, from a financial point of view, all through different economic cycles. By trying to avoid a sterile mono-culture, whether office dominated, a 'fortified' residential scheme or a self contained shopping centre, Argent's development projects have become part of the rich mix of the city, and their investment value has become more robust as a result.

Partnership approach

To further reinforce this, we try hard to think beyond the red line of our sites in themselves. This involves working in close co-operation with all of our neighbours and other investors in the surrounding area, to ensure that our individual interests provide a cohesive and comprehensive offer to the market – the whole becomes more than the sum of the parts. In Piccadilly, Manchester, we were the founding members of the Piccadilly Partnership which has been instrumental in gearing over £1bn of investment into the area and turning Piccadilly's profile round dramatically in the process. Similarly in Birmingham, Argent chairs the Broad St Business Improvement District (BID) which seeks to ensure that this popular part of the city, which is also the doorstep to our major investment at Brindleyplace, is properly maintained and promoted.

This partnership approach can only be achieved by being able to invest for the medium to long term and Argent is extremely fortunate to be able to do this through the backing of our sole shareholder, the British Telecom Pension Scheme (BTPS). Because we do not take a short term view, whereby the realisation of a quick return is paramount, we can manage our assets over time, both physically and economically, to capitalise on the uplift and growth of values which we have created. At Brindleyplace, we held over the last phases of development and injected them, together with two earlier buildings, into The Brindleyplace Limited Partnership, a co-ownership vehicle 50% owned by a consortium of private investors and 50% owned by funds advised by Hermes and by Argent. This fund has achieved over 100% return on equity since it was formed in 2004.

At King's Cross we will be holding the most part of the 8m sq ft estate in a similar, liquid co-investment vehicle, with the potential for conversion into a REIT once the development phases are largely complete.

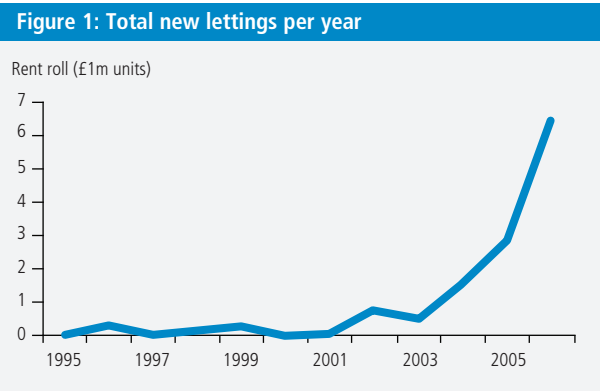
All of the above are essential to achieving real, lasting and sustainable regeneration, but none of them would be powerful enough without a local authority with vision and a similar long term view – not least because they are often the body who control much of the land on which that regeneration can take place. At Piccadilly Place in Manchester, the city council along with the Greater Manchester Passenger Transport Executive injected the development site into a joint venture with Argent for a peppercorn, which converts to a 10% gearing on all income, once it starts to flow. Not having to pay a site price, Argent was able to dedicate its resources to putting in the infrastructure necessary to create the environment, the connectivity and the critical mass to kick-start the development. Based on current values the returns to the landowners are likely to be about 10 times that which they might have received as a land price in 2002. So all parties have benefited enormously.



**David Partridge,
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Physical regeneration however, is not sufficient on its own, without real value being created through increased financial returns and it is important to understand what impact this sort of activity can have on the property market.

The graph below charts rental values of commercial space (total rent roll of lettings in each year) in the Piccadilly area of Manchester from 1995 to 2005 by plotting significant individual lettings of Grade A and B space throughout that time. It demonstrates a significant step change in 2004-5 as a result of the lettings Argent achieved at One Piccadilly Gardens (particularly to the Bank of New York). The rise in overall perception coupled with the real increase in quality engendered by our developments and the aspirations promoted by the Piccadilly Partnership, ensured that the uplift in values spread across all of the area and benefited all of our fellow investors and partners.



This geographical spread, or ripple effect, is equally evident in the area around Brindleyplace in Birmingham as shown in the photographs and pie chart opposite. Catalysed by Argent’s activities in the 1990s, development has accelerated and spread to the surrounding area and into alternative sectors (residential and leisure). This has had the result of cementing the values of Brindleyplace itself as part of the prime pitch of the city.

Argent’s experience is that real regeneration on the ground can create real value too. We are looking forward to the opportunity to put this experience into practice at Kings Cross in the not too distant future.

