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Urban Regeneration: opportunities for property investment

Research Findings

August 2009

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This programme supports the IPF's wider goals of enhancing the knowledge, understanding and efficiency of property as an investment class. The initiative provides the UK property investment market with the ability to deliver substantial, objective and high quality analysis on a structured basis. It will enable the whole industry to engage with other financial markets, the wider business community and government on a range of complementary issues.

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URBAN REGENERATION: OPPORTUNITIES FOR PROPERTY INVESTMENT

Research Report

IPF Research Programme 2006–2009

August 2009

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EXECUTIVE SUMMARY

This report presents the findings of research on the evolution of regeneration policy, practice and thinking in the United Kingdom. Definitions of regeneration have changed significantly over time and are currently influenced by concepts of sustainability, raising value, promoting entrepreneurialism as well as developing innovative ways of attracting private investment. The UK has occupied a pioneering role in the development and shaping of urban policy across Europe and whilst European models of regeneration best practice provide opportunities for innovation and learning, care should be taken not to undervalue or diminish the achievements of regeneration policy in the UK.

Regeneration has been at the forefront of successive government manifestos and has contributed to a dramatic transformation in the urban fabric of many UK towns and cities. In spite of these much heralded achievements regeneration policies have proven less successful in closing the socio-economic gap between the poorest neighbourhoods and the rest of society. Whilst significant inroads have been made, particularly over the last decade to narrow this gap, the consistency with which certain neighbourhoods appear in national deprivation indices is testimony to the inability of regeneration policies to address the needs of communities where the symptoms of urban decline have become entrenched.

Government remains committed to sustaining the urban renaissance but increased pressure on government finances has intensified the need to attract substantive levels of investment from the private sector. This report highlights the changing role of government within regeneration from principal financier to one of facilitator, creating the conditions necessary to attract enhanced levels of private sector investment. Among the most recent innovations designed to attract private investment into regeneration are Local Asset Backed Vehicles (LABVs). The asset backed structure has already been successfully established at the regional level and, if successfully rolled out at local authority level, has the potential to revolutionise how regeneration is funded.

Initial uptake of the LABV structure among local authorities has been slow and the robustness of the structure is likely to be severely tested by the downturn in the property market. The 2008 edition of the *IPD Regeneration Index* shows that the value of regeneration property has fallen more steeply than the prime market in the current downturn. Regeneration schemes are likely to find it extremely difficult to attract investment in the downturn as investors concentrate activity on the 'safer' prime property market. Nevertheless, regeneration property has proven to be a robust investment option in the medium to long term and should therefore not be ignored as a viable investment option – particularly among investors with extended investment horizons.

1.0 INTRODUCTION

The Investment Property Forum (IPF) commissioned the Universities of Aberdeen and Ulster to undertake a scoping study which reviews the principal dimensions of current urban regeneration policy and practice, identifying how this has changed over time in order to inform decisions on a research agenda going forward.

In the consultation document *Transforming Places; Changing Lives, A framework for regeneration* (DCLG, 2008) government acknowledges the scale of the regeneration challenge. The document reaffirms the need to tackle the barriers to economic growth within the UK's most deprived wards through reducing rates of worklessness and promoting enterprise. The inability of government resources to sustain the urban renaissance is acknowledged along with an admission that regeneration policy must provide a framework for consistent, prioritisation and co-ordination of regeneration investment. Between 2007 and 2011 government will commit over £13 billion in programmes that contribute heavily to regeneration. By setting clear regeneration priorities and allocating resources, it is government's intention to help build confidence and unlock significant private sector investment.

1.1 The research brief

The study, due to the short timeframe, is desk-based and draws on the existing literature to trace the evolution of regeneration policy, highlighting the accomplishments of the various regeneration initiatives as well as the lessons that have been learned to deepen the understanding of urban change and how it can be most effectively tackled. The report includes the views and opinions of some of the most high profile figures within UK regeneration on the major issues currently affecting the sector as well as their aspirations for the future direction of regeneration to ensure that the momentum generated in many towns and cities is sustained.

The Urban White Paper Policy for Inner Cities (DOE, 1977) is widely accepted as a landmark in urban policy development and signalled the start of more than 30 years of direct government intervention to tackle the symptoms of urban decline. A more recent regeneration benchmark is the Urban White Paper Our Towns and Cities: The Future, Delivering an Urban Renaissance (DETR, 2000a) which sets out urban policy for the next quarter of a century. Given these important milestones it is appropriate therefore to put into context what has been achieved. Whilst conventional evaluations of urban policy have taken the format of value for money audits or focused on the outputs of individual regeneration initiatives, this study captures a more holistic perspective of the achievements and failings of urban policy in the last three decades.

The study also coincides with over 10 years of Labour government initiatives that were designed to close the socio-economic gap between the poorest neighbourhoods and the rest of society. The 10 year tenure provides a natural point at which to evaluate the success of these initiatives and to establish how close government has come to realising its aspirations for an inclusive society.

1.2 The research objective

The overall objective is to provide an overview of regeneration research to assist IPF members in identifying existing and emerging issues, highlighting trends and the major lessons that have been learned. This is supplemented by international comparisons of best practice in addressing market inefficiencies and blockages to optimise regeneration delivery.

The overall objective is realised through 11 core research questions. The questions set the terms of reference for the study and provide an overview upon which the report is based. The questions comprise:

1. What are the key existing and emerging issues in regeneration?
2. What are the principal barriers to further private sector investment in regeneration?
3. If availability of finance is not a problem is there an issue with investor perceptions of regeneration?
4. What is the role of the public sector in regeneration and how has this changed over time?
5. What are the current and emerging vehicles in regeneration?
6. What is the risk premium for regeneration?
7. Is the perception correct that the delivery of major regeneration schemes in the UK takes far longer than in continental Europe and USA?
8. What are the return and risk profiles in regeneration relative to the principal investment asset classes?
9. What is the role and scale of mixed-use schemes in regeneration and how has this changed over time?
10. What are the characteristics that produce optimum success in regeneration relative to those that are sub-optimal?
11. What are the essential property, finance and investment skills sets necessary for success in regeneration?

In accordance with the overall research objective the report is focused on the economic and physical dimensions of regeneration, more specifically examining the investment potential of regeneration property as well as the bespoke vehicles which have been developed to facilitate investment in this niche sector of the property market.

1.3 Approach to the study

The study brief placed emphasis upon a desk-based approach to the investigation drawing upon existing literature sources to update the research agenda, facilitate discussions and act as a springboard for further study on the evaluation of investment vehicles in regeneration. The literature based approach to this report provides a solid foundation upon which any subsequent empirical investigation might be based.

An extensive range of published material, including books, professional and academic journals, independent evaluation reports of specific regeneration initiatives as well as government publications were accessed to provide a comprehensive and wide ranging interpretation on the evolution of urban policy, as well as the issues currently pertinent to regeneration industry.

The breadth of the questions posed in the research brief necessitated a wide search of material across themes as varied as urban policy development, the evaluation of area-based initiatives, property investment vehicles, mixed-use schemes as well as international examples of best practice. To facilitate the research process it was decided to group related questions thematically. This enabled the research to be undertaken in a more coherent and efficient manner and reduced the amount of duplication that would have arisen had the questions been addressed on an individual basis.

Three key themes were identified:

The evolution of regeneration: Addressing core questions 1,3,4, 9 & 10.

Investment in regeneration: Addressing core questions 1,2,3,5,6, 8, 9 & 11.

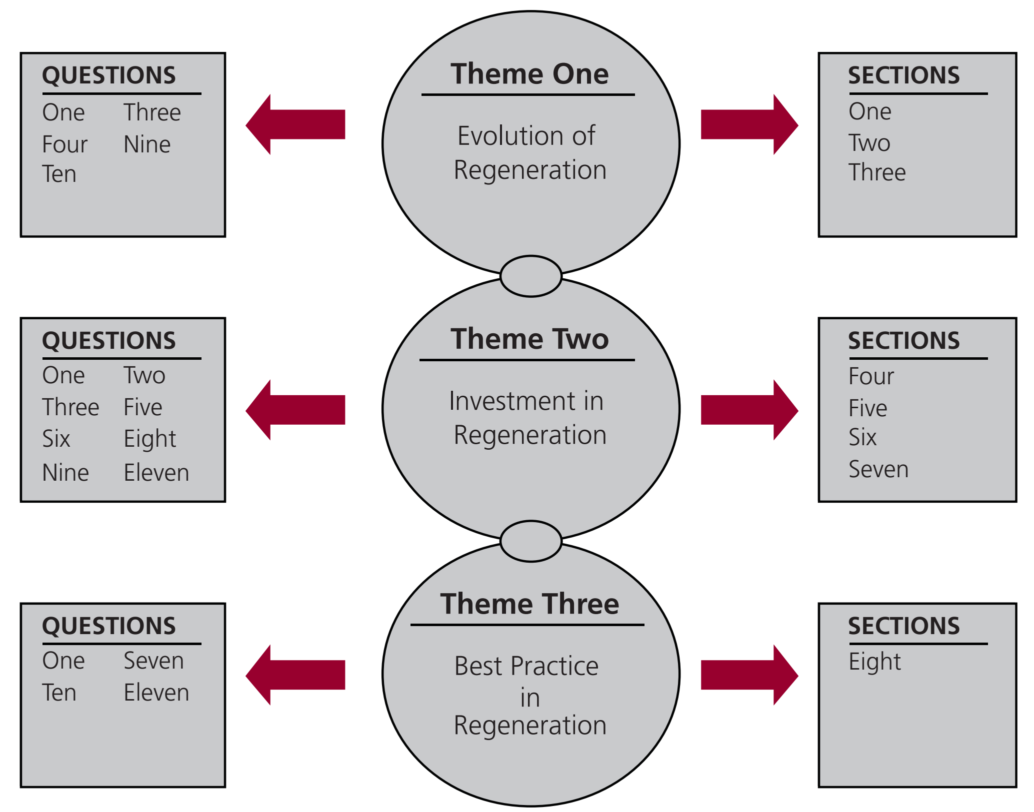
Best practice in regeneration: Addressing core questions 1,7,10 & 11.

Efforts have been made to avoid too many categories as the literature is often interlinked. A number of questions are incorporated into all three key themes and have been addressed comprehensively within the various sections of the report.

1.4 Structure of the report

The report is structured in a manner consistent with the overall study objectives and is based around the three key themes (Figure 1). The first theme focuses on the evolution of regeneration and incorporates sections 2.0 and 3.0. Section 2.0 examines practitioner definitions of regeneration and how these have evolved over time. The changing role of the public sector in regeneration is explored in section 3.0.

Figure 1: Report structure



1.0 INTRODUCTION

Consistent with the second key theme, the report goes on to adopt an investment focus. Section 4.0 examines the achievements of regeneration initiatives that had the attraction of private sector investment as part of their remit. Section 5.0 explores the increasing role of mixed-use schemes within regeneration and highlights how such developments challenge conventional development and investment fundamentals in the UK. Barriers to sustaining the urban renaissance are identified in section 6.0 including the downturn in the property market, the global financial crisis and the need for up-skilling in regeneration practice. Section 7.0 explores the expansion in regeneration investment vehicles and their contribution to attracting private sector investment into regeneration.

Section 8.0 of the report focuses on the third theme – best practice in regeneration. The section examines national and international regeneration strategies and examples of best practice, highlighting the importance of local autonomy over the direction and funding of regeneration.

The phrase urban regeneration is used extensively throughout the property industry in the UK, however the concept of regeneration and the complexities of the renewal process are not widely understood. Therefore prior to addressing the core questions posed in the research brief it is important to define regeneration and to identify the characteristics that distinguish regeneration from conventional property development or redevelopment.

2.0 DEFINING REGENERATION

Regeneration as a term is open to numerous interpretations and consequently it is one of the most widely debated concepts within the property industry. The absence of a concise and accepted definition among key stakeholders of the fundamentals of modern day regeneration has permitted freedom of interpretation and widespread exploitation of the term.

Developers have been roundly accused of jumping on the "regeneration bandwagon" hijacking terminology that they fail to fully comprehend in order to satisfy their own objectives (Greig-Smith, 2005). The term "regeneration" is currently in vogue and is being used to enhance the marketability of property developments as well as to improve developer image within an increasingly socially responsible corporate culture.

"Regeneration is a three-legged stool needing to address the physical environment, local economy and, most importantly, the community around it"
Chris Brown, chief executive of Igloo Regeneration Fund.
(Source: Greig-Smith, 2005).

"Property development and regeneration differ extensively in terms of their projected outcomes, regeneration to be successful requires a strategic, broad and long term approach, property development on the other hand is usually characterised by a narrow, piecemeal and short term perspective"
Lesley Chalmers, chief executive of English Cities Fund.
(Source: Haran, 2008).

Igloo Regeneration Fund chief executive Chris Brown adopts a robust perspective of regeneration, highlighting that much of what developers describe as 'regeneration' is simply commercial property development. Brown argues that "regeneration by definition requires some level of subsidisation to ensure commercial viability". In Brown's view building a shopping centre in the middle of a city centre is not regeneration; projects of this nature are already commercially viable and often contribute little to the prosperity of the existing communities that surround them.

Whilst such a view has merit, it must also be acknowledged that retail-led regeneration has contributed to the transformation of many town and city centres throughout the UK. In addition shopping centres such as the Bullring in Birmingham and Liverpool One have made concerted efforts to integrate with the communities in which they are located, generating employment opportunities and improving economic prosperity whilst acting as the catalyst for wider regeneration within the area.

It is widely accepted within the property industry that regeneration projects must accomplish more than the mere redevelopment of brownfield land – but this raises the question – what exactly is regeneration and what are the fundamentals that distinguish it from redevelopment and conventional property development?

In the opinion of Nick Johnson, director of development at Urban Splash "Development projects are money driven; regeneration projects will have a much broader agenda, which will involve working with disadvantaged communities and ensuring diversity in social and economic aspects, a critical dimension".

Those views are echoed by Chris Brown who suggests "regeneration differs from conventional property development in that it is more about people than buildings. Regeneration is multi-dimensional – but must enhance the lives of people in deprived areas". The key distinction therefore between regeneration and conventional development is the broadness of the remit, property development is profit focused whereas regeneration, while conforming to an acceptable commercial framework, must incorporate elements of social and economic diversity which benefit existing communities.

2.0 DEFINING REGENERATION

The problem with defining regeneration is that the word itself means different things to different people. The holistic nature of regeneration, the unique characteristics of projects as well as the diversity in objectives make it virtually impossible to create a definition that is all embracing. Despite this, a number of common challenges are likely to appear in all major regeneration schemes and it is likely that it will be these that shape the context of the regeneration process.

One definition of regeneration which received wide spread acceptance in the 1990s was provided by BURA in which urban regeneration was described as a process of reversing economic, social and physical decay in towns and cities where market forces alone will not suffice. The definition is consistent with the more traditionalist viewpoint which characterised regeneration as a process of correction and more often than not the predominant remit of the public sector.

"Sustainable regeneration should not be isolationist in terms of sectoral involvement or the areas that it covers and must tackle the physical, social and environmental conditions of an area in unison"
Jon Ladd, former chief executive of British Urban Regeneration Association (BURA).
(Source: Greig-Smith, 2005).

However, regeneration is dynamic and more appropriate definitions for the present decade are concerned with the creation of sustainable communities, raising value, promoting entrepreneurialism as well as developing more innovative ways of attracting private investment (IPF, 2006). The Department for Communities and Local Government consultation document *Transforming places; changing lives – A framework for regeneration* (DCLG, 2008) retains the traditional definition whilst recognising that entrepreneurialism, value creation and sustainability are important attributes of regeneration delivery.

Thirty years of urban policy has produced an evolving and changing definition of regeneration. What has emerged is a general acceptance that regeneration must align the physical elements and the social and economic dynamics, with all three components brought forward together. The symptoms of urban decline are complex; therefore regeneration if it is to be sustained must adopt a long term multi-faceted approach, addressing unemployment, enhancing educational attainment, reducing crime as well as transforming the urban fabric through infrastructure provision, improved housing and the redevelopment of derelict land and buildings. In contrast to regeneration, redevelopment is characterised by a much narrower, shorter term remit which is predominantly profit driven.

Key point summary:

- Definitions of regeneration have changed significantly over time and are currently influenced by concepts of sustainability, raising value, promoting entrepreneurialism as well as developing innovative ways of attracting private investment.
- For regeneration to be successful it must integrate with its immediate surroundings and with local residents to tackle the physical, social, economic and environmental issues in unison.
- Regeneration requires a broad strategic view based on long term outcomes, redevelopment by contrast is characterised by much narrower profit driven short term objectives.

Given the complexity of regeneration, the lack of an all-embracing definition and the ever expanding criteria that determine the success of regeneration projects, it is not surprising that investors remain apprehensive about committing to the sector. They will not take on the additional responsibilities unless there is sufficient reward. Attracting enhanced levels of private sector investment into regeneration has, however, been a consistent theme of urban policy. Section three traces the evolution of urban policy, highlighting how the role of the public sector has changed from one of principal financier to a more facilitating role paving the way for private sector investment.

3.0 THE EVOLVING ROLE OF THE PUBLIC SECTOR IN REGENERATION

In 2007, urban regeneration policy in the UK reached an important milestone – it turned 30. The White Paper *Policy for the Inner Cities* (1977) is widely accepted as being a 'watershed' in urban policy and represented the first robust attempt by government to understand the true nature of Britain's urban problems (Atkinson and Moon, 1994). The wider historical and political-economic context of the time was significant. The UK was the first major western European country to be plunged into recession following the collapse of the traditional industries. Unemployment had reached record levels with high concentrations in many inner city areas.

The 1977 White Paper was an attempt by central government to redress the physical and economic devastation and put the UK at the forefront of the evolution of urban policy in Europe (Couch and Sykes, 2008). *Policy for the Inner Cities* recognised that inner cities were a cohesive problem that called for the regeneration of business and industry, as well as positive state action on public services (Hill, 1994). In marking a significant shift in emphasis, the 1977 White Paper straddles post-war urban policy in the UK as summarised in Figure 2.

Policy for the Inner Cities heralded the start of a plethora of urban policy initiatives to help alleviate problems. Resources were targeted towards specific inner city areas intending to strengthen their economic position. The renewed focus meant the commitment of both central and local government to work in partnership to achieve the regeneration of inner cities (Bailey et al, 1995). However, *Policy for the Inner Cities* was only just becoming established when a new Conservative government was elected in 1979.

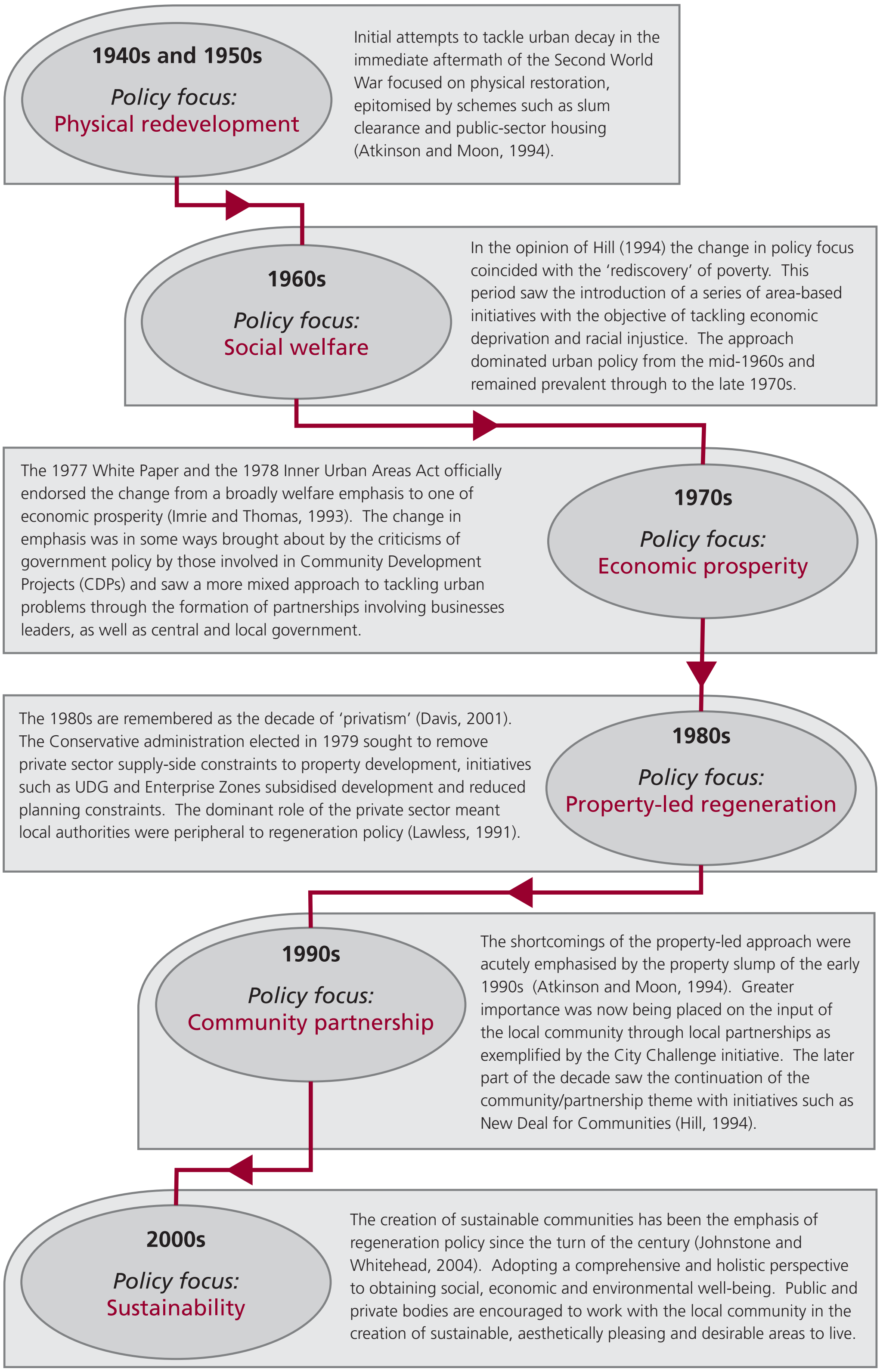
In the 1980s the comprehensive policy approach was replaced with a "patchwork quilt" of initiatives with less central government control and lead roles for private developers and businesses. The abandonment of a comprehensive urban plan stemmed from the Conservative government's faith in market mechanisms and an enduring need to reduce public expenditure (Hambleton and Thomas, 1995). Within this new framework, policy shifted away from public sector expenditure on local authority projects to measures that brought the private sector to the forefront of urban regeneration (Blackman, 1995).

Central government believed that the problems of British cities derived from the flight of the private sector which was curtailed by local government inflexibility and bureaucracy. This led to increased animosity between local and central government in relation to urban spending and policy priorities with central government bypassing local authorities with many of their strategies (Bailey et al, 1995). The diminished responsibility among local electorates characterised the 1980s as the decade of 'privatism' with regeneration particularly in the early part of the decade achieved through private sector property development (Healey et al, 1992).

Central government occupied a facilitator role in creating the general conditions for national economic growth and provided private-sector development (Atkinson and Moon, 1994). This period of property-led regeneration had a distinctive US influence and placed heavy emphasis on immediate action and visible results symbolised through flagship projects (Blackman, 1995). It was intended that such developments would generate impetus in regeneration, attracting further investment and creating employment opportunities for local people.

3.0 THE EVOLVING ROLE OF THE PUBLIC SECTOR IN REGENERATION

Figure 2: The evolution of urban regeneration policy



3.0 THE EVOLVING ROLE OF THE PUBLIC SECTOR IN REGENERATION

Property development however, lacked the scope to provide the holistic approach required to tackle urban decay. The slump in the property market in the early 1990s showed how limited and unbalanced this approach had become (Hambleton and Thomas, 1995). The creation of mechanisms to ensure the long-term benefits for local people had been largely ignored while deficiencies in strategic planning and development were consequential to infrastructure problems such as those experienced at Canary Wharf (Turok, 1992).

The limitations of the property-led approach in tandem with the depressed conditions of the property market led to a shift in policy focus, placing greater emphasis on partnership based structures and economic prosperity. City Challenge introduced in 1992 provided an indication of the wider direction of urban regeneration policy following the property market collapse. Local authorities were back at the centre of urban policy, developing partnerships and encouraging competition for regeneration funds (Atkinson and Moon, 1994).

Increasing importance was to be given to the local community, with partnerships encouraged to adopt a more holistic approach to regeneration, involving local residents and businesses in tackling social and economic problems within their areas (Duffy and Hutchinson, 1997). This approach was roundly acclaimed, with Shaw and Robinson (1998) praising the resolve of government in learning from previous failings and for having the innovation to pursue policies that actually contributed to the needs of residents rather than simply being driven by ideological considerations.

The return to power of the Labour government in 1997 heralded a new era for urban policy. Under the Blair administration urban policies were hallmarked by an emphasis on partnership and community engagement. The community emphasis represented a clear attempt to create more open democratic cities with greater levels of resident participation. In the opinion of Healey (2004) communities within individual cities had the power to shape their own futures, to be the drivers of regeneration through participative democracy; building upon the diversity of their area, communities could create a vision and environment conducive to enhanced inward investment and investment retention. Although increasingly complex this approach undoubtedly addressed some of the inherent weaknesses of policies of the recent past.

Issues such as sustainability, desirability and competitiveness have dominated the urban debate in the new millennium. In 1998 the Labour government took the first steps to deliver its promise to tackle the socio-economic problems of urban Britain with the launch of New Deal for Communities. The late 1990s saw the rollout of Regional Development Agencies (RDAs) and Urban Regeneration Corporations (URCs) highlighting a three-pronged approach linking regeneration, local development and inward investment. The Urban White Paper (DETR, 2000a), based on Lord Rodger's Urban Task Force Report (1999) made clear attempts to combine social and physical understandings within regeneration while the revised national strategy A New Commitment to Neighbourhood Renewal: National Strategy Action Plan, strived to achieve an incorporated society, tackling manifestations of political, social and economic segregation through effective targeting of mainstream resources (Whitehead, 2004).

The Brown Administration (2007 – to the present) has instigated a series of subtle changes to the focus of urban policy. The broad-based neighbourhood focus so prominent under the Blair administration has been replaced by an economic dimension concentrating on employment creation and the bolstering of local economies (Hayman, 2008). The sub-national review of economic development and regeneration comprises detailed plans for greater local government control over regeneration and economic development. The review emphasised the need for streamlined economic decision making, advocating the devolution of funding decisions from Regional Development Agencies (RDAs) to a sub-regional or local level whilst encouraging greater collaboration among councils from the same sub-region. Currently a key initiative for attracting private sector investment is Local Asset Backed Vehicles which attempt to make more effective use of local authority assets in bringing forward regeneration, while the proposed introduction of Supplementary Business Rates and Community Infrastructure Levy will offer new revenue generating opportunities for funding infrastructure provision.

The evolution of urban policy has provided a systematic learning curve. Initiatives that have proven successful have been retained to guide policy development while those that have proven unsuccessful have been discarded. The major criticism of regeneration policies however, has been the failure to close the socio-economic gap between the poorest neighbourhoods and the national average. Despite a multiplicity of innovations and attempts to address the components of urban decline, a combination of poor investment and inadequacies in urban policy have consolidated symptoms of social polarisation, economic hardship and environmental deprivation in many inner city areas.

Government have been accused of tackling the "easy" options when it comes to regeneration within many major towns and cities (Greig-Smith, 2005). The core cities in particular have undergone extensive regeneration since the return of the Labour administration contributing to the dramatic transformation of city centres as well as water frontages. The regeneration of city centres has been predominantly retail-led but in many cases this has lacked connectivity with surrounding communities, where the symptoms of urban decline persist only a short distance from the revitalised city centres.

The consistency with which certain neighbourhoods appear in national deprivation indices is testimony to the inability of regeneration policies to address the needs of communities where the symptoms of urban decline have become entrenched (Meen and Andrew, 2004). Exclusion has become even more pertinent within these neighbourhoods than it was over a decade ago when the current Labour administration came to power, exacerbated by the buoyancy in the UK economy over the period 1997–2007 with residents in many of the most deprived conurbations having benefited least from the economic boom.

Key point summary:

- More than three decades of regeneration policy have failed to significantly close the socio-economic gap between the poorest neighbourhoods and the national average.
- Developments in urban policy have been a continuous learning cycle, building upon the deficiencies of previous initiatives and incorporating elements of policy that have proved successful.

While three decades of regeneration may have failed to significantly close the socio-economic gap between the poorest neighbourhoods and the rest of society, there can be little argument that regeneration has contributed to the radical transformation of many towns and cities throughout the UK. City centres have been revitalised and cities are now viewed as fundamental to the competitiveness of the national economy.

Many of the regeneration initiatives introduced over the last 30 years were largely successful in meeting their objectives. The problem was that in many cases objectives were too narrow, failing to take into account the complexity of urban decline and lacking connectivity with residents. Section four examines the accomplishments of the major regeneration initiatives and highlights how evaluations of urban policy have shifted from quantifiable based outputs towards outcome based indicators which measure the quality of life benefits of existing residents.

4.0 THREE DECADES OF REGENERATION INITIATIVES: WHAT HAS BEEN ACHIEVED?

The renewal of Britain's towns and cities has been at the forefront of successive government manifestos for more than three decades. A multitude of regeneration initiatives have received extensive financial and political support. Rarely has an area of public policy maintained such a position of prominence. Deprivation indices show that the gap between the poorest neighbourhoods and the rest of society has narrowed marginally over the last decade. The most alarming statistic however is the consistency with which the same neighbourhoods appear at the top of multiple deprivation indices. These revelations invariably raise a number of key questions about the focus of urban policy and the effectiveness of regeneration initiatives, they include:

- If the socio-economic gap between the poorest neighbourhoods and the rest of society has not narrowed significantly – what has three decades of government intervention in the regeneration of Britain's towns and cities actually achieved?
- What has been the focus of urban policies and how successful have individual regeneration initiatives been in achieving their objectives?
- Should more have been achieved within the 30 year timeframe?

The remainder of this section will address these key questions identifying the outcomes from regeneration initiatives and the lessons that were learned as policy evolved.

Regeneration is one of the most extensively evaluated areas of government policy and yet supporting evidence on the success of regeneration initiatives in transforming areas of decline and deprivation remains elusive. The evidence base has been constrained by inadequate understanding of the theory of change behind policy intervention, insufficient development of evaluation theory and a lack of information on the key outcomes that initiatives were designed to affect (Rhodes et al, 2005). Effective evaluation is further compounded by the evolving focus of urban policy which has meant that the objectives and outputs of regeneration initiatives are not comparable on a like-for-like basis.

Thirty years of regeneration has contributed to the radical transformation of the urban fabric of many towns and cities throughout the UK. If development output alone was the barometer by which regeneration success was determined then the plethora of regeneration initiatives introduced over the last three decades have been hugely successful. However to be sustainable, regeneration must contribute to more than just physical transformation and must seek to tackle the physical, social and economic dimensions of urban deprivation in unison.

The Urban Programme introduced in 1968 represented the earliest government initiative aimed at tackling urban deprivation. However, at this stage there was neither a clearly formulated view of urban deprivation, nor an adequate understanding of the symptoms of urban decline. As a consequence the Urban Programme had a dominant social and community dimension based on the social pathological reasoning that the problems of inner cities were somehow linked to the inadequacies of the resident populations (Lawless, 1989).

The 1977 Urban White Paper signalled a change of emphasis for urban policy with private sector activity increasingly put forward as the best solution to urban decline (Atkinson and Moon, 1994). Following the election of the Conservative government in 1979, state intervention was rolled back to enable private enterprise to step in with emphasis placed on tangible outcomes in the form of land and property development. Urban Development Corporations and Enterprise Zones were the primary initiatives through which this aim was to be achieved.

4.0 THREE DECADES OF REGENERATION INITIATIVES: WHAT HAS BEEN ACHIEVED?

4.1 The 1980s

Urban Development Corporations (UDCs) are widely regarded as the flagship initiative of Conservative urban policy and proved to be highly effective in delivering physical renewal. In total 13 UDCs were designated between 1981 and 1992 reclaiming over 3,600 hectares of derelict land, developing in the region of 8.4 million square metres of commercial floor space, completing over 44,000 new housing units and creating over 253,000 jobs (Table 1).

Table 1: Estimated lifetime outputs of Urban Development Corporations

Urban Development Corporation	Land reclaimed (hectares)	Commercial floor space m^2	Housing units completed	Gross jobs in new development
London Docklands	762	2,322,000	24,000	80,000
Merseyside	382	698,000	486	22,155
Black Country	400	1,096,700	3774	21,440
Cardiff Bay	327	695,000	4800	16,750
Teesside	524	428,300	1306	12,226
Trafford Park	201	761,262	461	25,618
Tyne and Wear	521	982,476	4550	33,707
Bristol	73	122,000	676	4825
Central Manchester	35	139,000	2583	4944
Leeds	68	374,000	571	9066
Sheffield	240	500,000	0	18,037
Birmingham	138	311,896	802	4,656
Plymouth	10	11,900	99	427
Totals	3681	8,442,534	44,108	253,851

Source DETR (1998a, 1998b,1998c)

Despite physical achievements, UDCs were heavily criticised for circumventing local democracy and asserting the primacy of market goals over social and community objectives and for running projects and programmes seen as wasteful expenditure (Imrie and Thomas, 1999). The general consensus was that the resources of UDCs should have targeted areas where people actually lived rather than redeveloping empty wastelands. Central government defended the approach of UDCs reiterating that their primary objectives were focused on the number of hectares of land brought back into use, infrastructure built, housing units completed and the amount of private investment levered.

Most significantly in the context of this report UDCs failed to lever the 1: 4 public to private finance ratio that was one of the evaluation criteria used by the Department of the Environment, Transport and the Regions (DETR). The variations in the volumes of private sector investment attracted by the 13 UDCs over their life time is extensive and although the ratios do not provide for direct comparability due to durational differences and diversification of outputs, the aggregate public to private ratio for all 13 UDCs was 1: 2.5 (Table 2).

Table 2: Ratio of public to private investment of UDCs (lifetime output)

Urban Development Corporation	Public sector expenditure (£m)	Private sector investment (£m)	Public to private ratio
London Docklands	3,900	8,700	1: 2.2
Merseyside	448	698	1: 1.6
Black Country	436	1,150	1: 2.6
Cardiff Bay	503	1,114	1: 2.3
Teesside	462	1,089	1: 2.4
Trafford Park	268	1,560	1: 5.8
Tyne and Wear	480	1,115	1: 2.3
Bristol	112	235	1: 2.1
Sheffield	126	683	1: 5.4
Central Manchester	101	303	1: 3.0
Leeds	71	357	1: 5.0
Birmingham H/lands	60	211	1: 3.5
Plymouth	51	8	(1: 6.3)
Totals	7,018	17,223	1: 2.5

Source DETR (1998a, 1998b, 1998c), CBDC (1999)

Following the Government's Sustainable Communities Plan (2003), the UDC model has been revived with the launch of Thurrock Thames Gateway Development Corporation (October 2003), The London Thames Gateway Development Corporation (May 2004) and West Northamptonshire Development Corporation (December 2004). These second generation UDCs were launched under the Local Government Planning and Land Act (1980) and therefore share the same powers and objectives as the previous generation.

Enterprise Zones, the second major area based initiative introduced by the Conservative administration, were a mainstay of UK urban policy for more than 20 years. Introduced in phases, the Enterprise Zones (unlike their namesakes elsewhere in the world) were essentially property-led economic initiatives that attempted to break the cycle whereby low returns, resulting from dereliction, contamination or poor image, deterred investment (DOE, 1995).

Enterprise Zones encouraged new investors or occupiers to locate in deprived areas by offering exemption from business rates, 100% allowances for corporation and income tax purposes for capital expenditure on new and unused industrial and commercial buildings as well as a simplified planning regime (Jones et al, 2003). In total 38 zones were designated throughout the UK, the “experiment” came to an end in late 2006, when the last of the zones, Tyne Riverside reached the end of its designated life.

When Enterprise Zones were first introduced, there was considerable scepticism about the willingness of investors to provide the necessary financial resources to make the scheme work. Those concerns proved to be ill-founded as Enterprise Zones managed to attract large volumes of private investment. Capital allowances gave property developers and investors the confidence to develop products ahead of market demand and the exemption from business rates provided occupiers with the confidence to commit to taking space in these new developments (Syms and McIntosh, 2004).

4.0 THREE DECADES OF REGENERATION INITIATIVES: WHAT HAS BEEN ACHIEVED?

Independent research on the outcomes of Enterprise Zones and the extent of government expenditure has been limited. The Final Evaluation of Enterprise Zones Report carried out by PA Cambridge consultants for the Department of the Environment estimates that Enterprise Zones contributed to the development of more than 6,000,000 m^2 of commercial floor space between 1981 and 1993. There were over 5,000 companies on the 22 zones by 1990, employing nearly 126,000 people. After allowing for deadweight and displacement, and including short term multiplier effects, it is estimated that about 58,000 jobs were a direct consequence of zone designations (DOE, 1995).

The total public cost of the 22 designated zones between 1981/82 and 1992/93 is estimated at between £798 and £968 million (depending on the methodology adopted to discount the public costs incurred). Rates relief accounted for some 46% of the total expenditure with enhanced capital allowances accounting for a further 45%. Public sector expenditure on land acquisition was estimated at circa £74.4 million (outturn prices) with a further £312 million and £154.8 million (outturn prices) of public sector funding invested in infrastructure and construction respectively. Over the 12 year period more than £2 billion of private sector capital was invested in property on the 22 zones, representing a public private leverage ratio of approximately 1: 2.3 (DOE, 1995).

Although, it is accepted that Enterprise Zones have brought forward development and created employment, it has been argued that the booming property market at that time could have stimulated this investment with or without the additional incentives. Evidence also suggests that much of the 'new' business had actually relocated from elsewhere to take advantage of the incentives on offer with the likelihood of relocation when the perks had expired (Hill, 1994). The legacy of Enterprise Zones however, lies not in the outcomes achieved but in demonstrating the use of tax incentives and in promoting a wider based approach to urban planning (Jones, 2006).

In the wake of the 1981 urban riots, government introduced a series of financial measures aimed at eradicating the problems they believed had contributed to the civil unrest. **Urban Development Grant** (UDG) was launched in 1982, the first in a series of financial measures designed to enhance property-led regeneration (Hill, 1994). Urban Development Grant was designed to encourage private investment in deprived areas by bridging the gap between the cost of development and the value on completion.

In the period up to and including April 1987, almost £130 million of UDG funding was allocated to over 250 projects contributing to the reclamation of more than 400 hectares of land and creating or securing in the region of 25,500 permanent jobs (Robson, 1988). UDG projects managed to secure in the region of £520 million of private sector investment over the life-time of the initiative providing an overall public-private gearing ratio of 1: 4.

Despite the considerable achievements of UDG, overall uptake of grant funding was disappointing and resulted in annual allocations being progressively cut back from an initial £70 million to £40 million in 1985/86. In 1984/85 out of the £48 million allocated to UDG only £28 million was taken up. Initial applications among local authorities had been substantive but the majority of the bids were rejected as being ineligible, either because the proposal was viable without UDG funding or due to the lack of organisational commitment from the private sector. Public-private partnerships were an important dimension in determining the success of UDG applications but relations between local authorities and the private sector at this time were frayed and as a result there was a reluctance on the part of local authorities to submit bids for UDG funding (Robson, 1988).

[1] The Final Evaluation of Enterprise Zones (DOE 1995) was based on the outputs from 22 of the 25 Enterprise Zones designated between 1981 and 1984. The three zones excluded from the evaluation included the two zones designated in Northern Ireland and The Isle of Dogs Enterprise Zone which was the subject of a separate evaluation.

In an attempt to overcome the shortcomings of UDG a new grant regime was introduced. **Urban Regeneration Grant** (URG) was designed to target large-scale schemes, usually of more than 20 acres, bypassing local government and allowing developers to approach the DOE directly (Tye and Williams, 1994). However, following a Cabinet Office Review (1988) designed to improve the efficiency of management in government it was decided to streamline the urban grant system replacing UDG and URG with a new system, City Grant. As a consequence URG represents one of the shortest-lived grants ever created, lasting just over a year, URG was dominated by confusion and red tape (Atkinson and Moon, 1994).

City Grant was introduced in May 1988 following the Housing and Planning Act (1986) with funding allocations the direct responsibility of the DOE. From the period of its inception up to December 1991, grants exceeded £182 million, in over 200 property development projects, creating circa 30,000 jobs and levering £885 million in private sector investment, providing an overall public-private ratio of 1: 4.86 (York Consulting Limited, 1992).

4.2 The 1990s

A major switch in how funding mechanisms for regeneration were to be allocated was announced in 1991 with the introduction of **City Challenge.** City Challenge encouraged a more integrated approach to tackling the symptoms of urban decay linking projects dealing with employment, childcare, housing, the environment and crime (Oatley and Lambert, 1995). However, the most important new dimension of City Challenge was the introduction of the controversial and highly politicised competitive bidding process.

The new approach was intended to encourage innovation and entrepreneurialism among bids. However, critics of the City Challenge initiative were quick to point out that competition was not the best way of allocating resources to urban need as some authorities would miss out entirely (Parkinson, 1993). According to De Groot (1992) the concept of bidding for funds had no objective relationship to the level of need within an area.

Despite the criticisms, an independent review of City Challenge prepared for the DOE found substantial support for the policy (Parkinson, 1997). In total 31 City Challenge partnerships operated in deprived areas between 1992 and 1998, successfully reclaiming 4,000 hectares of brownfield land, building or improving 110,000 new homes, developing or improving more than 3.6 million square metres of commercial floor space and creating or safeguarding 170,000 permanent jobs (DETR, 2000b).

Doubts, however, were cast over the future of the initiative when government announced in November 1992 that the third round of the competition for funding would not take place. City Challenge was consequently suspended after two rounds with total public expenditure amounting to £1.14 billion; this in turn had attracted £7.58 billion of private sector investment (DETR, 2000b).

The concept of bidding for urban policy funding introduced by the City Challenge initiative was retained with the introduction of the **Single Regeneration Budget** (SRB) in November 1993. The aim of SRB was to make resources available to support regeneration schemes lasting between one and seven years, demonstrating a long term and sustained commitment to regeneration (Parkinson, 1997). Bids for funding was invited over six rounds, the first round of bids was submitted in 1995/96 and the sixth and final round was announced in 2000/01 (Rhodes et al, 2005).

The government commissioned Single Regeneration Budget Final Evaluation Report (DCLG, 2007) identified SRB as a cost effective and innovative approach to regeneration, providing a workable and popular framework for private sector engagement and attracting substantive levels of private sector investment. Over the six rounds of SRB total expenditure amounted to £26 billion (Table 3). SRB allocations amounted to £5.7 billion across all regions and meant that for every £1 of SRB funding a further £4 was levered into SRB schemes. Private sector investment in SRB schemes over the six rounds amounted to £9 billion (DCLG, 2007).

Table 3: Regional distribution of Single Regeneration Budget

Region	SRB Expenditure (£m)	Other Expenditure (£m)	Total Expenditure (£m)	Leverage Ratio	Percentage by Region
East	136.7	566.3	703.0	1: 5.1	2.7
E. Midlands	283.8	843.5	1,127.3	1: 3.9	4.3
London	1,519.6	5,669.7	7,189.3	1: 4.7	27.7
N. East	650.2	1,856.3	2,506.6	1: 3.8	9.7
N. West	1,085.5	4,772.2	5,857.6	1: 5.3	22.5
S. East	349.4	1,011.5	1,360.9	1: 3.8	5.2
S. West	168.1	489.1	657.3	1: 3.9	2.5
W. Midlands	630.6	2,015.2	2,645.8	1: 4.1	10.2
Yorks & Humber	879.5	3,077.0	3,956.6	1: 4.4	15.2
Total	5,703.4	20,300.8	26,004.4	1: 4.5	100

Source DCLG (2007)

4.3 The 2000s

Since returning to power in 1997 the Labour government has set about decentralising urban policy and tackling the areas most affected by exclusion and deprivation. The Single Regeneration Budget was replaced by the **Single Programme Budget** ("single pot") from 2002/03 onwards. Government departments contributing to the single pot include Department for Business, Enterprise and Regulatory Reform (BERR), Department for Communities and Local Government (DCLG), Department for Environment, Food and Rural Affairs (DEFRA), Department for Innovation, Universities and Schools (DIUS), UK Trade and Investment (UKTI), Department for Culture, Media and Sport (DCMS). Following the Comprehensive Spending Review (2004) the allocation of individual departments to the single pot are outlined in Table 4.

Table 4: "Single pot" allocations by government department

Department	2004/05	2005/06	2006/07	2007/08
BERR	234	463	476	483
DCLG	1,511	1,568	1,633	1,676
DEFRA	46	72	73	74
DIUS	42	43	44	45
UKTI	13	13	13	13
DCMS	2	6	6	6
Totals (£m)	1,848	2,165	2,245	2,297

Source HM Treasury (2004)

4.0 THREE DECADES OF REGENERATION INITIATIVES: WHAT HAS BEEN ACHIEVED?

A number of new initiatives have been introduced including New Deal for Communities (1998), the National Neighbourhood Renewal Strategy (2001), the Sustainable Communities Plan (2003) and most recently the Working Neighbourhoods Fund. The objective was to reduce the socio-economic gap between deprived neighbourhoods and the rest of the country through community involvement. Evaluations of urban policy highlight the progress that has been made within some of the most deprived wards in the UK. Indicators of deprivation have been narrowed in some of the most deprived neighbourhoods in the UK, however progress has been slow and in many wards the symptoms of deprivation persist largely unabated.

The Labour government has strongly supported urban regeneration over the last decade and continues to make a huge commitment both in terms of policy development and financial resources. Between 1999/2000 and 2005/06 £1.54 billion (2005/06 prices) had been spent by NDC Partnerships, about a billion of this was central government investment (DCLG, 2008). The Working Neighbourhoods Fund which replaced the Neighbourhood Renewal Fund has a budget of £1.5 billion which will be allocated in phases between 2008/09 and 2010/11. The legacy to regeneration has been hampered somewhat by an overly bureaucratic approach, with too much time and resources spent by delivery agents in constructing complex funding packages, and in complying with various reporting requirements, whilst more should have been done to remove the barriers to private sector investment which would have eased the burden on public sector spending.

The objective of is section was to highlight the achievements of more than three decades of urban initiatives and in particular the levels of private sector investment that have been attracted into regeneration. On the whole evaluations of urban policy have predominantly taken the form of value for money audits and whilst such evaluations are credible they tended to be characterised by an endless obsession with outputs and have not contributed any meaningful assessment of the impact on the quality of life of residents in the areas being targeted. Output evaluations suggest the attainments of regeneration initiatives have been considerable, while this is not in question confusion exists as to what these "outputs" actually mean within the context of achieving sustained regeneration. Regeneration initiatives were often hugely successful in realising their objectives but very often failed to understand or tackle the root causes of deprivation.

A more meaningful measure of the success of regeneration initiatives would have been to focus on the relative improvements in the main outcome indicators that describe the nature of the problem being experienced by the area and its residents. Outcome evaluations require extensive developments in data availability to facilitate the identification of baselines indicators from which outcomes should be measured. This requires considerable time and resources but helps to improve the focus of regeneration initiatives on the specific needs of the area. This is based on the premise that it is impossible to resolve the symptoms of deprivation if those symptoms have not first been diagnosed, whilst it is also impractical to measure the success of regeneration initiatives if baseline indictors of deprivation are not established at the outset.

Policy Action Team 18 – Better Information (DTLR, 2000) commonly referred to as 'PAT 18' along with the work of the Research and Development Team based in the Neighbourhood Renewal Unit has helped to drive forward the information agenda. PAT 18 recommended that the Office of National Statistics should take the lead in creating a statistical evaluation of the social exclusion characteristics within deprived neighbourhoods. Evaluations were to be based around nine major domains, these included access to services, community well being/social environment, crime, economic deprivation, education, health, housing, physical environment and work deprivation (Rhodes et al, 2005).

4.0 THREE DECADES OF REGENERATION INITIATIVES: WHAT HAS BEEN ACHIEVED?

The national evaluation of the first phase of New Deal for Communities (2001–05) was the first evaluation of urban policy to measure the impact of the initiative on resident quality of life. Evaluations were based on 39 indicators all but four of which measured attitudinal change among residents to crime, education, health, worklessness, housing and the physical environment (Lawless, 2006).

Key point summary:

- Regeneration initiatives in the 1980s placed heavy emphasis on immediate action and visible results in the form of tangible outputs. Although often successful in meeting their objectives the narrowness in the focus meant initiatives lacked connectivity with local residents and allowed the symptoms of urban decline to consolidate.
- The 1990s heralded the introduction of "bidding" for regeneration funding and were characterised by a partnership based approach designed to promote economic regeneration, encourage community participation and attract enhanced levels of investment from the private sector.
- In the 2000s regeneration has adapted a much more holistic approach and is being driven by concepts of sustainability, environmental protection and design excellence. The success of initiatives is determined not by their level of output but by their impact on resident quality of life.

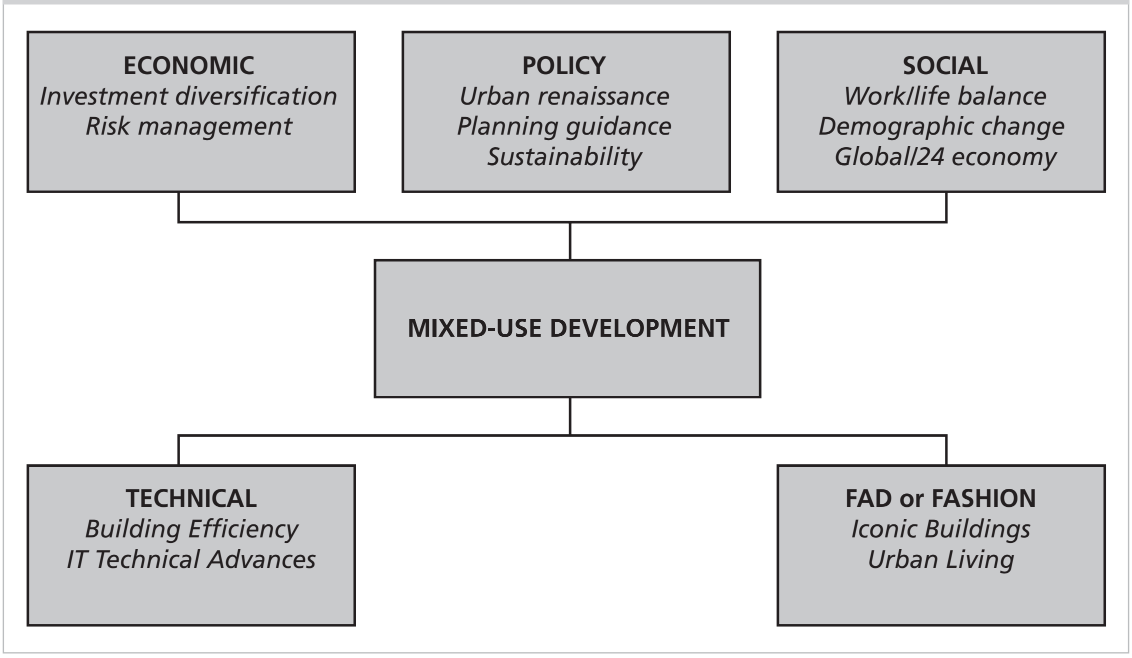
The holistic nature of modern regeneration combined with the sustainability focus has meant that the physical dimensions of regeneration schemes have had to evolve. Mixed-use development is now an integral feature of regeneration and has been actively encouraged by government through the planning process. Section 5.0 examines the role of mixed-use development within the regeneration process, highlighting how the scale and property mix have evolved over time and identifying the complexities of mixed-use developments from an investment perspective.

5.0 THE INCREASING ROLE OF MIXED-USE SCHEMES WITHIN REGENERATION

If "sustainable communities" is currently the most over used phrase within the regeneration vocabulary, then "mixed-use" is a close second. Mixed-use developments have never been more desirable than they are at present, variously employed by policy makers as the cornerstone to the regeneration of towns and cities as well as the solution to issues of housing quality and supply. Unlike conventional single-use development which is driven by investor or occupier demand, mixed-use developments are driven by a strong confluence of social, economic and political pressures (Figure 3). As a result mixed-use does not conform to conventional development principles and presents unique challenges for investors.

The term mixed-use covers a diverse range of development activity and end use functions, which can be incorporated within individual buildings (vertical integration of uses) or across the wider property offering within a number of independent structures (horizontal integration of uses). The concept of mixed-use is not new, according to the Urban Land Institute (ULI) modern mixed-use development first appeared in the late 1950s and early 1960s, initially focussing on commercial uses within major urban centres before eventually going on to incorporate elements of residential.

Figure 3: Drivers of mixed-use development



Source Sheppard Robson (2004)

The positive aspects of mixed-use developments are widely recognised by both developers and investors and range from the pragmatic acknowledgement that mixed-use developments help gain planning consent, through to the diversification benefits achieved by combining uses that have different property cycles (BCO/JLL, 2005). Equally important from a regeneration perspective is that dense mixed-use development enables the creation of a sense of "place" which is of vital importance when reconfiguring failed property markets as well as ensuring commercial viability.

5.0 THE INCREASING ROLE OF MIXED-USE SCHEMES WITHIN REGENERATION

As developers try to comply with government insistence that they make places and not just buildings, new schemes with an increasingly elaborate blend of offices, retail units, libraries, apartments, sports facilities and transport modes have emerged; for regeneration this can only be positive. Regeneration in the post-war era was characterised by monolithic office blocks and sprawling housing estates, but the current focus of regeneration is on the creation of vibrant communities where people want to live, work and socialise – a lifestyle that mixed-use developments are perfectly poised to deliver (Willis, 2004).

"Mixed-use can be difficult because institutions tend to look at their sector allocations on a traditional basis. They have sector weightings driven by portfolio theories, and mixed use throws out all their weightings" **Keith Parry, chief executive, Lend Lease Communities.**
Source: (Northedge, 2005)

Mixed-use developments do however challenge many of the orthodoxies on which the UK property industry has been based and raise a number of significant challenges for both developers and investors. Since the Second World War the favoured development model has been single segmented uses on greenfield sites. As a result the development industry has been compartmentalised with developers specialising in either residential development, retail or other forms of commercial development (Willis, 2004). In most cases large commercial developers have lacked the expertise to bring forward mixed use schemes on their own. A survey for the British Council for Offices in 2005 found that 96% of respondents believed that mixed-use development was complex to deliver indicating that a huge scope exists to improve knowledge on the physical and financial delivery of mixed-use environments. Research undertaken by FPD Savills showed that 18% of mixed-use schemes in the development pipeline were being led by private sector companies with little or no experience of delivery (Barnes, 2005).

"If you go back to the start of the decade mixed-use was viewed as bolting on bits here and there. Now to have a true mixed-scheme everything has got to be properly integrated" **Phil Cottingham, portfolio director land Securities.**
Source: (Eade, 2004)

In a similar way to developers, investors have come to view the property market as a number of distinct sectors. The commercial property market in the UK has historically been broken down into three sectors and although subsets have emerged within these sectors, commercial properties still tend to be classified primarily as retail, office or industrial. These sector classifications are significant to investors as they have traditionally constructed their portfolios based on sector weightings. Mixed-use developments do not conform to such conventional classifications as they often include elements from across all three sectors with weightings difficult to determine. In addition, sector specialist investors who have built a reputation on their knowledge of a single sector of the property market may find that investing in mixed-use schemes could detract from their performance.

The complexity of mixed-use schemes from an investment perspective is often further compounded by the inclusion of leisure and residential elements within the property mix. Research published by FPD Savills in 2003 shows that mixed-use schemes in the UK are predominantly residential (58%). From an institutional investment perspective residential is considered complex and management intensive. In addition the inclusion of residential is viewed as prohibitive to asset redevelopment. However, chief among the complications of mixed-use schemes from an investment perspective is that different property types have different lease lengths (Willis, 2004).

"Having looked at the numbers and tested the sensitivity issues, I think we are going to see more institutional funds attracted to mixed-use" **Chris Lacey, head of development, CB Richard Ellis.**
Source: (Morrison, 2006)

Commercial leases typically range from five-15 years (although recent trends indicate that these are shortening) with tenants typically negotiating terms for extended or early termination. Residential leases on the other hand are typically 99 years or more and home owners are less amenable to be relocated to facilitate redevelopment (Northedge, 2005). This raises the issue of what can be done when the lease on the commercial property function expires and the property requires redevelopment but the lease on the residential element of the development has another 60 plus years to run.

The complexity of the residential mix is very often heightened within regeneration schemes due to the inclusion of affordable housing units. Whilst this undoubtedly enhances the property/human mix and contributes to the sustainability of the scheme, it lessens the appeal from an institutional investment perspective. Nonetheless there is an increased acceptance among institutions of the residential component in contributing to the sustainability of mixed-use developments and a growing willingness on the part of the institutions to retain the residential element of mixed-use schemes, Aviva and Grosvenor have been at the forefront of this attitudinal change.

Mark Ryder, replace chief exec of ISIS with BURA director, identifies with the importance of the residential mix but also stresses the importance of attracting a diverse range of residents from families to individuals to executives. Ryder is critical of developers who have undermined the long term ethos of mixed-use developments by prioritising short term profits over long term gains by capitalising on investor-led demand for residential units during the buy-to-let boom.

According to Ryder "large volumes of one and two-bed units were developed, devoid of character, quality or design to meet incessant investor demand for buy-to-let opportunities. Many of these units were never rented, nor were they intended to be, as investors speculated on the back of unprecedented levels of capital growth. Empty residential units however completely undermined the sense of "place" which was fundamental to the prosperity of commercial uses within the development mix particularly the retail units".

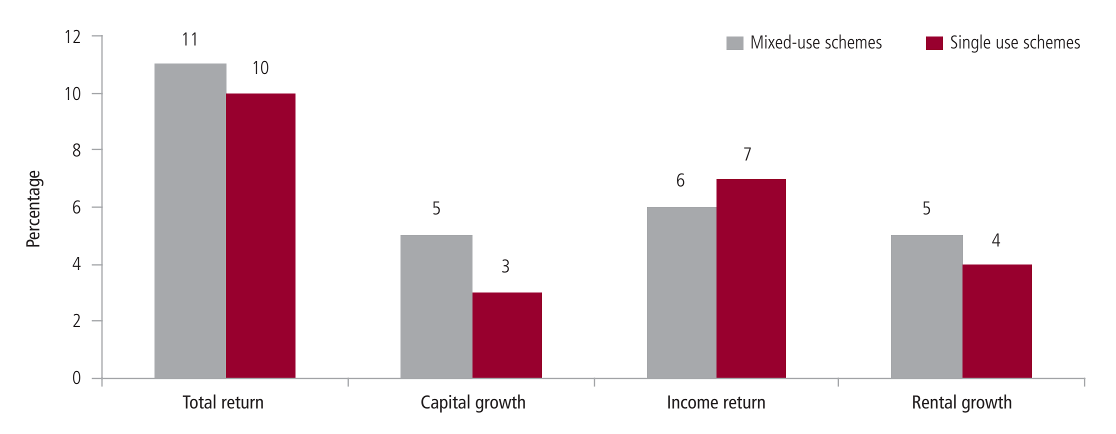
> Mixed-use development is about providing the right product at the right price. There is no point building offices and flats to a standard specification. The specification needs to be dictated by the market and its changing requirements"
> **Carol Ainscow, managing director of the Artisan Property Group.**

In addition to the complexity issues, a perception exists among investors that mixed-use schemes under perform single-use buildings. This perception was often based on subjective rather than objective opinion and was compounded by the inadequacies of valuation techniques which tended to value individual components of mixed-use schemes as if they were independent, when in fact it is the synergy between the uses that add value. In the main, institutional investors have struggled to fully understand the concept of mixed-use synergy, and continue to categorise mixed-use developments as "shops with flats attached" or "offices with retail below" (Northedge, 2005).

In recent years investor attitudes towards mixed-use have softened and a number of investors have begun to recognise the advantages that mixed-use schemes can offer over single specific assets. An investigation by FPD Savills in 2003 found that over the five year period 1997–2002 mixed-use developments outperformed single-use schemes in Birmingham, Leeds, Nottingham, Manchester and York (Figure 4). The performance was underpinned by strong rental and capital growth.

5.0 THE INCREASING ROLE OF MIXED-USE SCHEMES WITHIN REGENERATION

Figure 4: Mixed-use performance in UK cities (1997–2002)



Source IPD/FPD Savills Research (2003).

Research by Jones Lang LaSalle for the British Council for Offices (2004) found that office dominated mixed-use buildings actually achieve higher rates of return and proportional lower levels of risk (volatility in returns) when compared to a single office use alternative. The same investigation also highlighted that mixed-use provided a more resilient income stream as investors are exposed to different property cycles across the various sectors of the property market with synergies in use contributing to the out performance. Significantly given the context of this report, research undertaken by Aviva and English Partnerships in 2004 showed that mixed-use developments in the 20 most deprived wards in England in the period 1980–2001 produced a better average return than traditional investments (Willis, 2004).

Historically the perceived disadvantages of mixed-use had caused such investments to have higher yields, but with more mixed properties available, and as investors gain experience and deepen their understanding, the premium has almost disappeared. In the last decade the yield gap between mixed office and retail over single-use office has narrowed from a percentage point to virtually nothing (Northgate, 2005). This narrowing of yields, particularly in London and the South of England, suggests that the risks of mixed-use from an investment perspective are both better understood and addressed (BCO, 2005).

Mixed-use development is an integral feature of current regeneration policy and as the understanding of mixed-use has grown it has become clear that creating the right product mix is fundamental to project sustainability. There is no blueprint for 'success' but it is necessary to ensure that there is a genuine contribution to regeneration and that developments are sympathetic to the unique characteristics of the area and integrate with their immediate setting. In many cases developers have tended to over simplify their interpretation of mixed-use, resulting in pockets of schemes rather than regenerating areas through mixed-use. The mix of uses may ensure financial viability, but lead to the creation of soulless blocks that may work well within themselves but do not contribute anything to the wider regeneration of the area or integrate with the existing urban fabric (Anders, 2004).

Well designed mixed-use developments are fundamental to the creation of sustainable communities and the realisation of housing targets. Planning regulations which favour the redevelopment of brownfield land will ensure that mixed-use schemes will remain a key feature of the UK property market for many years to come. Research by FPD Savills has shown that mixed-use developments grew more than 146% between 2003 and 2005. The regional distribution of mixed-use developments has also been extended to provide a more even distribution of schemes across the UK (Barnes, 2005). The increase in the number of mixed-use schemes will add to the liquidity within the asset class while the internationalisation of the UK property market, both in terms of investors and occupiers, will ensure that new levels of mixed-use expertise and expectations will enter the market (BCO, 2005).

Key point summary:

- The expansion in mixed-use has been driven by a confluence of social, economic and political pressures and is viewed by policy makers as fundamental to the sustainability of regeneration and crucial to realising house building targets.
- A growing acceptance of mixed-use now exists among investors and developers. The creative mixture of uses provides a more robust income stream, and combined with effective and efficient asset management is increasingly viewed as a value generator.
- Institutional investors favour vertical rather than horizontal mixed-use developments as this allows a site to be developed as a mixed-use scheme in compliance with planning regulations, while individual buildings remain discrete and can be sold off for sector specific usage.
- In order to attract institutional investment, mixed-use will continue to be integrated at scheme level. There is however, likely to be an expansion in the number of mixed-use buildings as mixed-use becomes an integral feature of the UK property market. In the initial instance at least such buildings are likely to be the domain of niche developers.

Thirty years of regeneration has achieved notable success, transforming the fortunes of many towns and cities throughout the UK. The task is by no means complete, therefore it is vitally important that momentum is sustained. Section 6.0 examines potential barriers that must be overcome if the objective of an all inclusive society delivered through private sector funding of regeneration is to be realised.

6.0 BARRIERS TO SUSTAINING THE URBAN RENAISSANCE

In this section key barriers to the future delivery of regeneration are examined. These barriers are by no means exhaustive; rather they are the principal impediments identified in the investigation and for that reason require exploration.

Government has repeatedly stated that the regeneration of Britain's towns and cities cannot be financed through public expenditure alone. The escalating costs of education, healthcare and defence have increased the pressure on public finances and heightened the need to attract substantive levels of investment from the private sector. Institutions have been identified by government as the group best placed to invest in regeneration due to their magnitude and long term horizons. However, the attraction of institutional investment into regeneration remains a major challenge for government given the inherent risk averse nature of institutions.

The scale of regeneration projects, the extended development timeframes and the lack of income in the early stages of the regeneration process are often cited as being prohibitive to the attraction of institutional investment. However, the stigma attached to urban regeneration remains the major barrier to investment with contamination, whether perceived or actual, the single greatest barrier. Preconceived opinions of contaminated sites often prevail in spite of research evidence to the contrary. Property management houses are unwilling to jeopardise the reputation of their organisation by becoming involved in schemes that have in the past adversely impacted upon the environment. They do not want to be liable for the contaminants of previous tenants while concerns have also been expressed about the unquantifiable clean up costs, the environmental impact and the long term liability of acquiring a contaminated site.

The perceived risks of investing in regeneration are often borne out of a lack of understanding of the regeneration process. Research by McGreal et al (2005) revealed that the level of risk faced in urban regeneration areas is not significantly different than the property market as a whole and in certain instances may be lower. Regeneration property markets however continue to be viewed as a higher risk investment option among institutional investors with interview evidence collected by Adair et al (2007) indicating that the risk premium for property is conventionally 2.5% but for regeneration property this can rise to as much as 4% depending on factors such as location, product type, planning and depreciation.

In spite of the improvements in the transparency of regeneration property markets reservations exist about tenant covenant strength and the untested liquidity of regeneration property markets. Significantly, some institutions were of the opinion that government intervention creates a false level of initial demand in regeneration locations and called into question the sustainability of such markets once government funding has receded. Whilst secondary market trading for regeneration property remains a source of debate there can be little denying that the property offer provides the coherent link between regeneration and investment through the transformation of the urban fabric and the creation of assets into which investment might be channelled. Critical reviews of urban policy (Section 4.0) indicate the extent to which development activity and the property mix can have a profound affect on the levels of investment being committed to regeneration schemes. Hence it is important to examine the downturn in the property market in the UK and identify the potential implications for regeneration.

6.1 The property market downturn

Towards the end of 2007 conclusive evidence began to emerge that the growth cycle in the UK commercial property market had come to an abrupt end. The slowdown – although forecast in a number of quarters – has been more dramatic than expected and has been exacerbated by the global financial crisis. At the end of December 2007 the IPD Annual Property Index posted negative returns across all property types in the commercial property market for the first time since 1992. All Property total return at the end of December 2007 was -3.4.

Over the course of 2008 the steepness of the correction intensified. Whilst income returns remained positive across all property types at 5.6%, capital growth reduced significantly from -7.7% in 2007 to -26.3% in 2008 (IPD, 2008a).

At a sector level retail properties underperformed both offices and industrials in 2007 and 2008. Retail posted annual total returns of -6.1% in 2007 and -22.6% in 2008; in contrast the office and industrial sectors whilst also posting negative returns performed marginally better. Offices posted total returns of -0.5% in 2007 and -22.4% in 2008, industrial properties performed marginally better at -3.5% (2007) and -21.2% (2008). Income returns have remained positive across all three sectors but capital growth has declined sharply. The most acute fall in capital growth over the two year period to the end of December 2008 has been in the retail sector (-36.8%) a finding that could have serious implications for regeneration schemes.

Retail-led regeneration has been the key driver in the transformation of town and city centres throughout the UK. The confluence of wider planning policy curtailing the development of greenfield land has forced developers, including institutional developers and hold investors, to refocus on brownfield opportunities. The retail weighting in the 2008 edition of the IPD Regeneration Index was 68% based on capital value, by contrast the retail weighting within the mainstream IPD property index is just 45.2%. Retail warehousing, identified as a sector of the market most susceptible to the downturn in the property market made up 36% of the weighting of retail property within the regeneration index. Forecasts for the retail sector are pessimistic and whilst the various retail sub-sectors may perform differently, they are all subject to a common factor – consumer expenditure. Recent trading statements from many of the big high-street retailers have not made comfortable reading.

The uncertainty in the retail market could not have come at a worse time with an unprecedented wave of recent shopping centres openings, including Liverpool One (a major retail-led regeneration scheme in the centre of Liverpool) and a number of others in the development pipeline (Blackman, 2008). The supply of shopping centres is at its highest level for 20 years with the lag between the development cycle and market demand likely to contribute to an overhang in supply in the short term. However, when the current schemes are completed there will be nothing in the development pipeline until at least 2011, and no actual delivery of any scale until 2013.

Rental growth in the retail sector is expected to be lacklustre for the foreseeable future, with some negative rental growth forecast for 2009 and muted growth until 2011. At this time in the property cycle we are reminded that occupiers are the real drivers of value. Retailers' profits margins are being squeezed and they will look for ways of easing that pressure. Increasing void rates are inevitable in a market that is getting tougher by the day.

Retailers will become a lot more selective in choosing their locations, as a consequence, existing prime schemes dominant in their market will outperform. For shopping centres, prime schemes can be in regeneration areas, as what constitutes prime is more about scale, quality, tenant mix and market share than location.

In the residential sector, falling house prices could also have potentially significant repercussions for regeneration given the mixed-use tenure of regeneration schemes and government's commitment to the creation of sustainable communities. Private and public housing are important components within the regeneration process and can contribute to overall regeneration returns through sales as well as rental income.

"Continuing weak economic news has added to the gathering momentum of negative sentiment about the housing market"
Fionnuala Early, Nationwide chief economist.
Source: (Nationwide, 2008)

[2] The Regeneration Index is published annually and is compiled by IPD, Homes and Communities Agency (HCA), Aviva Fund Management and Savills.

6.0 BARRIERS TO SUSTAINING THE URBAN RENAISSANCE

The IPD Regeneration Index reports that prior to the downturn in the housing market, capital returns on residential property in regeneration areas were greater than in non-regeneration areas. Growth was greatest during the period 2001–2005 consistent with strong capital appreciation in the commercial sector. Capital value increases over the last three years has been on a par with the mainstream residential property markets (IPD, 2008b). Whilst some of the growth can be attributed to the introduction of more expensive residential properties within regeneration localities, second hand properties have also seen dramatic increases in value, albeit from a low base, as a result of the added value that regeneration brings to the surrounding area.

Two perspectives have been formed on the consequences that the market downturn is likely to have on regeneration. One argument is that regeneration has missed the boat and that it needed to capitalise on the buoyancy and the frenzied activity that characterised the market, particularly in the period 2004 – 2006. This period saw many investors pay inflated prices to secure prime market assets while those unable to compete were forced to acquire assets outside their preferred remit, quite often in regeneration schemes. The general consensus among this school of thought is that if regeneration was unable to attract substantive levels of private sector investment during a period of sustained growth then the chances of attracting investment in the current market climate are problematic.

"The public sector imperative for undertaking regeneration actually increases as the property market goes down and private developers are not delivering" **- Chris Brown, Igloo Regeneration.**
Source: (Morrison, 2008)

The second interpretation is that the current impasse in the property market represents an opportunity for regeneration. Prior to the downturn in property market conditions, competition for land, including brownfield sites was so intense that regeneration bodies struggled to acquire sites and assemble land parcels for redevelopment. In the wake of the property market downturn demand for brownfield land in many towns and cites has receded, presenting a significant opportunity for regeneration bodies to secure the land needed to bring forward regeneration projects.

Both of these perspectives have credibility; the remainder of this section assembles evidence to support the differing interpretations.

Conventional thinking among property investors in a market downturn is that the prime property market provides the most robust levels of performance and is less adversely affected than secondary or tertiary markets of which regeneration is an example. Previous research by Adair et al (2003) indicated that market evidence does not support this interpretation. In the years 1990–92, a period coinciding with the previous major downturn in the UK property market, total returns for the mainstream property market were negative, while regeneration property continued to achieve positive rates of return.

The question that must be addressed, given the current market climate, is whether regeneration property shelters investors from a downturn in the property market. The ability of regeneration property in the early 1990s to protect investors from a market downturn must be contextualised. Regeneration in the early 1990s benefited from extensive levels of subsidisation which had a cushioning effect on the regeneration property market enabling it to achieve positive returns during the market downturn.

The levels of subsidy available in the early 1990s are not available in today's regeneration property markets, nonetheless a number of the major regeneration projects being undertaken in the UK are public-private partnerships and involve substantial land and capital commitments on behalf of the public sector bodies. Land acquisition is the major initial expenditure of the property development process but in regeneration partnerships, the public sector partner is very often the owner of the sites being brought forward for development.

If land acquisition costs are significantly reduced or eliminated, regeneration should continue to provide investors and developers with a potential cushion from prevailing market conditions. Indeed, such schemes may even seem more attractive in the current climate than they were during the sustained period of growth. However, those schemes that can provide gap funding are likely to generate the greatest interest. The private sector has traditionally looked to the public sector to provide economic viability and reduce risk in periods of uncertainty, and from that perspective the economic downturn could well mean that major regeneration schemes undertaken in partnership with public sector bodies could benefit from enhanced levels of investment.

The downturn in the property market comes at a time of increasing investor awareness of the potential offered by regeneration property. The creation of the regeneration index has significantly enhanced the transparency of regeneration property markets and provides a comparable benchmark for performance. Total return for all property types over the ten year period 1998–2007 demonstrates that investing in regeneration property does not significantly disadvantage investors. 10-year annualised returns for All Property in regeneration areas was 11.3% compared to 11.4% achieved by the IPD All Property Index. Risk, measured as the standard deviation in total return over the 10-year time frame was marginally higher for regeneration areas at 7.7%, compared to 6.7% for the IPD All Property Index (IPD, 2008).

Regeneration property out-performed equities and bonds as well as listed property stocks over the 10-year time frame and displayed much lower levels of volatility than both equities or listed property stocks. Listed property stocks were the top performing investment option in the UK over the 5-year time frame 2003–07 (16.6%) but showed high levels of volatility in the lead up to and following the introduction of REITs.

"A less pressured environment, in which land is at less of a premium, offers scope for true regeneration" **Duncan Sutherland, chief executive of regeneration developer Inpartnership.**

In the rising property market the IPD Regeneration Index reported an out-performance in regeneration areas compared to the IPD All Property average. This out-performance was fuelled by strong increases in capital value – not surprising given that adding value through processes of planning, remediation and development are fundamental to the success of regeneration. Property returns in regeneration areas started to slightly under-perform the IPD All Property average in 2005 prompting the authors of the IPD Regeneration Index to suggest that regeneration property offered "early warning signs" of the potential market slowdown (IPD, 2008b).

The 2008 IPD Regeneration Index shows that regeneration property has been more vulnerable to the market slowdown than other types of investment property. The total return for all commercial property in the IPD Regeneration Index in 2007 was -6%, compared to the IPD All Property average of -3.4%. The deeper correction in regeneration property was to be expected due to the compression in cap rates and the narrowing of spread between prime and average, and prime and regeneration at the height of the property boom coinciding with an influx of debt driven investors and a general mis-pricing of risk throughout the capital markets. The important point however is that the risk adjusted return justifies investment, particularly over the long term horizon as maturity of the location gradually erodes the need for a risk premium.

Over the medium to long term, total returns from regeneration areas are identical to the UK as a whole (the last 27 years have shown average annual returns of 11%). The last 10 years show 11.4% total returns on the IPD All Property Index and 11.3% on assets in regeneration areas (IPD, 2008b). The figures suggest a maturing of regeneration property markets. For investors looking for medium to long term investment returns there is no reason to ignore regeneration property in light of the current downturn in the property market. Total returns from regeneration property are only slightly more volatile than mainstream property therefore it could be reasonable to expect regeneration property to start outperforming again soon after any property market recovery.

"The nature of the way that finance is raised has now changed. Before the credit crunch, it was common for banks to underwrite very large tickets. Deals are now being done on a club basis, if it is a large loan. You team up with three of four other banks, so you are not reliant on having to sell down the debt"
Caroline Philips, managing director and head of securitisation at Eurohypo.
Source: (Shepherd, 2008)

The authors of the IPD Regeneration Index consider the current downturn as an opportunity to acquire assets with prospects of renewed future out-performance (IPD, 2008b). These views are endorsed by two of the UK's largest specialist regeneration funds. Chris Brown, chief executive of Igloo says that "Igloo achieved positive returns for the last quarter of 2007 and outperformed the IPD index by much more than expected. In the upturn we were there or thereabouts but in the downturn we are really outperforming". The outlook from English Cities Fund (ECF) is equally bullish. Helen Gordon, L&Gs, property director says "ECF has enough momentum to take the economic uncertainty in its stride. Overall there is going to be less money around but were looking for growth over the long term. Where you have standing investments that have worked through the development process, they've usually got a higher income yield and from that point of view regeneration still offers great potential" (Morrison, 2008).

It is fair to say that the full scale of the impact the downturn in the property market will have on regeneration has yet to materialise, but it is clear even at this stage that the turmoil in the financial markets is likely to have major repercussions on how debt is structured to finance regeneration. Property lending criteria are being reviewed in the wake of the financial turmoil, one consequence of which could be that the availability of debt for secondary or tertiary market products such as regeneration schemes will be extremely limited, at least in the short term.

"There is a lot of pooled equity sitting on the sidelines, and its owners are trying to figure out when the markets are going to settle. They will invest when they think the markets have hit a point where they can buy well. I think a lot of them are at the point where they think the market still has a little way to fall before they are ready to jump back in"
- Mike McNamara, regional managing director of real estate finance, Royal Bank of Scotland.
Source: (Shepherd, 2008)

Lack of liquidity within the financial services sector has seen a marked increase in the number of partnerships being brokered among lenders to finance major commercial property deals. These arrangements also allow lending risk to be distributed more evenly rather than simply being underwritten by a single lending institution. Given the scale and time frames involved in major regeneration schemes it seems likely that lenders will be apprehensive about committing to projects without substantive equity commitments on the part of the developer.

Leading figures within the property industry are in agreement that lenders will insist on greater equity commitments when brokering commercial property development deals in the years ahead (Shepherd, 2008). Typical loan to value ratios have fallen from more than 80% pre-credit crunch to around 70%, meaning that commercial property developers will have to provide around 50% more equity to finance acquisitions. It was felt that such conditions would allow institutional investors to move back into the market. Institutions however remain uneasy about returning to the property market and for that reason are unlikely to invest in the current economic climate.

The impasse in the financial markets should be viewed as a time for reflection within the regeneration industry. In the opinion of Mark Ryder, BURA director, words like regeneration, sustainability and mixed-use are all too common in today's vocabulary – but have we learnt from the previous lessons of past generations or are we creating a soulless legacy across our urban landscape? "The harsh reality is that we have squandered opportunities to deliver regeneration based on good design, fostering communities and place making", he suggests. Short term profit driven horizons have so often got in the way of long term regeneration. Hopefully the credit crunch will create the impetus for the whole industry to raise their game: local authorities, public sector agencies, banks, developers and professional advisors so that 2008 will be remembered as a turning point for the better in terms of regeneration rather than the end of the good times".

Competent regeneration practitioners are essential if the quality of regeneration is to be enhanced and government's aspirations for sustainable communities are to be realised. Regeneration requires up-skilling in terms of potential funding sources, intricate knowledge of the planning system and property markets, as well as specialist teams to undertake environmental assessments, site decontamination and asset development. The lack of practitioners with the necessary skills sets to deliver regeneration is a further barrier to the urban renaissance.

6.2 Up-skilling in regeneration investment and practice

The Academy of Sustainable Communities (ASC) research report *"Mind the Skills Gap"* highlights a shortage of qualified professionals with the necessary skills to deliver sustainable communities between now and 2012. The report forecasts that by 2012, England will experience a growing gap between demand and supply within the regeneration professions. The greatest increases in labour shortages will be among landscape architects, urban designers and architects, sustainable development specialists and regeneration professionals, reflecting the increased emphasis on sustainable development in policy and practice (Aldred, 2007).

The report also found that the regeneration sector was lacking in technical and generic skills. Although the sector has a number of highly qualified and competent professionals within their respective fields, respondents to the survey reported concerns about their technical competence in areas such as Geographical Information Systems (GIS) and e-communication. The ASC research also identified a lack of generic skills among the sustainable communities workforce, findings that are consistent with The Egan Review – Skills for Sustainable Communities published in April 2004. The Egan Review highlighted that regeneration was being hampered by a lack of generic skills – people and process based skills such as leadership, project management, communication and partnership working. The Egan report concluded that the relative absence of these generic skills within the regeneration sector hindered the prospects of achieving government aspirations of sustainable communities.

An investigation into the skills sets most under represented within the regeneration sector, found major deficiencies in the areas of climate change, community participation, project management and leadership (Neale, 2007). The issue of environmental sustainability has gradually become more central to development and regeneration, but the emergence of climate change as a major political issue has forced it right to the top of the agenda. Jon Ladd, former Chief Executive of BURA stated "we urgently need to get a handle on environmental issues, driving things forward in an innovative but realistic way. We desperately need people to come up with real and effective solutions" (Neale, 2007).

Demand for project management skills have also increased significantly in recent years with regeneration practitioners expected to manage several projects simultaneously. Sam Tarff, chairman of the New Deal for Communities network says "there is now much greater demand for architects, planners and other regeneration practitioners who understand the technical process of project management" (Neale, 2007). According to many regeneration practitioners the lack of leadership skills is one of the most pressing problems facing the regeneration industry. In particular the shortage is in leadership skills with the ability to cut across different disciplines and understand the strengths of others. Regeneration requires that professionals emerge from their occupational silos to work across traditional divides and enhance understanding of the roles of fellow regeneration practitioners.

Community consultation is now at the heart of the planning system both in England and the devolved administrations. Dave Clarson, chair of the Development Trusts Association highlights the need for consultation and engagement with communities affected by regeneration, "it is important that regeneration professionals understand how to engage with communities and vice versa. Professionals as well as communities need to be given the confidence to engage. They have inherent skills even in the most challenging places" (Neale, 2007).

The National Academy for Sustainable Communities and regional Centres of Excellence have been set up to enhance practitioners' understanding of the complexities of regeneration and to broaden their knowledge of the role of their fellow professionals. Progress has been slow with course development and training programmes proving a time consuming process. A number of accredited courses have now been set up in conjunction with leading universities, for example Sheffield Hallam and Coventry. The courses are a credible step to the enhancement of the generic skills base within regeneration and many are heavily over subscribed highlighting the demand for improving competence within the sector. Further course development is also required to ensure that generic skills' training achieves national coverage.

The launch of the Urban Regeneration Toolbox by the Regeneration Property Forum is a further credible step in developing regeneration practitioner's skills and sharing good practice. The aim of the toolbox is provide a 'route map' to cover all aspects of regeneration and enable those working within the sector to learn from experienced practitioners. It is hoped that the toolbox will also help the public and private sectors to better understand each other (Mallet, 2006).

Key point summary:

- Opinion is divided on the impact the property market downturn will have on regeneration. One view is that the downturn is an opportunity for regeneration agencies to assemble land at lower market values. The second perspective is that regeneration schemes will find it extremely difficult to attract investment in the current climate.
- Performance benchmarks demonstrate the robustness of regeneration property over the medium to long term, investors with longer term horizons should not ignore regeneration property as the downturn presents an opportunity to capture significant value.
- The radical transformation in commercial property lending over the course of 2008 is likely to have major implications for regeneration funding. Regeneration schemes are capital intensive and generally have longer term development programmes; therefore securing funding in the prevailing financial climate could prove to be difficult.
- The regeneration industry is lacking in basic generic skills such as project management and community engagement while practitioners reside in their occupational silos and fail to integrate with other regeneration professionals.

A key theme to emerge in this section was the increased pressure on government resources and the need to attract enhanced levels of private sector investment into regeneration. To accommodate this, the Urban Task Force Report (1999) advocated the development of bespoke investment vehicles. Section 7.0 examines the vehicles and structures to channel investment into regeneration schemes.

7.0 REGENERATION INVESTMENT VEHICLES

Regeneration investment vehicle is the generic term for funds/investment structures that have been developed to invest in regeneration property. Traditionally such vehicles have combined the resources and knowledge of the public sector with investment and expertise from the private sector. More recent examples, such as the Grosvenor Liverpool Fund[3] have seen the resources of multiple private sector investors pooled within a bespoke investment structure to finance major regeneration schemes.

Increased pressure on government resources has intensified the need to attract substantive levels of investment from the private sector into regeneration. The Urban Task Force Report (1999) first recommended the development of specialist regeneration vehicles as a means of attracting enhanced levels of private sector investment into regeneration. In response to the recommendations stemming from the Urban Task Force Report, the English Cities Fund[4] was established in 2001 as an "exemplar" of how public sector assets could be combined with the financial resources and expertise of the private sector into specially structured vehicles to enhance the delivery of regeneration and brownfield land redevelopment.

English Cities Fund (ECF) combined £50 million of investor equity with £50 million of bank debt. The debt facility was provided by Barclays with initial equity in the fund a 50:50 split between the private and public sectors. Homes and Communities Agency (HCA) invested £25 million, development manager AMEC committed £6.25 million of the initial equity share whilst Legal and General invested £18.75 million which was structured to include £6.25 million of committed investment with £12.5 million of mezzanine finance. Equity is continuously recycled as the vehicle undertakes the phased development of its regeneration portfolio.

The ECF portfolio comprises six sites located at St. Paul's Square in Liverpool, Clayton Brook in Manchester, Chapel Street in Salford, Millbay in Plymouth, Newham in London and Merchant Gate in Wakefield. The portfolio has an estimated development value of £2 billion. Collectively the six sites will create circa 7.9 million square metres of mixed-use floor space, including more than 4,000 new homes and will bring back into productive use more than 40 hectares of brownfield land (www.englishcitiesfund.co.uk).

The objective of ECF was to demonstrate on a functional level that regeneration schemes offered viable, worthwhile and attractive investment opportunities in the medium to long term. It had been anticipated that a number of similarly styled vehicles would enter the market thereby facilitating the flow of substantive levels of private sector finance into regeneration. However, this anticipated growth has not materialised and opportunities to invest in bespoke regeneration vehicles are extremely limited.

The Igloo Regeneration Fund (Igloo) managed by Aviva is currently the only example of a regeneration vehicle akin to that of English Cities Fund. Although both vehicles are inherently different in terms of their investment structures and investor make up, they share a number of characteristics including national geographic focus, partnership based approach, long term investment horizons as well as an unconventional approach to regeneration, targeting complex sites which often lack commercial viability whilst placing a strong emphasis on design quality and environmental sustainability.

3 Grosvenor Liverpool Fund is the name given to the bespoke investment vehicle created to finance the development of Liverpool One, a major retail-led regeneration scheme in the centre of Liverpool.

4 ECF was founded by Homes and Communities Agency (HCA) with AMEC Developments selected as development manager and Legal and General (L&G) chosen as investment manager.

7.0 REGENERATION INVESTMENT VEHICLES

Initial equity in Igloo was provided by the life and pension funds of Aviva PLC Group companies. The investor base has subsequently expanded to include a small group of institutional investors as well as two local authority pension funds. At the end of September 2008, the fund had equity commitments of over £130 million (Aviva, 2008). Igloo has over 20 sites within its direct and indirect regeneration portfolio. Directly held projects include Bermondsey Square in London, Roath Basin in Cardiff as well as the Round Foundry and Marshalls Mill which form part of the wider regeneration of the Holbeck area of Leeds.

"Existing Public Private Partnership (PPP) models are running out of steam. The single site models based on a development agreement and fronted by a house builder have run their course. Their short term focus resulted in identikit housing and less than satisfactory regeneration. Going forward what is needed is a model based on long term returns and not short term profit"
Mark Ryder, BURA Director
Source: (Watson, 2008)

Twelve projects are being developed in partnership with ISIS, a waterside regeneration company formed by British Waterways in 2002 with a further seven sites being regenerated in conjunction with Blueprint, a public private partnership (PPP) initiated by East-Midlands Development Agency and Homes and Communities Agency (HCA) to accelerate the delivery of physical regeneration in the East Midlands. Collectively the Igloo portfolio has a completed development value of circa £2.5bn, will bring back into use more than 100 hectares of brownfield land, creating 8,500 homes and generating in the region of 10,000 jobs (www.igloo.uk.net).

Other structures developed to channel investment into regeneration include Cibitas Investments, a venture set up by two former English Partnerships Executives that brings together a number of high profile investors including ING Real Estate and the Princess' Regeneration Trust – a member of the Prince of Wales' group of charities which promotes heritage-led regeneration using development based solutions. In spite of recent developments in specialist regeneration vehicles, opportunities to invest are limited. This is an area of the property investment market that remains underdeveloped, and given the magnitude of regeneration activity in the UK, has massive scope for further expansion.

The lack of specialist vehicles has been a key obstacle to enhancing the flow of private sector investment into regeneration, particularly among the major institutions. The development of specialist regeneration investment vehicles has proven to be a complex task which has required the integration of specialist skills sets as well as the adaptability to cope with the individualistic nature of regeneration projects.

Proficient regeneration practitioners are fundamental to the success of regeneration but of equal importance from an investment perspective are the financial engineers who develop the appropriate legal structures to finance development activity. It has been the integration of these two skills sets that has proven to be most problematic. The major institutions have access to the second skills set but generally lack the regeneration expertise. Igloo has adopted a novel approach in assembling a competent regeneration team, although this is unlikely to be replicated by many other institutions given the practicalities of assembling such a skills base.

"Combining PRP with council assets is the most effective means of delivering holistic regeneration"
Chris Brown, Igloo Regeneration.
Source: (All Party Urban Development Group, 2007)

However, increased pressure on public expenditure and an enduring need for local authorities to more effectively manage their asset base has prompted the creation of a "new generation" of regeneration investment vehicles: Local Asset Backed Vehicles (LABVs). The aim of Local Asset Backed Vehicles is to deliver regeneration in a more strategic manner by pooling the assets, project expertise and planning powers of the public sector with investment, financial expertise and asset management skills from the private sector into a corporate structure that ensures an acceptable balance of risk and return for all partners.

Asset Backed Vehicles have generally been developed on a 50/50 ownership basis with the land and property assets committed to the vehicle by the public sector partner(s), matched with an equivalent level of investment from the private sector partner (Grace and Ludiman, 2008). There is, however, no set format for the design of an LABV as local authorities have varying capacities, assets and ambitions, therefore the LABV must be tailored to meet the specific needs of the local authority.

"The PRP structure enables NWDA to retain control over the assets, ensuring our wider economic, social and environmental objectives are met"
- Martin Lloyd, head of property NWDA.
Source: (All Party Urban Development Group, 2007)

The asset backed structure has previously been successfully introduced at national level. ISIS Waterside Regeneration (ISIS), a £100 million collaboration between British Waterways, AMEC Developments and the Igloo Regeneration Fund to regenerate Britain's canals and waterways was launched in 2002. ISIS has a geographically diverse portfolio that includes sites in Birmingham, Brentford, Glasgow, Leeds, Manchester, Nottingham and Tottenham and plays an important role in the urban renaissance of towns and cities through water based regeneration schemes which offer a mix of housing, business and leisure facilities. The ISIS regeneration portfolio has a completed development value of circa £10 billion (www.isis.gb.com).

At a regional level the asset backed structure has been introduced in the form of Property Regeneration Partnerships (PRPs) by four of the nine Regional Development Agencies (RDAs). In April 2004, Regional Development Agency One North East and UK Land Estates formed 'Buildings for Business' a 50/50 partnership company designed to enhance business accommodation within the North East region and to more effectively manage the property portfolio of One North East. The mixed-use portfolio comprises in the region of 1500 properties on 22 estates stretching from the Scottish Borders down to North Yorkshire valued at circa £120 million (2004 prices). UK Land Estates invested a similar level of capital to acquire a 50% ownership share in the vehicle.

Blueprint, the public-private partnership launched in 2005 to develop new solutions for regeneration in the East Midlands is possibly the most acclaimed example of the regional asset backed structures. The partnership comprises East Midlands Development Agency (EMDA) and Homes and Communities Agency (HCA) from the public sector along with Igloo Regeneration (Igloo) from the private sector. Igloo invested £12.5 million of the initial equity in Blueprint, with East Midlands Development Agency (EMDA) and Homes and Communities Agency (HCA) both committing £6.25 million. The Blueprint regeneration portfolio, purchased from EMDA and HCA includes around £30 million worth of land and buildings located in three (Derby, Leicester, Nottingham) of the six (the others are Corby, Northampton and Lincoln) urban priority areas within the Urban Action Plan for the East Midlands. The portfolio has a completed development value of around £500 million.

"The Council required an innovative and, place shaping vehicle to deliver a challenging regeneration programme in Croydon, without selling off the family silver to the private sector in the process. Through its partnership with John Laing, the Council is looking forward to making Croydon a fantastic place to live and work whilst sharing in the financial gains along the way."
Anthony Middleton, divisional director, Assets and Facilities Management at the London Borough of Croydon.
Source: (Eversheds, 2008)

NorwePP, a 50/50 joint venture between the North West Development Agency (NWDA) and Ashtenne Industrial Fund was launched in December 2006. The objective of the partnership is to improve the performance of the NWDA property portfolio, particularly in respect of developing accommodation for companies to create employment in the region. The partnership holds 42 commercial properties throughout the North West Region valued at circa £140 million (2006 prices). Ashtenne Industrial Fund was selected in September 2006 as preferred bidder for a 50% holding in the partnership and will commit in the region of £140 million to fund future development of the property portfolio.

In early 2007, Advantage West Midlands[5] created PxP, a joint venture with property developers Langtree Group plc in association with Bank of Scotland to bring forward the development of eight sites in the West Midlands region including the 20 acre Bromsgrove Technology Park. The Langtree Group have invested £60 million in a joint arrangement with the Bank of Scotland to acquire a 50% stake in the PxP partnership which will also be responsible for the management of Advantage West Midland's portfolio of investment properties which comprise more than 550,000 square metres of commercial floor space (www.pxpwestmidlands.com).

Collectively the four regional asset backed vehicles have committed over £340 million (2007 prices) of property into 50/50 partnerships, this in turn has levered circa £330 million investment from the private sector (Table 5). Given that RDA property holdings represent less than half a percent of those held by local authorities (£1bn compared to £230bn), the potential impact on the regeneration sector if local authorities embraced the asset backed model would be enormous in terms of levering private sector investment (Grace and Ludiman, 2008).

Table 5: Financial commitments to regional asset backed vehicles

Region	North East	North West	East Midlands	West Midlands
Regional development agency	One North East	North West Development Agency (NWDA)	East Midlands Development Agency (EMDA)	Advantage West Midlands
Regeneration investment vehicle	Buildings for Business	NorwePP	Blueprint	PxP
Year formed	2004	2006	2005	2007
Investment partner	UK Land Estates	Ashtenne Industrial Fund	Igloo/ Homes and Communities Agency	Langtree Group/Bank of Scotland
Financial commitment	£120 million	£140 million	£25 million	£60 million

The initial response to the asset backed structure among local councils has been cagey, with some councillors skeptical about relinquishing control of "their" assets to the partnership structure (Garlick, 2007). In essence though the wider social and economic aims of the public sector partner are protected by the pre-agreed business plan which will have outlined the purpose and long term vision of the vehicle in legally binding documentation thus ensuring the public sector partner retains a level of control over how assets are to be developed (Grace and Ludiman, 2008).

Croydon Council became the first local authority to introduce the asset backed structure when it entered into a 50/50 partnership agreement with John Laing Projects and Developments (JLPD) in June 2008. The vehicle known as 'Croydon Council Urban Regeneration Vehicle' is a 25 year partnership and will initially develop four sites including the council's existing headquarters at Taberner House. The initial portfolio of properties has a completed development value of circa £450 million (Rigby, 2008).

[5] Advantage West-Midlands is the Regional Development Agency for the West-Midlands Region.

A number of other local authorities are actively considering the introduction of asset backed vehicles to stimulate regeneration activity; they include Newham, Coventry, Hull, Carlisle, Birmingham, Tyne and Wear, Sheffield and Newcastle-Gateshead among others. It seems likely that the asset backed model will be rolled out as local authorities look to drive forward regeneration benefiting from private expertise whilst sharing in the uplift in land values within their areas. The downturn in the property market is likely to test the resilience of the local asset backed model, with industry already experiencing a major slowdown in development activity – putting the brakes on the supply of Section 106-generated affordable housing (Brown, 2008).

The research report *Institutional Investment in Regeneration: Necessary conditions for effective funding* (IPF, 2006) identified the importance of developing innovative investment structures as a means of attracting investment, particularly institutional finance into regeneration. The report highlighted that various funding bodies would be likely to invest in a regeneration vehicle provided it was suitably structured to meet their differing risk-return characteristics, although it should be highlighted that the investigation was carried out in a completely different financial climate to the one that has prevailed throughout 2008 and the first quarter of 2009.

However, the rollout of the asset backed structure at local authority level is a significant step to enhancing the levels of private sector investment into regeneration. Although confidence in the property market may have receded in the wake of the downturn, asset managers within the major institutions are still required to allocate the capital being received from pension funds and insurance companies. Asset backed vehicles offering an attractive portfolio mix could therefore secure investment from investors with longer term investment horizons meeting the requirements of regeneration.

Key point summary:

- The lack of product facilitating investment in regeneration has been a major obstacle to enhancing the levels of investment being channelled into regeneration. Igloo and English Cities Fund remain the most high profile vehicles within the industry however opportunities to invest in either fund is limited.
- Recent developments in asset backed structures have significantly expanded the scope of investors wishing to commit to regeneration with the first generation of asset backed vehicles set up by the regional development agencies beginning to generate results.
- Croydon is the first local authority to introduce the asset backed structure but uptake of LABVs in general has been slow. This has been attributed to a lack of understanding of the structure as well as a deep rooted mistrust of the private sector.
- The initial appeal of the asset backed structure will be tested in the current property market climate but over the longer term asset backed structures have the potential to create a self sustaining cycle of regeneration funding.

In developing the necessary skills sets to sustain the delivery of regeneration, the UK has looked to the United States and Europe to provide insight and inspiration. Initiatives such as the Academy for Sustainable Communities draw heavily on European good practice. Section 8 examines international regeneration policies and identifies initiatives that could possibly enhance the delivery of regeneration in the UK.

8.0 MODELS OF REGENERATION BEST PRACTICE

There has always been a strong transatlantic influence on the development of urban policy in the UK, but increasingly European countries have provided innovation and examples of 'best practice' with major European cities reinventing themselves and successfully repositioning their economic base in response to shifts in the global economy. The objective of this section is to explore models of regeneration best practice with the view to informing policy development.

The UK has always been at the forefront of developments in regeneration policy in Europe, being the first country to introduce a concentrated programme of initiatives designed to tackle the symptoms of urban decline. It is now widely accepted that cities are fundamental to national economic prosperity in what is an increasingly global market place. However, despite more than 30 years of regeneration initiatives the local government White Paper (DCLG, 2006) as well as The State of English Cities Report (Parkinson, 2006) highlights that with the exception of London, English cities are not sufficiently competitive by international standards.

The European Commission defines urban competitiveness "as the ability of a city to generate relatively high income and employment levels, while being exposed to external competition". Therefore for a city to be deemed competitive, it is important to ensure both quality as well as quantity of jobs. Hence, urban competitiveness is more than GDP and is determined by a complex set of variables that include innovation, talent, entrepreneurship and connectivity. Despite recent improvements, many UK cities lag behind their European comparators in terms of GDP, innovation levels, education, connectivity, social cohesion, quality of life, political capacity and connections with their wider territories (Parkinson, 2006).

The State of European Cities Report: Adding Value to the European Urban Audit (2007) measured the competitiveness of more than 250 European cities in 27 member states. To allow for comparability, cities were categorised into 13 types based on size, economic structure, economic performance, and the four key drivers of urban competitiveness – innovation, entrepreneurship, talent and connectivity. Significantly, the UK had both some of the most competitive cities in Europe as well as some of the least competitive, but from a national perspective lagged the likes of Denmark, Finland, Sweden and the Netherlands and parts of Germany in terms of overall competitiveness.

European cities have been considerably more effective in re-branding themselves and enhancing their competitive position than their UK counterparts. Bilbao in northern Spain and Genoa in northern Italy are among a number of cities once dependent on heavy manufacturing that have reinvented themselves as key service providers as well as centres for culture and tourism. Whilst it may not be possible to replicate such policies in the UK due to differences in governance and tax regimens it is none the less valuable to explore examples of good practice as a means of informing policy development.

Regeneration models operating in many European countries are not significantly different to those in the UK. The public-private partnership (PPP) structure for example is commonplace in a number of European countries. Holland, Denmark and Germany provide numerous examples of how the forms of PPPs can vary to deal with the special requirements of each urban development scheme and the country's legislative and administration system (Boxmeer and Beckhoven, 2005). The distinction between the UK and many European countries is not in the models that are being used to deliver regeneration but in how those structures are governed and in particular in the level of autonomy afforded local authorities.

8.0 MODELS OF REGENERATION BEST PRACTICE

The lack of local authority power is often cited as a significant factor in the underperformance of UK cities (Parkinson, 2006). There is a growing acceptance in the UK that local authorities need to be given greater levels of autonomy as well as greater control over regeneration funding. The Egan Review (2004) emphasised the role of local authorities in providing leadership to bring forward regeneration in a co-ordinated manner and stressed the importance of raising skills levels at local authority level to support regeneration delivery. The Lyons Enquiry (2007) reasserted the role of local authorities in 'place shaping' as well as the need to inspire a sense of powerfulness in local government – something which would require a behavioural change in all tiers of government (Cadell et al, 2008).

The case for devolving power to local authorities is a strong one. However, a whole series of counter arguments can be presented, including the variable quality of local authority capacity as highlighted in the Egan Report as well as problems with boundaries. These counter arguments will make fundamental change difficult, unless there are convincing precedents that show that devolution can be made to work (Cadell et al, 2008). In this respect cities such as Lille and Rotterdam provide outstanding examples of what can be achieved through the successful devolution of power. There are also huge opportunities to learn from other European countries on how power can be most effectively devolved. A number of the European models for power devolution have been rolled out over a number of decades – with power often devolved on an incremental basis. They provide invaluable insight on developing successful business models, creating strategic visions and harnessing stakeholder participation.

The government White Paper *Strong and Prosperous Communities* (DCLG, 2006) makes a shift towards supporting the decentralisation of power to local authorities. The idea of City Development Companies and the emphasis on local area agreements will give local councils greater levels of autonomy and responsibility. Local authorities have been empowered to make key decisions on the direction of regeneration within their boroughs as well as having greater accountability over funding. The introduction of Supplementary Business Rate and Community Infrastructure Levy will provide local authorities with revenue generating streams to fund infrastructure provision contributing to the economic viability of regeneration schemes.

Supplementary Business Rates (SBR) proposed by the Lyons Enquiry in it's final report into the future role, function and financing of local government was published in March 2007. The Enquiry recommended that government should consider giving local councils the power to raise a supplement on top of the business rate to fund specific, local economic development projects. The proposed SBR model has been outlined in the government White Paper *Business Rate Supplements* (October 2007) with legislation enabling local authorities to implement the model expected to be enacted by April 2010.

The Community Infrastructure Levy (CIL) is being introduced as part of the Planning Reform Bill. The CIL will enable local councils to apply a levy on new developments in their areas to support infrastructure. It is intended that the CIL will be applied on both residential and commercial development as this will ensure that all developments which impact upon infrastructure contribute towards the cost of its provision. The CIL will be a standard charge decided by designated charging authorities with liability likely to be attached to the landowner at the point of commencement of development. Following the downturn in the UK property market the introduction of the CIL has been delayed until April 2010.

A variation of the CIL model has already been successfully implemented in Milton Keynes. The Milton Keynes Tariff was accepted by government in December 2005 as an approach to fund the infrastructure needed for the next phase of growth for Milton Keynes to 2016. The tariff requires a contribution of £18,500 per residential dwelling and £260,000 per hectare of employment space from developers to pay for a share in the local and strategic infrastructure required to support this growth. The tariff is forecast to raise £310 million up to 2016.

8.0 MODELS OF REGENERATION BEST PRACTICE

Research undertaken by Newell and Peng (2008) confirms an increasing institutional interest in the strong inter-relationship between infrastructure quality and global competitiveness. The UK has an ageing infrastructure network that is in urgent need of upgrading and is currently ranked 14th in the world in terms of infrastructure provision, with Germany the top ranking country in terms of infrastructure quality followed by Switzerland. The investment gap between the UK and other European countries is significant, but with increased pressure on public finances, it is likely that government will have to consider alternative ways to fund infrastructure, development and maintenance in order to improve the UK's competitive position.

In recent years infrastructure has emerged as a separate asset class for institutional capital. Investors have utilised unlisted property funds to secure exposure to a range of infrastructure projects both local and international. Over 25 new unlisted infrastructure funds were established in 2004–06 (average fund size £350 million) incorporating portfolios in markets such as Europe and Australia, as well as in emerging markets such as Korea and South America (Newell and Peng, 2008). Figures published by the World Bank (2006) calculate that over £15 trillion will be required to fund global infrastructure to 2030 creating significant investment opportunities.

The alternative options for funding infrastructure have traditionally included public private partnerships (PPPs), private sector entrepreneurial projects and private finance initiative schemes (Newell and Peng, 2008). In the United States, Tax Incremental Financing (TIFs) has been a favoured model for funding infrastructure and development. Introduced in the 1950s the TIF model involves the hypothetication or "ring fencing" of taxes and is used extensively throughout the US to support urban renewal, affordable housing, land reclamation and public infrastructure projects. Tax Incremental Financing is an area based initiative, the tax increment equals the general property taxes levied on the value of the TIF district in excess of its base value as a result of regeneration with all revenue raised being used to directly improve the district (IPF, 2006). Billions of dollars have been raised in the US in the last decade and the TIF model is unquestionably the preferred funding option for regeneration in the US.

There is growing interest in the TIF model in the UK. This is based on the premise that regeneration has been a major casualty of the economic downturn and that current infrastructure funding mechanisms, including the soon to be introduced CIL and SBR are not sufficient to fund the infrastructure in those areas in most need of regeneration. The British Property Federation published a discussion paper (November 2008) on the case for introducing TIFs in the UK. The purpose was to stimulate debate on the merits of introducing TIFs and the 2009 Budget has further advanced the potential introduction for regeneration.

This report has highlighted that attracting investment into regeneration in the current economic climate is likely to be problematic. It is important therefore that all available avenues for regeneration funding are explored. In this respect the Joint European Support for Sustainable Inner City Areas (JESSICA) initiative remains a largely untapped resource. JESSICA is a financial engineering instrument established by the European Commission Structural Funds Regulations 2007-–2013 to closer align European Structural Funds (primarily ERDF) with European Investment Bank resources including the European Investment Bank (EIB) and the Council of Europe Development Bank (CEB).

The initiative was designed to replace the ERDF gap-funding that ended in 2006 which allowed developers to apply for a one-off payment from the Regional Development Agency (RDA) to help fund projects where the overall costs were higher than the end value of the final scheme. JESSICA is intended to bring together complementary skills from the financial and regeneration sectors into a partnership structure that will require a strategic, long-term vision and technical management competences from both local authorities and the private sector. To be eligible for financing, projects have to form part of the Integrated Urban Development Programme that ensures the consistency and sustainability of the investments.

The JESSICA facility makes it possible to use the European Union's structural funds flexibly for projects that are attractive to the private sector but which require public financial support. JESSICA funding has been designed to support public-private investments in urban regeneration projects and can take the form of equity, loans or guarantees. The equity option would enable public money to be invested at an early stage of the regeneration process which would then be retained at the very heart of a project until its successful completion; crucially, this would remove a great deal of risk from the regeneration process and be a huge incentive for private investors.

In the opinion of Chris Brown, Igloo chief executive, the JESSICA model has enormous potential, but in the UK at least, its potential application is poorly understood. People who understand European funding do not understand the power of investing in projects that make a return on capital. People who understand making a return on capital have mainly not heard of, and often actively avoid, European funding. However, given the ongoing uncertainty in the property market and the current financial stalemate government needs to take decisive action regarding the potential roll out of the JESSICA model. A number of high profile regeneration projects in the UK have been shelved in recent months and as regeneration practitioners struggle to survive there is a real danger that expertise will be lost from the industry as will the momentum generated over the last decade.

In summary, invaluable lessons can and (in some cases) have been learned from examining international regeneration policy. The UK has traditionally looked to the US for innovation and guidance on developing urban policy and whilst the transatlantic influence remains strong and has the potential to be enhanced through the introduction of TIFs, the European influence on urban policy development in the UK is growing significantly.

Whilst Europe undoubtedly provides opportunities for innovation and learning, care should be taken not to diminish or undervalue the regeneration achievements of the UK. In many respects the UK has played a pioneering role in urban policy development and has helped shape and influence regeneration policies in many European countries. It is important also to recognise that what works in one particular country or city may not work in another. The symptoms of urban decline may be generic but the circumstance and conditions that led to the decline are unique to any given area – therefore it is important to realise that there is no "one size fits all" solution for regeneration and as a consequence no single European model for success.

In the current economic climate it is important that all available avenues for regeneration finance are explored. Debt markets for regeneration are effectively closed. No-one is investing equity as property values are expected to fall further. Private sector practitioners within the regeneration industry have already lost capital and expertise and are struggling to survive.

Government will need to enter into new partnership arrangements if regeneration is to be sustained. Gap funding is an essential tool in bridging the shortfall in returns and bringing forward regeneration schemes which do not stack up commercially; in the current climate that applies to most regeneration projects. In this respect products such as JESSICA need to be exploited quicker. It has been over two years since the JESSICA initiative was announced but understanding, let alone application, of the model in the UK is lacking. If structured correctly JESSICA has the potential to lessen the cost of government intervention which could be recovered on the up-swing of the market.

8.0 MODELS OF REGENERATION BEST PRACTICE

Key point summary:

- The most successful regeneration projects in Europe have been characterised by strong local governance, key stake holder collaboration and a strategic vision to transform the city's image and enhance its economic position. Although the same levels of devolution do not exist in the UK, measures are being put in place to enhance the autonomy of local authorities.
- Although no single 'best practice model' exists for regeneration, and cities have unique characteristics, many European cities can provide excellent role models for 'reinvention' – something UK cities have struggled to achieve.
- The UK needs to place greater emphasis on smart growth through the implementation of policies and practices that support the delivery of better quality of housing, transport and economic development and environmental sustainability.
- More needs to be done to heighten practitioner awareness of European regeneration funding mechanisms and how these can be secured.

The objective of this investigation is to update the research agenda on urban regeneration and to identify major existing and emerging issues. The timing of the study is significant given that it has coincided with a major transformation in economic conditions, a downturn in the property market and a liquidity crisis in the financial markets. This has inevitably influenced the direction and content of this report although other areas of significance to the sustainable delivery of regeneration have also been examined. The conclusions from the study, as well as areas requiring further investigation are presented in section 9.0.

9.0 CONCLUSIONS

Thirty years of regeneration initiatives have failed to significantly close the socio-economic gap between the poorest neighbourhoods and the rest of society. In many cases an over emphasis on the physical dimensions of regeneration has been to the detriment of social and economic revitalisation. Regeneration success should be measured not by development output but by how quality of life is enhanced in the areas undergoing regeneration. In this respect the focus of urban policy in the UK has been somewhat flawed – initiatives may have 'achieved their targets' in terms of outputs, but in many cases they have 'missed the point' from a regeneration perspective. Policy objectives were too narrow, failing to take into account the inter-relationships that exist between the symptoms of urban decline and often lacking connectivity with residents. The evaluation of NDC has heralded a new approach to urban policy assessment based on outcome indicators which measure improvements in resident quality of life – the true indicator of regeneration success. The work of the Policy Action Team (PAT) 18 is to be commended in driving forward the information agenda to facilitate such evaluation.

Government are committed to closing the socio-economic gap, but increased pressure on public sector spending has heightened the need to attract substantive levels of investment from the private sector. Institutional investors – identified as the investor grouping best placed to commit to regeneration projects – have thus far been reluctant to invest. In spite of research evidence to the contrary and improvements in the transparency of regeneration property markets, regeneration is still considered a 'risky' investment option among institutional investors. Risk premiums for conventional property are about 2.5% but for regeneration this can rise to as much as 4%.

In an attempt to attract substantive levels of private sector investment a number of bespoke investment vehicles have been created. Initial opportunities to invest were extremely limited but a number of new vehicles have recently entered the market. The Local Asset Backed vehicle in particular, if successfully adopted at local authority level, has the potential to revolutionise how regeneration is funded. The robustness of the new structures are, however, likely to be severely tested in the current economic climate following the aftermath of the credit crunch and the downturn in the property market. The new regeneration investment vehicles are a significant step to channelling enhanced levels of investment into regeneration but this is an area of the property market that remains underdeveloped, and given the magnitude of regeneration activity, has massive scope for further expansion.

Opinion is divided on the impact the economic and property market downturn will have on regeneration. One school of thought is that the downturn represents a major challenge to regeneration as schemes are likely to find it more difficult to attract investment as investors opt for more risk averse options. A second school of thought is that the downturn represents a significant opportunity for regeneration – demand for brownfield land has receded following the downturn, presenting regeneration agencies with an ideal opportunity to acquire sites to bring forward regeneration projects. The full affects of the correction in the commercial property market on regeneration have yet to be assessed but opinion could well change depending on the longevity of the downturn.

In many ways it is ironic that the downturn in the property market came at a time when a growing acceptance of the opportunities and potential of regeneration property had started to emerge. The IPD Regeneration Index shows the robustness of regeneration property over the medium to long term with substantive out-performance of both equities and bonds over the 10-year time frame 1998–2007 and only marginal under performance relative to the prime property market. In the 1990s property market downturn, the high levels of subsidisation in regeneration schemes provided investors with a shelter against prevailing property market conditions.

9.0 CONCLUSIONS

The same levels of subsidy are not available in the current market; however major regeneration projects undertaken in partnership with the public sector may prove an attractive investment option in the prevailing market conditions. The public sector contribution to the partnership structure is generally in the form of land and buildings – the fact that acquisition costs are significantly reduced or eliminated, means that regeneration should continue to provide investors and developers with a potential cushion from prevailing market conditions. The IPD Regeneration Index (2008b) has shown that regeneration property has been more vulnerable to the prevailing market downturn than any other types of investment property, regeneration property should however be viewed as a medium to long term investment option and in this respect the current market provides an opportunity for investors to acquire assets in anticipation of future out-performance.

While uncertainty prevails over the impact the market downturn will have on regeneration, what is certain is that the financial crisis will have a profound affect on property lending. The scale of lending that characterised the market pre-credit crunch has come to an end and is unlikely to return in the near future. Revised lending criteria are likely to have a significant impact on how regeneration is funded with lending institutions having reduced loan-to-value ratios and insisting on greater equity commitments on the part of investors and developers. In the short term at least, banks are likely to restrict lending to the 'prime' market creating a possible shortfall in the availability of debt finance for regeneration projects.

The economic downturn is likely to have profound implications for regeneration. Retail has been a key driver in the transformation of towns and cities throughout the UK. The retail weighting in the 2008 edition of the IPD Regeneration Index was 68%. However, many leading retail brands, including those occupying units in regeneration schemes have reported dramatic downturns in revenue. The retail sector is driven by consumer expenditure, but uncertainty in the economy, the tightening of credit facilities, the downturn in the housing market and the rise in living costs have combined to dampen consumer confidence. If the prevailing economic climate persists growing numbers of retailers will struggle to survive, while any expansion plans are likely to be put on hold. This has the knock-on effect of reducing demand for floor space and is likely to lead to higher vacancy rates within the retail sector – an issue which could have severe consequences for regeneration schemes from both development and investment perspectives.

The UK has occupied a pioneering role in enhancing regeneration policy within Europe and has achieved a great deal in regeneration terms in the period since 1977. Nonetheless, there are opportunities to learn from other European cities and to embrace good practice. Many former industrialised cities in Europe have faced similar challenges to those in the UK but have proven to be much more successful in reinventing themselves and improving their economic base. The most successful regeneration projects in Europe are characterised by strong local leadership and high levels of autonomy at the city or local authority level. The UK government has recently introduced a series of measures designed to devolve greater levels of responsibility for regeneration to local authorities, which should ensure a greater degree of understanding of local issues and remove much of the bureaucracy which has protracted the delivery of regeneration.

9.1 Areas for further study

In updating the research agenda on urban regeneration a number of issues have emerged that would merit further investigation. Reviews of property lending in the wake of the financial crisis will have major implications for regeneration funding. Regeneration schemes are capital intensive and it is unlikely that individual banks will be willing to underwrite loans of such magnitude. In addition lending institutions have adopted a risk averse approach to borrowing in the wake of the property market downturn – it is necessary therefore to examine how development funding for large scale regeneration schemes will be structured.

9.0 CONCLUSIONS

In addition to the flagship regeneration schemes, smaller "niche" developers have been the life blood of regeneration in many towns and cities throughout the UK. Often venturing where larger, more conventional developers have feared to tread, they have created the basis upon which others have followed. Enhanced lending criteria have seen equity commitments on the part of developers rise by as much as 50%. In regeneration terms this will equate to a substantive increase in equity commitments. There is merit in exploring if the tightened lending criteria will result in smaller developers being priced out of regeneration, an issue of major importance given that there is already a deficiency in competent regeneration practitioners.

Research undertaken by The Academy for Sustainable Communities highlights a shortfall in qualified professionals with the necessary skills to deliver sustainable communities. That shortfall is likely to be exacerbated by the downturn in the property market which has lead to a major contraction in development activity and fuelled unemployment across property related professions. There is a real danger that a lot of the competence and knowledge that exists within the regeneration industry maybe lost, adding to the skills deficit.

Increased pressure on public spending has intensified the need to attract institutional investment into regeneration. The creation of the IPD Regeneration Index has enhanced institutional awareness of the potential of regeneration property. Opportunities to invest in the bespoke regeneration vehicles currently on the market are however extremely limited. The rollout of the asset backed structure at local authority level offers the greatest scope to enhance the levels of institutional investment in regeneration. There is an urgent need to improve local authority understanding of the benefits and opportunities of LABVs and to capture institutional opinion on the LABV structure.

Mixed-use developments have become an integral feature of the UK property market and are viewed by policy makers as fundamental to sustaining regeneration and to the realisation of housing targets. Within regeneration schemes, retail property has tended to dominate the property offering as this has ensured the commercial viability of developments. However, understanding of the synergies between the property mix and the impact on performance requires clarification.

Future research proposals:

- An evaluation of international regeneration would help identify models of best practice and enhance knowledge of financial modelling and partnership structures which have been applied to regeneration. In the current economic climate it is necessary to explore all available sources of funding for regeneration and in this respect funding opportunities such as JESSICA require further investigation. Such evaluation should also include a comprehensive study on the use of TIFs to help fund infrastructure investment.
- Institutional awareness of the potential of regeneration has been enhanced in recent years but as yet this has not been translated into substantive levels of investment. One of the reasons for this has been the lack of bespoke regeneration investment vehicles. LABVs have the potential to revolutionise how regeneration is funded and it is important to capture the views and opinions of institutional investors on the LABV model.
- The knowledge and expertise of smaller niche developers has been fundamental to sustaining the urban renaissance. The regeneration sector can ill afford to lose this competent skills base and therefore it is important to highlight the role of niche developers within regeneration and identify the implications of revised lending criteria.
- A lack of understanding exists within the property industry in the UK on the fundamentals of mixed-use schemes and mixed-use synergy. Improving the knowledge base and demonstrating how the combination of property types contributes to overall performance would enhance the investment appeal of mixed-use schemes.

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