Institutional Investment in Regeneration: Necessary conditions for effective funding

Research Findings

May 2006

This research was commissioned by the IPF and IPFET with joint funding with BPF, BURA and English Partnerships
Institutional Investment in Regeneration: Necessary conditions for effective funding

Final Report
May 2006
The IPF Educational Trust and IPF Joint Research Programme

This research was commissioned and partially funded under the auspices of the IPF Educational Trust and IPF Joint Research Programme.

The three-year 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 the other financial markets, wider business community and government on a range of complementary issues.

The programme is funded by a cross-section of 16 businesses, representing key market participants. The IPF Educational Trust and the IPF gratefully acknowledge the contributing organisations: Capital & Regional, Donaldsons, Grosvenor, GVA Grimley, Investment Property Databank, KPMG, LaSalle Investment Management, Land Securities, Lovells, Morley Fund Management, Nabarro Nathanson, Prudential Property Investment Managers, Quintain Estates & Development, Scottish Widows Investment Partnership, SJ Berwin and Strutt & Parker.

Joint funders of the research

The project was jointly funded by the British Property Federation (BPF), British Urban Regeneration Association (BURA) and English Partnerships. The IPF gratefully acknowledges their substantial financial support and the invaluable contributions from their representatives on the project steering group.

Launch event supporters

The research findings were launched at the International Conference Centre, Birmingham on 19 January 2006. This was only possible with the financial support of Locate in Birmingham (Birmingham City Council) who provided the ICC. The launch was generously supported by Pinsent Mason, Miller Developments Argent, Calthorpe Estates, Urban Splash, Eastside Partnership, AWM, Targetfollow and Birmingham Developments Company.

Disclaimer

This document is for information purposes only. The information herein is believed to be correct, but cannot be guaranteed, and the opinions expressed in it constitute our judgement as of this date but are subject to change. Reliance should not be placed on the information and opinions set out herein for the purposes of any particular transaction or advice. The IPF, IPF Educational Trust, BPF, BURA and English Partnerships cannot accept any liability arising from any use of this document.
The research team

Professor Alastair Adair, Professor Jim Berry and Professor Stanley McGreal (all of the University of Ulster) and Professor Norman Hutchinson (University of Aberdeen). Suzanne Allan, (formerly of the University of Ulster, now PriceWaterhouseCoopers), was part of the research team in the first two thirds of the project. In addition, Deborah Lloyd, Justin Cornelius and James Dakin of Nabarro Nathanson (a donor to the IPF and IPFET Joint Research Programme) greatly assisted the research team towards the end of the project.

The project steering group

The IPF appointed a project steering group to guide and assist the research team. The IPF gratefully acknowledge the contribution from the Chairman – Phil Clarke (Morley Fund Management) and David Shevill (observer from ODPM), Faraz Baber (BPF), Justine Lovatt (English Partnerships), Paul McNamara (Prudential), Peter Freeman (Argent), Rebecca Worthington (Quintain), Simon Burwood (BURA), Steve Carr (English Partnerships), Tom O’Grady (SJ Berwin) and Charles Follows (IPF).
The regeneration of communities and localities across the UK is a central part of Government policy and local planning policy. To that end, Government has introduced various policy initiatives, set up agencies and encouraged the re-use of brownfield sites to stimulate urban regeneration. However, successful regeneration often relies on the private sector landowners and developers to bring forward sites and for banks and investors to provide finance at the various stages of specific projects. Ultimately all property requires an end owner or investor to provide long-term capital. Therefore, Government policies will not be completely successful unless the interests of the private sector are harnessed, alongside the policy agenda.

Regeneration uses different sources and types of finance at the different stages of the process. Disparate funding sources have different returns targets, assessment criteria, timescales and objectives. In addition, regeneration, particularly large-scale projects, is messy, management intensive, often complex, impacts on many stakeholders, can involve variety of landowners and requires public sector intervention.

The IPF and funding partners wish to more fully understand the reluctance of many institutional investors to engage in regeneration projects in order to encourage further dialogue between the policy makers in Government and the sources of finance. Consequently, they funded this research project, undertaken throughout 2005.

This project examines the requirements of the private sector sources of short-term funding and long-term capital. It looks at the main finance sources – banks, private equity, fixed interest and long-term property investors – to understand their needs and requirements. It will identify the necessary conditions that need to be in place to get the private sector to engage fully with Government, national and local, and regeneration agencies. By explicitly identifying these necessary conditions, it is hoped the project will help to build a bridge and dialogue between the private sector and Government policy.

Many sources of finance shy away from regeneration projects because of the perceived difficulties and protracted timescales. Financiers and investors perhaps over emphasise the risks and many projects are placed on the ‘too difficult’ pile. As a result, investors may forgo attractive returns. The research suggests that a regeneration investment vehicle with a mix of capital sources and a portfolio of regeneration projects would attract considerable interest across the sources of capital. Each participant would receive appropriate tranches of return reflecting their risk capital and objectives. The vehicle would hold a portfolio of projects at differing stages of the regeneration process to generate a diversified cash flow. The vehicle would provide management expertise and continuity for protracted projects.

The IPF, BPF, BURA and English Partnerships invite comments on the findings. Please address comments or suggestions to Charles Follows, Research Director, IPF, New Broad Street House, 35 New Broad Street, London EC2M 1NH. Email cfollows@ipf.org.uk 020 7194 7925 Switchboard 020 7194 7920. Fax 020 7194 7921
# Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive Summary</td>
<td>10</td>
</tr>
<tr>
<td>1.0 Introduction</td>
<td>11</td>
</tr>
<tr>
<td>2.0 The Investment Market</td>
<td>22</td>
</tr>
<tr>
<td>3.0 Regeneration Investment Opportunities in the Institutional Asset Classes</td>
<td>27</td>
</tr>
<tr>
<td>4.0 Regeneration Investment Vehicle</td>
<td>40</td>
</tr>
<tr>
<td>5.0 Recommendations</td>
<td>53</td>
</tr>
<tr>
<td>References</td>
<td>54</td>
</tr>
<tr>
<td>Appendices</td>
<td>55</td>
</tr>
</tbody>
</table>
This research seeks to identify the conditions and type of vehicle that are required to attract more institutional investment into regeneration. The issue is resolved by examining the compatibility of the regeneration process, in whole or in part, with the investment characteristics of the different asset classes. A cross-asset comparative perspective is used comprising property, bonds or fixed income, equities, private equity and hedge funds, including socially responsible investment, enabling a fuller awareness of both the asset allocation decision-making process and the key criteria used in investment selection.

Regeneration is currently at the forefront of the Government’s priorities. The research shows that various sources of finance would be likely to invest in a regeneration investment vehicle provided it is suitably structured to meet their differing demands for returns and appetites for risk. An essential requirement is an expert and experienced management team. It cannot be over-emphasised that large scale regeneration is a lengthy process and any delay in implementing initiatives of this nature may impact on the delivery of institutional investment into regeneration and sustainable communities.

The research identified a number of options for a regeneration investment vehicle. However, the exact choice is determined by the objectives of the investor, the macro-economic climate prevailing and the degree of support provided by government reflecting the priority of regeneration.

In the proposed tiered structure the bond provides the first layer of regeneration finance and is complemented by a second layer, depending on the scale of the regeneration project, of private equity and long-term funding. Linkage of the vehicle to product is important. Hence, it is desirable that the vehicle complements existing and new regeneration projects.

It is vitally important that a dialogue should commence among the interested parties such as IPF, RICS and BPF, representing institutional investors, and the ODPM and HM Treasury to ascertain the level of support for direct government involvement in a regeneration investment vehicle. The dialogue should extend to include representatives of local authorities, Regional Development Agencies and English Partnerships to ensure support for the initiative, as well as to identify regeneration opportunities. While central government support is essential, the engagement of local government and public sector agencies cannot be understated. In addition, the dialogue should also extend to developers to assist them in identifying regeneration opportunities at the appropriate scale to enable the implementation of a regeneration investment vehicle.

The proposals for REITs under the 2006 Budget and their introduction in 2007 with the likely growth in REIT products raises the potential for significant institutional investment into regeneration over the longer time horizon. The benefits of Tax Incremental Financing in the remediation, infrastructure or development phases of regeneration should be fully researched.

The dialogue should commence as soon as possible in order to meet the government targets for greater and more effectively delivered private sector involvement in the financing and implementation of regeneration and sustainable communities. To this end a pilot project of an appropriate scale, say in the Thames Gateway, should be identified to examine the feasibility and implementation of the regeneration investment vehicle on the ground.
The UK government is increasingly seeking to ensure greater involvement of the private sector in the financing and delivery of regeneration and sustainable community targets (Urban White Paper, 2003: Miliband, 2005). However, the scale of institutional capital targeted towards the regeneration process is limited. This is a particular concern where major regeneration schemes such as Thames Gateway will manifestly require enhanced participation by institutional investors. To achieve stronger institutional involvement, the public sector is being encouraged to take on a more strategic role, which creates confidence for the private sector to invest. However, the success of such an approach depends on meaningful engagement between the public and private sectors and with the financial institutions in particular.

A criticism of past regeneration initiatives and policies is that all too often they are seen as public sector driven with the aspiration that the private sector will follow through the use of incentives such as grants and tax breaks. However, the dialogue or absence of dialogue between government and the financial institutions means that the weight of institutional capital in the regeneration process was limited and effectively employed. This is worrying when the delivery of major regeneration schemes such as Thames Gateway will require enhanced engagement by institutional investors.

The financial institutions are major players in the UK capital market, controlling assets in excess of £1,500 billion. Research into the size and the structure of the UK commercial property market has estimated that at the end of 2004 the value of the total stock of commercial property was £611 billion of which £489 billion is investment grade. The value of commercial invested stock stood at £265 billion of which £254 billion is in the core sectors (Key, 2005).

The engagement of the institutions in financing regeneration is central to this research, which addresses the conditions necessary to attract institutional finance into regeneration schemes. The research does not limit its scope to conventional property involvement but takes a cross-asset perspective involving other investment classes namely equities, bonds, private equity, securitised vehicles and others. In this respect the research moves beyond the existing question of involving institutions in property investment to potentially more strategic issues related to infrastructure and other opportunities within regeneration. Central to the study is an understanding of institutional requirements, namely, their expectations of asset returns over a three to five year time-cycle and longer term horizons, how investors perceive the packaging of returns, understanding their risk tolerances, the nature of security they require, alternative financial models and market testing.

1.1 Scope of the study

The aim of the research is to understand the needs of investing institutions and to identify the likely constituents of a working model suitable for encouraging institutional investment and bank finance into regeneration schemes. The research adopts a cross-asset perspective (property, bonds or fixed income, equities, private equity, hedge funds and alternatives), enabling an understanding of both the asset allocation decision-making process and the criteria used in the investment selection procedure of respective asset classes. By considering the views of decision makers, a profile is constructed of the factors and inputs necessary in designing a regeneration investment vehicle that would prove attractive to the financial institutions.
1. Introduction

An output of the research is to formulate recommendations to central government with the view of proposing an investment vehicle to facilitate the delivery of institutional investment in regeneration.

The methodology employed in the research comprised a number of stages. The first stage was a consideration of current institutional investment strategies and financing vehicles in regeneration. At the same time, a scooping study was undertaken with institutional investors to identify and frame the institutional investment decision-making process. The outcomes of these interviews formed the basis of debate at a workshop in London attended by leading representatives from the private and public sectors involved in regeneration and institutional investment. Outcomes of the workshop, in turn, influenced the research approach adopted and resulted in the production of a proforma or survey instrument to test the investment and risk-return criteria of institutional investors.

The second stage of the research involved a survey of investment fund managers across each of the principal asset classes. Taking the form of structured discussions, the interviews considered the investment decision-making process, risk-return criteria and potential sources of regeneration funding across investment teams comprising equities, bonds, private equity, property and cash. The focus was directed on institutional investment decision-making rather than revisiting current funding arrangements or analysing past regeneration projects. The principal outcome of the survey was the development of a structure for a regeneration investment vehicle that would attract to institutional investors.

To complete the empirical part of the research, the final stage comprised two workshops, one for private sector investors and the second for public sector representatives. The objective was to fine tune the investment fund and identify the circumstances in which it would be most applicable in delivering institutional investment into regeneration.

1.2 Understanding the regeneration process

Before entering into the main sections of the report, it is useful to briefly reflect upon an understanding of regeneration and the core theme underpinning this study, the changing regeneration environment. Regeneration, as a concept, too often focuses on the perception of decline rather than emphasising the process of renewal and investment potential. Different definitions of regeneration are used depending upon particular perspectives. One definition receiving wide acceptance in the mid to late 1990s, and indeed was used by authors of this report in previous research (Adair et al, 1998), is the process of reversing economic, social and physical decay in our towns and cities where it reaches that stage when market forces alone will not suffice. However, regeneration is dynamic and more appropriate definitions for the present decade are concerned with raising value, creating sustainable communities and developing more innovative ways of attracting private investment.

In conceptualising regeneration the analysis presented in this report is based on the contention that regeneration is a process consisting of three distinct phases: remediation/infrastructure provision, development and investment (Table 1). These phases, in many ways, mirror the wider urban land development model. However, within regeneration there is added complexity arising from the location of sites, primarily in inner city areas, the secondary nature of sites from the property market perspective, the perceived adverse impacts of neighbouring land uses and the associated social and environmental problems. These negative characteristics often result in higher costs compared to the development of greenfield sites and fuel the perception of lower returns with added risk. Indeed, risk to return is a recurring theme that underpins the central thesis of this report.
1. Introduction

The initial phase of the regeneration process comprises the assembly of the site and remediation of the land, if necessary, together with the provision of infrastructure to facilitate the proposed land use in accordance with the development plan. Each of these aspects involves considerable complexity. For example, the scale of multiple ownerships in inner city areas frequently complicates the land assembly process by extending the timescale for the transfer of ownership and may necessitate working with local authorities using CPO powers. Indeed, this type of cooperation highlights another underlying theme in regeneration namely the need for the private and public sectors to interact closely. While the remediation process saw considerable technological innovation with the availability of tax credits for site cleanup, the provision of infrastructure continues to raise major challenges in terms of financing. Often infrastructure is a critical component in releasing sites with development potential, but high initial upfront expenditure can deter private sector involvement. Addressing this critical aspect of the regeneration process has particular resonance within this report. This phase of regeneration has attracted certain, though limited, institutional investment through bond issues.

The second phase involves the development of the property asset. The skills base for the management of this process lies within the development community, which is often identified as the short-term risk-taker within regeneration. This part of the process, in common with any development project, is traditionally debt-financed through banks and lending institutions with decisions made on the basis of finely-tuned appraisal models. Assuming viability of projects can be shown, the major hurdle at this stage of the process within the current market cycle has not been one of access to capital but rather obtaining planning permission to advance the scheme. This phase of regeneration is dominated by debt-lending through banks.

The third phase of the urban land development model concerns the sale of the asset to the investment community which can occur at differing times depending upon the strategy of the developer. Traditionally, this phase has been the point of entry for institutions holding property as an investment asset with added diversification benefits. For regeneration property, the extent of institutional involvement has been noticeably low due to their (potentially false) perceptions of risk and return. However, over the past five years there has been an increasing weight of institutional investment entering regeneration as part of the allocation of investment capital to capital property asset class.
1. Introduction

Table 1: Characteristics of the three phases of regeneration

<table>
<thead>
<tr>
<th>Regeneration phase</th>
<th>Main activity</th>
<th>Characteristics</th>
<th>Institutional involvement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Remediation/</td>
<td>■ site assembly</td>
<td>■ high cost</td>
<td>■ certain institutional activity through</td>
</tr>
<tr>
<td>infrastructure</td>
<td>■ site remediation</td>
<td>■ high risk</td>
<td>bond issues</td>
</tr>
<tr>
<td></td>
<td>■ freeing-up development</td>
<td>■ potential for high return</td>
<td></td>
</tr>
<tr>
<td></td>
<td>potential through infrastructure</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Development</td>
<td>■ construction of the property asset</td>
<td>■ debt-financed</td>
<td>■ bank-lending</td>
</tr>
<tr>
<td></td>
<td>■ letting of the property to tenants</td>
<td>■ high risk notably at early stage</td>
<td>dominant</td>
</tr>
<tr>
<td></td>
<td></td>
<td>■ potentially high return</td>
<td>limited</td>
</tr>
<tr>
<td></td>
<td></td>
<td>■ lack of income stream</td>
<td>institutional</td>
</tr>
<tr>
<td></td>
<td></td>
<td>■ uncertain capital values</td>
<td>involvement</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment</td>
<td>■ sale of occupied property asset in the investment market</td>
<td>■ secure revenue streams</td>
<td>■ main entry point for many</td>
</tr>
<tr>
<td></td>
<td></td>
<td>■ capital value growth</td>
<td>institutions</td>
</tr>
<tr>
<td></td>
<td></td>
<td>■ lower risk</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>■ returns above bonds</td>
<td>■ under-weight in regeneration property</td>
</tr>
<tr>
<td></td>
<td></td>
<td>■ diversification benefits</td>
<td></td>
</tr>
</tbody>
</table>

Each phase of the regeneration process has distinct characteristics within the overall risk-return continuum. The schematic diagram (Figure 1) illustrates the relationship between risk and return as regeneration proceeds from one end of the spectrum, namely the remediation/infrastructure phase characterised by high levels of risk but with opportunities for high returns, to the investment phase at the other end characterised by lower risk and corresponding lower levels of return, but secure revenue streams and more predictable capital values resulting from the occupied development entering the property market. The intermediate points reflect the potential risk of the unfinished building through to the completed product remaining unlet, lacking an income stream, having uncertain capital values and not entering the investment market. Set against this risk, the developer balances the prospect of higher return (Figure 1).
1. Introduction

The remediation/infrastructure phase is particularly difficult and highly contaminated sites can be characterised by low or even negative land values (i.e. they are liabilities and assets). Operating in this part of the regeneration continuum has become a niche market with companies acquiring such sites, cleaning the land and exiting following the creation of uplift in land value. Development activity provides the added-value which lies at the core of regeneration with increasing capital appreciation of the asset in the investment market, a key component of the resulting total return (Figure 2).

Figure 1: Schematic diagram of risk-return characteristics by regeneration phases

Figure 2: Regeneration phases and risk profiles
1. Introduction

1.3 Previous studies

The report published by the Joseph Rowntree Foundation and the RICS in 1998 on private finance in urban regeneration (Adair et al, 1998) was the first significant study to demonstrate the varying risk-return profiles adopted by the different actors within the regeneration process. The report highlighted that developers, often locally based, were seen to carry the higher risk in their role of delivering the regeneration product, a process that equates to the short-term development phase of the model. In contrast, institutional investors were identified as lower risk-takers but with the potential of injecting a large volume of capital at the investment phase of the process. The same study showed property companies to occupying the middle ground with varying risk-return profiles reflecting their development/investment strategies and market niches.

The Rowntree study placed emphasis upon perceived total return as the primary factor influencing investment decisions, with those companies retaining their investments in regeneration locations doing so in the expectation of achieving above average returns. A further significant factor was the perception of investment security and the spreading of risk, though the analysis indicated that investors attached greatest significance to return as being the primary motive for holding a regeneration portfolio. Among the principal barriers to investment in regeneration were perceptions of negative returns and the absence of benchmarking of performance returns for regeneration areas. There was also a strong call for simplification of the planning process and clarity and certainty in relation to regeneration policies.

As highlighted by the Rowntree report, one consequence of the lack of information on regeneration returns was the continuance of weak and confused market signals concerning regeneration areas creating conditions of uncertainty sufficient to deter major institutional investors. The lack of information was an important consideration in perpetuating misconceptions surrounding the risk-return profile of regeneration areas, hence the frequently held perceptions concerning market failure, low returns, weak demand and the high costs of regeneration. However, opinion was not consistent and other evidence suggested that regeneration locations can produce long-term above average returns which offset any additional risk. The problem is that in the absence of supporting market evidence the message can become confused and, critically, the way in which investors perceive markets, make decisions and construct investment strategies affects their actions within property markets (Adair et al, 2002). It is within this context that the urban regeneration market needs to be positioned as an investment opportunity.

1.4 Property investment performance in regeneration areas

As part of the changing regeneration context, issues surrounding the relative absence of investment performance statistics for regeneration property are altering fundamentally due the impetus provided by recent reports. Firstly, the authors of this report (Adair et al, 2003) constructed a regeneration index based on properties within regeneration locations (defined as those areas that were subject to some form of intervention) in eight major conurbations. The analysis indicated, contrary to perceptions, that over a 22 year period from 1980, but notably from the mid-1990s onwards, investment returns from regeneration property (12.8% annualised return) exceeded the IPD UK benchmark (10.2%). Similar trends existed on a sector basis. The same analysis highlighted that risk per unit of return was lower for regeneration areas (0.69) compared to the UK all property IPD index (0.88). In short, regeneration investment provided both a higher return and a higher risk adjusted return.
Secondly, a parallel study by Morley Fund Management, English Partnerships and IPD showed that investment returns in the most deprived wards (10.7% per year) in England for the period 1980 to 2001 outperformed more prosperous areas (10.2% per year) with long-term out-performance evident across each of the three main commercial property sectors: retail, office and industrial. Significantly, the Morley/EP/IPD study showed that higher returns from deprived areas were not at the expense of greater risk.

The significance of these two studies, drawn from different geographical bases, is the similarity of the message regarding the investment potential and changing perspective of regeneration areas. Indeed, an industry sponsored regeneration index, stemming from the initial studies and launched in March 2005, confirmed that long-term returns from regeneration areas perform broadly in line with the wider market and in the shorter-term (2000 to 2003) produce superior returns (11.02% compared to 9.1% for the UK market as a whole, Figure 3).

Figure 3: Total returns 2000/03, % per year

Against this better informed knowledge base, one of the key objectives of the current study is to investigate the potential of, and conditions necessary for, increasing institutional investment into regeneration on a cross-asset class basis. If successful this would give access to a far greater weight of capital for regeneration: a scenario consistent with government’s desire for the private sector to lead regeneration.

1.5 Report structure

This section of the report has made passing reference to investment asset classes. In Section 2, the characteristics of institutional asset classes are presented in more detail in terms of what they offer the investor. This provides the basis upon which the core of the study is developed in Sections 3 and 4 where, firstly, the potential application and compatibility of different asset classes with regeneration is explored using evidence from the empirical investigation underpinning this study and secondly the characteristics of a regeneration investment vehicle are parameterised and possible structures presented. Before proceeding to Section 2, it is important to stress that regeneration spans projects of varying size and scale from both a physical and financial context. This study is concerned primarily with mechanisms for delivering a weight of institutional capital into regeneration which, by definition, will invariably be the major schemes and...
1. Introduction

those investment opportunities that would gain from enhancement institutional engagement. In addition, the study is working from the perspective that more project specific issues such as planning approvals, CPO powers and like matters associated with development schemes are in place. Hence, these issues lie largely outside the nature of this study, but have received extensive coverage in previous surveys.

1.6 Summary

This opening section of the report provides the context within which the study is anchored. A number of core themes and principles regarding regeneration have been identified namely:

- the complexity of regeneration
- the three stage process of regeneration
- the varying risk-return profiles across the three stages with potential appeal to different actor groups and asset classes
- the need for public-private sector interaction
- the investment performance of regeneration property
- the potential weight of money that institutions on a cross asset class basis may bring to regeneration.

These themes and others are further articulated in the following sections of this report.
2. The Investment Market

This section of the report provides an overview of the financial characteristics of asset classes within the institutional investment market. Understanding this context is vital in examining the compatibility of regeneration with the investment asset classes and in identifying where opportunities may exist to extend institutional investment into regeneration.

Institutional investors need to match their assets with their liabilities. Liabilities are not uniform, leading funds of different types to different types of investments. In essence, investment is dominated by the concept of the risk-return trade-off with fund managers seeking competitive returns from an acceptable level of risk. Typically funds invest across a range of asset types in a multi-asset portfolio, in order to reduce portfolio risk, which depends not only on the weight of money in each asset class but also on the correlations between the assets (Hoesli & MacGregor, 2000). The institutions also take tactical positions on their investments in relation to the market as a whole and are conscious of external policy and regulatory influences which may have an impact on their portfolios.

2.1 Financial characteristics of investments

In categorising investments one fundamental distinction is between equity and debt investments. The former provides linkages to the real economy and thus offers protection against inflation, while the latter links to the money economy with exposure to inflation. The key financial characteristics of conventional gilts, index linked gilts, UK property and equities are outlined below and summarised in Table 2.

2.1.1 Investment performance

Portfolio theory suggests that, on a risk-return basis, equities lead both property and bond investments in terms of the rate of return but for higher risk. However, analysis by Key (2003) for performance over the period 1986 to 2002 indicates that returns for equities (10.1%) were below property (10.9%) and the same as bonds (10.1%) which are outside of expectations. Risk was within expectations being highest for equities (16.7%) and lowest for bonds (7.9%) with property (10.1%) having a risk profile between equities and bonds. Similar analysis by UBS (2005) for the 10-year period to the end of 2004, shows total return per annum for equities (8.1%) trailing both bonds (8.8%) and property (11.2%). Over the long-term, the 30-year trend performance equates more with theory, with UK equities (17.7%) significantly greater than property (12.1%).

2.1.2 Bonds

The last 40 years has witnessed a shift in the proportion of institutional money in fixed income investments. In the early 1960s pension funds allocated over 50% of their assets to bonds and this fell steadily until 1993 to a low of 10%. Since 1994, the proportion has been on a rising trend to 24% in 2004 and there appears to be a continuing appetite for long dated bonds as will be seen in Section 4 and as demonstrated by the 2005 issue by the UK government of a 50 year index-linked bond returning a real yield marginally over 1% (Ross Goobey, 2005).

Over the years, bonds have been used to finance major public sector development schemes most notably the £5.2 billion Channel Tunnel rail link where the Government agreed to guarantee £3.75 billion of debt issued by London & Continental Railways (Bayley, 2003). The use of a bond allows the matching of long-term debt to the long-term cash flows of the project. This raises the question of whether bonds might form part of a model to encourage institutions to invest in the infrastructure phase of major urban regeneration schemes which exhibit similar time and cash flow characteristics.
Security of income is a key factor in any bond issue. Corporate bonds carry a risk of default and so pay a fixed interest rate at a higher level than government bonds to compensate for the greater risk. The additional risk premium (or credit spread) over similarly dated gilts, depends upon the financial strength of the company and the degree of liquidity. Additional risks are assessed by credit rating agencies. These ratings range from AAA to BBB which are regarded as investment grade bonds, down to C, called high yielding or junk bonds.

Table 2: Financial characteristics of investments

<table>
<thead>
<tr>
<th></th>
<th>Conventional bonds</th>
<th>Index-linked gilts</th>
<th>Equities</th>
<th>Private equity</th>
<th>UK property</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Returns</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nominal income (fixed or variable)</td>
<td>Fixed</td>
<td>Variable</td>
<td>Variable</td>
<td></td>
<td>Fixed between reviews, otherwise usually upwards only</td>
</tr>
<tr>
<td>Real income (fixed or variable)</td>
<td>Variable</td>
<td>Fixed</td>
<td>Variable</td>
<td>Variable</td>
<td>Variable</td>
</tr>
<tr>
<td>Nominal capital value (fixed or variable)</td>
<td>Fixed if held to redemption, otherwise variable</td>
<td>Variable</td>
<td>Variable</td>
<td>Variable</td>
<td>Variable</td>
</tr>
<tr>
<td>Real capital value (fixed or variable)</td>
<td>Variable</td>
<td>Fixed if held to redemption, otherwise variable</td>
<td>Variable</td>
<td>Variable</td>
<td>Variable</td>
</tr>
<tr>
<td>Nominal expected return (fixed or variable)</td>
<td>Fixed if held to redemption, otherwise variable</td>
<td>Variable</td>
<td>Variable</td>
<td>Variable</td>
<td>Variable</td>
</tr>
<tr>
<td>Real expected return (fixed or variable)</td>
<td>Variable</td>
<td>Fixed if held to redemption, otherwise variable</td>
<td>Variable</td>
<td>Variable</td>
<td>Variable</td>
</tr>
<tr>
<td>Security of income</td>
<td>Secure if UK government, otherwise depends on issuer</td>
<td>Secure (issued by UK government)</td>
<td>Depends on company</td>
<td>Depends on company or development</td>
<td>Depends on tenant</td>
</tr>
<tr>
<td>Liquidity</td>
<td>Gilts liquid, but general bonds depend on issuer and market size</td>
<td>Liquid</td>
<td>Liquid</td>
<td>Illiquid</td>
<td>Illiquid</td>
</tr>
<tr>
<td>Links to the economy</td>
<td>Real return depends on inflation</td>
<td>Nominal return depends on inflation</td>
<td>Linked to economic growth and inflation</td>
<td>Linked to economic growth and inflation</td>
<td>Linked to economic growth and inflation</td>
</tr>
</tbody>
</table>

(Adapted from Hoesli & MacGregor, 2000)
Key features of conventional bonds are:
- Highly liquid, homogeneous goods
- Benefit from low transaction costs
- Price observed
- Considered to be default free

Offer certainty of:
- Nominal income and capital

But no certainty of:
- Real income and capital

Key features of index linked bonds are:
- Highly liquid, homogeneous goods
- Benefit from low transaction costs
- Price observed
- Considered to be default free

Offer certainty of:
- Real income and capital

But no certainty of:
- Nominal income and capital

Risk and return summary on bonds: low risk, low return. Additional return required if corporate bonds, to compensate for lower security of income increasing the risk.

2.1.3 Property

The last 30 years has seen a gradual reduction in direct property investment, from a peak of 19% in 1974, to only 7% of the value of the average pension fund in 2004. However, in 2004 to 05 there has been a revival in interest in this sector as the property market has outperformed other asset classes. This has led to a shortage of investment grade product and has focused attention on urban regeneration opportunities. The inclusion of property within a multi-asset portfolio is frequently explained by its low correlation with equities and bonds which contributes to the reduction in overall portfolio risk. Property returns are less volatile than the other asset classes, which are attributed to property being valuation-based rather than market price-based. This has the effect of smoothing returns (UBS, 2005). The inflow of investment funds to property is attracted by the benefits of portfolio diversification and above average returns.
2. The Investment Market

Key features of property are:
- Low liquidity, no central trading market, heterogeneous goods
- Suffers from high transaction costs
- Price must be assessed and negotiated
- Security of income depends on quality of tenant

Offers:
- Nominal income fixed to review
- Variable nominal capital value
- Variable real income and real capital value
- Variable nominal and real return

Risk and return summary: medium risk, medium return.

2.1.4 Equities

Shares in property companies represent one of the main ways of investing indirectly into property in the UK, although in terms of market capitalisation the listed property companies account for less than 2% of all UK equities. As to whether investment into property companies represents a property or equity play has attracted much attention in the academic literature. A recent perspective by Baum (2004) considers that the correlation between property company shares and direct property has been 20% compared to a higher correlation with the UK equity market (60%). Long-term (30 year) trends indicate that returns from property companies (14.9%) trail the equities market as a whole (17.7%) but out-perform direct property because of gearing.

In summary the long-term performance characteristics of UK equities is a primary reason why institutional portfolios have typically had a high weighting within this asset class. However, the shorter-term performance of UK equities has been variable with other asset classes, both property and bonds, showing superior performance. Diversification internationally has also reduced the relative allocation to UK equities vis-à-vis international equities. Shares in property companies have traditionally provided a mechanism for indirect investment into property in the UK but, unlike REITs does not carry any tax advantages.

Key features of equities are:
- Highly liquid, homogeneous goods
- Benefit from low transaction costs
- Price observed
- Security of income depends upon the success of the company

Offer:
- Variable nominal income and capital value
- Variable real income and real capital value
- Variable nominal and real return

Risk and return summary: high risk, high return.
2. The Investment Market

2.2 Alternative investments

Increasingly institutional investors are willing to consider asset classes, other than equities, bonds and property, that might provide either higher returns or lower risk. In the UK this trend has been encouraged by a number of factors including an over-exposure to equities and the collapse of equity value, changes to International Accounting Standards, changes to FRS17 rules, changes to dividend taxation and the implications of the Myners Review (2001).

UBS (2005) has analysed the history of institutional investment into alternative asset classes. They cite the 2003 report by Goldman Sachs International and Russell Investment Group on Alternative Investing by Tax-Exempt Institutions showing the largest European institutions as having around 4% of their assets in each of hedge funds and private equity. The JP Morgan Fleming Alternative Investment Strategies survey 2005 presents a more comprehensive overview covering 350 pension schemes. The allocation by pension funds as a whole to both private equity and hedge funds is under 1% each. UBS (2005) concludes that currently large funds show the greatest appetite for alternative investments.

Reported in the Financial Times on 23/11/05, Mark O’Hare, Managing Director of Private Equity Intelligence is quoted as saying that “institutional investors are cutting their allocation to listed equities and increasing their allocation to bonds and alternative asset classes such as private equity”. Likewise, Lizieri and Ward (2004) highlight the important role of a diverse range of products and vehicles in enabling investors with ranging risk-return preferences to find appropriate outlets for their capital. These sentiments are a further reflection of the changing investment environment within which regeneration may be positioned.

The potential returns available from alternative investments, in particular private equity and hedge funds, are considered below in the light of this changing investment environment.

2.2.1 Private equity

Private equity comprises investment in companies that are not traded on the public markets. While it offers potentially attractive risk-adjusted returns it is a high-risk investment due to the long time horizons and illiquid nature of the investments. Investors in private equity demand higher returns than those from conventional investments because of the extra non-diversifiable risk arising from the gearing that funds are able to use. It is recognised that private equity should provide some diversification benefits for institutional investors.

The two usual vehicles for private equity investment are closed-end private equity funds and fund of funds. The former invests directly in a portfolio of companies while the latter targets a portfolio of private equity funds. Institutional investors with limited experience of the asset tend to choose a fund of funds approach as they benefit from the detailed knowledge of the fund of funds manager and can diversify their risk by investing across a number of managers.

Two principal forms of private equity, venture capital and management buy-ins/outs, represent the vast majority of the investment activity. Venture capital funds invest in new businesses either at the start up stage or later stages when they become more established and attempt to profit from technological innovation. In contrast management buy-ins/outs invest in more established businesses usually involving management change, significant restructuring or merging with other businesses in order to improve the company’s prospects.
2. The Investment Market

Key features of private equity are:
■ Illiquid
■ High management fees and holding costs
■ Price must be assessed and negotiated
■ Security of income depends upon the success of the company or development

Offer:
■ Variable nominal income and capital value
■ Variable real income and real capital value
■ Variable nominal and real return

Risk and return summary: high risk, high return. Additional return required over publicly quoted equity, to compensate for low levels of liquidity increasing the risk.

2.2.2 Hedge funds

Hedge funds are defined as unregulated private pools of capital that have the ability to use leverage and take both long and short positions in publicly traded securities and derivatives. Research undertaken by AIMA illustrates that under historical market environments, a portfolio of hedge funds and managed futures, offers improved risk and return opportunities when considered as additions to traditional stock or mixed investment portfolios.

Key features of hedge funds are:
■ Low level of regulation
■ Leverage opportunities
■ High costs
■ Aim for absolute returns
■ Diversification benefits

Risk and return summary: high risk, high return.

2.3 Socially responsible investments

Many UK institutions now operate socially responsible investment funds (SRI). The growth in the total value of SRI assets has increased from £23 billion in 1997 to £225 billion in 2001. Institutions have been to the forefront in the growth of SRI assets with insurance companies rising from a zero base in 1997 to SRI assets of £103 billion by 2001. Pension funds show a similar growth, again from a base situation of zero in 1997 to £80 billion of investment by 2001. Charities, churches and SRI unit trusts account for the remainder of the SRI market (UK Social Investment Forum).

Urban regeneration through involvement with inner city investment, the development of derelict and vacant sites, disadvantaged neighbourhoods and affordable housing possesses characteristics that would appeal to SRI funds in terms of ethical considerations and potential returns. It is apparent that a number
of institutions view regeneration opportunities favourably and as a potential target for SRI funds thereby providing an alternative and existing source of institutional investment, though the scale of such investment activity in regeneration has not been quantified.

**Key features of socially responsible investments are:**
- Investment based on both commercial and ethical criteria
- Cross asset opportunity
- Diversification benefits
- Regeneration as a focus.

**Risk and return summary:** characteristics similar to equities or bonds depending on the type of SRI investment.

### 2.4 Role of banks: debt and equity finance

The clearing and merchant banks have been the traditional sources of short-term development finance. However, the last 20 years has seen a dramatic increase, not only in the level of bank finance for property development but also in the range of innovative financing vehicles. While debt finance is still provided, banks are increasingly viewing property development as a good investment opportunity; with venture capital divisions taking equity positions in property development schemes, sometimes in partnership with local authorities or regeneration agencies. The average holding period is around three years, with returns reflecting the development nature of the position.

Summary: Banks are increasingly taking private equity stakes in urban regeneration opportunities as well as providing short-term debt finance.

### 2.5 Conclusion

In this section the range of possible types of capital for regeneration investment opportunities has been reviewed. Investors seek to match their assets with their liabilities and are looking for a competitive return from an acceptable level of risk. In order to diversify their risk most funds invest in multi-asset portfolios. The range of investments includes; bonds or fixed income, property, equities, private equity and hedge funds. Moreover, the last 10 years has seen a marked increase in investment in socially responsible investments. The risk and return, liquidity, transparency and holding period characteristics of the various investment opportunities are summarised in Table 3. These characteristics are important in understanding which phases of the regeneration process may potentially match the investment characteristics of the different asset classes.
Table 3: Asset class characteristics

<table>
<thead>
<tr>
<th>Asset class/type of fund</th>
<th>Return</th>
<th>Risk</th>
<th>Liquidity</th>
<th>Transparency</th>
<th>Holding period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gilts</td>
<td>Low</td>
<td>Low</td>
<td>High</td>
<td>High</td>
<td>Long</td>
</tr>
<tr>
<td>Corporate bonds</td>
<td>Medium</td>
<td>Medium</td>
<td>High</td>
<td>High</td>
<td>Long</td>
</tr>
<tr>
<td>Property</td>
<td>Medium</td>
<td>Medium</td>
<td>Low</td>
<td>Low</td>
<td>Medium/Long</td>
</tr>
<tr>
<td>Equities</td>
<td>High</td>
<td>High</td>
<td>High</td>
<td>High</td>
<td>Short/Medium</td>
</tr>
<tr>
<td>Private equity</td>
<td>High</td>
<td>High</td>
<td>Low</td>
<td>Low</td>
<td>Short/Long</td>
</tr>
<tr>
<td>Hedge funds</td>
<td>High</td>
<td>High</td>
<td>Low</td>
<td>Low</td>
<td>Medium/Long</td>
</tr>
</tbody>
</table>

Having set a background perspective to the different asset classes, the next section reports on the research team’s surveys and workshops with the investment community on a cross-asset class basis concerning an appropriate model to encourage institutional investment into urban regeneration.
3 Regeneration Investment Opportunities in the Institutional Asset Classes

3.1 Introduction

This section of the report links the phases of the regeneration process with the overview of the institutional investment asset classes. The central theme which combines these aspects is the varying and overlapping risk-return profiles (Table 4). As shown in Section 1, the phases of the regeneration process are differentiated in terms of variations in medium to high risk-return profiles, certainty and security of both rental and capital values, and holding periods. The asset classes, as a source of finance, represent potential funding options for each of the regeneration phases, which are characterised by a spectrum of low to high risk-return profiles, capital and dividend returns and holding periods matching those of the regeneration phases.

Specifically, this section discusses the relevance of each of the asset classes to the financing of the regeneration phases. The analysis synthesises the key issues from matters discussed and evidence presented at the structured interviews with fund managers and debated at three workshops capturing public and private sector perspectives (Appendix 2).

The current situation is one of limited institutional investment across the three phases of regeneration. Traditionally what has been sourced has originated from the institutions’ property allocations (Table 4). However such investment is increasingly being recognised as matching the demands of quasi-private equity. In addition there has been some limited investment through bond issues at the infrastructure stage whereas the investment phase is the typical entry point for institutional investors into regeneration.

This section provides a broad overview of the regeneration investment context for the study. There are numerous texts and reports that the reader can refer to for more detailed expositions. The findings also reflect the views expressed to the research team by practitioners during the various interviews and workshops that formed part of the research.

3.2 Asset classes

The asset classes are considered in the following order: property, bonds, equities, private equity, hedge funds and socially responsible investments.
<table>
<thead>
<tr>
<th>Phase of Regeneration</th>
<th>Main Activity</th>
<th>Characteristics</th>
<th>Funding Options</th>
</tr>
</thead>
<tbody>
<tr>
<td>Site assembly</td>
<td>High cost</td>
<td>Some investment from</td>
<td>Higher yielding or</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>lower risk.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Capital value growth.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Secure revenue streams.</td>
</tr>
<tr>
<td>Site remediation</td>
<td>High risk</td>
<td>Higher yielding or</td>
<td>Higher equity from</td>
</tr>
<tr>
<td></td>
<td></td>
<td>capital value growth.</td>
<td>capital value growth.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Secure revenue streams.</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>Freeing up</td>
<td>Some institutional activity</td>
<td>Potentially high return through bond issues.</td>
</tr>
<tr>
<td></td>
<td>development</td>
<td></td>
<td>Low liquidity.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Low transparency.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Medium/long timeframe.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Bank finance.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Debt-financed.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Returns above bonds.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Holding of developed asset.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Investment market.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Investment.</td>
</tr>
<tr>
<td>Development</td>
<td>Limited institutional</td>
<td>Higher yields, especially at early stage</td>
<td>High risk, especially at early stage.</td>
</tr>
<tr>
<td></td>
<td>conditional</td>
<td></td>
<td>Debt-financed.</td>
</tr>
<tr>
<td></td>
<td>investment</td>
<td></td>
<td>Development.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Concession of the asset.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Construction of the property.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Letting of the property to tenants.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Investments through bond issues.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Some institutional activity.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Low liquidity.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Low transparency.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Medium/long timeframe.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Bank finance.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Debt-financed.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Returns above bonds.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Holding of developed asset.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Investment market.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Investment.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Sale of occupied property.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Secure revenue streams.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Bank finance.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Debt-financed.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Returns above bonds.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Holding of developed asset.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Investment market.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Investment.</td>
</tr>
</tbody>
</table>

Table 4: Institutional involvement in the three phases of regeneration
3 Regeneration Investment Opportunities in the Institutional Asset Classes

3.3 Property

Of all the asset classes, property has the strongest linkages with institutional investment into regeneration both through the development of new property assets and the purchase of standing investments. Currently the market offers a range of regeneration funding vehicles supported by institutional finance spanning single scheme vehicles through to financing portfolios of schemes. The perspectives of institutions, banks, property development/investment companies and opportunistic funds are considered.

3.3.1 Institutional perspective

The holding period/timeframe for investing in property as an asset class relates to the long-term fund and is a strategic decision. Stock analysis is undertaken on three, five and 10 years for property investments. Target rates of return relate to outperforming the benchmark, comprised of a peer group of funds. Currently, total return in equilibrium is anticipated to be of the order of 7 to 9%, development return 10% plus, (against an index-linked return of 6.7%).

When considering property investment a risk premium is added to the expected returns from a riskless asset (e.g. a bond) to establish a target rate of return. This will set the level of return expected by the fund for investing in property assets. Most institutions do not invest in regeneration per se because the asset allocation process considers property generically. The exit strategy is dependant on the longer time horizon. However, by virtue of its long-term characteristics regeneration may well offer the type of opportunities which institutional funds require.

With the shift in developers attitudes to urban regeneration and the restrictions imposed by the planning process on out of town development, investors are now increasingly looking for new investment opportunities offered in brownfield locations and regeneration areas. Long-term returns in these areas were expected to be higher compared to investments in the traditional sectors in prime locations. In the case of regeneration property, other views suggest entry at the development stage could yield an additional 4% return although the risk will be higher. The risk premium for property is conventionally 2.5% and for development and regeneration is potentially higher at 3 to 4% depending on location, product type, planning and depreciation.

Examples of regeneration property investment vehicles

There are a number of recognised regeneration property investment vehicles operating currently. The Igloo Fund, for example, provides the prospect of the superior returns that regeneration can offer illustrating that over time, genuine SRI investment may outperform traditional market returns. Likewise the English Cities Fund, a partnership involving Legal & General, AMEC and English Partnerships, provides a vehicle to give investors an exposure to regeneration though the regulations of the fund specify that it can only operate in grant-assisted areas. Both Igloo and English Cities Fund are recognised as two of the most innovative mechanisms currently available for attracting private finance into regeneration but from opposite ends of the spectrum in risk terms.
3 Regeneration Investment Opportunities in the Institutional Asset Classes

Igloo Regeneration Fund is a £200 million limited partnership fund with all the initial equity provided by Morley Fund Managers on behalf of a number of Norwich Union Funds. It is the first regeneration investment vehicle for financial institutions. Igloo has a clear development focus on mixed use, environmentally sustainable, well designed, urban renaissance projects in the top 20 cities in the UK. There is a policy of retaining regeneration investments over the long term to maximise return. For regeneration funds, Igloo is considered to be the benchmark.

English Cities Fund (ECF) is exposed to higher-risk projects, unlike Igloo which takes second phase risk. ECF provides an example of a potential institutional funding route in locations with assisted area status with risk reduction through partnership structure supported by EU funding. It is a partnership involving Legal & General on the equity side, AMEC on the construction and development side and English Partnerships.

Interview evidence suggests the need for a widening of instruments used within regeneration with opportunities comprising large mixed used developments frequently involving joint ventures. The Liverpool Paradise Street scheme is one such example.

The Liverpool Paradise Street model is characterised by:
- Twelve year funding vehicle – after which the vehicle can be terminated and the assets sold although the intention is to allow the vehicle to run for a much longer period, possibly indefinitely.
- Four year development period – after which the asset becomes a standard investment
- Investment period has standard five year rent reviews
- Four years of investment with no income stream
- Income guarantees – varying levels set by negotiation; driven by the income return
- Where there is an income guarantee, property income is set between 5 to 7%
- Mixed-use project with different types of risk
- Focus on liquidity of the vehicle rather than on the assets created
- Government and local authority commitment to the area, providing considerable influence for investors
- Return-risk sharing model

- Core: <10%
- Value added: 11% to 20%
- Opportunistic: 20% +

A more recent example of recognised good practice is Blueprint, an innovative public private partnership comprising East Midlands Development Agency and English Partnerships together with Morley Fund Management’s Igloo Partnership’s Igloo Regeneration Partnership. The remit of Blueprint is to deliver new solutions for regeneration in the East Midlands.
Blueprint seeks to deliver economic and social benefits within a commercial framework, structured as a 50:50 joint venture between East Midlands Development Agency (emda) and English Partnerships (EP) (each with a 25% share) and Morley Fund Management Igloo Regeneration Fund.

The unique strength of Blueprint is its side-by-side sharing of returns and risks enabling the public sector partners (emda and EP) to maximise income in order to achieve their regeneration goals and to empower the private sector partner (Igloo) to undertake the delivery of the regeneration product.

3.3.2 Perspective of banks

There is a perception that bank finance offers a specialist capacity to bring real estate and infrastructure together to create income producing assets that fit, in particular, phases one and two of the regeneration model. The challenge in regeneration is ensuring the delivery of an income-producing asset which may only emerge 2 to 3 years down the line after the infrastructure is put in place. In addition, risk factors including planning risk create uncertainty for investors. Regeneration involves a high level of speculative investment risk although the capacity to account for and underwrite risk is becoming more sophisticated.

Where a bank is acting as a venture capital provider, the main objective is capital gain. Banks operate primarily at the short-term development of the investment spectrum rather than as long-term investors. For regeneration projects the average deal length is three years with an outer limit of 10 years. Banks like a regular return on their money, so they would favour a three-year project rather than a six to 10 year deal and will want to recycle the profit and show it on their profit-loss account. Key issues affecting the quality of lowest organisation company include the track record of the borrower, the property, the location and the likely state of the market in five to seven years.

Evidence suggests that at any one time banks are examining a range of regeneration products. In one example, an opportunity fund was established targeting investments in infrastructure and related income producing assets aimed at delivering sustainable cash yields and moderate capital growth from investments in a diversified portfolio of infrastructure assets. In another example, the bank has taken an equity position on property development schemes. There are further examples of joint ventures with projects (often in partnership with the local authority) with the bank taking an equity stake, along with debt finance, which is normally geared. The role of the public sector in such joint ventures is considered important in providing support through land assembly and infrastructure.

So, we can see that bank lending spans the regeneration process providing both short and long-term lending to match client requirements. The weight of money is for investment purposes (circa 70%) rather than development (circa 30%). The latter is considered to be much more risky with the result that pricing structures differ for investment-led and development-led deals. Timing is important in terms of when a development project is presented to the bank. Without the land already assembled and planning advanced, banks will be more reluctant to lend on regeneration schemes.

On the investment side, banks are more willing to lend on deals within regeneration areas where the returns are linked to capital growth. In this regard, interview evidence indicates a supportive role for mixed-use development schemes; attraction of different income streams including affordable housing and private sector housing, either within or outside regeneration areas.
3.3.3 Perspective of opportunistic funds

The initial perceptions of opportunistic property investment funds were that regeneration schemes are illiquid, opaque and a long haul. These characteristics do not sit comfortably with the opportunistic fund’s strategy of entering and exiting within a three to five year period. In an opportunistic fund the exit strategy is usually being considered and planned from the time of first investment. However, going forward there is evidence that opportunistic funds may increasingly consider buying regeneration related investments in the 5 to 10% return bracket but would be looking for other criteria to be met such as two to three years remaining on leases and the potential to double their equity within the holding period. On the risk side, decision-making is influenced by the lending criteria set by the banks which sets out the strategy of how the fund will react should volatile conditions occur.

3.3.4 Tax incremental financing

In the United States, tax incremental financing (TIF), which involves the hypothetication or “ring fencing” of tax revenues, has been a favoured development model. In the US model various rules apply, but essentially the process involves the following steps:

a) a TIF district or area is created
b) a tax incremental base value is established by the district valuer at the time it was created
c) the tax increment equals the general property taxes levied on the value of the TIF district in excess of its base value
d) the revenue raised is used directly to improve the district.

Despite the success of this model in the US, the UK government has not supported the hypothetication of taxes. In the 2003 Budget statement HM Treasury stated that:

“The government does not support the hypothetication of revenues to the NHS or other public services since it would make their provision subject to the ups and downs of the economic cycle and unpredictable changes in revenue” (HM Treasury Budget (2003)).

Nevertheless, this model would seem to offer an innovative way of securitising future income streams to fund up front infrastructure which, if combined with a bond structure, could create the revenue to pay a coupon. Variations on this theme are possible. It is understood that the government has already approved a scheme where, with the agreement of the existing landowners, infrastructure has been provided up front at public sector cost and then recouped on an incremental basis from the landowners based on the increase in land value created through the provision of infrastructure. In this case revenue from land value changes rather than increased rates revenue is used to fund the infrastructure and thus, clearly, different parties bear the cost. However, both variations have in common the central point that the tax revenues created by the regeneration are used to help finance the scheme.
3.3.5 Co-investment vehicles

In structuring a potential regeneration fund a number of options were suggested by property fund managers. Two of these are briefly explored below.

- A split-level investment trust consisting of three parts: fixed rate coupon, income bond and capital shares. The fixed rate coupon would be at LIBOR plus 3% to 5%. The equity element would be compared against direct property.
- A Limited Partnership (LP) which is usually established on a 10 year life expectancy, plus a two year extension to allow for a market downturn at the 10 year point. This product would have minimal liquidity as investments would have to be sold back to the manager or onwards to a third party. These models provide potential management structures that may be applied to a regeneration fund.

Key messages

Key messages arising from representatives of the property asset class:

- property has the strongest linkages with regeneration as demonstrated by the number of existing institutional regeneration funding vehicles ranging from single scheme vehicles to those financing portfolios of schemes
- property as an asset class is regarded as a ‘hybrid’ investment possessing the return characteristics of both equities and bonds but on the downside suffers from risks of illiquidity, capital depreciation and high transaction costs
- property is a more mainstream investment than private equity or hedge funds and offers significant diversification opportunities
- a new form of investment vehicle focusing on the financing of regeneration is considered to be necessary
- the development of a regeneration fund for pooled institutional investors could provide management expertise and shelter the institutions from detailed involvement
- opportunistic property investment funds could become a serious potential investor in regeneration
- Tax incremental financing offers an innovative approach to securitising future income streams to fund upfront remediation and infrastructure costs.

3.4 Bonds

In recent years there has been a growing appetite amongst investors for long maturity bonds. The creation of regeneration or infrastructure bonds, with a life of say 20 years, could capture this demand and open up regeneration to institutional investment, not as a direct property investment but under the bonds or fixed income umbrella. Many institutions already allocate capital for infrastructure investment and a bond of this type would provide an alternative vehicle in which to increase their exposure to this sector.

The issuing vehicle or entity for a bond is very important. Whether a bond is government, local authority or corporate backed has a direct impact on the pricing and success of the bond issue. A regeneration gilt or alternatively a bond issue guaranteed by government would provide comfort to the institutions and give a clear message to the investment community of a public/private sector partnership in urban renewal.
central and local governments are a major winner in regeneration developments, through increased tax revenues, it is argued that they have an interest in underwriting the risk. For example, local authorities could underwrite the bond, which may be financed through the securitisation of the public housing rental stream or the increased rates revenue derived from a new scheme, as in the TIF model.

Any private sector speculative or uncertain development venture is unlikely to secure a rated bond. However, a major regeneration scheme with central or local authority backing is more likely to have the security required for a rating. In the event that a bond issuer is unable to achieve a good rating from the credit rating agencies then bond insurance or a wrapper can be bought, although concern is expressed on the agency costs that this may impose. In the event that central government would not back a regeneration bond issue, other ways to proceed may include adding a risk premium or credit spread, over similarly dated gilts, to compensate for the higher default risk. Gilts plus 60 to 110 basis points was suggested by interviewees the range, depending upon the particular issuer and the specific details of the project.

The financing of the coupon payments is fundamental to any bond issue and particularly in the case of a regeneration infrastructure/development bond due to the mismatch of cash flows. Infrastructure requires large capital expenditure upfront but is not income producing until the end of the development phase, while bonds require regular payments of interest almost from day one. In the absence of central or local authority backing, income could be drawn down from the issue itself or from the capital growth generated by the new development. Repayment of the bond is likely to take place at the end of the project and will coincide with the sale of the completed development. Alternatively with a phased development, part of the bond issue could be repaid on the sale of parts of the scheme prior to final completion.

In order for the regeneration bond to be rated as investment grade and therefore made attractive to institutional investors, it is considered likely that the government or a local authority may have to provide some form of guarantee. Evidence from the public sector workshop suggests that the government would only be interested in doing so on regeneration sites that are difficult to unlock. In such sites, for example the Lee Valley, it is considered that CPO powers should be more extensively used as a policy response particularly where investors are reluctant to become involved.

There are many different bond structures available, for example, the bond could be invested UK wide, (a UK Infrastructure Bond) or be an area-based bond such as a Birmingham Infrastructure Bond. Interviewees are of the opinion that area based bonds are likely to be more successful as they offer greater transparency and allow strategic diversification decisions to be made. Alternatively, the bond could be sector specific, such as a Housing Infrastructure Bond, though a key characteristic of much regeneration is mixed use development. This raises the possibility of a range of different types of infrastructure bond, each offering different maturity, risk and return characteristics.

A bond-private equity regeneration model should focus on engaging the public agencies to underwrite a percentage of the total costs. In the US bonds are used in a regeneration context involving various models such as the securitisation of the housing revenue stream or tax incremental financing (TIF). Within the UK, Sheffield provides an example of issuing of municipal bonds based on tradable securities, which receive an income from SRI investments and are marketed to appeal to local investors wishing to improve society.
3 Regeneration Investment Opportunities in the Institutional Asset Classes

Key messages

Key messages emerging with aspect to the bond or fixed income asset class:
- A regeneration/infrastructure bond could help in satisfying the high institutional demand for bond issues.
- A range of risk, return and maturity profiles across regeneration/infrastructure bond issues could offer investors significant diversification opportunities.
- Government backing for the bond is desirable to reduce the perceived high risks of regeneration.
- Financing of the coupon is a key issue in delivering a successful regeneration bond with potential to link to a TIF structure.
- An area based rather than a project based bond is likely to be more attractive to institutional investors.

3.5 Equities

The potential application of equities within regeneration is likely to yield fewer opportunities than property on bond-based approaches. Two main perspectives prevail concerning equities. One is the perception that little synergy exists between investment into equities and regeneration. The alternative perspective is that structures currently exist through that part of the equities portfolio held in listed property companies and that there is little need to offer new or alternative vehicles.

Key issues regarding investment decisions on equities are management, track record and price. Investment does take place into property company equities including those property companies with a strong regeneration profile though this is not necessarily mainstream activity. It is apparent that institutions need confidence in the ability of the listed company to perform with conviction regarding the forecast scale of return.

What is potentially attractive to investors is that there are relatively few companies doing regeneration development in the UK. This could give developers and their investors an edge. However, if a development company is heavily involved in regeneration, the investor’s perception of risk increases. There is also the perception that the long time-frame for regeneration can act as a deterrent to potential investors. However, property companies developing and investing across a number of schemes could prove attractive with a diversification play from their portfolio and access to different schemes. The higher risk-return profile of equities maps to the medium-high risk end of development activity.

The introduction of REITs is perceived to offer significant investment opportunities going forward in time. The 2006 Budget offers considerable benefits to quoted property companies that will convert to REITs. The development of REITs will facilitate enhanced investment into property however it may take time for specific regeneration products to emerge.

Key messages

The key messages arising with respect to the equities asset class:
- Equities offer fewer opportunities of regeneration investment compared to the other asset classes.
- Regeneration activity increases the perception of risk and requires a higher return.
- Maps to the high risk end of the development phase.
- REITs offer opportunities for enhanced investment.
3 Regeneration Investment Opportunities in the Institutional Asset Classes

3.6 Private equity

Investment institutions reported allocations between 0.5 and 3.0% of their total funds (minimum £1 billion) into private equity opportunities in UK, European and overseas companies. The investment horizon is usually three to five years and the vehicle is through private equity funds or a fund of funds. In addition there is co-investment directly into companies.

Returns are considered to vary considerably. A return hurdle of 10% is normally required or FTSE +2% to account for the higher risk of private equity. Some respondents set a target return in the high teens based on market transactions, whereas others prefer a protected IRR over say a five-year period. However, historically returns have been much higher. Risk is very difficult to measure in the private equity sector as there are valuation issues and trading errors. Risk is considered within a spectrum from concession risk through to PFI (no concession risk). Private equity on a relative basis is more risky than other assets due to its high leverage. Risk is reduced or controlled by greater control and insight into the targeted business.

Location of companies is a consideration and, in the due diligence, prepared a potential investment location is seemingly of similar importance to business activity. Low cost areas are favoured. Grants for training, employment, start-up and equipment are important but are indirect influences on decision-making and could influence a decision. Regeneration grants or incentives would carry similar weight, providing a potential opening for private equity within regeneration.

Infrastructure investment is not undertaken directly through private equity. Either it is handled as a separate portfolio (separate asset) or as a sub-division of private equity. Some interviewees considered that it was more appropriate to undertake infrastructure through long-term bonds which would have a B risk rating. In contrast others saw considerable potential for an infrastructure fund with a holding period of 20+ years and an exit strategy based on maximisation of return.

The main potential for private equity in regeneration was considered to be through PFI, which was seen as being similar to mezzanine funds in terms of cash flow characteristics. In this context the key issue is guaranteeing the income-driven revenue streams to investors over a 20 to 30 year period. For PFI, funds would look for 12 to 14% base case returns or 20%+ with refinancing. PFI through the provision of schools, hospitals and infrastructure has the potential to provide these core elements in a much more holistic approach to regeneration, mapping on to the higher risk end of the regeneration risk-return spectrum.

It is considered that the potential size of any regeneration or PFI fund should not be below £100 million due to set-up and management costs. A fund within the range £200 to £300 million is considered to be appropriate, as smaller funds may attract naïve investors.

Key messages

The key messages identified in the private equity asset class:

- private equity targets higher risk opportunities due to its high leverage
- infrastructure and regeneration investment opportunities exist through PFI or as a subset of private equity
- maps to the higher risk-return part of the regeneration model
- optimum fund size is of the order of £200 million plus.
3.7 Hedge funds

Hedge fund investment is focused on two main areas of activity namely, the traditional management buyout and infrastructure investment via PFI. Infrastructure investment is not perceived or indeed badged as regeneration activity although there is significant overlap in terms of the provision of roads, schools and other essential services in urban renewal areas potentially mapping hedge funds to the high risk high return end of regeneration.

The typical PFI project is characterised by a two to three year build period during which equity is invested into the vehicle reflecting a period of significant development risk. Over the 25 or so years of operation the main risk is associated with maintaining the asset consequently the risk profile varies over the time frame. Risk-return characteristics vary over this period with target returns sought of the order of 25% (some projects as high as 125%). While there is potential for high returns the risk is more difficult to quantify. During the operating period returns tend to be lower with exit returns of the order of 16 to 17%.

Significant emphasis is placed on the need for liquidity at different stages of the investment holding period. A critical issue is identifying appropriate exit points and securing long-term finance to facilitate exit. There is a preference to invest in an established structure supported by government for example, the Health Service Model (NHS Lift) and the education sector model (LEAP) both of which are backed by government covenant and income.

Interview evidence considered that hedge fund investors would have an open mind on regeneration investment opportunities and would focus on the merits of each project in terms of cash flow and covenant strength. However, there is an industry perception of regeneration being viewed as a property play whereas PFI has a more ring-fenced, bond-like performance. The hedge fund investors queried whether the regeneration market would be of sufficient size and have the required product to attract investment.

Key messages

The key messages emerging form the hedge funds asset class:

- regeneration is viewed primarily as a property play
- PFI offers infrastructure investment opportunities
- fund size and required product makes regeneration investment unattractive
- maps to high risk-high return end of the regeneration spectrum.

3.8 Socially responsible investments (SRI)

There is a growing perception of SRI as mainstream investment rather than dealing with niche markets or products. Although SRI funds account for a small percentage of total funds under management, the share of total investment taken by SRI is increasing significantly. SRI products, SRI bond funds and SRI global equity funds, are based on the argument that a SRI overlay adds value. For example SRI bonds, through the avoidance of downside risk, provide a low risk option. Target products could include a transport/infrastructure or regeneration bond with government backing important.

Performance measurements for SRI bonds are against mainstream indices with SRI corporate bond funds benchmarked against established bond indices or SRI equity funds with the FTSE for Good. SRI funds take
3 Regeneration Investment Opportunities in the Institutional Asset Classes

...
3 Regeneration Investment Opportunities in the Institutional Asset Classes

- Build upon existing linkages between the property asset class and regeneration as demonstrated by existing institutional regeneration funding vehicles such as Igloo and English Cities Fund. A further example is the Blueprint East Midlands Partnerships between Igloo, East Midlands Development Agency and English Partnerships.

- Adopt innovative approaches to securitising future income streams from prospective assets (whether publicly or privately held) to fund the early costs of upfront remediation and infrastructure.

- Encourage opportunistic funds to become more active potential investors in regeneration.

- Package up equity investment opportunities including the potential for REIT vehicles.

- Facilitate private equity higher risk-return investment opportunities.

- Raise awareness of the SRI (socially responsible investment) characteristics of regeneration.

- Encourage bond investors into the infrastructure phase of regeneration, resulting in a cheaper overall cost of finance to the project.

In developing these issues, section 4 of this report examines the characteristics of the fund in relation to a regeneration product which from the evidence of the interviews undertaken in this research would attract institutional buy-in.
4 Regeneration Investment Vehicle

4.0 Regeneration investment vehicle

The central question at the heart of this research is to explore the conditions and type of vehicle that would attract more institutional investment into regeneration. This question is resolved by examining the compatibility of the regeneration process, in whole or in part, with the investment characteristics of the different asset classes. The synthesis of information has enabled a cross-asset comparative perspective to be established (property, bonds or fixed income, equities and alternative investments such as private equity, hedge funds and SRI) enabling a fuller awareness of both the asset allocation decision-making process and the key criteria used in investment selection. By considering the views of key decision makers, a profile has been constructed of the characteristics and inputs necessary in designing a regeneration investment fund that would prove attractive to the financial institutions.

This chapter discusses the characteristics, elements and structure of a possible regeneration investment vehicle. In Section 4.1, the characteristics of regeneration investment are defined in terms of potential funding options for each of the remediation/infrastructure, development and investment phases. This is followed in Section 4.2 by an examination of the current co-investment vehicles used for regeneration projects and a potential new regeneration investment vehicle. Sections 4.3 and 4.4 examine the likely sources of funding within the propose regeneration investment vehicle, highlighting the opportunities for institutional investment in regeneration and the policy benefits of such investment. The elements are presented as potential funding elements and options for regeneration investment, the exact choice will influence the structure of the vehicle and will be determined by the objectives of the investor, the macro-economic climate prevailing and the degree of support provided by government reflecting the priority of regeneration. Real Estate Investment Trusts (REITs) are considered in section 4.5. The benefits of a regeneration investment vehicle one outlined in Section 4.6 followed by Conclusions (Section 4.7).

4.1 Characteristics of regeneration investment

The three phase model presented in Chapter 1 highlighted the complexity and indeed the opportunity presented by regeneration within three different phases, characterised by significant variations in risk, return, income growth and capital appreciation. It was contended that the different risk-return profiles of the phases provided investment opportunities for a range of investors depending upon their risk tolerances. Chapter two has examined the risk-return characteristics of the main asset classes to assess their potential transferability to regeneration. Chapter three, utilising a rich evidence base drawn from interviews and workshops established the extent to which there is or has been a mapping of the main classes into regeneration. The dynamics of this financing mix outlined in Table 5 summary the outcome of these investigations showing funding options at each stage of the regeneration process in terms of risk, return, cash flow and time period.

Remediation/infrastructure phase

The remediation/infrastructure phase is characterised by:

- high levels of risk and uncertainty
- depending on the scale of the regeneration scheme a remediation/infrastructure phase of up to 20 years is not unusual however it may occupy a much shorter period
4 Regeneration Investment Vehicle

- the cash flow profile is characterised by high levels of capital expenditure, a limited and in many cases a nil income stream, and uncertainty of capital value on completion
- developers and providers of remediation/infrastructure seek to maximise return to compensate for the significant risks involved
- funding options at the remediation/infrastructure phase comprise bonds, indirect property investment, private equity and bank finance.

Development phase

The development phase is characterised by:

- a high level of risk in obtaining planning permission, construction and letting of the property particularly in the early stages of development
- the cash flow is one of high levels of expenditure, a nil income stream and uncertain and capital values
- developers look for high returns to offset risk
- traditional funding options are direct/indirect property investment, and debt-finance provided by banks and lending institutions
- alternative funding options comprise private equity and bond capital.

Investment phase

The investment phase is characterised by:

- medium risk/medium return profile reflecting the asset as a standing investment with a secure income stream
- diversification benefits
- issues relating to liquidity and large lot size often pose problems for strategic decision-making
- funding options comprise the traditional pure property play and alternative equity/private equity funds.

The analysis across the funding profile suggests there is potential for institutional investors to bring a new weight of money to regeneration based on asset classes not normally connected to regeneration and employing vehicles familiar to these asset classes. The funding profile (Table 5) identifies potentially important investment opportunities notably within the bond sector (possibly coupled with the more traditional option of indirect property investment) with potential usage of private equity, TIFs and linkages to PFI.
### Table 5: The Funding Mix

<table>
<thead>
<tr>
<th>Phase</th>
<th>Development</th>
<th>Funding Options</th>
<th>Investment Options</th>
<th>Time Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Long term</td>
<td>Equity</td>
<td>Quoted equity or private equity</td>
<td>3 to 5 years</td>
</tr>
<tr>
<td></td>
<td>Short term</td>
<td>Quoted equity</td>
<td>Quoted equity</td>
<td>Up to 20 years</td>
</tr>
<tr>
<td></td>
<td>Medium term</td>
<td>Private equity</td>
<td>Private equity</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Medium risk</td>
<td>Bank finance</td>
<td>Bank finance</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Direct property</td>
<td>Direct property</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Indirect property</td>
<td>Indirect property</td>
<td></td>
</tr>
</tbody>
</table>

### Regeneration Investment Vehicle

<table>
<thead>
<tr>
<th>Stage/Characteristic</th>
<th>Risk</th>
<th>Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>Remediation/Infrastructure</td>
<td>High Risk</td>
<td>Potential high return</td>
</tr>
<tr>
<td>Development</td>
<td>High risks notably at early stage</td>
<td>Potential high return</td>
</tr>
<tr>
<td>Investment</td>
<td>Medium risk</td>
<td>Medium return</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Funding Options</th>
<th>Investment Options</th>
<th>Time Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity</td>
<td>Quoted equity or private equity</td>
<td>3 to 5 years</td>
</tr>
<tr>
<td>Private equity</td>
<td>Quoted equity</td>
<td>Up to 20 years</td>
</tr>
<tr>
<td>Bank finance</td>
<td>Bank finance</td>
<td></td>
</tr>
<tr>
<td>Direct property</td>
<td>Direct property</td>
<td></td>
</tr>
<tr>
<td>Indirect property</td>
<td>Indirect property</td>
<td></td>
</tr>
</tbody>
</table>
4 Regeneration Investment Vehicle

4.2 Regeneration investment models

4.2.1 Existing co-investment models

As outlined in section 3 there are a number of recognised regeneration investment vehicles. Typical structures that combine several of the identified sources of institutional finance are the English limited partnership and unit trust. The characteristics of each of these vehicles are set out below.

English Limited Partnership

A typical English limited partnership is structured with a single general partner and one or more limited partners. The general partner is responsible for the management of the business of the partnership and its assets (although it is common for certain duties to be delegated or contracted to advisers such as development and asset managers). A general partner has unlimited liability for the debts and obligations of the partnership and so is often a special purpose vehicle to protect against this exposure. The limited partners are precluded from being involved in management of the partnership business but benefit from having limited liability status such that their financial exposure is limited to the amount that they invest in the partnership. In a typical regeneration partnership the limited partners would be institutional and other investors providing the equity finance for the project. One or more companies that are associates of one or more of the limited partners will usually own the general partner.

Limited partnerships that constitute collective investment schemes (which is the case with the majority of multi-investor limited partnership funds) fall within the regulatory framework of financial services legislation. As such a person authorised by the FSA is required to operate the partnership. Often the operator is a fund manager affiliated to one or more of the founder institutional investors in the partnership. The typical structure is shown in diagrammatic form in Figure 3.

Figure 3: Typical Limited Partnership Structure
An important feature of the English limited partnership is that for tax purposes it does not constitute a separate taxable entity and the partners are treated as if they had invested in the property directly. Each partner is exclusively liable for any UK tax liabilities on income profits and gains arising out of its participation in the partnership (although tax exempt investors retain their exempt tax status). Non-exempt investors are required to include their share of any profits in their own tax returns. This tax treatment is critical where the investors in the project include institutional or overseas investors paying UK tax at differing rates.

As noted above, the general partner of the limited partnership is responsible for the management of the business. In practice, the operator assumes responsibility for fund management functions (making distributions to investors, making funding requests to the limited partners, investor reporting, performance monitoring etc.) while the function of managing the development process is delegated to a specialist development manager. To improve alignment of interests and to optimise performance and delivery of the development, an affiliate of the development manager may have an equity interest in the project.

Institutional investors provide equity funding to the limited partnership. Such funding is not strictly in the nature of private equity (in the sense that the allocation would most likely be made from the institutional investor’s property investment allocation rather than from its private equity allocation) but because of the indirect and often passive nature of the investment (i.e. the fact that the investment is in a co-investment vehicle rather than directly in the underlying asset) the investment shares a number of the characteristics of a private equity play. The investor receives ‘participations’ or ‘units’ in the partnership in exchange for the cash invested. The cash will then be combined with senior (and possibly mezzanine) debt to fund the infrastructure and development phases of the project. Once the partnership becomes income producing the net income (after servicing bank debt) is distributed quarterly to the investors. Net capital proceeds are distributed on a similar basis following disposal of the whole or part of the assets of the fund.

A co-investment vehicle allows an institutional investor to gain financial exposure to large scale projects which the institution could not own outright or would not have the capacity or appetite to develop or manage without external assistance. The ability to exit from the investment once it stabilises is also an important factor and institutions look carefully at the mechanisms by which this can be achieved. Frequently, the safeguard will be the fact that the vehicle may have a limited life of, say, 15 years (at which point the assets are sold, the vehicle is wound-up and the net proceeds of sale are returned to the investors). However, an investor will also seek flexibility to realise its interest prior to expiry of the fixed term of the partnership by selling its participations or units in the open market. While many limited partnerships allow investors to exit in this way, the introduction of Stamp Duty Land Tax in relation to partnerships has curtailed the secondary market for participations in limited partnerships because the tax is charged by reference to the underlying property value rather than on the value of the participation transferred. By way of example, where a partnership is geared to, say, 50% using bank borrowings, the transfer of an equity interest in the partnership will be subject to SDLT at an equivalent rate of 8%. This inevitably affects the value of the participation thereby diminishing returns. As a result, the use of limited partnerships as a standalone vehicle for regeneration schemes is in decline.
Unit trusts

In parallel with the growth of indirect property co-investment vehicles in the UK, the last five years has seen a growth in the number of offshore funds holding UK property. In particular, significant institutional investment has been directed towards Channel Islands based unit trusts.

A unit trust is a trust arrangement whereby the assets of the trust are vested in a trustee who holds the assets on trust for the benefit of the unitholders (being the investors). A unit trust will ordinarily have a manager who will be responsible for the management and administration of the trust although sometimes the trustee will undertake this function. Typically the trustee is one of the major international banks providing custodian trustees services in the Channel Islands. The manager is a Channel Islands resident company who will often be an associate of the lead institutional investor. The typical structure is shown in Figure 4.

Figure 4: Typical unit trust structure

In the case of a regeneration project the Channel Islands resident manager and trustee appoint a UK based development and asset manager to provide development and asset management services to the trust. Notwithstanding this, the central management and control of the trust must be undertaken offshore and, as a result, the leading institutions and fund managers now have a permanent presence in the Channel Islands to enable them to fulfil this function. This is a relatively efficient management structure for holding projects during the investment phase but proves cumbersome when applying the model to the development phase of a large scale regeneration project where the development manager will be making recommendations to and seeking instructions from the Jersey resident manager on a frequent basis.

The funding of a regeneration project through a unit trust is similar to the arrangements in a limited partnership structure. Institutional investors subscribe to units in the trust in exchange for cash. The cash is then combined with bank debt to fund the project. Once income producing, the income passes through to the investors, with capital proceeds being returned on a sale of the asset.
Typically the unit trust will be constituted so that the income arises directly to the unitholders so that each
unitholder is taxed according to their own UK tax classification (ie the trust is tax transparent for income
purposes). Where a capital gain is realised on a sale of a completed phase of the regeneration project,
the trust is not liable to tax on the gain. However, when the gain is distributed to the investors they are
taxed on the gain in the usual way according to their own UK tax status. For UK institutions such as
pension funds investing in these unit trusts, it is critical that the trust maintains its non-UK tax resident
status (otherwise the tax treatment enjoyed by UK pension funds would be tarnished).

Unlike a participation in a limited partnership, the transfer of a unit in a unit trust is not subject to Stamp
Duty Land Tax. As a result, the offshore unit trust has a significant advantage over comparable UK
structures and has proved a successful vehicle for achieving liquidity for investors during the investment
phase of a project.

The hybrid model

Current regeneration funds are typically established using tiered limited partnership and unit trust
structures. Figure 5 shows this structure in simplified form. In the structure the institutional investment is
made by way of subscription for units in a unit trust which in turn invests the subscription proceeds in a
limited partnership. The limited partnership combines the equity subscriptions with bank debt or a bond
issue to fund the development of the project. On completion of the development, net income arising from
the property is distributed through the partnership and the unit trust to the investors. Net capital
proceeds (arising from a disposal of the property) are distributed in the same way.

Figure 5: Traditional investment vehicle structure
4 Regeneration Investment Vehicle

The key characteristics of the most commonly used co-investment vehicles are shown in Table 6. The need to combine the limited partnership with the unit trust arises because the UK limited partnership suffers from burdensome transfer tax treatment described above (which diminishes returns, hampers liquidity and ultimately affects project viability) while management decision making during the development phase of a regeneration project is cumbersome in the case where the unit trust is used as a standalone regeneration vehicle.

Table 6: Typical co-investment vehicles used for regeneration projects

<table>
<thead>
<tr>
<th>Investment vehicle</th>
<th>Tax treatment</th>
<th>Transfer tax</th>
<th>Listable</th>
<th>Open/Closed ended</th>
<th>Investor restrictions</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK limited partnership</td>
<td>Tax transparent</td>
<td>4% on gross asset value of underlying UK property</td>
<td>No</td>
<td>Usually closed ended</td>
<td>Usually limited to institutional investors or high net worth individuals</td>
</tr>
<tr>
<td>UK unauthorised exempt property unit trust</td>
<td>Effectively tax-free at vehicle level</td>
<td>0.5%</td>
<td>No</td>
<td>Either</td>
<td>Only available to UK tax exempt investors (ie pension funds and charities)</td>
</tr>
<tr>
<td>Jersey property unit trust</td>
<td>Tax transparent. Can receive and distribute UK income gross. Not subject to UK capital gains tax.</td>
<td>Nil</td>
<td>Yes, but unusual</td>
<td>Usually closed ended</td>
<td>Depends on regulatory approval obtained</td>
</tr>
<tr>
<td>Guernsey property investment company</td>
<td>Not transparent but tax liabilities can be mitigated. No UK capital gains tax at property level.</td>
<td>Nil</td>
<td>Yes, in UK and Guernsey</td>
<td>Closed</td>
<td>Open to the public (including ISAs)</td>
</tr>
</tbody>
</table>

4.2.2 Proposed new regeneration investment vehicle

The key messages from the interviews have led to the proposal for a regeneration investment vehicle which, from a funding perspective, allows the combination of bond and indirect property investment/private equity elements (Table 7) coupled with traditional bank debt. From a structural perspective the vehicle facilitates efficient management while offering tax efficiency, liquidity and flexibility to investors. The combined structure shown in Figure 4 has emerged as a viable fund model that can meet most of the funding and structural objectives. However, it is considered that certain inefficiencies (in particular, the requirement to operate part of the combined vehicle offshore coupled with a sometimes cumbersome management framework arising from the fact that decision making takes place at various points in the structure) could be improved by the introduction of a new vehicle.
4 Regeneration Investment Vehicle

As an alternative a new structure is proposed. The form of the vehicle could be in the nature of a UK based investment trust (similar to a REIT) which would benefit from tax transparency (allowing investors to be taxed on income and capital gains as though they owned an interest in the underlying property directly) and transfer tax rates comparable to that applicable to equities to encourage investment and a liquid market. The scope of permitted activities of the vehicle would be sufficient so as to allow the development of and investment in “qualifying” regeneration projects. The vehicle would secure finance from banks and investment from fixed income (bonds) and property institutions in order to invest across all phases of the regeneration process. In effect a number of regeneration investment vehicles should be set up operating on a project by project basis.

The sources of funding in relation to the regeneration investment vehicle are considered in the following sections and comprise bonds (Section 3) (as an alternative to traditional bank debt) and indirect property investment and private equity (Section 4). TIFs are also considered in Section 4.5. The utilisation of the elements within a funding model for two hypothetical regeneration projects is demonstrated in Section 4.6.

4.3 Bonds

The bonds component of the financing could take a number of forms, ranging from conventional issues (wrapped or unwrapped) secured on the schemes to Government-backed issues funding infrastructure. There is also an opportunity to issue bonds with returns linked to an IPD index or to the value of the underlying scheme. The purpose of the bond element of the regeneration investment fund is to raise up front capital either as a stand-alone bond or as part of a linked PFI-type infrastructure project. For the bond to be successful it would need to display the following characteristics (Table 7):

Table 7: Elements and potential parameters of a regeneration investment vehicle

<table>
<thead>
<tr>
<th>Bond Element:</th>
<th>Purpose of raising up front capital Possibility of linking to PFI-type infrastructure projects</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bond rating</td>
<td>Investment grade</td>
</tr>
<tr>
<td>Issuer/ Covenant strength enhanced/insurance wrapper applied</td>
<td>Various options including Govt backed/LA backed/credit</td>
</tr>
<tr>
<td>Holding period</td>
<td>20+ years (to allow for development)</td>
</tr>
<tr>
<td>Pricing/risk premium</td>
<td>Gilts + 60-110bp</td>
</tr>
<tr>
<td>Liquidity</td>
<td>Trade able</td>
</tr>
<tr>
<td>Payment of coupon</td>
<td>Fixed or variable coupon</td>
</tr>
<tr>
<td>Benchmarking</td>
<td>Against gilts</td>
</tr>
<tr>
<td>Fund size</td>
<td>Minimum £200 million per issue</td>
</tr>
<tr>
<td>Gearing</td>
<td>Balance from private equity and bank borrowing</td>
</tr>
<tr>
<td>Return requirements</td>
<td>Govt backed - LA gilts + 1-2%/PFI projects gilts + 3%</td>
</tr>
</tbody>
</table>
4 Regeneration Investment Vehicle

<table>
<thead>
<tr>
<th>Indirect Property Investment/Private Equity Element:</th>
<th>Purpose of funding development phase – capital gain and income Higher risk and higher return</th>
</tr>
</thead>
<tbody>
<tr>
<td>Holding period</td>
<td>Rolling three to five years in the case of private equity; longer in the case of indirect property investment</td>
</tr>
<tr>
<td>Fund size</td>
<td>Minimum £100 million</td>
</tr>
<tr>
<td>Return requirement</td>
<td>Mid-teens +IRR</td>
</tr>
<tr>
<td>Possible structure</td>
<td>Combination of existing or new co-investment vehicles</td>
</tr>
<tr>
<td>Liquidity</td>
<td>Limited</td>
</tr>
<tr>
<td>Benchmarking</td>
<td>Absolute returns</td>
</tr>
<tr>
<td>Exit strategy</td>
<td>Sell to new investor</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Long-Term Funding Element:</th>
<th>Comparable to direct property investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pricing</td>
<td>NAV of scheme would dictate price</td>
</tr>
<tr>
<td>Exit strategy</td>
<td>Exit points at any time</td>
</tr>
</tbody>
</table>

- In order for institutional investors to have confidence in the bond it would be necessary for it to be rated within the range AAA to BBB. The positioning of the offering at the quality end of the bond market is essential.
- In relation to covenant strength it is important that the bond would be supported by government or have credit enhancement. Four options are identified:
- Option 1. Government backed Regeneration Bond: four levels of support are envisaged each declining in the magnitude of underwriting required.
  a) guarantee of the full coupon payment and repayment of the principal sum
  b) guarantee of the full coupon payment but not the principal sum
  c) guarantee of part of the coupon payment at say Gilts minus 1%
  d) credit enhancement.
- Option 2. Local Authority backed Regeneration Bond: issued by one or several local authorities.
- Option 3. Institution backed Regeneration Bond: involving a partnership of institutional investors jointly issuing the bond.
- Option 4. Developer backed Bond: issued by one major UK developer or a group of developers.
- Options 2, 3 and 4 provide varying levels of guarantee or credit enhancement. In addition, the size of the bond issue is likely to decrease from Option 1 to 2 and from 3 to 4.
- There is a history of Local Authority Regeneration Bonds issues being utilised successfully in regeneration in the UK (e.g. Sheffield). Their advantage is that they are area specific and can augment innovative financing vehicles such as TIF schemes.
4 Regeneration Investment Vehicle

- The research evidence indicates that the underwriting of a full Government backed Regeneration Bond in Option 1 would add the issue to the Public Sector Borrowing Requirement (PSBR) which may not be fiscally acceptable in the current stage of the economic cycle.
- In respect of Options 2, 3 and 4, it is also considered that local authority backing, credit enhancement and the use of insurance wrappers may not provide the required level of confidence to attract some institutional investors into regeneration.
- The bond would be issued for a minimum of 20 years to reflect the long time frame over which regeneration projects move from initiation to maturity and to facilitate the phases of infrastructure, development and investment activity within the project.
- The risk spread is likely to be Gilts plus a minimum of 60 through to a maximum of 110 basis points depending upon the particular issuer and the specific details of the project.
- A fixed coupon is preferred.
- Benchmarking against Gilts is preferred however this will vary according to the performance measures used by the individual investor.
- A minimum fund size of £200 million is proposed with potential to rise to £1 billion.
- In the absence of a Regeneration Gilt the return is likely to be of the order of Gilts plus 1% to 2%. However, evidence points to Gilts plus 3% in PFI related projects. A developer (corporate) band would require Gilts plus 3% to 4%.

Related to bonds but at the other end of the spectrum, PFI offers a potentially stronger link in securing a revenue commitment from government. For example, a £200 million bond issue will require a £10 million per year revenue element. It is considered unlikely that one local authority could make this type of financial commitment yet several local authorities potentially working together may be able to finance the revenue element. The use of PPPs by several institutions has performed well but for the risk adverse institution the PFI route presents difficulties.

4.4 Indirect property investment and private equity

The characteristics of potential indirect property and private equity elements are illustrated in Table 7. The purpose of these sources of funding element is to fund the development phase of the regeneration project thereby providing a return through capital gain and rental income. The indirect property/private equity component in a regeneration vehicle will carry a higher level of risk looking for a higher level of return. The higher risk of the development phase is reflected in a higher return to investors. Further explanation of the characteristics of the indirect property and private equity elements is as follows:

- The holding period of the private equity element is likely to be of the order of three to five years to cover the principal development activity required in creating the investment assets within the regeneration project. Where instead the investment is made out of a property allocation (albeit indirectly via an investment in a co-investment vehicle), the holding period is likely to be longer and may extend into the investment phase.
- A minimum fund size of £100 million is proposed through an upper limit may be well in excess of this figure.
4 Regeneration Investment Vehicle

- Return requirement is likely to be in the range 12% to 15% reflecting the higher risk of development activity.
- Liquidity is likely to be limited and will be linked to specific exit points at different stages of the development. Equity value will be determined following a market valuation of the development. Sale of the equity stake will be to new investors. Each phase is likely to have different return and risk characteristics.
- Benchmarking will be in terms of absolute returns.

4.5 Real Estate Investment Trusts (REITs)

The new vehicle could take the form of a REIT. The 2006 Budget offers significant benefits to quoted property companies that will convert to REITs. Ultimately the conversion to REITs and the emergence of REIT products may facilitate greater investment into the infrastructure, development and investment phases of the regeneration process.

The introduction of REITs will have the potential to deliver increased investment into regeneration. However the embryonic stage of developing the vehicle for the mainstream UK property market means that it may take time for a regeneration REIT to emerge. Nevertheless it is considered that regeneration REIT structures are likely to emerge in the short to medium term once REIT vehicles become operational in 2007.

4.6 Benefits of the regeneration investment vehicle

The benefits of the proposed regeneration investment fund include:

The phases of regeneration comprising infrastructure, development and investment activities offer significant fixed-income, debt and equity opportunities to institutional investors. The large demand for government supported bond issues would make a regeneration investment bond highly attractive and bring significant institutional investment into regeneration.

The research has identified a perception that infrastructure investment has evolved and a number of vehicles have delivered high returns over the short term. Indeed, many institutions now allocate capital for infrastructure investment and regeneration offers an attractive infrastructure investment opportunity.

The regeneration investment vehicle offers a larger investment opportunity to institutional investors than existing regeneration opportunities such as the Igloo Fund and the English Cities Fund. While these funds have been successful in identifying emerging opportunities occurring at the edge of what institutions would traditionally fund and have specifically targeted mixed-use regeneration opportunities, they are limited in the size of the fund and/or their geographical coverage.

The research team are confident that the proposed vehicle structure will have appeal with institutional investors and has the potential to bring a weight of new money to regeneration. However the research team also recognise that the development of a regeneration investment vehicle may involve potentially lengthy negotiation with the ODPM and HM Treasury, though we would urge such deliberations to take place as quickly as possible to take advantage of the opportunity that currently exists in institutional thinking about more innovative investment vehicles.
4.7 Conclusions

The research shows that the various sources of finance would be likely to invest in a regeneration investment vehicle provided it is suitably structured to meet their differing demands for returns and appetites for risk. An essential requirement will be an expert and experienced management team.

Regeneration is currently at the forefront of the Government’s priorities. At this time our evidence shows there to be a substantial weight of institutional money that could be attracted into regeneration.

The research has identified a number of options for a regeneration investment vehicle. However, the exact choice will be determined by the objectives of the investor, the macro-economic climate prevailing and the degree of support provided by government reflecting the priority of regeneration.

In the proposed tiered structure the bond provides the first layer of regeneration finance and is complemented by a second layer, depending on the scale of the regeneration project, of private equity and long-term funding. Linkage of the vehicle to product is important. Hence, it is desirable that the vehicle complements existing and new regeneration projects.

It cannot be over-emphasised that large scale regeneration is a lengthy process and any delay in implementing initiatives of this nature may impact on the delivery of institutional investment into regeneration and sustainable communities.

This research is recommending a regeneration investment vehicle as an attractive means of delivering more institutional finance to meet the Government’s sustainable community targets. It is vitally important that a dialogue should commence among the interested parties to develop this idea and deliver institutional investment into regeneration.
5.0 Recommendations

In order to implement the regeneration investment vehicle the following recommendations are made:

1. Dialogue should take place between organisations such as IPF, RICS and BPF, representing institutional investors, and the ODPM and HM Treasury to ascertain the level of support for direct government involvement in a regeneration fund.

2. The dialogue should extend to include representatives of local authorities, Regional Development Agencies, and English Partnerships to ensure support for the initiative, as well as to identify regeneration opportunities. Whilst central government support is essential, the engagement of local government and public sector agencies cannot be understated.

3. In addition the dialogue should further extend to developers in order to assist in identifying regeneration opportunities at the appropriate scale to enable the regeneration fund to be implemented.

4. REIT products are developed to facilitate enhanced institutional investment into regeneration over the longer time horizon.

5. The benefits of tax incremental financing in the remediation, infrastructure and development phases of regeneration should be fully researched.

6. The dialogue should commence as soon as possible in order to meet the government targets for greater private sector involvement in the financing and delivery of regeneration and sustainable communities.

7. To this end a pilot project, of an appropriate scale say in the Thames Gateway, should be identified to examine the feasibility and implementation of the regeneration investment vehicle on the ground.
Reference


Miliband, D (2005) Power To Neighbourhoods: The New Challenge For Urban Regeneration, Speech by The Rt Hon David Miliband, BURA Annual Conference, 12th October 2005


**Appendix 1**

**Steering group membership**

Phil Clark, Morley Fund Management (Chair)
Faraz Baber, BPF
Steve Carr, English Partnerships
Simon Burwood, BURA
Charles Follows, IPF
Peter Freeman, Argent
Palmyra Kownack, BPF
Justine Lovatt, English Partnerships
Paul McNamara, Prudential
Tom O’Grady, S J Berwin
Darren Rawcliffe, Grosvenor
David Shevill, ODPM
Rebecca Worthington, Quintain
Appendix 2

Participants in scoping study, focus group, structured interviews and workshops

■ Scoping study
  Kieran Bristow, Irish Life investment Management
  Paul King, Irish Life investment Management
  Innes McKeand, Allied Irish Bank Investment Management
  Brian O’Loughlin, BL Fund Management Ltd.
  Karen Sieracki, Kaspar Associates
  Sir George Quigley, Lothbury Property Trust

■ Focus group
  Stephen Smith, REIM
  Michael Lister, Bank of Ireland
  Pamela Craddock, Bradford & Bingley Property Finance
  Suzannah Bourke, Hermes
  Karen Sieracki, KASPAR Associates
  Sarah Ratcliffe, Upstream Strategies
  Christopher Colliers, CRE
  Steve Carr, English Partnerships
  Jonathan Barnes, Lewis Silkin Solicitors
  Robin Arnold, Quintain Estates
  Adrian Wyatt, Quintain Estates

■ Structured interviews
  Janet Perry, Prudential
  Chris Brown, Igloo
  Simon Wilkes, English Cities Fund
  Huw Stephens, AXA Real Estate Investment Managers
  Stuart Cowe, Scottish Widows
  Andrew Jackson, Standard Life Investments
  Fiona Sweeney, Hermes
  Carl Bennett, Hermes
  Robert Walden, USS
  Peter Pereira Gray, The Wellcome Trust
  Julia Martin, Royal London Asset Management
  Barbara Turnbull, Royal Bank of Scotland
  Alan Tripp, Insight
  Rory Hardick, Macquarie Capital Partners Ltd
Appendix 2

Alexander Fischbaum, Barclays Structured Finance - Property Team
Peter Scott, Barclays Regeneration Team
David Murray, Anglo Irish
Ruari Connelly, Anglo Irish
Suzie Orrell, Bank of Ireland
Stephen Musgrave, Schroders
Patrick Bushnell, Director of Property Investment - Europe
Cliff Hawkins, Head of UK Real Estate, UBS Global Asset Management
Ian Mason, Merrill Lynch Investment Managers
Becky Worthington, Quintain Estates
Robert Wolstenholme, Resolution Property plc
Mervyn Howard, Grosvenor
Simon Bailey, Prudential (equities)
Hamish Galpin, Hermes (Equities)
Mark Hutchison, Prudential
Ceris Williams, Morley Fund Management
Paul Mingay, Morley Fund Management
Stewart Stephen, Legal & General
Ed Monaghan, Hermes (Bonds/fixed income)
Stephen Eighteen, RBS
Stephen Payne, UBS
Sue Scollan, Morley Fund Management
Chris Clark, Hermes (Private equity)
Robert McClatchey, Barclays - Director, Private Equity
Frank Naylor, Hermes (Hedge funds)
Chris Elliot, Barclays Capital - Managing Director
Stewart Webster, Citigroup - Chief Investment Officer
Martin Brookes, M&G
Steve Cleal, Morley Fund Management
Tim Breedon, Legal & General
Peter Morris, Tameside Metropolitan BC Pension Fund
Melissa Gamble, Morley Fund Management
Appendix 2

- Workshops
  Andrew Hobley, Cherokee
  Francois Joliot, Cherokee
  Sarah Cockburn, Igloo
  Rory Nagle, Cherokee
  Charlie Atkins, Cherokee
  Nick Tinworth, Citigroup
  David Shevill, ODPM
  Christine John, DETI
  Lynne Goodbourne, Central Policy & Review Group, ODPM
  Ed Monaghan, Hermes
  Karen Sieracki, Kaspar
  Paul McNamara, Prudential
  Phil Clark, Morley Fund Management
  Palmyra Kownack, BPF
  David Shevill, ODPM
  Norman Hutchison, University of Aberdeen research team
  Alastair Adair, University of Ulster research team
  Jim Berry, University of Ulster research team
  Suzanne Allen, University of Ulster research team
  Chris Brown, Igloo
  Rory Hardick, Macquarie Capital Partners Ltd
  Brian Kilpatrick, NAPF
  Mark Hutchison, Prudential
  Simon Smith, Prudential
  Barbara Turnbull, Royal Bank of Scotland
  Nick Waloff, Waloff Associates Ltd
  Ed McCauley, Labour Finance & Industry Group
  Jim Johnston, Finance Direct
  Mark Davis, ODPM
  Joe Doherty, Teeside
  Christine John, DTI
  Lynne Goodburn, ODPM