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The "nancing of urban regeneration

Alastair Adair, Jim Berry, Stanley McGreal*, Bill Deddis, Suzanne Hirst

Centre for Research on Property and Planning, School of the Built Environment, University of Ulster, Shore Road, Newtownabbey, County Antrim, Northern Ireland BT37 OQB, UK

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Abstract

Private sector involvement through partnership, PFI or other mechanisms is a critical component of the urban regeneration process. To date there has been little research into the perceptions of the private sector, reasons for involvement in urban regeneration and relationships between private and public sector actors. This paper is based on focus group discussions with actors involved in the regeneration process. Interpretation, which is from a qualitative perspective, investigates four main themes namely the rationale for private sector investment in urban regeneration; policy mechanisms to lever private sector investment; the "nancing of urban regeneration; and the alleviation of risk. © 2000 Elsevier Science Ltd. All rights reserved.

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Introduction

An integral part of the urban regeneration process is the role performed by the private sector in terms of stimulating property development and investment. The use of capital within regeneration raises the question of access to and availability of "nance, indeed the more extensive the scale of the development, the greater the dependence on private investment. However, from the private sector perspective there is a perception that urban regeneration projects are risky with a lack of information about the value of assets which, given the need for "nancial prudence, can lead to the by-passing of potential opportunities.

The refocusing of urban policy in the 1990s is associated with the shift in emphasis from property-led regeneration towards a broader-based partnership agenda with a focus upon community interest as exempli"ed by City Challenge and the Single Regeneration Budget (SRB) programmes. While both of these initiatives are based on the concept of bidding, a central theme of the former was the need for the local authority to forge e!ective partnerships with the private sector, voluntary organisations and community groups * a philosophy reinforced by the latter's emphasis upon the role of local communities (Adair et al., 1999). This approach was underpinned by the Way Forward (DETR, 1997a)[1] suggesting a stronger focus on social aspects of urban renewal. The comprehensive holistic approach is re-emphasised in the Urban Task Force report (1999a) which advocates successful urban regeneration founded upon strong democratic local leadership, public participation and the use of public "nance to attract increased private investment. In this context the continuing role of private "nance in funding existing programmes together with the new Regional Development Agencies (RDAs) is seen as a central element in realising e!ective urban regeneration. The attraction of signi"cant private sector "nancing for urban regeneration is a major challenge for government given the barriers perceived by institutional and other non-investors in urban regeneration (Adair et al., 1998).

The need for e!ective urban regeneration re#ects the critical economic role played by cities in England today. In 1991 urban areas were the home of 90% of the total population providing for 91% of the total economic output and 89% of all the jobs. The maintenance and improvement of the economic strength of towns and

* Corresponding author. Tel.#44-28-90366566; fax#44-28-90366826.
E-mail address: ws.mcgreal@ulst.ac.uk (S. Mc Greal)

[1] DETR: The Department of the Environment, Transport and the Regions.

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cities is therefore critical to the competitive performance of the country as a whole. The physical, economic and social decline of inner city areas over the past three decades coupled with the increasing growth of the suburbs has resulted in growing pressure for more e!ective urban regeneration as well as renewed interest in urban management as a critical component in the re-creation of economically competitive environments (Urban Task Force, 1999a). It is recognised that if these objectives are to be achieved, there is a need for increased partnership between public and private interests. However, in spite of the wealth of literature on urban regeneration, relatively little knowledge is available on the nature of private sector investment, the actors in the process and the conditions under which investment will or will not take place.

This paper draws upon research undertaken by the authors and funded by the Joseph Rowntree Foundation. The study involved a comprehensive analysis of both investors and non-investors in urban regeneration across a number of major cities in Great Britain. The current paper examines some of the qualitative "ndings stemming from the research and in particular draws upon evidence debated at a series of focus groups held in Manchester, Newcastle-Upon-Tyne and London (Lee Valley) to examine the perceptions of participants regarding the e!ectiveness of private sector "nance in urban regeneration. While focus groups have become an accepted technique in a wide array of environments including research (Stewart and Shamdasani, 1990), their application to date within planning has rested more with social policy matters rather than with development/investment-related issues. In this respect this research provides an important insight into the behavioural aspects of those involved in urban regeneration.

In accordance with theoretical considerations regarding the conduct of focus groups (Kitzinger and Barbour, 1999) the research involved a series of such meetings, nine in total. The strategy adopted for each location included a public sector group comprising representatives from central and local government, urban development corporations and other agencies. The private sector grouping consisted of developers, investors, "nanciers, agents and occupiers. A third mixed group of representatives from both the public and private sectors was undertaken to explore cross linkages of opinions and issues concerning the "nancing of urban regeneration.

The paper draws together the main themes of the focus group discussions examining principal issues such as private sector investment, policy mechanisms, "nancing urban regeneration and risk. Conclusions are drawn regarding the most e!ective mechanisms for attracting private sector "nance into urban regeneration in particular the conditions conducive to private sector investment and the mechanisms for the alleviation of risk.

Attracting property investment into urban regeneration locations

In fragile property markets, of which urban regeneration is an example, the private sector is cautious about investing particularly where the levels of income and capital growth are perceived to be limited (Amin and Thrift, 1995). Whilst the planning process has often been used to prevent or curtail peripheral urban expansion, more positive policies are required if the risk factors of developing in urban regeneration locations are to be overcome. Traditionally such areas have been considered by the private sector as zones of risk and uncertainty. Urban regeneration needs to demonstrate a positive return on private sector investment and through the use of public resources pump-prime much larger sums of investment.

The need for some form of public sector intervention, the way in which this is channelled and the respective roles of the private and public sectors have been the subject of debate for well over the past 20 yr. Indeed the precursor of a series of radical regeneration measures aimed at addressing these issues can be traced back to the 1977 White Paper on Policy for the Inner Cities (DOE, 1977). In the 1980s, Urban Development Corporations (UDCs) were hailed as the #agships epitomising property-led urban regeneration (Healey et al., 1992; Imrie, 1992; Turok, 1992; Imrie and Thomas, 1993; Robson et al., 1994). However, by the early 1990s a refocusing of urban policy sought to address a broader-based agenda exempli"ed by City Challenge, SRB and English Partnerships. These programmes are recognised as having made a signi"cant contribution to urban policy through fostering e!ective partnerships across a wide range of bodies; integrating departments and funding strategies; advocating a regional approach; inter-relating economic, social and environmental aspects of urban decline; and emphasising the importance of monitoring and assessment of expenditures (Parkinson, 1997). These themes continue to underpin government policy as outlined in the discussion paper, The Way Forward for Regeneration (DETR, 1997a), which focuses on the need for a strategic approach; e!ective partnerships and co-ordination; better targeting and concentration of resources; competition and results; ensuring value for money and more imaginative use of "nancial and non-"nancial mechanisms.

Current government policy is predicated upon the principle that the delivery of urban regeneration strategies requires enhanced economic development and social cohesion through e!ective regional action and integrated local programmes. In securing increased value for money, regeneration policies will be assessed on their capacity to reach those in greatest need through a positive co-ordination and targeting of resources, integration of programme delivery and an increased role for the Government O$ces in the Regions (DETR, 1998a). Each

RDA is expected to develop a strategy for the economic development of its region encompassing physical and social regeneration and by building on integrated programmes such as the Single Regeneration Budget. This holistic approach will address the need for inclusive sustainable growth based on higher productivity, new employment opportunities and the strengthening of local communities (DETR, 1997b).

The New Deal for Regeneration (DETR, 1998b) also places an increased emphasis on best practice and the monitoring and evaluation of activities. In this context holistic or integrated approaches at a local level will require &joined up working' arrangements between central and local government; and delivery on multiple objectives across a range of sectoral programmes in partnership with the private sector. The Local Government Association (1998) Path"nder for the New Commitment to Regeneration provides an innovative partnership approach to in#uence and access resources from main line programmes (EU funds, SRB) in facilitating local strategies and priorities.

Although the government has set out the policy content on the need for action to promote urban regeneration, operational di$culties at the local level continue to curtail the full participation of the private sector (developers and institutional investors) in the process. Delays and uncertainty in the planning system, the contamination of inner city sites, di$culties with land assembly and contradictions in the taxation and grant funding regimes are some of the fundamental blockages which the development sector are being exhorted to address (Syms, 1997; House Builders Federation, 1998; Civic Trust, 1999; Adams et al., 1999). In its policy statement for modernising the planning system, the Government acknowledges the need to consider economic instruments and other modern planning tools to help meet the objectives of positive planning to lever private sector "nance (DETR, 1998c).

The prospects for modernising the planning system have been given added vigour in the recent recommendations put forward by the Urban Task Force (1999a). The creation of new Urban Priority Areas where spatial regeneration measures would apply include a streamlined planning process, accelerated compulsory purchase powers and a variety of "scal measures to stimulate private sector involvement on brown"eld sites. These range from cutting stamp duty on house sales in rundown urban areas to o!ering tax breaks to bring derelict buildings back into use. The study on "scal incentives estimates that over a 25 yr period the tax bene"ts could generate up to an additional 300,000 homes on brown"eld sites (Urban Task Force, 1999b).

The targeting of public resources in urban regeneration in order to maximise the leverage of private sector investment is at the heart of the Urban Task Force report (1999a) which highlights the market's failure to provide medium and long-term risk capital for complex area renewal projects. The Urban Task Force considers the importance of public "nance in facilitating the private sector to spread their property investment risk more e!ectively. Ultimately the "nancial markets will deliver, provided that there is an appropriate balance between the security of capital, the term of the investment, the rate of return on the investment and an acceptable spread of risk. A number of new "nancing arrangements are suggested namely: the pooling of public and private money in long-term investment vehicles such as joint funds with institutional investors to support projects within proposed Urban Priority Areas; the establishment by RDAs of Regional Investment Companies which would issue debentures in return for &subscriptions' from institutions; and the creation of an American style Real Estate Investment Trust or REIT-petite providing su$cient yields for investors in the private rented residential sector. All of these new "nancing vehicles are based on the central premise that the most e!ective use of public money in urban regeneration is to access greater investment from the private sector.

Uncertainty regarding prospects for property market performance also presents a major problem for long-term investors in urban regeneration locations. The principal element of uncertainty for institutional investors concerns the prospect for rental growth. In particular the negative image of urban regeneration locations means that rental growth, in the long run, is perceived to be poorer than the city centre or urban fringe investments. As McNamara (1993) notes Central London, provincial capitals, market towns and cathedral cities would form the initial focus for institutional investment strategy rather than urban regeneration locations. Incentives to improve returns in urban regeneration locations include top-up grants for developers to make schemes viable, relief to lower the costs of development and other subsidies. In an analysis reported by Simons (1998), "ve out of 13 urban regeneration case-study projects utilised as a risk reduction measure some type of loan-guarantee or indemni"cation against potential future environmental problems. In Simons' analysis successful brown"eld projects often involved a combination of strategies that work together to facilitate development of and allow the spreading of risk among the parties. Two cases involved community development corporations that proactively prepared industrial sites for development, providing a steady supply of land for the market with minimal delay.

Volatility of land values is a further perceived source of risk in urban regeneration locations. For example, an excess of short-term demand can signi"cantly increase land values in secondary locations, although in the downturn of the property cycle decision-makers often rule out these less-favoured areas. Furthermore complications associated with assembling land rights, obtaining planning permission and successfully implementing

the project to meet the demands of end users, in what is primarily a cyclical investment market, present fundamental problems particularly in assessing the risk attached to investments (McNamara, 1993). Disparity often occurs between market price, re#ecting the hope value of land owners, and the institutions' perception of lower value based on risk factors such as illiquidity, high management costs, low income #ow, depreciation, contamination, lack of property data and transparency of information for use in valuation methodologies (Sieracki, 1994). While disparity continues to exist in terms of price, the "nancial institutions will exercise caution in entering into this market. Indeed, apart from a study undertaken by CASCO (1989) into the level and volatility of returns of inner city investments, little empirical evidence exists in the UK concerning urban renewal schemes and their investment/"nancial objectives. The current paper seeks to re-examine the urban regeneration process identifying problems and constraints as well as examining the conditions under which the private sector is willing to be an active investor.

Methodology

The methodology underpinning this paper is based upon the outcome of a series of focus group discussions. In terms of wider behavioural research, the focus group concept provides a useful alternative to questionnaire surveys and structured interviews. For example, Kitzinger and Barbour (1999) argue that focus groups are ideal for exploring experiences, opinions, wishes and concerns and hence enable di!erent perspectives to be explored, whereas questionnaires are seen to be more appropriate for obtaining quantitative information. Stewart and Shamdasani (1990) consider that the interaction between focus group members often produces insights and a dynamic that are not readily obtained through individual structured interviews. However, it is important not to view focus groups, structured interview approaches and questionnaires as alternative or exclusive approaches. In many circumstances they can be utilised in a complementary manner to achieve wider objectives. Indeed Krueger (1994) considers that a combination of both qualitative and quantitative approaches can strengthen overall research design. In the context of the wider research study from which this paper is drawn, focus groups were conducted at a similar time to and in parallel with both structured interviews and questionnaire surveys. This strategy is seen by Krueger as triangulation, namely the usage of di!erent techniques to obtain a breadth and depth of information.

Focus groups are considered to provide a number of advantages relative to other types of research, namely the ability to provide data more quickly and at lower cost; the ability of the researcher to interact with respondents; the opportunity to obtain large and rich amounts of data; the ability of respondents to react to and build upon responses of other group members and the overall #exibility that the methodology provides (Stewart and Shamdasani, 1990). Limitations of the approach include the possible non-independence of results, the potential for bias if either an individual respondent dominates the focus group or the chair (moderator) leads members, and the open-ended nature of responses making interpretation di$cult. Nevertheless, the approach has the distinct merit of permitting a wider expansion of issues.

The work formed part of a wider investigation into the "nancing of urban regeneration (Adair et al., 1998). In selecting the locations for the focus groups (Tyne and Wear, Manchester and Lee Valley, London) a number of factors were important, namely obtaining a geographical spread and, more signi"cantly, ful"lling the criterion that the area had received assistance through a combination of a number of regeneration programmes (Urban Development Corporations, Enterprise Zones, City Challenge, English Partnerships, Single Regeneration Budget). In the case of Tyne and Wear this region had seen a full array of urban regeneration initiatives of the 1980s and 1990s including Enterprise Zones, a Development Corporation, City Challenge and SRB projects, a national garden festival and a number of schemes funded through various grant regimes more recently co-ordinated through English Partnerships. Likewise the Greater Manchester conurbation had been exposed over the past 15}20 yr to a wide range of initiatives from the Urban Programme through to an Enterprise Zone, Urban Development Corporations, City Challenge and SRB programmes and Manchester City Pride. The Lee Valley example provides a somewhat di!erent scenario with the London Lee Valley Partnership (LLVP) incorporating a strategic alliance of six local authorities and three Training and Enterprise Councils (TECs) working in conjunction with the private sector and other regeneration programmes including City Challenge and SRB (LLVP, 1996). Although the outcomes of the research have wider relevance, to obtain comparability between mechanisms, it was decided to restrict the focus groups to locations within England.

In advance of each set of focus groups detailed preliminary work in the case-study location was undertaken to establish a pro"le of regeneration initiatives. This element of the research primarily involved the accessing of published materials, including consultancy reports, supported by semi-structured interviews with key individuals from the private and public sectors including academics with research interests in urban regeneration. This facilitated the development of a database of key actors in each case study location, each of whom were subsequently invited to participate in the focus groups. In essence, the database was equivalent to a sampling frame, from which invitations to attend the respective focus

groups were selected, though as noted in the literature the identi"cation of a sampling frame is much more critical in survey work than for focus group research (Stewart and Shamdasani, 1990).

Within each location a similar strategy was employed involving a set of three separate meetings. The "rst was speci"cally for actors drawn from the public sector, in particular the neighbouring local authority areas (o$cials and elected representatives), from central government and from regeneration agencies. The second focus group was private sector orientated with actor groups including developers, investors and property owners, "nancial institutions, consultants/agents and chartered surveyors, and occupiers of property within regeneration locations. The third focus group brought together a mix of individuals from the public and private sectors some of who had previously attended their dedicated focus group. The philosophy underlying the composition of the respective groups was "rstly to adhere with the convention that focus groups are composed of people who are similar to each other, though as Krueger (1994) points out homogeneity can be both broadly and narrowly de"ned. Hence, initially separate focus groups for the public and private sector actors were held. Secondly it was considered important to adopt the wider de"nition of homogeneity through the mixed focus group of both public and private sector actors to capture the interactivity that often underlies urban regeneration.

Conduct of the focus groups bene"ted from having a local chairperson (moderator) with extensive knowledge of regeneration initiatives in the local area. One of the advantages of focus groups is the ability of the moderator to probe beyond the formal questions (Krueger, 1994). Given the highly specialist nature of these focus groups and the level of expertise of members attending, the role played by the chair was critical to the success of the methodology in terms of handling the issues and moving the debate on. Recording involved a dual approach of note taking and audio-tapes. While there is no optimum size for focus groups, theory suggests that numbers should be of a manageable size to facilitate discussion between all members. Krueger (1994) suggests between 4 and 12 persons, Kitzinger and Barbour (1999) and Stewart and Shamdasani (1990) consider the ideal lies between 8 and 12 persons. Controlling the numbers can be problematic but typically the size of focus group in this research ranged from 6 to 15 persons. The duration of each focus group was between 2 and $2\frac{1}{2}$ h.

Each focus group addressed four main themes namely: the rationale for private sector investment in urban regeneration, policy mechanisms to lever private sector investment, the "nancing of urban regeneration, and the alleviation of risk. Within each theme contentions were proposed as a means of stimulating debate. The following sections highlight the key issues stemming from this method of investigation and collectively draws upon the knowledge base of the 100 plus persons attending these focus groups and o!ering specialist expertise in di!ering aspects of urban regeneration.

The rationale for private sector investment

Urban regeneration projects/locations are generally perceived by private sector investors to carry more risk than green"eld sites. The attraction of an increased #ow of investment into inner city localities is seen to require the use of a combination of mechanisms such as "nancial pump-priming, #exible administrative procedures, disposal of sites and use of site licence agreements. A master plan approach is considered essential so that investors can realise their commitment to a particular scheme, whereas an incremental approach is unlikely to stimulate private sector investment in urban regeneration locations to the same degree. Nevertheless some local authority participants are of the opinion that large scale public sector funding in urban regeneration projects has soft bedded the private sector or at least favoured some relative to others.

Urban regeneration projects/locations are perceived as high risk, low return investments. To some degree, this is explained by the cyclical nature of economic and property cycles resulting in variations between the demand for and over-supply of property. Although the designating and targeting of areas by the public sector can help in underwriting the risk, it is nevertheless considered necessary in property terms to have innovative thinking and speculative investment in order to turn around deprived urban regeneration areas.

It is generally accepted that the private sector does have a social conscience, but this comes second to pro"t. In urban regeneration locations the private sector often looks for a return of 20% pro"t otherwise the investment may go elsewhere. An uplift in the local economy can help generate a more positive perception of urban regeneration areas with investment providing a high return, assuming that risk reduction measures are available to lever in the private sector. In relation to spin-o!, participants were of the opinion that various risk reduction measures can stimulate con"dence for "rms in terms of investment opportunities and as prospective end users. Con"dence-building mechanisms, such as land assembly powers, are seen to facilitate private sector investment by removing the risk of site purchase thus reducing cash out#ows in the initial stages of a project. Most mechanisms used in urban regeneration are perceived as being repackaged, but with the reduction of risk the key issue.

Developers and investors feel that they are responsive to opportunities, but given the potential di$culties associated with boom/bust scenarios it may be necessary to create new mechanisms for assessing urban regeneration

opportunities over the trajectory of the economic/property cycle. This may require a re-appraisal of the basic methods upon which the valuation of and funding within a project is determined. In this respect valuation techniques are essentially backward looking and are based on historic data and performance. In an urban regeneration situation where the sustainability of the development is a key issue it is suggested that methodological approaches should fully appraise the viability and outcomes from regeneration projects including indicators such as job creation and enhancement of the quality of life.

The distinction which has been made in various quarters between area- and "nance-led initiatives is perceived to be unhelpful, rather incentives should be seen as an overall part of local economic development. Furthermore the private sector often does not see its role as promoting urban regeneration. Indeed many private companies understand regeneration at a business level with an overriding perception that urban renewal is predominantly the responsibility of government and not the private sector. In this respect it was considered that local authorities should pro-actively advertise current grant regimes and generally make information of relevance to the market place more readily available. This perspective is supported by the Urban Task Force (1999a) which states that one of the most e$cient uses for public money in urban regeneration is to pave the way for investment of much larger sums by the private sector. However the current study highlights that inward investment is frequently seen to be in competition with indigenous investment and it is therefore felt necessary to promote an area by, for example, backing blue chip companies as the basis for attracting further investment.

In optimising scarce resources participants considered that there has been a pepper-potting e!ect with a proliferation of SRB partnerships based on the hope of obtaining grant aid. Local authorities are perceived as being continuously engaged in the bidding process with key skills focusing on raising "nance, rather than actually implementing regeneration. Continuity of key public sector personnel and the formation of a pro-active team with a vision shared by the private sector are deemed critical. It was considered that the principles of SRB should be developed to provide a more e!ective bottom-up approach with vision and #exibility.

Investors apply speci"c decision-making parameters to urban regeneration investments by seeking returns in excess of those achieved in non-urban regeneration projects. Whilst successful regeneration requires transparency, partnerships and management control, developers and investors will look towards the wider perspective by assessing which risk reduction strategies operate best within the particular set of locational circumstances involved. The rules of the market inevitably encourage developers to go to the least di$cult sites. Consequently inner city areas need to be made more attractive to investors with the capabilities of yielding a pro"t margin and contributing towards quality of life indicators. In this respect urban regeneration investment scenarios are seen to be no di!erent from normal decision-making processes based upon the application of risk/reward strategies. Investors assess the risks relative to the returns in terms of bringing the project to "nancial viability. In particular, investment motivation is important whether the deal is driven by "nancial or regeneration rationale.

A speci"c problem identi"ed with regeneration projects/locations is how to attract long-term institutional investment. Di!ering risk thresholds across investor groups suggests that selective targeting of private sector investors is required with greater emphasis placed on securing funding from property investment companies and property development companies rather than institutional investors as the risk pro"les of such companies are more amenable to urban regeneration investment. Furthermore, it is perceived that investment is likely to occur where risks and returns are transparent and the developer can demonstrate the "nancial viability of a project including a high speci"cation building let to a tenant with a secure covenant and providing guaranteed rental growth. Unfortunately, private sector investment in urban regeneration projects/locations is not transparent, rather information #ows concerning risks and returns are lacking in e$ciency.

Participants agreed that urban regeneration investment has the potential to produce above normal pro"t levels and that pockets of value can be identi"ed. Generally, small investors are seen as key players in local markets using local knowledge to identify and invest in development opportunities. In this context it is essential to involve the private sector at an early stage in the urban regeneration process. There was agreement that money will follow money and where pockets of value exist the rippling out e!ects should be facilitated as widely as possible. For example, city fringe areas represent pockets of value which, according to participants, should generate both a rippling out and the trickle down e!ect. Indeed the case for private sector investment in urban regeneration locations could be made more convincing, especially with the application of the sequential approach encouraged by the planning system. Restrictions on green-"eld development are forcing developers to look towards inner city locations, although the downside e!ects of the sequential approach may force developers/investors out of a particular area towards other locations where development opportunities are less restrictive.

Policy mechanisms to lever private sector investment

The focus groups were unanimous that if urban regeneration is to be e!ective, a time-scale of between 7 and

15 yr is required as it can take two to three years alone to resolve land issues with arguably a much longer time-scale to achieve community bene"ts. Indeed a realistic time-scale for achieving sustainable outputs could take up to 10 yr commitment from both the public and private sectors. It was recognised that engaging the private sector for this length of time may be di$cult, yet it is equally important that short termism is avoided. The market will inevitably dictate the time-scale with private sector operators looking for prompt and speedy decision-making and #exible arrangements concerning exit strategies.

There is a general perception that existing initiatives are not proving #exible enough to allow for meaningful community/social regeneration which tends to drag along behind economic regeneration. The private sector must be assured that the continuity of the regeneration programme is established for an appropriate time period. Although the private sector tends to see urban regeneration mechanisms and procedures as bureaucratic, partnership structures are perceived to be advantageous provided they are sustainable and leverage is guaranteed. A balance is therefore needed between competition and capital generation; and between outputs and the time dimension for delivery.

Urban regeneration locations are perceived by the private sector to be overly complicated by administration and bureaucracy, rather regeneration mechanisms should be based on simpli"ed procedures with a clear vision for all actor groups (community, developers, investors, end-users). The development corporation model whilst perceived to have enjoyed success in stimulating development opportunity at the same time was recognised to have lacked some element of democratic responsibility. A mature approach to urban regeneration is considered fundamental otherwise a democratic de"cit may counteract against investment over the longer-term perspective.

It is considered that compulsory purchase order (CPO) powers are essential when working to tight time scales. In certain circumstances, particularly in the case of disjointed land ownership or where there is a multiplicity of land ownership rights, the public sector or regeneration agency should utilise their CPO powers in order to give con"dence to the private sector. There is a perception that where the urban regeneration challenge undertaken by local authorities is broadly equivalent to that performed by the former Urban Development Corporations, the authorities' CPO powers should be comparable. One of the key functions required of the public sector is to facilitate land packaging which may necessitate intervention in the land market. Retaining the use of CPO powers in reserve is considered to be a powerful device should other means involving compromise through agreement or partnership fail to deliver. On the downside, CPO administrative procedures are considered to take too long which in some circumstances may delay development or de#ect investment to other locations.

The SRB framework is perceived to provide #exibility within an appropriate time-scale provided there is agreement within the partnership. Within the existing system where a speci"ed time-scale and a de"ned exit strategy are important the various initiatives need to dovetail in an interactive way to re#ect local needs. This necessitates a citywide or borough wide approach to the submission and co-ordination of bids. Nevertheless there is a general feeling that the SRB has allocated money to areas of greatest need, but the resources are being spread too thinly. The competitive element can also be somewhat wasteful of resources given the considerable time element involved in formulating a comprehensive development strategy and proposals, which may necessitate a capital commitment up front. Furthermore, maintaining the commitment of the private sector in the early stages of the planning and development process is seen to pose additional problems. In this context, it is considered that the SRB could be made more #exible particularly in relation to partnership arrangements.

Financing of urban regeneration

A high degree of variability in sources of "nance and funding mechanisms is apparent resulting primarily from the characteristics of projects, local property market performance and broader macro-economic criteria. However, private sector funding is the dominant source of urban regeneration "nance with equity, provided by either the developer or the investor, and debt being the principal methods. Developers con"rmed a roughly equitable split between UK merchant and overseas banks as the principal sources of debt "nancing. Clearing banks were not identi"ed as major lenders, although this depended to an important extent on the covenant of the borrower. Overdraft facilities had the advantage of not being site speci"c thereby enabling developers to transfer "nance across schemes. The downside is higher lending costs relative to term loans with the consequence that companies can be held at risk and the facility called-in at any time.

The utilisation of property "nancing indicates the signi"cance of short-term debt in the early development phases with equity dominating the later stages. The structuring of "nance in urban regeneration projects/locations is seen as crucial in determining the viability of the scheme, in o!setting risk and in achieving an adequate return. Short-term debt "nance is normally available to a developer with a secure covenant at a current loan to value ratio of 70}75%. It is apparent that for many projects, 75% of the value of the scheme is equivalent to 100% of development costs including the land cost. On the basis of the project running to plan with appropriate

scheduling of cash out#ows, avoidance of cost overruns, speci"cation of adequate contingency sums and an end-purchaser/investor secured, the project should be "nancially viable with an adequate return being achieved. This scenario suggests the likelihood that the project will be brought to completion entirely on the basis of debt "nance. Indeed there is consensus amongst participants that many urban regeneration projects/locations are "nanced on this basis. The developer's equity "nance is not injected into the project until the end of the development, if at all, thereby limiting the risk to the developer's own funds.

Property "nancing was seen by some respondents as more of a business debt related to operational expansion rather than property-speci"c borrowing. It is considered that inward investment is important and property should not be viewed in isolation but rather as an integral part of an overall business expansion strategy. Hence, the approach whereby a company writes o! the bricks and mortar to arrive at a site value over a 5}10 yr time-scale may be considered inappropriate to the objectives of some urban regeneration agencies, but is a "nancing approach which integrates the property element within overall operational investment decision-making.

The feasibility of taxation incentives to investors and end-users in facilitating demand-led development within urban regeneration locations is an important option. Taxation relief could potentially o!er bene"ts in terms of employment creation and enhanced investment opportunity in return for little public sector capital commitment. However, the perceived use of taxation allowances in promoting urban regeneration conveyed a degree of caution on behalf of the focus group participants. Taxation incentives in isolation were considered to be insu$cient as experience in the Enterprize Zones (EZs) demonstrated, rather participants felt that urban regeneration requires large injections of capital whereas the EZ model was not structured to provide the up-front "nance to facilitate developer/investor activity. Furthermore based on the assumption that the investor is concerned about potentially poor returns or risk-adjusted returns from an urban regeneration project, then if inferior returns manifest themselves a reduction in subsequent tax-related payments becomes somewhat less of an issue. Conversely if the project proves successful the taxation break will merely contribute to enhanced pro"ts. Respondents considered that taxation breaks work to the bene"t of the risk taker rather the risk averse investor.

The application of PFI to property is perceived to be problematic particularly in relation to the transfer of a "nancial model to a real-estate scenario. The private sector takes on board the demand risk. This is di$cult to quantify but needs to be addressed if PFI is to become more extensively used in urban regeneration. The time and commitment involved in putting together intellectual property, which then goes out to developers for competition, concerns many private sector operators.

Alleviation of risk in urban regeneration

The inherent uncertainties of urban regeneration expose those undertaking and funding such schemes to a high degree of risk, in particular the uncertainty regarding prospects for property performance. A prime source of risk identi"ed by respondents is the volatility of land values. Furthermore complications associated with assembling land rights, obtaining planning permission and successfully implementing the project to meet the demands of end users, in a cyclical investment market, present fundamental problems particularly in assessing the risk attached to urban regeneration investments. Therefore the means by which exposure to risk can be reduced is an important element in urban regeneration "nancing and in the case of refurbishment of existing buildings can carry additional risks due to the challenges which arise from adapting a building to a proposed new layout.

The securing of the property income stream through pre-letting is one of the main risk reduction measures identi"ed by "nanciers, developers and investors. In general, commercial schemes showed the greatest requirement for pre-letting which, in many cases, was a pre-requisite to development. Urban regeneration schemes of this nature are considered by participants to be highly geared and therefore cannot a!ord even the shortest void period at the end of construction. A rental guarantee is identi"ed as a risk alleviation measure which may be used to kick-start development and can provide an exit strategy, but on the downside may distort the market by encouraging oversupply and may mask proper risk assessment.

In terms of drawing the better funded and larger risk averse institutional investor into urban regeneration, it is considered that a guaranteed minimum return from investments will be necessary. Participants considered that the level of return could be set so that urban regeneration projects perform on a par with that expected elsewhere from comparable investments. The public sector acting through the regeneration agency (RDA or other agency) could promise a top-up for the investor to guarantee a minimum return on the condition that the investor made available transparent accounts. Consequently if the project proves to be successful and the investor achieves an adequate return, no top-up charge would be levied. Alternatively if the project is only marginally viable, a modest top-up payment may be necessary to allow an adequate return to the investor. In estimating the required return investors generally apply a higher risk premium for an urban regeneration investment compared with other property investments. Regarding the

magnitude of risk premia, opinions ranged between 1 and 3%. In relation to yield construction with a $3\frac{1}{2}$% risk-free rate, a $2\frac{1}{4}$% risk premium from prime property and a $3\frac{1}{2}$% in#ation rate, the required return for projects in urban regeneration areas could therefore range from $10\frac{1}{4}$ to $12\frac{1}{4}$%.

The absence of a transparent exit route through an established and active market was perceived by participants to act as a signi"cant block to investment in urban regeneration projects. Most investors take a long-term perspective though con"dence building is essential to ensure the viability of the investment over the holding period. A perceived problem arising from the long-term perspective associated with an urban regeneration scheme is that a developer may be investing into a relatively uncertain market. Di$culties in securing a transparent exit strategy due to a lack of con"dence in the market will increase the investment risk to the private sector.

As a consequence of higher perceived risks within urban regeneration locations, the longer-term investor places a greater emphasis on the income stream over the holding period of the investment. The quality of the building and covenant of the tenant combined with prospects for rental growth and capital appreciation are perceived to be the most important investment criteria to the long-term investor. Indeed the quality of building speci"cation is considered to be more signi"cant than tenant covenant for institutional investors due to the awareness of the adverse impact of obsolescence which may leave the investor relying on site value at the end of a 25 yr lease. In contrast the short-term investor attaches greater signi"cance to tenant covenant.

Contamination was highlighted as an increasingly important risk factor in urban regeneration projects/locations particularly the uncertainty of the nature of the contaminants. There was a strong consensus that land contamination constitutes an additional risk for both the developer and investor and can prove di$cult to fully evaluate in a cost-e!ective way. From a "nancing perspective contamination may weaken a borrower's ability to repay a loan due to additional or unforeseen costs. In the development stage the need to deal with contamination may substantially increase costs, a!ect pro"tability and even viability.

Conclusions

The attraction of private sector "nance into urban regeneration and a more imaginative utilisation of "nancial and non-"nancial instruments lie at the heart of government policy as outlined in *The Way Forward for Regeneration* (DETR, 1997a) and the Urban Task Force report (1999a). All of the new "nancing vehicles suggested by the Urban Task Force are based on the premise that the most e!ective use of public money in urban regeneration is to access greater investment from the private sector. The realisation of this objective requires the involvement of the full range of private sector investors who will fund projects as either individual investment assets or include them as part of a larger portfolio. The packaging of investment opportunities to create "nancial vehicles that re#ect di!erential risk is required if investors, who have traditionally not invested in urban regeneration, are to be attracted into this market niche. The divergence of risk thresholds across investor groups suggests that regeneration policy needs to be sensitive, more sophisticated and #exible in its implementation in order to maximise private sector involvement. Furthermore selective targeting of private sector investors is required with greater emphasis placed on securing funding from property investment companies and property development companies rather than institutional investors as the risk pro"les of such companies are more amenable to urban regeneration investment.

Private sector investors employ a similar decision-making rationale in urban regeneration as in other investment opportunities, namely that of maximising return from the capital expended. Within this investment context public sector funding initiatives are core elements of concern for the private sector in particular clarity in procedures in implementing schemes and the simpli"ed administration of grant-based funding. Many investors regard the accessing of public sector funds as highly bureaucratic and time consuming whereas the private sector is looking for simple and direct procedures. This "nding suggests that current grant administration procedures may act as a disincentive in attracting private sector investment. In addition private sector investment is more likely to occur where market data on returns are transparent and the developer can demonstrate the "nancial viability of projects. Government needs to address these issues otherwise the Urban Task Force vision of utilising public money to pave the way for larger sums of private sector "nance may be thwarted.

In terms of risk alleviation this paper also addresses the question of whether public sector support is primarily perceived as enhancing return or acting as a cushion to o!set risk in urban regeneration. The answer to this question may be in#uenced by the economic climate for development activity and the phase of the urban regeneration cycle. It is considered necessary to establish a critical mass of investment and sequencing of development in order to lend credibility to a project. To this end public sector "nance in the form of grants is a major con"dence-building mechanism particularly in the early stage of the regeneration process, whereas public sector agencies will need more innovative ways of attracting greater amounts of institutional "nance into areas in need of regeneration. This may necessitate using the taxation system more creatively to stimulate demand in

the regeneration of brown"eld sites. Most deals are perceived to proceed on the basis of pre-lets/pre-sales which signi"es the importance of incentives targeted towards the occupier. Increasing support is given to the provision of taxation shelters for occupiers whilst rental guarantees are considered to promote oversupply. Selective regional assistance with direct grant aid to occupiers is considered less likely to cause market distortion and is a known and favoured mechanism, however changes in regimes at a European and UK level have future implications in this direction. Arguably the funding of urban regeneration needs to take on a more radical approach with, as highlighted by the Urban Task Force, a more imaginative use of "scal measures in spite of the scepticism shown by some private sector actors in relation to the use of tax breaks and the pooling of public and private funds in long-term investment vehicles to help spread the risk associated with urban regeneration schemes.

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