

Commercial Local Urban Districts (CLUDs)



Role of Real Estate in Sustainable Urban Regeneration

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Today's Agenda

- Changing regeneration concept
- Regeneration investment opportunities
- Role of real estate ownership
- Sustainable regeneration mechanism

REGENERATION

- Regeneration - government priority in attracting private finance
- Scale of institutional capital has been limited
- Major regeneration schemes such as Thames Gateway will require enhanced participation by institutional investors
- Role of public sector becoming more strategic facilitating private sector investment



CHANGING REGENERATION CONCEPT

- Traditional definition: “process of reversing economic, social and physical decay in towns and cities where it has reached that stage when market forces alone will not suffice”.
- 2000’s regeneration is seen as dynamic and concerned with raising value, creating sustainable communities and developing more innovative ways of attracting private investment.



EVOLUTION OF NEW REGENERATION CONCEPT

- Metropolitan perspective is that regeneration promotes economic competitiveness, creativity, innovation and entrepreneurship.
- Focus on large mixed-use schemes, environmentally friendly buildings and sustainable communities.
- From the investor perspective regeneration has benefitted from the growth in Socially Responsible Investment.
- But, many investors view regeneration as the last sector to benefit from the upturn and the first to experience the downturn.

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CHARACTERISTICS OF 3 PHASES OF REGENERATION

Regeneration Phase	Main activity	Characteristics	Institutional involvement
Remediation/ infrastructure	<ul style="list-style-type: none"> ⑩ site assembly ⑩ site remediation • freeing-up development potential through infrastructure 	<ul style="list-style-type: none"> • high cost • high risk • potential for high return • major uncertainty over end value • low liquidity • low transparency • medium timeframe 	<ul style="list-style-type: none"> • Certain institutional activity through bond issues
Development	<ul style="list-style-type: none"> ⑩ construction of the property asset ⑩ letting of the property to tenants 	<ul style="list-style-type: none"> ⑩ debt-financed ⑩ high risks notably at early stage ⑩ potentially high return ⑩ lack of income stream uncertain capital values 	<ul style="list-style-type: none"> ⑩ bank-lending dominant ⑩ limited institutional involvement
Investment	<ul style="list-style-type: none"> • sale of occupied property asset in the investment market 	<ul style="list-style-type: none"> ⑩ secure revenue streams ⑩ capital value growth ⑩ Lower risk ⑩ returns above bonds diversification benefits 	<ul style="list-style-type: none"> ⑩ main entry point for many institutions • under-weight in regeneration property

REGENERATION INVESTMENT OPPORTUNITIES

- Property has strongest linkages with institutional investment
- New opportunities sought in brownfields, additional 4% return sought from development but higher risk premium of order of 3-4%
- Institutions display growing appetite for long maturity bonds
- 20 year regeneration/infrastructure bond would be attractive to bonds/fixed income asset class - an alternative vehicle to increase exposure to the sector
- Key issue is financing the coupon payments in the early years of regeneration/infrastructure with negative capital flows



REGENERATION INVESTMENT OPPORTUNITIES

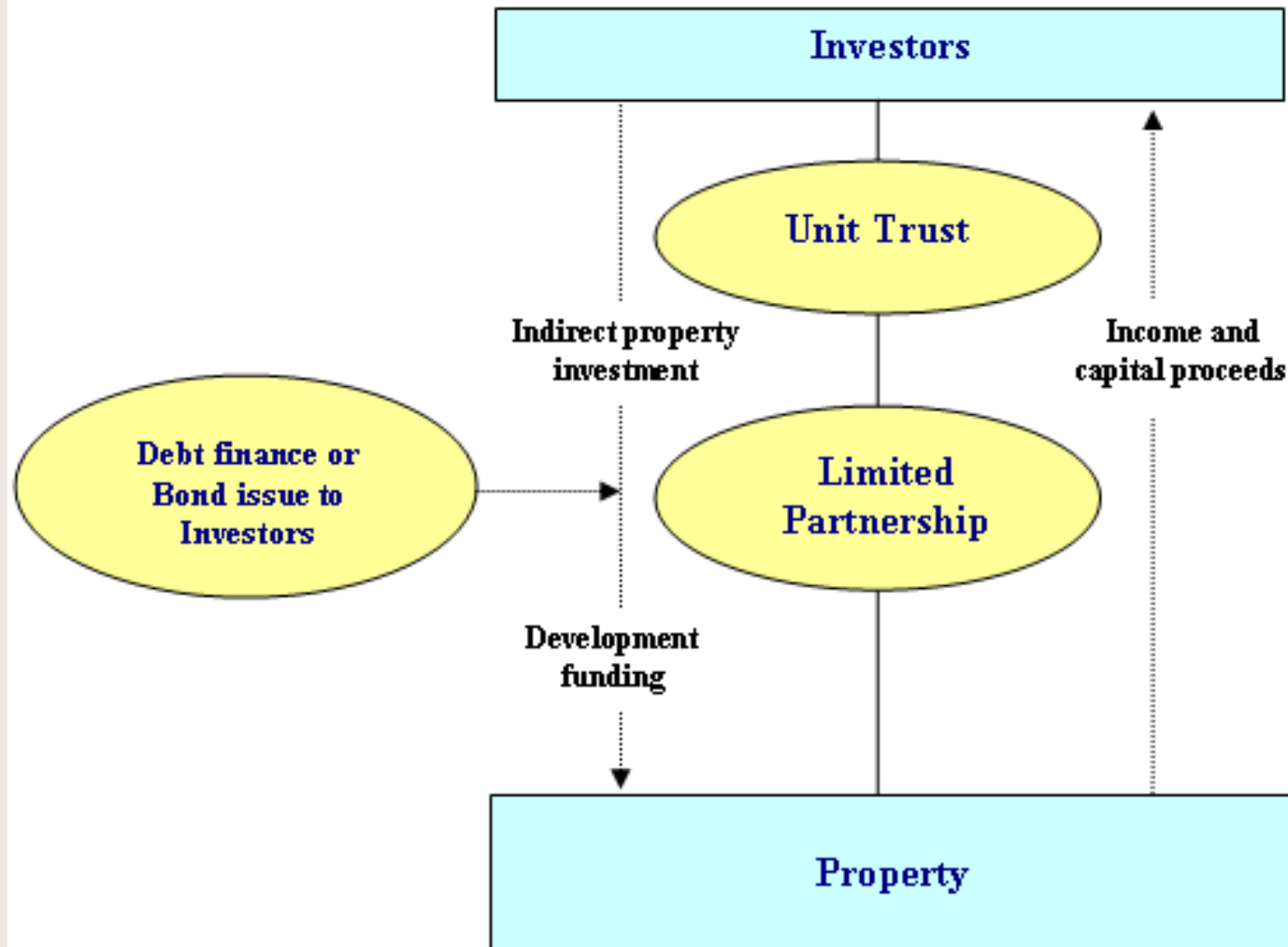
- Recognition that equities are less likely to yield regeneration opportunities than property or bonds
- Introduction of REITs is perceived to offer significant investment opportunities going forward in time
- Property companies developing and investing across a number of schemes could prove attractive from a diversification perspective



REGENERATION INVESTMENT VEHICLE

Phase	A		B		C	
Stage/ Characteristic	Remediation/ Infrastructure	Funding Options	Development	Funding options	Investment	Funding Options
Risk	High Risk	Indirect property investment by developers and institutions is typical. Bonds could provide the capital required although the coupon would require to be funded out of capital draw down, external sources or public sector guarantee. The long holding period would match one of the key characteristics of this asset class. Private equity is a possibility, although long lead time, low liquidity, nil income and uncertain capital values may not match investors' objectives. Bank finance is an option, albeit a more expensive one.	High risks notably at early stage	Direct and indirect property investment by developers and institutions is typical. Private equity investors are prepared to forego income for the prospects of high capital gains over a relatively short holding period. Uncertain capital values, low liquidity, and nil income make this less attractive for quoted equities. Bonds could provide the capital, but again the coupon would require to be funded out of capital draw down, external sources or public sector guarantee.	Medium risk	Once the project has been completed and let, then the investment becomes a pure property play. Investment by the institutions is possible, with the scheme forming part of the institutions strategic allocation to property. Quoted equity or private equity is a possibility. REITS have the potential to provide an innovative source of capital but may take time to mature.
Return	Potential high return		Potential high return		Medium return	
Cash flow	High level of capital required Nil income stream Uncertain capital values		High level of capital required Nil income stream Uncertain capital values		Large lot size Secure income stream Quantifiable capital value	
Time period	Up to 20 years		3 to 5 years		Long term	

TRADITIONAL INVESTMENT VEHICLE STRUCTURE

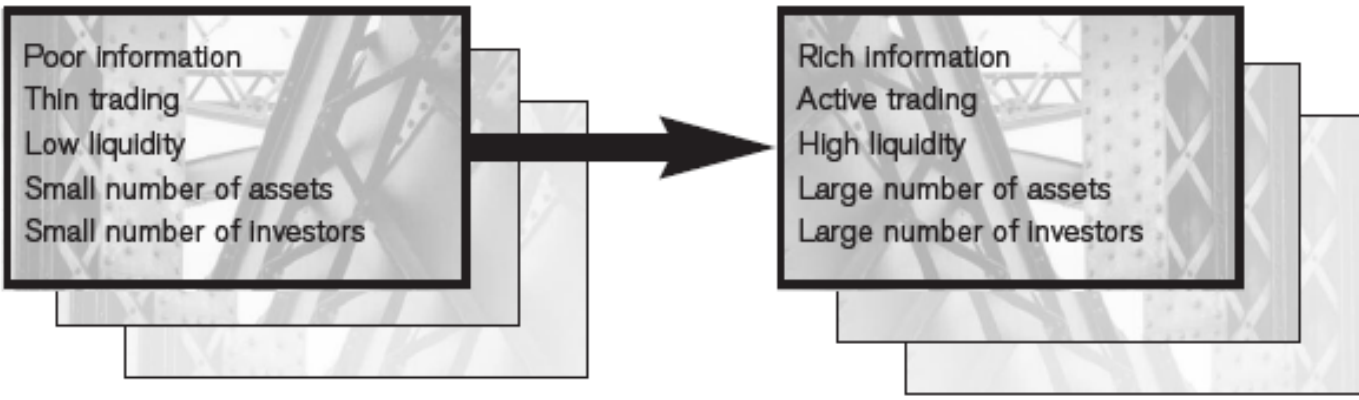


TYPICAL REGENERATION CO-INVESTMENT VEHICLES

Investment Vehicle	Tax Treatment	Transfer Tax	Listable	Open /Closed ended	Investor Restrictions
UK Limited Partnership	Tax transparent	4% on gross asset value of underlying UK property	No	Usually closed ended	Usually limited to institutional investors or high net worth individuals
UK Unauthorised Exempt Property Unit Trust	Effectively tax-free at vehicle level	0.5%	No	Either	Only available to UK tax exempt investors (i.e. pension funds and charities)
Jersey Property Unit Trust	Tax transparent. Can receive and distribute UK income gross. Not subject to UK capital gains tax	Nil	Yes, but unusual	Usually closed ended	Depends on regulatory approval obtained
Guernsey Property Investment Company	Not transparent but tax liabilities can be mitigated. No UK capital gains tax at property level.	Nil	Yes, in UK and Guernsey	Closed	Open to the public (including ISAs)

THE RANGE OF INDIRECT PROPERTY INVESTMENT

Joint Venture Limited Partnerships Unauthorised/ off shore PUTs Authorised PUTs Public property Companies



Towards Sustainable Urban Regeneration

Issues:

- *Donut of decay and depopulation in most of the northern UK post-industrial cities*
- *Knowledge Society, Skills gap & Inter-competitiveness*
- *Sustainable development & sustainable communities*
- *Hard to reach places and communities.*

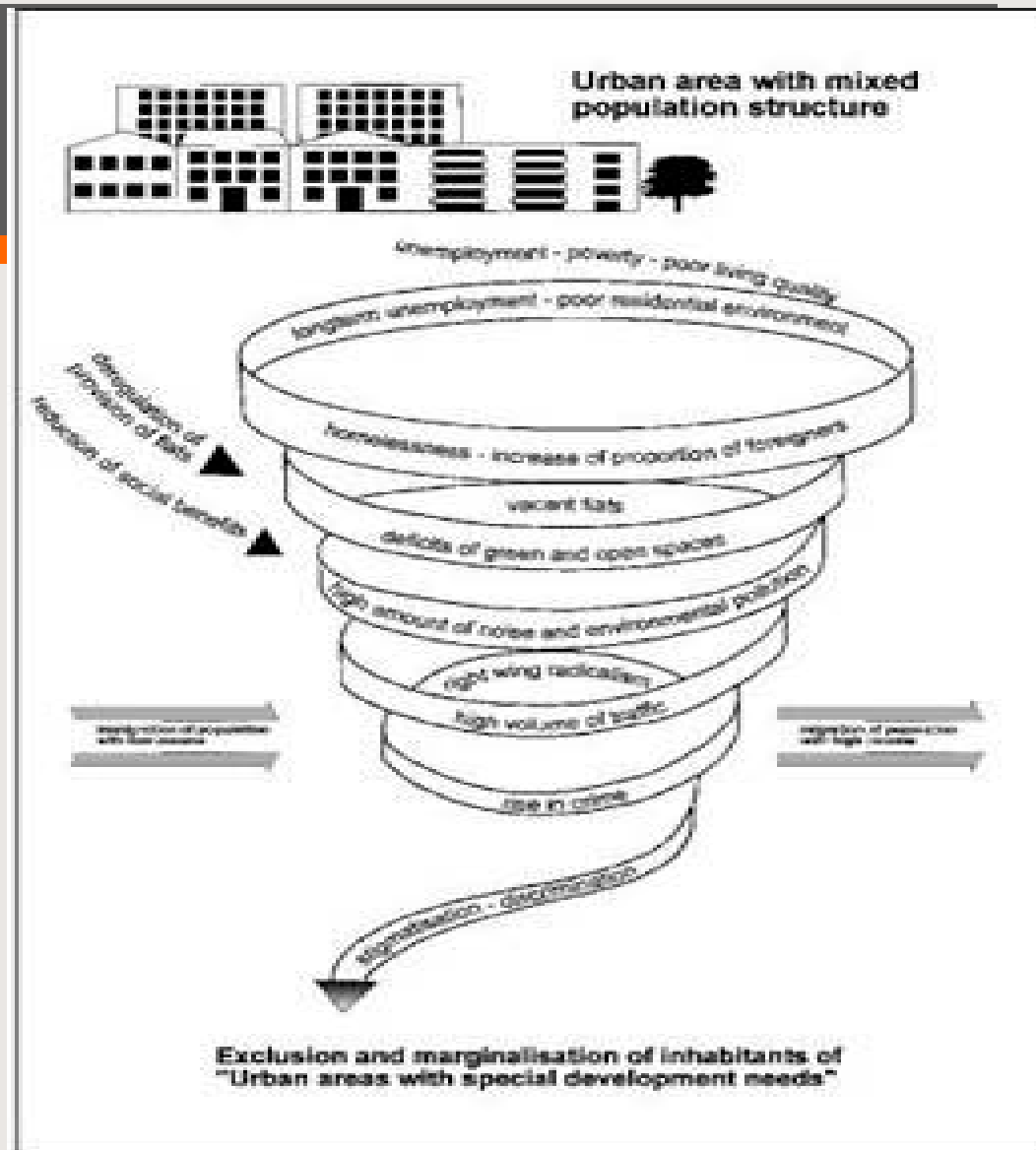
Towards Sustainable Urban Regeneration

*Hard to reach spaces and
communities:*

E.G.; Chapel Street, Salford

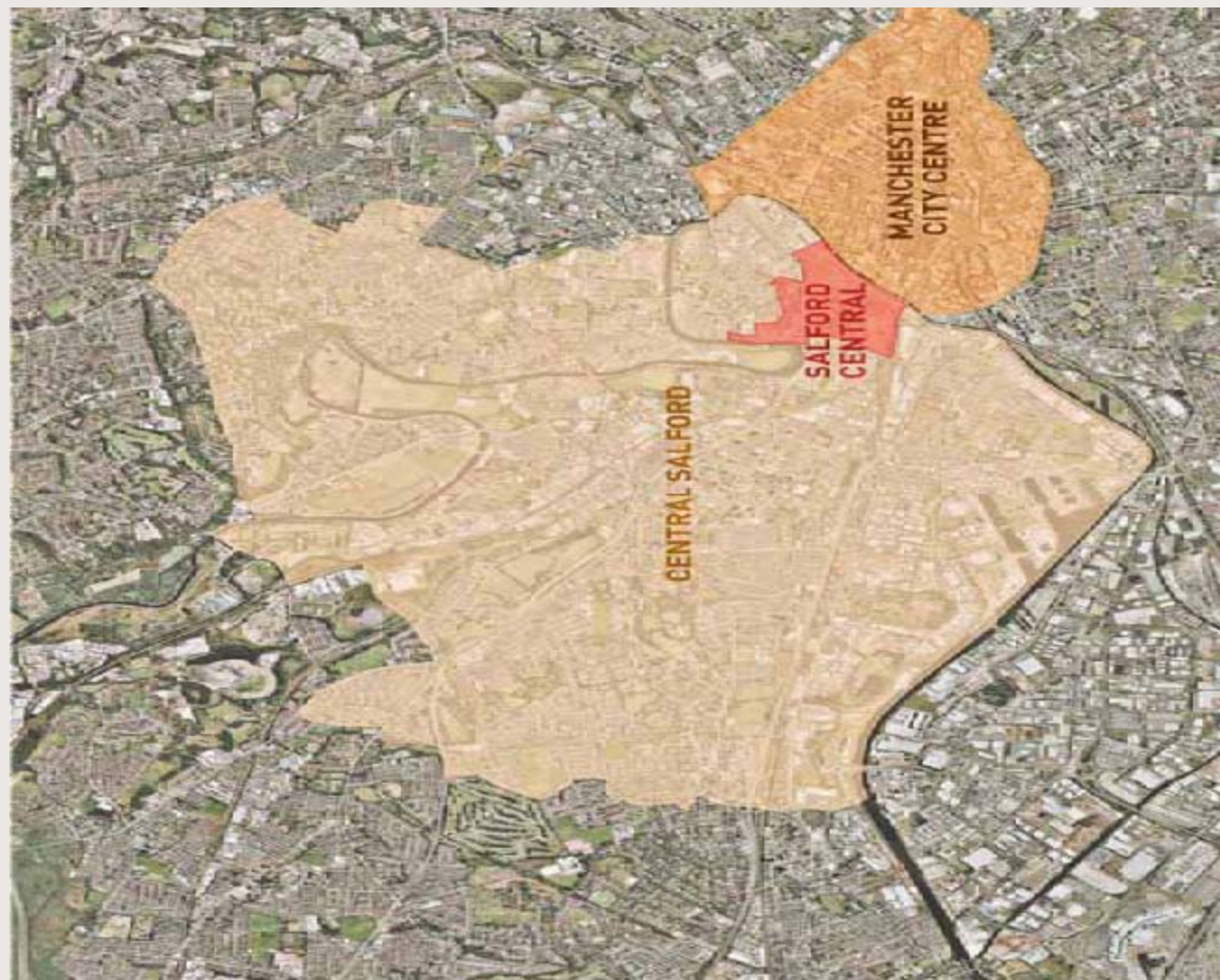
Main challenges

- Loss of purpose
- Physical decay
- Complexity of problems
- Multiplicity of stakeholders
- Uncertainty of future

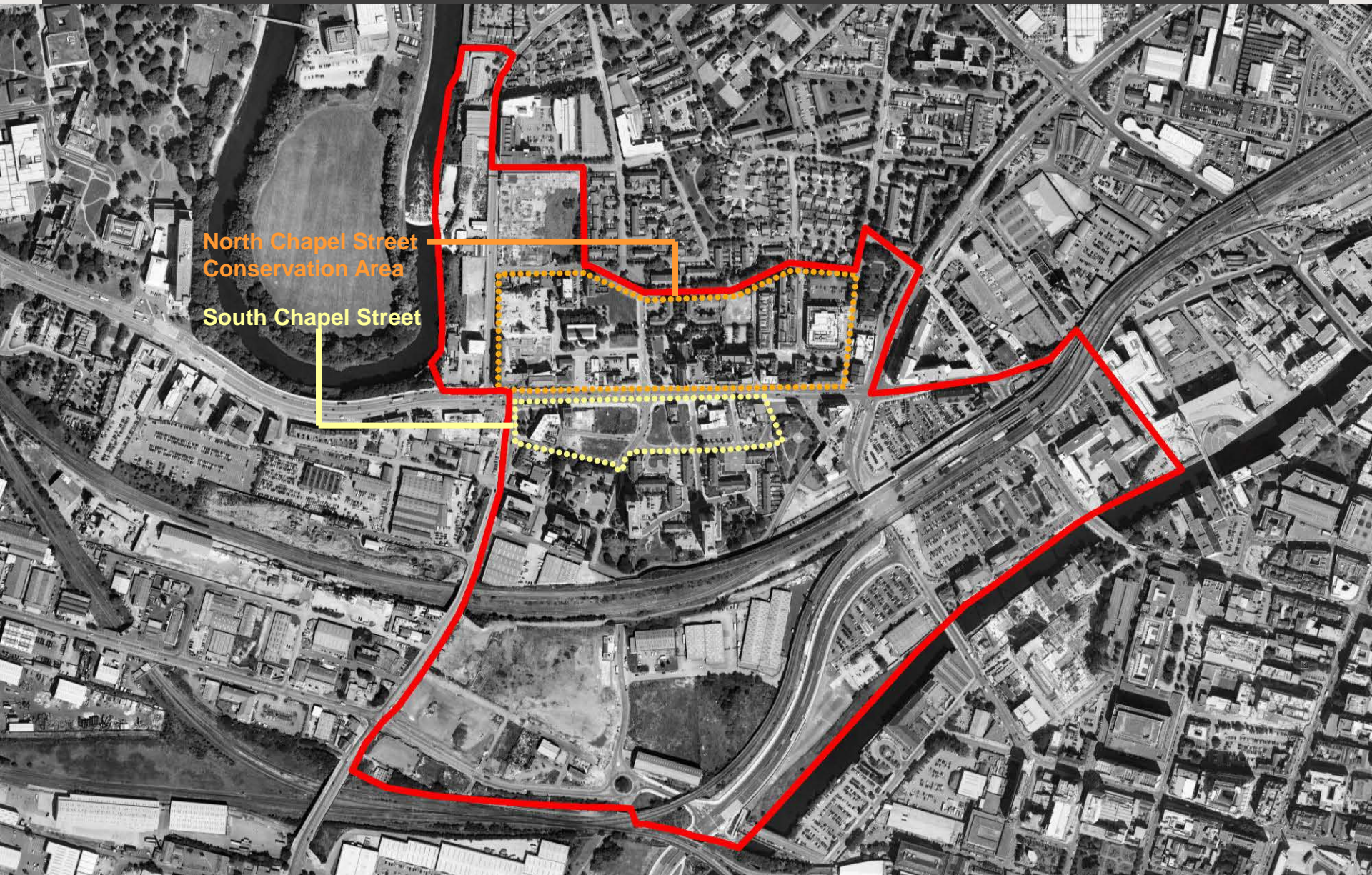




Aerial view Salford Central



CSURC Development Framework Area



North Chapel Street
Conservation Area

South Chapel Street

Chapel Street Elevation Study

Existing Street View





“MORE SALFORD”

“Less Anywhere”

- “Transform Chapel Street into a **vibrant tree lined street**, which will form the **focal point** for the regeneration area”
- “Enhance the **existing architectural** setting”
- “Create an **attractive urban neighbourhood**, with a focus on **family housing**”
- “High **quality**, contemporary buildings”

Preferred Proposed Masterplan



Chapel Street South

Locally Listed Buildings Study



1 - Ye Olde Nelson



2 - 289 Chapel Street



Location Plan



3 - 301 Chapel Street



4 - The Bell Tower



Location Aerial

Ye Olde Nelson

Front elevation visible
along full length of
Chapel Street

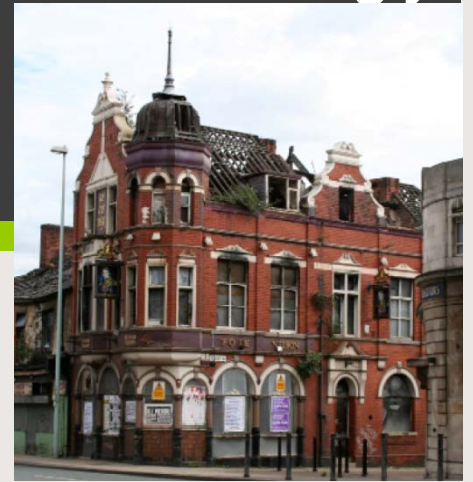
High quality
buildings opposite

Poor quality
neighbouring
buildings



Ye Olde Nelson

Gap sites
surrounding
building



Site Constraints

Existing Condition

Chapel Street Elevation Study

Cathedral Square



Towards Sustainable Urban Regeneration

- In 2005 Central Salford Urban Regeneration Company (CSURC) prepared a Vision and Regeneration Framework for Central Salford setting out a Vision for transformational change within the area:
- “CENTRAL SALFORD WILL BE TRANSFORMED.
- **A BEAUTIFUL, VIBRANT NEW URBAN CENTRE WITH STRIKING ECONOMIC OPPORTUNITY IS WAITING TO BE BORN OUT OF ITS FINE HERITAGE AND THE UNVEILING OF ITS MANY NATURAL ASSETS.”**
- “THE **CITY’S ELEGANT BUT UNDERUSED** BUILDINGS AND ITS VACANT BUT POTENT SPACES WILL BE FILLED WITH **PLACES TO LIVE, WORK, SHOP AND ENJOY LIFE.**” “THE **RESTORED HEALTH OF CENTRAL**
- **SALFORD WILL FLOW ACROSS THE ENTIRE URBAN AREA, STRETCHING OUT TO BENEFIT ALL OF SALFORD’S COMMUNITIES.**”

Towards Sustainable Urban Regeneration

- Salford Central will regenerate over 50 acres of Salford's civic and historic centre.
- The scheme has the potential to deliver around 3 million square feet of new development: including over 2 million square feet of commercial space, 280,000 sq ft of active uses (managed workspace, creative industries, leisure, community uses etc) a 390 room hotel and well over 800 houses and apartments.

It is being delivered by English Cities Fund (ECf), through active partnership with Salford City Council, and will create an estimated 12,000 new jobs.

Towards Sustainable Urban Regeneration

- The key elements include a new gateway to the city centre - linking the university to Manchester's Spinningfields district through a revitalised Chapel Street - and New Bailey, an exciting new extension to Manchester's Central Business District.
- Masterplanned to provide over 2 million square feet of new Grade A, sustainable, high quality office development along with supporting retail, leisure and residential uses, New Bailey will be a high value, high density corporate centre - the destination of choice for business.

Role of Real Estate in Urban Regeneration

- Real estate as a key element in regeneration
- Creates psychological and physical presence
- Confidence building
- Ownership is an important factor in long term success of regeneration

KEY STAKE HOLDERS

- Muse Developments (private developer)
- Muse Developments is one of the country's leading names in commercial development and urban regeneration. We deliver complex mixed-use schemes - with the accent on quality and sustainability - and create vibrant new places within our towns and cities.
- Founded on the extensive experience of our management and delivery teams, and backed by the financial strength of our parent company, we're driven by a desire to bring a fresh and innovative approach to property development.

Towards Sustainable Urban Regeneration

- English City's Fund (ECF)
- *Salford Central Urban Regeneration Company*
- *Salford City Council*
- *Local Businesses*
- *Citizen Groups*
- *NGOs*

Towards Sustainable Urban Regeneration

Main Challenges:

- *How to attract private investment*
- *How to change perception*
- *Physical transformation*
- *Economic transformation – through strengthening local enterprise*
- *How to balance small private interest and business*

Real Estate Ownership

- 90% of UK high street retail units owned by institutional investors
- Entry of big businesses for example:
 - Tesco
 - Sainsbury
 - Marks and Spencer
 - Carrefour
- Impact on small retailers

Real Estate Ownership

- Impact of corporate business
 - Utilise tax incentives and public subsidies
 - *Increase in land and property prices*
 - *Rental increase*
 - *Move away after a few years if conditions change*
- *Small business unable to afford high real estate prices and driven out of the locality*
- *The cycle of economic dereliction*

Towards Sustainable Urban Regeneration

SoBE will propose Salford Central Regeneration as a case study in order to analyse:

Method of financing of regeneration and key development elements

Formation of local businesses,

Local government incentives and initiatives

Level of locally spent investment – money spent on purchasing local materials and using local labour

Real estate price movement – residential and commercial

Impact of entry of big business on local property prices



THANK YOU