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benchmarking  urban  regeneration
The research was carried out by a team from Universities of Ulster, Aberdeen and Glasgow. University of Ulster: Alastair Adair, Jim Berry, Stanley McGreal, Joanna Poon. University of Aberdeen: Norman Hutchison, Craig Watkins. University of Glasgow: Kenneth Gibb. The research benefited from a steering group which provided advice and guidance during the course of the project. The members of the steering group were: Chris Brown (Igloo) – Chairman, Stephen Brown (RICS Foundation), Tina Golton (Office of the Deputy Prime Minister), Tony Key (Cass Business School and Investment Property Databank), Paul McNamara (Prudential Property Investment Managers) Wendy Russell-Barter (Office of the Deputy Prime Minister), David Shevill (Office of the Deputy Prime Minister).

THE SUPPORT OF THE ECONOMIC AND SOCIAL RESEARCH COUNCIL (WARD NO. R000239291), THE OFFICE OF THE DEPUTY PRIME MINISTER AND THE RICS FOUNDATION IS GRATEFULLY ACKNOWLEDGED IN UNDERTAKING THIS RESEARCH PROJECT.
BENCHMARKING URBAN REGENERATION

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The regeneration of significant parts of cities and towns has been a policy objective of successive governments over the past two decades. Numerous evaluations of initiatives and schemes have been commissioned to assess the impact of regeneration as part of the review of policy. Value for money studies have quantified outputs and outcomes in terms of a series of physical, financial and social indicators, however information on property performance and investment trends has suffered from the relative lack of transparency in regeneration areas. Indeed weak and confused market signals in regeneration areas have perpetuated misconceptions regarding investment returns and risk which has often led to regeneration opportunities being by-passed, notably by some of the largest institutional investors.

The key findings from this research are as follows.

- The results stemming from this study show that investment property in regeneration areas can out-perform national and local benchmarks. The analysis demonstrates that over the long-term perspective regeneration areas offer significant investment opportunities. These findings challenge perceptions regarding investment returns. The message to major institutional investors from this research is the need to reconsider strategies regarding the potential of property within regeneration areas.

- Complementary evidence is apparent from the two methodologies. Both demonstrate the superior performance of regeneration property in recent years relative to recognised benchmarks. The total returns approach highlights the property market downturn of the early 1990s as marking a step-change. The beacon approach indicates a major yield shift in regeneration areas in the short to medium-term.

- The study demonstrates that the systematic under-pricing of regeneration markets on the part of the property industry, a symptom of the information deficit, has been based on incomplete evidence. Potentially the absence of returns information has been detrimental to investment strategies in relation to regeneration areas and the pricing of investment opportunities.

- Retail property is shown to perform extremely well within regeneration areas, which appear to be particularly suited to shopping centres and retail warehousing investments. It seems that restriction on out-of-town development arising from PPG6 and the sequential test may have benefited regeneration areas.
- For office and industrial property, the differences are less pronounced, but in the case of the total return indicator they still outperform national benchmarks.

- On the basis of risk assessment similar findings prevail. The perception that regeneration areas have significantly greater levels of risk is shown to be misplaced. Performance figures suggest that the level of risk faced in regeneration areas is not significantly different than the market as a whole and in certain instances is lower.

- Regeneration performance can vary on a city by city basis. The analysis indicates that the uplift in the investment performance of regeneration areas occurred later in particular locations. For example in Tyne and Wear investment returns only started to increase significantly in the latter part of the 1990s. However, the key issue is that the performance trend over the long-term is consistent across the group of urban areas considered in this study.

- The significance of this research is the quantification of property investment returns from regeneration areas which previously has not been available to investment institutions and decision makers.

- From a policy perspective the research is of enormous relevance in confirming the maturing of locations that have received high levels of public sector support and indicating the effectiveness of regeneration policy mechanisms in creating sustainable urban environments capable of meeting private sector investment goals. As government agencies are increasingly looking for greater private sector participation in regeneration the success of previous and current policy mechanisms is fundamental. Furthermore, this study provides the missing component not found in other value for money studies which have concentrated upon physical output and economic indicators but lacked information on property investment returns.

- The finding that regeneration areas can offer vibrant property markets and new development/investment opportunities has wider relevance to the economic competitiveness of UK cities and investability objectives. The ODPM work on Core Cities, several of which are included in this study, has raised concerns over the competitiveness of these cities relative to European counterparts. As regeneration areas frequently offer the most significant opportunities within these cities the potential clearly is there to attract investment, raise value and increase competitiveness. The policy agenda therefore needs to be consistent and focussed to facilitate delivery of these goals.

- The research highlights that property market data is under-utilised by both the private and public sectors. The former possess key information on all the significant physical and financial variables required for index construction but often is not held in a systematic fashion that facilitates analysis. Likewise, the public sector holds potentially valuable information but again not in a format that is always conducive to facilitate this type of analysis. Collectively these data are under-utilised resources.
INTRODUCTION

Background
In 1998, the Royal Institution of Chartered Surveyors published a report, ‘Accessing Private Finance’ which looked at possible reasons why private finance was not attracted to urban regeneration areas. One of the key findings from this work, which was funded by the Joseph Rowntree Foundation and carried out by the University of Ulster, was that private sector investors lacked confidence as to the financial returns that they could receive. With the increasing importance that real estate investors place on being able to benchmark the investment performance of their assets, the research indicated that this lack of performance data acted as a real and significant disincentive.

To see if this could be resolved, a further research project was commissioned, to explore:

- whether the investment returns in urban regeneration areas are comparable with those in other urban areas
- whether it would be possible to construct an urban regeneration real estate index, comparable with existing property investment performance indices, that would enable the investment returns in urban regeneration areas to be benchmarked against investment properties in other areas

Why the need?
Quite simply, the task of achieving urban regeneration in our towns and cities cannot be carried out with public funds alone – private capital is necessary.

In our earlier study, we defined urban regeneration as the process of reversing economic, social and physical decay in our towns and cities where it has reached that stage when market forces alone will not suffice. Successful regeneration frequently seeks a tangible outcome in the form of real estate. However it is important also to recognise that regeneration embraces more holistic perspectives such as economic and social improvement.

Urban regeneration seeks ways to improve disadvantaged places and the lives of people who live and work there. Regeneration activities are varied and may reflect joined-up holistic or relatively less integrated programmes of physical, social and economic change. For instance, Government across the UK prioritises social inclusion and the reduction of exclusion, be it economic, physical isolation or the general inability to participate in normal urban life opportunities. At the same time, regeneration and local enterprise agencies seek to develop real estate and infrastructure in order to attract new investment. This is partly because it is believed that there are positive wider regeneration spillovers attached to economic development. It may be argued that effective strategies to encourage private investment in run-down areas, if suitably co-located in complementary social policies, are essential to the long-term redevelopment of depressed, derelict or otherwise disadvantaged urban places. Property investment is therefore reasonably viewed as a necessary condition for economic regeneration and in turn as a first order condition for wider integrated area renewal.

The holistic approach emphasised in the Urban Task Force report, produced by the Department of the Environment, Transport and the Regions in 1999, advocated successful urban regeneration founded upon strong democratic local leadership, public participation and the use of public finance to attract increased private investment. The importance placed upon private finance and investment is central to effective regeneration. Since the 1977 Urban White Paper, Policy for the Inner Cities a raft of regeneration policies, initiatives and incentives have been implemented with different priorities placed upon physical, economic, environmental and social regeneration. At the heart of many initiatives has been a desire to attract private investment into regeneration with subsequent evaluations frequently focussing upon a range of indicators such as leverage to quantify the private sector contribution. However, there are relatively few empirical studies that have directly addressed the nature and form of private sector investment in regeneration. Exceptions include the work of Adair et al (1998) and to a certain extent that of Adams et al (2001). The Joseph Rowntree Foundation Report, representing a landmark on the role of private investment in regeneration, concluded that the experience of investors in urban regeneration indicates the achievability of high returns. It suggests that the decision-making of non-investors may be based on misconceptions. In particular, institutional investors are shown to apply higher thresholds regarding their involvement in urban regeneration.

It is evident that the need for urban regeneration arises as a consequence of market inefficiency, including failure in property markets. Policy makers implicitly seek to address weaknesses in property markets through a range of initiatives aimed at developing the conditions that might attract private sector involvement and ultimately sustain normal private market processes. A first strand of policy relevance relating to this project is based on the principle that better information on property market performance in the urban regeneration sector will assist in the development of an evidence base that can improve the targeting and design of policy interventions ultimately aimed at delivering better functioning property markets. Moreover, the targets and outcomes of regeneration programmes must be aligned to the specific needs of the area/projects concerned. This requires the development of asset-based regeneration with the capacity to provide revenue streams to sustain private sector development and investment.
A related strand of policy relevance is based on the premise that regeneration initiatives have in fact already attracted significant volumes of private sector investment and hence contain the schemes/properties that should be included in a performance index. The core of the research, therefore, focuses on the range of initiatives that have been at the centre of UK urban regeneration policy and in particular those mechanisms which have generated property outputs entering the investment market. The establishment of a regeneration index will enable policy makers to gauge the outturn performance of policy-on initiatives and the success of urban regeneration in enlisting institutional funding to regenerate areas characterised by market failure. However this raises further issues relating to the dynamics of the market. It is likely that over time, some regeneration-assisted areas will start to become part of the established/prime market.

The property investment market in the United Kingdom

Property as an investment provides institutions with diversification benefits within a mixed asset portfolio in which real estate has to compete with other asset classes, primarily equities and bonds. Key criteria in the decision making process and in determining allocations across the respective asset classes are performance based measures of expected return and risk.

Since the mid 1980s the value of investment property in the UK has grown considerably, with many of the properties owned by institutional investors being in prime market locations. Property investment in the UK and in particular institutional funds are heavily focused upon the prime commercial markets (retail, office and industrial) for which transaction evidence, although partial, is best developed. In contrast evidence for secondary, tertiary and regeneration markets is more fragmented. Consequently it appears that institutional investors are reluctant to invest in regeneration areas in spite of the desire by government and regeneration agencies to increase institutional involvement and attract private finance to regeneration areas. Rather private sector involvement has been driven by property development and investment companies, often of local origin, which seem to adopt less risk-averse strategies than institutional investors (Adair et al, 2003).

Residential property in the UK is starting to be recognised as an investment asset but data sources are even more fragmented than for the commercial property market. From a development perspective residential property is extremely important and many mixed-use schemes in regeneration areas have a substantial residential component but from our investigation in the urban areas studied, a significant percentage of this stock is sold for owner-occupation whereas that held for investment purposes is often by private individuals. The level of corporate investment in residential property within regeneration areas appears to be low in cities outside of London with little knowledge of investment return.

Evidence from the literature suggests that the lack of rigorous and consistent measures/signals of market performance in regeneration locations has acted as a major deterrent to the redevelopment of brownfield sites and has had a detrimental impact on the wider regeneration agenda. Authors such as Paul Syms’ emphasise the confidential nature of most property transactions in the UK with limited access to such information. This scenario is exacerbated in regeneration areas due to fewer transactions and therefore less market evidence. Such conditions of uncertainty are not conducive to property investment decisions.

The problem of information transparency and resulting uncertainty in urban regeneration investment is amply demonstrated by the perception gap between those investors who have achieved anticipated returns and those who perceive that this is not possible. However, our previous study does indicate that for both investors and non-investors in regeneration there is broad consensus concerning the range of factors which would facilitate the mitigation of risk and the enhancement of return. The challenge for regeneration policy makers and those agencies seeking to stimulate greater private sector investment is how to bridge the gap in perception between investors and non-investors. One way in which this may be resolved is through the provision of enhanced information on regeneration investment thereby illuminating return and risk and facilitating a more accurate and comprehensive understanding for decision-making.

How do we measure property performance?

Currently property market information is mainly produced for prime markets as these are the locations with least perceived risk and hence are the markets that are most attractive to institutional funds. The importance of benchmarking of returns has been clearly established by such researchers as Karen Sieracki, with two main methodologies employed in index calculation. Investment Property Databank (IPD) use a total returns approach involving capital value growth and rental appreciation minus spending whereas CB Hillier Parker employ a synthetic approach based upon standardised property descriptions with valuation points in most major urban areas. In this study, we have used what is called a ‘beacon approach’ which is based on the methodology employed by CB Hillier Parker, and a total returns approach that seeks to compare regeneration performance against national benchmarks produced by IPD.

The total returns methodology applies IPD’s standard method of market analysis. Total return is considered by IPD to be the target measure for
OUR HOMES TODAY — THE PLANET TOMORROW.
investors and one that is widely accepted in the market. The construction of the total returns index has two main components and involves changes in capital value from one year-end valuation to the next, net of any capital expenditure, and net income receivable through the year namely rental and other income net of irrecoverable landlord’s costs. The derivation of total return in this form is claimed to provide a measure of investment performance for property as comparable as possible with the standard measures of investment return for other asset classes such as equities and bonds (IPD, 2002). IPD include only investment quality property in their index. Furthermore, the IPD index is based upon the annual valuations. Restrictive rules determining inclusion ensures a reasonable degree of standardisation. In addition, standardisation of valuation approaches is a consequence of the RICS Red Book.

In contrast, CB Hillier Parker rely on appraisals of a standard hypothetical property holding. This potentially provides an alternative approach to index construction, the use of which is arguably valid for this type of research. The commonality between the IPD and CB Hillier Parker approaches lies in the utilisation of data obtained from either property valuations or appraisals. Valuation/appraisal based indices have been developed due to the low value and lack of transparency of property transaction data particularly in the commercial markets. As Dean Gatziaff and David Geltner found4, even in the USA, where data have been more readily available to the real estate research community, the development of transaction-based commercial property indices is a relatively recent innovation. However, appraisal-based indices, well-suited for markets where information is scarce, do present some difficulties. In particular, simulated series are likely to underestimate the variability of returns, an inherent disadvantage of such property indices.5

**WHAT DO WE KNOW AT THE MOMENT?**

**Property investment and urban regeneration**

Over the past two decades the physical, social and economic dimensions of urban regeneration in the UK have been analysed in detail by many authors6. One key study has been that carried out by Peter Tyler7, where he assesses the various evaluation studies of the principal area-based urban regeneration initiatives (Table 1). The core of his work focuses on the range of area-based initiatives and in particular those that have generated outputs entering the property investment market. The Value For Money (VFM) studies indicate the importance of the property dimension within area-based initiatives. Although it is not the role of this research to re-visit the evaluation of urban regeneration initiatives these studies do, however, provide the overall context for the research. Case study based literature has also evolved providing in-depth coverage of urban regeneration including the role of fiscal incentives, the nature of partnership arrangements, and the evaluation of local impacts of particular policy initiatives. These studies tend to have a particular spatial focus and have given rise to clearly identifiable strands of the literature based on, for example, the regeneration of waterfront areas, inner city locations and peripheral estates (Berry et al, 1993).

In parallel to VFM studies the more recent regeneration literature has started to place more emphasis upon behavioural aspects including the nature of private sector property investment, the type of investor, the strategy employed, attitudes towards delivery mechanisms, and the perception and handling of risk (Adair et al, 1998, 1999, 2003; McGreal et al 2000). Furthermore this literature identifies the key role of the private sector in stimulating property development and investment with the public sector operating in either a partnership or facilitating capacity. The regeneration of land and buildings necessitates the use of capital resources and raises the question of access to and the availability of private sector finance. Indeed the more intensive the level of development, the more that process is dependent on private funds for its capital requirements.

It is clearly important to raise property values so that projects can become viable otherwise regeneration will not be self-sustaining. Hence an understanding of the property market is essential in explaining why the private sector invests in some areas and not in others. In this context, Gibb et al (2001) discuss the importance of receptive markets for land and property thus leveraging investment into regeneration schemes. However, the property market is comprised of different elements: the user market, the investor market and the developer market. Movement in rents reflects changes in the characteristics and behaviour of the local economy and the demand for accommodation, while yields are determined in the investment market and the macro-economy. Subsequent yield changes reflect investors’ perceptions of rental growth and demand for property investment (Keogh, 1994).

The primary reason why the private sector invests in specific regeneration areas reflects the perception of achieving target rates of return in those locations (Adair et al, 1998). Perceived total return is the primary factor influencing investment decisions with those companies retaining their investments in regeneration locations doing so in expectation of achieving above average returns. A further significant factor is the perception of investment security and the spreading of risk, though analysis indicates that investors attach greatest significance to return as being the primary motive for holding a regeneration portfolio (McGreal et al, 2000). Rental growth arising from occupier demand, and capital appreciation
reflecting investor demand are the primary factors by which new regeneration projects are evaluated. The way in which investors perceive markets, make decisions and construct investment strategies affects their actions within property markets. At the urban level, the potential performance of a city’s property market is an important element of an investment decision. If rental and capital growth are strong, investors will be attracted to the city. Empirical evidence however suggests that there are institutional factors to be considered other than performance indicators (Guy et al, 2002). Indeed, geographic location and in particular distance from London appears to have a stronger influence on investment flows than economic performance (Callender and Key, 1996).

From an economic perspective urban regeneration locations represent market failure because of the negative externalities associated with distressed and derelict sites. From the private sector perspective, inner cities and urban regeneration projects are commonly perceived to carry considerably greater risk compared to prime property locations. Given the need to secure adequate return on the value of assets, Adair et al (1998) argue that decision-making may by-pass the potential opportunities in urban regeneration locations. Government can help tackle some of these problems through subsidy and risk sharing but part of the problem stems from information shortages about how such markets can perform ex post. Understanding the operation and functioning of regeneration property markets is essential as are reliable indicators and their performance.

Amongst the principal barriers to investment in regeneration are perceptions of negative returns (Adair et al, 1998). Recent analysis that we have undertaken emphasises that private sector investment is opportunity driven and needs to show returns commensurate with the level of risk taken. In this respect, efficient and receptive markets for land and property are essential to lever investment into regeneration schemes. Our work shows that the private sector invests in areas which it feels familiar with and where appropriate rates of return are achievable within the risk framework. Indeed modern portfolio theory is based on the trade-off between return and risk with the expectation that higher returns are accompanied by higher risk. However, target rates of return are different for each investor and the risk premium differs by project. Evaluation of schemes is invariably on the basis of rates of return and yield. Investor tendency to over-invest in familiar markets is apparent, though under-priced markets are acknowledged to present significant opportunity. Furthermore, it is widely acknowledged that a major deficiency in regeneration areas is the absence of a weight of institutional equity capital. Our earlier study for the Joseph Rowntree Foundation, which led to this research, highlighted how institutional investors set very high criteria for alleviating risk when considering investment in regeneration areas. Their perception of greater uncertainty is translated into a higher risk premium reflecting the poorer environmental and locational characteristics of many regeneration areas and the psychological preference for safe investment decision-making.

As a consequence of the lack of data, market signals concerning regeneration areas are likely to be weak and confused thereby creating conditions of uncertainty that deters major institutional investors. The lack of information is important in perpetuating misconceptions of regeneration areas in terms of risk and levels of return. Frequently held perceptions concern market failure, low returns, low demand and high costs. However opinion is not entirely consistent and other evidence suggests that regeneration locations can produce long-term above average returns, which offset any additional risk. The problem is that the message, in the absence of supporting market evidence, 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, 2003). It is within this context that the urban regeneration market needs to be positioned.

**Property performance analysis**

Direct investment into property is traditionally considered to provide institutions, notably those with large portfolios, with diversification benefits. The literature identifies significant shifts in property investment since the early 1980s from a focus upon individual buildings to a more strategic approach that sets property in a wider context in relation to other investments and the macro-economy (Ball et al, 1998). Indeed, the recent RICS Foundation report on the role of property in the multi-asset portfolio emphasises that institutional investors no longer consider property in isolation but place it in the context of investment opportunities within a mixed asset portfolio in which property has to compete against other asset classes primarily equities and bonds. Key criteria in the decision-making process and determining allocations across the asset classes are expected return, risk and diversification benefits.

In the mid-1990s, institutions were thought to hold about 54% of the property investment market. In 1996, Mark Callender and Tony Key of Investment Property Databank suggested that the institutional share of the total property stock has remained fairly static since the early 1980s while that of property companies has expanded. Statistics for 2001 for life and pension funds show that the weighting allocated to property has increased to 53%, the highest figure since 1996. In spite of this, property still has a low weighting in institutional portfolios. In addition there has been a relative shift between the investment and owner-occupied sectors in commercial property. The
former is now the most significant with an estimated value of £221bn while the latter accounts for £209bn. The value of both sectors has grown appreciably since the mid-1990s but most notably investment property, the value of which has increased by 85%. It is generally considered that for the greater part such investment is into property in prime market locations with little knowledge available concerning investment returns within urban regeneration areas.

Within the property sector the knowledge base is selective, notably for non-prime markets including secondary and tertiary locations and regeneration areas. For this reason institutional funds are reluctant to invest in regeneration areas in spite of the desire by government and regeneration agencies to increase institutional involvement and attract private finance to regeneration areas (Adair et al, 2003). Instead, the private sector’s involvement in such areas has been led by property development and investment companies primarily financed by bank debt. They have adopted less risk-averse strategies than institutional investors.

The tendency of property data to reflect prime property can leave secondary locations, including regeneration areas, lacking in market information with the potential for lost opportunities. While there have been extensive evaluation studies of various regeneration initiatives, such as the study by Peter Tyler mentioned earlier, these are not aimed at measuring total returns or trends in the property market. Indeed, Paul Sym’s of Sheffield Hallam University considers that a major deterrent to the redevelopment of brownfield land, and by inference the wider regeneration agenda, is the lack of information available and paucity of market signals. In making this point, he reinforces the argument that data regarding most property transactions in the UK is confidential, with limited access to such information. This is particularly the case in regeneration areas for which there is even less market evidence due to the fewer transactions. Such conditions of uncertainty are not conducive to investment, notably by the major institutions, nor the wider investability objectives relating to the competitiveness of UK cities (Begg, 2002). This is currently a major concern of government in particular the under-performance of major English cities, with the exception of London, relative to their European counterparts (Core Cities, 2002).

The lack of information highlighted by various studies in the mid-1990s still remains a key issue with perceptions of regeneration areas characterised by private landowner hope valuations, misperceived returns, high transaction and information costs, risk aversion and low demand. Previous work by us has demonstrated that this can lead to the under-pricing of markets. Indeed, other recent work by Simon Guy, John Henneberry and Steven Rowley has shown how investor pricing influences are systematic in their application but can work to undermine weaker, less profitable property markets and reinforce stronger, more profitable ones. Under such pricing policies, regeneration areas may be particularly disadvantaged. The way in which investors perceive markets, make decisions and construct investment strategies affects their actions within property markets. At the urban level, the potential performance of a city’s property market is an important element of an investment decision.

Work that we have recently carried out has shown that, although market signals, as a result of improved information sources, are considered to be better than a decade ago there is still little data on regeneration opportunities compared to central city and prime markets. The relative lack of information is considered to be a major issue constraining private sector involvement and explaining why regeneration does not seem to attract the expected level of institutional funds. If regeneration is to add value there is a need to be competitive, to make locations attractive, to combat factors that act as deterrents to investment and to develop more innovative ways to attract private sector finance. Central to this process is the need for greater information on investment returns within regeneration areas. Problems with weak levels of market transparency have resulted in potentially incorrect perceptions of regeneration and lead to a mispricing of opportunities.
Table 1 The type of evidence generated by VFM studies

<table>
<thead>
<tr>
<th>Policy Measures</th>
<th>Estimated public sector spend on policy (£bn)</th>
<th>Estimated spend: other public &amp; private sector (£bn)</th>
<th>Estimated impacts and reclaimed (hectares)</th>
<th>Floorspace created (million sq. m.)</th>
<th>Net additional jobs</th>
<th>Housing/dwelling impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>1981-2000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>London Docklands Development Corporation</td>
<td>2.90</td>
<td>9.69</td>
<td>1,756</td>
<td>2.43</td>
<td>44,000</td>
<td>24,000</td>
</tr>
<tr>
<td>Other Urban Development Corporations</td>
<td>1.70</td>
<td>9.26</td>
<td>2,565</td>
<td>5.66</td>
<td>81,387</td>
<td>18,500</td>
</tr>
<tr>
<td>Enterprise Zones</td>
<td>1.00</td>
<td>2.00</td>
<td>2,700</td>
<td>6.00</td>
<td>58,000</td>
<td>–</td>
</tr>
<tr>
<td>City Challenge</td>
<td>1.14</td>
<td>6.25</td>
<td>4,000</td>
<td>3.60</td>
<td>32,000</td>
<td>110,000</td>
</tr>
<tr>
<td>English Partnerships</td>
<td>1.00</td>
<td>2.30</td>
<td>5,650</td>
<td>3.30</td>
<td>90,000</td>
<td>20,000</td>
</tr>
<tr>
<td>Single Regeneration Budget</td>
<td>2.20</td>
<td>8.81</td>
<td>1,118</td>
<td>1.0</td>
<td>44,728</td>
<td>22,346</td>
</tr>
<tr>
<td>Total</td>
<td>9.94</td>
<td>38.31</td>
<td>17,789</td>
<td>21.99</td>
<td>350,115</td>
<td>194,864</td>
</tr>
</tbody>
</table>

Source: Tyler (2001)

Table 2 Principal area-based policy instruments in UK

<table>
<thead>
<tr>
<th></th>
<th>England</th>
<th>Wales</th>
<th>Scotland</th>
<th>N. Ireland</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enterprises Zones</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>Urban Development Corporations</td>
<td>Y</td>
<td>Y</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inner City Task Force</td>
<td>Y</td>
<td>Y</td>
<td></td>
<td></td>
</tr>
<tr>
<td>City Challenge</td>
<td>Y</td>
<td>Y</td>
<td></td>
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</tr>
<tr>
<td>Single Regeneration Budget</td>
<td>Y</td>
<td>Y</td>
<td></td>
<td></td>
</tr>
<tr>
<td>English Partnerships</td>
<td>Y</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Urban Regeneration Companies</td>
<td>Y</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Development Agencies</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>European Regional Development Fund</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>Lottery Funding</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>Community Economic Regeneration Scheme and Community Regeneration Improvement Special Project</td>
<td>Y</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>New Life for Urban Scotland</td>
<td>Y</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Priority Partnership Areas</td>
<td>Y</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Urban Development Corporations: Also includes Laganside Corporation in Northern Ireland

Single Regeneration Budget: In considering the Single Regeneration Budget, the research looks at specific area-based examples, namely Hulme and Moss Side from the Manchester test case

English Partnerships: English Partnerships are considered in parallel with other area-based initiatives, e.g. Grainger Town in Newcastle upon Tyne

Urban Regeneration Companies: Urban Regeneration Companies are recent initiatives and many are in process of being established. New East Manchester Urban Regeneration Company is one of the pioneers but no tangible product for the index has been brought forward

Development Agencies: Different models operate in the constituents parts of the UK with emphasis on economic development and inward investment

European Regional Development Fund: Significant funding to European objective areas, e.g. major infrastructure in Belfast, in conjunction with Laganside Development Corporation

Lottery Funding: Particularly important for Millennium funding, e.g. Manchester Millennium project

Community Economic Regeneration Scheme and Community Regeneration Improvement Special Project: Community-based small-scale local schemes

Priority Partnership Areas: Revised programme of Priority Partnership Areas is now known as Social Inclusion Partnerships (SIPS)
METHODOLOGY

Overview
The main objective of this study is to construct property performance indicators consistent with those conventionally used to inform investment decisions, namely the IPD total returns index, and the CB Hillier Parker Rent Index and Average Yield Monitor. Here, we briefly describe the methods used to achieve this aim. The project was developed in four main stages: market definition, case study selection, data collection and index construction.

Defining the regeneration property market
What is the urban regeneration property market? Although in applied property market studies, market areas are often assumed to match local or regional administrative areas, for any comparison of index performance to be meaningful, this study requires clear demarcation between regeneration areas and prime property markets. While the area-based regeneration programmes provide a useful starting point for the definition of ‘policy-on’ locations, this misses some important strands of policy intervention. Consequently, in this study, the regeneration property market is taken to comprise all properties located within identifiable area-based locations plus those properties that have been the subject of some form of intervention, including those in receipt of grants or subsidies.

So, we needed to decide which initiatives to include as relevant to the development of an investment performance index of urban regeneration property. Given the nature of this research, we decided that recent initiatives with a social inclusion or strongly ‘people-centred’ orientation (New Deal for the Communities, Employment Action Zones, Health Action Zones) to be beyond the scope of this study due to the lack of a significant property product, their recent origin and resultant lack of a data series. In defining the regeneration property market the focus was upon the principal area-based urban regeneration policy instruments in the UK. These are shown in Table 2.

It was impossible to consider each and every one of these in all towns and cities in the UK, so the next step was to identify a number of case study areas that would be examined in depth. These were chosen on the basis of different social, economic and property market performance characteristics and the varying nature of regeneration policy intervention over the last two decades. A number of indicators including GDP, employment change and structure, population change, Index of Multiple Deprivation (IMD) scores and prime property rents and returns influenced the case study selection. This was complemented by a review of the local policy context.

The outcome of this was that we identified the following eight metropolitan/urban areas: Greater Manchester (Salford, Trafford and Manchester), Tyne and Wear (Newcastle, Gateshead and Sunderland), Sheffield, Birmingham, Nottingham, Bristol, Cardiff, Glasgow.

The next steps
Having identified our case study areas, the next step was to seek to develop the total returns and the ‘beacon approach’ index for these areas.

In essence, the total returns approach sought to develop a returns-based index comparable to that produced by IPD. The construction of the index requires data that allows the measurement of changes in capital value from one year-end valuation to the next, net of any capital expenditure and net income receivable through the year.

The ‘beacon approach’ requires local market experts to estimate rents and yields for hypothetical, standardised offerings for a range of regeneration locations within each city. The standardised offerings were defined to be comparable with those used by CB Hillier Parker, although there were some modifications to reflect the distinctiveness of the regeneration property market.

The identification of regeneration locations was informed by the study visits undertaken as part of the total returns approach. Consultations with local agents, public sector actors and regeneration agencies were also undertaken for Edinburgh, Belfast, and London Docklands. The approach received support from major national surveying firms whose contributions were augmented by local agents.
Figure 1: Total Returns: All Property

Figure 2: Total Returns: Retail

Figure 3: Total Returns: Office

Figure 4: Total Returns: Industrial
RESULTS

Detailed analysis of the results
Looking in more detail at the results allows us to explore the specific findings. We present the results in relation to both the total returns approach and the beacon methodology. Given the differences between these analyses each is considered on an individual basis.

Total returns index
Approximately 20% of properties in the field databases has come through into final index construction based upon the process of matching properties against the IPD universe. Sample sizes upon which the index is constructed vary over the time series due to the phasing of new development schemes within regeneration areas over the past 20 years and the natural churn of properties within the IPD universe between one year and the next. A general reduction in the number of properties reflects the recent pattern of disposal of smaller properties by institutions.

Statistics for property in the regeneration portfolio for 2001 provide an illustration of the robustness upon which the Eight City Index is constructed. In 2001, 187 properties with a total capital value of £3,135m are included in the index. 73 are in the retail sector (capital value £2,360m), 64 offices (capital value £548m) and 41 industrial (capital value £157m). Hence on a value basis the retail sector has a high weighting in the overall index (75.3%) whereas for the IPD universe for all property the sector weighting of retail property is 43.6%. The analysis infers that regeneration areas are particularly attractive to retail property, often of high capital value. The significance of the retail sector in the regeneration index is in broad agreement with the recent IPD analysis (2002) for Morley Fund Management and English Partnerships (IPD/Morley/EP) that identified a 60.1% sector weight for retail property in the 10% most deprived wards in England.

The number of properties within the index has declined from a peak of 223 in 1998 reflecting the behaviour of the overall IPD index. The decline is particularly apparent in the office sector, which has dropped in both capital value terms (£636m) and number of properties (91). Indeed the sector weighting for offices in the Eight City Regeneration Index has fallen from 33% in 1994 (year with the greatest number of offices in the index 107), to 22.9% in 1998 (year of maximum capital value) to the current weighting of 17.5%. This arises from the churn in the IPD database rather than regeneration areas being less attractive to office property; a pattern not apparent from the field investigation aspects of the research.

Annualised returns for all property in the Eight City Regeneration Index (Figure 1), over the long-term, average 12.8% per annum in comparison to 10.3% for the IPD universe for all of England (IPD, 2002). This difference is statistically significant inferring that returns for regeneration locations do in fact in the long run exceed those across the market as a whole. This finding is fundamental for many reasons. Firstly, it supports earlier more qualitative research undertaken for the Joseph Rowntree Foundation and the RICS (Adair et al, 1998) that perceptions of low returns in regeneration areas may be misplaced. Indeed the same research indicated that those companies with experience of investment in urban regeneration were doing so in the expectation of achieving above average return. Secondly, this finding supports the recent and complementary work undertaken by IPD/Morley/Igloo/EP (2002) on performance in deprived wards. Thirdly, from a policy perspective the results have relevance in the messages that can be sent to the private sector particularly at a time when government is seeking to engage the private sector more fully into regeneration. Fourthly, the analysis provides that missing information not available in value for money studies which invariably examine leverage, employment, floor space and other physical indicators (Tyler, 2001) but not investment returns.

Analysis on a sector basis (Figures 2, 3 and 4) highlights that retail property, with an annualised return of 15.5% over the period 1980-2001, outperforms both industrial (12.3%) and office (10.0%) property. Thus on the basis of weighting and total return criteria, retail property is the best performing sector within urban regeneration locations. The high annualised figure reflects the occurrence of major retail development including shopping centres and retail parks within designated renewal areas. This finding is consistent with previous analysis by O’Roarty (1999) showing that retail warehouses and supermarkets have, on a returns basis, out-performed more traditional high street shops since 1991.

The pattern of returns over time is highly variable reflecting the property market cycle (Figures 1, 2, 3 and 4) notably the period of the property crash in the early 1990s. The significant issue is that for regeneration property, returns during this period did not become negative compared to the experience of the wider property market and national benchmarks for which negative returns were apparent over the period 1990-1992 inclusive.

Total returns index: comparison with benchmarks
The Eight City All Property Regeneration Index has significantly out-performed comparable benchmarks since 1990 notably the IPD UK benchmark for all property and a benchmark drawn from the IPD universe for all property in these metropolitan areas. The latter is employed to provide a finer grain to the analysis and correct for any London/South East factor
Figure 5: All Property: 1980-2001

Figure 6: Retail: 1980-2001

Figure 7: Office: 1980-2001

Figure 8: Industrial: 1980-2001
and thereby place comparisons on a like for like basis. Nevertheless the key message from this research is that regeneration returns over the long-term are better than national benchmarks.

In terms of performance over time, contrasting patterns are apparent between the Eight City Regeneration Index and the IPD UK index. Throughout the 1980s the two index series paralleled each other but differences emerge at the start of the property market downturn that saw the UK benchmark in particular decline in the early 1990s and show negative returns. A similar pattern is apparent for the Eight City benchmark indicating that the negative returns are not entirely a London affect and confirming the better performance of regeneration property (Figure 5).

The early 1990s mark a step change in performance between the Eight City Regeneration Index and the benchmark indices. The former is characterised by a relatively flat effect/slow growth over the period 1990-92 in contrast to the negative figures for the benchmarks, followed by a rapid increase and growing divergence from both the IPD UK all property index and the Eight City Benchmark (Figure 5). The close performance between the two benchmark series indicates that the Eight City Regeneration Index is essentially capturing a regeneration effect rather than rather some characteristic peculiar of the eight cities. This adds to the argument that this period signified a clear step change again apparent during the property market slump of the early 1990s. This effect is particularly noticeable for offices, whereby performance returns from regeneration started to out-perform the benchmarks and have continued to do so over the past ten years.

The behaviour of the Eight City Regeneration Index over the cycle supports qualitative opinion from the Rowntree/RICS study (Adair et al, 1998) that highlighted greater relative investment in urban regeneration property in the down-cycle due to cushioning effects provided by public sector mechanisms. In particular occupancy of such stock by public sector agencies and a possible capitalisation of subsidies into property values may explain the better relative performance of regeneration areas. This was followed by significantly greater returns in the mid to late 1990s as regeneration locations matured. Respective values for the Eight City All Property Index was 1286 in 2001 compared to 778 for the UK benchmark. The differential in these figures may reflect regeneration locations starting from a lower base and thereby generating higher percentage returns.

Analysis on a sector basis further highlights the contrasting performances. In this context the Eight City Retail Index for regeneration property has continually out-performed the UK retail benchmark and the Eight City retail benchmark since 1987 to the extent that the index reached a value of 2074 in 2001 compared to value of 773 for the IPD universe (Figure 6). The same pattern prevails for office and industrial property. The Eight City Office (Figure 7) and Eight City Industrial (Figure 8) indices for regeneration property outperform the respective benchmarks but the differences are appreciably less than for retail property with trends closely paralleling each other over the time series. In both the office and industrial sectors the regeneration index slightly underperformed relative to their respective UK benchmarks in the 1980s with the step change again apparent during the property market slump of the early 1990s. This effect is particularly noticeable for offices, whereby performance returns from regeneration started to out-perform the benchmarks and have continued to do so over the past ten years.

**City level analysis**

In terms of those cities constituting the Eight City Regeneration Index, the performance of Manchester closely tracks the overall index, while Nottingham outperforms the index and cities such as Sheffield and Newcastle lag the index indicating a significant variability of performance between cities. On a disaggregated basis individual cities out-perform the UK all property benchmark placing further emphasis upon the relative performance of property across regeneration typologies (different locations, different cities, different mechanisms) compared to the UK benchmark.

This analysis also shows how regeneration performance in certain urban areas (for example Newcastle/Tyne and Wear) has been initially more sluggish but has seen significant growth in investment performance over the past 5 years. Differing experience may be traced to timing and local market issues including how receptive cities and local authorities have been to regeneration policy and initiatives (Gibb et al, 2001).

**Risk**

The Eight City Regeneration Index which forms the basis of this analysis has highlighted rates of return in excess of national benchmarks. In comparison, this section of the analysis briefly seeks to determine risk associated with the returns achieved in regeneration areas and utilises standard deviation of returns as the measure of risk.

In terms of the regeneration indices, least risk is apparent for the All Property Eight City Regeneration Index (8.8) reflecting the diversified portfolio incorporating retail, office and industrial property. The coefficient of variation (CV) indicates 0.69 units of risk for one unit of return (Table 3). Against national benchmarks, analysis of the IPD universe suggests that risk is slightly higher in the overall market (9.1) compared to the regeneration index inferring that perceptions of higher risk within renewal areas may be misplaced. Standardising risk measures, these are higher for the UK all property IPD index (0.88) compared to the regeneration index (Table 3). Comparisons on this basis illustrate that regeneration locations are capable of and indeed do outperform other benchmarks.
### Table 3: Return and risk analysis: regeneration index and benchmarks

<table>
<thead>
<tr>
<th>Regeneration Indices</th>
<th>Return, 8 City Index</th>
<th>Risk, 8 City Index</th>
<th>CV, 8 City Index</th>
<th>CV, UK benchmark</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total returns all property</td>
<td>12.8</td>
<td>8.8</td>
<td>0.69</td>
<td>0.88</td>
</tr>
<tr>
<td>Total returns retail</td>
<td>15.5</td>
<td>9.3</td>
<td>0.60</td>
<td>0.67</td>
</tr>
<tr>
<td>Total returns offices</td>
<td>10.0</td>
<td>9.6</td>
<td>0.96</td>
<td>1.17</td>
</tr>
<tr>
<td>Total returns industrial</td>
<td>12.3</td>
<td>10.4</td>
<td>0.85</td>
<td>0.85</td>
</tr>
</tbody>
</table>

### Table 4: Correlation coefficients by sector

<table>
<thead>
<tr>
<th>Sector</th>
<th>Correlation Eight City</th>
<th>Correlation Eight City benchmark</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regeneration Index with UK benchmark</td>
<td>Correlation Eight City benchmark with UK benchmark</td>
<td></td>
</tr>
<tr>
<td>All property</td>
<td>0.842</td>
<td>0.905</td>
</tr>
<tr>
<td>Retail</td>
<td>0.844</td>
<td>0.951</td>
</tr>
<tr>
<td>Office</td>
<td>0.628</td>
<td>0.725</td>
</tr>
<tr>
<td>Industrial</td>
<td>0.869</td>
<td>0.932</td>
</tr>
</tbody>
</table>

### Table 5: Beacon Rent Index vs CB Hillier Parker Rent Index 1996 to 2002

<table>
<thead>
<tr>
<th>Sector</th>
<th>Annual Rental Value Growth % (Nominal)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Beacon</td>
</tr>
<tr>
<td>Office</td>
<td>5.76</td>
</tr>
<tr>
<td>Retail</td>
<td>5.45</td>
</tr>
<tr>
<td>Retail Warehouse</td>
<td>7.61</td>
</tr>
<tr>
<td>Industrial</td>
<td>2.80</td>
</tr>
<tr>
<td>All Property</td>
<td>5.45</td>
</tr>
</tbody>
</table>

### Table 6: Yield Shift: Beacon Average Yields vs. CB Hillier Parker Average Yields

<table>
<thead>
<tr>
<th></th>
<th>Yield Shift 31/12/95 to 31/12/02</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Beacon</td>
</tr>
<tr>
<td>Office</td>
<td>-1.56</td>
</tr>
<tr>
<td>Retail</td>
<td>-1.87</td>
</tr>
<tr>
<td>Retail Warehouse</td>
<td>-0.87</td>
</tr>
<tr>
<td>Industrial</td>
<td>-1.47</td>
</tr>
<tr>
<td>All Property</td>
<td>-1.44</td>
</tr>
</tbody>
</table>

**NB.** The average yields are calculated on a true equivalent yield basis (quarterly in advance).

### Table 7: All Property: Beacon Average Yields v Eight City Initial Yields

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Beacon Average Yields</td>
<td>8.49</td>
<td>8.46</td>
<td>8.24</td>
<td>8.22</td>
<td>7.96</td>
<td>7.68</td>
<td>7.66</td>
</tr>
<tr>
<td>Eight City Index</td>
<td>7.6</td>
<td>6.6</td>
<td>6.0</td>
<td>5.7</td>
<td>5.6</td>
<td>5.5</td>
<td>5.7</td>
</tr>
</tbody>
</table>
For sectors, the highest level of absolute risk in the regeneration index is for industrial property (10.4) with a coefficient of variation of 0.85. The office sector has lower absolute risk (9.6) but a higher CV value (0.96) indicating greater relative risk per unit of return. In contrast, retail property exhibits lower risk than both of the other sectors (9.3) and with a high return figure. Thus, the CV for retail property at 0.60 is low and indeed better than for the all property sector. These statistics contribute to the overall inference that retail property is the best performing sector within regeneration locations. In this respect regeneration areas reflect national IPD benchmarks with retail property (5.9) having significantly lower risk than industrial (10.4) or office property (11.0).

**Diversification**

The third factor in an investment decision is the level of diversification provided by an asset or an asset class within a portfolio. The relatively high correlation coefficients for regeneration returns against the IPD national benchmarks signifies little diversification benefit to be gained from investment in regeneration locations. As the analysis is within the same asset class relatively strong relationships are to be expected though, significantly the values are less than the comparable correlation between the IPD benchmarks and the Eight City Benchmark (Table 4). This infers that relative to prime market locations, regeneration property may provide some additional diversification gain. The correlation coefficients are lowest within the office sector suggesting that benefits may be best within this market sector.

**Beacon index**

In this analysis the findings are benchmarked to the CB Hillier Parker index. Results are presented based upon two parameters namely the Rent Index and Average Yield Monitor.

Analysis of the beacon rental index demonstrates an initial divergence from the CB Hillier Parker benchmark but convergence between the two indices is apparent over the last two years (Figure 9). On a sector basis retail warehousing emerges as the strongest performer with the rental index increasing to 107.05 by 2002. This is significantly higher than any of the other sectors within the beacon analysis and outperforms the CB Hillier Parker all property benchmark. The performance of the office and retail sectors (excluding retail warehouse) reflects the all property analysis but performance of the industrial sector, on the basis of this analysis, is considerably weaker (Figure 10). The Beacon approach also included a mixed-use category with a significant residential component. However, better response to this category was poor reflecting the ‘non-standard’ nature of such schemes and the practice of valuing different elements under traditional sectors namely retail, office and industrial property.

The Beacon All Property Rental Index produced annualised nominal rental value growth of 5.45% over the seven year period to 31 December 2002 (Table 3). The retail warehouse sector enjoyed the highest level of growth at 7.61%, followed by the office sector at 5.76%, the retail sector at 5.47%, with industrials returning a more modest 2.8%. In comparison, the CB Hillier Parker All Property Rent Index recorded annualised nominal rental growth of 6.36% over the same period with the retail warehouse, office and industrial sectors returning higher rental growth rates than the beacon data. The reverse was true in the retail sector where the beacon rental growth rate was higher than the CB Hillier Parker return (5.45% compared with 5.35%).

Over the period 1995 to 2002, the beacon All Property Average Yield improved by 144 basis points from 8.49% to 7.05% (Figure 11). Average yields in all three sectors experienced downward pressure: office yields shortened from 9.27% to 7.71% (156 basis points), retail yields from 7.07% to 5.2% (205 basis points), retail warehouse yields from 8.01% to 7.14% (87 basis points) and industrial yields from 9.63% to 8.15% (147 basis points). In contrast, the CB Hillier Parker All Property Average Yield (Figure 12) rose from 6.80% to 7.2% (40 basis points), with two of the sectors, offices and retail, recording upward movement in yields and the retail warehouse and industrial sectors experiencing downward movement.

The effect of this convergence between yields is to remove and then reverse the yield gap between the beacon yields and CB Hillier Parker yields. In quantifying the yield shift, the beacon analysis indicates a significant hardening of regeneration property yields by 1.44% whereas in contrast the CB Hillier Parker national benchmark has moved out by 0.4% (Table 6). Based on the all property returns, the gap was 169 basis points in 1995 but this turned into a “reverse yield gap” of 15 basis points by 2002. Most notably, by the end of the analysis period the beacon average retail yield was significantly lower (160 basis points) than the CB Hillier Parker equivalent, reflecting the superior level of capital appreciation. This is particularly apparent for retail property where regeneration yields have hardened by 1.87% compared to the benchmark figure which has softened by 0.8%.

Likewise the gap in the office yields has narrowed from 257 to just 31 basis points and the gap in the industrial yields from 112 to 25 basis points (Table 6). Interestingly a marginal increase in the gap (11 to 34 basis points), was recorded in the retail warehouse sector, despite this being the top performing sector in the beacon rent index. This can perhaps be explained by the superior performance of this sector in the prime market, with the CB Hillier Parker index reporting an annualised change of 10.49% compared with 7.61%.

The downward pressure in yields would suggest that once a regeneration area becomes established and rental growth emerges, investor interest is stimulated resulting in increased competition and a shortening
Figure 9: Rent Index: Beacon vs CB Hillier Parker

Figure 10: Beacon Rent Index 1996 to 2002
(Index Base: 31 December 1995=100)

Figure 11: Beacon Average Yields by Sector

Figure 12: All property Average yields: Beacon vs CB Hillier Parker
of yields. In this context parallel conclusions can be drawn from a comparison of the beacon results with initial yields from the Eight City Regeneration Index (Table 7). For example, the Eight City initial yields harden from 7.6% to 5.7% (190 basis points) and the beacon average yields harden from 8.49% to 7.66% (83 basis points).

The evidence from the Beacon approach shows significant yield shift inferring capital appreciation which is consistent with the findings from the Total Returns index. However results from the Beacon rental index are more problematic with most sectors lagging behind their respective benchmark figure.

**CONCLUSIONS AND RECOMMENDATIONS**

The results show that investment property in regeneration areas can outperform both national and local benchmarks. It demonstrates that, over the long-term perspective, regeneration areas offer significant investment opportunities. These findings challenge perceptions regarding investment returns and suggest that judgements concerning low investment returns in regeneration areas are misplaced. Hence, the message to major institutional investors from this research is the need to reconsider strategies regarding the potential of property within regeneration areas.

The two approaches seem to support each other and produce broadly similar results, with total returns evidence as the lead indicator. Both, however, demonstrate the superior performance of regeneration property in recent years relative to recognised benchmarks. The total returns approach highlights the property market downturn of the early 1990s as marking a step-change. The beacon approach indicates a major yield shift in regeneration areas in the short to medium-term although the evidence from the rental index is more variable.

We believe that this study has confirmed that the systematic under-pricing of regeneration markets that has been found in previous studies, is a symptom of the information deficit. It may well be the case, therefore, that the absence of returns evidence has been detrimental to investment strategies in relation to regeneration areas and the pricing of investment opportunities.

What has emerged very strongly is that retail property performs extremely well within regeneration areas, which appear to be particularly suited to shopping centres and retail warehousing investments. It seems that restrictions on out-of-town development arising from PPG6 and the sequential test may have benefited regeneration areas for this type of investment.

For office and industrial property, the differences are less pronounced though it is apparent that regeneration areas do not perform less well and indeed in the case of the total return indicator outperform national benchmarks.

On the basis of risk assessment similar findings prevail. The perception that regeneration areas have significantly greater levels of risk is shown to be misinformed. Performance figures suggest that the level of risk faced in regeneration areas is not significantly different than the market as a whole and in certain instances is lower.

It is also important to note that regeneration performance can vary on a city by city basis. Our study indicates that the uplift in the investment performance of regeneration areas occurred later in particular locations. For example in Tyne and Wear investment returns only started to increase significantly in the latter part of the 1990s. However, the key issue is that the performance trend over the long-term is consistent across the group of urban areas that we considered in this study.

We believe that the significance of this research is the quantification of property investment returns from regeneration areas which previously has not been available to investment institutions and decision makers. Importantly, the results are in general agreement with the wider IPD/Morley/Igloo/EP parallel study of disadvantaged areas. Collectively both of these studies start to address the transparency gap concerning regeneration property markets and support the earlier qualitative work that we undertook for the Joseph Rowntree Foundation which indicated the potential to achieve above average rates of return.

From a policy perspective, we believe that the research is of enormous relevance in confirming the maturing of locations that have received high
levels of public sector support and indicating the effectiveness of regeneration policy mechanisms in creating sustainable urban environments capable of meeting private sector investment goals. As government agencies are increasingly looking for greater private sector participation in regeneration, the success of previous and current policy mechanisms is fundamental. Furthermore, this study provides the missing component not found in other value for money studies which have concentrated upon physical output and economic indicators but lacked information on property investment returns.

The finding that regeneration areas can offer vibrant property markets and new development/investment opportunities has wider relevance to the economic competitiveness of UK cities and investability objectives. The ODPM work on Core Cities, several of which overlap with the urban areas included in this study, has raised concerns over the urban competitiveness. As regeneration areas frequently offer the most significant opportunities within these cities the potential clearly is there to attract investment, raise value and increase competitiveness. The policy agenda therefore needs to be consistent and focussed to facilitate delivery of these goals.

The research highlights that property market data is not sufficiently valued and is underutilised by both the private and public sectors. The former possess key information on the all significant physical and financial variables required for index construction but often is not held in a systematic fashion that facilitates analysis. Likewise, the public sector holds potentially valuable information but again not in a format that is always conducive to facilitate this type of analysis. Collectively these data are under-utilised resources.

The findings indicate that many investments within regeneration areas are held by either property companies, listed and unlisted, or private investors. The highly fragmented nature of ownership adds to the difficulty of data transparency but also means that there is a lack of a strategic overview regarding regeneration investment as often small unlisted companies and private individuals will have many different strategies and reasons for holding property investments.

This study has established the benefits of a regeneration index based upon current and historic evidence. However the market requires an index that is going forward in time and is repeatable. Hence the key recommendation arising from this study is the need to continue the measurement of investment returns through the continuation of a performance index.

Footnotes
4 Dean Gatziolff and David Geltner (1998) A transaction-based index of commercial property and its comparison to the NCREIF Index. Real Estate Finance, Vol. 7
5 This is discussed in Hoelsi et al (2002) The role of property in mixed asset portfolios, Research Review Series, RICS Foundation
7 Tyler (2001) Turning our urban areas around - do area based initiatives work? Paper presented at a seminar organised by Belfast City Council, Department of Land Economy, University of Cambridge.
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