investor-led urban development

“lessons from community-oriented investment strategies applied by developing investors in the United States”
“The key to the future of the world is finding the optimistic stories and letting them to be known.”

preface.

MSc 3 of the master Real Estate & Housing includes the formulation of a research proposal regarding the graduation project. This report comprises the final draft graduation report, presented at the P4-presentation on the 10th of March, 2014. This report is the final draft version of the graduation report which hopefully will lead to the final graduation in April, 2014 (P5). This research project is part of the urban area development graduation-lab and be considered as a follow-up study on the dissertation of Erwin Heurkens concerning Private Sector-led urban development.

The character as a binding element, or connecting layer, between different actors, functions, disciplines, forms of management, society and politics is what makes urban area development interesting to me. Though it is not only the urban development discipline, but also the actuality that attracts my attention. Urban development practice has stagnated in The Netherlands due to the economic conditions and financial crisis in the public sector. In addition, urban area development is also subject to societal changes. Anglo-Saxon values are gradually replacing our values based on the Rhineland model. This affects the power balance between public and private parties and is reflected in public private partnerships. These changes and the actuality force us to reconsider current urban development practice and to come up with new development strategies, partnerships and business models. This research responds on that need.

In this report the findings from the in-depth case study research to two American developing investors are presented. Based on the case study findings, lessons are drawn for Dutch urban development practice. Additionally an expert meeting is held to assess the relevance of the lessons learned for implementation in the Dutch urban development and planning context.

Although premature, by means of this writing I would like to thank my graduation supervisors, Erwin Heurkens and Fred Hobma (TU Delft), and Boy Wesel and Nicolaas Veltman (Grontmij) for the inspiration, constructive feedback and guidance during the past months. My appreciation also goes to fellow students, and in particular Boudewijn Stumpel, who have served as sparring-partners. Perhaps, synergy will result from our overlapping graduation projects.

Carlo Sturm
March, 2014
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executive summary.

This executive summary comprises the description of this research project to American community-oriented investment strategies. In this summary the main parts of the report are described concisely.

INVESTOR-LED URBAN DEVELOPMENT

Lessons from community-oriented investment strategies applied by American developing investors

Research motives – introduction of the research question

Dutch urban development practice has been, and still is, subject to contextual changes. Firstly, the credit crunch and economic crisis have affected the financing of urban development. Banks require more private equity on investments. As they are pulling back their major role in short-term funding of real estate development, private developers are hardly able to financially secure development projects. Moreover the land possessions of private developers have been re-valued due to the credit crunch. As such, the investment capacity of the private sector has decreased (Praktijkleerstoel Gebiedsontwikkeling, 2011b, Van Joolingen et al., 2009). Secondly, the ongoing financial crisis in the public sector has led to the decrease of budget for urban development. Moreover, many public land development companies suffered major losses on land positions and urban development projects (Kersten et al., 2011, Praktijkleerstoel Gebiedsontwikkeling, 2011b, Van Joolingen et al., 2009). As such, the widely practiced integral urban development approach, comprising large scale public private projects and high ambitions based on a supply-driven market, has proven to be too risky and unfeasible in current conditions (Hagendijk and Franzen, 2012, Peek, 2011). According to several authors future urban development should rely strongly on gradual development based on market demand, a process in which the long term oriented real estate investor is expected play a central role as the focus is shifting toward the exploitation (Peek, 2011, Peek, 2012, Putman, 2010, Puylaert and Werksma, 2011). Furthermore, Dutch urban development practice is subject to cultural changes. According to Heurkens (2009) Anglo-Saxon values are gradually replacing our deeply rooted societal valued based on the Rhineland model. This implies a shift toward a free market economy and an increasing emphasis on the private sector. Based on these cultural and economic changes, the roles of public and private actors in urban development are likely to change.

Although expected to fulfill a long term committed role in future urban development the real estate investor is mainly oriented on the risk and return ration of its investments rather than the urban area. On the contrary urban development is characterized by high risks resulting from long process of preparation and development. But how can this real estate investor be long term committed to incremental urban development projects? Regarding this challenge it is considered valuable to study the role of the investor in urban development in the United States, as the US urban planning system is characterized by a strong emphasis on the private sector and the focus on incremental real estate development rather than urban planning. This study focuses on two investor-led urban redevelopment cases in the United Stated.
Group is a real estate fund manager who invests institutional capital in redevelopment communities throughout North America. For the purpose of this research its significant role in the redevelopment of Hollywood, Los Angeles, is studied. Vulcan Real Estate is a subsidiary of the private investment company Vulcan Inc. and develops its strategic land position in South Lake Union, Seattle, for its private investment portfolio. This brings us to the main research question of this graduation project;

“What lessons can be learned from community oriented investment strategies applied by American investing developers for Dutch urban development practice?”

Research methodology
The main objective of this research is to provide a better insight in the linkage between the investor’s objectives and its investment strategy, and the urban development strategy related to an incremental urban development project. The underlying research strategy is based on lesson drawing from foreign best practices, as lessons can provide insights in both what to do, and what not to do (Spaans and Louw, 2009). To describe the phenomenon of investor-led urban development two in-depth case studies are conducted. Based on a document review, interviews and site-visits data is gathered and analyzed by means of an analytical research model. The cases are approached from two perspectives; the investor’s perspective based on the investment strategy, and the urban development perspective based on the urban development strategy. Based on a comparative analysis in which both investment strategies and urban development strategies are compared (see conceptual research model) lessons are drawn for the Dutch urban development practice. Additionally but subordinate, an expert meeting is organized to assess the American investor-led urban development approach on relevance for Dutch practice.

Literature Review
First, a literature study is conducted to provide understanding in both real estate investment and urban development strategies. The real estate investor decides whether or not to invest in a project based on clear investment criteria which include the rate of return, the corresponding level of risk, the term of the investment and the use of debt capital amongst other criteria (Van Gool et al., 2013). The risk return ratio is one of the most important considerations in terms of investment decision making. Projects that comprise higher risks, such as development projects, correspond to higher returns, while investments related to lower risks, like standing investments in for instance fully leased commercial properties correspond to lower returns. Commonly three risk return profiles are distinguished. Core investments (low risks, low returns), Value-add, (medium risks, medium returns) and Opportunistic investments (high risks, high returns). Based on its portfolio management the investor decides how risks are spread by types of

Figure 1 – Conceptual research model (own ill.)
investment, diversification in risk-return profile, diversification in real estate sector and geographical diversification. The risk profile of the investor's entire portfolio should correspond to the liabilities of the investor.

Since the 1970s Dutch institutional investors started expanding their business by investing in land and participation in early stages of the development process (Bol, 2003, Brounen and Eichholtz, 2004). This emphasis on combined developing and investing changed at the end of the 1980s as the trend to focus on the core business, investing, arose. As such, many institutional investors started to repel their development activities. However, according to Van Gool (2013) due to the financial crisis a growing interest of investors in the performance of their real estate is to be observed. This emphasis on the performance could result in a growing influence in the development and a focus on local market. Moreover, according to Brounen and Eichholtz (2004) developing investors still perform significantly better than investors. According to Maarsen (in Bijsterveld and Laverman, 2011) the developing investors thus obtain a bigger role in urban development as they are focused on the long term and are better able to serve local market demands. Based on the theories described investor-led urban development is defined as ‘an urban development project in which an investor has a leading role in the management, organization and financing of the project’.

Regarding the theme of the changing public and private roles in the urban development process, we should concern the management and organization of the urban development process and public and private roles, especially regarding private sector-led development. Dutch urban development has a long history of cooperation between public and private actors in the form of formal public-private partnerships. Hence, the public and private domain are forced to cooperate in order to achieve their goals. However, conflicts of interest, institutional roles and strategic behavior have to be overcome (Klijn and Teisman, 2003). Different models of public-private partnerships can be distinguished corresponding to different public-private role balances. The concession model and private realization relate the most to private sector-led urban development. More dominance of the private sector relates to a more enabling and regulating governmental role.

As mentioned, urban development practice is changing as the emphasis is shifting towards incremental urban development. From management perspective, one could argue that the urban development approach changes from project management, corresponding to integral urban development, to process management. However, according to Daamen (2010) and Heurkens (2012) urban development projects comprise both project and process management activities to be fulfilled by public and private actors involved. Based on Mintzberg’s (2007) conceptions concerning the formation of strategies by decisions and behavior of involved actors over time, Daamen (2010) defines urban development project strategies as a ‘strategy which includes all decisions and actions of those that intend to realize the concrete material interventions they involve, and can be understood as an on-going dialectic between structures and
projects’. This definition forms the base of the analytical approach of urban development strategies as a result of public private actions and collaboration utilized in this research. However, it is not within the objective and limitations of this research to study urban development projects over a long period. As such, strategy is seen as a plan or model to achieve an objective under the uncertain conditions related to urban development, whether or not as a perspective, a pattern or a plan.

Therefore strategy is broken down in relevant aspects concerning urban planning and investment management. As such, four aspects of strategy are defined that can be related to both the investment strategy and urban development strategy: vision, organization, financial and regulation. Concerning the investment strategy, the aspect of vision incorporates the investor’s conceptions regarding investing in urban communities. The organizational aspect corresponds to the organization of the investor facilitating or constraining the implementation of the investment strategy. The financial aspect relates to the investment criteria and financial structure of the investor. Lastly, the regulatory aspect corresponds to the legal structure and related limitations and liabilities of the investor. Concerning the urban development strategy, vision related to the joint ambitions of public and private actors regarding the development project and process. The aspect of organization concerns the public private role division and partnership. The financial aspect of the urban development strategy includes the financing of real estate development and public amenities. Lastly, the regulatory aspect corresponds to legislation and regulation of the urban development.

**Analytical Research Model**

Based on the theories derived from the literature study, an analytical research model is drawn which is shown in figure 1. In this research model both the investor’s perspective and the urban development perspective are linked based on the commitment of the investor to the urban development project. Commitment is defined as the long term hard (financial) and soft (managerial) involvement of the investor to the urban development project. As such, the investor’s commitment to the urban development project can be expressed in conditions concerning the arrangement of the investment strategy as well as the project related urban development strategy. This analytical model defines both the investment and urban development strategy in commensurable variables based on which cases of investor-led urban development can be compared.

**Hollywood Redevelopment case – CIM Group**

CIM Group is a fund manager of several real estate and infrastructural investment funds which are financed by institutional investors. Its business originates from the social objective of CalPERS, the
Californian pension fund for civil servants, to reinvest a share of the pension capital into urban redevelopment throughout California. As such, CIM Group started to select promising communities for investments based on specific criteria such as the existence of a dysfunctional real estate market, public and private support for redevelopment activities and favorable economic and demographic conditions. Nowadays, CIM Group manages various opportunistic and value-add real estate investment funds and is involved in the redevelopment and transformation of multiple communities throughout North America as a multisectoral developing investor.

One of the redevelopment projects in which CIM Group is significantly involved is the Hollywood community in Los Angeles. This 450 hectare blighted urban area, famous for its film industry, has been appointed as redevelopment community by the Community Redevelopment Agency (CRA) in 1986. The CRA is an public organization dedicated to the redevelopment of blighted communities throughout California. When selected as urban redevelopment community, the yearly increment of local property taxes is redirected to the public investment budget of the CRA for the purpose of redevelopment activities within the community. This financial instrument is known as Tax Increment Financing. The main objectives of the CRA as managing public actor, and the City Council is to gradually redevelop the community by stimulating private sector investment by means of public funding and co-investment in catalyst projects. As such the private sector is stimulated to incorporate public amenities in their (re)development projects. Since 1996 CIM Group has been involved in the community redevelopment, as it contributed to the establishment of a Business Improvement District. After integrating in the local community CIM started to invest in properties and development in close proximity to each other. Since 1996 CIM has been involved in more than 19 projects via its different investment funds, and as such is considered the most significant landlord in Hollywood. Its role in the development process concerns the capacity building for redevelopment amongst public and private stakeholders, contributing to public amenities and urban management.

South Lake Union redevelopment case – Vulcan Real Estate

Vulcan Real Estate is a Seattle-based developing investor and a full subsidiary of the private investment company of Paul G. Allen, one of the founders of Microsoft. Vulcan Real Estate has been founded to develop the strategic land possessions of Paul Allen in South Lake Union (Seattle) for its private real estate investment portfolio. Paul Allen acquired these land possessions due to its financial support to the Seattle Commons Park Plan, a public private effort to realize a ‘central park’-like plan which did not make it through the civic vote in 1996. After the rejection of the plan, several private investors bought sites within South Lake Union (SLU).
Not until 2002 Vulcan realized its first projects in SLU within the limits of the exciting zoning. At that time, more private actors were active in redevelopment of the 140 hectare brownfield. However, attitude of the local planning authority, the Seattle Department of Planning and Development (SDPD) was quite reactive. Not until the credit crunch both public and private actors were able to reconsider the redevelopment objectives. The focus shifted toward gradual development based on market demand, as well the enhancement of public space. Private contribution to the financing of public amenities, such as social housing, were initially negotiated on project level in return for amendments to the existing zoning. This balancing of private returns and public benefits in public private negotiations were formalized by the establishment of the Rezone which entails a maximum zoning regulation above the base zone. The streetcar has been developed as a public private cooperation including the Local Improvement District. Next to the development and management of its own real estate Vulcan has been involved in the initiation of the redevelopment, in capacity building amongst public, private and civic stakeholders and in the planning process.

**Comparative case analysis**

Table 1 and 2 provide an insight in the comparative analysis of both the community oriented investment strategies and the related urban development strategies.

<table>
<thead>
<tr>
<th>urban investment strategy</th>
<th>CIM Group</th>
<th>Vulcan Real Estate</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Vision</strong></td>
<td>Initial objective</td>
<td>Reinvest pension capital in urban redevelopment in California</td>
</tr>
<tr>
<td></td>
<td>Focus on community(-ies)</td>
<td>Optimize returns by restoring dysfunctional real estate markets of redevelopment communities.</td>
</tr>
<tr>
<td></td>
<td>Community selection</td>
<td>Transparent criteria 94 communities in North America</td>
</tr>
<tr>
<td></td>
<td>Approach</td>
<td>Integration in community, bottom-up</td>
</tr>
<tr>
<td><strong>Organization</strong></td>
<td>Structure</td>
<td>Multidisciplinary fund manager</td>
</tr>
<tr>
<td></td>
<td>Knowledge</td>
<td>Development &amp; management Multi-sector</td>
</tr>
<tr>
<td></td>
<td>Employees</td>
<td>330</td>
</tr>
<tr>
<td><strong>Financial</strong></td>
<td>Structure</td>
<td>Various investment trusts</td>
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<td></td>
<td>Investment Capital</td>
<td>Institutional</td>
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<td></td>
<td>Risk-return profile</td>
<td>Core &amp; Opportunistic investment funds</td>
</tr>
<tr>
<td><strong>Regulations</strong></td>
<td>Legal structure</td>
<td>Limited Liability Partnership; Low influence of capital providers</td>
</tr>
<tr>
<td></td>
<td>Dependency</td>
<td>Outperforming benchmark</td>
</tr>
</tbody>
</table>

Table 1 – Comparative analysis urban investment strategies

The in-depth case study research showed that both developing investors are involved in a community characterized by a dysfunctional real estate market, in a demographic and economic potential area. The community provides enough potential for value gain due to transformation and redevelopments.
Moreover, both developing investors apply a bottom-up approach in which the integration within the community is an essential aspect. As such, the developer is able to signalize investment opportunities or potential tenants. To be able to facilitate the market demand, both organizations are characterized by their multidisciplinary in-house knowledge related to all real estate sectors and urban development processes. However, from a financial perspective CIM and Vulcan differ. CIM Group invests on account of institutional investors based on a structure of core and opportunistic investment funds, while Vulcan is a privately owned company that is involved in opportunistic development activities for its own long term oriented real estate portfolio. Moreover, CIM Group is relatively more liable to its investors compared to Vulcan. As such, one could assume Vulcan has a greater stay-power in terms of holding strategic land positions without a cash flow. Generally the cross case analysis showed that both investment strategies are inextricably related to the urban area as investment market as both developers anticipate on indirect returns due to the value growth within the community.

<table>
<thead>
<tr>
<th>Urban Development Strategy</th>
<th>Hollywood</th>
<th>South Lake Union</th>
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<tbody>
<tr>
<td><strong>Vision</strong></td>
<td>Development-led, incremental</td>
<td>Development-led, incremental</td>
</tr>
<tr>
<td><strong>Physical</strong></td>
<td>Transformation, mixed use</td>
<td>Brownfield, mixed use</td>
</tr>
<tr>
<td><strong>Market</strong></td>
<td>market-led</td>
<td>market-led</td>
</tr>
<tr>
<td><strong>Organization</strong></td>
<td>RE development and management, Capacity building</td>
<td>Initiating, RE development and management, Capacity building</td>
</tr>
<tr>
<td><strong>Public role</strong></td>
<td>Initiating, facilitating, regulating, stimulating &amp; co-investing/developing</td>
<td>Facilitating &amp; regulating</td>
</tr>
<tr>
<td>Public partnerships</td>
<td>Project level</td>
<td>Project level</td>
</tr>
<tr>
<td><strong>Financial</strong></td>
<td>Private, &amp; Public-Private</td>
<td>Private</td>
</tr>
<tr>
<td>Real Estate development</td>
<td>Public &amp; Private</td>
<td>Public &amp; Public-Private</td>
</tr>
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<td>Public space</td>
<td>Tax Increment Financing, Development Agreement projects</td>
<td>Private contributions on development agreement project-level</td>
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<td>Public amenities</td>
<td>Mixed-zoning</td>
<td>Mixed-zoning</td>
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<td>Regulations</td>
<td>Negotiations on development agreement</td>
<td>Double zoning; base and maximum</td>
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<tr>
<td>Urban plan</td>
<td>Community plan</td>
<td>Urban Design Framework</td>
</tr>
</tbody>
</table>

Table 2 – Comparative analysis urban development strategy

Regarding the urban development strategy a characterizing similarity is the development-led approach based on stimulating private sector investments and developments. Both development strategies are focused on market demand rather than a specific blue-print plan, and as such, the urban development objectives are translated in quite flexible goals allow private initiatives. Next to real estate development and management in both cases the developing investors are involved in capacity building and urban management activities. Moreover, Vulcan has been the initiator of the redevelopment of South Lake Union. Although the public role is mainly to facilitate and regulate the redevelopment process, the CRA/LA in Hollywood is also more actively involved as initiator, stimulator and co-investor/developer. However, in both cases no public private partnerships are established on community level. This means that the financing for the realization of public amenities in the community should be derived from negotiations on project level. Both cases are characterized by the negotiation of amendments to the zoning in return for
financial contributions or the realization of public objectives. Additionally the local authorities in Hollywood feature a significant investment capacity based on Tax Increment Financing. The regulatory frameworks of both urban development strategies incorporate a strong emphasis on enabling private development by setting clear goals and simplifying the application processes.

**Urban development in US and NL**

To be able to draw lessons for Dutch urban development practice we should consider the main differences in (planning-) culture, urban planning system, and public and private roles between the United States and The Netherlands. The culture of the United States in mainly based on the Anglo-Saxon model, which is characterized by the free market economy, negotiation and focus on economy and financial returns. In contrast the Dutch culture is based on the Rhineland model and is characterized by market regulation, consensus seeking and the focus on social returns. Moreover, whilst being a key value corresponding to the ‘American Dream’, standing out from the crowd is not generally accepted in The Netherlands. One of the most significant differences to be observed between the US and Dutch planning practice include the commonly passive role of the US government based on an chronic shortage of resources compared to the actively involved Dutch government. The US urban planning system is mainly development-led, while Dutch planning practice is characterized by its focus on the plan. Thereby the Dutch government is known for its centralization and institutionalization, whereas the US public sector is deliberately decentralized and as such fragmented. This is reflected in the top-down planning approach in The Netherlands compared to the bottom-up approach in the US.

**Empirical lessons and inspiration from US community oriented investment strategies**

Based upon the comparative analysis of the in-depth case studies and regarding the context of Dutch urban development practice, the following lessons can be learned from the community oriented investment strategies of US developing investors.

**Community oriented investment strategy**

The in-depth case study showed that the investor’s long term commitment to incremental urban development projects can be considered valuable as financial returns of real estate development and management can be indirectly optimized by the increase of value of the community. However, this requires a multidisciplinary organization based on extensive knowledge concerning development and management in all real estate sector. Moreover the financial structure of the developing investor should allow flexible allocation of investments in various real estate sectors. Integration within the community is an essential part the community oriented investment strategies as both CIM Group and Vulcan use the local network to acquire market knowledge and for capacity building. The comparative study showed that the perseverence, or staying power, of a privately financed developing investor is relatively higher than the staying power of an investor that is liable to outperform returns for institutional investors.
Urban development strategy

The redevelopment processes of both Hollywood and South Lake Union are characterized by the lack of long term public private partnerships at community level as the emphasis is on private real estate development rather than urban planning. This allows room for private initiatives and the adaptation of public and private development objectives to changing market conditions. Moreover, the development risks for the private sector are limited to the usual project development level. Furthermore, transparent development and planning regulations concerning what is expected from the private sector, combined with a clear public prioritization of urban development projects has a positive effect on long term commitment of investing developers. However, without public private partnerships on community level, the realization and financing of public amenities has to be arranged in another way. In both cases the local authority utilized amendments to the zoning on project level to negotiate financial contributions or the incorporation of the public amenities in the plans of the developer.

Commitment of developing investors

This research showed that private sector commitment to incremental urban redevelopment projects is not necessarily tied financially to extensive pre-financing or pre-investments in land possessions as private commitment can also be effectuated by private involvement in community and capacity building and the management of the public space. This form of private involvement can be considered as soft commitment. However, this level of soft commitment strongly relies on market conditions as investors are not financially tied to the urban development project. Hence, they are able to move on to another community which houses better investment opportunities. As such, the urban development force of these kind of investor-led urban development strategies is considerably lower compared to a public private partnership model.

Inspiration

Different levels of inspiration are derived from the case study research. Firstly, we have seen an interesting level of private sector cross-fertilization. In both cases the developing investors have a positive attitude towards private competition in the community. Moreover, Vulcan Real Estate and CIM Group seem to benefit from the successes of other developers and investors in the community as their developments have a positive effect on the value gain within the community. Hence, both developing investors actively promote the redevelopment activities in the private sector. Secondly, both cases are characterized by the lack of public investment capital. As described, the realization of public amenities is generated via negotiations on project level. However, in Hollywood the property tax increment is redirected to the financing of redevelopment activities via Tax Increment Financing. The idea to redirect the increase of local property taxes to the financing of redevelopment projects is interesting. However, it is questionable whether the this financing instrument can successfully be implemented in The Netherlands as US and Dutch tax systems significantly differ. Lastly it might be interesting for the Dutch urban redevelopment practice to formalize amendments to local land uses in an additional maximum land use
plan. As such, a transparent room for public and private negotiation can be established to balance private financial incentives to the realization of public amenities in the community.

Relevance for Dutch urban development practice

Additionally the relevance of the learned lessons and the American community oriented investment approach is assessed by means of an expert meeting. Dutch public and private actors were present, as well as urban development professionals and academics. According to the panel the main opportunities lie in the emphasis of the American investor on the community rather than the investment object and the incorporation of a bottom-up approach in the investment strategy. Moreover, Dutch institutional investors are looking for unique investment opportunities, as such the redevelopment of inner-city communities might be a valuable approach. The main barriers for the implementation of the American approach include the political instability and inconsistent public policies on state and local level, and the cultural differences between the US and The Netherlands. Moreover it is the question whether the current sense of urgency is high enough for these type of urban redevelopment projects. Furthermore we should consider the lack of developing investors in Dutch private sector as it is still assumed that separated real estate development and investment is more efficient.

Conclusion

Above the main lessons regarding American community oriented investor-led urban development are described. Answering the main research question we have seen that from investment perspective, there are benefits in focusing on the community rather than limiting optimizing benefits on development level. By means of a comprehensive vision on the redevelopment of an area, developing investors can be able to optimize indirect returns profiting from the value growth of the community. As such, one could consider the increase of societal and urban quality related to the financial returns of the developing investor. However, this community approach, characterized a bottom-up approach requires a multidisciplinary organization that features extensive knowledge concerning multisectoral real estate development and management.

The urban development cases can be typified as exemplary incremental urban redevelopment projects in which the emphasis is on real estate development rather than planning. This allows initiative from the private sector as it is not quenched by risky long term agreements nor by constraining public objectives. However, this development approach requires the public sector to loose reins while the private sector should be willing to contribute to public amenities in the community and to contribute to urban management. An important limitation to this approach is the reliance on the market conditions. It is the question whether the Dutch public sector is needed and willing to let the redevelopment of communities in strong economic and demographic regions to the private sector. Although the attitude and role of the public sector concerning urban development is changing, these changes seem to prevail in smaller municipalities where the sense of urgency is high enough.
management samenvatting.

Deze management samenvatting omvat de beschrijving van het afstudeeronderzoek naar Amerikaanse gebiedsgeoriënteerde vastgoed investeringsstrategieën. In deze samenvatting zijn de belangrijkste onderdelen van het onderzoek bondig samengevat.

BELEGgers-GESTuURDE GEBIEDSONTWIKKELING

Lessen van gebiedsgeoriënteerde investeringsstrategieën van Amerikaanse ontwikkelfende vastgoedbeleggers.

Onderzoek aanleiding – introductie van de centrale onderzoeksvraag


Hoewel er van de vastgoedbelegger verwacht wordt dat hij zich voor lange termijn zal committeren aan toekomstige organische gebiedsontwikkelingen ligt de focus bij de belegger voornamelijk op de risico-rendementsverhoudingen van zijn beleggingsobjecten in plaats van op het stedelijk gebied. Daarentegen wordt gebiedsontwikkeling gekenmerkt door zijn hoge risico’s door de lange aanlooperiode van planning
en ontwikkeling. Hoe kan de vastgoedbelegger zich dan voor lange termijn committeren aan onzekere organische gebiedsontwikkelingsprojecten? Op basis van dit spanningsveld is de rol van twee Amerikaanse ontwikkelende beleggers in binnenstedelijke gebiedsontwikkelprojecten onderzocht. Het bestuderen van de Amerikaanse praktijk lijkt namelijk waardevol aangezien de VS stedelijke planningspraktijk zich kenmerkt door de sterke nadruk op de private sector en de nadruk op vastgoedontwikkeling in plaats van gebiedsplan. Dit afstudeeronderzoek richt zich op twee beleggers-gestuurde gebiedsontwikkelingsprojecten: CIM Group is een fondsmanager op basis van institutioneel kapitaal investeert in stedelijke herontwikkelingsprojecten door heel Noord Amerika. Dit onderzoek spitst zich toe op de Hollywood cases in Los Angeles waarin CIM Group een significante rol heeft in de realisatie. De tweede case omvat de herontwikkeling van South Lake Union in Seattle. In dit project ontwikkeld Vulcan Real Estate, een dochteronderneming van de private investeringsmaatschappij Vulcan Inc., zijn strategische grondpositie ten behoeve van zijn eigen beleggingsportefeuille. Dit brengt ons bij de centrale onderzoeksvraag:

“Welke lessen kunnen we leren van de gebiedsgeoriënteerde investeringsstrategie van Amerikaanse ontwikkelende vastgoedbeleggers met betrekking tot de Nederlandse gebiedsontwikkelingspraktijk?”

Onderzoeksmethodologie
De hoofddoelstelling van dit onderzoek is een beter inzicht te verschaffen in de relatie tussen de doelstellingen van de belegger vanuit zijn investeringsstrategie, en de gebiedsontwikkelstrategie van een organische stedelijke ontwikkeling. Het trekken van lessen uit buitenlandse best practices vormt de onderliggende onderzoeksstrategie. Het trekken van lessen kan namelijk zowel inzicht bieden in wat we wel en niet moeten doen (Spaans and Louw, 2009). Om het fenomeen ‘beleggers-gestuurde gebiedsontwikkeling’ te beschrijven worden twee case studies uitgevoerd. Informatie wordt verzameld door uitvoeren van een literatuur- en documentenstudie, het afnemen van interviews en het bezoeken van de locaties. Aan de hand van een analytisch onderzoek model worden de bevindingen uit de twee cases gestructureerd en vergeleken. De cases worden benaderd vanuit twee perspectieven; het perspectief van de belegger gebaseerd op de investeringsstrategie, en het perspectief van gebiedsontwikkeling op basis de gebiedsontwikkeling strategie. Binnen de casus wordt de relatie tussen de investerings- en gebiedsontwikkelingsstrategie onderzocht. Terwijl de vergelijkende studie de investeringsstrategieën en gebiedsontwikkelingsstrategieën met elkaar vergeleken worden. Op basis van de analyses zijn lessen getrokken met betrekking tot de Nederlandse praktijk. Aanvullend, maar ondergeschikt, is een expert meeting georganiseerd om de relevantie van de geleerde lessen op de Nederlandse praktijk te toetsen.
Literatuuronderzoek

Een literatuuronderzoek is uitgevoerd om inzicht te krijgen in zowel vastgoedbeleggingen en gebiedsontwikkelstrategieën. Op basis van heldere criteria, zoals de risicorendementsverhouding, de investeringshorizon en de leverage, bepaalt de vastgoedbelegger of hij wel of niet investeert in een project (Van Gool et al., 2013). De risicorendementsverhouding is een van de meest belangrijke criteria met betrekking tot de besluitvorming rondom investeringen. Tegenover risicovolle projecten, zoals ontwikkelingen, staan hogere rendementen, terwijl lange risico's, van bijvoorbeeld een volledig verhuurd kantoorpand, corresponderen met lagere rendementen. Drie veelgebruikte risicorendementsstijlen kunnen worden onderscheiden: core investeringen (laag risico, laag rendement), value-add investeringen (medium risico, medium rendement), en opportunistische investeringen (hoog risico, hoog rendement). Op basis van zijn portfolio management bepaalt een belegger hoe zijn risico's van investeringen wil spreiden door verschillende typen investeringen, diversificatie op basis van risicoprofielen, diversificatie op basis van vastgoedsectoren en op basis van geografische diversificatie. Het risicoprofiel van de gehele portfolio van een belegger moet in verhouding staan tot zijn verplichtingen naar zijn kapitaalverstrekkers.


De strategie is onderverdeeld in relevante variabelen met betrekking tot zowel ruimtelijke ontwikkeling als vastgoedbeleggingen. De vier aspecten die zowel gerelateerd kunnen worden aan de investeringsstrategie als de gebiedsontwikkelstrategie zijn: visie, organisatie, financieel en regulering. Betreffende de investeringsstrategie wordt met de visie alle concepties van de belegger met betrekking tot het investeren in vastgoed en in gebieden bedoeld. Het organisationele aspect is gerelateerd aan de bedrijfsstructuur van de belegger die het uitrollen van een bepaalde visie kan faciliteren of belemmeren. Het financiële aspect van de investeringsstrategie omvat zowel de investeringscriteria alsmede de financiële structuur van de belegger. De variabele ‘regulering’ is gerelateerd aan de juridische structuur en gerelateerde beperkingen en verplichtingen van de ontwikkelende belegger. Als variabele van de gebiedsontwikkelstrategie is de visie gerelateerd aan de gezamenlijke ambities en doelstellingen van de betrokken publiek en private partijen met betrekking tot fysieke project als het proces. De variabele organisatie omvat de publiek private rolverdeling en samenwerkingsvormen. Het financiële aspect van de gebiedsontwikkelstrategie heeft betrekking op de financiering van vastgoed- en gebiedsontwikkelingsactiviteiten zoals publieke voorzieningen. Het regulerende aspect is gerelateerd aan de wetgeving en regulering omtrent het gebiedsontwikkelingsproject.
Analytisch onderzoekmodel

Gebaseerd op de theorieën uit de literatuurstudie is een analytisch onderzoekmodel opgesteld waarvan de variabelen hierboven zijn beschreven. Het onderzoekmodel is weergegeven in figuur X. In het onderzoekmodel zijn de investeringsstrategie en de gebiedsontwikkelstrategie aan elkaar gerelateerd op basis van de commitment van de belegger aan de gebiedsontwikkeling. Commitment is gedefinieerd als lange termijn betrokkenheid bij het gebiedsontwikkelingsproject op het vlak van financiering (harde commitment) en/of management (softe commitment). Als zodanig kan de commitment van de belegger aan het gebied uitgedrukt worden in voorwaarden die de commitment stelt aan de inrichting van variabelen van de investeringsstrategie alsmede de inrichting van de gebiedsontwikkelstrategie. Dit analytische model definieert zowel de investerings- als de gebiedsontwikkelstrategie in onderling vergelijkbare variabelen op basis waarvan de twee beleggers-gestuurde gebiedsontwikkelingsprojecten vergeleken kunnen worden.

Hollywood herontwikkeling casus – CIM Group

CIM Group is een fondsmanager van verschillende vastgoed en infrastructurele investeringsfondsen die gefinancierd worden door met institutioneel investeringskapitaal. Aan het de oprichting van het bedrijf ligt de sociale doelstelling van CalPERS, het ambtenarenpensioenfonds van California, om een deel van haar kapitaal te investeren in de herontwikkeling van gebieden in California ten grondslag. Als zodanig startte CIM Group met het selecteren van gebieden als potentiële investeringsmarkten gebaseerd op specifieke criteria zoals een disfunctionele vastgoedmarkt, publiek en privaat draagvlak voor herontwikkeling en gunstige economische en demografische ontwikkelingen van de regio. Vandaag de dag manages CIM Group verschillende opportunistische en value-add vastgoedinvesteringsfondsen en is betrokken bij de herontwikkeling en transformatie van verschillende gebieden in Noord Amerika als multi-sectorale ontwikkelende belegger.

Een van de herontwikkelingsprojecten waarbij CIM Group een significante rol speelt is de herontwikkeling van Hollywood in Los Angeles. Het project omvat ongeveer 450 hectare van het vervallen gebied bekend van de filmindustrie. In 1986 werd het gebied aangewezen als herontwikkelingsproject door de Community Redevelopment Agency (CRA). De CRA is een publieke organisatie die zich toelegt op de herontwikkeling van verpauperde gebieden in California. Eenmaal toegewezen als herontwikkelingsproject door de gemeenteraad beschikt kan de CRA beschikken of de jaarlijkse stijging van de onroerendezaakbelasting in het gebied ten behoeve van de financiering van herontwikkelingsactiviteiten. Dit financieringsinstrument staat bekend als Tax Increment Financing. De voornaamste doelstellingen van de CRA en de lokale overheid omvatten de geleidelijke herontwikkeling en

South Lake Union herontwikkeling casus – Vulcan Real Estate

Vulcan Real Estate is een in Seattle gesitueerde ontwikkelende belegger en dochteronderneming van de private investeringsmaatschappij van Paul G. Allen (medeoprichter van Microsoft). Vulcan Real Estate is opgericht in 2002 met als doelstelling het ontwikkelen van de strategische grondpositie van Paul Allen in South Lake Union (SLU), Seattle, ten behoeve van het opbouwen van een haar eigen private vastgoedbeleggingsportfolio. Paul Allen heeft zijn strategische grondpositie in het gebied verworven door zijn financiële steun aan het Seattle Commons Park plan, een publiek private poging om een ‘Central Park’ achtig plan te realiseren op de locatie van South Lake Union. In 1996 stemde de bevolking van Seattle echter twee keer tegen de belastingheffing voor de realisatie van het park waardoor Paul Allen zijn gedoneerde grondposities in eigen handen kreeg. Vanaf dat moment bouwde Vulcan zijn grondpositie uit in het gebied.

Het duurde nog tot 2002 voordat Vulcan begon met het ontwikkelen van haar grondposities binnen de bestaande bestemmingsplannen. Vanaf dat moment starten meerdere private ontwikkelaars met herontwikkelingsprojecten binnen het 140 hectare grote brownfield. De houding van de lokale overheid, de Seattle Department of Planning and Development (SDPD) was echter terughoudend en reactief te noemen. Het duurde nog tot de financiële crisis voordat de publieke planvorming volledige aangepast werd aan de gaande private ontwikkelingen. In die periode pasten zowel Vulcan als de SDPD hun doelstellingen aan op de veranderde economische omstandigheden. The nadruk kwam te liggen op de organische ontwikkeling van het gebied op basis van de marktvraag, evenals de kwalitatieve verbetering van de openbare ruimte in South Lake Union. Private bijdragen aan de financiering van publieke voorzieningen, zoals sociale woningbouw, werden onderhandeld op projectniveau in ruil voor

Figure 5 – South Lake Union © Studio/216
aanpassingen aan het geldende bestemmingsplan. Deze onderhandelingsruimte op projectniveau werd geformaliseerd in de Rezone waarin een maximaal bestemmingsplan is gekoppeld aan het basis bestemmingsplan. Andere publieke voorzieningen zoals de Street Car (tram) zijn realiseer op basis van public private samenwerking. Naast het ontwikkelen en management het eigen vastgoed is Vulcan betrokken geweest bij het initiatief voor de herontwikkeling, het genereren van draagvlak onder publiek private en particuliere stakeholders, en in het ruimtelijke planningsproces.

Vergelijkende analyse

In tabel 1 en 2 zijn zowel de kenmerken van de investeringsstrategie van CIM Group en Vulcan Real Estate als de kenmerken van de gerelateerde gebiedsontwikkelstrategie van Hollywood en South Lake Union uiteengezet.

<table>
<thead>
<tr>
<th>urban investment strategy</th>
<th>CIM Group</th>
<th>Vulcan Real Estate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vision</td>
<td>Initial objective: Reinvest pension capital in urban redevelopment in California</td>
<td>Support Seattle Commons Park-plan</td>
</tr>
<tr>
<td>Focus on community(-ies)</td>
<td>Optimize returns by restoring dysfunctional real estate markets of redevelopment communities.</td>
<td>Redevelopment of SLU to sustainable and lively community</td>
</tr>
<tr>
<td>Community selection</td>
<td>Transparent criteria: 94 communities in North America</td>
<td>Seattle-based Vulcan</td>
</tr>
<tr>
<td>Approach</td>
<td>Integration in community, bottom-up</td>
<td>Integration in community, bottom-up</td>
</tr>
<tr>
<td>Organization</td>
<td>Structure: Multidisciplinary fund manager</td>
<td>Multidisciplinary private developer</td>
</tr>
<tr>
<td></td>
<td>Knowledge: Development &amp; management: Multi-sector</td>
<td>Development &amp; management: Multi-sector</td>
</tr>
<tr>
<td>Employees</td>
<td>330</td>
<td>40</td>
</tr>
<tr>
<td>Financial</td>
<td>Structure: Various investment trusts</td>
<td>Own real estate portfolio</td>
</tr>
<tr>
<td></td>
<td>Investment Capital: Institutional</td>
<td>Private</td>
</tr>
<tr>
<td></td>
<td>Risk-return profile: Core &amp; Opportunistic investment funds</td>
<td>Opportunistic development, but long term core investments</td>
</tr>
<tr>
<td>Regulations</td>
<td>Legal structure: Limited Liability Partnership; Low influence of capital providers</td>
<td>Limited Liability Partnership; Owner/Private capital provider</td>
</tr>
<tr>
<td></td>
<td>Dependency: Outperforming benchmark</td>
<td>Market conformity</td>
</tr>
</tbody>
</table>

Table 3 – Comparative analysis urban investment strategies

Het case studie onderzoek laat zien dat beide ontwikkelende beleggers betrokken zijn bij de herontwikkeling van gebieden die zich kenmerken door een disfunctionele vastgoedmarkt binnen een demografisch en economisch sterke regio. De gebieden bieden voldoende potentie voor waardeontwikkeling door transformatie en herontwikkeling. Bovendien kenmerken de investeringsstrategieën van beide beleggers zich door de bottom-up aanpak waarin de integratie in het gebied een belangrijke rol speelt. Als zodanige zijn de beleggers mogelijk om investeringskansen of potentiële huurders in een vroeg stadium te signaleren. Om de marktvraag adequaat te kunnen bieden kenmerken beide organisaties zich door het multidisciplinaire karakter en de nadruk op in-house kennis van zowel alle vastgoedsectoren als alle aspecten rondom gebiedsontwikkeling. Echter verschillen CIM Group en Vulcan van elkaar qua financiële structuur. CIM Group investeert op basis van institutioneel
kapitaal middels verschillende value-add en opportunistische vastgoedfondsen, terwijl Vulcan een op

eigen rekening opportunistische vastgoedontwikkelingen realiseert ten behoeve van haar

vastgoedbeleggingsportfolio gefocust op lange termijn. Bovendien wordt het handelen van CIM Group

enigszins beperkt door de verplichtingen naar zijn kapitaalverstrekkers voor het outperformen van de

benchmark op vastgoedinvesteringen. Daarentegen is Vulcan in beter in staat om een significante

strategische grondpositie vast te houden zonder opbrengsten te genereren. In het algemeen kan gesteld

worden dat beide investeringsstrategieën onlosmakelijk verbonden zijn met gebieden als

investeringsmarkt, aangezien beide ontwikkelende beleggers anticiperen op de indirecte

waardeontwikkeling binnen het gebied.

<table>
<thead>
<tr>
<th>urban development strategy</th>
<th>Hollywood</th>
<th>South Lake Union</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vision</td>
<td>Process</td>
<td>Development-led, incremental</td>
</tr>
<tr>
<td></td>
<td>Physical</td>
<td>Transformation, mixed use</td>
</tr>
<tr>
<td></td>
<td>Market</td>
<td>market-led</td>
</tr>
<tr>
<td>Organization</td>
<td>Private role</td>
<td>RE development and management, Capacity building</td>
</tr>
<tr>
<td></td>
<td>Public role</td>
<td>Initiating, facilitating, regulating, stimulating &amp; co-investing/developing</td>
</tr>
<tr>
<td></td>
<td>Public private partnerships</td>
<td>Project level</td>
</tr>
<tr>
<td>Financial</td>
<td>Real Estate development</td>
<td>Private, &amp; Public-Private</td>
</tr>
<tr>
<td></td>
<td>Public space</td>
<td>Public &amp; Private</td>
</tr>
<tr>
<td></td>
<td>Public amenities</td>
<td>Tax Increment Financing, Development Agreement projects</td>
</tr>
<tr>
<td></td>
<td>Regulations</td>
<td>Mixed-zoning</td>
</tr>
<tr>
<td></td>
<td>Flexibility</td>
<td>Negotiations on development agreement</td>
</tr>
<tr>
<td></td>
<td>Urban plan</td>
<td>Community plan</td>
</tr>
</tbody>
</table>

Table 4 – Comparative analysis urban development strategy

Een kenmerkende overeenkomst tussen de gebiedsontwikkelstrategieën van Hollywood en SLU is nadruk

op vastgoedontwikkeling in plaats van gebiedsplanning waarbij het stimuleren van private investeringen

en ontwikkelingen centraal staat. In beide gebiedsontwikkelstrategieën is de visie vertaald naar flexibele

doelstellingen die ruimte laten voor private initiatieven. De private sector is in beide cases naast

vastgoedontwikkeling en management actief betrokken bij het ontwikkelen van draagvlak voor de

herontwikkeling, de marketing en het gebiedsmanagement. Een belangrijk verschil is dat Vulcan in SLU de

initiator is van de herontwikkeling, terwijl de CRA/LA in Hollywood naast zijn faciliterende rol de

herontwikkeling heeft geïnitieerd en actief investeert ten behoeve van het realiseren van publieke

doelstellingen. Op organisatorisch vlak kenmerken beide gebiedsontwikkelstrategieën zich door de

afwezigheid van publiek private afspraken of samenwerking op gebiedsniveau. Dit beperkt de risico’s van

de private sector tot het projectniveau, echter dient de realisatie van publieke voorzieningen op een

andere wijze gefinancierd te worden. In beide cases vormen project gerelateerde verruimingen van het

bestemmingsplan een basis om private contributies te genereren voor de realisatie van publieke

voorzieningen in het gebied. De regulerende gebiedsontwikkelkaders kenmerken zich in beide cases door
de nadruk op het mogelijk maken van private investeringen door het stellen van realistische en duidelijke doelstellingen en daarmee het vereenvoudigen van het planningsproces.

**Gebiedsontwikkeling in de VS en NL**

Om lessen te kunnen trekken voor de Nederlandse gebiedsontwikkelingspraktijk moeten we rekening houden met de verschillen in cultuur, planningssystemen en publiek private rolverdeling tussen de Verenigde Staten en Nederland. De cultuur van de VS is voornamelijk gebaseerd op het Angelsaksische model gekenmerkt door een vrije markteconomie, onderhandeling en de focus op economische en financiële rendementen. In tegenstelling wordt de Nederlandse cultuur, gebaseerd op het Rijnlandmodel, gekarakteriseerd door marktregulatie, consensus en de focus op sociaalmaatschappelijk rendement. Hoewel het een van de kernwaarden is van de Amerikaanse cultuur, is het in Nederland over het algemeen niet geaccepteerd om je kop boven het maaiveld uit te steken. Een van de meest opvallende verschillen tussen de ruimtelijke planning in de VS en in NL is de vaak passieve rol van de US publieke sector mede door een chronisch tekort aan middelen in contrast tot de actieve rol van de overheid in Nederland. Het Amerikaanse planningssysteem is voornamelijk georiënteerd op projectontwikkeling terwijl het Nederlandse systeem zich sterker toelegt op integrale planning. Daarnaast wordt de Nederlandse overheid gekenmerkt door sterke centralisatie en institutionalisering terwijl de Amerikaanse publieke sector bewust decentraal, en dus gefragmenteerd, is ingericht. Deze verschillen zijn gereflecteerd in de top-down planning approach in Nederland in vergelijking met de bottom-up approach in de Verenigde Staten.

**Empirische lessen en inspiratie van Amerikaanse gebiedsgeoriënteerde investeringsstrategieën**

Gebaseerd op de vergelijkende analyse van het case studie onderzoek en met betrekking tot de context van de Nederlandse gebiedsontwikkelingspraktijk zijn de volgende lessen getrokken uit de gebiedsgeoriënteerde investeringsstrategieën van Amerikaanse ontwikkelende beleggers.

**Gebiedsgeoriënteerde investeringsstrategie**

Op basis van dit onderzoek kan gesteld worden dat lange termijn commitment van beleggers aan organische gebiedsontwikkeling als waardevol kan worden beschouwd aangezien de belegger zijn financiële rendement op vastgoedontwikkeling en management kan indirect kan optimaliseren door in te spelen op de waardeontwikkeling van het gebied. Echter vereist deze aanpak wel een multidisciplinaire organisatie die sterk gefocust is op intensieve kennis met betrekking tot ontwikkeling en management van vastgoed in alle sectoren. Bovendien moet de financiële structuur van de belegger de flexibele sectorale allocatie van vastgoedinvesteringen op basis van marktvraag wel mogelijk maken. De integratie in het gebied is een essentieel onderdeel van de investeringsstrategie aangezien zowel CIM Group als Vulcan het lokale netwerk benutten om kennis van de markt op te doen, investeringskansen te signaleren en draagvlak te genereren.
**Gebiedsontwikkelstrategie**

Het herontwikkelingsproject in zowel Hollywood als South Lake Union wordt gekenmerkt door de afwezigheid van lange termijn publiek private afspraken op gebiedsniveau. Dit biedt ruimte voor private initiatieven en de adaptatie van publieke en private doelstellingen aan veranderende marktcondities. Bovendien wordt het ontwikkelrisico voor de private sector beperkt tot het gebruikelijke projectniveau. Daarnaast hebben een transparant ontwikkel en planningskader, en duidelijke prioritering van aandachtgebieden een positief effect op de lange termijn betrokkenheid van de ontwikkelende beleggers. Echter, zonder publiek private afspraken dient de realisatie en financiering van publieke voorzieningen op een andere wijze te worden georganiseerd. Beide cases tonen aan dat onder de private sector bereidheid is om bij te dragen aan publieke doelstellingen binnen het gebied in ruil voor lokale verruimingen van het bestemmingsplan.

**Commitment van ontwikkelende beleggers**

Aan de hand van dit onderzoek kan men stellen dat private commitment aan organische gebiedsontwikkelingsprojecten niet noodzakelijkerwijs is gekoppeld aan uitgebreide voorinvesteringen in grondposities. Privaat commitment kan zich ook uiten in de betrokkenheid bij het genereren van draagvlak en het management van de openbare ruimte. Deze vorm van private betrokkenheid kan worden beschouwd als *soft commitment*. Echter, deze vorm van commitment is sterk afhankelijk van de marktcondities aangezien de vastgoedbelegger niet financieel verbonden is aan het gebied. Dus het biedt private sector de mogelijkheid het gebied links te laten liggen wanneer een ander gebied meer potenti heeft. Dit beperkt de ontwikkelkracht van deze vorm van beleggers-gestuurde gebiedsontwikkelingsstrategieën.

**Inspiratie**

Een interessante inspiratie voor de Nederlandse praktijk is het zogenaamde private kruisbestuiving. In beide cases staan de Amerikaanse ontwikkelende beleggers positief tegenover private concurrentie binnen het gebied. Bovendien lijken Vulcan Real Estate en CIM Group te profiteren van succesvolle projecten van concurrenten aangezien de waarde van het gebied stijgt. Vandaar dat beide ontwikkelende beleggers actief betrokken zijn bij het genereren van privaat draagvlak voor herontwikkelingen. Ten tweede worden beide cases gekenmerkt door een beperkte publieke investeringscapaciteit. Zoals hierboven beschreven wordt de private financiering van publieke voorzieningen gegenereerd door onderhandelingen op projectniveau. Echter wordt in Hollywood Tax Increment Financing als financieringsinstrument toegepast. Dit is een interessante manier om de waardeontwikkeling van het gebied te kapitaliseren via de onroerende zaak belasting ten behoeve van de financiering van de herontwikkelingsactiviteiten. Echter valt het nog maar te bezien of deze dit financieringsinstrument succesvol is voor de Nederlandse praktijk aangezien de belastingsystemen van de VS en Nederland significant verschillen. Tenslotte kan het interessant zijn voor de Nederlandse gebiedsontwikkelingspraktijk om de verruimingen op het bestemmingsplan te formaliseren ten behoeve
van een transparante onderhandeling van private financiële rendementen en publieke doelstellingen op projectniveau.

Relevantie voor de Nederlandse praktijk

Een aanvullende stap in het onderzoek is de toetsing van de geleerde lessen op relevantie voor de Nederlandse praktijk aan een expert panel. Het panel was samengesteld uit Nederlandse publieke en private actoren en professionals academici uit het gebiedsontwikkelingsvak. Volgens het panel zijn de kansen van de Amerikaanse aanpak met name gelegen in de focus van de belegger op het gebied in plaats van het gebouw, en de bottom-up aanpak om de investeringsstrategie uit te rollen. Bovendien, zijn Nederlandse institutionele beleggers op zoek naar unieke investeringsmogelijkheden waartoe deze gebiedsgerichte aanpak zou kunnen behoren. De belangrijkste belemmeringen van de Amerikaanse aanpak zijn gelegen in de politieke instabiliteit en inconsistentie op zowel lokaal als nationaal niveau in Nederland, en de grote cultuurverschillen tussen de VS en Nederland. Bovendien is het volgens het panel maar de vraag of de *sense of urgency* hoog genoeg is voor dit soort type binnenstedelijke herontwikkelingsopgaven. Tevens wordt in de Nederlandse private sector nog steeds aangenomen dat het scheiden van vastgoedontwikkeling en vastgoedbelegging efficiënter is, wat het relatief lage aantal ontwikkelende beleggers verklaard.

**Conclusie**

Hierboven zijn de belangrijkste lessen met betrekking tot de Amerikaanse gebiedsgeoriënteerde investeringsstrategieën beschreven. Antwoord gevend op de centrale onderzoeksvraag kunnen we stellen dat vanuit het beleggersperspectief duidelijke voordelen hangen aan het oriënteren op specifieke gebieden, in plaats van het beperken van de optimalisatie van het rendement op gebouwniveau. Door middel van een uitgebreide visie van de belegger op de herontwikkeling van een gebied is de ontwikkelende belegger in staat om het indirecte rendement door de waarde ontwikkeling van het gebied te kapitaliseren. Echter vereist deze gebiedsgeoriënteerde aanpak een multidisciplinaire organisatie die beschikt over uitgebreide multi-sectorale kennis van vastgoedontwikkeling en management.

De gebiedsontwikkelingsprojecten kunnen worden getypeerd als voorbeelden van organische herontwikkelingsprojecten waarin de nadruk ligt op vastgoedontwikkeling in plaats van planning. Deze aanpak laat ruimte voor privaat initiatief doordat het niet belemmerd wordt door risicovolle lange termijn afspraken of beperkende publieke doelstellingen. Echter vergt deze van de publieke sector dat zij de teugels los durft te laten, terwijl de private sector bereidheid moet vinden om bij te dragen aan de realisatie van publieke voorzieningen binnen het gebied, en bij te dragen aan het gebiedsmanagement. Een belangrijke beperking van de aanpak is de afhankelijkheid van de private commitment van de marktomstandigheden. Daarnaast is het maar de vraag of de Nederlandse publieke sector wel bereid is om de herontwikkeling van gebieden in economisch en demografisch sterke regio’s over te laten aan de private sector. Hoewel de houing van de public sector in Nederland daadwerkelijk veranderd, lijkt het
erop alsof deze veranderingen voornamelijk optreden in kleinere gemeenten waar de sense of urgency hoog genoeg is.
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This MSc graduation research has been conducted within the theme of changing public and private roles in Dutch urban development and planning practice. The emphasis is shifting toward the private sector, whilst the long term oriented investor is seen as a panacea for the hampered urban development practice. Moreover, the future challenges in urban development are in gradual redevelopment of inner-city areas rather than greenfield developments. However, incremental urban development projects comprise high levels of risks and uncertainties. As such, a better understanding is needed in how investors can be committed to incremental urban redevelopment projects.

In this research the role of the developing investor in urban redevelopment projects is studied. Two case studies to investor-led urban development projects in the United States are conducted. In our opinion it seems relevant to study the American urban development practice, as it is characterized by a chronic shortage of public investment capacity, an enabling governmental role and private sector dominance. Moreover, the emphasis is more on incremental real estate development rather than urban planning. As such we aim to explore the role of the investor in the neoliberal urban development practice.

This report consist of three main parts; theories, practices and the synthesis. First the research proposal is presented in chapter 1. Part 1 – theories – provides an insight in the current context of urban development in The Netherlands (chapter 2) and relevant theories and concepts regarding real estate investment and urban development strategies (chapter 3), and theories regarding the research methodology (chapter 4). Based on the understanding of the relevant theories, the case study research is conducted. Part 2 – practices – comprises the findings of the in-depth case study. Firstly, the differences between US and Dutch cultures and planning practices are identified in chapter 5. In chapter 6 and 7 respectively the Hollywood case and South Lake Union case are described and analyzed from the perspectives of investment strategies and urban development strategies. Based on these findings a comparative analysis is conducted (chapter 8). The last part of this research covers the synthesis of the theories and practices (Part 3). This part includes the empirical lessons and inspirations (chapter 9), the relevance for Dutch urban development practice based on an expert meeting (chapter 10), the conclusions and recommendations (chapter 11) and lastly the reflections regarding the research relevance, the methodology and validity and the graduation process (chapter 12).

Enjoy reading!
research proposal.

The first chapter of this graduation report comprises the research proposal. Firstly the theme of the research is introduced. The relevance of conducting this research is underpinned by scientific and societal relevance, utilization potential and personal motivation. Based upon a concise analysis and subsequent problem statement, research questions and objectives are formed. Thereafter, main research definitions are clarified and the research field is demarcated. The research design is described based the research methodology and planning. Finally, the organization is the graduation project is described.

1.1 Theme

Cities will keep growing while other regions of the country have to cope with shrinkage. At the same time there is a major challenge to increase the sustainability of our building environment. Urban development is a playing field characterized by conflicting interests of stakeholders while having to cope with societal challenges and an increasing empowerment of citizens. The current economic crisis reveals the flaws and risks of current planning systems (Urhahn Urban Design, 2010). Instead of sitting out the crisis it could be utilized as a catalyst to develop new planning and urban development systems. Urban development and its changing context is the theme of my thesis-research. The research is oriented on new strategies for urban development led by the private sector, and its consequences for public private partnerships.

1.2 Research relevance

1.2.1 Scientific relevance

Next to economic and financial challenges, the field of planning and development in The Netherlands is subject to changing societal values. Although several Dutch banks are nationalized in the last decade, there is still a growing emphasis toward the private sector (Heurkens, 2012). Thereby it is argued that capital from the private sector should be utilized better (Hagendijk and Franzen, 2012). This suggests a more powerful role in urban development could be obtained by private parties. This research is a follow-up on the dissertation of Erwin Heurkens concerning private sector-led development. By studying urban development strategies in investor-led urban development projects, this research aims to provide both theoretical and practical insights on urban development strategies and the role of the investor in public private partnerships.

1.2.2 Societal relevance

The economic crisis, debt crisis, and financial crisis in the public domain have affected the conditions of urban development practice in recent years, leading to a stagnating development. According to Peek (2012), Praktijkleerstoel Gebiedsontwikkeling (2011b), and many others, these contextual changes are structural, thus waiting on macroeconomic prosperity seems useless. However, the need to align supply to demand on an urban level remains and improvement of our cities is necessary based on the perspective of
international competitiveness (Van Rooy, 2011). Activities of traditional actors involved in urban development, such as project developers, are under pressure due to a decreased demand and difficult financing of projects. The emphasis is shifting from short-term real estate development to long-term exploitation and management (Peek, 2012). This implies the end-user and investor will become key-actors in urban development. Potentially a more dominant role is reserved for (developing) investors (Bijsterveld and Laverman, 2011), though large investors are not yet willing to bear the high risks inherent to urban development project. Therefore it seems necessary to explore new urban development strategies and public-private partnerships by which investors are able to control development risks and are able to manage the volatile demand.

1.2.3 Utilization potential
The main objective of this research is to explore the ways in which urban development strategies can be applied by investors in order to deal with the uncertainty of urban development. The applied investment and development strategies have their impact on the way urban projects are managed. Therefore it is also researched how these strategies are reflected in the management of urban development projects in terms of public and private roles. By studying investment- and urban development strategies of investors in the United States, innovative urban development methods (modes/models) are explored and eventually tested applicability on the Dutch development practice.

1.2.4 Personal motivation and objectives
Three years of studying Medicine may perhaps explain my interest in social relations and complex processes. As both aspects are also present in urban development, it is not hard to understand why I ended up studying urban development processes. Thereby urban development represents a combination of both concrete project management, and abstract process management. It is the combination of practices, disciplines, management, social studies and politics what makes the field of urban area development interesting to me. My personal research objectives are based on knowledge and understanding to gain and competences to develop:

Knowledge-objectives
- Knowledge and understanding concerning public and private partnerships
- Knowledge and understanding concerning real estate investment
- Knowledge and understanding concerning public-private power balance, and,
- Knowledge and understanding concerning urban development strategies

Competences
- Developing strategies
- Academic research
- Analytical skills, and,
- Academic writing in English.
1.3 Problem analysis

The practice of real estate is subject to contextual changes. The economic crisis, debt crisis and financial crisis in the public sector have affected real estate investments and thus urban development projects. Before the economic crisis urban development practice was characterized by its large scale and high ambitions, boosted by a supply-driven market and focusing on realizing profits on both land and real estate development (Peek, 2011). This practice has proven not to be crisis-proof. The demand has decreased strongly, and subsequently risks on real estate investment have increased. Thereby, the public investment capacity is minimized. Due to these effects a lot of urban development projects based on a large scale integral approach are put on a hold, or have even led to the termination of public private partnerships (Hagendijk and Franzen, 2012, Peek, 2011). The incremental, or organic urban development approach, based on small scale developments related to actual market demand, has been introduced as a response to these changes (Peek, 2012).

Due to the credit crunch land positions of project developers are re-valued (Van Joolingen et al., 2009). Thereby, banks require more private equity on investments as they are pulling back their mayor role in short-term funding of real estate developments. As a result the investment capacity of project developers has decreased (Praktijkleerstoel Gebiedsontwikkeling, 2011b, Van Joolingen et al., 2009). As a response on the changing economic conditions Dutch investors are downsizing projects, reducing the amount of new development projects and focusing on stronger phasing of projects. On-going austerities limit the investment capacity of the public sector. Moreover, land development companies suffered major losses on land positions and current urban development projects (Kersten et al., 2011, Praktijkleerstoel Gebiedsontwikkeling, 2011a, Van Joolingen et al., 2009).

Not only economic and financial aspects of urban development practice are subject to change. Using the metaphor of the ‘Anglo Saxon Wind’ Heurkens (2009) our deeply rooted societal values based on the Rhineland model are gradually replaced by the values of the Anglo Saxon model, which implies a shift toward a free market economy. In other words, a shift has taken place toward more individual and inequality societal values while the public private power balance has shifted toward the private market (De Jonge, 2012, Heurkens, 2012). According to De Jonge (2012) future could bring a new shift towards solidarity and equality while the private sector retains its power (see figure 1). These societal changes are reflected in the policy formation of urban planning and affect roles in public private partnerships. Moreover, urban development projects show a continuation toward a more private sector-led development practice (Heurkens, 2012, Minister van Binnenlandse Zaken en Koninkrijkrelaties, 2012). This implies roles of both public and private parties in urban development processes are likely to change.
The figure above shows the effects of the described changes on the distribution of roles in urban development projects. According to Praktijkleerstoel Gebiedsontwikkeling (2011b, 2011a), Peek (2012), De Graaf (2011), and many others, these changes are structural. Some may speak about a ‘new reality’ in Dutch urban development practice. Peek (2012) argues new business models and actors should be introduced to the urban development scene. The emphasis should be on long-term revenues, the end-user, and linkages to juxtaposed value chains, such as the energy sector. This means the focus shifts from ‘hit and run’ in real estate development, towards the exploitation and operation phase of real estate. Investors should be the main actor in development projects, co-investing and initiating projects (Peek, 2012). Even though the investment by investors in the Dutch real estate market is still declining, the investor remains a major actor considering their investment capital and their focus on long term profits (Bijsterveld and Laverman, 2011, Praktijkleerstoel Gebiedsontwikkeling, 2011b). However, Peek (2012) argues investors are not likely to pick-up a leading role in urban development as they have to meet a specific rate of return and are risk averse. On the contrary, Van Breukelen (in Franzen and De Zeeuw, 2009) argues the private sector should be more oriented on the positive value creation on a spatial area. One could say it is unclear if and how investors are able to obtain a larger role in urban development projects in The Netherlands. High risks, partly due to the high level of pre-funding, and needed flexibility in long-term planning due to a volatile demand, are important barriers for investor to get involved in urban development projects (Van Gool et al., 2013, Wolting, 2006).

This problem analysis has explored the challenges of Dutch urban development practice. As mentioned there’s a growing emphasis on the role of the investor as panacea for Dutch urban development. The investor is mainly oriented on the risk return ratio of its investment, while urban development is
characterized by high risks resulting from the inherent long preparation time and long project terms. These characteristics complicate a clear risk assessment. Moreover, the investor has to be able to react on the changing, volatile market demand. This tension forms the basis of this research project that explores investment- and urban development strategies of American investors.

In the United States some investors are involved in urban redevelopment in a more dominant way. These investors seem to be committed to a certain area of location for a long term. Based on what advantage are those American investors interested in urban development? What areas are interesting for these investors and why? How do investors enhance their role in this kind of private sector-led urban development? Why has their strategy not yet reached the Dutch urban development practice?

1.4 Problem statement

Based upon the foregoing problem analysis the following problem statement is formulated:

“The integral business model of urban development projects (i.e. large scale public private partnerships) has proven to be too risk full and unfeasible in current economic conditions. As the emphasis is shifting from urban development to the exploitation of the urban area, it is expected that the real estate investor will obtain a central role in future urban development practice based on their orientation on long term returns. However, a better insight is needed into how the investment strategy of real estate investors can be aligned to the practice of incremental urban development projects.”

1.5 Research objective

1.5.1 Research objective

To provide a better insight in the linkage between the investor’s objectives and incremental urban development we can either research current incremental development projects within The Netherlands, or try to learn lessons from a different practice of urban development in other countries. Urban development practice in the United States is characterized by its focus on plot development instead of integral urban planning, the emphasis on the private sector, and the relatively low public investment capacity. Therefore it seems relevant to research two American developing investors who are long term committed increment urban development projects. Their investment strategies are oriented on the redevelopment of urban areas. Based these investment strategies the related urban development strategies, insights should be provided in the conditions for long term commitment of developing investors to incremental urban redevelopment projects. The following research objective is based upon the problem analysis, the elaboration on the context of urban development projects in chapter two, and the problem statement:
The main objective of this research is to learn lessons from the community oriented investment strategies of American developing investors, regarding the investment strategy of real estate investors and the organization of incremental urban development projects in The Netherlands.”

1.5.2 Intended end-product and target group

Based upon the research objective, the intended end product is:

Set of lessons and inspiration for Dutch urban development practice concerning long term commitment of developing investors to incremental redevelopment projects. Lessons concerning the investment strategy include advice for Dutch private sector, and the lessons concerning the urban development strategy include advice for the Dutch public sector.

Although in this research the emphasis is on the private sector, the lessons learnt are mainly utilized to advise Dutch (local) governments as the Dutch development practice is still characterized by a dominant public sector, which as such acts as main initiator of innovations. Nevertheless, it is not inconceivable this research will generate lessons and recommendations for (Dutch) investors as well.

1.6 Research questions

1.6.1 Main research question

Based upon the foregoing problem analysis and problem statement the central research question of this graduation project is formulated:

“What lessons can be learned from community oriented investment strategies applied by American investing developers for Dutch urban development practice?”

1.6.2 Research sub-questions

The main research question can be subdivided into sub-questions following the structure of this research, thereby helping to demarcate and answer the main research question. The main research question will be answered in chapter 11. The sub-research questions are briefly described below.

Dutch context:

As explained in the problem analysis, the Dutch urban development practice is subject to contextual changes. In chapter 2 the context of Dutch urban development practice is described more extensively aiming to answer the following research question:

“What is the context of the current stagnation of Dutch urban development practice?”
Theories:
In this research the perspectives of real estate investment and urban development are studied. In chapter 3 the relevant theories are described based on the following question:

“What are the relevant theories described in literature regarding the developing investor, real estate investment strategies and urban development strategies?”

Research Methodologies:
Chapter 4 elaborates on the applied research methodologies in this thesis. By answering the following question this chapter aims to describe the orientation on lesson drawing and the in-depth case study and expert panel methodologies:

“What are the main concepts regarding the applied methodologies in this research project?”

Urban development in US and NL:
As this research aims to draw lessons from US urban development practices for Dutch urban development, we should consider the differences in urban development and planning culture and practice between the US and NL. In chapter 5 the following research question is answered:

“What are the contextual differences in planning and development culture and practice between the United States and The Netherlands?”

Investment strategies:
The first part of the empirical research includes the analysis of the community oriented investment strategies applied by two American developing investors. Based on the description of the Hollywood redevelopment- (see section 6.1) and South Lake Union redevelopment case (see section 7.1) the following research question is answered per case:

“What are the characteristics of community oriented investment strategies applied by American developing investors, based on the strategy-aspects of vision, organizations, financial and regulation?”

Urban development strategies:
The second part of the case analysis comprises the way in which the community oriented investment strategies are facilitated by the urban development strategy. In section 6.2 and section 7.2 the urban development strategies regarding respectively the Hollywood case and South Lake Union case are analyzed based on the following research question:

“What are the characteristics of the urban development strategies that facilitate the community oriented investment strategies, based on the strategy-aspects of vision, organization, financial and regulation?”
Relation between investment- and urban development strategy:
In the same sections the relation between the investment strategy and urban development strategy are described with the objective to identify the conditions and requirements for long term investment by the investing developers:

“How is the commitment of the developing investor to the urban redevelopment project reflected in required conditions regarding aspects of the investor’s investment strategy and the urban development strategy?”

Cross case analysis:
Based on both analyses of the investment and urban development strategies, a cross case analysis is provided in chapter 8 to answer the following research question:

“What similarities and differences regarding the community oriented investment strategies and related urban development strategies are to be observed between the Hollywood redevelopment case and the South Lake Union redevelopment case?”

Lessons and inspiration:
Based on the empirical research and cultural differences between the US and NL, lessons and levels of inspiration are drawn regarding the Dutch urban development practice. In chapter 9 the following research question is answered:

“What empirical and inspirational lessons can be learned from the US for Dutch urban development practice?”

Expert meeting:
Additionally, an expert meeting is held to assess the relevance of the lessons learned. The findings are described in chapter 10. The main objective of the expert meeting is to briefly assess the following research question:

“To what extent are the lessons learned relevant for Dutch urban development practice?”

1.7 Definitions and demarcation
1.7.1 Definitions
In the foregoing some key terms have passed which need to be clarified. This section describes these key research terms based on the performed literature study. Other terms are defined in the literature study in chapter 2 and 3.

In this research urban area development is defined as “the process in which different actors, interests, functions, planning activities and cash flows are integrated for the purpose of the (re)development of an
urban area by means of different forms of management, collaboration, partnerships and business models. This definition is based on several authors (see section 2.1).

Cities can be observed from various spatial levels or scales. Therefore it is important to define what is meant by urban area. Van Hoek & Wigman (2011) refer to the district or neighborhood level in terms of urban area management. This spatial scale level corresponds to the ‘communities’ which are often used in American urban planning (GCC, 2006a, GCC, 2007)

Based on De Zeeuw (2007) and Daamen (2010) urban development projects are defined as “projects in which different actors, interests, functions, planning activities and cash flows are integrated for the purpose of the (re)development of an urban area by means of different forms of management, collaboration, partnerships and business models.” Daamen (2010) further defines urban development projects as “a framework of concrete material interventions inside a geographically distinct urban area.” As mentioned above, this spatial scale level is the urban area, district of neighborhood. Regarding this research the neutral definition of urban development project should be defined more detailed. This research is focused on the more specific phenomenon of urban redevelopment projects led by private actors, which is described below.

The future of urban development in The Netherlands will be more and more oriented on the redevelopment of urban, inner city, areas (Franzen and De Zeeuw, 2009). These areas are often characterized by a misbalance in the mix of functions, which does not meet the current and future demand. Characteristic for urban redevelopment projects are waterfront developments where the inner city harbor areas are left vacant for redevelopment, such as City Ports in Rotterdam, The Netherlands, and Pyrmont in Sydney, Australia. Other striking examples are industrial Brownfield that have become inner city areas due to the growth of the city, such as the Binckhorst in The Hague, The Netherlands. But one could also refer to mono-functional business areas, like the Teleport in Amsterdam, as districts in need for redevelopment.

Heurkens (2012) describes private sector-led urban development projects as “projects in which private actors take a leading role and public actors adapt a facilitating role to manage the development of an urban area, based on a formal public private organizational role division.”

Various actors from the private spectrum are involved in urban development, such as multinationals, chambers of commerce, investors, banks and project developers. As argued in the problem analysis, the traditional private roles, such as the role of the project developer, are likely to change. Partly on this basis, this research focuses on the role of the institutional investors, as it is claimed that Dutch institutional investors could/should invest more capital on the Dutch real estate market (Bijsterveld and Laverman,
Another interesting private actor is the corporation. More and more corporations such as IKEA are getting involved in urban development.

In the context of this research and private sector-led development, investor-led development is defined as “an urban development project in which an investor has a leading role/is directly involved in the management, organization and financing of the project.” By investor-led, both institutional capital investors and private equity capital investors are meant.

Based on Van Gool et al. (2013) an investment strategy can be described as a strategic policy or method in which long term investment objectives are set. Investment objectives are shaped by investment criteria such as return ratio and investment term.

Daamen (2010) defines the term urban development project strategy as “a strategy that includes all decisions and actions of those that intend to realize the concrete material interventions they involve.” Urban development strategies “can be understood as an on-going dialectic between structures and projects.”

The changing roles of public and private parties in urban development projects are subject to this research. Heurkens (2012) defines a role as “a coherent set of organizational tasks and related management measures carried out by actors involved in urban development projects.”

Recent changes in Dutch urban development practice are reflected in the development approach. So-called gebiedsontwikkeling 1.0, large scale integral development projects, have proven to be unfeasible (see chapter 2 for an elaboration on development approaches). In current approaches, including gebiedsontwikkeling 2.0 (incremental development) and invitation planning (D: uitnodigingsplanologie), certainty and flexibility are two main issues (Van Baardewijk et al., 2013). Urban development risks are related to uncertainties in the internal and external environment of urban development projects. Wolting (2006) distinguished several risks including organizational, political, legal, societal and financial risks. Section 3.1.4 elaborates on the characteristics and risks of urban development projects. Flexibility in long-term development planning means “the ability to anticipate and respond to changing conditions such as changing market-demand.”

1.7.2 Demarcation

The goal of this research is to explore methods, or strategies, to enable long term involvement of investors in urban development. As this graduation project is bounded by time and means it is not possible to explore all aspects and forms of investor-led urban development projects and urban development strategies. Only American cases of so-called investor-led urban development are researched as it is not within the reach of this graduation project to shed a light on initiatives all around the world. Thereby the
private-led character of the American planning and development culture, which is based on neoliberal values, is a major motive to study cases in the United States, as it is argued Dutch planning and development practice is increasingly influenced by neoliberal values.

When studying the role of the investor in urban development one has to consider both investment perspectives as planning and development perspectives. The investment perspective is mainly based on the risk and return of an investment, while planning and development is entwined with societal values and politics. Studying investment strategy is focused on the role of the investor and its criteria. A method applied by an investor or fund manager in investment decision making. The urban development strategy is about the development process in which public and private actors are involved. Both definitions are briefly described above and more elaborately described in chapter 3.

As explained in the problem analysis, the emphasis is shifting from the public to the private sector in terms of investment in urban development and management. Several private sector actors are discussed (see chapter 2 for an elaboration on the private actors). This research is oriented private sector-led development as it is argued capital for development should be sought at private actors. In this research we focus on two main sources of investment capital; institutional and private equity. The motives for this selection are based on current debate on the role of institutional investors in the Dutch economy (De Graaf, 2011) and the growing involvement of unusual suspects such as IKEA and Siemens in urban development.

The selection of investors is based on the knowledge available at Grontmij and TU Delft. To research the case-specific urban development strategy, in which the investment strategy is reflected, an in-depth case study is conducted. As in-depth case studies are time consuming, it is not possible to conduct a large number of in-depth cases studies. Supported by theories in case study methodology, as explained in chapter 4, two best practice cases are chosen from the investors researched in the previous phase. As different types of investors act different based on their ‘liability’ and ‘risk-profile’, two cases of different types of investors are explored; a private investor (who brings in more private equity) and an investment fund. The differences between the investment and development approach of the two types of investors can provide insights in what investor suits a specific urban development better.
1.8 Research Design

1.8.1 Conceptual Model

Based on the problem analysis and demarcation of this research a conceptual research model is drawn. This model is shown the figure below. The quadrant model is shaped by the two perspectives and two private sector capital sources which are described in section 1.7. The hatched planes show the cases researched; an investor-led urban development case, by CIM Group in Los Angeles (see chapter 6), and a corporation-led urban development case, by Vulcan Real Estate in Seattle (see chapter 7). The blue planes indicate the two main perspective researched; the investment strategy and the urban development strategy. This division reflects the distinction between the urban investment strategy as applied by the investor and the urban development strategy which entails the collaboration between public and private parties. The upper part of the model represents the part of the research which is oriented on exploring how and why the investor is committed to the urban area. The lower part represents the part in which is researched how this investment strategy is reflected in the urban development process, in terms development strategy and public and private collaboration. The cross case findings concerning the investment strategies and the urban development strategies are described in respectively section 8.2 and 8.3.

1.8.2 Research Design

The research design combines the research methods, phases, and question, and is visualized in the block diagram below. In each block the main study-elements are shown resulting in a product visualized in a light-blue box. In the first phase of the research project, P1/P2-period, the research proposal is formed while simultaneously a literature study is conducted. The research proposal is aligned to the business objectives of Grontmij Capital Consultants and Grontmij Stedelijke Ontwikkeling. The products, research questions and findings provide an input for the empirical part of the research project. During the P3 phase the case study research is conducted. This phase is divided into three stages, as explained in at the research sub-questions. The three stages include the exploration of the urban investment strategies, the case-specific urban development strategies and the application of the findings and lessons onto the Dutch urban development practice. Based on the findings of the empirical research, together with the findings from the literature study, a conceptual model for investor-led urban development in The Netherlands is
drawn. Via a desk research and interviews the urban investment strategy of US-based investors is explored. The case-specific urban development strategies are researched by two in-depth case studies. Based on both parts, lessons and inspiration for Dutch urban development are drawn. The applicability of the learned lessons on the Dutch urban development practice is tested by an expert panel. The last phase of the research is completed with a final graduation report and presentation in March 2014.

1.8.3 Research methods

Lessons-drawing from foreign best practices is the underlying research strategy. Lessons can provide insight in both what to do, and what not to do (Spaans and Louw, 2009). Due to the differences in development and planning culture, and policy, inspiration and learning are considered relevant levels of knowledge transfer (Heurkens, 2012). A more elaborate exploration of lessons-drawing is described in chapter 4. Two main research methodologies are applied in this graduation project: literature review and
case study. The literature review is conducted in order to clarify and elaborate on the problem field, and to explore the underlying theories concerning urban development projects, strategies, management and organization, investor-led development and investment decision making. The sub-research questions are stated in section 1.6.2. Information is gathered by a literature review. In addition, two conferences are attended to grasp the essence of the challenges in urban area development.

The case study research is methodology is applied to provide a deep understanding regarding a social phenomenon. At least two cases are subject to this research. On the one hand, examining multiple cases can deal with the subjective view of a researcher (Flyvbjerg, 2006). On the other hand only two cases are selected as conducting in-depth case studies is very time-consuming. The validity of the research is safeguarded by applying triangulation in data gathering. This brings us to the main research techniques to be used in the case study research. Document reviews, Interviews and site visits will provide an in-depth knowledge. To analyze the findings, firstly data is reduced based on the objectives of this research. Thereafter, data is displayed in frameworks, tables and visualizations which are described in the theoretical framework (see chapter 3). The last phase of data analysis is drawing conclusions based on the reduced and displayed data. A cross-case analysis is performed to analyze context-dependent and independent variables of both cases. Based upon the case study findings, and the literature review, lessons and inspiration are drawn for the Dutch urban development practice in chapter 9. Subsequently an expert meeting is held as an additional and deepening step in the analysis. Based on the discussion in an expert meeting with Dutch public and private actors and urban development professionals, the relevance of the learned lessons, and the opportunities and barriers for the implementation of the American investor-led redevelopment approach are studied.

1.9 Organization of graduation project

1.9.1 Graduation supervisors TU Delft
Erwin Heurkens is the first supervisor of this research project. He has promoted on private sector-led urban development. Heurkens is an expert in public and private roles and collaboration in urban development projects. The second supervisor is Fred Hobma. Hobma is specialized in legal aspects of real estate development, spatial planning and infrastructure. Moreover he is an expert in international comparative planning law.

1.9.2 Graduation Company
Grontmij – Grontmij Capital Consultants (De Bilt) & Stedelijke Ontwikkeling (Eindhoven)

Company Supervisors:
Boy Wesel MCD – financial engineer & development manager
Nicolaas Veltman MCD – development manager
PART 1 - THEORIES
context of urban development projects.

Recent developments in the planning and development practice in The Netherlands revealed major spatial challenges that need to be answered (Van Rooy, 2009), as described in the problem analysis. This chapter will further elaborate on the subject Urban Area Development and its changing context. It is important to grasp and understand these contextual changes, to proficiently plan and develop urban areas. As has been assumed in the ‘Nota Ruimte’ (2006) by the ‘Ministerie van VROM’, and confirmed by Van Rooy (2009), will proper urban planning lead to: (1) more investments in sustainable spatial quality, (2) extra velocity in realizing joint plans and (3) greater involvement of residents and users in their (living) environment.

2.1 Urban Development Projects

In the field of urban development a lot of different terms are used either meaning the same or something slightly different than another one. The variety and quantity of experts (Daamen, 2010; De Zeeuw, 2007) who have dared to define this term as comprehensive as possible, just illustrates the diversity, submissiveness, multi-functionality and therefore complexity of all integral facets that have to be managed in and around spatial developments.

Van Joolingen et al. (2009) describe urban development, or urban area development, as the (re)development of an area in which functions are mixes, such as above- and underground infrastructures and housing, offices, leisure and parks are combined in one urban development plan. It is an integral process in which public and private actors are involved. De Zeeuw (2007) argues urban area development is ‘the linkage between functions, disciplines, actors, interests and cash flows in order to (re)development an area’. The linkages of the various functions and interests, profits and losses and all different actors in one development plan is what makes urban area development a complex process. Focusing even more on the process Daamen (2010) described urban development as ‘a way of working in which government bodies, private parties, and other actors involved reach an integration of planning activities and spatial investment, eventually resulting in the implementation of the spatial projects.’

The definitions stated above mainly define urban development as a process in which actors, interests, functions, planning aspects and investments are linked together and integrated resulting into an urban plan. However, these terms do not discuss the type of urban area on which the process is applied to. The coming years challenges and opportunities for urban development in The Netherlands will mainly arise within cities at so-called brownfields, or inner-city redevelopment areas (De Zeeuw, 2007; Urhahn Urban Design, 2010). Therefore it is important to clarify what type of urban area is meant in the context of this research. Based on the various definitions mentioned above we came up with a definition that defines the term urban area development in the specific context of this research.
2.2 Impact of the economic crisis on projects and actors

Until this day, the recession has global effects on every conceivable social aspect such as the environment, politics, labor, governments, and society. Governments have to deal with budgetary losses, which withhold them to invest in spatial or urban developments. In addition, the recession have elicited structural and spatial challenges on different levels of scale. These challenges have led to a stagnation of the urban area development playing field. Experts and academics face a difficult task to revise the (financial) deficits within this field. In this section the consequences will be discussed.

2.2.1 Economic recession or structural imbalance?

The bankruptcy of Lehman Brothers in the autumn of 2008 preluded a period in which the papers has been filled with economic related news ever since. The credit crush has significantly affected the property market. The keep-on-building culture have come to an end and an imbalance in the markets caused a stagnation of developments. It turns out that structural problems, behind some cyclical components, are the initiator of the real estate crisis (Van Joolingen et al., 2009).

The real estate crisis in the 80s were a logical accumulation of correlating consequences. The current stagnation in the real estate market appears to have structural imbalances, next to the cyclical components. Van der Krabben (2011) motivates the turning point of time for the planning discipline in his inaugural speech. To rebalance supply and demand it is argued the character of real estate market has to change (Florida, 2010). It is even assumed that changes will have an impact on real estate thinking on a global scale. The development culture is under pressure, because currently the demanding parties are more risk-averse and banks apply more stringent loaning conditions for financing land developments, says Heurkens (2012).

Except the fact that budgetary cycles a re under pressure and cannot be contrived due to monetary reasons, there is ample reasons to speak of a structural imbalance. The current real estate stock seems sufficient enough, due to overproduction in the last decades. UAD will therefore in particular focus on redeveloping, transforming and rebalancing the current real estate stock. Though this seems almost impossible, when using traditional development strategies and the associated financial constructions (Heurkens, 2012).
2.2.2 Consequences for urban development projects

Before the economic crisis hit the Dutch economy and real estate market the ideal type of urban area development practice was known as Gebiedsontwikkeling 1.0, and characterized by its large scale and highly ambitious projects (Peek, 2011). Driven by a supply-driven market, the developments are focused on realizing profits on both land and real estate development. According to Peek (2011) Gebiedsontwikkeling 1.0 has proven not to be crisis-proof. In the case of short falling sales and decreasing market prices, the scale and its related long development terms and pre-funding will lead to deviations of the agreements between public and private parties which are not in line with the market. In the worst case this could lead to the termination of public –private partnerships. According to Praktijkleerstoel Gebiedsontwikkeling (2011b) this kind of ‘blue print’ planning, the ‘top-down’ approach, is not suitable anymore as it has led to excessive programming in different segments that could not cope with the drop in demand. Moreover, skepticism in the financial sector does not allow the needed large scale prefunding.

A lot of urban development projects initiated as above described large scale integral developments are put on hold as it is hard to complete funding, while both public and private parties are not better off terminating the agreements (Hagendijk and Franzen, 2012). As long term investments are hardly justifiable the focus changed to scaling down developments and facilitation initiatives resulting from current use or allowing temporary exploitation of vacant real estate (Peek 2011).

2.2.3 Consequences sustainable urban area development

The environment plays a more prominent role, which is reflected in the debates concerning climate change. Thereby, global competitiveness is forcing our cities to shift from quantitative to qualitative growth. This trend is better known as ‘Sustainability’. Sustainable development aims to simultaneously improve the ecology, economy and social domain, without eliciting negative effects elsewhere or in the future for new generations (Brundtland and World Commission on Environment and Development, 1987). (Elkington, 1998) elaborated on this and introduced the people-planet-profit approach (Triple P). The identity of an urban area holds a key position in this approach.
The combination of these various components should be balanced and needs to create a win-win situation. Ideally UAD is by definition a sustainable development. It should be able to deal with complexity, networks, dynamics, positions, opinions and most diverse values to facilitate consensus. Providing a joint meaning of space and especially is a socio-cultural task that manifest itself spatially. Urban planning could serve as a catalyst for social urgencies and policy urgencies, like climate change, mobility, and nature. “The social-policy components must be brought into agreement with the spatial components to achieve sustainable urban area development” (Praktijkleerstoel Gebiedsontwikkeling, 2011a). UAD should incorporate the Triple P approach with key characteristics of the term spatial quality: use value, amenities and future value (Lucas, 2013). According to De Zeeuw (cited in Praktijkleerstoel Gebiedsontwikkeling, 2011a) other key concepts are affordability and feasibility. It are these key concepts that form a substantial bottleneck for the continuation of Dutch urban developments since the economic crisis (Heurkens, 2012).

‘We are stuck in the win-lose thinking, based on power and positions instead of on principles’ (Praktijkleerstoel Gebiedsontwikkeling, 2011a). Responsible governments, market parties prepared to deliver investments, civic society organizations and directly concerned (civic) parties should intensively working together, to synchronize these different interests and produce solving strategies. In order to properly distribute authorities, risks and returns. Thereby creating a win-win situation (Van Rooy, 2009). ‘In practice we currently think the opposite way, a way that contradicts the win-win thinking introduced by Elkington (1998). This goes hand in hand with the sectorial, short-term approach, for urban area development. Amongst other reasons, this is caused by the aforementioned financial-economic situation (Agentschap NL and RVOB, 2011).

In order to come up with a proper sustainable (win-win) urban development, projects should be integral and long-term oriented. Many parties are involved, the process is complex and the risks are obscure. Earlier, large scale integral project have been made viable and stimulated to start up with help from fiscal instruments and subsidies. These where needed to cover the uncertainties and accompanied risks and eventual to fix a budget deal. ‘In practice it seems that a lot of initiatives need these subsidy nudges in order to move forward.’ (Agentschap NL and RVOB, 2011) There are grants to municipal, provincial, national and European level. Currently many of these subsidies have been cut down and even totally disappeared. ‘The time of departmental funding or checking in budgets with certain expected values increases in the future (policy documents), in advance, is over. Land development projects have to be able to help themselves now’ (Praktijkleerstoel Gebiedsontwikkeling, 2011a).

2.2.4 Consequences for the involved actors

Project developers

Van Joolingen et al. (2009) argues the first actor affected by the economic crisis is the project developer. Due to declined sales unsold dwellings are accumulating. Subsequently banks stop pre-funding projects causing the production to stop. In general the sales are decreased enormously forcing the project
developers to make cuts in their personnel. Project developers suffer another financial problem. Traditionally project developers own substantial amounts of land positions. Due to the credit crunch these land positions are re-valued resulting in a decrease of the project developers’ investment capacity (Praktijkleerstoel Gebiedsontwikkeling, 2011b; Van Joolingen, et al., 2009).

According to Putman (2010) the economic crisis will change the role of the traditional project developer. The hit and run approach in which major profits are made within the real estate development upon project delivery will disappear forcing project developers to reconsider their business. ‘Chain integration’ with for instance contractors could be the solution for the project developers. According to Praktijkleerstoel Gebiedsontwikkeling (2011b) market players with a healthy solvency ratio or a financially robust parent-company have a good chance to continue their business.

Contractors
Contractors, or builders, were not affected by the economic crisis until they finished their existing stock of projects (Van Joolingen, et al., 2009). But the number of orders diminished rapidly. As a result contractors are affected severely by the economic crisis, resulting in high losses and many redundancies. On the long term there should be chances for the contractors by integration of the production chain (Van Joolingen, et al., 2009).

Investors
The first effects of the economic crisis on commercial real estate were considered as a market correction (Van Joolingen, et al., 2009). Investors have seen an increasing amount of investment offers, while their cautious risk analyses has led to increased initial yields. According to Van Joolingen et al. (2009) investors react on the economic crisis by downsizing projects, the reducing the amount new development projects and focusing on stronger phasing of the projects. Investors are not willing to pre-fund projects including lengthy preparation and development terms. To reduce risks investors could collaborate instead of compete with other investors.

Praktijkleerstoel Gebiedsontwikkeling (2011b) argues the investment capacity of public and private parties has decreased. Although the total capital of all Dutch investors is extensive, only a small part is invested in real estate. Due to ALM-assessments (Asset Liability Management assessment) Dutch pension funds were forced to repel real estate projects. Though there are first signs of renewed interest in real estate investments. Listed investors are also repelling existing projects while less new projects are attracted due to changed market conditions. Due to structural vacancy the office-market is not interesting for investors while the retail-market appears to be too small. The housing market could be interesting for investors although this market is dependent of the changes in the housing policy (Praktijkleerstoel Gebiedsontwikkeling, 2011b). Even though the investments by investors in the Dutch real estate market is
still declining the investor remains a major actor considering their investment capital and their focus on long term profits.

**Housing Associations**

Although the sale of their rental-stock is stagnating housing associations are affected less by the economic crisis (Van Joolingen, et al., 2009). However their investment capacity is limited due to policy changes. Many housing associations are unable to develop new dwellings due to the increased solvency requirements. Another limiting factor is the increasing costs for management and maintenance of the obsolete housing stock (Van Joolingen, et al., 2009). Some housing associations have focused on the development of owner-occupied dwellings and other types of real estate. Like project developers they suffered losses on unsold dwellings and revaluated land positions (Praktijkleerstoel Gebiedsontwikkeling, 2011b). As a result many housing associations are unable to fulfill their role in urban regeneration.

**Banks**

The financial banks are traditionally a mayor actor in the (pre)funding of urban developments. Both project developers and investors need loans, or fund, from banks to secure their real estate investment and development. Due to for instance the increased requirements for their risk reserves banks are retrieving loans on a large scale (Van Joolingen, et al., 2009). Banks have pulled back their mayor funding role which not only affects home buyers but also investors, developers and municipalities. According to Franzen and De Zeeuw (2009) banks will permanently require initiators to bring in more equity capital.

**Government**

On-going austerities limits municipalities in investing in and subsidizing urban development projects. Land development companies are making losses on land positions and current urban developments (Praktijkleerstoel Gebiedsontwikkeling, 2011a; Van Joolingen, et al., 2009). As a result municipal investments in urban area developments are limited. Van der Krabben (in Bayer, 2011) argues the losses on the devaluation of land positions could prelude the end of the active land policy, as the incorporated risks hardly legitimate to bear as governmental body. Thereby he argues municipalities can still control urban development while leaving land development to private parties, ‘as this happens everywhere else in the world’. According to Franzen and De Zeeuw (2009) experience problems in their land policy. Some municipalities choose to facilitate urban developments by allowing more influence of private parties while others fall back on the traditional active land policy.

**ACTIVE & PASSIVE LAND POLICY**

Active land policy means the government acts as a market party buying land for development and use. Next to the purchase of land, government can also acquire land through pre-emptive rights and expropriation. In contrast, the passive land policy means that the government only regulates, or facilitates, the land development market, leaving the purchase and exploitation to the private sector (Korthals Altes, 2008, Ministerie van Volkshuisvesting Ruimtelijke Ordening en Milieubeheer and Ministerie van Financiën, 2001).
In general, the solvency of governments have been put to the test, due to the increased losses and financial risks. For that reason the possibilities to use subsidy resources are declining and even disappearing. Earlier concluded could be said that these subsidies are (made) necessary for inner-city UAD-projects and that they take a significant financial position in budgets. Meanwhile, the authorities are also risk-averse and do not automatically fill the gap in any budgets with subsidies any more (Praktijkleerstoel Gebiedsontwikkeling, 2011b). Likewise, other financiers and banks are currently to scant to provide some loans or credit.

2.2.5 Consequences public private partnerships
The economic crisis not only affected most actors in urban development individually, also public private partnerships are affected. Before the economic crisis the joint-venture model proved to be a successful collaboration model (Franzen and De Zeeuw, 2009). This so called full dressed joint-venture requires substantial investment of equity capital by involved parties. This kind of PPP, characterizing for gebiedsontwikkeling 1.0, has proven to be unfeasible due to the diminished investment opportunities of the involved parties. Flexibility should be included in the agreements (Franzen and De Zeeuw, 2009).

There is a call for renewed collaboration forms and a more direct involvement of civic parties for sustainable developments as well (Praktijkleerstoel Gebiedsontwikkeling, 2011a). The search for the right form of collaboration for sustainable initiatives appears not be within a short reach yet. A lot of different interests need to be promoted in such complex assignments. An important question that needs to be answered is who takes the lead in these complex processes. ‘There remains a need for ‘old’ arrangements, but in a new lease of life like a facilitating government. Thereby, will sustainable initiatives still be confronted with existing financial arrangements causing barriers.’ (Agentschap NL and RVOB, 2011) The concession-model and new partnerships like Bouwclaim Nieuwe Stijl, joint-venture light and the alliance model should be considered in new urban developments.

2.3 The New Reality in Urban Development
There will always be a challenge to align supply to demand on an urban level (Praktijkleerstoel Gebiedsontwikkeling, 2011a). Thereby the international competitive position of The Netherlands demands strong cities and distinctive qualities (Van Rooy, 2011). However the reality has changed as development should focus on the existing stock and its related challenging locations, lengthy development terms, long (legal) procedures and high direct costs of land development. In other words: a new challenge arises in a new reality (Praktijkleerstoel Gebiedsontwikkeling, 2011a).

The field of urban area development characterizes itself by the increasing rate of specialization within disciplines and certain sectors. The division of specialisms will lead to fragmentation and in turn to a long-term process. This contradicts with the former UAD-ideal, because it prescribes integration instead of separation. Sectoral-thinking needs to be broke through by means of processes. Synergy needs to be
obtained by way of having dialogs with relevant disciplines, sectors and interests to come up with the best quality and cost/benefit solution (Praktijkleerstoel Gebiedsontwikkeling, 2011b).

Van Joolingen et al. (2009) outlines a future for urban area development in The Netherlands. They expect private parties to downsize their commitments which means development projects will become both smaller and more phased. This will put the former practiced integral approach under even more pressure.

As described in the previous sections urban development thinking changes gradually due the changing contextual conditions. Learning from these changes is important, because we can go for the ideal durability. This is a different way of explaining sustainability, because it outlines the importance to sustain over time: the prospect of developments. A major shift in the durability exploration is described by Peek (2011). He says the changes in urban development by distinguishing a third practice; gebiedsontwikkeling 3.0. He argues urban development practice should be widened to juxtaposed value chains such as energy, while moving the focus to the management and exploitation phase. This includes new forms of cooperation and new mechanisms, but also new correlated rules for urban developments. The same goes for calculating and distributing the exploitation.

Hagendijk and Franzen (2012) endorse the need for a larger and more risk-bearing role of private parties as they argue private money should be better utilized instead of waiting on the public actors to invest. This means that the investment conditions should be improved to foster investments by institutional investors and pension funds. While De Graaf (2011) adds to the discussion that most likely hit and run will disappear as usual development practice. The table below shows the change in mind shift from gebiedsontwikkeling 1.0 to gebiedsontwikkeling 3.0.

<table>
<thead>
<tr>
<th>Urban development &amp; Collaboration</th>
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</tr>
</thead>
<tbody>
<tr>
<td><strong>Approach</strong></td>
<td><strong>Focus</strong></td>
<td><strong>Roles</strong></td>
<td><strong>Added value</strong></td>
<td><strong>Private partners</strong></td>
</tr>
<tr>
<td>1.0</td>
<td>Development</td>
<td>Project developer: active</td>
<td>Economies of scale</td>
<td>Real Estate developers</td>
</tr>
<tr>
<td>2.0</td>
<td>Current use</td>
<td>Manager/operator: facilitating</td>
<td>Vertical chain integration</td>
<td>Current real estate owners and users</td>
</tr>
<tr>
<td>3.0</td>
<td>Future use and (energy) flows</td>
<td>Investor: initiating and co-investing</td>
<td>Combination of real estate and (energy) flows (horizontal chain integration)</td>
<td>Future real estate owners and users, new actors</td>
</tr>
</tbody>
</table>

Table 5 – Collaboration scheme of the three urban development approaches (Peek, 2012)

According to Peek (Peek, 2012) the focus in the urban development process should be on the investor as the challenge is to balance the costs of made investments, the current value and the expected future returns. Both horizontal and vertical ‘chain integration’ should increase efficiency (Peek 2012). Horizontal chain integration means the linkages to the affiliated sectors such as energy. Vertical chain integration means the elimination of high single gains on for instance real estate development as the future owner or
users are involved in an early stage of the development. It also means reducing the sales risks by making better investment decisions.

According to Praktijkleerstoel Gebiedsontwikkeling (2011b) development plans are too detailed and static in an early phase of the urban development process. By allowing more flexibility in the urban plan it should be easier to anticipate on changing market developments and private investment initiatives. Furthermore they argue: priorities on development plans should be balanced on a regional and local level. To reach an optimal urban quality there should be more room for a creative design process including substantive participation of all stakeholders (Franzen and De Zeeuw, 2009, Praktijkleerstoel Gebiedsontwikkeling, 2011b). Similar to Peek (2011) Praktijkleerstoel Gebiedsontwikkeling (2011b) and Heurkens (2012) argue the focus should be on the management and operation phase, while in their opinion private parties should pick up the role of master developer or general contractor.

This new proposed way of developing urban areas calls for a new approaches as well. The government will play a different role, as explained the current land policy is scrutinized until today. ‘Presently, also the users and owners are up to act now, but first the sectors and policy fields needed to be decompartmentalised. Homogeneous networks hold the compartments impassable. The fear for loosing influence does contributes. A win-win situation should be created to decompartmentalise and to collaborate wherever possible (seek for interfaces). Intersectoral partnerships and intergral urban area exploitations are becoming the norm’ (Van Rooy, 2009). In order to facilitate these flows and to capture the generated additional value, new business models and partners are needed.

New business models

As described above most parties are hesitant to prefund urban development plans. Financing of urban developments should be approached in a creative way to be able to balance the business model, as the traditional business models have proven to be unsustainable in many cases. A balanced land development should be replaced by a balanced urban area exploitation which focuses on the long term returns (De Graaf, 2011). As subsidy flows are depleted Praktijkleerstoel Gebiedsontwikkeling (2011b) argues investment flows could be combined in an ‘Urban Development Trust’

Heurkens (2012) sums up some promising alternative financing instruments including Tax Increment Financing (TIF), Lottery funding, Crowd Sourcing and Funding, Urban Development Trusts, Business Improvement Districts (BIDs) and Urban Re-parceling. These financing methods can be categorized by its investment source. TIF is a fiscal incentive provided by the government in which future tax gains are used as upfront investment in urban development projects based on the expected future increase of value (Heurkens, 2012). Lottery funding and crowd sourcing/funding are based on investment by civic society. In the report ‘Closing the Investment Gap in Europe’s Cities’ Clark and Huxley (2009) mention lottery funds could be used to finance urban development projects. A more direct public participation is incorporated in
crowd sourcing and funding. (Heurkens, 2012). Urban development trusts, BIDs and urban re-parceling are considered as private investment source and are frequently mentioned in the current debate on the new reality in urban development (Heurkens, 2012; Peek, 2012; Praktijkleerstoel Gebiedsontwikkeling, 2011b; Van Rooy, 2011). The concept of the urban development trust comprises the collection of investments from more different sources. Urban re-parceling is a principle aimed at aligning existing owned property and parcels with development plans (Peek, 2012).

Furthermore Peek (2011) puts forth the exploitation of utility services by introducing Energy Service Company’s (ESCo’s) and Multi Utilities Service Company’s (MUSCo’s). By incorporating ESCo’s or MUSCo’s in the urban development the use and production of utilities are linked, resulting in economies of scale and taxation advantages on the long term. Van Rooy (2011) also mentions land-lease, green shares, urban farming, temporary usage and more.

**New Partners**

A new reality means another way of thinking and according to De Graaf (2011) it should mean the introduction of new parties. According to De Graaf (2011) and Peek (2012) new actors from the energy sector are eager to get involved in the challenges of urban area development. Amongst these progressive companies are Siemens, Eneco, IBM and AVR Van Gansewinkel. Siemens is associated to urban development in the field of mobility and energy concepts. Eneco is involved in sustainable energy generation to reduce the CO2-emissions of the built environment. Interesting is the involvement in urban development from ICT-related companies as IBM. Incorporating their knowledge on transportation, education and security in ‘The Smarter Cities Challenge’ IBM is advising over 100 cities on challenges related to urban development (Siupsinskas and Cormier, 2012). Another sector likely to get more involved is (AVR Van Gansewinkel) waste disposal (De Graaf, 2011). However, as those parties invest a lot in Research and Development they have to recover those costs. This is one of the reasons why it is not so likely to expect energy companies to directly invest in urban development plans. There are some examples in the USA and Canada in which energy companies are developing based on trust between involved actors (De Graaf, 2011).

The search for new parties in urban area development does not only focus on energy related companies. Hagendijk and Franzen (2012) suggest the urban area development could be saved by pension funds or large health insurance companies through the huge capital they possess. Van Joolingen et al. (2009) also points out the possibility of pension funds to contribute to urban development in the long term. Though more insight is needed in the conditions of project funding by large institutions. According to Nicole Maarsen (Bijsterveld and Laverman, 2011) developing investors could obtain a bigger role in urban area development by the contribution of equity capital. In her opinion the roles will change within the real estate market, resulting in a smaller role for traditional real estate actors. The traditional project developer lacks the long term commitment to the project.
De Jonge (2012) argues large corporations have played a major role in city making, providing labor and very often housing and facilities for their workers. They were rooted in social networks. Due to globalization corporations became footloose. Cities had to compete too, but the new idea-driven creative economy will probably change the competitive behavior. As companies are in need for highly-educated creative professionals, who preferably live in a high-quality urban area, the interests of companies will get more aligned with the interest of the city. Therefore companies could obtain a bigger role in the urban development of our cities. In the introduction speech at the yearly urban development congress (2013) De Jonge points out the possibility for private companies to obtain a bigger role in urban development. He mentions the example of South Korea where corporations alike Samsung are directly involved in urban development. There are also examples of corporation-led development closer to home, like the development of Stand-East in London by the Inter-IKEA group.

### 2.4 Changing roles in urban development

The urban planning and development practice in the Netherlands is characterized by a dominant government. Since the beginning of the 20th century urban developments were strictly controlled by the State and local authorities. Although all and sundry might suppose, Dutch planning has not always been orchestrated by the government. The development of the canals in Amsterdam is characterized by the freedom to develop the plots and considered as completely private business (Urhahn Urban Design, 2010, De Jonge, 2012). This section elaborates on the changing roles in Dutch urban development as a result of political trends/policy shifts.

As described by Heurkens (2009), the Rhineland model, a macroeconomic model of capitalism which is based on a regulated market economy controlled by the government, traditionally applicable to The Netherlands, is substantially influenced by the characteristics from the contrasting Anglo Saxon model. Heurkens (2009) argues the Anglo Saxon values are gradually replacing values of the Rhineland model.

The division of roles between government and market have shifted decently, with the emergence of legally organizing town and country planning in the 60s through a ‘Nota’ (Van Rooy, 2009). De Zeeuw (De Zeeuw, 2007) outlines three developments, from a broader context of changes in the Western European society. (1) changing government control, (2) specialization and fragmentation, and (3) forward integration of market parties. The shift towards a free market economy was first observed in the 1980s when government retrenchments and privatizations occurred in the Dutch economy.
According to De Jonge (cited in Heurkens 2012), a fundamental shift has taken place regarding societal values and the public-private power balance in The Netherlands. A shift has taken place towards more individual and inequality societal values while public-private power balance has shifted towards the private market. In the context of urban development this shift means an increased focus on the private sector. ‘From this concluded, it can be said that the public-private relationships, regarding UAD, changes with the alterations in social norms and values (Heurkens, 2012). The freedom in developing powers for infrastructure, demographic growth correlated with land developments and privately-owned initiatives were decisive factors for ending earlier recessions, and thus pertinent in the Dutch history (Van Rooy, 2009). For that reason more freedom should be given and could be a suitable solution throughout this history perspective. Thus a new balance in the public-private relationships is needed to facilitate the free market forces. In the article ‘The Entrepreneurial City’ De Jonge (2012) argues the future could bring a new shift towards solidarity and equality while the private sector retains its power.

Heurkens (2012) recognizes this development, arising from changing social needs and political-economic circumstances in the Dutch urban governance field. These societal changes are reflected in the policy formation of urban planning. According to Heurkens (2009) government leadership in spatial planning policy has largely disappeared, thereby the emphasis of spatial planning policy changed from ‘restrictive planning’ towards ‘interactive planning’. This is embedded in the National Spatial Planning Act (Ministerie van Volkshuisvesting Ruimtelijke Ordening en Milieubeheer, 2006) as a shift from ‘government’ towards ‘network governance’. Network governance entails the ‘collaboration between public actors, societal organizations, citizens and companies’ (Heurkens, 2009). In his doctoral thesis ‘Private Sector-led Urban Development Projects’ Heurkens (2012) describes changed requirements on the roles of public and private parties in urban development projects after 2010 due to the economic crisis. He argues a facilitating role of the government is needed to allow civic and private initiatives and investment in incremental urban developments, as urban planning governance is undergoing another shift towards ‘coalition’ or ‘invitation planning’ (Heurkens 2012). Even though the credit crunch has forced Dutch government to nationalize banks like SNS Reaal, ABN Amro and ING, Heurkens (2012) argues recent urban development projects show a continuation towards a more private-led development. Figure 12 shows the Dutch urban governance shifts described by Heurkens.

![Figure 12 – Dutch urban governance shifts over time (Heurkens 2012)](image-url)
To conclude, ‘within sustainable (demand-driven) urban area development end-users should be involved. End-users should feel highly committed to the developments, better known as ‘mental ownership’ among users of relevant buildings and areas. This will only work if the other parties — who have more power — will take a step back and facilitate decision-making, instead of taking this over or force users to make certain decisions.’ (Bosman and Engbers, 2012) Currently, end-users do think they are mentally owner of an area, but they are still skeptical about the sustainable urban area initiatives. The feeling of being deceived dominates, causing extra resistance for cooperation. Also from the financial perspective ‘mental ownership’ is important. For instance, investors will be committed for a longer period of time with their projects.’ (Agentschap NL and RVOB, 2011) Moreover, allowing civic parties to participate could be a promising way to attract new resources. Lex Hoogduin, direction member DNB, argues that the funding gap could be closed by civic savings. Currently we have more than 1.200 billion, which is mostly accommodated in and controlled by pension- and insurance funds. Urban development projects need to become more attractive for this huge amounts of money.’ (Raatgever, 2012) ‘But also the saving accounts are being increasingly stacked the recent years: to 328 billion.’ (DNB.nl, 2013) Also according to Peek (2013) we should look if we can bring together more and smaller amounts of money to close funding gaps. He explains, we will therefore need to cooperate more, maybe even with individuals (referring to this civic capital).

2.5 Challenges in urban development projects

In order to balance urban development financing the orientation of UAD should shift from a land development to urban area exploitation. Thus the focus should be on long term revenues of an urban area. Moreover, the focus should be on new business models including new actors like energy related companies and private corporations. Urban development practice could be widened to juxtaposed value chains such as energy, while moving the focus to the management and exploitation phase. Urban plans should allow more flexibility to be able to anticipate on changing market developments and private investment initiatives. Market players with a healthy solvency ratio or financially robust parent-company are expected to be able the continue their business. Regarding their potential investment capital and their focus on long term profits the investor remains a major actor in urban development. Collaboration instead of competition between investors can lead to a reduced risk. And finally, private parties are expected to pick up the role of master developer.

The enumeration above shows the major challenges of the so-called ‘new reality’ of urban development in The Netherlands. These issues form a source of inspiration for innovative research to be conducted. Two major issues are the development of new business models, and the role of investors in urban development practice. The next section elaborates on the alignment of the graduation projects of both Boudewijn Stumpel and Carlo Sturm, and positions them in this emerged field of research.
2.6 Coherence graduation projects of Stumpel and Sturm

Both research projects can be considered a follow-up study on the dissertation of Erwin Heurkens (2012) concerning private sector-led urban development. Boudewijn Stumpel focusses on the urban development fund as a new business model. Stumpel aims to examine this business model on applicability and feasibility regarding the context of Dutch urban development practice. The graduation project of Carlo Sturm is oriented on how investors can obtain a leading role in urban development projects by means of urban development strategies. Next to exploring development strategies to cope with short- and long-term aspects of UDP, it is focussed on management and organisation, and public private partnerships in investor-led urban development projects. Both research themes overlap in their focus on private sector-led development and the utilization of private sector capital for the purpose of urban developments. The figure below positions both research projects on the levels of urban development projects.

Although the research projects are conducted separately, the results can be used jointly to provide a comprehensive and holistic overview of the possibilities for investors to engage in urban development projects via urban development funds. Thereby providing recommendations for public and private roles and partnerships.
theories and concepts. As described in chapter 2, the main focus of this research is on the investors as panacea for the stagnation of Dutch urban development and how urban development strategies can be utilized to make that possible. In this third chapter theories and concepts regarding investor-led urban development are explored. The first part of this theoretical framework comprises the theories concerning real estate investors and their role in urban development projects. The second part elaborates on urban development strategies, management and organization.

3.1 Investor-led Urban Development

Investors are expected to get more involved in urban development projects. The problem analysis showed some tensions between characteristics of urban development projects and the investor's investment criteria. First we have to define what types of real estate investment are defined and what their characteristics are. Shortly, the track-record of the investor in Dutch urban development is explored. Thereafter, real estate investment decision-making and strategies are described. After describing the characteristics of urban development projects, including relevant incremental and integral aspects, the definition of investor-led urban development is formulated.

3.1.1 Investment in Real Estate

This section introduces the theory of investment in real estate and urban development, thereby distinguishing different types of real estate investment and their characteristics. Firstly a classification of real estate investment is given. Thereafter the investment process is described. And lastly the connection between project development and investment is explored.

Van Gool et al. (2013) argue a distinction should be made between investment in real estate, investing and developing. The differences between real estate investment, investing and development. Investment can be described as investment of capital in the ‘equity certificates’ of real estate in order to increase their capital value. When the objective of investment is about the real estate object as means of productions rather than increasing capital value, the term investing is more appropriate. In contrast, the term development should be used when the emphasis is on the value creation by development and sale of a real estate object by a project development, rather than on the exploitation of the object. Thus, in terms of investment, the emphasis is on real estate as an investment asset (Van Gool et al., 2013).

Classification of real estate investments

Concerning investment in real estate a distinction is made between ‘direct’ real estate, and ‘indirect’ real estate. Direct real estate implies the investment in ‘bricks and mortar’ (Van Gool et al., 2013). In other words, the investor is the owner of the real estate object or owner of a majority of the object related equity certificates and thus has a say in the management of the real estate. Investment in direct real
estate incorporates all kinds of real estate, such as land, dwellings, offices and retail. Instead, indirect real estate is related to investments in which the owner has a minority share of the equity certificates and is entitled to the revenues of the object, although the investor does not have a say in the management of the real estate (Van Gool et al., 2013). Alike direct real estate, there are various types of indirect real estate. But, investment in indirect real estate always incorporates investment vehicles (Geltner, 2007). These investment vehicles trade and manage a real estate portfolio to gain revenue for the shareholders, the investors. Furthermore, these companies can be involved in the development of real estate.

As indirect real estate involves the trade of real estate objectives, two trade markets can be distinguished; public and private markets. Public markets concern investment in real estate on stock market (Van Gool et al., 2013). Investment in real estate on public markets is considered the most accessible form of indirect real estate, as investors can easily trade their shares. On the contrary, private markets imply the trade and investment of real estate in a ‘private atmosphere’, outside the stock market. Activities of real estate funds on private markets vary from conservative, low risk, to progressive and high risks (Van Gool et al., 2013). Examples of real estate funds active on the private market are CBRE Global Investors, and Bouwfonds REIM. Publicly traded real estate is characterized by a high risk return profile and is highly correlated to the stock market, while private market real estate is characterized by its inaccessibility to a large group of investors due to the required expertise and a high investment threshold (Roosen, 2004).

The combination of both dichotomies, direct and indirect, public and private, leads to three types of real estate investment. The figure below shows the relation between the above described terms. Using the term ‘public investment’ could lead to confusion as governmental bodies are often referred to as public actors. Therefore we use the following three categories of real estate investment: Direct, Private Indirect and Publicly Traded.

**Characteristics of real estate investments.**

Van Gool et al. (2013) describe the characteristics of both direct and indirect real estate investments. Direct real estate is considered both a capital asset as a means of production, thus an investor not always acts on a capital market. Direct real estate is illiquid though it has a long lifespan. It is characterized by high unit rates and transaction costs, a long production term and complex regulations. Van Gool et al. (2013) set out pros and cons of investment in direct real estate, shown in the table below.

<table>
<thead>
<tr>
<th>Advantages direct real estate investment</th>
<th>Disadvantages direct real estate investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Portfolio diversification</td>
<td>Knowledge and management intensive investment</td>
</tr>
<tr>
<td>Steady revenues</td>
<td>High charge on capital</td>
</tr>
<tr>
<td>Attractive yields and risk ratio</td>
<td>Lack of transparency</td>
</tr>
<tr>
<td>Provides reasonable protection to inflation</td>
<td>Illiquid</td>
</tr>
<tr>
<td>Intensive management leads to higher returns</td>
<td>Performance is hard to measure</td>
</tr>
<tr>
<td>Special opportunities on real estate markets</td>
<td></td>
</tr>
<tr>
<td>Tax benefits</td>
<td></td>
</tr>
</tbody>
</table>

*Table 6 – Advantages & disadvantages of Direct Real estate investment (Van Gool et al., 2013)*
Additional portfolio diversification is argued as one of the important advantages of direct investment in real estate (Van Gool et al., 2013). The portfolio diversification of direct real estate is based on the limited or even negative correlation between the rate of return on real estate compared to other forms of financial assets such as stocks and bonds. Thus, by acquiring direct real estate the total risk of the portfolio can be reduced, or returns increased (Van Gool et al., 2013). Brounen and Eichholtz (2004) even argue that acquiring direct real estate by development more profitable than acquirement via property trade markets. Furthermore, direct real estate investment incorporates a relatively high protection to inflation. This so-called in inflation-hedge is the result of indexation of rental contracts and the increase of construction costs that normally exceeds the inflation. Thereby, due to scarcity it is assumed land prices will keep increasing (Van Gool et al., 2013). Though direct investment in real estate requires knowledge and extensive management. Subsequently direct real estate requires a larger acquisition and management department compared to investment in stocks and bonds (Van Gool et al., 2013).

Van Gool et al. (2013) also explores the pros and cons of indirect real estate investments, which are shown in table 7.

<table>
<thead>
<tr>
<th>Advantages indirect real estate investment</th>
<th>Disadvantages indirect real estate investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>No expertise on local market needed</td>
<td>Little influence on management and policy</td>
</tr>
<tr>
<td>Possible to invest in small shares</td>
<td>Less ‘feeling’ with real estate market</td>
</tr>
<tr>
<td>No property transfer taxes</td>
<td>Higher risks due to debt capital</td>
</tr>
<tr>
<td>Higher liquidity</td>
<td>Higher risks on public markets</td>
</tr>
<tr>
<td>Economies of scale</td>
<td></td>
</tr>
<tr>
<td>Less emotional value</td>
<td></td>
</tr>
<tr>
<td>Chances on higher rate of return</td>
<td></td>
</tr>
<tr>
<td>Leverage effect</td>
<td></td>
</tr>
<tr>
<td>Easier to benchmark investments</td>
<td></td>
</tr>
</tbody>
</table>

Table 7 – Advantages and disadvantages of indirect real estate investment (Van Gool et al., 2013).

The following figure relates the advantages of direct and indirect real estate to the three defined investment categories.

Figure 14 – Advantages of direct, private, indirect and publicly traded real estate (Van Gool et al., 2013).
*Investment process*

The process of investment in direct real estate differs from the typical real estate development cycle. As described by Van Gool et al. (Van Gool et al., 2013, Wolting, 2006) the investment cycle starts by the acquisition or development of a real estate object. Core business of the investor, the exploitation of real estate, starts after the acquisition and incorporates the management and operation of the real estate in their portfolio. Some investors outsource activities related to the exploitation phase, such as maintenance. When the economical or technical lifespan of a real estate object has ended, the investor has to decide whether to redevelop or sell the object. After renovation or redevelopment a new exploitation phase starts.

*Actors in real estate investment & development*

As mentioned investors can acquire real estate by development instead of purchase. Van Gool et al. (2013) describe six main groups of actors involved in project development:

- Constructors
- Investors and investing developers
- Financial institutions
- Housing associations
- Affiliated specialist project developers
- ‘Pure’ project developers

In the scope of this research housing associations, financial institutions and investors and investing developers could be considered interesting actors. Though, financial institutions are mainly focused on the short term owner-occupied housing market, as the end-user is considered a potential client (Van Gool et al., 2013). Housing associations can be seen as developers affiliated to investors in some way, though these associations deal with different regulations and markets (Van Gool et al., 2013).

*Developing investors and investing developers*

Van Gool et al. (2013) distinguishes investors and investing developers as a type of project developer. This type of project developer includes both institutional investors and wealthy individuals. Based on a desired diversification of their portfolio institutional investors may decide to develop and invest in direct real estate. Institutional investors are mainly interested in long term cash flows; therefore most of their developing activities incorporate retail malls, the higher segments of the rented housing sector and offices. Most of the developing activities of institutional investors are performed by a subsidiary company (Van Gool et al., 2013). In comparison the investing developer retain the developed objects after realization to be able to benefit from expected increase of value after a certain time. Often these cases regard conceptual projects or urban developments. As investing developers are committed to a project for a longer term, they are able to redeem the benefits of intensive property management as this often results in a higher quality and thus a higher value (Van Gool et al., 2013).
Development, Investment or both?

Until the 1980s the corporate emphasis was on combining as much activities as possible in one company. The theory of this corporate diversification is based on the combination of activities that show fundamental differences to spread the risk of all the activities of the company (Brounen and Eichholtz, 2004). Though emphasis shifted towards the ‘core business strategy’. This strategy implies a company should focus on their profitable core business instead of wasting money on unprofitable secondary businesses (Brounen and Eichholtz, 2004). In the domain of real estate many investors repelled their project development divisions. According to Brounen & Eichholtz (2004) the development of real estate enables the investor to choose the best locations; consequently the investor has more control on the composition of its portfolio. As development and investment are based on two different economic cycles, the combination these activities leads to diversification benefits (Brounen and Eichholtz, 2004). They continue that the developing investor can even take advantage of fiscal benefits as development activities are tax deductible. On the contrary, Brounen & Eichholtz (2004) argue that the divergent character of both activities require different management activities. Another disadvantage is the increase of risk due to project development (Brounen and Eichholtz, 2004). Based on their research Brounen & Eichholtz (2004) argue that the performance of developing investors is significantly higher compared to investors, even though development incorporates higher risks. Therefore they argue there is a synergy between developing and investing. Portfolio diversification is further described in section 3.1.4 based on portfolio theory.

3.1.2 Historical perspective of investors in Dutch urban development

The above sections described investor-led development and the how investors make decisions in real estate investments. As this research is focusses on the possibility for the investor to obtain a leading role in urban development, we argue they do not poses that role now. Therefore it is relevant to explore the history, or track-record, of the investors’ role in urban development in The Netherlands.

In *Vastgoed als beleggingscategorie* (ENG: Real Estate as investment class) Bol (2003) provides an outline on real estate investment in The Netherlands based on the changing investment rationale. The first Dutch pension funds emerged around 1890, focusing on developing houses for the employees of its related company based on the ‘bricks and mortar’ investment rationale. After World War II the trend to invest in commercial real estate blew over from the United States, as a unique form of ‘private equity’ (Bol, 2003). In the seventies scarcity on the real estate market raised the interest in foreign real estate markets. Thereby investors started to expand their activities in the domain of real estate by investing in land, and participation in early stages of the development process (Bol, 2003, Brounen and Eichholtz, 2004). This trend has been described in section 3.2.1 as corporate diversification.
At the end of the 1980s, the investment rationale changed from economic to financial as real estate was increasingly valued based on financial merits (Bol, 2003). This change was triggered by the emergence of Asset Liability Management (see section 3.1.4) and the need for risk and performance measurement of real estate. Based on these trends investors started to change their business model focusing on their core-business (Bol, 2003). Hence, most pension funds considered investment as their core business instead of development. As a result most development divisions were repelled.

The new millennium entailed the revaluation of real estate as investment class, induced by an increased level of professionalization in the real estate sector (Bol, 2003). Nowadays real estate is considered a profitable long term development, still characterized as ‘private equity’ investment, its high initial yield and high end value. Therefore, real estate is still seen as a good diversification compared to other investment classes. Furthermore, the professionalization resulted in more transparency of cash flows thereby changing the emphasis of investment towards the cash flow rationale.

Nonetheless, the financial crisis, debt crisis and some cases of fraud in real estate led to the current rethinking of the real estate domain. Van Gool et al. (2013) mapped recent development and experiences regarding investment in real estate. For instance foreign direct real estate showed too risk full, while financing proved to be hard to acquire. Thereby the trend to increase the sustainability of the portfolio has proven to be difficult (Van Gool et al., 2013).

Some figures
The described trends are reflected in the figures of investments by Dutch pension funds and insurance companies. Since the 1980s the invested capital in real estate by pension funds has increased rapidly from about 10 billion euros to 90 billion euros in 2010. Remarkably the invested capital in real estate of insurance companies has only increased by about 10 billion to less than 20 billion in total. The relative asset allocation of pension funds shows that the investment percentage in real estate fluctuates close to 10%. At the same time, the percentage invested in real estate by insurance, relative to their total investments, dropped from about 12% in 1980, to less than 5% in 2010.
Interesting to see is the growing importance of indirect real estate for pension funds. The stats clearly show that direct investment in real estate across the border has lost interest. Remarkably pension funds stopped building up their investments in direct real estate in 2005. According to Van Gool et al. (2013) the shift from direct to indirect real estate seems to slow down. In recent years the larger pension funds have been increasing their influence on their real estate investments.

3.1.3 Real Estate investment decision-making and strategy

The above distinguished different forms and characteristics of real estate investment, defined the term investor-led urban development that is subject to this research, and explored the history of the investors’ role in urban development. But how does an investor decide whether to invest in a development project or not? This section describes decision-making and strategy of investors by investment criteria, portfolio management and investment strategy.

Investment criteria

The investment of capital is based on certain goals that differ per type of investor. To describe the differences in investment goals, Van Gool et al. (2013) distinguishes two main groups; institutional investors and private investors. The main task of institutional investors, such as pension funds, insurance companies and investment vehicles, is the management of capital of participants in order to provide dividends on the long term. Private investors mostly invest based on other objectives, such as generating income or the value (Van Gool et al., 2013). Investment criteria are based on the investment goals. Van Gool et al. (2013) describe to following investment criteria:

- required return on investment
- investment term
- intended liquidity of investment
- risk-level of the investment
- use of debt capital
- matching investment to liabilities

Risk Return ratio

One of the most important considerations in terms of investments is whether to take higher risks in order to obtain higher returns, or incorporate lower risks and corresponding lower returns. Based on the investment style index of Morningstar, Roosen (2004) describes three investment styles applicable to real estate investment; core, value-add and opportunistic. Basically these styles concern three different risk return profiles that investors consider. In the table below the characteristics of the investment styles are shown. Although these characteristics concern investment on an object level, they provide an inside in the different risk return ratios investors apply.
Portfolio management

Based on the risk and return of single investments, investors manage the total risk and return of their investment portfolio. The perspective of portfolio management can provide an insight in how different types of developers cope with the management of risk and returns. Van Gool et al. (2013) described risk-spreading by investors based on the modern portfolio theory. This theory is based on Markowitz’ concept of synergy by diversification. This theory shows that the combination of investments based on a diversification of different risk profiles leads to a higher risk return ratio compared to individual investments (Van Gool et al., 2013). Thus, diversification of the investment portfolio results in synergy, while the total risk of the portfolio is muted. (Brounen and Eichholtz, 2004, Van Gool et al., 2013). Based on the size and risk of separate investments and the correlation between the investments in the portfolio, the expected risk and return can be calculated.

Asset Liability Management

As mentioned in the previous section concerning the history of investment in The Netherlands, asset liability management (ALM) has gained importance for institutional investors as pension funds and insurance companies. ALM-studies compare the risk of the investment portfolio to the all business operations of the investor. The study includes the weight of investments, or assets, on the total balance sheet and related to the investors liabilities (Van Gool et al., 2013). Hence, pension funds and insurance companies have huge liabilities to their participants, thus matching assets to liabilities is considered extremely important.

New investment strategy

Van Gool et al. (2013) argue that the impact of the financial crisis, the debt crisis and cases of fraud in the real estate sector forced some investors to develop a new ‘investment’ business model. For instance, large pension funds like ABP, tend to increase their investment in direct real

<table>
<thead>
<tr>
<th>Core</th>
<th>Value-add</th>
<th>Opportunistic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk</td>
<td>Low</td>
<td>Medium</td>
</tr>
<tr>
<td>Return</td>
<td>Low</td>
<td>Medium</td>
</tr>
<tr>
<td>Liquidity</td>
<td>Good</td>
<td>Fair</td>
</tr>
<tr>
<td>Phase</td>
<td>Ongoing exploitation</td>
<td>Exploitation/Letting</td>
</tr>
<tr>
<td>Additional investment costs</td>
<td>Low</td>
<td>Significant</td>
</tr>
<tr>
<td>IRR target</td>
<td>≤ 11,5%</td>
<td>&gt; 11,5% to ≤ 17%</td>
</tr>
<tr>
<td>Maximum loan to value (leverage)</td>
<td>&lt; 40%</td>
<td>&gt; 40% to &lt; 60%</td>
</tr>
</tbody>
</table>

Table 8 – Criteria of investment styles based on Roosen (2004), Bruggema (2011) and Van Gool et al. (2013)

<table>
<thead>
<tr>
<th>Old model</th>
<th>New Model</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land and assets as power</td>
<td>Knowledge as power</td>
</tr>
<tr>
<td>Capital intensive</td>
<td>Knowledge intensive</td>
</tr>
<tr>
<td>Supply oriented</td>
<td>Demand oriented</td>
</tr>
<tr>
<td>Mass development</td>
<td>Small scale, ‘personal’ buildings</td>
</tr>
<tr>
<td>Anonymous market</td>
<td>Personal approach</td>
</tr>
<tr>
<td>Anonymous building</td>
<td>‘Experience’ approach</td>
</tr>
<tr>
<td>Standardization</td>
<td>Tailor-made</td>
</tr>
<tr>
<td>Single transaction</td>
<td>Long term customer relationships</td>
</tr>
<tr>
<td>Bank loan for developer</td>
<td>Direct financing by user</td>
</tr>
<tr>
<td>New construction and sales</td>
<td>Transformation</td>
</tr>
<tr>
<td>Government controls supply side</td>
<td>Government controls demand side</td>
</tr>
</tbody>
</table>

Table 9 – Towards a new business model (Van Gool et al., 2013)
estate, via joint ventures to obtain more control rather than investing in indirect real estate via investment funds (Van Gool et al., 2013). Though, the current investment in direct real estate by Dutch institutional investors through for instance development is quite inconvenient as many have repelled the needed management and development divisions. Due to the economic crisis the emphasis is on ‘core’ instead of value-add or opportunistic to reduce risks (Van Gool et al., 2013). Table 3 shows the differences between the old and new business model.

3.1.4 Characteristics of urban (re)development projects

The emphasis in urban development is on the redevelopment of urban areas. Therefore this research focusses on redevelopment of urban areas, rather than greenfield development. Compared to greenfield development projects, brownfield development is considered more complex and incorporates various hurdles to take for both public and private actors. This section explores the characteristics of redevelopment projects and describes the hurdles public and private parties will face.

*Characteristics of urban (re)development projects*

Friso de Zeeuw (2007) distinguishes three types of urban development projects; inner-city area developments, city expansion developments and transformations form rural to urban areas. The different kinds of projects incorporate different characteristics. The main focus of this research is on inner-city area developments. According to Daamen (2005) complexity of (re)development of urban areas has increased over time. Financial, spatial and organizational aspects form a complex process of attunement. Urban development projects are characterized by their long duration and high risks. Thereby, the land development of inner-city urban projects commonly show a financing gap (Bruil et al., 2004). In most cases, public actors have a shortage of resources land and capital (Daamen, 2005). Differences in risk perception between public and private parties are a main source of tension in urban development projects (Daamen, 2005).

Wolting (2006) describes the differences in phases of urban area development distinguished by public and private parties. Market parties consider four phases; initiative, feasibility, realization and exploitation/management. Public actors divide the feasibility phase into a definition, design and preparation phase. Based on these differences some tensions arise in urban development project. Public actors require a go/no go decision in the early stage of the feasibility phase, whereas private actors generally try to postpone the go/no go decision as long as possible (Wolting, 2006).

Managing risks is an important aspect of urban development projects. Both the development and public private partnerships are subject to various uncertainties. Wolting (2006) distinguishes various types of risks related to urban development projects. Overarching ‘internal’ and ‘external’ risks comprise organization and collaboration risks, and political, legal and societal risks, while financial risks include
macroeconomic effects on rent and investments (Wolting, 2006). Most relevant internal risks are trust and commitment of the involved actors. In the context of this research political risks like timing of elections are amongst the most relevant external risks. Within urban development projects Wolting (2006) distinguishes spatial-technical, plan development, land development, sale and exploitation risks. Considering the current economic conditions, sale and land development risks are high. In public private partnerships risks are distributed between involved actors.

As described in the problem analysis and in chapter 2, worsened macroeconomic conditions have had their impact on urban development projects. According to Franzen & De Zeeuw (2009), Praktijkleerstoel Gebiedsontwikkeling (2011b), Peek (2012) and others, these changes will affect the urban development projects. As described in section 2.2.6, Peek (2012) has translated the changed conditions and practice of urban development projects into three types urban development; gebiedsontwikkeling 1.0, 2.0 and 3.0. Gebiedsontwikkeling 1.0 is characterized by its integral approach and focus on development. The impact of the economic and financial crisis on urban development projects is reflected in the second ‘practice’, 2.0, which incorporates a small scale investment and development based current use and demand, and is best describe as an incremental development approach. This approach is mainly applied on integral urban development projects that have come to a halt (Franzen and De Zeeuw, 2009, Peek, 2012). The third practice is introduced by Peek (2012) as a future model for urban development projects, and focusses on juxtaposed value chains, the end-user and investor.

Incremental and integral aspects of urban development projects
The above described urban development practices incorporate two opposing approaches; incremental and integral development approach. Buitelaar et al. (2012) compared both approaches displayed in the figure below.

Figure 16 - Characteristics of integral and incremental urban development (Buitelaar et al., 2012)
The integral urban development approach is characterized by its project managerial approach including a detailed development plan for a large scale development. Large private actors are involved in the development of the urban area. Local governments involved in an active and risk-bearing role (Buitelaar et al., 2012, Peek, 2012). The incremental development approach is based on small scale, gradual developments based on market demand, instead of supply. The focus is on managing the development process. Subsequently there is no exact development term, or period. The blueprint development plan is replaced by a strategic, and flexible, plan that is able to anticipate on changes in market demand or societal challenges (Buitelaar et al., 2012, Peek, 2012). In this approach local governments have a role as facilitator of the urban development.

Most urban plans are densely arranged, and too detailed, in an early stage of development. According to the Praktijkleerstoel Gebiedsontwikkeling (2011b) priority setting on both a regional and local level should be combined with flexibility to be able to anticipate on changing market conditions and private initiatives. Van Joolingen et al. (2009) argue the emphasis should be on the development of integral areas, combining different functions to develop a sustainable urban environment; long term vision is needed though risks should be minimized. To do so, a flexible and phased design and realization is needed. If private actors are to obtain the role of ‘master developer’, integral programming, financial engineering and risk management are considered key principles, included in a more free development process (Praktijkleerstoel Gebiedsontwikkeling, 2011b). This process incorporates the major tension between need for certainty and flexibility. Hence, flexibility means the ability to anticipate on changing conditions thus incorporates an uncertainty and risk.

As mentioned in chapter 2, the new reality in Dutch urban development does not mean the end of the integral development approach; however this approach requires high pre-funding and is characterized by high risks. The outlined future of urban development in The Netherlands shows aspects that can be related to both the incremental and the integral development approach. Thereby, it is impossible to strictly classify urban development projects as each development, each location, has unique characteristics and other actors are involved. Thus, urban development projects include both incremental and integral aspects, which have to be balanced based on the projects’ environment.
3.1.5 Investor-led urban development

In this research the emphasis is on the investor as leading actor of urban development projects. But what is actually meant with investor-led development? This section elaborates on the one of the key terms in this research.

Changing role of the investor in urban development projects

The current, traditional, role of the investor in urban development projects is the private actor that buys real estate objects after realization for the purpose of long term revenues. Most investors are not interested in development of real estate due to the higher risks (Bruil et al., 2004). New challenges force us to rethink the process of urban development and develop new business models. As mentioned investors could obtain a more important role in development of urban areas (see section 1.3). According to Peek (2012) the emphasis in the new reality of urban development will be on the investor. Nicole Maarsen (in Bijsterveld and Laverman, 2011) expects developing investors can obtain a bigger role in urban development in The Netherlands, while Brounen & Eichholtz (2004) argue developing investors perform significantly better than investors. According to Van Gool et al. (2013) there is a growing interest of investors in the performance of their real estate, resulting in a growing influence and focus on local markets.

Investor-led urban development

Based on the challenges in urban development in The Netherlands, this research focusses on how investors can obtain a more dominant role in development projects. Based on the theories regarding investors, described above, the term investor-led development implies urban development projects in which an investor is directly involved in the development of an spatial area. This means the involved investors should have a say in all phases of the development process and, logically, has a large share in the investments in the area. It does not matter if the investor acquires real estate by developing by itself or via a partnership with a project developer. Though the investor is involved in the management an organization of the urban development project.

Based on the theory described in this chapter we use the following definition of investor-led urban development in this research:

“An urban development in which an investor has a leading role in the management, organization and financing of the project.”

3.1.6 Conclusions

This paragraph elaborated on the investor in urban development projects. It showed that direct real estate investment requires intensive management and higher risks. Though it is argued the performance of developing investors is significantly better. Mainly institutional investors have been retreating from
direct real estate investment. On the contrary, Van Gool et al. (2013) argue this trend is changing as investors are getting more oriented on local markets and managing their real estate. Therefore it is likely that the emphasis on direct real estate will grow. Risk management is an important aspect of investment decision-making of developers. This has to be aligned to the risks in urban development projects.

It is argued the future of urban development will incorporate both incremental and integral aspects. Risk management and the ability to respond on changing market demands (i.e. flexibility) are considered important aspects of UDPs. Based on the characteristics of the different types of investors described in this paragraph, developing investors seem to be able to control both aspects as they are directly involved in development and therefore can increase the quality of the real estate.

3.2 Strategy, Organization and Management of Urban Development Projects

This research is oriented on urban development strategies by which investors could obtain a more dominant role in urban development projects. Therefore it is important to develop a framework comprising management perspectives, strategy formation and management and organization of urban projects. Based on this framework urban development strategies and their implications on public private roles in urban development projects can be examined. This paragraph is based on the following research question:

Which theories, perspectives and aspects are distinguished in literature regarding roles and collaboration between public and private parties in the urban development process, and which factors regarding the result and success of urban re-development projects are described?

3.2.1 Urban development process: management perspectives

To structure the way we study specific phenomena of urban development processes we have to define perspectives concerning management theories to which this research is subject. By doing so this section positions the graduation research in management theory.

Governance perspective

Due to societal changes, including the rise of the network society, the practice of city planning and urban development is facing new challenges and have to reinvent themselves in order to be competitive on a global scale (Wigmans, 2011). Adding up the increased complexity of urban development processes and greater emphasis on private parties we can explain why Governments lost their role as manager of strategic processes in the city. As such government is replaced by governance. From the perspective of governance organization and decision making in urban development processes is not limited to a single actor. Governance comprises the alignment of diverse visions, interest and opinions of various actors into
a collaborative whole (Wigmans, 2011). As this research aims to explore the way how investor-led development could be implemented as strategy for urban development projects in The Netherlands, this research focusses on the operational part of governance (Franzen et al., 2011). In the context of urban development projects governance means “the capacity to organize collective action towards specific goals” (Heurkens, 2012).

Network perspective
The process of urban development can be seen as the collaboration between public and private actors. Both actors have an interest in the development of an urban site, though collaboration is required for the realization of the urban project. These kinds of co-operations between public and private actors imply interdependence between the involved parties and the increase of participants. According to Klijn and Teisman (2003) these conditions create the problem of co-operation which can be studied based on the theory of network governance. Due to the level of complexity that is inherent to urban development projects, Van Bortel et al. (2007) argue urban projects can only succeed if a number of actors collaborate. Thus, according to De Bruijn et al. (2002), urban development projects are best described as a network, as it is characterized by the interdependence of the involved actors, though differences between these actors indicate pluriformity, while actors are able to join and leave turning the project into a dynamic and unpredictable process. These aspects have a major impact on the way urban development projects are managed.

Process and project management
As mentioned above, traditional project management has proven to be a less capable approach to bring urban development projects to a successful end. As such, the management of urban development should focus on the broader perspective of the process rather than the project (Franzen, 2011). Adding up characteristics of a network society, urban development projects require a process management approach. De Bruijn et al. (2002) argues process management is about managing interests of the involved actors in problems that are characterized by ambiguity and the absence of a clear solution. In contrast, project management is based on achieving a specific goal. Nevertheless it is argues urban development comprises both project and process management aspects (Franzen et al., 2011). There is an on-going debate about whether urban development is seen as a project or process. This research is not aimed at clarifying this view on urban development. In our view, in respect to what is mentioned above, urban development projects comprise both process and project management activities (Daamen, 2010, Heurkens, 2012)

3.2.2 Strategy
According to Mintzberg (2007) strategies can be defined as “a series of decisions which determines behavior over time”. In this sense, strategies are formed by behavior of actors. This research in focused on the coping of actors with the flexible and uncertain aspects of urban development projects. Thus we
expect investors to form a strategy over time while facing these uncertainties. Based on the perspective of strategy formation Daamen (2010) defines an Urban Development Project Strategy as:

“A strategy includes all decisions and actions of those that intend to realize the concrete material interventions they involve, and can be understood as an on-going dialectic between structures and projects.”

Understanding strategy formation

As mentioned strategies are formed by decision-making by actors over a specific period. Mintzberg (2007) describes the process of strategy formation by four forms of strategy: strategy as pattern, as plan, as perspective, and as position. The first two forms of strategies are related to the strategy process, while strategy as perspective and as position are related to the content of the strategy (Mintzberg, 2007).

Strategy as a plan is how most people perceive the term strategy. Henry Mintzberg (Mintzberg, 2007) quotes an English dictionary that defines strategy as: “A plan designed to achieve a particular long-term aim”. This definition contradicts the definition of strategy at the top of this paragraph, which is based on theory of Herbert Simon (in Mintzberg, 2007) which entails the formation of strategy by a series of decisions. Based on this theory Mintzberg defines the second form of strategy: “strategy as a consistent pattern in a stream of decisions”. According to Mintzberg (2007) a distinction can be made between deliberate and emergent strategies. As strategic plans are intended, he describes this form as deliberate. Whereas plans as patterns are emergent. Regarding to the content of a strategy, Mintzberg (2007) argues strategies can be defined as a perspective, i.e. the broad view, and as a position, i.e. a concrete plan or tangible position. Figure 8 shows an imagination of the discussed four strategies.
Positioning Strategy in the context of Urban Development Projects

Daamen (2010) describes strategies as a practices, placing it between projects and structures. Projects are defined as “the concrete material intervention” while structures include a set of “certain rules which are perceived to portray continuity in time and space”. In his dissertation ‘Strategy as Force: towards effective strategies for urban development projects’, Daamen (2010) analyses the case of Rotterdam City Ports based on three main research questions which are integrated in his conceptual framework shown in figure 19. The left column of this framework includes the orientation of actors involved in the ‘arena’ of the urban development project and the subsequent challenges. The UDP strategy is placed between the situation and interactions between the involved actors. The column on the right-hand side represents the reflection on whether actors orientations are reflected in actual actions thereby providing an insight in the urban development force (Daamen, 2010).

However, Daamen’s (2010) UDP Strategy model is oriented on the analysis of an urban development strategy over a long time, thereby incorporating deliberate, but in particular undeliberate actions over a long period. It is not within the scope and the limitations of this research to track the urban development strategy over a long period, as it is oriented on the strategy as a deliberate public private ‘process model’ for urban development. As strategy is not to be broken down into generic variables or aspects, we have to define what aspects are relevant concerning the urban development process. Herein we have to consider the main contextual issues described in chapter 2.

To identify the relevant aspects, we can take a look at the UDP strategy model. Daamen (2010) has incorporated the UDP challenges and UDP situation in the strategy. However, in this research the challenge and the situation are observed as given: the redevelopment of an inner-city community. Although we will reflect on the specific challenges in the case study research and regarding the comparative analysis, these variables are irrelevant regarding our view on the urban development strategy. On the other hand, the actor’s orientation incorporating its objectives and vision for the urban development are relevant. Furthermore, considering the research motives regarding the changing public and private roles, the way the involved actors cooperate is an essential aspect of the urban development strategy. Moreover the urban development resources, mainly the financing of the project, and the urban development rules, as a regulatory framework, are of significant importance to analyze the urban
development strategy. Section 3.3 elaborates on the as variables of the urban development strategy regarding the analytical research framework.

*Urban Development Force*

Daamen (2010) further emphasizes on the force of urban development strategy based on interaction. Interaction includes the decisions, actions and events related to the urban development project. According to Daamen (2010) decision-making can be described as “commitment to actors”. As mentioned above, decisions and actions affect the realization of an urban development project. These decisions and actions are motivated by an intent of an actor. Based on Giddens (1984), Daamen (2010) defines the difference between what actors do and what they intend; “intentions are “the goals behind decisions and actions”. The realization of urban development projects is subject to external decisions and actions which Daamen (2010) describes as events.

The relationship between behavior of actors, including decision-making and action, and the context of the urban development projects is often referred to as power (Daamen, 2010). Daamen (2010) places this force, or power, to influence an urban development, between rules and resources. According to Giddens (in Daamen, 2010) our behavior is based on what is possible, i.e. resources, and what is allowed, i.e. rules, it is the power of an actor to achieve an object based on rules and resources. Thus, in the case of urban development projects, in which actors interact together, strategic power means “shaping relationships through which projects are realized”, which implies a continuous alignment of urban development resources and rules (Daamen, 2010). Daamen (2010) defines urban development force as “the capacity to affect the realization of an urban development project”.

### 3.2.3 Steering urban development projects: roles and leadership

Urban development force is, as described above, related to the interaction between various actors in an urban development project. By means of resources and rules, actors can affect the realization of a project. These decisions and actions are related to how actors are able to steer urban development projects. This section elaborates on the operational side of this urban development force, and how this steering is related to roles and leaderships in urban development projects.

From the perspective of governance it is not a matter of course that leadership and management of urban development projects is a solely task of public actors. Based on the network theory all involved actors, public and private, are able to influence the dynamic development process. Focusing on the operational part of public private collaboration, we have to define how actors can influence the urban development process, what management means, and what is meant by public and private roles and leadership in the context of urban development projects.
Steering

Based on the systems theory Heurkens (Heurkens, 2012) describes operational management as steering. In other words, steering comprises all forms of directive influence on a ‘system’. Managing or steering urban development projects includes dealing with uncertainty, unpredictability and ambiguity. Moreover, urban projects have to deal with changing conditions and goals and location-dependent contexts. He further elaborates steering a project is about achieving objectives with people, steering a course, and problem solving and designing solutions.

As described by Heurkens (2012) management of urban development projects, specifically collaborations between public and private actors, is closely related to the management approach of steering a project. Furthermore Heurkens (2012) states that there does not exist a single universal best practice of management, as appropriate management is dependent on circumstances. He elaborates appropriate management is more related to practice than theory. Although this perspective supports the exploration of management practices in case studies to generate a public private management approach, it is also important to consider circumstances while translating management strategies from one case to another.

Roles in urban development projects

As described above, managing urban development projects is about the organization and roles of different public and private actors in order to collaborate and realize a common goal. Thereby this research is oriented on how the investor can obtain a leading role in an urban development project. But what is meant by role, and what does leadership mean in the context of urban development?

Heurkens (2012) describes a role as: “A coherent set of organizational tasks and related management measures carried out by actors involved in urban development projects.” This research focusses on the role of the investor in urban development projects. As described above, the process of urban development includes different disciplines and actors. Moreover, urban development practice is characterized by collaboration between private and public parties. In this case, the role of the investor is explored, though this role is interdependent to public actors (Klijn and Teisman, 2003). As an urban development project can be described as a dialogue between public and private parties, this study also examines the role of the public parties involved in the conducted case studies.

This interdependence between public and private parties is also reflected in the definition of leadership in urban development projects. Heurkens (2012) argues urban development concerns collaboration between public and private parties and therefore both parties have a role in managing the project. Moreover, not one party, public nor private is capable of realizing an urban development project on its own. Based on this perspective Heurkens (2012) describes the relativeness of both leading and facilitating roles in urban projects. Leading comprises providing a main direction for the project by an actor. Leadership is expressed performing certain tasks. On the contrary, the facilitating role is about complementing these certain tasks.
(Heurkens, 2012). Heurkens (2012) links the definition of leadership in urban development projects to the above described management perspective resulting: “Actively steering an urban development process into a preferred situation.”

### 3.2.4 Organization and management of urban development projects

Above, urban development strategy, roles and leadership are described. This research is oriented on exploring by means of what strategy it is likely for investors to get involved in urban development projects in The Netherlands. As explained the focus is therefore more on the investor as actor. The aim is to provide a complete overview of investor-led development strategies for Dutch investors. As investor-led development implies other roles for public and private parties, it seems important to research the effects of these strategies on management and organization of development projects. This section elaborates on these subjects including public private partnerships and management activities.

**Characteristics of public private co-operation & partnerships**

As mentioned there is a growing emphasis on public private partnerships in urban development (see Franzen et al., 2011). The growing importance of the private sector forces public and private actors to cooperate. According to Heurkens (2012) there are a number of causes that explains the growing emphasis on public private co-operation:

- Financial crisis in the public sector
- Increased mobility of capital
- Increased complexity of government tasks
- Dominance of neoliberal ideas and reliance on market mechanisms and incentives

As a result private sources of funding are needed, while the increased complicity requires involvement of private actors. Basically to be able to realize their own goals the public sector seeks co-operation with private parties. This trend is reflected in the emergence of public private collaboration models. For more than three decades, countries are exploring the possibilities of public private partnerships and promoting its use. Klijn and Teisman (2003) describe public private partnerships (PPPs) as “the co-operation between public and private actors with a durable character in which actors develop mutual products and/or services and in which risks, costs and benefits are shared”.

Although the public and private domains are forced to co-operate in order to achieve their goals, barriers of conflicts in interest, institutional roles and strategic behavior have to be overcome. Klijn and Teisman (2003) show how difficult it is to change role conceptions and domain demarcations. Regarding institutional roles and strategic behavior of actors, Klijn and Teisman (2003) the public domain is characterized by a so-called guardian syndrome, which typically includes values such as avoiding trade and commerce. In contrast, the private domain is dominated by the commercial syndrome. This syndrome includes values as competitiveness, achieving agreements on a voluntary basis and honesty. Klijn and
Teisman (2003) argue both types of institutional roles and behaviors are mutually exclusive. One could say initiating a public private partnership is creating a new problem. Klijn and Teisman (2003) compared the relations between core business, values, strategies and its consequences for Public Private Partnerships between the public and private domain. These relations and subsequent tensions are shown the table below.

<table>
<thead>
<tr>
<th>Core business</th>
<th>Public actors</th>
<th>Private actors</th>
<th>Tension</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Objectives: public objectives</td>
<td>Objectives: realizing profits</td>
<td>Different problem definitions: political risks in expectations versus market risks in annual figures</td>
</tr>
<tr>
<td></td>
<td>Continuity: political conditions</td>
<td>Continuity: financial conditions</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Values</th>
<th>Public actors</th>
<th>Private actors</th>
<th>Tension</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loyalty</td>
<td>Devoted to a public cause</td>
<td>Competitive</td>
<td>Government reluctant in process versus private party reluctant with knowledge</td>
</tr>
<tr>
<td></td>
<td>Controlled by politics</td>
<td>Devoted to consumer preferences</td>
<td>Government reluctant in result versus private parties reluctant with their own effort</td>
</tr>
<tr>
<td></td>
<td>Emphasis on risk avoidance and preventing expectations</td>
<td>Controlled by shareholders, based on results</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Emphasis on market opportunities and risk, and innovations</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Strategies</th>
<th>Public actors</th>
<th>Private actors</th>
<th>Tension</th>
</tr>
</thead>
<tbody>
<tr>
<td>Search for ways to guarantee substantive influence</td>
<td>Search for certainties to produce and/or obtain a contract</td>
<td>Confrontation leads to a mutual locking-up of agreements, and thus to tried and tested types of co-operation (contracts)</td>
<td></td>
</tr>
<tr>
<td>Minimizing expectations and insecurity of implementation costs</td>
<td>Minimizing political risks and organizational costs as a consequence of public ‘viscosity’</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Consequences for PPP</th>
<th>Public actors</th>
<th>Private actors</th>
<th>Tension</th>
</tr>
</thead>
<tbody>
<tr>
<td>Emphasis on a limitation of risks and on agreements that lead to agreed procedures and public sector dominance</td>
<td>Emphasis on certainty of market share and profit, which leads to an expectant attitude and limited investments until the moment when the contract is acquired</td>
<td>The creation of added value through cross-border interaction is not realized</td>
<td></td>
</tr>
</tbody>
</table>

Table 10 – Relation and tensions in Public Private Partnerships (Klijn and Teisman, 2003)

Different models of public private partnerships are applied in urban development practice. Five ideal types of cooperation models are commonly used in Dutch urban development practice: Public Realization, PPP Building Rights, PPP Joint Ventures, PPP Concessions, and Private Realization (Heurkens, 2012). Each model implies a different role for public and private actors. The table below shows the roles of public and private parties per development process stage within these five PPP models.

<table>
<thead>
<tr>
<th>Development stage</th>
<th>Sub-stage</th>
<th>Public Realization</th>
<th>Building Rights</th>
<th>Joint Venture</th>
<th>Concession</th>
<th>Private Realization</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initiative</td>
<td></td>
<td>Public</td>
<td>Public or Private</td>
<td>Public or Private</td>
<td>Public</td>
<td>Public or Private</td>
</tr>
<tr>
<td>Plan &amp; Feasibility</td>
<td>Vision and program</td>
<td>Public</td>
<td>Public &amp; Private</td>
<td>Public &amp; Private</td>
<td>Public &amp; Private</td>
<td>Private</td>
</tr>
<tr>
<td></td>
<td>Design plan</td>
<td>Public</td>
<td>Public &amp; Private</td>
<td>Public &amp; Private</td>
<td>Private</td>
<td>Private</td>
</tr>
<tr>
<td>Realization</td>
<td>Land development</td>
<td>Public</td>
<td>Public</td>
<td>Private</td>
<td>Private</td>
<td>Private</td>
</tr>
<tr>
<td></td>
<td>Real Estate development</td>
<td>Public or Private</td>
<td>Private</td>
<td>Together or Private</td>
<td>Private</td>
<td>Private</td>
</tr>
<tr>
<td></td>
<td>Construction</td>
<td>Private</td>
<td>Private</td>
<td>Private</td>
<td>Private</td>
<td>Private</td>
</tr>
</tbody>
</table>
Table 11 – Public & Private roles in Dutch PPP models (Heurkens, 2012, Kenniscentrum PPS, 2006)

Public private power balance

International differences regarding public private power balance are reflected in PPPs. In countries characterized by a strong public tradition, like The Netherlands, public private partnerships seem to be dominated by the public domain. In contrast, private sector dominates PPPs in countries characterized by private sector dominance (Heurkens, 2012). The power balance is related to the role obtained by the government. A dominant private sector implies a more enabling and regulating role for the government. While a strong public dominance relates to a providing role for the public domain. Heurkens (2012) relates the role of the government, public private power balance and types of partnerships in the figure below.

Figure 20 – Public-Private Partnership spectrum (Heurkens, 2012)

As we have described in chapter 2, public private partnerships in The Netherlands, like joint-ventures, are hard to set up due to the economic conditions. Based on the changing conditions and the growing emphasis on private money one could expect a more passive role for the government could predominate the future of PPPs in The Netherlands. Thus, if investors are expected to obtain a bigger role in urban development projects it will affect the role the government has to take.

3.2.5 Management activities

The sections above described urban development projects based on management perspectives, strategy, roles and public private power balance. But how are these perspectives translated into actual management activities? This section elaborates on management activities, tools and resources applied in urban development projects.
As mentioned in the introduction of this paragraph the emphasis on process management does not exclude project management as relevant approach to urban development projects. Heurkens (2012) endorses the complementary character of project and process management in the process of urban development. Hence, he distinguishes both project and process management activities to be carried out by both public and private actors. Heurkens (2012) relates project management to the object-related activities in the development project. Thus, in terms of project management activities, the urban development project is seen as the object. Urban development projects, or real estate projects in general, are often described as cyclical processes consisting of four stages; the initiation, design, realization and maintenance phase (Wolting, 2006). Heurkens (2012) translates these stages to related project management activities performed by both public and private actors, namely; initiating, designing, planning and operating.

Based on Bult-Spiering and Dewulf (2006), Heurkens (2012) relates process management activities in development processes to the sociological aspects negotiation and decision-making as public-private cooperation is characterized by trading-off objectives. Thereby, negotiated decisions have to be made regarding the physical development plan. This implies actors can influence what is being built by the process management activities negotiating and decision-making. However, these management activities concern the interaction between the public and private actors, being shareholders in the urban development plan. Another level of interaction has to be considered as urban development is not solely about public and private shareholders. Stakeholders, such as the community, can hamper the development process, therefore communicating is considered as a way public and private actors can influence the process (Heurkens, 2012).

Management tools and resources

Next to project and process management activities, Heurkens (2012) identifies both tools and resources by which actors can influence a development project. According to Heurkens (2012) the planning tools shaping, regulating, stimulating and capacity building can be considered as management tools for urban development projects, as in practice they are “intended to secure or realize spatial policy objectives and interests”. Furthermore, Heurkens (2012) elaborates these tools are not at all restricted to the public domain. In other words, these management measures are to be used by both public and private parties.

Regarding the means by which planners help construct markets Adams and Tiesdell (2010) describe the planning tools shaping, regulating and stimulating. From the perspective of spatial planning they described shaping as measures that “set an important context for market actions and transactions” (Adams and Tiesdell, 2010). In the context of urban development projects shaping could imply providing the right conditions for collaboration, investment and development of the site. Although applying planning tools as development and regulatory plans are reserved for the public domain, establishing a spatial vision can be
provided by private actors. Development control and restrictive covenants are considered regulating measures that restrict market actions and transactions (Adams and Tiesdell, 2010). Market stimulation tools can be applied to “lubricate market actions and transactions” (Adams and Tiesdell, 2010). In terms of urban development projects ‘development subsidies’ and ‘compulsory purchase’ are considered stimulating measures. Capacity building includes the engagement of actors in order to “identify and develop desirable strategies for market action” (Heurkens, 2012).

Heurkens (2012) distinguishes three main types resources that necessary for the realization of an urban development plan; land, capital and knowledge. The allocation of resources between the involved public and private parties affects the power balance between the actors. Public and private actors can utilize their resources in negotiation in order to influence the urban development process and thus obtain a more powerful and influential position. Subsequently this position can be exploited to influence decision-making. According to Heurkens (2012) this suggests that resources can be considered as management measure.

Conceptual public-private urban management model

Based on the above described management activities, tools and resources, Heurkens (2012) developed a conceptual model (figure 14) that embodies the management measures public and private parties can utilize in urban development projects. This conceptual model is used as an analytical model for conducting case studies in this research.

![Figure 21 – Management activities and instruments (Heurkens 2012)](image-url)
3.2.6 Conclusions

This section elaborated on urban development strategies, management and organization of urban development projects. Daamen’s (2010) conceptual framework has embedded urban development strategies in its context. Based on Mintzberg’s strategy formation theories, urban development strategies can be described based upon strategic planning, visioning, venturing and learning. Based upon these frameworks, strategies of urban development cases will be analyzed in the empiric research phase. As described the urban development strategy will affect the role of involved public and private actors. Therefore it is considered necessary to study the roles of public and private parties as well. Based on the conceptual model concerning management activities and instruments, public and private roles in the researched cases will be analyzed.

3.3 Theoretical Synthesis: an analytical framework

This chapter introduced investor-led development and the characteristics of different types of investors and investment decision-making, compared to the characteristics of urban development projects. In the last paragraph management perspectives of urban development projects are described, including strategies, public private partnerships and management instruments and tools. Based on the frameworks provided we are able to analyze urban development strategies of investor-led urban development projects. Based on these theoretical perspectives we can examine innovative community oriented investment strategies and the related urban development strategies. However the interrelation between the described analytical frameworks should be made. This section summarizes the theoretical framework and elaborates on the coherency between the theories put forward. As such, this section describes the analytical framework applied in this research.

3.3.1 Strategy

As described in section 3.2.2 various variables can be identified concerning the urban development strategy. The objective of this research is not only to compare two kinds of investor-led urban development approaches. Moreover, we aim to provide an insight in the relation between the community oriented investment strategy and the urban development strategy. Hence, we aim to find the overlap between the investor’s perspective and the urban development perspective. As such, it is not only essential to analyze the both cases based on the same analytical variables, but also both the investment strategy and the urban development strategy. As such, we have identified four variables of strategy that relate to both to the investor’s perspective as the urban development perspective. The four variables comprise; vision, organization, financial and regulation. In the next two sections the four variables are further defined regarding respectively the investment strategy and the urban development strategy. In the last section the analytical research framework is presented.
3.3.2 Community oriented Investment Strategy

Regarding the investment strategy of a real estate investor we first have to consider its strategic vision. The vision of the investment strategy comprises the objectives and conceptions of the investor regarding investment and development in urban communities in general, and the studied case in specific. The second variable concerns the organization of the investor. This comprises all relevant aspects regarding the organization such as the structure, the size and the in-house knowledge and expertise. The financial aspect mainly comprises the investment criteria the investor applies, such as the risk and return profile, but it also the financial structure and the type of investment capital should be considered. Lastly the regulatory aspect concerns the legal structure of the company and the related limitations, and the liability the investor has to its capital providers.

3.3.3 Urban Development Strategy

Analyzing the vision of the urban development strategies the conceptions and objectives regarding the process and the urban planning should be considered. The organizational variable concerns the public and private roles in the development process. Hence, we use the conceptual model regarding management activities and resources of Heurkens (2012) shown in figure 21. This model also comprises the management resources and tools relating to respectively which overlap with the financial and regulatory aspects. However in this variable the roles of the involved actors are studied rather than the specific financial and regulatory approach. Considering the organization of the urban development strategy we should identify the type of public private cooperation. The financial aspect of the strategy incorporates the public private involvement in real estate development, management and realization of the public space and the realization of public amenities in the community. Central is this variable is the by whom and by what instruments the urban development activities are financed. The last variable of the urban development strategy concerns the regulatory framework. This comprises the land use regulations and planning documents.

3.3.4 Analytical Research Framework

Figure 22 shows the analytical research framework which is based on the theories concerning real estate investment and urban development. These two perspectives are represented by the investment strategy and the urban development strategy. The strategies can be related by investigating the commitment of the developing investor, based on its investment strategy, to the urban development project. Hence, the

![Figure 22 – Analytical Research Framework (own ill.)](image-url)
investment strategy has to be adapted on- or facilitated by the urban development strategy. The investment perspective of both studied developing investors are analyzed and compared based on the four aspects of the investment strategy. Within the investment strategy the four variables are interrelated. Hence, the vision to for instance adapt investment to market demands requires an organization that is able to facilitate multisectoral investments. Both urban development strategies are analyzed and compared on the same four variables of strategy. The variables of the urban development strategy are interrelated as well since for instance an organization without public private partnerships on community level require a different financial structure to finance public amenities. The relation between the investment perspective and urban development perspective can be described as the commitment of the developing investor, based on its investment strategy, which is facilitated or hampered by the urban development strategy. Hence, a community investment approach may for example require a flexible regulatory framework. As such, the analytical research framework should allow to identify the relationship between the investor’s community oriented investment strategy, and the related urban development strategy.
4 Research Methodology.

As explained in chapter one, section 1.8, the project entails a qualitative research. The main perspective is interpretive, as lessons are to be learnt from best practice investor-led development cases in foreign countries. There are several barriers and complications of qualitative research in general, and lesson-drawing specifically. Therefore, this chapter elaborates on the proposed research methods in order to develop a clear methodology framework for conducting the empiric part of the graduation project. To deepen the understanding of the applied research methods is not only valuable for conduction reasons; from the scientific perspective the applied research methods and results should be evaluated on validity and reliability, while gaining experience and understanding in academic research is one of the main objectives of this graduation project. The following research question is to be explored in this section:

“What are the main concepts regarding the applied methodologies in this research project?”

4.1 Lesson-drawing

According to Spaans and Louw (2009) lesson-drawing is mainly used to explore a common problem in various national, regional and local cases by focussing on differences in by focussing policies adopted by governments. The research methodology of lesson-drawing has a practical nature, as cases are researches, and is focussed on a specific issue (Spaans and Louw, 2009). Several best practices are selected and analysed on structured way based on a research objective. According to Rose (in Spaans and Louw, 2009), lessons drawing is not only about what to do. Lesson-drawing can also imply what not to do.

Janssen-Jansen et al. (Janssen-Jansen et al., 2008) discuss to what extent lessons can be transferred from one case to the other. Three levels of transferring knowledge from one country to another are distinguished: inspiration, learning and transplantation. Inspiration is described as a way to collect and valuate information from innovative practices. When learning form practices the collected information is adapted. The most intensive level of transferring knowledge is transplantation, in which the innovative practice is adopted by the receiving country. In transplantation, planning practices can be adjusted to local circumstances (Janssen-Jansen et al., 2008). In the table below Heurkens (2012) provides an overview of the levels of lessons-drawing and likeliness of a successful transfer. As this research is focussed on transferring experiences and lessons between countries with a different planning system, inspiration and learning are relative levels of lesson-drawing.
Why lesson drawing?

This research aims to explore ways in which investor-led development is practiced in urban redevelopment projects in foreign countries and which of these approaches could be a solution for the challenges in Dutch planning and development practice. As mentioned the selected research strategy is to draw lessons from best practice cases in both the United States as the United Kingdom. In the next section tries to explain and support the relevance of this strategy regarding the main research objectives.

According to Rose (in Spaans and Louw, 2009) every country encounters problems of which they think they are unique. He argues it would be abnormal if an encountered problem would be unique. No problem or issue is unique, and therefore learning lessons from the way other countries have coped with a similar problem can be valuable. Moreover, due to the growing globalization and the improved forms of communication Spaans and Louw (2009) argue it is more common to look for solutions across the border than in the past. In this case, the research is about the planning and development process in which public and private actors work together. As the private actors act in the same planning and development system, lesson-drawing is also relevant for these actors (Spaans and Louw, 2009).

As explained in the problem analysis in section 1.3, Dutch planning and development practice is subject to structural changes due to the economic crisis and the changes in public and private roles. The emphasis is more and more on private sector-led development as the government cannot fulfil its dominant role. Although it is impossible to forecast whether the new challenge in urban development will result in more private sector-led, and especially investor-led development, it sure is one of the possible solutions to the changed conditions. As emphasis on private money, a less dominant role of local government and an growing emphasis on Anglo-Saxon and Neo-Liberal values (see section 2.3) are amongst these changed conditions, it seems relevant to draw lessons from investor-led urban development cases in countries in which these conditions are already present.

<table>
<thead>
<tr>
<th>Levels of lesson-drawing</th>
<th>Definition</th>
<th>Likelihood of Transfer</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Transfer within one country</td>
</tr>
<tr>
<td><strong>Inspiration</strong></td>
<td>Collecting &amp; Evaluating data &amp; information on innovative experiences and practices</td>
<td>LESS LIKELY</td>
</tr>
<tr>
<td><strong>Learning</strong></td>
<td>Adopting the information collected &amp; evaluated in the inspiration phase, including retrieving underlying ideas &amp; recognizing obstacles &amp; differences</td>
<td>LIKELY</td>
</tr>
<tr>
<td><strong>Transplanting</strong></td>
<td>Looking at specific conditions under which the transfer of policy, instruments or other elements to another context is possible</td>
<td>VERY LIKELY</td>
</tr>
</tbody>
</table>

Table 12 – Levels of Lesson-drawing & likelihood of transfer (Heurkens, 2012)
Whereas investment by private actors for societal purposes, inherent to urban redevelopment projects, seems non-negotiable in The Netherlands, societal goals are fulfilled in private sector-led developments in other countries (Adair et al., 2000). This proofs that the problems Dutch planning and development practice is facing are not unique. Therewithal the institutional, social, economic and cultural values are changing in The Netherlands. It is even argued that the Dutch and English planning system are moving towards each other (Spaans and Louw, 2009). These arguments support the relevance of lesson-drawing from investor-led development cases in both the United States, as the United Kingdom. Furthermore, influenced by the economic conditions, the openness and willingness to innovation and change management are characterizing the current Zeitgeist, and even seem to have penetrated into public institutions. This is shown in both governmental statements (Minister van Binnenlandse Zaken en Koninkrijkrelaties, 2012) and innovative urban projects (see Pius-haven Tilburg). This supports the active stance from the recipient actors which is required for successful lesson-drawing (Spaans and Louw, 2009).

4.2 Case Study: methodology, techniques & selection

4.2.1 Methodology

As understanding complex issues, such as strategies in urban development projects as proposed in this research plan, is the main aim, qualitative research is most applicable. Qualitative research focusses on the ‘meaning of action’, and refers to ‘essences of people, objects or situations’ (Heurkens, 2012) which are represented in urban development projects. To collect and analyze data, and to draw lessons thereupon, case study methodology is used. Yin (2003) defines case study research as “an empirical inquiry that investigates a contemporary phenomenon within its real life contexts, especially when the boundaries between phenomenon and context are not clearly evident”.

Based on the network theory, urban development projects can be observed as a system in which different social relations are present. According to Swanborn (1996) one of the positive considerations to choose for case study methodology is its ability to clarify social relations in a system. Case study research excellent methodology to gather detailed knowledge regarding a social phenomenon. Moreover, this methodology is mainly deployed on ‘design problems’, such as an urban development strategy. By using conducting case studies, insights and possible solutions concerning experienced issues and problems can be provided and used to develop an optimal strategy (Swanborn, 1996).

Case study research has been subject to many critical discussions. Heurkens (2012) points out two mains issues; the bias toward verification and the validity of case study research. It is argued that case study research contains a bias toward verification (Flyvbjerg, 2006). This bias means case study research show a tendency to confirm the preconceptions of the researcher. According to Flyvbjerg (2006) experience has shown that case study does not contain a greater bias toward verification compared to other research.
methods, on the contrary it seems to contain a greater bias toward falsification of the researcher’s preconceptions. Though case study research allows more room for the subjective view of a researcher. To deal with this subjectivity, more multiple case studies are conducted. Critics argue that, due to context-dependency, the validity of case study results, i.e. practical knowledge, is less valuable compared to theoretical (context independent) knowledge (Heurkens, 2012). To deal increase the validity of the research results, triangulation of data gathering is applied. Lewis-Beck et al. (2004) describe triangulation as “the use of more than one method or source of data in the study of a social phenomenon so that findings may be cross-checked”.

Another issue concerning qualitative in-depth case study research concerns the conceptual equivalence and context- and time-dependency in comparative analyses (Heurkens, 2012). The comparison of a phenomenon in different cases is complex due to the contextual variations in regarding legal, institutional and economic aspects. Even within one country, or one region, contextual difference are to be observed between urban development cases. Chapter 5 elaborates on the differences within and between the planning practices in the United States and The Netherlands. However, these differences do not withhold the ability to learn lessons from contextually different cases. The studied concepts are required to be commensurable but not necessarily identical (Pickvance, 2001 in Heurkens, 2012). According to Heurkens (2012) it is the challenge ‘to make sense of comparing these apples and oranges by respecting contextual circumstances against which the cases take place’. By means of a comparative analytical research framework, provided in chapter 3, two US urban development cases are studied to establish a concept of investor-led urban redevelopment. Therefore it is not the objective to study two similar cases. As such, two cases are selected based on two different kind of developing investors are studied to get a grips on rationale and the objectives of the investors. However, as chapter 2 showed that the future challenge of urban development in The Netherlands mainly concerns the redevelopment of inner-city areas, we aimed to select two quite similar urban redevelopment cases.

4.2.2 Techniques
This section elaborates on the techniques used in the case study methodology regarding this research. First data gathering techniques are described. Thereafter, the way findings are analyzed is discussed.

Gathering data
Activities of data collection in qualitative research mainly include examining, asking and watching (Heurkens, 2012). These activities are related to three research techniques: document reviews, interviews and site visits. These techniques are used to gather data in this research. Document reviews include relevant project information, such as planning documents and development plans, contracts and agreements between involved actors, and project-related literature. The data is analyzed and processed in the case study descriptions. Interviews are conducted to collect more in-depth and detailed information regarding relevant subjects, and to learn about experiences of public and private actors, in order to
generate a better understanding of social relations between involved actors. To understand the project’s role, or position, in within its context, the city, site visits are done. According to Heurkens (2012) site visits provide “a more balanced understanding of the physical, social and economic characteristics of the project.”

Analysis
In order to draw lessons from the collected data, the information should be analyzed. According to Heurkens (2012) the data should be reduced and organized before conclusions can be drawn. Based on Miles and Hubermann (1994), Heurkens (2012) describes three ‘flows of activity’. At first data should be reduced by selecting, abstracting, focusing, simplifying and transforming data. The reduction of data is based on the objectives of this research presented in chapter 1. Computer-aided programs such as Atlas.ti can be used to analysis data from interview transcripts, however, this method is more useful to quantify research findings. The second activity concerns data display. Data display includes the organization and compression of collected data. Amongst others, the frameworks presented in chapter 3 will be used to display the information. Based on the reduced and displayed data, conclusions can be drawn (Heurkens, 2012). Based on the analytic research framework, the a comparative case analysis is provided in chapter 8.

4.2.3 Case selection
As described a multiple case study is to be performed in this research. This section elaborates on how many and which cases are selected. First scope vs. depth is discussed. Criteria are described whereupon cases are selected. Lastly a selection of cases is made that will be subject to this research.

Scope versus Depth
Comparing of multiple cases more valid conclusions, or lessons, can be drawn for a broader populations. Thereby, this graduation research is bounded by time, which should be considered while deciding how many cases are researched. Rather than drawing general conclusions, this research is focused on drawing lessons on a variety of variables. The objective is to gain in-depth knowledge concerning urban development strategies in investor-led development. To be able to get a better understanding about these strategies and related public private partnerships, depth is chosen over scope. At least two cases are chosen to be able to perform a cross-case analysis to define whether findings are context-dependent or – independent (Heurkens, 2012). Considering time and the orientation on in-depth knowledge two cases chosen to be researched in this graduation project.

Selection criteria
Swanborn (1996) describes several methods to select cases. Based on pragmatic and content-based reasons, a list of selection criteria is developed. Pragmatic considerations are time, money and network. As cases are conducted abroad, having leads and context in my network is considered most important. The content-, or substance-related considerations include information intensity, phase of development,
actor variance and emphasis on incremental or integral. The last two criteria are based upon the research objectives. A variance in actors, i.e. financed privately or by institutional capital, is needed to provide insights in actor-related differences in community oriented investment strategies. However, as the main challenge in near future of Dutch urban development concerns the redevelopment of inner-city areas, two quite similar urban redevelopment cases are to be selected. A pre-selection of cases is made based upon the discussed cases during graduation consults and cases discussed during presentations on several urban development conferences. However, the final case selection is strongly based on the advice of both the graduation supervisor and the internship mentors.

Case study selection

The table below showed four of the cases that have been considered during the case selection. As mentioned, based on the knowledge and experiences of the academic graduation supervisors and the internship mentors, the South Lake Union and Hollywood case are selected. Moreover, both cases are located in the United States, which simplifies the comparative analysis.

<table>
<thead>
<tr>
<th>Project</th>
<th>Project owner</th>
<th>Location</th>
<th>Type</th>
<th>Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Lake Union</td>
<td>Vulcan Real Estate</td>
<td>Seattle, US</td>
<td>Mixed-use redevelopment 24 ha.</td>
<td></td>
</tr>
<tr>
<td>Strand East</td>
<td>Inter Ikea Group</td>
<td>London, UK</td>
<td>Mixed-use redevelopment 10.4 ha.</td>
<td></td>
</tr>
<tr>
<td>Frasers Broadway</td>
<td>Frasers Ltd.</td>
<td>Sydney, AU</td>
<td>Mixed-use redevelopment 3.6 ha.</td>
<td></td>
</tr>
</tbody>
</table>

Table 13 – Case Selection

4.3 Expert meeting: methodology

4.3.1 Methodology

As an additional step concerning the analysis of the case study findings, an expert meeting is organized in cooperation with Grontmij. The main objective of the expert meeting is to assess the learned lessons on relevance by means of a discussion by a panel including Dutch public and private decision makers and urban development professionals. Chapter 10 elaborates on the structure and findings of the expert meeting. As both scientific and company interests were to be safeguarded in the expert meeting, this research method is deliberately placed subordinate to the in-depth case study research.
Usually the main objective of an expert panel is synthesizing a variety of inputs providing a vision or recommendations for future possibilities and needs concerning the discussed issue (Slocum, 2005). The application of the expert meeting research methodology is particularly suitable for issues requiring highly specific knowledge or highly complex issues requiring the synthesis of experts from various disciplines. Moreover one should consider to select a diverse group of panel participants that are not only qualified in expertise but are also creative thinkers able to bring various viewpoints to bear (Slocum, 2005). As such it is valuable to bring together different types of actors involved in the urban development process.

**Expert meeting organization**

When organizing an expert panel, one should consider the size of the panel and the professions of the participants (Remøy et al., 2007). In this expert panel the participants should have significant knowledge regarding urban development in The Netherlands and Real Estate investment strategies of Dutch investors. Hence, panel participants are selected from three sectors; private sector, public sector and, academics and professionals (consulting). Within the groups of the private and public sector different subgroups have been identified. This research aimed to select all ‘colors’ of public and private actors. In chapter 10 participants of the expert meeting are introduced.

4.3.2 **Structure**

The expert discussion is open structured, as this allows the panel to discuss freely. Firstly the subject of discussion, American community oriented developing investors, is presented by the researcher. Afterwards, two propositions are posed to the panel for half an hour of discussion each. Due to the size of the expert panel it might be hard to steer and facilitate the discussion. However, the two company supervisors are instructed to try to facilitate the discussion as good as possible.
PART 2 - PRACTICES
urban development in NL & USA.

The main objective of this research project is to learn lessons from urban development practices in the United States. Therefore we should consider the contextual differences between planning and development practices in the US and the Netherlands. This chapter aims to answer the following research question;

“What are the contextual differences in planning and development culture and practice between the United States and The Netherlands?”

The planning and development cultures are described by cultural aspects, the urban planning system and the roles of public and private actors.

5.1 Urban development in the United States of America

5.1.1 American culture

The American culture can be typified as Anglo-Saxon. The US culture is strongly based on the free market economy and the distrust in government influence. According to Knippenberg (2009 in, Van Dijk, 2010) this emphasis on freedom and limiting government influence can be rooted back the protestant colonists. The American culture is characterized by its high degree of individualism which is reflected in the extend of freedom of expression (Van Dijk, 2010). Living the American Dream is and essence of the American culture. As such individual success is widely embraced and seen as an inspiration. The table below shows the main differences between the US and Dutch culture.

<table>
<thead>
<tr>
<th>Culture</th>
<th>United States</th>
<th>The Netherlands</th>
</tr>
</thead>
<tbody>
<tr>
<td>Free market economy</td>
<td></td>
<td>Market regulated economy</td>
</tr>
<tr>
<td>Negotiation (gaming)</td>
<td></td>
<td>Consensus (debating)</td>
</tr>
<tr>
<td>Hierarchical relations</td>
<td></td>
<td>Self-reliance</td>
</tr>
<tr>
<td>Individual</td>
<td></td>
<td>Group</td>
</tr>
<tr>
<td>Economical based</td>
<td></td>
<td>Socially based</td>
</tr>
<tr>
<td>Priorities:</td>
<td></td>
<td>Priorities</td>
</tr>
<tr>
<td>Legal – Organizational - Relational</td>
<td></td>
<td>Organizational – Relational - Legal</td>
</tr>
<tr>
<td>Expression, success</td>
<td></td>
<td>Leveling</td>
</tr>
<tr>
<td>Financial returns/profit</td>
<td></td>
<td>More than financial returns/profit (societal etc.)</td>
</tr>
</tbody>
</table>

Table 14 – Cultural comparison United States and The Netherlands (Van Dijk, 2010)

Planning Culture

According to Reps (1965) American planning was not quite comprehensive. Urban planning was more or less limited to two dimensions; lot sizes, street patterns and open spaces. Not until the beginning of the twentieth century the vertical element would be included in the planning culture due to the urbanization boom and the unbridled growth of the care as main transportation. Urban planning evolved as comprehensive planning and zoning regulations were introduced (Van Dijk, 2010). Gradually urban development became a profession, resulting in different types of planning including: Urban Design, Land
Use planning, Policy planning, Transportation planning and Economic Development planning (Bayer et al., 2010). However, according to Van Dijk (2010) the US term of urban planner does not match its Dutch equivalent of stedenbouwkundige as the American urban planner is regularly not a multidisciplinary profession.

Litigation, the principal of suing, is strongly embedded in the American culture. The effects of the litigation culture are reflected in the US planning culture which is characterized by its emphasis on technical guidelines to minimize the risks on accidents and subsequent lawsuits. As such, design is not a central value in the American urban planning culture (Van Dijk, 2010). In contrast, the emphasis in spatial planning is more on economics and transportation. Hence, relatively a wider array of professions are engaged in the planning process compared to Dutch planning practice (Van Dijk, 2010).

5.1.2 Urban planning system in the USA

The US urban planning system is characterized by its high degree of decentralization and fragmentation. It has been deliberately designed to prevent centralization. According to Levy (2009) this is also due to the cultural aversion to socialism and thus national planning, and the immense geographical size of the United States. Hence urban planning is mainly a local matter, a central control is lacking (Van Dijk, 2010). According to Cullingworth and Caves (2009) this decentralization is reflected in the great variety of urban planning practices through the US. A central planning legislation is missing. Hence, every state, county and city is responsible for its own planning legislation. A major constraint for urban planning regulation in the US is ‘the limited amount of discretion allowed to local governments by the constitution’ (Van Dijk, 2010). Planning decisions need to be objective and coherent to jurisprudence. As such, the planning system is strongly dominated by legislative matters, resulting parted policy making and policy administration.

Planning instruments

The main planning instruments applied in the US include the comprehensive plan, the zoning plan and the building permit. A comprehensive plan commonly includes a vision for the future of a community regarding housing, economy, transportation, utilities, public space and other aspects (Van Dijk, 2010). However US planning culture does not allow a high level of public influence on land development. Hence, comprehensive plans are usually keeping up with occurring developments rather than designing and shaping a future (Van Dijk, 2010). The zoning plan comprises the permitted uses on an area, and restrictions and conditions typically including height and size restrictions, minimum lot size, setbacks and yard size (Cullingworth and Caves, 2009). A building permit is a legal document required for all development and renovation activities and is similar to the Dutch ‘omgevingsvergunning’ (Van Dijk, 2010).

Citizen participation

Characterizing for the American planning system is the high degree of citizen participation which is based on the highly political planning environment (Van Dijk, 2010). Although the degree of participation differs
widely throughout cities in the United States, US citizen participation is distinctive for not only including
the individual but also including a wide array of citizen groups in the participation process. In terms of
Arnstein’s (1969) levels of participation, US citizens are commonly attributed a degree of citizen power
(Van Dijk, 2010). In contrast Dutch citizen participation is usually limited to forms of tokenism.

5.1.3 Public and private roles in urban development in the USA

Role of the public sector

The American governmental system is characterized by its high degree of decentralization, which is based
on the deep concerns about the influence of governments. As a result, the public body is commonly
fragmented. As such, planning is mainly a local matter. Compared to the Netherlands there are more local
authorities which are more autonomous. Each local government has to raise their own revenues. As such,
most local governments are financed in a different way, by a mix of local, state and federal funds.
According to Cullingworth and Caves (2009) the government is due to maximize public benefit from
private developers, as the public authorities face a chronic shortage of resources such a land and capital to
influence urban development and finance the maintenance of public amenities. Compared to Dutch cities,
the US local governments have limited governing power. According to Van Dijk (2010) this power is target
of external influences such as large real estate developers.

Two forms of local governance can be distinguished in US cities; the mayor-council, and council-mayor
system (Van Dijk, 2010). The Mayor-Council system is the most common form of local governance and can
be subdivided into a strong-mayoral system in which the mayor has extensive administrative authority. In
contrast, the Council is the main administrative authority in the weak-mayoral system. If a city has a
Council-Mayor governance system the administrative operations are managed by a city manager. This
governance system, in which the mayor has a mainly ceremonial role, compares best to the Dutch local
governance system (Van Dijk, 2010).

Usually local governments are not engaged in acquiring land for urban development projects. However,
the local authorities commonly take the initiative within the planning process (Van Dijk, 2010). Thereby,
expropriation is extremely difficult in most US cities. Due to the high level of decentralization, it has to be
considered that almost all US cities have a different set of regulations and other legal powers concerning
urban development. The US government is mainly focused on facilitating urban development, rather than
taking the initiative or getting actively involved. As such, local authorities are mainly responsible for
regulation development proposals.

Role of the private sector

Compared to the public role, the private role in the planning process is different as it includes high levels
of risks. As such, the private sector needs accurate know-how of both the state and local markets (Van
Dijk, 2010). Commonly the private sector is mainly oriented on real estate development and investment
on building level (Heurkens, 2008). The main risk for the private sector is in obtaining a development approval within the maze of a range of public authorities (Van Dijk, 2010).

Similar to The Netherlands, a communication gap is to be observed between the private and public sector. According to Cullingworth and Caves (2009), ‘bridging this gap is a major part of both the private development and public planning process’.

5.2 Urban development in the Netherlands

In the foregoing chapters urban development has already been described from different perspectives. In chapter 2, the context of urban development projects, the changing roles in Dutch urban development have been described (see: par 2.3). In paragraph 3.2 the main characteristics of the organization of urban development projects have been described. This section briefly describes the culture, urban planning system and organization of urban development projects in the Netherlands.

5.2.1 Dutch culture

Valuing society over the individual is deeply rooted in the Dutch culture. Although the global emphasis on individualism, the sense of collectiveness is still a key principal in Dutch society and politics (Van Dijk, 2010). This is strongly related to the consensus seeking culture in decision making, which contrasts to the hierarchical approach within the American culture. Moreover, standing out from the crowd is all but accepted (Van Dijk, 2010). The Dutch culture is best observed as a rhineland model which is based on the principles of market regulations and consensus seeking (Heurkens, 2008). Van Dijk (2010) describes that design is strongly intertwined in every aspect of Dutch landscape and urban development. This results in a high level of control over the landscape, and thus, design is a central cultural value in the development process. However, as mentioned in section 2.3, the Dutch culture is subject to ongoing changes. Heurkens (2008) argues Anglo-Saxon values are gradually replacing values of the Rhineland model. A shift has taken place toward more individual and inequality societal values. As a result the public private power balance is shifting towards the private sector (Heurkens, 2012).

5.2.2 Urban planning system in the Netherlands

The table below shows the main characteristics of the US and Dutch planning systems. The Dutch urban planning system is characterized by a centralized government. Dutch government, on local and central level, have a firm control over spatial planning, programs and locations through all legal instruments (Van Dijk, 2010).

Compared to the US planning system, the Dutch system is strongly oriented on the urban plan instead of real estate development. Historically entrepreneurship has dominated the Dutch urban planning system, nevertheless since the WWII the emphasis is on spatial planning. The Dutch planning system can be considered a comprehensive planning approach (Heurkens, 2012). This approach is characterized by the
integral coordination of spatial planning by multi-level arrangement of plans. In this period the mature planning institutions and mechanisms were established (Heurkens, 2012). Since the 1980s and 1990s the planning culture changed as the trust in Dutch government decreased and Dutch society became more emancipated, resulting in the private sector to re-enter the urban planning arena. In the last decades the emphasis has shifted more and more towards the private sector. Thereby, the local governments have less to spend and as such ownership of land becomes mainly a private business.

<table>
<thead>
<tr>
<th>Planning System</th>
<th>United States</th>
<th>The Netherlands</th>
</tr>
</thead>
<tbody>
<tr>
<td>Decentralized</td>
<td>Centralized</td>
<td></td>
</tr>
<tr>
<td>Fragmented</td>
<td>Coherent</td>
<td></td>
</tr>
<tr>
<td>Passive government</td>
<td>Active government</td>
<td></td>
</tr>
<tr>
<td>Bottom-up approach</td>
<td>Top-down approach</td>
<td></td>
</tr>
<tr>
<td>Economic planning</td>
<td>Spatial planning</td>
<td></td>
</tr>
<tr>
<td>Political oriented</td>
<td>Policy oriented</td>
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</tr>
<tr>
<td>Directive based</td>
<td>Consensus based</td>
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</tr>
<tr>
<td>Development-led</td>
<td>Plan-led</td>
<td></td>
</tr>
<tr>
<td>Single issue approach</td>
<td>Integral approach</td>
<td></td>
</tr>
<tr>
<td>Community involvement</td>
<td>Key stakeholder involvement</td>
<td></td>
</tr>
</tbody>
</table>

Table 15 – Urban Planning Systems United Stated and The Netherlands based on Van Dijk (2010)

According to Korthals Altes (2009) the main objective of the Dutch public sector in urban planning is to ensure all demand is met and to prevent shortages. Due to the active Dutch land policies, greenfield and brownfield land values differ little, as green field development has not been restricted for a long time. As such, inner-city land conversion is less profitable compared to for instance the UK (Heurkens, 2012).

Planning instruments

Different planning instruments are applied on different spatial levels. On regional and local level the structural vision is established by the public sector. Although this document has no legal binding status, the planning hierarchy is reflected in the influence that top down planning policies such as the structural vision, has on planning policies on lower levels (Heurkens, 2012). The only legal binding planning instrument in The Netherlands is the land use plan (Dutch: bestemmingsplan), which is established and adapted by the municipalities. Although the local land use plans are commonly updated to changing market conditions, this planning instrument is not considered as flexible. Based on the land use plan, the local government that applies an active land use policy (see section 2.24) has the ability to utilize its pre-emption rights and compulsory purchase rights to acquire lands for urban development (Heurkens, 2012).

Citizen participation

Although officially a joint public private afford, in the Dutch planning system citizen communication is most commonly coordinated by the local authorities (Van Dijk, 2010). The degree of citizen participation usually not exceeds a form of tokenism, as informing and consulting are commonly used instruments.
5.1.3 Public and private roles in urban development in the Netherlands

Role of the public sector

Characterizing for the Dutch government is the high level of centralization and institutionalization. Three levels of government are to be distinguished: Federal, Provinces and Municipalities. Although orderly structured, the Dutch planning system allows different roles for national, regional and local public institutions (Van Dijk, 2010). Municipalities bear the task to regulate land uses. As such, the local authorities are practically always involved in urban development project. However, since recent years the regional authorities, the Provinces have to power to influence and establish land use plans (Van Dijk, 2010). To implement land use plans, municipalities can be actively involved in the land development process. Municipalities have the freedom to choose an active of passive land policy. As mentioned, pre-emption right and compulsory purchase rights can be utilized by local governance to actively pursue the implementation of the plans. The traditional public role in Dutch planning comprises securing public interests and objectives. However, local authorities have been, and still are, financially and risk fully involved in urban development as a ‘private’ development partner (Heurkens, 2012). According to Wolting (2006) the different roles local authorities can adopt include initiating, directing, participating and facilitating.

Role of the private sector

As mentioned in chapter 2, and above, the private sector is increasingly involved in the urban development process. Private developers are the main risk bearers, and are most commonly focused on real estate development and investment (Van Dijk, 2010). Their involvement in urban development projects is mainly based on their land ownership. The private sector is characterized by a high degree of specialization and various backgrounds. As such, most private developers are oriented on a single sector (Van Dijk, 2010).

5.3 Conclusion

This chapter described the main differences and similarities regarding the culture, urban planning system and public and private roles between the United States and The Netherlands. In table 14 and table 15 respectively the cultures and planning systems of the US and NL are compared. This comparison of urban development in US and NL will be used when lessons are drawn from American investor-led development cases for the Dutch urban development practice in chapter 9.
This chapter comprises description of the Hollywood community redevelopment case in which the developing investors CIM Group is significantly involved. The case is situated in Hollywood, a district in Los Angeles. In section 6.1 the urban development process and the role of CIM Group is described. Section 6.2 includes the analyses of the investment- and urban development strategy. Furthermore the commitment of CIM Group is described.

6.1 Case description

After the glory days of the film industry in the 1950s and 1960s the Hollywood community started to decline. Years of deterioration led to the challenge to revitalize the Hollywood community. First revitalization activities started in the beginning of the 1980s as a result of different public, private and civic forces (Kralovich, 2012). A key aspect in the first years of the redevelopment of Hollywood was the community driven clean-up, as dedicated community groups initiated ideas and programs to fight the blight of their neighborhood.

Initiation of the Hollywood Redevelopment project

In 1986 the Los Angeles City council approved the Hollywood Redevelopment plan designed by the Community Redevelopment Agency (CRA). The redevelopment program was initiated in cooperation with the City Council, the Hollywood Chamber of Commerce and corporate interests amongst other active groups in the community (Reynolds, 2012). The redevelopment plan shown in figure XX comprises about 450 hectares of the core of the Hollywood district. The approval of Community Redevelopment Plan included a 30 year and $922-million public investment program and was not given without resistance (Fanucchi, 1986). Key aspects in the debate about the redevelopment project included the ability of the redevelopment agency to use public funds to bail out private business interests and concerns about gentrification of the neighborhood (Murphy, 1990). The main objective of the redevelopment plan was to facilitate the construction of mixed-use developments, luxury condominiums, bars and clubs and retail centers. Next to this, it included a renewed emphasis on tourist-oriented activities (Reynolds, 2012). Characterizing of the redevelopment plan was the focus on catalytic projects (Marks, 2004).

The community redevelopment agency

Initiated in the late 1940s the Community Redevelopment Agency was to intervene in the deterioration process of neighborhoods in California, as the private sector was unable to stop the blight (Marks, 2004). The main objective of the Community Redevelopment Agency of Los Angeles (CRA/LA) is to make strategic investments in order to create economic opportunity and improve the quality of life in its communities by fighting blight (CRA/LA, 2011). The main projects of the CRA include building affordable housing, creating jobs for working families and developing commercial sites. The CRA stays in contact with the neighborhood and homeowner groups, business and labor organizations, elected officials and City
departments. The CRA/LA is financed mainly through Tax Increment Financing (TIF). In the project area, the CRA/LA works together with private actors to realize its goals. Advantages of the CRA/LA as partner include financial assistance, favorable ground lease, permit expediting assistance, infrastructure grants or loans, access to low interest rates, public and off-site improvements and free LEED consultation (CRA/LA, 2011). The CRA/LA is controlled by a board appointed by the Mayor, and approved by the City Council. It has been able to facilitate the cooperation of various public agencies and city departments, which is needed in a city where overlapping regulatory jurisdictions hamper inter-agency collaboration (Kralovich, 2012). It’s broad scope gave the CRA the possibility and flexibility to invest funds in various ways. This includes land acquisition, infrastructure and gap financing (Kralovich, 2012, Steckler and Payne, 2012).

**Redevelopment objectives**

Together with the City Council, the CRA envisioned a future for Hollywood based on three views (Steckler and Payne, 2012). Firstly Hollywood viewed as residential place for mainly renters. Secondly, Hollywood as a destination with clubs, theaters, restaurants and retail for people from outside of the community. And lastly, Hollywood as center for the entertainment district. The CRA stated twelve redevelopment goals to promote responsible redevelopment in Hollywood and to enable, and simplify cooperation with private actors. The twelve goals shown below communicated precisely the objectives from the community and city. A private developer was only eligible for public funding by the CRA if the proposed project met at least six of the twelve goals (Kralovich, 2012, Steckler and Payne, 2012). Based on these criteria, the private developers were held accountable for providing benefits to the Hollywood community.

**Twelve criteria for public investment in Hollywood (Kralovich, 2012)**

- Catalytic projects having a significant economic impact on the community
- Transit-oriented development that promotes “walkability” and public transportation
- Supports economic growth in a core Hollywood industry: Film & Entertainment, Tourism, Health Care and/or Education
- Provides education or job training in core Hollywood industries
- Creates living wage jobs for local residents
- Provides affordable housing for low and moderate income households
- Reduces Homelessness in Hollywood
- Is an energy-efficient development that meets or exceeds LEED silver standards
- Preserves a significant historic structure
- Contributes meaningfully to public art and/or cultural institutions
- Creates publicly accessible parks and/or open space
- Strengthens and supports a nonprofit social service provider in Hollywood
The Hollywood Redevelopment plan (CRA/LA, 2003) is commissioned by the Community Redevelopment Agency, and is updated several times since 1986. The main objectives of the redevelopment plan include amongst others:

- Encourage the involvement and participation of residents, private sector and community organizations.
- Preserve and increase employment and business and investment opportunities.
- Promote a balanced community.
- Improve the quality of the environment, promote a positive image for Hollywood and provide a safe environment.
- Promote the development of Hollywood Boulevard as commercial core and unique place.
- Provide housing choices and increase the supply and improve the quality of housing for all income and age groups.
- Promote the development of sound residential neighborhoods.

This redevelopment plan is developed in line with the Hollywood Community Plan established by the Los Angeles Department of City Planning (LAdcp). The Hollywood Community Plan comprises the land use elements of the General Plan of the City of Los Angeles (LAdcp, 2013). The General Plan is the fundamental policy document of the city, and provides a framework for Community Plans and other urban development plans such as the Redevelopment plan. The Community Plan covers the whole city district of Hollywood. Since most redevelopment efforts are situated within the Hollywood Redevelopment Area, this plan area is subject to this research.

![Figure 23 – Hollywood Redevelopment area (LAdcp, 2013)](image)

The Community Plan is an important tool for the City planners to control and regulate the development of the city. The community plan includes the goals for urban and economic development, a detailed land use plan, implementation programs and urban design guidelines (LAdcp, 2013). The implementation of the community plan is managed by land use designations in the form of zoning, height districts, qualifying conditions attached to zones on certain parcels to limit uses or density normally permitted, and
development limitations that are restrictions attached to height districts which typically limit permitted height or Floor Area Ratio (LAdcp, 2013). Urban Design Guidelines provide guidance and information on development to public and private sector. The community plan is set up as a flexible plan, as amendments can be proposed to change the land use designation for a specific project. Hence, the plan can be adapted to contextual changes such as demographic of economic conditions (LAdcp, 2013). However, amendments to the zoning need approval of the City Planning Commission.

First steps of redevelopment

When the plans for the redevelopment of Hollywood became public, it ignited the interest of investors. As investors realized the benefits of the community redevelopment agency, speculated investment and purchasing led to soaring land prices (Boland, 2011). In the early years of the redevelopment process, mainly housing renovations and revitalizations of film-industry landmarks took place with the help of the City Council and the redevelopment agency. The CRA played a major role in initiating public private cooperations between nonprofit organizations and expertized developers (Kralovich, 2012, Steckler and Payne, 2012). One of the most important catalysts of the redevelopment of the Hollywood community was the development of three Red Line metro stations along Hollywood Boulevard (Boland, 2011). After some setbacks due to the 1994 Northridge earthquake, the stations were completed in 2000 and improved the connection to Downtown and San Fernando Valley (Move LA, Kralovich, 2012). The construction of the metro stations was funded by the Los Angeles Metro and Federal Infrastructural funds. Another key catalyst project in which the CRA/LA was actively involved is the Hollywood & Highland development project which includes two theaters, the TCL Chinese Theater and the Dolby Theater (which hosts the Academy Awards), 59,000 m2 retail floor, a 637-room hotel and some other amenities like nightclubs and restaurants. After three years of development by TrizecHahn, a Canadian real estate developer and investor, the project was opened in 2001 (Estolano, 2013). The project was formed as a public private partnership, in which the CRA invested in order to attract high-end retail and good jobs to the neighborhood (Steckler and Payne, 2012). After one year of negotiation between the CRA, the Hollywood Councilmember, the City and the developer, a development agreement was approved by the City Council. The agreement included a public investment of $90 million in the project (Boxall, 1998). This development agreement was the first example of a Community Benefits Agreement (CBA) in the country, and set a new standard for leveraging public investments for community benefits (Estolano, 2013). As developer TrizecHahn agreed to invest in job training programs, 70 percent first source hiring goals for construction and retail jobs, living wage goals for permanent jobs and contribution towards transportation improvements (Estolano, 2013, Steckler and Payne, 2012).

Hollywood Entertainment Business Improvement District

In the mid-1990s the City Council challenged the Hollywood Chamber of Commerce to involve the local businesses and property owners more closely to the redevelopment process (Steckler and Payne, 2012). As a result, the Hollywood Entertainment District (HED) was formed in 1996, as the first Business
Improvement District in the state of California. CIM Group was actively involved in the establishment of the BID (GCC, 2006b, CP&DR, 2001). The annual budget that has grown to over $3.4 million recently, is mainly spent on security (GCC, 2006b, Guan, 2012). Next to security it also focused improving the streetscape by sweeping streets and sidewalks, removing graffiti and trimming trees amongst other things (Steckler and Payne, 2012).

Involvement of CIM Group

CIM Group is a developing and managing real estate investment fund, managing various types of funds. Based on its community investment strategy, the company selects urban areas that meet specific criteria including the local real estate market characteristics and the macro-economic developments (GCC, 2006a, GCC, 2007). As the Hollywood community met the criteria, it was selected as urban community to invest in. But instead of starting to acquire a significant ownership in the community, it firstly focused on getting integrated in the community. As mentioned, CIM was already involved in the BID since its establishment, before the company even made its first investment in the community (GCC, 2006b). The first investments of CIM in the Hollywood project area followed between 1998 and 1999. Three of the investments were made near the Hollywood & Highland project area. The projects mainly entailed office and retail investments and are listed in the table in Appendix A1. CIM housed its headquarters in own of its major projects, a mixed use office, retail and parking property which they upgraded from a class B to class A building to improve the occupancy rate. In 2004 CIM bought the interests of TrizecHahn in the Hollywood & Highland center, thereby instantly positioning itself as significant landlord in Hollywood. Although every community requires a specific approach, its community oriented investment approach is reflected in the investment and developments made in the Hollywood community.

A major incentive for investments by CIM was the approval of the adaptive reuse ordinance in 1999. This reuse ordinance made it easier for private actors to redevelop vacant or under-utilized buildings (CIM Group, 2013a). One of the most notable projects is 7046 Hollywood Boulevard. CIM acquires the historic building in 2004, and transforms it into ground level retail and 42 for-rent apartment units. By the end of 2009 the transformation was completed and the leasing started (Gluck, 2007). In April of 2013 CIM Group sold the property while the residential units were 95% leased and the retail 100%.

Distinctive for the approach of CIM is the repositioning and improvement of management of its assets. As described above, the 7021 Hollywood Boulevard project showed the skills of CIM to reposition a retail center, attracting tenants that fit the revitalization of Hollywood, adding more high-end shops to the neighborhood, such as Zara. This repositioning is not only applied on retail assets. Having both knowledge of the local market, and having in-house knowledge concerning development and management of real estate in all sectors, CIM also positioned itself as an ideal partner to reposition other assets such as hotels (GCC, 2006b, CIM Group, 2012).
CIM Group has also been involved in ground-up development projects in Hollywood, such as 1800 Whitley Avenue apartments and the mixed use development on the former site of the Spaghetti Factory. This last project is especially interesting as CIM cooperated with the CRA to start the project. The Sunset and Gordon development entails the ground-up development of a 0.7 hectare site which has been formerly owned by the historic Spaghetti Factory. The development includes 301 residential units, 3,700 sqm office space, 1,210 sqm retail including a restaurant, and a parking garage comprising 543 parking spaces all in a 22 story building in which the old factory’s façade is preserved (CIM Group, 2012, CIM Group, 2013c, Vincent, 2011). The total development costs to transform the surface parking lot and former Spaghetti factory into a high-rise mixed-use development are estimated at $190 million. The CRA funded $13 million to the project, which is about 7% (CRA/LA, 2012). In return, part of the site will function as public park, the historic façade of the Spaghetti Factory is incorporated in the design, and part of the fore-sale condominiums will be marketed at the affordable housing market (CRA/LA, 2012).

Entitlements granted to Sunset and Gordon included the approval a building height of 79 meters, more than five times the locally restricted 14 meters, a higher density than allowed, a property-zoning change from ‘Highway Oriented Commercial’ to ‘Regional Center Commercial’ and the approval of lower residential and commercial parking rates than required by law. The development is expected to be completed in 2014 (CIM Group, 2013c).

**Hot market**

CIM Group has not been investing in Hollywood continuously. Due to re-branding, the iconic image, a cooperative city council, the active local business community and simultaneous investments of the CRA, Hollywood attracted the attention of many investors and turned into a hot market (Boland, 2011). Due to high real estate values, CIM decided to focus on other markets around 2006 (GCC, 2006b). Nevertheless, CIM continued to have a stake in the community as significant landlord. The table in appendix A1 shows that CIM in recent years has increased its investment in the Hollywood community.

**Effects**

Whether the extensive efforts made for the redevelopment of Hollywood, initiated at the approval of CRA’s redevelopment plan back in 1986, has led to the desired results is a delicate point of discussion (Boland, 2011). Various sources emphasize on the economic prosperity that has been brought to Hollywood and argue that the CRA has served the community demands well. Critics argue that many historical landmarks have been destructed, and gentrification has not been avoided as not enough.

![Figure 24 – Sunset and Gordon visualization (CIM Group, 2013c)](image)
affordable housing is developed (Boland, 2011, Kralovich, 2012, Steckler and Payne, 2012). It is not in the scope of this research to assess the effects of the redevelopment efforts, though it is important to keep them in mind. Most critics agree on the fact that the urban landscape of Hollywood has drastically changed in the last two decades, and blight has been successfully fought (Boland, 2011, Kralovich, 2012, Steckler and Payne, 2012). CIM Group alone has (re)developed and/or invested in more than 19 projects. Additionally CIM has invested in various developments and assets in close proximity to the Hollywood redevelopment area. They are regarded as one of the most significant landlords of Hollywood. As such, it is legitimate to state CIM has played a significant role in the redevelopment of the community.

**Ongoing redevelopment process**

Although the Community Redevelopment Agency has been abolished, the redevelopment process has not ended. The successor agency of the CRA is still involved in completing the projects it has been involved in (CRA/LA, 2012). However, without the CRA spurring private investment and redevelopment of the community, the process is likely to be slowed down. Still private investors are active in the community. Even an ambitious plan to cap the Hollywood Freeway to create a central park which subsequently strengthens the connection between the blocks divided by the 101 freeway, has been initiated by the Hollywood Chamber of Commerce in cooperation with several private and public actors including CIM Group (HCC, 2008). Nevertheless it is impossible to make statements about how the redevelopment process will continue.

### 6.2 Analysis of the Investment- and Urban Development Strategy

In this paragraph the Hollywood redevelopment case and the role of the developing investor CIM Group is analyzed based on the investment strategy and the urban development strategy as described in paragraph XX, methodology/analysis framework. Based on the analysis of the investment strategy of the investor of subject and the urban development strategy as a public private process, the commitment of the investor to the urban development project is expressed.

#### 6.2.1 Investment Strategy CIM Group

In this section the investment strategy of CIM Group is analyzed based on the aspects vision, organization, financial and legislation/regulation. The investment strategy is mainly described based on the Hollywood redevelopment case. However, as CIM Group has an generic investment strategy which is applied on numerous communities, it is considered valuable to this research to include this generic perspective when applicable.
Vision
The investment philosophy of CIM Group is based on five key principals. These principals are generic and applicable to all communities the company gets involved in, and to all funds it has managed or that are currently under management of CIM. These principles can be translated into an investment vision for each community, based on its characteristics. On the other hand, these principles determine in which communities the philosophy of CIM can be applied. The generic philosophy is explained according to these five key principles. Firstly the generic philosophy is explained according to the five key principles. Then, the principals are translated into the vision concerning the Hollywood community.

1. Selection of qualified communities
The first key principle of CIM’s community oriented investment philosophy is the selection of qualified communities (GCC, 2006a, GCC, 2007). This selection is based on five criteria. The first criterion entails favorable demographic and economic developments of the metropolitan area in which the community is located. This should incorporate a densely context with a growing working population and purchasing power. This aspect is not only analyzed on a high level, input from local sources, such as retailers and inhabitants is also used. The second aspect is based on the level of support by relevant authorities and public actors. CIM Group aims to secure and co-create enough capacity for the implementation of its plans in an early stage at relevant local authorities, (semi-)public actors and other groups active in the community. The third selection criteria is the presence of private investments in the community, which supports CIM Group’s vision on the opportunities of the community. The next criterion is based on the functioning of the local real estate market. In order to be able to exploit the opportunistic investment strategy and thus to create value, the local real estate market should be dysfunctional, and as such show a lack or surplus in certain sectors. The fifth and last selection criterion entails the existence of an investment potential of at least $100 million in the next five years in the selected community.

Today, CIM has selected 94 qualified communities in North America. The figure below shows the location of the communities and reveals the orientation on the east and west coast of America. Up until today CIM has invested in about 50 of the 94 qualified communities (GCC, 2013). According to CIM it does not mean the other communities are left unattended, though the right investment opportunities have not yet occurred (GCC, 2013). Hollywood is one of the communities CIM has been most active in. As shown in the description of the redevelopment process, the five community selection criteria were present in case of Hollywood. Remarkable is its close proximity to Downtown Los Angeles while the neighborhood was degenerated and lacked enough entertainment industries, good residential facilities and suffered commercial vacancy. Though public support to stimulate the redevelopment of Hollywood was expressed by the transit oriented investments and the community redevelopment agency.
2. Integration in the community

The second key principal of the investment strategy is based on the integration in the community. Once CIM Group has selected a community for investments of its different active funds, CIM aims to become and stay an active local market player. This integration entails visiting the community regularly to consult local partners, such as real estate agents, and examine whether investment opportunities are occurring (GCC, 2013). As CIM has selected 94 communities, it is impossible to establish an office in each community. If extensive investments are planned, CIM can decide to establish a temporary office in that community. Lately Manhattan has been a source of several investment opportunities which led to the establishment of the New York office (Call OLLE). From the three main offices, Bethesda, Hollywood and San Francisco, multidisciplinary teams are appointed to a community and regularly visit these neighborhoods (GCC, 2013). CIM’s headquarters are housed in Hollywood, which strengthens its integration in the Hollywood community.

The Hollywood case showed another form of integration in the community as CIM joined the establishment of the Hollywood Entertainment Business District before it had invested in the community. By doing so, CIM enhanced its presence in the community, was able to influence actions taken by the BID, and profiled itself as an engaged investment partner. Whether or not before its making its first investments, CIM regularly fulfills functions in committees and boards of local and business improvement districts, local business groups or other community groups (GCC, 2006b, GCC, 2007). Therefore we can assume it is vital part of its strategy to build up a network within the local communities.

Next to creating relations within the selected communities, CIM actively consults local experts and hires expertise to be able to integrate in the community. An illustrative example is the integration on in the Washington DC real estate market. To gain more understanding from the market, CIM group has worked closely with Charles E. Garner since 1996. Garner, former vice president of the Federal Realty Investment Trust, was consultant and advisor to CIM Group on various equity and debt transactions. Eventually CIM Group hired Charles E. Garner, and opened a Washington DC office, to expand its east coast presence in 2003 (CIM Group, 2013d). Concerning the Hollywood case CIM hired John Given, a former employee of Los Angeles Metro which is responsible for the expansion of the public transportation network, and former employee of the Community Redevelopment Agency, in 1997. Both public actors fulfill a significant role in the redevelopment project of Hollywood. By hiring John Given, CIM Group acquired a network within the public actors, and knowledge about its policies and procedures (CIM Group, 2013d).

3. Multi-sector approach

CIM’s third key principle entails the multidisciplinary character of its development and investment activities. CIM Group does not exclude any real estate sector for its investments. This approach is based on the unique characteristics of each urban area. By having knowledge of development and management of real estate in all sectors, CIM Group can anticipate on community specific demand (GCC, 2006a, GCC, 2007). The application of this principle is clearly illustrated in the Hollywood redevelopment case in which
CIM has been active in management, repositioning, transformation, redevelopment and ground-up development projects in various sectors including residential, commercial, entertainment and retail.

4. Community oriented approach

The fourth base principle CIM has stated implies a community oriented approach. According to CIM Group it is essential to generate a healthy mix of functions and users that fits the local market and supplies the demand and requirements from the local community. To reach this ideal mix of functions and users, CIM aims to integrate and bind with local stakeholders (GCC, 2007). In many communities this is effectuated by for instance participating in a Business Improvement District or other community groups.

5. Market cycles

The fifth and last principle of the community oriented investment strategy incorporates the real estate market cycles. Markets from time to time overheated, which means prices are too high for opportunistic investment. This has happened in the Hollywood real estate market as well, as described in the redevelopment project above. By selecting more communities, and thus different real estate markets, CIM is not bonded to one single market and is able to time its entrance and exit better. However, CIM will be involved in the markets in which it has invested, whether the market conditions are good or bad (GCC, 2006a, GCC, 2007).

Organization

As mentioned in the box in the case description, CIM Group is an urban real estate and infrastructure investment firm, which is founded in 1994. The first period, until 2000, the thee founding partners, Shaul Kuba, Avi Shemesh and Richard Ressler, invested both on own account as for institutional parties such as the Federal Realty Investment Trust and CalPERS (GCC, 2007). The company was structured as a limited liability company and managed the CIM/FRIT fund. CIM began acquiring properties in Santa Monica where the City officials were aiming to revitalize a pedestrian mall. In 2000 CIM evolved to the firm it is now as it raised the first CIM Urban Real Estate Fund, a Limited Partnership $180 million private equity fund to make opportunistic investments in urban areas. Today, CIM has grown to an integrated, full service real estate investor, from three founding-principals, to 10 principals and over 330 employees, that manages various kinds of funds (CIM Group, 2013b). Up until June 2013, CIM has managed over $7.6 billion of equity across its various funds (CIM Group, 2013b).

CIM Group has in-house research, acquisition, investment, development, finance, leasing and management capabilities. Furthermore it is specialized in urban real estate and infrastructure investments. It has experience with retail, residential, office, parking, hotel, signage, mixed-use and other real estate property types (CIM Group, 2013b). These capabilities are accommodated in five business units, or departments, shown in the chart below. These five departments are investments, development, property management, financial reporting and compliance. These departments can be divided in two sub-
groups, investment & development and corporate businesses (GCC, 2007). The tasks of the investment and development business units include the proposal of investment opportunities, due diligence on projects, construction- and project management, and asset management. Marketing, positioning, tenanting and market analysis are part of the responsibilities of the asset management team (GCC, 2007). The corporate business units are responsible for leasing activities, property management, reporting, legal affairs and other operational matters. This department is controlled by five managers of which three are part of the principal team (GCC, 2007). The table below shows the organizational chart of CIM Group and the position of the ten principles, including the three founding-principals.

The CIM firm manages several real estate and infrastructure investment funds. This research is oriented on the urban real estate investment funds on which the same community oriented investment strategy is applied. The figure below shows a structure of the opportunistic fund CIM III. This fund has a general partner that is responsible for the day-to-day management of the fund, and limited partners which can be seen as capital providers (GCC, 2007), an Advisory Committee, a Partnership Meeting and a Partnership Agreement. The General Partner is a full subsidiary of CIM Group Inc. and has a joint and several liability. To limit the liability of the mother firm, the General Partner is a Limited Liability Company (LLC). This means that in case of fraud, deliberate mismanagement or gross negligence, the General Partner can be replaced at a two third majority decision of the limited partners. The limited partners are the capital providers of the fund. In case of CIM fund III this includes the mother firm and its principals, though for a small share (GCC, 2007). The main source of capital is attracted from U.S. and Non-US public and corporate pension funds, endowments, multinational corporations and other private investors (CIM Group, 2013b). CIM has also attracted private equity from several Dutch pension funds. Delegates from the Limited Partners form the Advisory Committee. This committee provides binding and non-binding advise to the General Partner on issues as conflicts of interest and deviations to investment criteria (GCC, 2007). Remarkable is the extent to which approval is needed from the Advisory Committee.

As mentioned CIM has a wide range of in-house knowledge and capabilities. However, it has also selected 94 communities across North America, and only has 4 permanent offices at the moment.. This raises the question how CIM organizes its management and investments in the all these communities. From the business units Investments and Development, multidisciplinary teams are responsible for the investments and developments in the various communities. Each community can be managed by a different team formation (GCC, 2013). As such, local expertise and specific sector bounded knowledge can be combined in a team, but expertise is not restricted to one specific community. If a project requires significant construction and/or project management, a project management team will be located near the community temporarily (GCC, 2013).
Financial

The CIM firm has managed several real estate and infrastructure funds. These funds differ in risk and return levels, varying from stable to value-add and opportunistic funds. Currently CIM has two kinds of real estate investment funds in operation; opportunistic and stabilized. Both type of funds apply the same community oriented investment strategy. In 2000 CIM raised the first of its opportunistic funds in the current form, CIM California Urban Real Estate Fund (CIM I). When it expanded its geographical scope and the more private equity was raised, it resulted in a $676 million fund referred to as CIM II (CIM Group, 2013b). The main objective of these funds is to make opportunistic investments in selected urban communities. As CIM noticed that when a critical mass due to their opportunistic investments in the communities has been reached, other real estate assets, not within the CIM funds, benefited from the positive spin-off of CIM’s strategy. Therefore CIM decided to establish a stabilized, or core, real estate investment fund, the CIM Urban REIT. The main objective of the Urban REIT funds is to invest in core assets, on which no risks such as zoning or land-use risks and development risks are taken (GCC, 2006a).

All investments of the stabilized funds will be in communities where CIM also applies its opportunistic strategy. As such, these core-assets can benefit from the positive spin-off (GCC, 2006a). Although the opportunistic and stabilized funds operate individually, since the establishment of the Urban REIT funds there has been an increased synergy. The opportunistic funds profit from the increased critical mass as the stabilized funds invest in the same community, while the stabilized funds profit from the positive spin-off of the opportunistic activities (GCC, 2006a).

The maturity of the funds is restricted to a minimum and maximum. In case of CIM III, the term is 10.5 years minimum and 13.5 years maximum (GCC, 2007). This term is set in accordance to the average real estate cycle. A full real estate cycle, from peak to peak, generally takes about 10 years. By setting this term, CIM Group assures the funds will undergo a full cycle and therefore downturns can be compensated by the peaks of the cycle (GCC, 2013). Obviously different investment criteria are set for the different fund styles. The characteristics of the opportunistic (CIM III) and stabilized (CIM Urban REIT) funds are shown in the table below.

<table>
<thead>
<tr>
<th>Parameter</th>
<th>CIM Urban REIT</th>
<th>CIM fund III</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk profile</td>
<td>Stabilized</td>
<td>Opportunistic</td>
</tr>
<tr>
<td>Target IRR</td>
<td>11-13%</td>
<td>20%</td>
</tr>
<tr>
<td>Equity multiple</td>
<td>2.0</td>
<td>20%</td>
</tr>
<tr>
<td>Horizon (term)</td>
<td>10 yrs</td>
<td>10.5 to 13.5 yrs</td>
</tr>
<tr>
<td>Leverage</td>
<td>Max. 30%</td>
<td>Max. 80% (in practice 60%)</td>
</tr>
<tr>
<td>Risks</td>
<td>CHECK Standaard</td>
<td>Land use, permit, construction, (re)development, leasing</td>
</tr>
<tr>
<td>Value objective</td>
<td>Cash flow</td>
<td>Capital gain</td>
</tr>
<tr>
<td>Total investment capacity</td>
<td>$3 billion</td>
<td>$1.75 billion (private equity)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$4.4 billion (including debt equity)</td>
</tr>
</tbody>
</table>

Table 16 – Investment criteria CIM funds (GCC, 2006a, GCC, 2007)
Furthermore CIM has stated investment criteria regarding the distribution of its investments between the selected communities. Without the permission of the Advisory Committee CIM cannot deviate from these criteria.

1. A maximum of 15% of the shared commitments can be invested in a single investment.
2. A maximum of 25% of the shared commitments can be invested in a small Metropolitan Statistical Area (population less than 1 million).
3. A maximum of 25% of the shared commitments can be invested in one community (sub-market) of a large MSA (population more than 1 million).
4. A maximum of 50% of the shared commitments can be invested in one large MSA.

These criteria allow the fund to apply its strategy of concentrated investment in communities. On the other hand, the criteria safeguard the diversification of the fund’s investments over all the selected communities and MSA’s. Other investment criteria include that no equity is invested in listed stocks, investments are leveraged for a maximum of 80%, not more than 10% of the shared commitments is invested outside North America and not more than 2.5% of the shared commitments is invested in a single object outside North America.

In opportunistic investment exit yields are important to consider. CIM has set high exit yields for its investments with high debt equity and limited funding. The exit yields CIM applies are 8% for retail, offices/commercial and residential, 7.5% for affordable housing and 9% for hotels (GCC, 2007). As CIM’s strategy is based on creating value within the community, it is more likely these yields will turn out to be lower than they will be higher (GCC, 2007). CIM Group has released an expected sectorial distribution of the Urban REIT fund investments. Approximately 25-30% will be invested in residential (multifamily), 25-30% in retail, 25-30% in office, 10-25% in commercial, 10-25% in hotels and 0-25% in other sectors (GCC, 2006a). It has to be considered that these figure are indications as the strategy of CIM is oriented on investing in underrepresented sectors.

**Regulations**

The CIM funds are registered as a Delaware Limited Partnership which entails a partnership agreement between the General Partner, the fund manager, and the Limited Partners, the capital providers (GCC, 2007). This partnership agreement is characterized by its large degree of flexibility. Up to a certain level the General Partner is held liable for fraud, gross negligence and deliberate mismanagement. Furthermore, the investors can advise the General Partner on specific issues via the Advisory Committee. As mentioned, on some issues the approval of the Advisory Committee is necessary. Thus the fund manager, CIM Group, is not restricted bonded to its investment criteria and methodology, and otherwise the approval of the Limited Partners. The General Partners also discuss the progress of the fund with its Advisory Committee. The discussed issues include the performance of the fund, the paid fees, new acquisitions and commitments, dispositions, fund reports and taxations (GCC, 2007). Advice from the committee on these issues are not binding.
Within the agreement of the opportunistic funds, the financial returns are key for both the General Partner, as the Limited Partners. Although the investors cannot control the performance of the fund via the Advisory Committee, the shared motive of investment is making an outperforming return. The investors relies on the performance and thus the return of the urban real estate fund. On the other hand, the fund manager depends on management fees and a catch-up dividend model. The investment management fees are a fixed percentage of the committed capital that has not yet been refunded to the investor. For CIM III, the investment management fee is 1.5%. The fund manager can also rely on property management & leasing fees, and development management fees. The catch-up arrangement implies that if the yearly 10% IRR dividend for the Limited Partners is realized, the profits above the 10% IRR for 50% accrue to the fund manager until the fund manager has received 20% of the total profits. Then the dividend ratio will be 20/80 (General Partner/Limited Partners). Thus this catch-up arrangement is a huge incentive for the fund manager to optimize the profit of its funds.

Translated to the Hollywood Community redevelopment, this regulations mean that although CIM focusses on creating value in the community, it is not within its interest and ability to invest solely for societal benefits if no financial return is included. Though via Development Agreements and Community Benefits Agreements the financial gains are balanced to societal gains. Furthermore, as significant landlord CIM invests in community safety via the Business Improvement District.

6.2.2 Urban Development Strategy Hollywood redevelopment project

In this section the urban development strategy of the Hollywood redevelopment project is analyzed based on the same four aspects used in the investment strategy analysis: vision, organization, financial and, legislation and regulation. The urban development strategy is described from the perspective of the cooperation between public and private actors. This means both perspectives and roles are incorporated in the description of the four aspects of the urban development strategy.

Urban development vision

As described in the Hollywood case, the main objectives of the Hollywood redevelopment are Hollywood as residential place, as a destination with clubs, theaters, restaurants and retail for visitors and Hollywood as center for the entertainment industry. Together Hollywood had to be redeveloped to a place to live, to work and for entertainment (CRA/LA, 2003, LAdcp, 2013). The CRA stated a set of goals to promote responsible redevelopment in Hollywood and to enable and simplify cooperation with private actors. These goals envisioned the objectives of the community and the city, and aligned to investments in public transportation by the Federal Government and Metro LA. These goals include;

- Transit-oriented development that promotes walkability and public transportation
- Supporting economic growth in core Hollywood industries Film & Entertainment, Tourism, Health Care and Education
- Creating living wage jobs for local residents
- Providing affordable housing for low and moderate income households
- Reducing Homelessness
- Promoting energy-efficient development exceeding LEED silver standards
- Preserving significant historic structures
- Creating publicly accessible parks and/or open space

The City and the CRA focused on catalyst projects to build up a critical mass to attract private investments. Catalyst projects such as the Hollywood and Highland project could expect extensive funding from the CRA. The case description showed that this project was an impulse to the role of CIM Group within the community. On its own turn, the strategy of CIM Group to develop a critical mass by which value is created in within the community aligns to the objectives of the CRA and the City.

**Organization**

In terms of the classification of PBL and Urhahn Urban Design (Buitelaar et al., 2012), which make a distinction between integral and incremental urban development, the Hollywood case can best be described as an incremental development process. The urban development project is organized incrementally, without a concrete end point and blueprint design. The scale of the developments is small, mostly per plot, and development and operation are interweaved. Different private actors are engaged in the redevelopment of the plots, while the public actors mainly facilitate specific projects. The organization of the redevelopment project of Hollywood is described using Heurkens’ analytic model of public private co-operation which includes project and process management activities, management tools and resources (Heurkens, 2012). In the table below the management measures in Hollywood.

<table>
<thead>
<tr>
<th>Management Measures</th>
<th>Management Functions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Project Management</strong></td>
<td>Initiating       Designing       Planning       Operating</td>
</tr>
<tr>
<td>Both</td>
<td>Private             Private             Both</td>
</tr>
<tr>
<td><strong>Process Management</strong></td>
<td>Negotiating        Decision-making  Communicating</td>
</tr>
<tr>
<td>Both</td>
<td>Both                Both</td>
</tr>
<tr>
<td><strong>Management Tools</strong></td>
<td>Shaping            Regulating          Stimulating    Capacity Building</td>
</tr>
<tr>
<td>Public</td>
<td>Public             Public              Both</td>
</tr>
<tr>
<td><strong>Management Resources</strong></td>
<td>Land               Capital              Knowledge</td>
</tr>
<tr>
<td>Private</td>
<td>Both                Private</td>
</tr>
</tbody>
</table>

*Table 17 – Management measures Hollywood Redevelopment*

**Project management**

The table shows project management activities are carried out by both public and private actors. Although the initiation of plot development is almost solely private-led, the role of the government, and the CRA/LA
in specific, was crucial for the initiation of the Hollywood redevelopment project as a whole. Thereby, incentive offered by the local authorities on project level have been crucial for attracting the private sector, eventually leading to private sector initiatives. Designing of the projects is mainly a private business. Nevertheless the local public actors served the developers by setting up design guidelines in the community redevelopment plan. On a plot level, planning is mainly a private sector activity. Local authorities have not influenced private planning or set timeframes for plot development. In some cases, the civic society influenced planning of the private sector by protesting against long vacant sites or abandoned buildings. This has happened in case of project of CIM Group as well. Based on the complaints from the neighborhood CIM started earlier than planned with the redevelopment of the sites. Indirectly local authorities have influenced the planning of the redevelopment process, as investments in public transportation and well-timed incentive planning have accelerated the revitalization of Hollywood. In terms of operation the development project, both private and public actors are responsible. Private actors are mainly responsible for the operation of the buildings and the public space on its sites. The operation of the open space and public parks are within the responsibility of the local authorities. Nevertheless, the private sector also fulfills a role in the operation of the public space. The BIDs hired private security companies to increase the safety on the main streets.

Process Management

Negotiation in the Hollywood redevelopment is a matter of both public and private actors. On community level, the public authorities are mainly responsible for the negotiation of design frameworks and community redevelopment plans, though the private sector is consulted often in this negotiation. On project, or plot level, public and private actors negotiate on entitlements and benefits for the community. In terms of decision-making, the Hollywood redevelopment case shows that both public and private actors have had instruments to make decisions. Obviously the public actors had the instruments for decision making in the planning process, including the incentive planning ordinances and planning documents. Although decision-making in on plot development was mainly private-led, the CRA/LA had a role in decision-making of several projects as an investment partner. Communication on the level of the community is mainly a public activity. The CRA/LA and the City Council have held several public hearings in the design process of the redevelopment plans. On project level, the private sector is also responsible for the communication to stakeholders in Hollywood, including the inhabitants.

Management Tools

In terms of management tools shaping has been mainly an activity of public actors. The community plan is designed by the CRA/LA in cooperation with the City Council. Although the private actors have been consulted, laying out a redevelopment strategy has been done by the CRA. Next to shaping also regulation is done by local authorities, by means of the planning documents. Although regulations such as zoning in some cases were negotiated, the public actors were responsible changes to the regulations. The public authorities have been providing incentives to private actors in several ways, such as the adaptive reuse
ordinance and public funding and loan to key development projects. Thus stimulating as a management tool has been mainly used by the public actors. In the Hollywood redevelopment case, capacity building has been an activity done by both public and private actors. By providing incentives, funding catalyst projects and by investing in public transportation, by organizing community meetings and consultations, consulting local business owners various public actors build capacity developments in the Hollywood community. On the other hand CIM Group has been actively building capacity for its own developments and improvements to the neighborhood, by consulting local business man and by means of its involvement in the Business Improvement District. According to CIM, it has also generated capacity for more private investments in the Hollywood community making multiple investments and developments within the proximity of key catalyst projects such as Hollywood and Highland.

Management Resources

In the redevelopment of Hollywood land is mainly used by private developers and investors as management resource. Historically the land is owned by private actors. However, the CRA/LA gained the ability of expropriation. By this means it has been able to acquire land and prepare it for development. The total invested capital in the Hollywood redevelopment project comes mainly from private developers and investors. Though investment by public authorities have been crucial to the progress of the redevelopment of Hollywood. Without extensive investments in public transportation, and CRA funding for key projects to catalyze the redevelopment, there would not have been made as much private investments as has been made until now. Without public financial support CIM Group would probably have not selected Hollywood to invest in. Therefore capital is used as management resource by both public and private actors. Neighborhood and market knowledge can mainly be attributed to private actors, specifically to CIM Group. With the knowledge it acquired via partnerships with local players, research and recruitment, CIM has been able to anticipate on changing market demands within the Hollywood community. By means of flexibility in its regulations, the local authorities allowed private actors to anticipate of specific market demands. Thereby they have not set specific targets for commercial, residential and retail developments.

Roles

Although development initiatives are mainly taken by private developers and investors, the role of the CRA/LA and Department of City Planning can be considered leading based on their active involvement in enabling and regulating private investments. By means of providing incentives, whether in public private partnership or just as a funding, the local authority successfully attracted private developers and investors, and catalyzed the redevelopment process. In the Hollywood case the private actors worked mainly within the regulations set by the local government. According to the LA Department of City Planning (see questionnaire Appendix A3), the role of CIM Group within the Hollywood project is the same as other private actors. However, without the initiative taken by actors like CIM Group, the development would not progress. Although CIM Group is not involved in the planning and negotiation on community-
level, it is able to steer the negotiations on project-level. As such, CIM Group has fulfills a certain steering role within the development project. Moreover, CIM Group has a big stake in the development project based on the capital invested. Next to this, the level of involvement through the Business Improvement District, together with other property owners, is significant. Thus, one could say CIM Group has obtained a leading role within the development project based on its continuous investments.

Financial

This section focuses on the financial aspect of the urban development strategy. The distribution of risks and revenues related to the phases of real estate development, public spaces and infrastructures is analyzed. The table shows the roles of public and private actor concerning who’s taking up risks and revenues, and who is mainly responsible for the funding.

<table>
<thead>
<tr>
<th>Land development</th>
<th>Real Estate Development</th>
<th>Operation</th>
<th>Public Spaces/Parks</th>
<th>Infrastructure</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Risks</strong></td>
<td>Private &amp; Private</td>
<td>Private &amp; Both</td>
<td>Private</td>
<td>-</td>
</tr>
<tr>
<td><strong>Revenues</strong></td>
<td>Private &amp; Private</td>
<td>Private</td>
<td>Private</td>
<td>-</td>
</tr>
<tr>
<td><strong>Financing</strong></td>
<td>Private &amp; Private</td>
<td>Private &amp; Both</td>
<td>Private &amp; Both</td>
<td>Public &amp; Both</td>
</tr>
</tbody>
</table>

Table 18 – Financing, Risks and Revenues Hollywood Redevelopment

Land and real estate development is mainly a matter of private developers. As explained before, the CRA/LA has the ability to expropriate land owners or use tax capital to acquire land if it is within the strategy to revitalize Hollywood. After the land development it is allowed to sell the land below the market value or to set up a favorable lease with a private developer. Even more than land development, real estate development is a private-sector matter. Almost all projects are developed by private actors. However, several public authorities are involved in financing projects, either to catalyze the redevelopment of Hollywood, or to enhance affordable housing or public spaces. The description of the Hollywood case showed the CRA/LA actively involved in the development of the Hollywood & Highland Center. It financed the development of the Kodak theater and the public parking garage beneath the Center. Both are still owned by the CRA, though they are operated by CIM Group. In case of the Sunset & Gordon development by CIM, the CRA funded the project based on a development agreement in which the developer and the CRA/LA negotiated entitlements and the design plan. By incorporating commercial space for the entertainment sector, and restoring the historic façade of the former Spaghetti Factory, CIM Group was entitled to build higher and more dense than the zoning allowed. Furthermore it received funding from the CRA for the project. The development and maintenance of public spaces, parks and infrastructure is mainly a public responsibility in which several public actors are involved. However, some public parks are developed on private development sites, as a result of public private agreements. In this case, the private actors can be fully or partially responsible for financing the development and operation of the public park.
Public funding

The case description showed the significant role of public funding to private development projects within Hollywood. This is based on one of the main objectives of the Hollywood redevelopment plan; to attract private developers and investors. In this section, the financing by public actors is described briefly. The CRA mainly uses tax increment financing as capital source to fund projects in the Hollywood Redevelopment area. The CRA used its budget to fund development projects that met the requirements state in the community redevelopment plan, or to provide loans to private developers. As such, the CRA is able to provide incentives to developers which realize projects in Hollywood that are in line with the Hollywood redevelopment goals. Tax increment financing, TIF, is a public financing method which uses future gains in taxes to use for improvements or redevelopment. When TIF is applied on a specific area or community, the taxes over the increase of property value, the tax increment, are captured to financing debt used to invest in the community redevelopment (Langdon, 2012). This is shown in figure 25. Furthermore, the CRA/LA was managing and attracting financing and grants by County and Federal funds such as the LA Metropolitan Transportation Authority. On the local housing market, a non-profit organization known as the Hollywood Community Housing Corporation is committed to restore historic properties and develop and maintain affordable housing. This corporation was established in 1989 as a result of the efforts of the CRA and the City Council. However, their capital source stretches from foundations to banks and equity funds.

Regulation & Legislation

Projects within the redevelopment of Hollywood are regulated by the community plan. The land-use plan and design guidelines are incorporated in the Hollywood Community Plan and are, in principle, strictly applied. The zoning includes permitted uses, densities and heights. However, the community plan is applied more flexible to anticipate on economic and demographic changes. This is reflected in the both the development agreements made on project level, as in special ordinances such as the Adaptive Reuse Ordinance.

The redevelopment project description showed extensive negotiations between the private developers and investors, and the CRA/LA and DCP. In several projects Community Benefits Agreements were negotiated between public and private, in which entitlements conflicting with the original zoning were granted. The proposal for changes were issued by the CRA/LA. This shows both the flexibility of the land use plan, as the negotiation of financial and societal benefits. The City issued the Adaptive Reuse Ordinance.
Ordinance to provide an incentive to developers and investors to transform historic commercial buildings into residential or mixed use. This special ordinance allowed the developers to change the building’s function regardless the restrictions in the zoning.

### 6.2.3 Investors’ commitment to the urban development project

In this section the investor’s commitment to the community redevelopment project is described by its key aspects based on the analysis of the investment strategy and the urban development strategy. The commitment is described as a relationship between the investment and development strategy, specifically between several aspects within the two strategies. The linkage between the investor and the development project can be manifested in various ways, based on the relation between the vision, organization, financial or regulation aspects of both strategies.

In general the Hollywood redevelopment case is a project that met the selection criteria of the community investment strategy of CIM Group. Obviously Hollywood suffered a market deficiency, while the Los Angeles region had enough potential for growth. Thus, the Hollywood community housed enough potential to create value. On the other hand, the investment strategy is oriented on attracting private investments to the community by providing incentives and its flexible dealing with regulations.

**Investor’s community oriented vision**

The vision of the investor CIM Group is central to the commitment to the Hollywood community redevelopment. The main objective of CIM is to create value by concentrated investments in a community to generate a critical mass by aligning market supply to the local demand, eventually leading to a better market quality and increase of real estate value. To be able to apply this vision successfully the investor requires extensive knowledge about local markets and all real estate sectors, but also about all facets in both real estate management and (re)development. As such, the internal organization of the investor has to be arranged in such a way that it can acquire or develop the required knowledge. CIM Group has a history of recruiting local expertise and establishing local partnerships within the private and public sector. In the Hollywood case CIM even participated in the establishment of a BID before making its first investments. Next to this, CIM has built up internal expertise about all facets of real estate investment, management and development. By managing each project with a multidisciplinary team, the ensures sufficient knowledge is available at each community. On the other hand, as being a fund manager, the vision sets conditions for the fund structure as well. As the vision of CIM includes the ability to provide to market demand, regardless the real estate sector, CIM’s funds set-up as multisectoral investment funds. As such, CIM is allowed to make various types of investments and developments with one opportunistic fund. On the other hand, the type of fund, and it’s regulations, limit the ability of CIM to invest directly in societal matters or make extensive prefunding to the redevelopment project, as the main goal of CIM is to make high returns for its institutional investors, and its own fees. Moreover, the commitment of CIM in
terms of investments made in the community, relies on the market and economy. When no investment opportunities occur, CIM will not invest in the community and focus on other selected communities.

**Market dependency**

This market dependency limits the commitment of the investor to the Hollywood redevelopment. However, the main objective of the local authorities is to attract private investors. In this case, the local authorities have actively been convincing private developers to invest in the Hollywood community by providing incentives including co-investment by public actors, funding for projects in line with development goals and incentives for transformation. By doing so the local authorities convinced private actors to invest in the Hollywood community and in some cases covered potential losses thereby making private investments feasible. Moreover, by investing the community the government showed support for the redevelopment of Hollywood. This public support is a required condition for CIM to invest in a community.

**Flexible urban development planning and negotiable land use plan**

The vision of CIM Group is largely based on meeting the local marked demand by investing in various real estate sectors. If oversupply occurs, the supply has to be transformed to restore a real estate market. As market demand is volatile, a more flexible urban development vision is required. The Hollywood case shows that the vision of CIM Group ties in well with the urban development vision. To be able to apply its investment strategy for a long term in one community, a blue print planning vision would not increase the investor’s commitment. The urban development strategy for Hollywood includes a flexible vision for the future of Hollywood and thus positively influences the commitment of the investor. This is supported by the flexible way regulations are implemented; zoning is negotiable and an adaptive reuse ordinance is issued.

### 6.3 Conclusions

This chapter described the Hollywood redevelopment projects and analyzed the community oriented investment strategy of CIM Group and the related urban development strategy. Furthermore some conceptions regarding the commitment of CIM Group to the redevelopment of Hollywood are provided. This cases study showed that the generic investment strategy of CIM Group strongly relates to the urban community rather than exclusively focusing on real estate objects. It’s strategy to optimize both direct and indirect returns is translated in a bottom-up approach which includes the integration in the public, private and civic network of a community before making the first investments and developments. As such, the developing investor is able to signalize the best investment opportunities and create a market for its investments. Hence, the developer is actively involved in the capacity building for redevelopment activities. This knowledge intensive investment approach requires a multidisciplinary organization that has the in-house expertise on all facets and sectors of real estate and urban development. Moreover, the
financial structure of the investment funds should allow the demand-related sector allocation of investments. The commitment to the redevelopment project of CIM is strongly related to the market conditions. If market conditions are not in favor of realizing profits, CIM is able to shift its attention to other communities throughout North America. However, CIM maintains its position in the network. As such, one could designate CIM’s relation to the community as soft commitment. This investment approach is requires an urban development strategy that includes a rather flexible regulatory planning framework that allows private initiative and adaptation to changing market demands and both public and private commitment for redevelopment activities. Without public private agreements or partnerships on community level, the realization of public amenities has to be financed in a different way. In this case, public investment capacity is obtained by Tax Increment Financing, which releases the increment of property taxes due to the redevelopment activities, for the purpose of financing public amenities in the community. Furthermore, the realization of public objectives is negotiated between public and private actors on development agreements.

Case References

Interviews & Project visits
Keij, Gerrit (16 January 2014). HOF Capital, real estate investment advisor (see appendix A2)

Documents


**Magazines, Newspapers and Websites**


southern lake union redevelopment case.

This chapter comprises the description and analysis of the South Lake Union redevelopment case study. In this redevelopment project, Vulcan Real Estate, a private developing investor, fulfills a major role in both real estate development as in the urban development process. Firstly the urban development process is described concisely. In the second paragraph the community oriented investment strategy and related urban development strategy are analyzed based on the analytical research framework.

7.1 Case description

Context

City of Seattle is located in the North West Pacific Coast in the state of Washington, close to the border of Canada (Vancouver). The City’s population counts about 635,000 inhabitants, while the metropolitan region is inhabited by over 3.5 million residents. Seattle became a commercial trading center. Due to its location at the Puget Sound it developed to the 7th biggest harbor in the United States. Next to this, it is a mainly technology-driven city that hosts companies like Amazon.com, Boeing, Adobe Systems, Microsoft and Starbucks. Politically Seattle is characterized by a truly neoliberal small government (Heurkens, 2012). The area of South Lake Union (SLU) is located between the downtown area of Seattle, and lake Union. And is about 340 acres. The South Lake Union area was characterized by commercial and industrial activity that got into decay. The redevelopment of SLU originates at the initiative for the Seattle Commons Park The idea for The Commons was initiated by Seattle architect Fed Bassetti and Seattle Times columnist John Hinterberger (Becker, 2007). Although the plan for a 61-acre park, which would stretch from downtown to Lake Union, did not pass the Seattle voters, it triggered the involvement of Vulcan Real Estate. It was the start of the still ongoing multi-billion mixed-use and mainly private-led redevelopment of the SLU site.

Involvement of Vulcan

Paul Allen, director of the private investment company Vulcan (co-founder Microsoft, philanthropist, billionaire) supported the Commons Park plan by buying properties in the South Lake Union community donating them to the Commons. Although supporters raised $900,000 in cash and a $20 million loan of Paul Allen, Vulcan Inc. in the form of properties within the proposed park’s boundary, the Commons, as public private collaboration, needed extensive public funding; a $111 million property-tax levy which is an average of $48 extra property taxes per homeowner yearly for a term of 9 years (Heurkens, 2012). Even though Paul Allen promised to forgive the loan if the plan would pass during the campaign, the levy-proposal was rejected by a narrow margin. But, as mentioned, the plan for the Commons has generated
interest of private parties. Next to Vulcan Inc., more developers bought land and properties in the South Lake Union neighborhood. As the Commons initiative got rejected, the land and properties donated by Paul Allen got reverted to ownership of Paul Allen. Hence, he obtained a 11 acres strategic land position. From 1998 and on, Vulcan has expanded its land possessions to a total of 60 acres (Vulcan Real Estate, 2014). The expansion of the strategic land position was based the report of Heartland (2002) and an Economic and Fiscal impact study (Sommers, 2003) that both revealed the potential of the inner-city brownfield to transform into a strong mixed-use biotech hub.

In 2002 Vulcan Inc. founded its subsidiary Vulcan Real Estate for the purpose of expanding and developing the land possessions in South Lake Union for their privately owned real estate investment portfolio. Nowadays Vulcan Real Estate is one of the few profitable parts of Vulcan Inc. The main objective of Vulcan Inc. is to manage Paul Allen’s wide array of businesses and charitable endeavors, which include the creation of innovative technologies, award winning films and a vibrant new neighborhood (Vulcan Inc., 2014). The main objective of Vulcan Real Estate is to make a profit from the development and management of the owned sites in South Lake Union, and to create a ‘diversified portfolio of quality assets including office, life sciences, residential and mixed-use’. Thereby aiming at a high level of sustainability to eventually contribute to the development of the first LEED-certified neighborhood plan in the State (Vulcan Real Estate, 2014). With a long-term perspective, focusing on cash flows based on real estate management rather than the capital gain by development, Vulcan Real Estate started developing hoping to turn South Lake Union into a vibrant community.

**Department of Planning & Development**

The local planning authority of Seattle, the Department of Planning and Development (SDPD), was not comprehensively involved in these developments on community level until they published the Public Real Plan in 2003. The plan (SDPD, 2003), established in line with the Neighborhood plan and Land use zoning plan, had the objective to provide a clear direction for public and private actions in SLU, and to streamline the approval process (Heurkens, 2012).

**First phase of development – market speculation**

Characterizing for the South Lake Union redevelopment process is the two different phases of development that can be distinguished. The first phase comprises the period before the economic downturn; from 2004 until 2008. In this period in which the economic circumstances were right, development of the private sector was mainly based on market speculation, and public involvement was at a low level. As the old zoning code was still in place, development led to single use building blocks that covered the whole plot (Heurkens, 2012). Some alternations were made on the zoning by amendments. In these “Text amendments” the local government negotiated private contributions to the realization of public amenities such as social housing in return for zoning adaptations (Berk and Heartland, 2012). In this period Vulcan developed real estate useable for several tenants anticipating on the good market
conditions (Heurkens, 2012). Table 19 provides an insight in the redevelopment activities during this first phase.

<table>
<thead>
<tr>
<th>Date</th>
<th>Activity</th>
<th>Actor</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004-2008</td>
<td>Development State I – various properties</td>
<td>Vulcan RE</td>
</tr>
<tr>
<td>2004, June</td>
<td>North Downtown Park Plan</td>
<td>SCC SPR</td>
</tr>
<tr>
<td>2004</td>
<td>Completion UW Medicine/Phase I</td>
<td>Vulcan RE</td>
</tr>
<tr>
<td>2005, January</td>
<td>City of Seattle Comprehensive Plan</td>
<td>SCC DPD</td>
</tr>
<tr>
<td>2005, May</td>
<td>SLU Design Guidelines</td>
<td>SCC DPD</td>
</tr>
<tr>
<td>2006, February</td>
<td>SLU Neighborhood Plan 1st Draft</td>
<td>SCC DPD</td>
</tr>
<tr>
<td>2007</td>
<td>Completion Streetcar</td>
<td>Various Public &amp; Private</td>
</tr>
<tr>
<td>2007, November</td>
<td>SLU Urban Center Neighborhood Plan</td>
<td>SCC DPD</td>
</tr>
</tbody>
</table>

Table 19 – Development activities in South Lake Union – phase 1 (Heurkens, 2012)

**Adaptation of planning documents**

Although the local authority owned a lot of the public space in the SLU community, its financial capacity for development purposes is limited. As such, the Seattle Parks and Recreation (SPR) department issued a **North Downtown Park Plan** in which it advised the City to co-operate with private property owners in order to achieve both public open space and private development goals to safeguard the vision for the redevelopment of SLU into a lively community with excellent civic amenities (SPR, 2004). Hence, the local authorities had to rely on private and civic investments whilst being responsible for maintaining the public realm (Heurkens, 2012). Meanwhile, the South Lake Union community had been appointed as ‘Urban Center’ in 2004 which meant that the redevelopment of the now ‘priority area’ could count on State Funding, and an increase of density was to be pursued. This supported the improvement of the comprehensive thinking by the SDPD concerning the redevelopment of SLU. However, Heurkens (2012) argues it is also due the private investments and plans under consideration. This resulted in the establishment the Design Guidelines published in 2005 (SDPD, 2005) and the establishment of a new ‘urban center’ neighborhood plan based on the consultation of private and civic stakeholders, and published in 2007 (SDPD, 2007). The design guidelines and the renewed neighborhood plan increased the transparency of the development plan approval process for both the private sector as the Design Review Board.

As applying for State funding on transportation became easier as SLU was appointed an Urban Center, the City took the initiative for the realization of the Street Car, which would connect South Lake Union with Downtown. The Street Car was realized in 2007 by a joint effort of public and private stakeholders. The local property and business owners, Vulcan amongst them, were united in a Local Improvement District that supported significantly to the financing of the development and operation of the streetcar, as 50% was paid by the local property owners (Office of Policy and Management, 2005). Moreover, the local private sector financed the increased frequency of the Street Car in 2011. Lake Union Park, another public private effort, was completed in 2010. The costs for development were $30 million. A $10 million Park’s
tax levy was matched to a contribution of $10 million by Vulcan and another $10 million by other developers. According to the interview with Vulcan, their contribution was made on behalf of the Paul G. Allen Family foundation, unlike other contributions by Vulcan negotiated on zoning amendments. Vulcan has also contributed to the redevelopment of the Mercer Corridor, a $160 billion redevelopment of an essential traffic artery through the SLU community. Next to its financial contributions of $30 million dollar, Vulcan has helped the local authorities with the application for State funding as the SDPD was short on capacity.

<table>
<thead>
<tr>
<th>Date</th>
<th>Activity</th>
<th>Actor</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008-now</td>
<td>Development State II – various properties</td>
<td>Vulcan RE</td>
</tr>
<tr>
<td>2008</td>
<td>Completion 2200 complex</td>
<td>Vulcan RE</td>
</tr>
<tr>
<td>2010</td>
<td>Completion Lake Union Park</td>
<td>Various</td>
</tr>
<tr>
<td>2010</td>
<td>Completion Amazon/Phase I</td>
<td>Vulcan RE</td>
</tr>
<tr>
<td>2010</td>
<td>Mixed-use Zoning adopted</td>
<td>SCC</td>
</tr>
<tr>
<td>2010, December</td>
<td>SLU Urban Design Framework</td>
<td>SCC DPD</td>
</tr>
<tr>
<td>2011, February</td>
<td>SLU Environmental Impact Statement</td>
<td>SCC DPD</td>
</tr>
<tr>
<td>2011, May</td>
<td>Completion Amazon/Phase IV</td>
<td>Vulcan RE</td>
</tr>
<tr>
<td>2012, June</td>
<td>SLU Zoning Changes (up zoning approved)</td>
<td>SCC DPD</td>
</tr>
</tbody>
</table>

Table 20 – Development activities in South Lake Union – phase 2 (Heurkens, 2012)

Second phase of development – incremental

Table 20 shows the most relevant actions concerning the second phase of the SLU redevelopment process identified by Heurkens (2012). As the economic conditions changed, the redevelopment speed decreased. As Vulcan Real Estate is oriented on long term investments, it had always been slightly risk-averse. However, due to the changed economic conditions Vulcan changed its strategy in 2008; focusing on securing tenants before breaking ground. Vulcan had considerable luck that Amazon choose South Lake Union as their campus and Vulcan was able to secure them. Hence, Amazon kept Vulcan’s development activity going, even during the economic downturn. However, the orientation on the redevelopment of South Lake Union had changed resulting in a shift towards incremental, organic development in accordance with changing conditions. As such, Vulcan urged the City to establish a mixed-use zoning plan as the current zoning did not allow the developers to create a livable community with a balanced mix of functions. Moreover, the single-use zoning was too restrictive on heights and densities to enable the private sector to develop setbacks and public spaces on their plot. Developments in SLU were characterized as box-developments that covered the entire plot. The public private discussions led to the implementation of a Mixed-Use Zoning Plan in 2010. Next to the mix of functions, the new zoning code allowed for Incentive Zoning. Hence, zoning restrictions were widened in return for private contributions to public amenities such as affordable housing (Berk and Heartland, 2012).
In line with the Incentive Planning approach, the Rezone was adopted in the midst of 2013. This Rezone can be considered a formalization of the zoning amendments negotiated on project level. The Rezone comprises the maximum zoning regulations including the contributions expected from the private developer in return for the utilization the exceeded regulations above the base zone. Figure XX shows the contributions the private sector has to meet for exceeding the base regulations. As such, the public private negotiations on development agreement has become transparent. However, according to the interview with Vulcan, the new Rezone has not been utilized yet as the current economic conditions do not ask for widening of zoning restrictions.

Effects and continuation

The redevelopment activities between 2001 and 2011 generated an amount of $156 million tax revenue for the City of Seattle. Every invested dollar by the City of Seattle has been leveraged by $31 dollar of investments by other public and private sources. Since 200 the populations has grown from 1,407 inhabitants to 3,739, which means an increase by 305%. Since their involvement in the redevelopment of South Lake Union, Vulcan has invested more than $3,0 billion to develop 610,000 m$^2$ gross floor area real estate for different uses. However, the redevelopment of South Lake Union should be considered an ongoing process. First of all, Vulcan has not yet developed all of its land possessions. Moreover, according to the interview with Vulcan, their developments have generated capacity for an increased interest of the private sector in SLU. More and more projects from other developers are breaking ground.
7.2 Analysis of the Investment- and Urban Development Strategy

In this section the community oriented investment strategy of Vulcan Real Estate is analyzed on the four strategy aspects firstly. After the analysis of the associated urban development strategy, the commitment of Vulcan towards the urban development project is described in section 7.2.3.

7.2.1 Community oriented investment strategy

Vision

As being one of the few profitable divisions of Vulcan Inc., Vulcan Real Estate is due to make a financial profit form the development and management of real estate on their land positions in South Lake Union. In the early 2000s Vulcan Real Estate established a vision for South Lake Union as a life science and technology hub, and residential community that could serve as economic driver for the City and region (Berk and Heartland, 2012). Vulcan opted no master planned development, instead it focused on real estate development per plot. Like many other developers, Vulcan RE speculated on market demand, while developing within the regulations of the existing mono-functional zoning plan. As many cities Seattle suffered from the economic crisis. Vacancy rates of commercial real estate in the Downtown area significantly increased, and the demand for new developments largely diminished. As mentioned in the description of the case, the economic downturn provided the private and public actors to reconsider and adapt their vision and plans for South Lake Union, as development had slowed down. Vulcan changed its vision for development on some key aspects. Firstly development should progress gradual, or incremental, based on the actual market demand. Secondly, the development of the SLU-community should be oriented on creating a multifunctional, lively and vivid community, with high quality open space and less closed building blocks. This required changes to the existing zoning plan. Lastly, Vulcan decided projects should only break ground if it has secured a tenant. To be able to react quickly on emerging market demand it continuously holds pipeline projects in design and application phase. The moment a potential tenant appears the offered development process is shortened due to the steps already taken in the application process. Today, as the real estate prices have increased rapidly, it is not within the vision of Vulcan to further expand its land positions, except for strategic lands adjacent to its own development sites. When all plots are developed Vulcan Real Estate will only focus on the management of its assets as no future plans are made (Interview). Hence, Vulcan is exclusively focused on the redevelopment of South Lake Union and has, not yet, the intention to apply its investment strategy to other communities.

Organization

As mentioned Vulcan Real Estate is a full subsidiary of Vulcan Inc. established in 2001 and responsible for its real estate development and management activities. The company can be considered a developing investor as the main task is to create its own portfolio. Since 2001 Vulcan Real Estate has grown from 2 to more than 40 real estate employees. After Ada Healy was attracted as Vice President in 2001, Vulcan continued to recruit experienced real estate professionals which resulted in a real estate company that offers a full range of in-house services. These service include real estate development, urban planning,
portfolio management, marketing & leasing, market research and appraisal, financing, government affairs and community retails. These services are not only used for own purposes, Vulcan also provides services to clients. The organization works as a team within the Vulcan Inc. company. Vulcan RE consists of various teams responsible for investment strategy, acquisitions, real estate development, marketing and leasing and portfolio management, and has a board of seven directors chaired by Ada Healey, Vice President Real Estate. As president of the Vulcan Inc., Jo Lynn Allen has also a say in Vulcan Real Estate. Vulcan Real Estate had invested and developed mainly for its own account, as capital is provided from Vulcan Inc. As subsidiary of Vulcan Inc. the Real Estate department is not only due to make a profit, it also bears the corporate responsibility of the mother holding.

Financial

Essentially, Vulcan Real Estate is dependent on financing by the mother holding. Without having the liability to generate returns for investors or shareholders, or a restricted investment budget, Vulcan was able to acquire a strategic land position in South Lake Union over the first years without generating a positive cash flow by development and leasing. Land was acquired based on an investment strategy on an urban level, without having well elaborated development plans and lacking potential tenants. As the South Lake Union community was significantly under developed, land acquisition was relatively cheap. By buying land within close proximity of each other, Vulcan acquired a strategic land position in which all assets could indirectly benefit from developments in the community.

On project level, as a private real estate developer, Vulcan applies investment criteria that are in line with the market standards (Interview). Vulcan RE does not disclose these figures. However, assumptions can be made based on the types of developments and the market standards. Being involved in opportunistic investments, Vulcan will probably apply Internal Rate of Returns between 17-20% (Van Gool et al., 2013), varying per type of development project. As developing for its own portfolio, focusing generating a cash flow, the investment horizon of Vulcan long-term. Vulcan aims to leverage its projects as much as possible to increase the return on its investments. Although Vulcan does not disclosure its leverage figure, one could assume the leverage on the development projects is above 60% (Van Gool et al., 2013). But, in case of Vulcan, this leverage is not calculated over the acquisition costs of the land, as this has already been financed with private equity. Thus, Vulcan can only leverage the development costs of its projects (interview). However, relying on leverage, and thus loans from banks, insurance companies and pension funds, Vulcan is dependent on the financing market in order to attract debt financing for its projects.

![Figure 29 – Cumulative investments of Vulcan (Heurkens, 2012)](image)
Therefore, Vulcan has recruited a director fully responsible to establish and maintain relationships with more than 20 different lenders, therewith securing nearly $2 billion in financing for real estate and construction loan programs. As Vulcan is involved in the complete cycle of real estate development and operation, it bears all risks related to development and operation including land use, permit, construction, (re)development and leasing risks. Since 2004 Vulcan RE has invested more than $3 billion in the SLU community. This amount represented two thirds of all investments in SLU (Heurkens, 2012), and measured about 700,000 m² serving various functions.

As the description of the case and the vision of the Vulcan reveals, it is interested in adding quality to the public space and infrastructure to enhance the quality of the community which has a positive effect on the attractiveness of the community and the value of its real estate. Therefore, Vulcan is willing to invest in infrastructural and public projects. Vulcan Real Estate co-initiated the development of the streetcar that enhanced the accessibility of the community. The streetcar runs along Vulcan’s most prominent assets in South Lake Union and has improved the attractiveness of the area. The enhanced accessibility and attractiveness facilitated the process of attracting new tenants. In this way, Vulcan indirectly benefits from its investments in public amenities. The company capitalizes these investments on the sites that have not yet been developed, which is possible due to the relatively low acquisition costs. Thus, by enhancing the quality of the neighborhood, the returns on its investments are optimized.

**Regulations**

Vulcan Real Estate is a full integral part of Vulcan Incorporated. Vulcan Inc. is a limited liability company with one shareholder, Paul G. Allen. Being part of a larger enterprise, owned by a wealthy individually is a different starting point for Vulcan compared to common real estate developers. Essentially, this means Vulcan RE has no liabilities based on financial returns to other shareholders and investors. This is reflected in the ability Vulcan had to acquire a strategic land position in South Lake Union without producing any income (Derven, 2013). However, as the Vulcan RE grew to a professional real estate development company, it is now due to a triple-bottom-line performance evaluation. According to Healy Vulcan “need to provide market returns back to the enterprise”, have to be “leaders in environmental sustainability” and have to make ‘a positive impact on the SLU community” (Derven, 2013). This also shows the connectedness between Vulcan Real Estate and the enterprise of Paul Allen as the generous and philanthropist character of Vulcan Inc. is incorporated in the values of Vulcan Real Estate. However, Vulcan Real Estate has to generate market returns next to promoting its corporate responsibility, as Paul Allen’s real estate investments are not part of his charitable endeavors (Derven, 2013). As explained above, Vulcan RE finances its projects using debt capital like many other project developers. Therefore it has also to compete for capital like other investors, and thus has its performance is benchmarked to various indices.
7.2.2 Urban Development Strategy South Lake Union redevelopment project

Above the investment strategy of Vulcan has been described. This investment strategy is translated into actual developments in the neighborhood. The developments take place in an environment in which various public and private actors are present. Hence, the development strategy is described as all concrete actions by actors involved in the urban development project. Instead of focusing on Vulcan Real Estate solely, the development project is central in the description of the development strategy.

In general the urban development strategy is characterized by incremental private plot (re)development within a vision for the community shared by public and private actors. Instead of focusing on a blue print master plan, the vision is translated into planning documents to steer the process, allowing adaptations to changing market conditions and demands. It is an ongoing process in which planning, (re)development and operation are not implemented sequentially. Multiple private actors bear the risks of development. From these investors, Vulcan Real Estate has the most significant role in the development of South Lake Union. The main role of the local authorities is to facilitate the process of private development, and to safeguard societal interest and objectives concerning public space, infrastructure and parks. Distinctive for this redevelopment project is the level of informal public private co-operation which is manifested by recurring negotiations on project level agreements and community level planning.

Vision

The first real vision for the use of the community dates back to 2002. Based on a report of Heartland (2002), Vulcan realized the potential for a strongly mixed-use biotech-oriented community. At that time, several health-care related projects had already broken ground in SLU. Based on this report, Vulcan and other private parties started several developments within the limits of the existing Land Use Zoning Plan, and Neighborhood Plan, which bot dated back to 1998. It was not until 2003 that the Seattle Department of Planning and Development (SDPD) was involved in the planning of South Lake Union as a whole. In 2003 it established a Public Realm Plan which concerned the streetscape, open spaces and related land-uses. Established in line with the Neighborhood Plan, the plan was to provide a clear direction for private and public actions in SLU, to streamline the approval-process and to guide future decision-making concerning design and development of both public and private actions (SDPD, 2003). In the same year the SDPD published an Economic and Fiscal Impact Study (Sommers, 2003), also based on Heartland’s report, which indicated the following potentials for the area;

- Net increase of 650,000 sqm commercial space until 2020.
- 23,000 new jobs.
- Potential increase of residential units by about 10,000.
- Potentially 35% uptake of commercial space by Biotech sector.
Based on the vision to redevelop South Lake Union into a biotech-hub and high density urban area, the redevelopment of South Lake Union took off. As mentioned in the case description the prosperous economic conditions resulted in a phase of rampant development based on market speculation. The single-use zoning code did not even had to be adapted and local authorities were almost sidelined. However, in this phase public private partnerships were established to introduce the streetcar and plan the development of Lake Union Park.

The vision on how to redevelop the community changed as the financial crisis affected the progress of developments. Both private and public actors rethought their development goals. Hence, Vulcan urged the City to adapt the planning documents on the development objectives including balanced neighborhood functions and the ability to adapt projects to market demands. As such the mixed-use zoning plan was introduced as well as Incentive zoning regulations eventually leading to the establishment of the Rezone. This characterizes the vision in the second phase of the redevelopment of South Lake, more consciously growing towards a balanced neighborhood comprising a good mix of commercial, residential and other functions in a healthy and vibrant community. Characterizing for the role of the involved public actors is the reactive attitude towards the developments in South Lake Union.

**Organization**

The organization of the redevelopment project of Hollywood is described using Heurkens’ analytic model of public private co-operation which includes project and process management activities, management tools and resources (Heurkens, 2012). In the table below the management measures in Hollywood.

<table>
<thead>
<tr>
<th>Management Measures</th>
<th>Management Functions</th>
</tr>
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<tbody>
<tr>
<td>Project Management</td>
<td>Initiating</td>
</tr>
<tr>
<td></td>
<td>Designing</td>
</tr>
<tr>
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<td>Planning</td>
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<td>Knowledge</td>
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<tr>
<td>Private</td>
<td>Private</td>
</tr>
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</table>

Table 21 – Management measures in South Lake Union (based on Heurkens, 2012)

*Project Management*

Looking at the project management activities are mostly private-led in South Lake Union redevelopment. The description of the case showed that the SDPD got involved in the urban development of South Lake Union in a later stage, which illustrates the role Vulcan Real Estate fulfilled in the initiation of the project after the Commons Park project’s rejection. On plot level Vulcan and other developers take the initiative for new developments and are responsible for the design. However, design guidelines set up by the local
authorities do apply. The planning of developments in South Lake Union is mainly private activity as land and properties are owned by the private sector. Though, local authorities have a stake in the planning of projects such as the development of the park and the improvements to the Mercer corridor. Operating management activities are the responsibility of both private and public actors. Vulcan Real Estate, and other landlords is responsible for the operation of their real estate, while the public realm is maintained by the local authorities.

Process Management
Distinctive for the redevelopment of SLU in the extent to which Vulcan is involved in negotiation as process management activity. Negotiation between the public and private actors is not only done at plot level. Vulcan is also actively involved in negotiating new planning ordinances such as the Rezone in which conditions are set for developers contributions towards public objectives as a return for an increase in allowed building heights and densities. In contrast in decision-making activities are done more separately. The private sector is mainly involved in decision-making concerning the development process, while decision-making on the planning process is done by the SDPD. Communicating with the inhabitants and local businesses within the community is both a matter of private and public actions. Although not required, Vulcan consults the community for each project to incorporate their interests in order to smoothen the permit application process. The local authorities organize formal public meetings on matters as the new planning policies and the review of designs.

Management Tools
The developments in South Lake Union are shaped by public regulations in the form of design guidelines and the design framework. However, by initiating a vision for the development of the community and for instance the Rezone, Vulcan has a major role in the shaping of the South Lake Union community. Regulation is the strongest of means by which the local authority influences the developments. Planning tools such as the Land Use Zoning and the design framework are implemented to regulate the developments within SLU. Although the local authorities do not have significant public capital to their disposal, they have stimulated market interest by appointing the South Lake Union community as an Urban Center. The designation as Urban Center the public actors eased the application process for State and Federal funding. Vulcan played a significant role in the capacity building by attracting tenants and other developers to South Lake Union. Although by to a lesser extent, the local authorities influenced the SLU redevelopment process by building capacity amongst other public actors.

Management Resources
In terms of management resources used to influence the development process, land, capital and knowledge can almost exclusively be attributed to Vulcan Real Estate. As described, Vulcan somewhat accidentally rolled into the redevelopment of South Lake Union as it obtained a significant land position due to rejection of the Commons Park plans. Convinced of the opportunities for development in SLU,
Vulcan continued to expand its strategic land position as it had enough capital resources to invest. This case showed Vulcan had the ability to utilize its land position to influence the urban development project. For its first land acquisitions Vulcan Real Estate relied completely on the capital resources of Vulcan Inc. However, developments were are mainly financed by debt capital from banks and investors. From the profits of developments and management, Vulcan was able to continue to acquire more land. Since the early 1990s Vulcan has been involved in SLU as landlord. Therefore, Vulcan was able to gain local market knowledge over time. From 2002 on, Vulcan has recruited professionals in real estate development, management, design and other expertise, resulting in an organization with extensive in-house knowledge regarding real estate and urban development and planning. Vulcan deliberately utilizes this knowledge to influence the development process. For instance, planning expertise is utilized to assist the local government on applying for state funding in the Mercer corridor project.

Roles
This analysis of the management and organization of the South Lake Union redevelopment projects clearly shows the leading role of Vulcan Real Estate. Vulcan Real Estate has played an crucial role in the initiation of the redevelopment activities. Furthermore, based on an informal public private cooperation, Vulcan has worked closely together with the SDPD, and other public and private actors, on adapting the planning regulations to the changed market conditions, to initiate public infrastructure and other projects such as the Mercer corridor. The extent to which Vulcan has been involved and able to influence decisions on planning matters is remarkable. The interviews with both Vulcan and the SDPD showed that this public private cooperation was partly due to the political culture of Seattle which is characterized by extensive Mayoral decision power. Vulcan maintained a close relationship with former Mayor Gregory J. Nickels who relied much on private sector opinions. Today the good relationship between Vulcan and the Mayor’s office has clearly been abated. At the same time the development of the South Lake Union community is at a well advanced stage. Vulcan has developed most of its land possessions. Over the last years South Lake Union attracted the attention of more and more private investors and developers, resulting in increasing land values. One could say Vulcan has created the critical mass to attract private sector interest.

Financial
This section elaborates on the financial aspect of the urban development strategy. The distribution of risks and revenues related to the phases of real estate development, public spaces and infrastructures is analyzed. The table below shows the roles of public and private actor concerning who’s taking up risks and revenues, and who is mainly responsible for financing.
Table 22 – Financing, Risks and Revenues in South Lake Union

The table clearly shows the project development in the South Lake Union case is almost exclusively a private sector-led business. Vulcan, and other private developers, are financing the land and real estate development, and therefore also take the risks and revenues. Concerning developments and operations of public spaces and parks, the public actors are mainly responsible. But without having the financial capacity to invest, the SDPD has to rely on other public, and private actors to finance improvements and development. However, next to funding from public actors such as the State and the Seattle Parks & Recreation Department, private actors have contributed to community wide projects such as the streetcar and the Lake Union Park.

Public investment capacity

As mentioned, the SDPD has little investment capacity to steer the development project in order to realize societal and public objectives. As such the local authority is due to find other ways to enable public investment for key improvements and generate capital to realize public objectives such as affordable housing or public parks. By the efforts of the local authority, South Lake Union was appointed an Urban Center in 2004. Being designated as one of the five most important development project in Seattle at the time, the SLU development project rely on financial support from the State of Washington. State funding was utilized to realize the construction of the streetcar. This light rail project from Downtown Seattle through the heart of South Lake Union was realized as a public private partnership and financed by Federal, State and City governments, and local property owners, united in a Local Improvement District (LID), and was completed in 2007 (Office of Policy and Management, 2005). The LID contributed $26,1 million while State and Federal funds matched the remaining $29,9 million of the $56 million streetcar project (Berk and Heartland, 2012). Together with the public sector, the private actors also financially finance the operation of the streetcar. Moreover, in 2010 the property owners financially supported the purchase of another streetcar to increase the streetcar’s frequency (Interview). Federal and State funds were also utilized for the construction of the first phase of the Mercer Corridor project which broke ground in 2009. This $190 million project is funded by $83 million of City capital funds, $40 million of Federal funds and $32 million of private contributions. Another $31 million was contributed by Vulcan.

Concerning the development of parks and recreational spaces in the SLU community, the Seattle Parks and Recreation department (SPR) played an important role. The SPR had the Pro Parks Levy on its disposal
for investments in parks and recreational area throughout the City of Seattle. This eight year $198.2 million levy, was approved in November 2000 by Seattle voters and paid by the citizens. However, the development of parks and playgrounds are not solely financed by this levy. The upgrading of the Cascade playground in SLU was financed for approximately $500,000 by the levy, while the other $600,000 was contributed by Vulcan. About $5.0 million of the Pro Parks Levy was contributed to the $31 million Lake Union Park project. The remaining $26 million was financed by the State, private foundations and the private sector. Vulcan contributed $10 million to the park (Berk and Heartland, 2012).

Substantial contributions of Vulcan

The above showed the substantial contributions of Vulcan to community-wide projects. One could assume that these contributions are based on the generosity of Vulcan’s founder and multi-billionaire Paul Allen. However, in the investment strategy Vulcan is described as a profit oriented real estate developer and investor, of which its performance is benchmarked to market level. In effect, Vulcan’s contributions to these community-wide projects should not be mistaken for donations but are the results of negotiations and development agreements on project level. Vulcan’s contribution to the park was made on behalf of the Paul G. Allen Family foundation. The next section elaborates on the way how the local authority regulates the contributions of the private sector for the purpose of public and societal objectives such as affordable housing programs.

Regulation & Legislation

Development activities within the South Lake Union community are regulated based on the Neighborhood Plan. The neighborhood plan is established in line with the city-wide comprehensive plan and form the main regulative document concerning the urban development of South Lake Union. The comprehensive plan has to objective to allocate foreseeable growth in the City and embodies the City’s urban vision. It incorporate a long term vision in the form of growth targets and public investments in infrastructure and services (Holmes). The comprehensive plan is implemented via regulating documents as the Neighborhood Plan and Zoning Plan. Furthermore, the comprehensive plan designates key area’s for growth and economic development as Urban Centers. As mentioned in 2004 South Lake Union was appointed Urban Center. Subsequently the SDPD, in cooperation with the community and private sector, established an updated Urban Center Neighborhood Plan for South lake Union in 2007. This Neighborhood Plan includes community wide objectives regarding the neighborhood character, transportation, parks and open space, housing and sustainable development. Furthermore the plan elaborates on the implementation of the urban development objectives. The regulations concerning functions and uses, building heights and densities are translated into the South Lake Union zoning. These land use measures are restrictive for all new development proposals. In 2010 the SDPD adapted the SLU Zoning to the changing emphasis on mixed use development. Furthermore, based on the designation as Urban Center and the private sector interest, the SDPD started the design process of the SLU Rezone document which should allow higher buildings and an increased density. This document is discussed below.
Design Guidelines were published in 2005 as a result of a study by the City of Seattle and the University of Washington concerning design issues and the public realm in SLU. The design guidelines indicate setback for buildings, park development, street materials and public realm functions. Although not regulative it ought to facilitate the permit approval process by setting clear expectations. Furthermore, to provide developers directions for design principles the SDPD released the SLU Urban Design Framework in 2010. By utilizing the Urban Design Framework, private developers can align their designs better to with the design principles. Although the UDF is not binding, it has proven to ease the process for design approval and building permits. Based on the Neighborhood Plan, the UDF and the Design Guidelines the Design Review Board decides whether a private plan proposal will be granted a building permit.

*Negotiable development tools & Incentive Zoning Strategy*

Seattle has a long history in balancing financial and economic benefits for the private sector to public benefits based on development regulations. Transferable of Development Rights (TDR) is based granting the developer the entitlement to achieve extra floor area above the base floor area ratio (FAR) by moving the allowed density from one site to another. In South Lake Union, Vulcan was granted the Amazon “Text Amendments” for the Amazon buildings which allowed the developer to build up to 160 feet (about 180 meter), higher than the Zoning Plan allowed. Based on this development agreement negotiated in 2007, Vulcan agreed to contribute $6.4 million towards affordable housing and complete the Amazon Campus to LEED. Throughout the redevelopment process these kind of text amendments were instrumenting for the development of key projects, by targeted zoning changes (Berk and Heartland, 2012). Based on the use of these text amendments the SDPD started the Rezone design process in 2008. The Rezone ordinance, popularly called Upzone, is part of a city-wide incentive zoning program. The Incentive Zoning strategy is applied to “encourage the density Seattle is working to achieve while ensuring this growth contributes to livability and sustainability. The goal of Incentive Zoning is to link code flexibility, increased density and development potential with public benefits in the form of affordable housing and other amenities valued by communities” (Seattle Planning Commission, 2007). The Rezone ordinance, finally adopted in the midst of 2013, ought to formalize the negotiations regarding surpassing the base zoning by private investors in return for contributions to public benefits. For development above the base zoning private developers have to contribute to public objectives, which are formalized in the Rezone Ordinance. The Rezone subdivided the South Lake Union area in zones with varying maximum heights for commercial or residential development. These zones are designed in consultation with the community. The ordinance is oriented on preventing block development and enabling the creation of on-plot open space to enhance the quality of the public realm and creating a more pedestrian friendly neighborhood. The Rezone ordinance allows incentives to the private developer to realize public benefits such as affordable housing, public street investments and sustainable development according to LEED certification. The figure XX (above description) provides an insight in the working of the Rezone. Due to the changed market conditions the Rezone Ordinance has not been optimally utilized since the its approval. However the
introduction of the Rezone formalized and framed the balancing of private financial objectives to public benefits.

7.2.3 Investors’ commitment to the urban development project

In this section the investor’s commitment to the community redevelopment project is described by its key aspects based on the analysis of the investment strategy and the urban development strategy. The commitment is described as a relationship between the investment and development strategy, specifically between several aspects within the two strategies. The linkage between the investor and the development project can be manifested in various ways, based on the relation between the vision, organization, financial or regulation aspects of both strategies.

Strategic land position

In several ways, Vulcan is strongly connected to South Lake Union and its redevelopment. The first and most strongest tie to the South Lake Union area is the extensive land position in the ownership of Vulcan Real Estate. Such a significant land ownership can be observed both beneficial as prejudicial. The extensive land ownership allows the developer to profit from indirect value gain. As developments on one lot increase the quality and attractiveness of the neighborhood, other lots within its proximity most likely increase in value. Having this land position in a single community allowed Vulcan to legitimate extensive investments in public infrastructure, such as the street car, more easily. The investments in the quality of the amenities in the community can be capitalized indirectly via the lease of the surrounding projects. However, the costs for holding undeveloped land, without income, should be taken into account. Though as being a private equity investor, Vulcan was able to keep this strategic land position. Although was not in the investment strategy, Vulcan recently capitalized the increase in land value by the sale of a plot in the South Lake Union area. On the other side, this extensive land ownership can be observed as disadvantageous. Without large land possessions, an investor can easily decide to change its orientation to assets and developments in another area with better opportunities. Hence, it is in the interest of Vulcan that the opportunities for the South Lake Union area are fully utilized.

Developing investor’s emphasis on community

The commitment of Vulcan is reflected in its investment strategy vision. Vulcan is not solely focused on the real estate development. In contrast it has a comprehensive vision for the redevelopment of the community. Based on that vision, Vulcan has established a multidisciplinary organization that is able to develop according to market demand. Moreover, Vulcan has actively tried to steer the urban development by influencing planning processes and actively building capacity amongst public, private and civic actors for the redevelopment of SLU. Furthermore, as mentioned above, the emphasis on the community is reflected in the willingness of Vulcan to financially contribute to public amenities such as the Street Car. Thereby, Vulcan utilizes its knowledge and expertise to help the local authority to apply for
public funding. As such, one could consider Vulcan as a problem owner concerning the redevelopment of SLU.

Social intentions

Secondly, we should discuss the relationship between Vulcan Inc. and Seattle. The founder of Vulcan Inc. has its roots in Seattle. Being a multibillionaire, and philanthropist, Paul Allen can be seen as some sort of sugar daddy to the City of Seattle. The Paul G. Allen Family Foundation supports many projects varying from arts and education to science and technology (PGA Family Foundation, 2014). But Paul Allen is also owner sports teams such as the NFL Seattle Seahawks. Although Paul Allen’s philanthropy cannot directly be linked to the activities of Vulcan Real Estate, Vulcan Inc. is likely to have a sort of commitment to Seattle. This commitment is effectuated in the donation of the Paul G. Allen Family foundation to the development of the Lake Union park. Although the activities of Vulcan Real Estate and the donation to the park can be observed as two unrelated actions, the donation to the park does influence the value of the surrounding assets. The adjacent lands are owned by Vulcan Real Estate. Moreover, the initial intentions which resulted in the involvement in the SLU redevelopment project comprised the generous support for the Commons Park Plan.

7.3 Conclusions

In this paragraph the conclusions regarding the South Lake Union redevelopment case are summed up based on the investment strategy, the urban development strategy and the commitment of the developing investor Vulcan Real Estate. This chapter described the ongoing process of the South Lake Union redevelopment cases. A project initiated by the developing investor Vulcan Real Estate, which role originates at the financial support for the Commons Park Plan. The investment strategy of Vulcan is inextricably linked to the South Lake Union community. This is not only, but mainly due to the strategy land position Vulcan has obtained. Based on its conceptions for the redevelopment of SLU, Vulcan has developed a multidisciplinary organization which features extensive knowledge concerning multisectoral real estate and the local market. The urban development strategy is characterized by its adaptations to the changing economic conditions and private sector objectives. The public regulatory framework has been designed to simplify the development application process. Moreover, the urban development project lacks public private agreements on community level. As the public sector has a limited financial investment capacity, private sector contributes to the realization of public amenities directly (i.e. Street Car) and indirectly (based on development agreements).
Case References

Interviews

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Documents

SDPD 2010. South Lake Union urban design framework. Seattle: Seattle Department of Planning and Development.

Magazines, Newspapers and Websites


8 cross case analysis.

This chapter comprises the cross case analysis of the two cases described in the previous two chapters. Cross case findings concerning the context, the investment strategy and the urban development strategy of the two American cases are described successively. By conducting this structural cross case analysis general conclusions concerning community oriented investment strategies in urban redevelopment projects in the USA can be drawn.

8.1 Context dependency

As mentioned in chapter 5 there are differences in planning and development culture between different states in the Unites States of America. As it is not within the scope of this research, the differences between the State of Washington and California have not studied in a preliminary stage. Moreover, it is not the objective to indicate the differences in planning and development practice between these two states. This section briefly describes the relevant differences with respect to the research objectives.

Seattle has a so-called mayoral political system. This means that the mayor has a great deal of influence on the decision making by the local government. On the contrary, the Californian politics is more oriented on the City Council. This difference in politics between Seattle and Los Angeles is reflected in the cases. The continuity of planning policy in Seattle can be considered less compared to Los Angeles. In fact, the ability of Vulcan Real Estate to influence planning policy was based on their good relationship with Mayor Nickels. Since a new mayor has been elected, Vulcan has less influence on planning decisions according to the local planning authority.

Another difference we should consider is the type of redevelopment project. Both projects can be considered incremental as the focus is on real estate development according to market demand without a fixed end date. Moreover, various private actors are involved, and the local authorities are oriented on facilitating the private development. However, physically the cases differ as the Hollywood redevelopment case can be considered a transformation and redevelopment project, while South Lake Union is to be considered a brownfield development project.
8.2 Community oriented investment strategies of US developing investors

The table below shows the comparison of the strategies of CIM Group and Vulcan Real Estate based on the four strategy aspects vision, organization, financial and regulation. In the next sections the differences and similarities between the studied community oriented investment strategies are described.

<table>
<thead>
<tr>
<th>Urban investment strategy</th>
<th>CIM Group</th>
<th>Vulcan Real Estate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vision</td>
<td>Initial objective</td>
<td>Reinvest pension capital in urban redevelopment in California</td>
</tr>
<tr>
<td></td>
<td>Focus on community(-ies)</td>
<td>Optimize returns by restoring dysfunctional real estate markets of redevelopment communities.</td>
</tr>
<tr>
<td>Community selection</td>
<td>Transparent criteria 94 communities in North America</td>
<td>Seattle-based Vulcan</td>
</tr>
<tr>
<td>Approach</td>
<td>Integration in community, bottom-up</td>
<td>Integration in community, bottom-up</td>
</tr>
<tr>
<td>Organization</td>
<td>Structure Multidisciplinary fund manager</td>
<td>Multidisciplinary private developer</td>
</tr>
<tr>
<td></td>
<td>Knowledge Development &amp; management Multi-sector</td>
<td>Development &amp; management Multi-sector</td>
</tr>
<tr>
<td>Employees</td>
<td>330</td>
<td>40</td>
</tr>
<tr>
<td>Financial</td>
<td>Structure Various investment trusts</td>
<td>Own real estate portfolio</td>
</tr>
<tr>
<td></td>
<td>Investment Capital Institutional</td>
<td>Private</td>
</tr>
<tr>
<td></td>
<td>Risk-return profile Core &amp; Opportunistic investment funds</td>
<td>Opportunistic development, but long term core investments</td>
</tr>
<tr>
<td>Regulations</td>
<td>Legal structure Limited Liability Partnership; Low influence of capital providers</td>
<td>Limited Liability Partnership; Owner/Private capital provider</td>
</tr>
<tr>
<td></td>
<td>Dependency Outperforming benchmark</td>
<td>Market conformity</td>
</tr>
</tbody>
</table>

Table 23 – Investment Strategies of CIM Group and Vulcan Real Estate

8.2.1 Vision

The first similarity between the vision of CIM Group and Vulcan Real Estate is the incorporation of inner city redevelopment communities in the investment strategy. Both developing investors are not only focused on optimizing the returns on real estate development and management on object level, both CIM Group and Vulcan Real Estate anticipate on indirect returns due to the increase in value of the community. As such, both investment visions are inextricably related to the urban redevelopment area.

CIM Group has a deliberate and methodical way to select its communities as potential investment markets based on transparent criteria. Two main criteria concern the favorable economic and demographic conditions of the urban region, and the dysfunctional real estate market, and a high investment potential on community level. A dysfunctional real estate market means that the real estate supply does not match the demand, while the real estate value is relatively low. This means the community houses enough potential for value gain for redevelopment and transformation activities. Although Vulcan has not deliberately chosen the South Lake Union community as investment market based on these criteria, the
community does match the criteria. Moreover, Vulcan would not have expanded their strategic land positions if the area would not have enough potential for value gain.

Next to this, both CIM Group and Vulcan Real Estate are committed to redevelopment projects based on an initial social objective. As mentioned in chapter 6, CIM Group has been established based on the objective of CalPERS, the Californian pension fund for civil servants, to reinvest the pension capital in redevelopment project throughout California. Vulcan Real Estate has been engaged in the redevelopment of South Lake Union based upon the support of its owner, Paul Allen, to the Commons Park Plan. Although the plan to turn South Lake Union into a ‘Central Park’ did not stand, Vulcan got involved and established a vision to redevelop SLU into a sustainable neighborhood. Both CIM Group and Vulcan have the objective to redevelop the community based on the actual market demand. Therefore, both investment strategies are not oriented on specific real estate sectors or types, but are focused on multi-sector investments and developments.

Characterizing for both investment approaches is the focus on the local network. To build up and maintain a local network with strong ties to involved public, private and civic actors within the community is an essential element of the community oriented investment strategies of both US developing investors. It allows them to signalize investment opportunities or potential tenants. Due to the strong local ties, this bottom-up approach enables the investors to create their own market as they maintain strong relations with local businesses. An important difference between the community approaches of CIM Group and Vulcan is the sequence of their actions. After CIM Group has selected the community as qualified investment market it starts establish a local network including public, private and civic stakeholders. Based on this network and the local market knowledge it generates, CIM decides what investments and developments it will make. On the contrary, Vulcan has invested in a strategic land position. Based on this land position, and thus its stake in the redevelopment process, Vulcan has started to actively build up a local network of public, private and civic actors.

Remarkable is the position of both investors regarding the involvement of other private real estate developers and investors. Both CIM Group and Vulcan seem to profit from enhanced private sector involvement in the redevelopment project. CIM Group deliberately selects communities based on the private and public sector support for the redevelopment, while Vulcan Real Estate actively markets the South Lake Union area within the private sector.

CIM Group has selected numerous communities as potential investment markets. By doing so, CIM is able to anticipate on changing market conditions and the geographical differences in market cycles. In contrast to CIM Group, Vulcan Real Estate is only oriented on the redevelopment of South Lake Union and is not able to move away to other communities in times of economic setbacks. As such, Vulcan is more strongly tied to South Lake Union then CIM Group to Hollywood.
8.2.2 Organization

Two American developing investors are subject to this research. However, they differ in organization. CIM Group is a real estate fund manager that manages various real estate and infrastructural investment funds that are financed by institutional capital providers. Both core and opportunistic funds are under CIM’s management, and the opportunistic funds are focused on (re)development of real estate. CIM Group has about 330 employees with four offices in spread over the USA. The headquarters are located in Hollywood. The organization is divided in different departments such as real estate development and asset management. Multidisciplinary teams are assigned to each of the selected communities through the US. Vulcan Real Estate is a subsidiary of the private investment company Vulcan, and is responsible for the development of the land positions in South Lake Union for the purpose of creating a privately owned, diversified real estate portfolio. Vulcan’s headquarters are located in Seattle downtown, near the South Lake Union area. Vulcan Real Estate has 40 employees who are responsible for the development and management of the real estate in SLU. Next to this, they also exploit their services for clients.

Both full service organizations are fitted-out to support both their development and investment activities. Within the organizations development and investment knowledge are combined. Next to the in-house knowledge of all services regarding development and management, the organizations are not limited to a single asset type or single sector. Instead of specializing on sectoral knowledge on project level, both CIM Group and Vulcan Real Estate have the in-house knowledge regarding all real estate sectors within the context of urban development. Their multidisciplinary and multi-sectoral organization allows both developing investors to anticipate on local market demands within the communities. Thereby, both organizations are oriented on the communities instead of real estate property, incorporating extensive knowledge about planning practice as well, and as such allows them to integrate in the local network in a community.

8.2.3 Financial

The financial structure of both investing developers differs significantly. CIM Group manages and invests the capital provided by institutional investors, including Dutch pension funds. Vulcan on the other hand, invests the private investment capital of the Vulcan investment company. Compared to Vulcan, CIM Group manages different real estate and infrastructure investment funds with a specific risk and return profile and maturity.

As explained in chapter 6 the investment fund structure of CIM Group, with both core and opportunistic real estate investment funds, allows the manager to benefit from the indirect value gain within the community. On the one hand, the core investments will profit from the developments made by the opportunistic fund in the same community. On the other hand, the investments by the core fund contribute to the critical mass needed to restore the real estate market. Although not housed within
different investment funds, Vulcan Real Estate is also active in both opportunistic and core activities. The investments in the land positions and the development of real estate can be considered opportunistic. However, Vulcan focuses exclusively on long term cash flows from the management of the developed real estate.

The structure of CIM’s funds and the organization of Vulcan does not limit both to investing in a single sector nor to fixed amounts of investments over various real estate sectors. Therefore, both financial structures allow the developing investor to fully serve the local market demand, even when market demand would result in only residential investments for successive years.

The interesting similarity regarding the financial aspect between the investment strategy of both CIM Group and Vulcan Real Estate is the deliberate focus on optimizing both direct and indirect returns. Direct returns on real estate investments are optimized by the knowledge of the local market, and ties to the local business network. Indirect returns are optimized by their comprehensive vision on the value gain within the community. Both CIM Group and Vulcan Real Estate benefit from the recovery of the local real estate market, mainly due to the critical mass of their own investments and development. Moreover, both CIM Group and Vulcan Real Estate anticipate on further increase of value within the community by investments of other private developers and investors. Vulcan even actively markets SLU to attract more private developers.

8.2.4 Regulation

Both Vulcan Real Estate and CIM Group are so-called Limited Partnerships (D: commanditaire vennootschap). This means the external capital providers, such as institutional investors and banks, have little influence on investment decision making. This allows both developing investors to roll out their investment strategy quite flexible. For instance the institutional investors committed to the funds of CIM Group have little say in the allocation of investments to different real estate sectors. This allows CIM Group actually focus on the current market demand, whether this comprises only commercial or a mix of sectors.

As being a private investment company, without any shareholders, Vulcan has a great staying power regarding the ability to keep a strategic land positions untouched for years, without generating a cash flow. Indeed, due to the little influence of the capital providers on the investment decision making, CIM is able to hold an investment position untouched for a long time. However it is due to outperform the benchmark of investments and therefore is probably not able and willing to keep significant amounts of land untouched in its portfolio, such as Vulcan.
8.3 Urban development strategies in US urban redevelopment projects

The table below includes the comparison of the urban development strategies regarding the Hollywood and South Lake Union redevelopment projects based on the four strategy aspects vision, organization, financial and regulation. In the next sections the differences and similarities between the studied urban development strategies are described.

<table>
<thead>
<tr>
<th>urban development strategy</th>
<th>Hollywood</th>
<th>South Lake Union</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Vision</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Process</td>
<td>Development-led, incremental</td>
<td>Development-led, incremental</td>
</tr>
<tr>
<td>Physical</td>
<td>Transformation, mixed use</td>
<td>Brownfield, mixed use</td>
</tr>
<tr>
<td><strong>Organization</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Private role</td>
<td>RE development and management, Capacity building</td>
<td>Initiating, RE development and management, Capacity building</td>
</tr>
<tr>
<td>Public role</td>
<td>Initiating, facilitating, regulating, stimulating &amp; co-investing/developing</td>
<td>Facilitating &amp; regulating</td>
</tr>
<tr>
<td>Public private partnerships</td>
<td>Project level</td>
<td>Project level</td>
</tr>
<tr>
<td><strong>Financial</strong></td>
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<td></td>
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<tr>
<td>Real Estate development</td>
<td>Private, &amp; Public-Private</td>
<td>Private</td>
</tr>
<tr>
<td>Public space</td>
<td>Public &amp; Private</td>
<td>Public &amp; Public-Private</td>
</tr>
<tr>
<td>Public amenities</td>
<td>Tax Increment Financing, Development Agreement projects</td>
<td>Private contributions on development agreement project-level</td>
</tr>
<tr>
<td><strong>Regulations</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land use</td>
<td>Mixed-zoning</td>
<td>Mixed-zoning</td>
</tr>
<tr>
<td>Flexibility</td>
<td>Negotiations on development agreement</td>
<td>Double zoning; base and maximum</td>
</tr>
<tr>
<td>Urban plan</td>
<td>Community plan</td>
<td>Urban Design Framework</td>
</tr>
</tbody>
</table>

Table 24 – Urban development strategies Hollywood and South Lake Union case

8.3.1 Vision

A characterizing similarity between the urban development strategies of the Hollywood redevelopment and the South Lake Union redevelopment is a broad urban development vision which is strongly oriented on the stimulation of private investments in the community. The emphasis of both visions is more on plot development than on urban area development, which can be traced back to the cultural planning differences. This is reflected in the relatively low amount of visual plans incorporated in the urban development plans. In contrast a broad set of objectives concerning economic and demographic figures, public space and public facilities, such as social housing, are set. These objectives include for instance the creation of temporary and permanent jobs, and the growth of inhabitants.

Both urban development strategies are oriented on stimulating investments and developments by the public sector. In Seattle this objective is translated into the transparency of the permit and planning application process (see section 8.3.4). In Hollywood the focus on the private sector is translated into concrete and transparent objectives which the private developers have to incorporate in their projects to be eligible for financial public support.
Both urban development visions are focused to restore the balance between the functions within the community. As such, both urban development visions are oriented towards the residential sector, and the livability and safety of the public spaces.

8.3.2 Organization

The figures below show the roles of both public and private actors within the Hollywood and South Lake Union redevelopment cases. It is clear that in both cases the private sector is mainly responsible for the development and management of the real estate. In both cases the main public actor, respectively the CRA/LA and the SDPD, are focused on facilitating and stimulating private sector developments within the community. However, the CRA/LA is also actively involved by stimulating catalyst projects and the realization of public amenities such as infrastructure and social housing. On a small scale it has been involved in land preparation and development projects. Both CIM Group and Vulcan Real Estate are responsible for the main tasks within the project management on plot-level. In both cases the private sector has the main access to the management resources land, capital and knowledge. However, in Hollywood the CRA/LA has generated a significant public investment capacity by the implementation of Tax Increment Financing at the community redevelopment project.
Compared to the role of CIM Group in the Hollywood redevelopment, Vulcan has a more steering role within the redevelopment process of South Lake Union. In Hollywood, the Community Redevelopment Agency is a public organization which is fully dedicated to steer the redevelopment process. Each community redevelopment area in California is managed by a special team of the CRA. As described in chapter 5, the CRA builds capacity for the redevelopment in both public and private sector, and amongst the civic society. It represents an important linkage between all involved public departments at Community-, City-, State- and Federal level. As such, one could argue the Hollywood redevelopment project is public-led. However, the real estate development and management is mostly a private sector-led activity. Thereby, the private sector, including CIM Group, is extensively involved in the management of the public space through the Business Improvement District. Moreover, CIM Group is involved in capacity building for private sector investments and developments in the community, as part of its community-oriented strategy. Therefore we argue that CIM Group indeed actively steers the Hollywood redevelopment project.

In Seattle there is no such public authority that is only dedicated to the redevelopment of South Lake Union. The Department of Planning and Development picked up this role due to the growing interest and developments by the private sector in SLU. However, the department proved to have insufficient capacity to manage all public redevelopment activities in South Lake Union. Herein might be a reason why Vulcan, as a private actor, was allowed to get involved in common public tasks such as the planning and application process of the redevelopment of the Mercer Corridor, an important arterial road through South Lake Union.

8.3.3 Financial

From financial point of view the cases generally resemble on the distribution of risks and returns between public and private sector. In both cases the private sector almost exclusively bears the risks and returns of real estate development. The realization of public amenities within the communities is in both cases financed by both public and private capital. However there are differences in how financing is organized.

Both cases the initial public budget for redevelopment is low. However, in the Hollywood case as public investment capacity is generated by the implementation of tax increment financing (TIF). TIF redirects local property tax income to the redevelopment project. As such, the local government, the CRA/LA, has as budget of about $30 million on a yearly basis. This budget is used to stimulate private developments, invest in catalyst projects, to finance infrastructural, public space projects, the realization of public amenities, and other support of community groups. In contract, the local authority in South Lake Union has to rely on various public departments for the financing public amenities. As such the Seattle Department of Planning and Development has focused on mobilizing various departments on different public levels for the financing of key infrastructural projects, such as the development of the street car, and the realization of public spaces.
In both cases, the private sector contributes to the financing of public amenities in the community. These private financial contributions are the result of negotiations concerning development agreements on project level. In return for the contributions usually the zoning limits are extended. As the local authority in Seattle has less investment capacity compared to the CRA/LA in Hollywood, this way of financing public amenities is more commonly exploited in South Lake Union. Instead of contributing financially, the private actors can also incorporate the public amenities within their own development.

In Hollywood the private sector is also involved in financing the management of the public spaces. Via the Business Improvement District, CIM Group financially contributes to the safety on the streets, and the maintenance of the streetscape and facades. Vulcan is not involved in the financing of public space management. However, Vulcan has contributed extensively to the realization of the streetcar, which connects South Lake Union with Seattle Downtown. The financing of the development and the operation of the streetcar is organized via a Local Improvement District, in which both public and private actors were involved.

Characterizing for both urban development strategies is the lack of public private financial agreements and exploitations on urban level. No risks and returns are shared between public and private actors on urban level. As such, the risks for the developing investors are limited to the project-, or asset-level, which is common to real estate investors.

8.3.4 Regulation

When comparing the regulation aspect of both urban development strategies, it appears both regulatory frameworks are quite transparent about what is expected from the private sector. In the planning documents in for both the Hollywood and South Lake Union redevelopment projects, clear and assessable objectives are incorporated. This regulatory transparency is in both cases a deliberate part of the urban development strategy based on the objective of the public sector to simplify the planning and application process for private developers. As such, the planning risks for the private sector are reduced by the clarity with respect to the granting of building permits. Compared to Hollywood, the set of regulations regarding the urban development is even more transparent in South Lake Union, as clear design guidelines are set in the Urban Design Framework and Design Guidelines. Both documents are used by the Design Review Board regarding the approval of building permits.

Both sets of regulations incorporate certain levels of flexibility regarding the zoning, which enable the private sector to adapt uses to the market demand. In Hollywood this is reflected in special ordinances such as the Adaptive Reuse Ordinance. Furthermore, changes to the zoning are negotiated between the CRA/LA and the private actors in the development agreements on project level. In Seattle, the level of flexibility in planning is translated into the establishment of a mixed zoning code, which has been
implemented on private initiative. Moreover, on project level changes of the zoning code also negotiated between public and private actors, and translated into so-called ‘text amendments’. These amendments incorporated the extensions to the zoning and the negotiated private compensation.

These negotiations on project-level are characterizing for both urban development strategies. As the public sector has insufficient funds, private contributions for the realization of public amenities within the community are negotiated on project level. As such, the private sector is able to change the local zoning, regarding allowed the uses, building heights or densities. For the private sector it is important the local zoning can be changed to be able to the accurately serve the local market demand. In return, the private financial benefits of the zoning changes are balanced with the societal returns as the private actors contribute to the realization of public amenities within the community. This contribution is carried out either financially to for instance a social housing project, or by the incorporation of the public amenities within a project of the developer. In Hollywood private contributions are mainly incorporated in the development plans. In South Lake Union this room for negotiation is recorded in the Rezone. This Rezone includes the maximum zoning within the area. The Rezone is an additional zoning document next to the zoning code. The regulatory document provides a transparent insight in what is expected from private developers if they are planning to utilize the maximum zoning.

8.4 Conclusions

This chapter described the main similarities and differences of the investment strategies applied by CIM Group and Vulcan, and, of the urban development strategies concerning the Hollywood and South Lake Union redevelopment projects. In table 23 the main characteristics of the community oriented investment strategies of CIM Group and Vulcan Real Estate are compared. Characterizing is that both developing investors are anticipating on indirect returns by focusing on the community level instead of the real estate object level. Both organizations are quite similar regarding the in-house knowledge and expertise. Both CIM Group and Vulcan Real Estate unroll their investment strategy by integrating in the community. As such their role include capacity building, marketing of the community and urban management. However their financial structure is different.

Table 24 shows the main similarities and differences between the urban redevelopment strategies applied in Hollywood and South Lake Union. Notable is different role of the local authorities. Although both the CRA/LA and the SDPD are mainly focused on facilitating the urban redevelopment process, the CRA/LA in Hollywood took the initiative for redevelopment and is also actively involved in the development process. The Role of the SDPD in Seattle is more in line with the American culture in which the local government is more reactive and not commonly actively involved. However, both cases show striking similarities including the lack of public private agreements on community level, public private negotiations on project level for the purpose of financing public amenities in the community, and the transparent but not-binding
development objectives incorporated in the community plans that allow initiatives from the private sector.

In the next chapter lessons for the Dutch urban development practice are drawn based upon the case study findings.
PART 3 – SYNTHESIS
empirical lessons & inspiration.

In the previous chapters the community oriented investment strategies of two American investors are described from the perspective of the investor (i.e. the investment strategy) and from the perspective of urban planning (i.e. the urban development strategy). This chapter elaborates on the findings of the case study research in by drawing empirical lessons and inspiration for the role of the investor in- and the public private organization of urban redevelopment projects. Firstly, some general points of attention are pointed out based upon the institutional en contextual differences between Dutch and American planning and development practice. Next, the empirical lessons are drawn based upon the analytical research model. Lastly, the levels of inspiration from the studied cases are discussed.

9.1 Context-dependent conditions

In chapter 5, the institutional and contextual differences between Dutch and American planning and development practice have been described. From that perspective relevant points of attention regarding the findings form the in-depth case study research are discussed in this section.

Cultural differences in local politics

The South Lake Union redeveloped case revealed an uncommon intensive collaboration between the public and private actor, respectively the local planning authority and Vulcan Real Estate. Interviews with both showed this relationship has changed over time. This research showed that Seattle is characterized by its Mayor-Council governance system in which the mayor is the main administrative authority. Vulcan maintained a good relationship with former Mayor Nickels. Under the authority of the former Mayor, Vulcan had been able to influence the planning process. For instance, Vulcan has been extensively involved in the establishment of the Rezone. The local planning authority, SDPD, mentioned they were set aside in some cases as the Mayor Nickels chose to follow the directions of Vulcan Real Estate. Under the current mayor the power relationship between Vulcan and the SDPD has been restored to a more common public private liaison. It has to be considered implausible that in the Dutch municipal governance system a Mayor is able to favor a private actor in such an extensive way. This favorable mayor-private actor relation has had its effect on the informal public private partnership between Vulcan and the local authorities. Although a similar local governance system is irrelevant for the Dutch practice, it does not exclude lessons can be drawn based on the public private cooperation in the case.

Urban scales

When learning lessons from US urban development practices, we have to consider the differences in urban scale and market diversity compared to The Netherlands. Regarding demographic and economic figures the urban scale of Los Angeles, and also but to a lesser extent Seattle exceed the largest of Cities in The Netherlands. Thereby, considering the multi-community approach of CIM Group the geographical diversity between urban regions is considerably less in The Netherlands. Compared to the urban scale of the United States, the Randstad could be considered one autonomous real estate market. This
geographical diversity between markets is an essential aspect of the investment strategy of CIM Group, as this diversity is exploited for investment diversification reasons (risk reduction). As such, these considerations confine the relevancy of lessons or assumptions based on the market diversification for the purpose of Dutch practices. Moreover, it the different scales of the markets in which CIM Group and Vulcan Real Estate are involved have to be considered.

**Profitability of land conversion in urban redevelopment**

As mentioned in chapter 5, a considerable difference between the American and Dutch planning context concerns the land increment potential based on land conversion in inner-city urban redevelopment projects. Due to the restrictions on green field development in the US, to avoid further urban sprawl, inner-city land conversion relatively more profitable compared to the situation in the Netherlands. As such, the Dutch private sector is probably less interested in complex urban redevelopment projects.

### 9.2 Empirical lessons for Dutch urban redevelopment projects

In this paragraph the main empirical lessons are drawn based upon the findings of the case study research. Firstly lessons are drawn for Dutch real estate investors from the perspective of the investment strategy. Secondly lessons are drawn for Dutch redevelopment projects from the perspective of the urban development strategy. In the last section, some lessons are drawn based upon the commitment as relationship between the investment and urban development strategy. The lessons transcend the separate aspects of both the strategies, however, in the explanation the relation to aspects of either the investment- or urban development, or both, are mentioned.

#### 9.2.1 Lessons regarding investment strategies for Dutch real estate investors

**Long term commitment to urban redevelopment projects**

*For developing investors long term commitment to incremental urban redevelopment projects can be considered valuable as financial returns of real estate development and management can be indirectly optimized by the increase in value of the community.*

Pre-eminently developing investors are able to be involved in long term urban development projects as development and management objectives and knowledge are coupled to each other. However, applying an investment vision which is oriented on restoring the local real estate market to profit from indirect value gain imposes conditions for the organization and financial structure of the investment strategy. Both Vulcan and CIM Group are organized to be able to adapt their business on the changing market demand. As such, broad knowledge concerning all real estate sectors and all facets of development and management are required. Financially both developing investors should be able to make both opportunistic, development, investments, and long term core investments. From regulatory perspective, both CIM Group and Vulcan are barely limited in the sectoral diversity of their investments. This allows them the flexibility to commit to the local market demand, even if for instance only commercial real estate
is demanded for years. Furthermore, preconditions do apply on the characteristics of the urban development project areas. As explained in the section above, the local real estate market has to contain enough opportunities for capital gain. Thereby, both investors are committed to communities in metropolitan areas with favorable economic and demographic conditions.

Combination of a top-down and bottom-up approach

The combination of a top-down approach, based on hard investment criteria, and a bottom-up approach, based on the integration in a local community, provides the developing investor the ability to optimize the returns based on the local market knowledge and private capacity building.

Both CIM Group and Vulcan Real Estate apply hard, top-down investment criteria on their real estate investments and development. CIM Group even applies transparent criteria for the selection of communities as potential investment market. Though in the field of real estate investment, top-down investment criteria are most common. Interesting is the combination with a bottom-up approach from investment perspective. Both CIM Group and Vulcan Real Estate focused on the integration in the local community which allows them to track local market demand, signalize investment opportunities and potential clients in an early stage, build capacity for development amongst the public and civic actors, and lastly market the community within the private sector. This bottom-up approach is a deliberate part of both investment strategies to optimize their opportunities for investment and development, and to optimize both the direct and indirect returns. Incorporating this bottom-up approach requires in-house knowledge on both real estate development and real estate investment, but also local planning and market knowledge.

Perseverance related to private and institutional investment capital

Considering the ability to steer incremental urban development projects privately financed developing investors can relatively better exploit their perseverance compared to real estate fund managers, as they are less dependent on yearly outperforming the benchmark on financial returns.

As explained in chapter 8, both CIM Group and Vulcan are able to keep strategic land positions in possession for the long run. However, as CIM Group’s objective is to outperform the benchmarks on real estate development and management, it is less likely that CIM is willing obtain a comparable strategic land position as Vulcan, without a current cash flow. The Hollywood case study shows CIM deliberately anticipates on future land conversion of transformations, however, it most of CIM’s acquisitions concern
assets with a current cash flow. As such, CIM Group’s perseverance is limited due to its performance-based relation to its institutional investors.

9.2.2 Lessons regarding urban development strategies for Dutch redevelopment projects

Informal public private partnerships

The studied American redevelopment cases showed that informal public private partnerships provide the ability to align public and private objectives and market demand, while development and planning risks for the private sector are limited to project-level.

In both cases no public private partnerships are established on urban level. However, public and private interests and objectives are aligned in an informal way. Firstly, the private sector is consulted in the establishment of urban development objectives. On project level public and private objectives are balanced based on the negotiation of development agreements. The private sector is also involved in capacity building for urban development. Without formal public private agreements the objectives of the urban development can continuously be adapted to the changing market demand. Moreover, the development and planning risks for the private sector are limited to the project-level. This development-led urban redevelopment approach requires a different way of financing public amenities and limits the commitment of the developing investor (see lesson concerning financing public amenities below).

Financing public amenities

Urban redevelopment projects do not necessarily ask for financial public private arrangements on community-level as private contributions to the financing of public amenities in the community can be negotiated on project-level.

Both urban development projects are organized without formal public private partnerships on urban level. This is in line with the American urban planning culture in which the emphasis is on project development rather than urban plans. In the Netherlands, public and private interests are commonly balanced and recorded in a formal public private partnership. Even though the current economic conditions have proven to hamper the establishment of public private partnerships upfront to urban development projects (see chapter 2), the emphasis is still on establishing public private urban exploitation agreements for the purpose of financing public amenities. This case study showed that private contributions to the financing of public amenities do not necessarily have to be arranged at urban level. Based on negotiations on development agreements, private sector contributions can be generated in return for extensions to the zoning regulations. The private contributions may also be translated in the incorporation of the public amenities in the development plans of the private actor.
**Transparent and consistent public regulations**

*Transparent development and planning regulations concerning what is expected from the private sector, combined with a clear public prioritization of urban redevelopment projects has a positive effect on long term commitment of investing developers.*

From regulatory perspective both studied urban development strategies are characterized by the incorporation of clear and transparent expectations for the private sector into the planning documents. These transparent but not limiting expectations ease the application process for the private sector, and limit the risks to real estate development in the community. Moreover, both communities, Hollywood and South Lake Union, have been prioritized as urban development project. This reflects the public support for the urban development project on local and state level. The case study showed that this public support has a positive effect on the long term commitment of the investing developers.

9.2.3 Lessons regarding the commitment of developing investors

**Soft private commitment**

*Private sector commitment to incremental urban redevelopment projects is not necessarily tied financially to extensive pre-financing or pre-investments in land possessions. This case study shows that private sector commitment can also be effectuated by private involvement in community and capacity building, and the management of the public space.*

The involvement of CIM Group in the Hollywood case shows a form of commitment to urban development projects in which financial commitment is subordinate to commitment to the public, private and civic community-network. Although CIM Group intends to invest a minimal budget of $100 million per selected community. CIM can also lose the competition from other investors who are willing to take more risks. As a result, CIM yet only invested in close to 50 of its currently 99 selected communities. As such, its financial commitment to invest in the community is not hard, as it depends on the local market. Moreover, it might take years before CIM signalizes the best investment opportunity within a community. However, when a community is selected, CIM starts to build up a local network including public, private and civic stakeholders. The main objectives of privately managing a local network is to build capacity for the redevelopment activities amongst the involved stakeholders, and subsequently to signalize local market demand and investment opportunities. As such, this form of commitment to urban redevelopment projects can be indicated as soft commitment. Although Vulcan’s commitment is primarily based on hard financial commitment in the form of land possessions, Vulcan’s role within the community network, as main promoter of the SLU redevelopments, can also be typified as soft commitment.
Market dependency of investor’s commitment

Without (long term) public private agreements on community-level and the strong emphasis on market-led development, the commitment of the investor to the community redevelopment project is strongly dependent on the market conditions.

As mentioned both urban development projects lack public private agreements on the level of the community. As explained this provides the private sector an extensive ability to adapt investments to the market demands. Secondly, the Hollywood case shows that extensive pre-investments are not required for private commitment. Moreover, the development and planning risks of the developer are limited to risks related to the project level. However, the lack of long term public private agreements on community-level limits the commitment of the investor to the redevelopment projects as the investments are dependent on the market conditions. Thus, due to the lack of long term public private agreements on urban level the urban development force is limited and mainly dependent on market conditions. In case of CIM Group, the developing investor is able to shift the focus to other communities. As such, CIM is able to choose the best investment opportunities in communities with the best market conditions. The impact of the commitment is illustrated by the fact that CIM Group until now has invested in only 50 of the 99 selected communities. In case of Vulcan Real Estate, the investors commitment is related to its extensive land possession in South Lake Union. It is unlikely Vulcan would sell its strategic land position in times of economic poverty. However, Vulcan has deliberately slowed down its development activities based on the worsened economic conditions. It was only due to the unbridled growth of Amazon that Vulcan could keep on developing its lands. Furthermore, CIM Group and Vulcan are active in strong metropolitan areas. CIM even has set hard criteria for the selection of communities, based on economic growth and demographic figures, incorporated in its investment strategy. This shows the dependency of the investment strategy on market demand. Although both investing developers are committed to communities characterized by a dysfunctional real estate market, these communities are located in strong urban regions. As such, the developing investors confine the risks of redevelopment.

9.3 Inspiration for Dutch urban redevelopment practice

The purpose of this research was to study the commitment of American developing investor based on identifying the conditions for commitment in the investment- and urban development strategies. However, based upon the in-depth case study more lessons for Dutch urban redevelopment can be drawn which are not directly related to the research objectives. In this section, interesting lessons from the US cases are presented in the form of inspiration.

Private sector cross-fertilization

Studying the relationship between different private actors within an incremental redevelopment project was not within the main objectives of this research. However, both cases showed some interesting insights in the relationship between private actors within the redevelopment projects. The investment
strategies showed that the developing investors are open to private sector involvement in the redevelopment. Vulcan Real Estate and CIM Group seem to benefit from successes of- and competition from other developers and investors in the community. This seems logical as more private sector interest in the real estate within the community, means a higher pressure on the real estate market, and thus real estate value increment. Both developing investors have incorporated the private sector within their investment strategy. CIM Group deliberately chooses communities based on private sector support for redevelopment activities. Vulcan Real Estate even deliberately promotes the South Lake Union to the private sector. Anticipating on the future value growth of the community, CIM and Vulcan embrace private sector competition.

**Tax Increment Financing**

Characterizing for the American urban development practice is the lack of public investment capital. In both cases the local public authorities coped with this lack of public capital in a different way. In the State of California a *Tax Increment Financing* program has been set up in the late 1950s for the redevelopment of blighted communities. As described in chapter 6, the Hollywood redevelopment began after it was appointed Community Redevelopment area. From that point on, the Community Redevelopment Agency, the local public redevelopment manager, had a public investment capital to its disposal based on Tax Increment Financing (TIF). In short, when TIF is applied on an area, the local property tax is fixed for a set term. In the case of Hollywood the initial term of the TIF program was 30 years. As the property taxes rise each year due to the regeneration and transformation activities, the increase of taxes above the fixed base is used to finance the local redevelopment activities and public amenities. The idea to redirect the increase of local property taxes, due to the land value increment, for the redevelopment of the same community is an interesting proposition for the Dutch urban development practice. Lately this US financing instrument has crossed the Atlantic. Several studies to the feasibility and relevance for the Dutch market have fueled a still ongoing debate. Even a pilot has started at the *Waalfront* redevelopment project in Nijmegen (Mentrum, 2013). Nevertheless, it remains to be seen if TIF will be a successful instrument for financing public amenities in urban redevelopment projects in The Netherlands. First of all, the Dutch tax system differs significantly from the American system in which the local property tax is relatively high compared to the income tax. As such, the effectiveness of implementation in The Netherlands highly questionable. Secondly, the TIF model is based on a *growth machine*; the land value has to increase due to the redevelopment activities to repay or finance public investments. It is the question whether this land value increment is guaranteed in current Dutch redevelopment areas (Van der Laan, 2013). Without US comparable economic and demographic growth figures and considering the complex Dutch real estate market mechanism, it is unsure whether TIF could be a successful financing instrument. However, it is not within the scope of this research to assess the relevance of TIF for Dutch practice. More research to the applicability of TIF and variances of TIF should be conducted.
Rezone: formalized negotiations on development agreement

Tax Increment Financing is the main instrument used for financing public amenities and redevelopment activities in the Hollywood case. Although the local government in Seattle suffers a similar limited public budget, TIF is not applied. The financing of public amenities within the project area of South Lake Union is derived from private contributions. For some of the first development projects in SLU, Vulcan lobbied for special rezones, known as ‘text amendments’. These individual rezones to amend the base zone incorporated private contributions to public amenities such as social housing. In projects on which a text amendment applied, Vulcan agreed to contribute either financially or by incorporating the public objectives in one of their projects. Vulcan negotiated the most of these financial contributions were reinvested within South Lake Union. Based on successive text amendments, an additional zoning was established in SLU. This so-called Rezone sets the maximum amends to the base zoning. Furthermore, the Rezone precisely indicates what compensation is expected from the private sector in return for the amendments to the local zoning. As such, the local government has formally set the room for negotiation on zoning in a new regulation. By means of the rezone the local government is able to balance private financial profits to societal returns. As it is a challenge to finance public amenities in incremental redevelopment project in The Netherlands, this regulatory instrument might be effective. However, this regulatory instrument to finance public amenities is dependent on market conditions as the SLU-case showed. No contributions are generated if the private sector has no need to exceed the base zoning to optimize its returns.
relevance for Dutch urban development practice.
The previous chapter described the lessons and inspiration from the community oriented investment strategies from two American developing investors, based on the case study research. This chapter elaborates on the relevance of this lessons for the Dutch urban redevelopment practice. The relevance of the lessons learned is assessed by an expert panel. The following research question is answered in this chapter:

“To what extent are the lessons learned from the US investor-led urban redevelopment projects relevant for Dutch practice according to Dutch urban development professionals?”

10.1 Expert meeting

To assess the relevance of the lessons learned for the practice of urban development in The Netherlands, an expert meeting is organized in February 2014. The expert meeting is held in cooperation with Grontmij and Grontmij Capital Consultants.

10.1.1 Expert Panel

The objective of organizing an expert meeting was to get both public and private decision makers and experts in field of urban development together to present the results of the case study research and discuss these findings on relevance for Dutch urban development practice. The panel consisted of the following experts;

*Private sector:*

**Wim Wensing | Direct investment management** *Amvest*
Amvest combines fund management and the development of dwellings and residential communities. Amvest Investment Management manages three large residential funds.

**Rick Gijzen | Senior site manager** *Bouwfonds Ontwikkeling*
Bouwfonds Development is active in the development of integral residential communities and small scale multifunctional projects en facilities in the Netherlands, Germany and France.

**Nicole Maarsen | Real Estate** *HAL Investments*
HAL Investments is a Dutch-based private investment company established in 1977. Before joining HAL Investments Nicole Maarse was director at Maarsen Group, a Dutch developing investor, and board member at NEPROM.

**Job van der Veer | Director SDK Vastgoed** *Volker Wessels Groep*
SDK Real Estate is an independent developer active in the South of the Netherlands. SDK is a subsidiary of VolkerWessels and operates at their own risk and expense.
Public sector:

**Bob van der Zande | Housing director OGA Amsterdam**
The Development company of the municipality of Amsterdam is responsible for the realization of the public objectives concerning urban- and real estate development. Bob van der Zande is responsible for the housing direction in the city region Amsterdam Almere.

**Edwin van den Heuvel | Advisor urban development Municipality Tilburg**
As advisor Real Estate and Urban Development for the Municipality of Tilburg, Edwin van den Heuvel has been involved in various complex inner city redevelopment projects.

**Niels Sorel | Researcher, Planbureau voor de Leefomgeving**
The Planbureau voor de Leefomgeving (PBL) is a national institute for strategic policy analysis in the field of spatial planning, nature and milieu. Niels Sorel is the main author of the recently published report on the financing of public facilities in organic urban development projects.

Academics and consultants:

**Geurt van Randeraat | Director Master City Developer (MCD)**
The MCD is a post university master degree in urban development. Next to his activities as director and program manager at MCD, Geurt van Randeraat is founder-owner of the consultancy SITE Urban Development.

**Erwin Heurkens | Assistant Professor Delft University of Technology**
As assistant professor at the department of Real Estate & Housing Erwin Heurkens is responsible for Bachelor and Master education in the field of urban development. In 2012 he published his phd-research on ‘Private Sector-led Urban Development Projects’.

**Johanneke Mulder | Senior management consultant Twynstra Gudde**
As senior management consultant Johanneke Mulder has been involved in the management of various urban development projects. Today Mulder is involved in the urban development project Rijnhaven in Rotterdam, together with Grontmij.

**Jan Nijhof | Division director Planning & Design Grontmij Nederland**
Grontmij is the third biggest advisory and engineering company in Europe. The multidisciplinary business line Planning & Design is focused on initiating, managing and engineering of spatial developments.

**Norbert Bol | Director Grontmij Capital Consultants**
As independent advisory Grontmij Capital Consultants (GCC) provides best in class real estate investment advisory to institutional investors. Next to his activities as director of GCC, Norbert Bol is associated to the TiasNimbas Business School as associate professor.

**Nicolaas Veltman | Development manager Grontmij Nederland**
Grontmij is the third biggest advisory and engineering company in Europe. As development manager Nicolaas Veltman is involved in concept development and process management of urban development projects.

**Boy Wesel | Senior advisor Grontmij Capital Consultants**
As independent advisory Grontmij Capital Consultants (GCC) provides best in class real estate investment advisory to institutional investors. Boy Wesel is the first analyst of the one of the CIM funds.

10.1.2 Structure and discussion subjects

While planning the structure of the panel discussion the size and the broad variety of experts had to be considered. Assessing the relevance of the learned lessons by an expert discussion was initially planned as an additional step in the research. As such it is subordinate to the in-depth case studies. Taking the interests of Grontmij into account to be able spread the research findings as business proposition for
Dutch urban development, it is decided to assess the relevance of the lessons learned in an open discussion structure. Moreover, regarding structured assessment of research findings on relevance, an expert discussion is less useful than for instance interviews. Therefore an open structured panel-discussion is planned.

The expert meeting has been divided into two phases. First the case study findings are presented to the panel based on the cross case analysis. This presentation incorporated the profiles of both American developing investors, both urban development projects, and the conclusions regarding the community oriented investment strategies and the case-related urban development strategies. The second phase of the meeting involved the expert discussion based on propositions derived from the research findings. Planning an open structured panel discussion, four propositions were prepared which would cover the broad scope of the case study findings. Eventually only the following two propositions were to be discussed by the panel in over an hour of discussion time;

“Which aspects of the cohesive investment strategy regarding the selection of urban communities are valuable for implementation in the Netherlands?”

This proposition has been further substantiated by the following aspects of the cohesive community oriented investment strategy;

- Focus on dense urban communities in socioeconomic and demographic top regions;
- Orientation on urban communities with a dysfunctional real estate market;
- A large investment potential within the community;
- Activity of multiple private actors in within the redevelopment of the community;
- Multi-sectoral and community oriented investment approach;
- Public and civic support for the redevelopment of the community.

“Is an ‘integrated community development’ approach ‘American style’ achievable in the Netherlands?”

This proposition has been further substantiated by the following aspects of the community oriented approach of the American developing investors;

- Private pre-investments in network, community building (software);
- Private pre-investments in urban management (orgware);
- Private sequel investments in multi-sectoral real estate (hardware);
- Transparent and community specific public investment policy (cultware).

10.1.3 Expert discussion

During the expert meeting, it proved to be hard to steer the discussion. However, probably due to the composition of the panel and the interest of the participants in the study, the panel single-handedly led the discussion along the mayor barriers for the implementation of the American approach in Dutch urban
development practice. In this section the conclusions of the discussion by the expert panel are described thematically.

**Developing investors in The Netherlands**

The contextual and theoretical analysis, described in chapter 2 and 3, showed the amount of developing investors active on the Dutch development market has drastically decreased. This is due to the trend in the investment sector to focus on the core businesses. As such, most (institutional) investors have repelled their development activities. However, as described in chapter 3 (see section 3.1.1) the positive effect on returns of combining real estate development and investments are clear. Only a few developing investors are still active in The Netherlands, including Amvest. Still, the panel discussion showed that it is still assumed within the Dutch public sector that separated development and investment is more profitable and more efficient. According to Wim Wensing (Amvest) developers and investors are establishing closer relationships. This confirms the image outlined in chapter 2.

**Focus on local communities**

According to the private actors in the panel, Dutch real estate investors do incorporate economic and demographic criteria equivalent to the American investors for the selection of urban regions for potential investments. However, most investors do not focus on specific types of communities within these urban regions. Moreover, most of the former Dutch developing investors showed their presence almost through all of the Netherlands, but not specifically on the community as local investment market. Dutch investors are still focused on the investment asset, rather than generating value in a community. Prioritizing specific kinds of urban communities within the investment strategy is uncommon for Dutch private investors, and this orientation on communities is a potentially valuable approach, as institutional investors are searching for unique investment opportunities. Nevertheless, it should be considered that on urban scale the Netherlands is hardly comparable to the United States.

**Cultural differences on institutional public and private roles**

One of the recurring themes in the panel discussion was the cultural differences between the United States and the Netherlands. Nicole Maarsen mentioned the lack welcoming success of competitors in Dutch culture. Distrust between private actors and the disability to learn from a successful competitor hinders parallel activities of different private developers in one community. Apparently the private sector in the US does not fear competition. Moreover, they seem to benefit from the increase in private interest in an area. Another discussed cultural difference concerns the ownership of the spatial challenges. Rooted in Dutch culture, the public sector is seen as the problem owner concerning urban development tasks. According to Bob van der Zande, public residential director, the collectivity of both public and private actors is lacking in Dutch urban development projects.
Political instability and inconsistent public policy on State and local level

One of the main points of concern discussed by the panel is the political instability and inconsistent public policy on both State and local level. The new Housing Act (Dutch: nieuwe Woningwet) incorporates long term uncertainties which hinder long term commitment of Dutch real estate investors. But also on local level public policy is inconsistent regarding for instance public ground lease arrangements. According to the experts local authorities should prioritize urban development projects for the long run, and as such transparently provide public support. Consistent and transparent public governance is required to limit the risks of urban development for the private sector.

Flexibility in urban planning

The characterizing flexibility in planning and regulations of urban development projects in the US is a delicate topic in the Netherlands. Indeed, over the last years, Dutch urban planning and regulations have become more and more flexible and oriented on private sector objectives. However, the panel discussion made clear that still to many public preconditions are imposed. According to Erwin Heurkens (TU Delft) these preconditions are based on the so-called wishful thinking by the public sector. Too much emphasis is on what developments are wished instead of what is feasible in current market conditions. These public preconditions block initiatives from the Dutch private sector.

Sense of urgency

The last relevant theme of discussion is the sense of urgency for redevelopment in the Netherlands. First of all, urban redevelopment and transformation is hampered by property owners, mainly foreign investors, who apparently do not care about the vacancy of their commercial real estate or deterioration in the area. Additionally it is questioned whether land conversion in potential urban redevelopment communities is financially attractive enough. The Binckhorst, a community in The Hague, is mentioned as example in which the current use still functions well. Hence, potential capital gain from transformation is too low. As mentioned in chapter 5, this is also based on a difference in planning culture. Whereas in the US urban sprawl is restricted and thus the potential capital gain of brownfield and greenfield developments more level, Dutch planning policy has not restricted greenfield development, which has resulted in urban redevelopment to be less attractive. Both the sense of urgency and the potential capital gain in urban redevelopment projects might be an impediment for the implementation of the American investor-led community redevelopment approach in the Netherlands.
10.2 Conclusions

Based on the output of expert panel discussion we can draw some conclusions regarding the relevance of
the lessons learned for the Dutch urban development practice. Firstly the main opportunities based on the
experts opinions are described. Thereupon the main barriers according to the expert panel are pointed
out.

*Opportunities for Dutch urban development practice*

According to the expert meeting, one of the main opportunities of the American community oriented
investment strategies lies in the focus of the developing investor on bounded communities rather than
fixating on the real estate object. As such, the developers optimize their returns on real estate
investments by anticipating on the indirect returns as the value of the community increases. As Dutch
institutional investors are looking for unique investment opportunities, the redevelopment of inner-city
communities might be a valuable approach. Another opportunities lies in the double role that the
American developing investors have adapted. The bottom-up approach, comprising the integration within
the community, an active role in urban management and capacity building amongst the public, private and
civic, enables the optimization of returns but also allows the investor to signalize investment opportunities
and create a market. Also the attitude of the developing investors regarding successful competitors is
considered valuable by the panel as the Dutch private actors are commonly competition averse.

*Main barriers in Dutch urban development practice*

As mentioned in the section above, the expert panel discussed the main barriers for the implementation
of the American investor-led redevelopment approach. Political instability and inconsistent public policies
form a mayor barrier for private sector initiative in urban development. Although political stability and
consistent public policy cannot be provided overnight, some Dutch municipalities already set the a good
example of transparent planning policy. Moreover, if the sense of urgency is high enough urban planning
policy is more likely to change. Though it is the question whether the current sense of urgency is high
enough. The panel discussion showed that the cultural differences between the US and The Netherlands
most probably hamper the implementation of the American investor-led redevelopment approach.
Breaking down cultural barriers is hard and timely. However, in chapter 2 we described that the cultural
values in the Netherlands are subject to change and as such, these barriers can be seen as opportunities
as well. Nevertheless we should consider the lack of developing investor in the Dutch private sector, as it
is still assumed that separated real estate development and investment is more efficient.
conclusions.

This research aims to provide useful insights in how American developing investors are committed to urban redevelopment projects, in order to learn lessons for the Dutch urban redevelopment practice. As such, we studied the investment strategy of two developing investors, and the urban development strategy as public private effort by which means the investment strategy is deployed for the purpose of the redevelopment of the subject community. The extensiveness of this research is reflected in all the discussed issues in the foregoing chapters. In this chapter we aim to formulate a concise general conclusion by answering the main research question in the first paragraph. Furthermore, this chapter provides recommendations for further research, which are discussed in the second paragraph.

11.1 Answering the main research question

The main research question we aimed to answer by means of this study is;

“What lessons can be learned from community oriented investment strategies applied by American investing developers for Dutch urban development practice?”

As it is rather a broad research question, the following answer is broken down into themes that correspond to the structure of this research report. First the main lessons learned regarding the community oriented investment strategy are described. Subsequently, the lessons regarding the urban development strategy are provided. Thirdly the level of commitment from the developing investor to the urban redevelopment projects are discussed. Then, some brief reflections are provided on the typology of the urban redevelopment processes. Lastly the relevance for the Dutch practice is discussed based on the opportunities and barriers for the implementation of the American community oriented investment approach.

Community oriented investment strategies

This research studied the community oriented investment strategies of two developing investors; CIM Group, a fund manager financed by institutional capital, and Vulcan Real Estate, a privately financed developing investor (see sections 6.2 and 7.2). Characterizing of both investment strategies is the core business of real estate management and development within a comprehensive vision on the redevelopment of communities. Both CIM and Vulcan are long term committed to incremental urban redevelopment projects as their emphasis on local market knowledge, exploiting an intensive public private and civic community network, and capturing the value increment of the community, allows them to optimize both their direct and indirect financing returns on their managed and developed real estate assets. Integrating in the public private and civic network of the community is an essential part of the deployment of their community oriented strategy and reflects the bottom-up approach that is a deliberate part of their investment strategy. However, the deployment of this comprehensive community oriented investment strategy requires a multidisciplinary organization in which vast knowledge regarding multisectoral real estate development and management are coalesced. Moreover, the financial structure
of the investor should allow flexible allocation of real estate sectors as serving (local) market demand is considered more important than sectorial diversification. Additionally the cross case study showed that a privately financed developing investors, such as Vulcan, is able to exploit its perseverance as it is relatively less dependent on yearly outperforming the benchmark of financial returns compared to a fund manager financed by institutional investors.

Urban redevelopment strategies

The second analytical phase comprised studying the way these investor-led community investment strategies are facilitated by the urban redevelopment strategy. Enabling private initiative is deeply embedded in the urban development strategies of both the Hollywood and South Lake Union redevelopment projects. This is reflected in the community development plans and regulations which are more about flexible objectives rather than restrictive conditions. This is an essential requirement for private initiatives based on the changing market demands. Additionally in urban planning regulation and documents the emphasis is on private real estate development rather than integral urban planning. However consistent guidelines concerning the urban design steer on spatial coherence and simplify the permit application process for the private sector.

In terms of roles the public actors are mainly dedicated to facilitate and stimulate private developments. This facilitating role is deeply rooted in American culture and is also due to the lack of sufficient public investment capacity. Real estate development is an almost exclusively private sector matter as they are the main provider of the resources land, capital and knowledge. However, both Vulcan and CIM break with the common American culture focusing on the integration in the community based on vision that exceeds the project-level. As such, these developing investors are also involved in capacity building and urban management in the redevelopment of the community.

Characterizing is the lack of long term formal public private agreements or partnerships on community-level. As such, the development and planning risks for the private sector are limited to the usual project level. Nevertheless, without public private partnerships, the financing of public amenities within the community is complicated. In both cases, public private negotiations on development agreements are utilized to generate private contributions for the realization of public amenities in the community. The developer either contributes financially or by implementing public amenities within its projects. In the case of Seattle this room for balancing private financial benefits, by widening the local zoning restrictions, to societal benefits, such as contributions to the realization of a public park or social housing, is formalized in a base and maximum zoning ordinance. Although these cases lack formal public private partnerships, the public and private sector do cooperate on an informal basis. Public and private objectives are continuously aligned on either community or development level. Moreover, the case study showed private sector involvement in the planning process.
Private commitment to redevelopment strategies

Abstractly the role of the private actors subject to this study can be considered as the director of the real estate development and management within the community. At urban level, no binding long term agreements are made between the public and private parties. However, the comprehensive orientation on the whole community of both CIM Group and Vulcan Real Estate seems rather uncommon in a culture in which the emphasis is more on project development. This brings us to the commitment of both developing investors. The case study showed that without formal public private agreements on community-level, the commitment of the developer is strongly tied to the market conditions. Whenever the market conditions affect the risks of development projects and investments, both CIM and Vulcan suspend further redevelopment activities. As such, one could have its doubts at the urban development force of these community redevelopment strategies. The hard commitment of CIM is even further weakened as it is able to shift its focus on many other selected communities. On the contrary Vulcan is quite strongly tied to the SLU community due to its extensive land possessions. But their role in the redevelopment projects is not limited to the top-down real estate developer and manager.

CIM Group and Vulcan are more closely tied to the community redevelopment projects in another way. As mentioned above, the integration into the community is key to the effectuation of their investment strategies. We argue this role can be considered a form of soft commitment. Both developing investors benefit from the increase in quality of the community, both increase in quality of the real estate, as the societal value gain. As such, both CIM and Vulcan are focused on capacity building amongst public, private and the local civic society. They are actively involved in the marketing of the area. But above all, they are willing to contribute to public objectives on community level, either by financing the management and security of the public spaces, or by financial contributions or private construction of public amenities. It is this investor-led bottom-up approach that might be valuable for Dutch urban redevelopment projects and in particular the role of the Dutch developing investor.

Typology of the studied redevelopment processes

As this research aims to learn lessons for the Dutch practice of urban redevelopment, it is important to consider how the studied redevelopment projects would be typified from the Dutch point of view. As described in the theories (see section 3.1.4) two extreme urban development approaches are recurring in Dutch practice and theory; the integral and incremental approach. Based on the distinction by Buitelaar et al. (2012) both studied urban development cases are exemplary for the incremental urban development approach. Characterizing is the focus on small scale developments within a strategic plan. The emphasis within the organization is on the process while the role of the government is mainly a facilitating one. Development and management are not sequential matters, and multiple private developers and investors are involved. Based on Heurkens (2012) these forms of urban development can be considered as private realization. However, the government is involved in initiation, planning and design, realization of public amenities etcetera. Typically for American planning culture, the emphasis is more on facilitating real
estate development rather than urban planning. In terms of Mintzberg’s (2007) forms of strategy these urban development strategies are formed based on patterns and perspective, whilst in Dutch urban practice the emphasis is more on strategies as a plan and tangible position. Moreover, public regulation is based on criteria which provide room for adaptation to private objectives. Formal negotiation between public and private sector mainly takes place at project level. As such, one could argue these cases concern real estate development rather than urban area development. However, both public and private have a redevelopment vision on community level. Besides, the developing investors subject to this research are involved in urban management and the realization of public amenities within the community. Hence, we state these cases indeed are exemplary forms of incremental urban development. As the emphasis is on real estate development, the studied processes are able to accommodate the interests of the developing investors.

Opportunities and challenges regarding Dutch urban development practice
According to the expert panel, the opportunities regarding the American community oriented investment strategies mainly concern the comprehensive focus on bounded communities and the bottom-up approach implemented in the investment strategy. Institutional investors in The Netherlands are looking for unique investment opportunities. Optimizing both direct and indirect returns by focusing on communities may offer perspective for the Dutch market. The dual role by the private actors resulting from the bottom-up approach, which concern the integration within the community, capacity building amongst public and private and an active role in the urban management of the community, is considered an interesting approach for the Dutch private sector. Furthermore, according to the panel the American culture in which the investor seems benefit from a successful private competitor in the community is remarkable as Dutch private actors tend to begrudge each other the light in their eyes.

However, the differences in culture might just be the biggest barrier for a successful implementation of the American community oriented investment approach. Thereby, political risks and inconsistent urban policy on both State and local level hamper the long term commitment of the private sector. Moreover, the excess of hard conditions regarding what is to be built, resulting from public wishful thinking, limits the impedes private sector initiatives. Furthermore, very little developing investors are active in The Netherlands with the in-house knowledge required for the deployment of such an investment strategy. In contrast to what research shows (see section 3.1.1) it is still assumed within the Dutch private sector that separated development and investment is more efficient and more profitable. Besides, the emphasis of Dutch investors is more on the building as investment object rather than the community. Finally, it proved questionable whether or not the sense of urgency concerning the redevelopment of Dutch communities and the potential return on land conversion in these areas are high enough for this investor-led redevelopment approach.
11.2 Recommendations for further research

Reviewing the research findings, my experiences and regarding the limitations of this research project we can formulate the following recommendations for further research:

Aligning theory to practice
Although pushing at an open door, it should still be stressed that theory and practice in urban development should be better aligned. As conducting this research at a graduation company I experienced the gap between the theory and practice as I lacked practical knowledge on the one hand. On the other hand the professionals were not familiar with the recent theories on urban development. It proved hard align conceptual theoretical models to the practical knowledge. This is not remarkable as of course this research aimed to contribute to the alignment of theory and practice. However, the urban development field of research has to cope with the rapid changes in urban development practice. Hence, further research is welcomed.

Dutch Real Estate Investment sector
As mentioned above, the cultural difference between the United State and The Netherlands are rather significant. This research studied a specific approach of urban redevelopment in which the investor plays a central role. Due to its limitations in time, this study has only been able to study the relevance of the lessons learned abstractly in an expert meeting. A better insight is needed in the investment strategies of Dutch investors to specifically assess the possibility and probability of the implementation of community oriented investment strategies. What are the motives for Dutch investors to whether or not be engaged in development activities, and to whether or not be focused on specific communities? What are the main objectives of the Dutch investors regarding the Dutch Real Estate sector?

Financing public amenities
This case study showed an alternative business model of financing public amenities. Financing public amenities is an important issue of discussion in current urban development practice (see Sorel et al., 2014), as in the studied American cases which lacked formal public private partnerships or agreements on community level. This research showed that private financial contributions can be negotiated on development level. However, this form of financing proved hardly feasible in The Netherland from legislative perspective. This research described another public financing tool for redevelopment projects: Tax Increment Financing. However, as discussed in section 9.3, it is questionable whether or not TIF can successfully be implemented in the Dutch context. However, if urban redevelopment without public private agreements on community level is to be applied, we should study alternative ways of financing public amenities in The Netherlands.
Community oriented real estate investment fund

In The Netherlands a view on urban development funds (Dutch: gebiedsfonds) prevails that does not align the actual practice. This has been shown by Stumpel (2014) who argues public and private interests and investment capital are not likely to be united in a urban development funds. Furthermore, the community oriented funds under management of CIM Group, are not to be confused with the urban development funds, as the CIM funds are not bonded to a single urban development project. As such it anticipates on risk diversification and geographical variances in market cycles. However, this approach enables the use of institutional capital for redevelopment purposes. More insights are needed the scale on which this approach would be deployable. The Dutch real estate market is quite homogenous, including little autonomous regions and as such little geographical diversification benefits. Would it be possible to pool European institutional capital in a fund for urban redevelopment? And in what ways could public funds be coupled to private investments funds to stimulate urban redevelopment?
In this section some reflections are made on the research findings and the graduation process. In paragraph 12.1 a reflection on the scientific and societal relevance is made in retrospect regarding the experiences of this research. The next section comprises my reflections on the research methodology and the validity of the research results. Lastly some reflections are provided on the process of conducting a research at a graduation company.

12.1 Scientific & Societal relevance

12.1.1 Scientific relevance

In the research proposal we described that Dutch planning and development culture is more and more influenced by Anglo-Saxon values (see section 1.2.1 and section 2.3). Hence, there is a growing emphasis toward the private sector (Heurkens, 2012). Furthermore, in the debate regarding the future of Dutch urban development practice, the investor is mentioned as a central actor in the development process (Peek, 2012). However, theory still lacked scientific knowledge regarding the alignment of the investor’s objectives and strategies to urban development projects. This research project proved that from scientific perspective, there is still a gap between real estate investment and urban development theory. Real estate investment theories are mainly focused on real estate investment on building or project level. This includes integral urban development projects. However, that type of projects can be considered as a project. Still, theory on the role of the investor related to long term urban redevelopment processes is lacking. As such, this research has contributed to the scientific knowledge on the role of investors in urban redevelopment, and on strategies from developing investors. Additionally, but equally important, this research has provided insights in alternative urban redevelopment strategy in which no formal public private partnerships are established on community level. Public and private steer the urban redevelopment process based on an informal public private partnership. In theory this process is considered full private sector-led real estate development (see section 3.2.4). However, this research showed it can still be considered a form of urban development and contributes to the urban development theories by identifying the roles, financial and regulatory aspects of this approach. Furthermore, regarding the scientific relevance, the research findings can be considered preliminary concepts due to the explorative character of this study. More research is definitely needed on the implementation of such investment approaches in the Dutch context.

12.1.2 Societal relevance

As stated in the research proposal, the economic and debt crisis, and the financial crisis in the public domain have affected the context of urban development in The Netherlands. According to several authors (see Peek, 2012, Praktijkleerstoel Gebiedsontwikkeling, 2011b) these new conditions should be considered structural. As such, it is in the societal interest to study new models of urban redevelopment in which the public sector lacks resources and the emphasis is on the private sector. Hence, this research
provided valuable insights in investor-led urban development. To assess the implementation potential of this urban redevelopment approach in the Dutch urban development context, more research is needed. On the other hand, according to the expert panel it is questionable whether the ‘sense of urgency’ is high enough. From that perspective, one could argue that our redevelopment projects are not blighted enough for a private sector-led approach, and as such could be considered irrelevant. To reflect on the societal relevance it is also interesting to turn around the main research question; ‘What is the use of a long term commitment of developing investors to urban redevelopment projects?’ This research studied the role of two investors in urban redevelopment projects. One of the main findings is that the organization of the urban development project lacks public private agreements or partnerships. As such, one could consider the studied projects as cases of multiple single real estate developments which do not relate to each other, other than that they are realized in the same community. However, this study showed that the commitment of both investing developers result in a role in which is actively involved in the capacity building and urban management. The case study showed that the investors are willing to contribute to the public amenities within the community as they anticipate on value growth on urban level which is captured by their multiple investments in the community. Hence, the long term committed developing investor is actively steering towards the redevelopment of the community and is willing to contribute to public amenities in the community. This role is not to be expected from an investor which emphasis in on the single building as investment asset. Thus, when public resources are limited, this community oriented investment approach can be considered relevant as urban redevelopment approach.

12.2 Methodology: reflections and validity

12.2.1 Research methodology

Initially this research has been set up as both an explorative and descriptive research, aiming to describe different forms of investor-led urban development. It incorporated a broad analytical research model which is not framed by hypotheses. The research project aimed to explore and describe two cases of investor-led urban development in order to learn lessons for the Dutch urban development practice. In this section some reflections are made on the applied research methodology in relation to the field of urban development, the applied analytical research model and the relation between this research and design.

Methodology in relation to Urban Development

As described in section 12.1, the urban development field of research is a relatively young one and features a gap of understanding between theory and practice. Furthermore, the field of urban development is characterized by its multidisciplinary character. However, this study showed there is still a lack of understanding between the different disciplines. As such, qualitative case study research is a relatively often applied research methodology to contribute to the body of knowledge and understanding of divergent urban development processes. Moreover, urban development is characterized by its wide
variety of approaches. No project is exactly the same. As such, it is hard to quantify data and processes, which explains the emphasis of this study on qualitative research methodologies and case study research in particular.

**Analytical Research Model**

The underlying objective of this research is to come to grips with a relatively unexplored phenomenon. As such, a relatively broad analytical research model is used. This analytical model has been the result of an iterative process which did not end at the start of the empirical research phase. Partly due to the gap between theory and practice, it proved hard to develop an effective conceptual research model that is aligned to current practices, only based on a theoretical study. Moreover, the qualitative and explorative nature of this research has led to iterative adaptations to the research objectives. It proved impossible to identify the tangible aspects of the analytical model in a preliminary research stage. As such, the analytical research model is specifically designed for the purpose of this research. Hence, the analytical model is not necessarily suitable for further research. Thereby, the strategies are studied on aspects that have been considered valuable for this research. As indicated in chapter 3, a strategy can include various other aspects that have not been included in this research. As incorporated in the recommendations for further research (see section 11.2) successive studies can and should focus on more specific elements of what has been studied in this research.

**Research in relation to design**

At the faculty of Architecture, a design is the end product of a process in which a problem is analyzed and based thereupon, a solution is drawn and tested. The discipline of urban development is not oriented on physical design solutions, but mainly concerns processes and roles. As explained this research is positioned as explorative and descriptive. Moreover, it has been limited by time, and the limited amount of studied cases hampers stating generic assumptions. Hence, we deliberately choose not to design a conceptual process model for Dutch urban development practice. However, this research contributes to the process of designing future urban development processes and roles. The research has been based on an extensive problem analysis regarding the Dutch urban development practice. In-depth case research provided lessons for the Dutch practice, which have been briefly assessed on relevance through an expert meeting. As such, the research findings contribute to the design of urban development processes in future; either by drawing valuable lessons, or by ruling out assumptions.

**12.2.2 In-depth case study**

The main share of the empirical part of this research comprised the in-depth case study research to two American investor-led urban redevelopment projects. Firstly the cases are analyzed based on the analytical research model regarding the community oriented investment strategy and the urban development strategy. The cases are compared from both perspectives in the cross case analysis. This cross case analysis attempted to find valuable similarities and differences in the two cases. During the
research process we experienced how complicated and timely the organization of an international case study is, as it is dependent on the willingness of the involved stakeholders to be involved in a scientific research. Moreover, this research attempted to provide insights in the investment strategy of private actors who are most commonly not quite transparent on that subject.

Validity

As mentioned in section 4.2, Flyvbjerg (2006) argues that in-depth case study research contains a greater bias towards falsification of preconceived conceptions about the research issue. This is due to the ability to adjust hypotheses and conceptions along the way. As described in the section above, the analytical research model has been adapted continuously to the findings in of the case study research. As such, from this perspective the validity of the research has been safeguarded as the findings and interpretation are not influenced by preconceptions. However, as a researcher I had to deal with the preconceptions of the graduation company regarding the research subject. From time to time it proved hard to safeguard the scientific approach of this research and question these preconception.

Reflecting on the validity of this research we should discuss the Hollywood redevelopment case study. This case has been added to the research at the recommendation of Grontmij as they had already studied the investment strategy of CIM Group, the developing investor involved in the Hollywood case. As such, it limited the independent case selection. Although both cases, and mainly the type of developing investor, do not align on some crucial aspects which hampered cross case analysis, the research methodology has been adapted several times on the two cases. Moreover, it was in the objective of this research to select two extreme cases. However, the validity of the research findings concerning the Hollywood case has been affected as the involved stakeholders, both CIM Group and the main public actors, were not willing to cooperate to a scientific research. As a result, the triangulation of the data gathering was limited. Although I was able to use the observations, analyses, interviews and calls with CIM Group by employees of Grontmij Capital Consultants (GCC), it should be considered this is not direct information, nor fully scientific. However, the GCC can be considered a critical researcher as their business model is to provide qualitative advise to Dutch institutional investors. Furthermore, to safeguard the validity of the research findings, an former employee of GCC who has visited the Hollywood case, has been interviewed.

12.2.3 Expert meeting

In chapter 10 some elaborations are made on the type and the role of the expert panel in this research methodology. Due to the entangled scientific and company interests an open structure has been applied which aimed at triggering a broad discussion regarding the relevance of the American urban redevelopment approach. Due to the open structure of the expert meeting, tangible assessment of the lessons learned on relevance for Dutch practice is at issue. As such, the expert meeting is positioned subsidiary to the in-depth case study research. This explains the positions of the expert meeting results after the empirical lessons and inspiration in this research report.
Validity

Based on the open structure of the discussion the lessons are not specifically assessed on relevance for Dutch practice. Thereby, it is argued that the held expert meeting is not specifically suitable for the structured assessment of the relevance. Therefore, the expert meeting should not be considered a valid assessment of the research results on relevance for Dutch practice, it should rather be considered as a valuable discussion in which the limitations on the implementation of the research findings are explored. As such, the expert meeting provided valid insights in what the valuable leads and likely limitations are regarding the American community oriented approach.

12.3 Graduation company

This section reflects on the process of conducting this research at the graduation company Grontmij and briefly describes the challenges and benefits of graduation in at a company. Ending up as a intern at Grontmij appeared not so surprising. With the company’s slogan ‘planning connecting and respecting the future’ Grontmij already actively was preaching their ideas on ‘Integrated Community Development’ applied by American investors. As Grontmij already has its conceptions concerning the research theme, the research proposal has been adapted extensively to the interests of Grontmij during the first months of the internship. As mentioned above the cooperation with Grontmij has affected the case study selection. Moreover, the conduction of an expert meeting has been incorporated to send out the research results in Dutch urban development practice.

Institutional gap between real estate investment and urban development

This research aimed to bridge the gap between the separate worlds of real estate investment and urban development. Interestingly my role as intern at Grontmij was to bridge the practices of Grontmij Capital Consultant (GCC), an advisor for institutional investors, and Grontmij Stedelijk Gebied, an advisor within the field of urban development. De facto, this proves the gap between the two professions. It proved to be challenging as it I was forced to speak both metaphorical languages, and quite frustrating from time to time as well.

Private sector cooperation

Although it was in the interest of GCC and Grontmij to incorporate a case of CIM Group in this research, this private actor was not willing to cooperate to this scientific study. This proves the closeness of the private sector and formed a major setback within the research process. Firstly the communication to CIM was time consuming. Secondly, conducting a cast study without direct communication with key stakeholders proved to be complex and time consuming. This issue has already been addressed in the section above concerning the validity of the research results.
Incorporating an expert meeting

Another time consuming part of this research was the organization and preparation of the expert meeting. Based on these constraints it was initially dissuaded by the supervisors of the TU to incorporate this additional analytical layer into this study. Furthermore, it proved challenging to safeguard both scientific and company interests within one expert meeting. Although the incorporation of stressed feasibility to hand in the report in time, to my opinion it provided a valuable analytical layer which not only had a positive effect on the societal relevance of the research findings and the gap between theory and practice as it forced me to reconsider the interpretation of the research results over and over again. Above all it provided me a platform to promote the my research findings.

Paradox of this research

Finally the process of conducting this study in real practice, confirmed the existence of the gap between theory and practice in the field of urban development. First of all, the research field is a relatively young one. As such, current professionals are hardly familiar with the prevailing theories. Secondly, current practice is changing so rapidly that scientific research is hardly able to catch up. This brings us to the paradox of this research which aims to align theory to current and future practice, but has to cope with the lack of theoretical grip and understanding in the present field of urban development practice, whilst bearing the risks to be outdated before its published.


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STUMPEL, B. E. 2014. Urban Development Trust: Possibilities and Limitations for Dutch urban development Master, University of Technology.

SWANBORN, P. G. 1996. Case study’s: wat wanneer; hoe?, Amsterdam, Boom onderwijs.


appendix a – hollywood redevelopment case.

This appendix includes the additionally included documents concerning the Hollywood redevelopment case described in chapter 6.

A1 CIM Group’s investments in Hollywood

This table below shows the investments of CIM Group in the Hollywood redevelopment area. The table is based on information retrieved from the website of CIM Group.

<table>
<thead>
<tr>
<th>Project</th>
<th>Fund</th>
<th>Functions</th>
<th>Project type</th>
<th>Status</th>
<th>Acquisition Year</th>
<th>Disposition Year</th>
<th>Total Net. Sqm.</th>
</tr>
</thead>
<tbody>
<tr>
<td>6922 Hollywood Boulevard</td>
<td>FRIT &amp; Other</td>
<td>Office, retail, parking, signage</td>
<td>Upgrading and management</td>
<td>Realized</td>
<td>1998</td>
<td>2012</td>
<td>22.593</td>
</tr>
<tr>
<td>6611 Hollywood Boulevard</td>
<td>FRIT &amp; Other</td>
<td>Retail</td>
<td>Management</td>
<td>Operating</td>
<td>1998</td>
<td></td>
<td>2.961</td>
</tr>
<tr>
<td>7021 Hollywood Boulevard</td>
<td>FRIT &amp; Other</td>
<td>Retail/Parking</td>
<td>Repositioning, Redevelopment, Management</td>
<td>Operating</td>
<td>1999</td>
<td></td>
<td>37.348</td>
</tr>
<tr>
<td>7001 Hollywood Boulevard</td>
<td>FRIT &amp; Other</td>
<td>Retail/Parking</td>
<td>Operating</td>
<td>Operating</td>
<td>1999</td>
<td></td>
<td>6.020</td>
</tr>
<tr>
<td>6410 Hollywood Boulevard</td>
<td>FRIT &amp; Other</td>
<td>Retail</td>
<td>Management</td>
<td>Realized</td>
<td>1999</td>
<td>2002</td>
<td>1.120</td>
</tr>
<tr>
<td>Sunset &amp; Vine Tower</td>
<td>CIM I/II</td>
<td>Residential, Retail</td>
<td>Transformation office to mixed-use</td>
<td>Realized</td>
<td>2003</td>
<td>2013</td>
<td>6.648 resid. 1.070 retail</td>
</tr>
<tr>
<td>Hollywood &amp; Highland Center</td>
<td>CIM I/II</td>
<td>Entertainment, Retail, Leisure</td>
<td>Management</td>
<td>Operating</td>
<td>2004</td>
<td></td>
<td>62.386</td>
</tr>
<tr>
<td>Renaissance Hotel</td>
<td>CIM I/II</td>
<td>Hotel</td>
<td>Management, renovation</td>
<td>Realized</td>
<td>2004</td>
<td>2012</td>
<td>27.277</td>
</tr>
<tr>
<td>1800 Highland Avenue</td>
<td>CIM I/II</td>
<td>Office/Signage</td>
<td>Management, renovation</td>
<td>Operating</td>
<td>2004</td>
<td></td>
<td>8.540</td>
</tr>
<tr>
<td>Seventy46, 7046 Hollywood Blvd</td>
<td>CIM I/II</td>
<td>Residential, Retail</td>
<td>Transformation office to mixed-use</td>
<td>Realized</td>
<td>2004</td>
<td>2013</td>
<td>4.160 resid. 730 retail</td>
</tr>
<tr>
<td>Gershwin Apartments</td>
<td>CIM I/II</td>
<td>Residential, Retail, Parking</td>
<td>Transformation Hotel to Residential (for-rent) &amp; retail development</td>
<td>Operating / Leasing-up</td>
<td>2005</td>
<td></td>
<td>15.760</td>
</tr>
<tr>
<td>7083 Hollywood Boulevard</td>
<td>CIM IV</td>
<td>Office</td>
<td>Management, renovation</td>
<td>Operating</td>
<td>2005</td>
<td></td>
<td>8.130</td>
</tr>
<tr>
<td>6904 Hollywood Boulevard</td>
<td>CIM III</td>
<td>Retail, Office</td>
<td>Transformation from nightclub to office/retail</td>
<td>Realized</td>
<td>2007</td>
<td>2013</td>
<td>2.900 retail 1.560 office</td>
</tr>
<tr>
<td>The Redbury, 1717 Vine Street</td>
<td>CIM III</td>
<td>Hotel</td>
<td>Management, Repositioning</td>
<td>Realized</td>
<td>2009</td>
<td>2013</td>
<td>5.100</td>
</tr>
<tr>
<td>1800 Whitley Avenue</td>
<td>CIM III (??)</td>
<td>Residential (for-rent)</td>
<td>Development</td>
<td>In Development</td>
<td>2010</td>
<td></td>
<td>3.220 32-unit</td>
</tr>
<tr>
<td>Hudson Apartments, 6533 Hollywood Blvd</td>
<td>CIM III</td>
<td>Residential (for-rent), Retail</td>
<td>Management</td>
<td>Operating</td>
<td>2010</td>
<td></td>
<td>4.650</td>
</tr>
<tr>
<td>Sunset &amp; Gordon</td>
<td>CIM III</td>
<td>Residential (For-rent), Retail, Office</td>
<td>Development</td>
<td>In Development</td>
<td>2011</td>
<td></td>
<td>29.100</td>
</tr>
</tbody>
</table>
Interview transcript Gerrit Keij

On Thursday 16th of January, 2014, an interview is conducted from a former employee of Grontmij Capital Consultant. Gerrit Keij has visited CIM Group and some of its selected communities several times. Below the transcript of the interview is included. GK stands for Gerrity Keij, while CS stands for Carlo Sturm.

Interview Transcript

CS:
CIM Group heeft 90 communities geselecteerd om in te investeren. Na selectie begint een vanuit gebiedsontwikkeling belangrijk aspect van de strategie; het integreren binnen een gebied. Wat houdt dat in?

GK:
Ze tracken 90 communities, en hebben er pas in 50 geïnvesteerd. Sterker nog, op dit moment investeren ze voornamelijk alleen in de diepste markten, Chicago, New York en Los Angeles, omdat daar het beste rendement te halen is. Ze zullen pas weer naar Austin gaan kijken of kleinere steden op het moment dat ze in New York niet meer aan de bak komen omdat het aanvangsrendement te laag is, waardoor ze het hoge IRR niet kunnen behalen.

Wat ze heel slim doen, is dat ze 90 markten tracken, en zoals ik het begrijp hoe ze werken, is dat ze kijken naar de investeringscriteria die van tevoren al vast staan. Ze weten in welke wijken ze willen investeren en wat de plannen zijn; zowel core, ontwikkeling of een lening kopen. Op allerlei manieren kunnen ze een positie vergaren. Dan kijken ze ook naar de relatieve waarde, wat wordt er nu betaald voor dat soort vastgoed, en als dat onder de eigen benchmark zit, zien zij het als een kopers markt stappen ze in. Als de markt te duur wordt dan worden ze netto verkopers en gooien ze het bezit eruit.

Wat ze ook heel slim doen, typisch voor een ontwikkelaar, ze nemen soms gewoon ergens positie, en dan gaan ze ook al een ontwikkelloopzoek naar aan met de overheid, of private partij, maar als de markt dan niet mee zit, dan tragen ze met ontwikkelen [red. lijkt in een hollywood boulevard project alsook zo te zijn], als dan blijkt dat de vraag anders wordt, dan proberen ze te heronderhandelen de markt te kunnen bedienen en een beter rendement te kunnen halen.

CS:
Dat is natuurlijk een van de kenmerken van de strategie, dat ze heel veel kennis in huis hebben van de markt en verschillende sectoren.

GK:
Dat doen ze ook met name door heel veel research te doen, ze hebben een heel batterij aan analisten van top universiteiten, IVY league, MBA etc.. En qua contacten op de grond, met overheden, met andere grote investeerders, met brokers, proberen ze echt grip te krijgen op wat er in een lokale markt gebeurd. Dus dat is niet van achter de desk, vanuit Excel, maar dat is ook juist erg op persoonlijke relaties. Dat betekent ook dat ze al heel veel tijd van tevoren moet steken in zo'n omgeving, en dat je dus niet wacht tot een deal die gepresenteerd wordt door een makelaar.

Een goed voorbeeld is een hotel in Los Angeles die ze al veel langer wilden hebben. Eerdere onderhandelingen lukten niet. Ze kenden de markt als, en de assets. Uiteindelijk hebben ze hem gekocht door de lening te kopen van Credit Suisse. Dat geeft ook aan dat ze een goede relatie hebben met banken. Dus via de debt kant kopen ze het hotel met een korting waardoor ze een groot gedeelte van het rendement al in de tas hebben. De eigenaar kon de lening niet meer aflossen en in de VS, anders dan in NL, kun je dan als hypotheekhouder volledig eigendom pakken. Dit kenmerkt de slimme manieren om positie te krijgen.

CS:
Hoe belangrijk is dan de kennis van de lokale markt, want volgens mij trekken ze daar ook experts voor aan.

GK:
Nou in zekere zin welk natuurlijk. Bijvoorbeeld Charles E. Garner is een autoriteit als het gaat om vastgoedbeleggingen aan de oostkust van Amerika. Maar voor CIM is het ook erg van belang dat zij mensen aan boord hebben, in een team op zo'n community, die heel goed begrijpen hoe de investeringsstrategie succesvol toegepast moet worden. Zowel in New York, daar hebben ze wel echt kennis overgeplaatst vanuit het kantoor in Los Angeles. Maar ze zorgen wel voor een goed multidisciplinair team.

CS:
Opvallend dat je net dat voorbeeld van dat hotel aanhaalt, want binnen de Hollywood cases zijn er meer investeringen van CIM waarbij ze een object of project opkopen, voor een lage prijs, van een eigenaar die het management niet op orde krijgt, het niet volledig uit kan leasen, of het project niet van de grond krijgt. Het lijkt alsof CIM op dit soort projecten zit te wachten.

GK:
Ik heb ook wel eens aan CIM gevraagd hoe zijn gezien worden door de markt; als een witte ridder, of als een aasgier. Dat kan eigenlijk op hetzelfde neer komen, je helpt een slecht lopend project weer succesvol te worden. Ook daar geldt, ze zijn soms beide. Soms persen ze een koper uit, en een andere keer houden ze zo'n partij aan boord omdat de partij toch wel wat waarde kan toevoegen; de ontwikkelende partij, of een investeerder die er in zat. Maar altijd met het oogmerk om de return te maximaliseren.
En dat doen ze door te kijken wat daar nodig is op die plek. Voornamelijk rondom de Hollywood Boulevard, daar zijn ze zo dominant dat ze arrogant worden door te zeggen dat ze zelf de markt zijn.

CS: Maar dat is natuurlijk ook onderdeel van de strategie van CIM. Ze focussen op een bepaalde markt, niet alleen zodat ze alle ins en outs kennen, maar ook omdat ze door veel te investeren zelf een kritieke massa ontwikkelen die meer private investeringen aantrekken.

GK: Dat niet alleen, ze investeren natuurlijk ook nog met een core-fund in het gebied. Zodra ze zien dat de markt gaat aantrekken kopen ze met dat fonds panden op tegen een aanvangsrendement van 8%, en daarmee de komende tien jaar de huur innen. Daarbij profiteren ze dan natuurlijk van de waardestijging in het gebied, terugkomend in de waarde van het gebouw.

CS: Tijdens de presentaties van GCC is vaak genoemd dat wanneer CIM een bepaalde community selecteert, ze eigenlijk de belofte doen om daarin te investeren, of tenminste, om te bieden op projecten binnen het gebied. Uiteindelijk is het wel zo dat ze in ongeveer 50 van de 90 communities nog niet geïnvesteerd hebben. Brengen ze dan wel altijd een bod uit?

GK: Dat weet ik niet precies. Zo heb ik het in ieder geval niet mee gekregen, dat ze op alles bieden. Maar als ze voor een gebied kiezen, dan betekent dat het er een investeringspotentieel is. Dus redelijkerwijs zal er in de loop der jaren wel een project op de markt komen waar ze geïnteresseerd in zijn. Ze houden vast aan hun investeringscriteria, dus als een andere partij het op wilt pakken voor een hogere prijs, dan wijken ze natuurlijk gemakkelijk uit naar een andere markt. Daarnaast hebben ze natuurlijk ook maar beperkt kapitaal, het selecteren van een community betekent dus niet dat ze er vanaf dat moment aan gecommitteerd zijn.

CS: En wat betekent dat voor de spreiding binnen het fonds?

GK: Ze weten als opportunisten hun strategie natuurlijk goed te verkopen, maar kiezen natuurlijk liever voor veiligere markten als New York, Los Angeles etc. dan voor een kleine markt in Charlotte. Wat betreft spreiding per sector zie je dat bijvoorbeeld Fund III met name in woningen belegt zit, en Urban REIT voornamelijk in kantoren. Ze hebben dus een multi-sector strategie, maar ze zijn vrij om zelf te investeren in wat voor hen het beste rendement op kan leveren, er zijn geen restricties. Het zijn dus echt ondernemers, ze weten het goed te verkopen aan de institutionele en publieke kant, maar ze zoeken wel altijd de kortste weg naar het hoogste rendement.

CS: Als je CIM zou vergelijken met andere vastgoedontwikkelaars en investeerders. Stellen zij zich binnen zo’n gebied dan ook echt anders op? Zijn zij actiever aanwezig dan anderen?

GK: Het zal voor een deel ook wel marketing zijn, richting de investeerders. Ik geloof wel, ten opzichte van Nederlandse ontwikkelaars, dat ze heel flexibel kijken naar de invulling van het project. Dus dat ze tot op het laatste moment nog bereid zijn om aanpassingen te maken, appartementen groter of kleiner, of meer hotelfunctie etc. Dat ze daar heel handig in zijn, om goed in te schatten wat de markt vraagt, en om dan ook in staat de zijn de plannen er in aangepaste vorm bij de gemeente kant er doorheen te krijgen. Dat doen ze slimmer dan ontwikkelaars in Nederland, of dat voor Amerika ook zo geldt, dat durf ik niet te zeggen. Ze kiezen natuurlijk wel, meer dan andere ontwikkelaars, om binnen kleinere gebieden, geconcentreerder te investeren en ontwikkelen.

In verdere vergelijking met Nederland, die 90 gebieden. Dat kan een ontwikkelaar natuurlijk niet in Nederland selecteren. Die markt is er gewoon niet.

CS: Als we even door gaan op die vergelijking tussen VS en NL. De fondsen in Nederland zijn voornamelijk Single-Sector en Core. Core komt natuurlijk omdat de markt in Nederland anders is, maar er zijn nog ontwikkelaars die opportunistisch ontwikkelen.

GK: Ja dat klopt, de fondsen in Nederland zijn voornamelijk Single-Sector, daarom kan er vanuit een fonds niet in verschillende sectoren geïnvesteerd worden, dat maakt het een stuk minder flexibel. Eigenlijk is de aanpak van Dick Wessels te vergelijken met CIM. (WAT IS DIE AANPAK; BOY VRAGEN)

CS: Hoe staat de kennis die CIM in huis heeft in verhouding tot de Nederlandse ontwikkelaars en beleggers?

GK: Blijkbaar hebben ze ook personeel in dienst dat, tsja, ten eerste bereid is om kei hard te werken. Maar ook ontzettend getalenteerd zijn. En bereid om ben op best wel dirty work te doen als startende hoogopgeleide, zoals gewoon asset-management. Wat dat betreft is het ook wel een andere werk-cultuur.

CS: Maar de structuur van het fonds, hoewel opportunistisch, geeft ze wel de vrijheid om in te spelen op kansen in de markt.
GK: Nou wat ook wel gebeurd bij CIM is dat ze, met name ook in LA, dat de gemeente dan onder hele gunstige voorwaarden een lening verschaft om het project te financieren, of er zelf geldt in stop. Dat is natuurlijk ook een andere manier van publieke financiering die private investeringen aantrekt.

CS: *Legt werking van Tax Increment Financing uit en incentives voor beleggers om te investeren en ontwikkelen in gebieden*

GK: Publiekelijk lag dat daar af en toe ook wel gevoelig. Waarbij journalisten of omwonenden klagen omdat er financieel voordeel naar private equity clubs als CIM Group gaat, dat kan nooit de bedoeling zijn. Het antwoord van CIM daarop is dan natuurlijk dat de grootste aandeelhouder CalPers is, het grootste pensioenfonds, waarmee ze het weer goedpraten.

CS: *Verteld verder over bevindingen uit beide casussen, de onderhandelbaarheid van bestemmingsplannen en de mogelijkheid tot onderhandeling bij publiek investeren. Private sector vervult een andere rol in VS, neemt kosten op voor MER-toetsing, rapportages etc.*

GK: In welke gebieden in Nederland zie jij de CIM aanpak dan worden toegepast? Want uitleglocaties zijn niet echt te vergelijken met de aanpak van CIM.

CS: *verhaal bestaande wijken met vastgoedmarkt uit balans; Binckhorst, Teleport, Overhoeks, Zone Wibautstraat. Vergelijking trend organisch, lange termijn, ontwikkelen in gebieden – dat lijkt op de Amerikaanse oppak, wanneer de er vraag ontstaat moet je daar naar kunnen ontwikkelen*

In zekere zin vraagt de aanpak van CIM en Vulcan een flexibiliteit in je planningssysteem.

GK: En daar is CIM dan ook weer keihard in, ze willen best investeren, maar alleen als het op hun voorwaarden gaat. Anders investeren ze wel ergens anders.

CS: *Weidt verder uit over project bezoek in Seattle en opvallende bevindingen aldaar*

Hartelijk dank voor het interview.

GK: Ja graag gedaan natuurlijk. En als je nog vragen hebt dan hoor ik dat graag.
A3 Questionnaire Los Angeles Department of City Planning

Although the Department of City Planning was not willing to intensively cooperate to this research, they were willing to fill in an questionnaire. On the 13th of November 2013 I received the answers on my questions from Marie Rumsey. The questionnaire, including the short answers in blue by the LAdcp is shown below.

Questionnaire

Redevelopment plan for the Hollywood community

In the midst of the 1980s a plan for the redevelopment of the Hollywood community is established by the Community Redevelopment Agency of Los Angeles (CRA/LA). This plan has been updated in 2003. Property taxes are redirected to the Agency to invest in the community in order to increase local employment, private investments and other objectives. What was the main role of the CRA/LA in the redevelopment of Hollywood, and what were its responsibilities? Who initiated the redevelopment of Hollywood? Was the department of City Planning involved in the establishment of the redevelopment plan? Were private actors, the community, and community councils consulted during the establishment of the redevelopment plan, and how?

The main role was to revitalize Hollywood through the creation of affordable housing and provision of social services. A community advisory committee was formed and the redevelopment area was formed in partnership with the City and the Agency.

Role of the Community Redevelopment Agency

Next to investments into infrastructure, such as the three metro-stations on the red-line, the CRA/LA was entitled to co-create with private actors, such as in the development of the Hollywood & Highland Center. How did those public private partnerships work out? By what other means has the CRA/LA invested in the Hollywood community to generate capacity for private investments?

The redevelopment of the Hollywood community was focused on the stimulation of private investments in the community. One could say the local authorities focused on building capacity for investments by private developers and investors. What were the other objectives of the CRA/LA and the Department of City Planning concerning the redevelopment of Hollywood? How are these objectives translated into development plans and regulations?

The Agency played a large role in land acquisition and provision of capital to develop the parking structure that supports the Hollywood and Highland shopping center. The goal of this kind of public private partnership was to create new tax revenues, jobs and quality retail amenities in area that was lacking.

Dissolution of the CRA/LA

In 2003 the redevelopment plan for the Hollywood community has been updated. Though nowadays the Community Redevelopment Agency is being dissolved. Since the initiation of the redevelopment plan, what has happened in the neighborhood, what improvements are made, and what are the effects from the redevelopment process according to the Department of City Planning? Is the redevelopment a still ongoing process, or did it end with the dissolution of CRA/LA? What was the role of the CRA/LA in this process, and what is the role of the Department of City Planning? Were zoning plans and neighborhood plans aligned to the redevelopment plan?

City Planning is a regulatory agency that has a very different role than the Agency. City Planning can work on plans that will stimulate development in specific areas but do not provide capital or assistance with land acquisition.

Role of the Department of City Planning

What are the main responsibilities of the Department of City Planning regarding the redevelopment of Hollywood, and what are its main objectives? What are the planning tools and means by which the Department of City Planning can influence and control the redevelopment of Hollywood? Are planning tools such as incentive zoning or tax increment financing applied in order to generate private investments in for instance public space and affordable housing? What is the role of the Community Councils in the redevelopment of Hollywood?
City Planning recently developed the Hollywood Community Plan. The Plan provides for future growth, identifies areas for development and recommends a series of implementation recommendations. The plan identifies the need for more open space and affordable and recommends specific initiatives.

The role of CIM Group
Since 1998 CIM Group has invested in 19 assets and developments in the Hollywood community, mainly around the Hollywood Boulevard district (see map below). CIM has invested in different sectors, including commercial, retail, housing and leisure.

Has CIM Group been involved in the establishment of community development plans? How would you describe the role of CIM Group in the redevelopment of Hollywood? How would you describe the relationship between CIM Group and the Department of City Planning?

CIM is a stakeholder that participated in the process of the community plan update. City Planning works with all area stakeholders.