investor-led urban development

“lessons from community-oriented investment strategies applied by developing investors in the United States”
Final research report

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“The key to the future of the world is finding the optimistic stories and letting them to be known.”

This report comprises the final report of the graduation research ‘Investor-led urban development – lessons from community oriented investment strategies applied by American investors’ and is presented on the 9th of April, 2004. 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.

Being the 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. The actuality and impact of these contextual changes 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.

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 has served as a sparring-partner during the graduation process. I do not want to get bogged down in thanking everyone that helped me with- and/or suffered from me graduation though this might just be the right place to express the deepest gratitude to my parents who gave me the opportunity to explore my own directions eventually ending up at the TU Delft. Perhaps it is not so random that this research is about facilitating private initiatives.

Carlo Sturm
April, 2014
# contents (concise).

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This executive summary includes a brief description of the motives, methodology, results, conclusions and recommendations of the research to American investor-led urban development practices.

INVESTOR-LED URBAN DEVELOPMENT

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

C.H.M. (Carlo) Sturm – Delft University of Technology

In Dutch urban development practice the emphasis is shifting toward incremental development processes and private sector-led development. Being long term oriented the investor is commonly considered the central actor in future urban development. However, it insight is needed in how the investor can be committed to incremental urban redevelopment projects. By performing a qualitative in-depth case study this research aimed to learn lessons from community-oriented investments strategies of two American developing investors. By means of an expert panel discussion the main opportunities and barriers for the application of American investor-led redevelopment approaches in Dutch urban development context are identified to indicate the transferability of the lessons learned.

The key findings suggest that by incorporating a comprehensive community-oriented vision in the investment strategy thereby anticipating on future value increment of real estate, long term commitment to incremental urban development projects is valuable for developing investors. The studied investor-led approaches, in which the investor has a leading role in the development process, are characterized by a facilitating government and continuous alignment of public and private interests to changing market conditions within incremental urban development strategies which lack formal public-private agreements on community-scale. Although the application of the lessons learned in the Dutch urban development context is hampered by context dependency based on institutional differences related to the planning systems, and cultural and spatial-economic aspects, these lessons might become valuable in the future as the Dutch culture is subject to change as well.

KEYWORDS: investor-led urban development; community-oriented investment strategies; incremental urban development; urban development strategies; commitment; public-private partnerships.

Introduction

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 mayor role in short-term funding of real estate development, private developers are hardly able to financially secure development projects. Moreover the land possessions have been re-valued due to the credit crunch resulting in a decreased investment capacity of private developers (Praktijkleerstoel Gebiedsontwikkeling, 2011, Van Joologen et al., 2009). Secondly, the ongoing financial crisis in the public sector has led to the decrease of budget for urban development. Many public land development companies suffered major losses on land positions and
urban development projects (Kersten et al., 2011, Praktijkleerstoel Gebiedsontwikkeling, 2011, Van Joolingen et al., 2009). As such, the widely practiced comprehensive urban development approach, comprising ambitious large scale public-private projects has proven to be too risky and unfeasible in current conditions (Hagendijk and Franzen, 2012, Peek, 2011). According to several authors future urban development will strongly rely on incremental development based on market demand. As the focus is shifting toward the exploitation phase of urban areas the long term oriented real estate investor is expected play a central role (Peek, 2011, Peek, 2012, Putman, 2010, Puylaert and Werksma, 2011). Moreover, Dutch urban development practice is subject to cultural changes. According to Heurkens (2009) Anglo-Saxon values are gradually replacing our deeply rooted societal values 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. This conflict raises the question how the investor is able to be committed to incremental urban development projects. Hence, a better insight is needed in how the investment strategy of real estate investors can be aligned to the practice of incremental urban development projects. The main objective of this research is to learn lessons from American investor-led development strategy by providing insights in the community oriented investment strategies, the way in which the investment strategies facilitated by the urban development strategies and the commitment of the investor to the incremental urban redevelopment projects. By conducting in-depth case studies of the community oriented investment strategies of US-based developing investors CIM Group and Vulcan Real Estate we aim to answer the following main research question;

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

**Methodology**

The underlying research strategy is based on lesson drawing from foreign best practices. Drawing 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 triangulation of data gathering by conducting a document review, interviews and site-visits validity of the research findings is safeguarded. 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.

These two perspectives are incorporated in the analytical research framework shown in figure 1. Both the investment- and urban development strategy are analyzed on the same aspects; vision, organization, financial and legal. The relation between both strategies is observed as the commitment of the developer and can be expressed by bilateral pledges and preconditions. Based on a comparative analysis and an expert discussion to identify barriers and opportunities of the studied development approaches in Dutch context, empirical and inspirational lessons are drawn for Dutch urban development practice. Based on context dependent factors concerning cultural, planning system and spatial-economic differences between the US and NL the transferability of lessons to the Dutch is identified.

Theories and concepts

To set a stage to learn lessons from the US investor-led development practices based on the investment and urban planning and development perspective we have described relevant theories and concepts regarding urban development, real estate investment and commitment.

Urban development

The context of urban development practice has changed due to the effects of the economic crisis. Moreover, Anglo-Saxon values are gradually replacing the Rhinelander values in Dutch culture resulting in an ongoing shift toward to private sector. According to several authors (Peek, 2011, Van Joolingen et al., 2009, Praktijkleerstoel Gebiedsontwikkeling, 2011) these changes are to be considered structural. The so-called ‘new reality’ of urban development implies changes in urban development approach, financing, public and private roles and co-operation. In order to provide valuable insights in investor-led urban development practices we have to define the term urban development strategy relation to public-private partnerships.

In urban development functions, disciplines, actors, interests and cash flows are linked in order to (re)develop an area. The public and private domains are due cooperate in order to achieve their own goals (Klijn & Teisman, 2003). In the process of cooperation different inter-organizational arrangements have to be determined and attributed between the public and private actors. Heurkens (2012) defines these inter-organizational aspects are tasks and responsibilities, risks and revenues and, rules and requirements. These aspects which are key to study investor-led urban development strategies are related to the institutional aspects of partnerships; organizational, financial and legal.

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’. 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 patterns, a position or a plan, and can be broken down in the aspects vision, organization, financial and legal.

Investor-led urban development can be considered a type of private sector-led urban development. Heurkens (2012) defines private sector-led urban development as an urban development project in which private actors take a leading role and public actors adopt a facilitating role to manage the development of an urban area. Hence, investor-led development implies that the investor has a leading role in the urban development project.

**Real Estate Investment Management**

During the twentieth century the rationale to invest in real estate has changed from ‘brick and mortar’, in order to house people or businesses, to the ‘financial’ rationale in which real estate is valued based on its financial merits. Driven by the professionalization of the real estate sector in the new millennium the emphasis has shifted toward the ‘cash flow’ rationale (Bol, 2003). Hence, real estate is considered a profitable long term investment. Decision-making of real estate investors is based on investment criteria including the rate of return, risks levels, the investment term and the use of depth capital (Van Gool et al., 2013). Commonly three risk return profiles are distinguished: core (low risks, low returns), value-add, (medium risks, medium returns) and opportunistic (high risks, high returns). The investor manages the risks of its total investment portfolio by diversification in investment classes, risk-return profiles, real estate sectors and geographical allocation. Hence, the risk profile of the investor’s entire portfolio has to correspond to the liabilities of the investor.

Portfolio management is considered the strategic level of real estate management. Regarding real estate investment management portfolio management comprises the decision-making regarding the composition of the managed real estate portfolio. The portfolio management is aligned to the investor’s organization concerning the required in-house knowledge and expertise. Hence, the organizational, financial and legal structure of the investor has to be aligned to its investment approach. A community-oriented investment strategy implies the investor focuses on specific locations in which it intends to invest rather than focusing on specific real estate sectors to invest in.

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 combining development and investment changed at the end of the 1980s based on the trend to focus on the core business. Hence, many institutional investors started to repel their development activities. However, according to Van Gool (2013) a growing interest in the performance of real estate is to be observed due to the financial. Moreover, according to Brounen and Eichholtz (2004) developing investors still perform significantly better than investors. Maarsen (in Bijsterveld and Laverman, 2011) argues that developing investors can thus obtain a larger role in future urban development practice based on their long term interest and local market knowledge.

Commitment
One of the main research objectives of this research to provide an insight in the commitment of the investor to incremental redevelopment projects. Commitment can be described as the linkage of extraneous interests with a consistent line of activity (Becker, 1960). However, the term ‘linkage’ remains vague. This is reflected in the divergent definitions of commitment, ranging from a pledge to engagement. In relation to management measures described by Heurkens (2012) we can distinguish hard commitment, related to land and capital as management measures, and soft commitment, related to negotiation, stimulation and capacity building.

Practices
In this research we studied two cases of investor-led urban development. The Hollywood- and South Lake Union redevelopment projects are described briefly.

CIM Group – Hollywood redevelopment
CIM Group is a fund manager of several real estate and infrastructural investment funds which are financed by institutional investors. Initially its business was based on the objective to reinvest pension capital from CalPERS 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 land lord 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.

**Vulcan Real Estate – South Lake Union redevelopment**

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 existing zoning. At that time, more private actors were active in the redevelopment of the 140 hectare brownfield. However, the attitude of the local planning authority, the Seattle Department of Planning and Development (SDPD) was quite reactive. Not until the credit crunch were both public and private actors 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 in public private cooperation including the Local Improvement District. Besides 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.

![Figure 2 – South Lake Union © Studio/216](image-url)
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.

**Investment Strategy**

The comparative analysis showed that both developing investors are involved in the redevelopment of a community characterized by a dysfunctional real estate market in a demographic and economic potential area. Hence, community provides enough potential for value gain by transformation and redevelopments. Both developing investors have incorporated a comprehensive vision on the redevelopment of a community in their investment vision. By their investments both CIM Group and Vulcan aim to restore the local real estate market by aligning their investment to the local market demand. By integrating in the local network of organizations, businesses and individuals the developing investors are able to signal investment opportunities or potential tenants in an early stage and to build capacity for redevelopment activities. Both organizations are characterized by multidisciplinary in-house knowledge and expertise required to be able to facilitate changing market demand and to be involved in all facets real estate development, management and urban planning. Nonetheless, 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. From legal perspective CIM Group is relatively more liable to its capital providers compared to Vulcan. As such, one could assume Vulcan has a greater staying-power in terms of holding strategic land positions without generating a cash flow.

<table>
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<th>Urban Investment Strategy</th>
<th>CIM Group</th>
<th>Vulcan Real Estate</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Vision</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Initial objective</td>
<td>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><strong>Organization</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Knowledge</td>
<td>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></td>
<td></td>
</tr>
<tr>
<td>Structure</td>
<td>Various investment trusts</td>
<td>Own real estate portfolio</td>
</tr>
<tr>
<td><strong>Investment Capital</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Risk-return profile</td>
<td>Core &amp; Opportunistic investment funds</td>
<td>Opportunistic development, but long term core investments</td>
</tr>
<tr>
<td>Legal</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Legal structure</td>
<td>Limited Liability Partnership; Low influence of capital providers</td>
<td>Limited Liability Partnership; Owner/Private capital provider</td>
</tr>
<tr>
<td>Dependency</td>
<td>Outperforming benchmark</td>
<td>Market conformity</td>
</tr>
</tbody>
</table>

Table 1 – Comparative analysis of community oriented investment strategies
Urban Development Strategy

Both urban development strategies are characterized by the incremental development approach in which the emphasis is on stimulating private investments and aligning public and private objectives to changing market demands. Besides real estate development and management, the developing investors are involved in negotiating and capacity building, but also in the management of public space and amenities via Business and Local improvement districts. However, whereas Vulcan can be considered the initiator of the redevelopment project, CIM Group only gets involved when there is enough public and private support for redevelopment. The role of the local authorities can be regarded as facilitation. In both incremental redevelopment projects no formal public-private agreements are made on community-scale. Hence, recovery of costs for public amenities has to be derived in other ways. In both Hollywood and South Lake Union private contributions are negotiated on development agreements. In return for adaptations to the local zoning, private actors contribute financially or by incorporating public amenities in their development plans. Additionally local authorities can rely on budgets from TIF-programs. From legal perspective the studied urban development strategies are characterized by the clear prioritization of urban redevelopment projects, resulting in public support. Moreover, development objectives are translated into objectively measurable goals in planning documents.

<table>
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<tr>
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<th>Hollywood</th>
<th>South Lake Union</th>
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<tbody>
<tr>
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<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>Market</td>
<td>market-led</td>
<td>market-led</td>
</tr>
<tr>
<td>Organization</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>Financial</td>
<td></td>
<td></td>
</tr>
<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, TIF</td>
</tr>
<tr>
<td>Legal</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>
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<td>Urban plan</td>
<td>Community plan</td>
<td>Urban Design Framework</td>
</tr>
</tbody>
</table>

Table 2 – Comparative analysis of urban development strategy
Empirical and inspirational lessons for Dutch urban development practice

To be able to learn lessons from the studied US practices we have identified the main barriers and opportunities for the application of the investor-led redevelopment approaches by means of an expert panel discussion. Based on these insights and the in-depth case study research the following empirical and inspirational lessons are drawn.

<table>
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<th>NL</th>
<th>VS Cases</th>
<th>Lessons, inspiration &amp; preconditions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investors mainly oriented on building scale.</td>
<td>Community as investment market – anticipating on value growth community by redevelopment.</td>
<td>By incorporating comprehensive community thinking into investment strategy, and anticipating on capturing value increment of the community, long term commitment to incremental redevelopment is considered valuable.</td>
</tr>
<tr>
<td>Investment sector characterized by specialization instead of broad scope.</td>
<td>Involvement in public, private and civic community network.</td>
<td>The integration within the local community provides the developing investor the ability to optimize the returns on real estate based on the local market knowledge (direct) and capacity building (indirect).</td>
</tr>
<tr>
<td>Mainly single sector real estate investment funds.</td>
<td>Full service organizations, multifaceted real estate development &amp; management, and urban planning.</td>
<td>Multifaceted in-house knowledge in a multidisciplinary organization are required to be able to anticipate on the local market demand and to steer the redevelopment process.</td>
</tr>
<tr>
<td>Financial</td>
<td>Financial structure which allows flexible allocation of investments in terms of real estate sectors.</td>
<td>Multifaceted and flexible allocation of investments allow the investor to anticipate on changing local market demand.</td>
</tr>
<tr>
<td>Legal</td>
<td>Ability to freely invest in any sector or location.</td>
<td>Limited restrictions on sector- and geographical allocation to be able facilitate market demand.</td>
</tr>
</tbody>
</table>

Table 3 – lessons, inspiration and preconditions regarding US community oriented investment strategies

Lessons regarding investment strategies

Instead of focusing solely on the real estate assets as investment objects, both American developing investors have incorporated a comprehensive vision on community redevelopment in their investment approach. Although in a different way both Vulcan RE and CIM Group anticipate on future real estate value increment in the community due to redevelopment activities. Whereas Vulcan acquired a strategic land position, CIM Group aims to build and invest toward a critical mass that will restore the local real estate market resulting in higher real estate values. Thus, by incorporating the urban scale in their investment strategy, thereby anticipating on future value growth throughout the community, the developing investor can optimize its indirect return on investments. This investment approach does require extensive in-house knowledge and expertise on multisectoral real estate development and management. A second lesson to be learned from the community oriented investment approaches of CIM Group and Vulcan Real Estate is related to the integration within the local network. By means of integrating in within the community the developing investors are able to utilize local market knowledge and their network to signal investment opportunities in an early stage and build capacity for their redevelopment activities amongst the involved organizations, businesses and individuals thereby styling themselves as the ideal development and investment partner. Hence, this bottom-up investment approach provides the investor the ability to optimize the returns on investments.
<table>
<thead>
<tr>
<th>NL</th>
<th>VS Cases</th>
<th>Lessons, inspiration &amp; preconditions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spatial quality and societal objectives</td>
<td>Economic growth and demographics</td>
<td>Market-led redevelopment to align to private sector objectives.</td>
</tr>
<tr>
<td>main drivers for redevelopment.</td>
<td>main drivers.</td>
<td></td>
</tr>
<tr>
<td>Emphasis still on public private partnerships.</td>
<td>No formal public private partnerships on urban scale.</td>
<td>Informal public private partnerships provide the ability to continuously align public and private objectives to market demand.</td>
</tr>
<tr>
<td>Private sector competition hampers redevelopment process.</td>
<td>Developing investors open to private involvement.</td>
<td>Private sector competition contributes to the value increment of the community.</td>
</tr>
<tr>
<td>Public private partnerships seem required for the recovery of costs for public amenities.</td>
<td>Recovery of costs for public amenities based on public private negotiations on development agreement and tax increment programs</td>
<td>Realization of public amenities in urban redevelopment projects possible without public private partnerships on urban scale. Ability to recover costs for public amenities via private contribution and taxes. Utilization of land use plan as room for negotiating private contributions. Public instruments to redirect taxes directly to redevelopment activities.</td>
</tr>
</tbody>
</table>

**Table 4 – Lessons, inspiration and preconditions regarding US urban development strategies**

*Lessons regarding urban development strategies*

The redevelopment projects of both Hollywood and South Lake Union are characterized by the lack of formal public-private agreements at community-scale. In both cases the public-private cooperation regarding negotiation on planning and development matters can best be described as an informal partnership in which ongoing reciprocal consultation has led to the alignment of public and private redevelopment objectives. Hence, an informal public-private partnership in which no long term agreements are made, provides the ability to continuously align public and private objectives while development and planning risks for the private sector are limited to project development. However, without financial agreements between public and private, the realization of public amenities have to be financed in another way. In both cases the private sector contributes to the financing or realization of public amenities based on negotiations on development agreements. Amendments to local zoning are matched to private contributions. Although the willingness from the private sector and a regulatory framework which allows these negotiations are required, these cases showed that incremental redevelopment projects do not necessarily ask for financial public-private agreements on community level. According to the expert meeting private initiative in Dutch urban development is hampered by inconsistent public planning policy, the lack of clear prioritization of urban development projects and long term uncertainties regarding National policies. Characteristic for the studied urban development strategies are the transparent development and planning regulations concerning what is expected from the private sector combined with a clear public prioritization of urban development projects.
**Inspirational lessons**

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 investments have a positive effect on the value gain within the community. The expert discussion showed that in Dutch practice competition between private actors hampers redevelopment. According to the experts this is mainly due to the negative attitude toward free riders and toward other private business models within the community. Hence, this cultural barrier hampers the application of the studied investor-led urban development approaches in the Dutch context.

As mentioned the public investment capacity in the studied US cases is limited. In both Hollywood and South Lake Union Tax Increment Financing programs are utilized to redirect local property tax increment to redevelopment activities. The idea to redirect the increase of local property taxes to the financing of redevelopment projects is valuable. However, it is questionable whether the this financing instrument can effectively 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 and level playing ground for public-private negotiation can be established to balance private financial incentives to the realization of public amenities in the community.

**Insights in the 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 commitment can be considered as soft commitment. On the other hand, hard commitment of developing investors is strongly dependent on market conditions as the investors are not financially tied to the urban development project by public-private agreements. 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.

**Conclusions**

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 municipalities where the sense of urgency is high enough.
BELEGGERS-GESTUURDE GEBIEDSONTWIKKELING

Lessen van gebiedsgeoriënteerde investeringsstrategieën van Amerikaanse ontwikkelende vastgoedbeleggers.

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Binnen de praktijk van de Nederlandse gebiedsontwikkeling komt de nadruk meer en meer te liggen op organische ontwikkeling en privaat gestuurde gebiedsontwikkeling. De lange termijn georiënteerde belegger wordt alom geacht een centrale rol op te nemen in de toekomstige gebiedsontwikkelingen. Echter is er beter inzicht nodig in hoe de vastgoedbelegger zich kan comitteren aan organische gebiedsontwikkeling. Op basis van kwalitatieve case studies beoogt dit onderzoek lessen te leren van gebiedsgeoriënteerde investeringsstrategieën van twee Amerikaanse ontwikkelende beleggers. Uit de bevindingen van het onderzoek blijkt dat het voor de ontwikkelende vastgoedbelegger waardevol kan zijn om zich voor langere termijn te comitteren aan binnenstedelijke herontwikkelingsprojecten op basis van een investeringsvisie die zich focust op de waardeontwikkeling van het gebied in plaats van enkel het gebouw. Belangrijke kenmerken van de onderzochte beleggers-gestuurde herontwikkelingsprojecten zijn de faciliterende rol van de lokale overheid en continue afstemming van publieke en private doelstellingen op veranderende marktcondities. Binnen het organische ontwikkelproces worden geen publiek-private afspraken gemaakt op gebiedsniveau. Institutionele verschillen tussen Nederland en de Verenigde Staten gerelateerd aan cultuur, planning systemen en ruimtelijk-economische aspecten, belemmeren de toepasbaarheid van een deel van de geleerde lessen binnen de Nederlandse context. Echter is de Nederlandse cultuur aan verandering onderhevig waardoor deze lessen in de toekomst alsnog van waarde kunnen zijn.

KEYWORDS: beleggers-gestuurde gebiedsontwikkeling; gebieds-georiënteerde vastgoedinvesteringsstrategieën; organische gebiedsontwikkeling; commitment; publiek-private samenwerking.

Introductie

De Nederlandse gebiedsontwikkelingspraktijk staat onder invloed van contextuele veranderingen. Ten eerste zijn de financieringsmogelijkheden van gebiedsontwikkelingen beperkt door de krediet crisis en de economische crisis. Banken zijn behoudender in de korte termijn financiering van vastgoedontwikkeling waardoor een ontwikkelaar meer eigen kapitaal moet inbrengen. Als resultaat is het voor private ontwikkelaars haast onmogelijk om projecten financieel rond te krijgen. Bovendien hebben private ontwikkelaars veel investeringskapitaal verloren door de herwaardering van grondbezit na de financiële

Terwijl de traditionele vastgoedbeleggers zich voornamelijk oriënteerde op het optimaliseren van het rendement van zijn beleggingsobjecten wordt er verwacht dat hij zich voor lange termijn zal committeren aan stedelijke herontwikkelingsprojecten die zich kenmerken door hoge risico’s en lange termijn onzekerheden Dit spanningsveld roept de vraag op hoe de vastgoedbelegger zich kan committeren aan risicovolle organische gebiedsontwikkeling. Derhalve is er een beter inzicht nodig in hoe de investeringsstrategie van de vastgoedbelegger afgestemd kan worden op de praktijk van organische binnenstedelijke gebiedsontwikkeling. De centrale doelstelling van dit onderzoek is om lessen te trekken uit beleggers-gestuurde gebiedsontwikkelingsprojecten in de Verenigde Staten door inzicht te bieden in de gebieds-georiënteerde investeringsstrategieën, de gerelateerde gebiedsontwikkeling strategieën en de commitment van de vastgoedbelegger. 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?"
uitvoeren van een literatuur- en documentenstudie, het afnemen van interviews en het bezoeken van de locaties. Aan de hand van een analytisch onderzoek model zijn de bevindingen uit de twee cases gestructureerd en vergeleken. De cases zijn benaderd vanuit twee perspectieven: het perspectief van de belegger gebaseerd op de investeringsstrategie, en het perspectief van gebiedsontwikkeling op basis de gebiedsontwikkelstrategie. Binnen de casus is de relatie tussen de investerings- en gebiedsontwikkelstrategie onderzocht. In een vergelijkende studie zijn de investeringsstrategieën en gebiedsontwikkelstrategieën met elkaar vergeleken. Door middel van een expert panel discussie zijn de belangrijkste context afhankelijke factoren voor de toepasbaarheid van beleggers-gestuurde gebiedsontwikkeling onderzocht. Op basis van de analyses zijn empirische en inspiratievolle lessen getrokken voor de Nederlandse praktijk Gebaseerd op de context afhankelijke factoren is de toepaegbaarheid van de lessen naar de Nederlandse context getoetst.

**Theorieën**

Een literatuurstudie is uitgevoerd om een theoretisch kader te vormen ter ondersteuning van het empirisch onderzoek van Amerikaanse beleggers-gestuurde gebiedsontwikkelingen. De relevante theorieën en concepten met betrekking tot gebiedsontwikkeling, vastgoedbelegging en commitment.

**Gebiedsontwikkeling**


In gebiedsontwikkeling moeten functies, disciplines, actoren, belangen en geldstromen met elkaar verbonden worden om te leiden tot (her)ontwikkeling. Hoewel tegenstrijdige belangen, institutionele rolverhoudingen en strategisch gedrag ondervangen moet worden, zijn publiek en private partijen op elkaar toegewezen om hun eigen doelstellingen te kunnen realiseren (Klijn and Teisman, 2003). In het samenwerkingsproces tussen de organisaties moeten verschillende afspraken worden gemaakt en


Vastgoedbeleggen
Gedurende de twintigste eeuw is de rationale om te beleggen in vastgoed verschoven van het huisvesten van bedrijven of mensen naar de financiële voordelen toegekend aan vastgoedinvesteringen. Door toenemende professionalisering van de vastgoedsector is sinds de eeuwwisseling de nadruk komen te liggen op het genereren van een kasstroom (Bol, 2003). Vastgoed wordt beschouwd als een rendabele lange termijn investering. Besluitvorming rondom vastgoedinvesteringen wordt bepaald door criteria zoals de risicorendementsverhouding, de investeringshorizon en de leverage (Van Gool et al., 2013). De risicorendementsverhouding is een van het meest belangrijke criterium met betrekking tot de besluitvorming rondom investeringen. 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 diversificatie op basis van geografische allocatie. Het risicoprofiel van de gehele portfolio van een belegger moet in verhouding staan tot zijn verplichtingen naar zijn kapitaalverstrekkers.

Binnen vastgoedmanagement is bevindt portfolio management zich op het strategische niveau. Met betrekking tot het management van vastgoed investeringen omvat portfolio management de besluitvorming rondom de samenstelling van de vastgoedportefeuille. De organisatie van de belegger is afgestemd op de benodigde kennis en expertise voor het uitvoeren van het strategische portfolio management. Dus kan men stellen dat de organisationele, financiële en juridische structuur van de belegger afgestemd moeten zijn op zijn investeringsstrategie.


Commitment


Cases

CIM Group – Hollywood herontwikkeling

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 ten grondslag om pensioenkapitaal te investeren in de herontwikkeling van gebieden in California. 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 beheert CIM Group verschillende opportunistische en value-add vastgoedinvesteringsfondsen. Als multi-sectorale ontwikkelende belegger is CIM betrokken bij de herontwikkeling en transformatie van verschillende gebieden in Noord Amerika.

Een van de herontwikkelingsprojecten waarbij CIM Group een significante rol speelt is de herontwikkeling van Hollywood in Los Angeles. 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. Als investeringsbudget beschikt de CRA of de jaarlijkse stijging van de onroerendezaakbelasting. Dit financieringsinstrument staat bekend als Tax Increment Financing. De voornaamste doelstellingen van de CRA omvat de geleidelijke herontwikkeling en transformatie van het gebied door het stimuleren van investeringen en ontwikkelingen door de private sector. Door middel van publieke financiële ondersteuning voor katalysatorprojecten wordt de private sector gestimuleerd om ook publieke doelstellingen te verwezenlijken in hun (her)ontwikkelingsprojecten.

In 1996 raakt CIM Group betrokken bij de herontwikkeling van Hollywood door haar actieve rol in het oprichten van een Business Improvement District in het gebied. Pas na te integreren in het lokale netwerk van organisaties en bedrijven start CIM met het investeren verschillende projecten in elkaars nabijheid. Tot nu toe is CIM Group, middels verschillende fondsen, betrokken geweest bij meer dan 19 projecten in het gebied en wordt het gezien als een van de grootste vastgoed(eigen)aren binnen Hollywood. De rol van CIM Group binnen het herontwikkelingsproject omvat naast vastgoedontwikkeling en management, de actief genereren van draagvlak onder publiek privaat en particuliere stakeholders, het bijdragen aan de realisatie van publieke voorzieningen en het gebiedsmanagement.

Vulcan Real Estate – South Lake Union herontwikkeling

Vulcan Real Estate is een in Seattle gevestigde ontwikkelende belegger en een 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) in Seattle, om haar eigen private vastgoedbeleggingsportfolio op te bouwen. 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 die gepaard zou gaan met de realisatie van het park. Op dat moment krijgt Paul Allen zijn grondposities weer in bezit en start hij met het uitbouwen ervan.

Het duurde nog tot 2002 voordat Vulcan begon met het ontwikkelen van haar grondposities. Vanaf dat moment starten meerdere private ontwikkelaars met herontwikkelingsprojecten binnen de 140 hectare tellende brownfield. De houding van de lokale overheid, de Seattle Department of Planning and Development (SDPD) was op dat moment terughoudend en reactief te noemen. Het duurde nog tot de financiële crisis voordat de publieke planvorming volledige aangepast werd aan de private ontwikkelingen die gaandeweg waren. Tijdens de financiële crisis pasten zowel Vulcan als de SDPD hun doelstellingen aan op de veranderde economische omstandigheden. De nadruk kwam te liggen op de organische ontwikkeling van het gebied op basis van de marktvraag en 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 basis van de ontwikkelovereenkomst (bouwvergunning). Aanpassingen aan het geldende bestemmingsplan werden dus gecompenseerd met significante financiële bijdragen aan publieke voorzieningen. Deze onderhandelingsruimte op het bestemmingsplan is uiteindelijk vastgelegd in Rezone. In dit planningsdocument is een maximaal toegestaan bestemmingsplan is gekoppeld aan het basis bestemmingsplan. Andere publieke voorzieningen zoals de Street Car (tram) en de aanleg van het Lake Union Park zijn realiseert op basis van public private samenwerking. Naast het ontwikkelen en management het eigen vastgoed en het initiëren van de herontwikkeling van SLU is Vulcan tevens betrokken bij het genereren van draagvlak onder publiek private en particuliere stakeholders, en planningsprocessen.

Vergelijkende case analyse
In tabel 5 en 6 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>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</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>Multidisciplinary fund manager</td>
<td>Multidisciplinary private developer</td>
</tr>
<tr>
<td>Knowledge</td>
<td>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>Various investment trusts</td>
<td>Own real estate portfolio</td>
</tr>
<tr>
<td>Investment</td>
<td>Institutional</td>
<td>Private</td>
</tr>
<tr>
<td>Risk-return profile</td>
<td>Core &amp; Opportunistic investment funds</td>
<td>Opportunistic development, but long term core investments</td>
</tr>
<tr>
<td>Legal</td>
<td>Limited Liability Partnership; Low influence of capital providers</td>
<td>Limited Liability Partnership; Owner/Private capital provider</td>
</tr>
<tr>
<td>Dependency</td>
<td>Outperforming benchmark</td>
<td>Market conformity</td>
</tr>
</tbody>
</table>

Table 5 – Vergelijkende analyse investeringsstrategieën
Investeringsstrategie

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. In plaats van te bijvoorbeeld te focussen op een specifieke vastgoedsector, zijn de investeringsstrategieën van CIM Group en Vulcan Real Estate onlosmakelijk verbonden met het herontwikkelingsgebied als investeringsmarkt. Bovendien kenmerken de investeringsstrategieën van beide beleggers zich door de bottom-up aanpak waarin de integratie in het gebied een belangrijke rol speelt. Als zodanig zijn de beleggers in staat om investeringskansen en potentiële huurders in een vroeg stadium te signaleren. Om de marktvraag adequaat te kunnen bieden hebben beide beleggers zich toegelegd op multisectorale vastgoedontwikkeling en belegging. De organisaties kenmerken zich door het multidisciplinaire karakter en de nadruk op in-house kennis van zowel alle vastgoedsectoren als alle aspecten rondom gebiedsontwikkeling en vastgoedbeleggingen. 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 out performen van de benchmark op vastgoedinvesteringen.

<table>
<thead>
<tr>
<th>Gebiedsontwikkelingsstrategie</th>
<th>Hollywood</th>
<th>South Lake Union</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vision</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>Market</td>
<td>market-led</td>
<td>market-led</td>
</tr>
<tr>
<td>Organization</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>Financial</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>
<tr>
<td>Public amenities</td>
<td>Tax Increment Financing, Development Agreement projects</td>
<td>Private contributions on development agreement project-level, TIF</td>
</tr>
<tr>
<td>Legal</td>
<td>Mixed-zoning</td>
<td>Mixed-zoning</td>
</tr>
<tr>
<td>Land use</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 6 – Vergelijkende analyse gebiedsontwikkelstrategieën

Gebiedsontwikkelstrategie

Een kenmerkende overeenkomst tussen de gebiedsontwikkelstrategieën van Hollywood en SLU is nadruk op vastgoedontwikkeling in plaats van gebiedsplanificering waarbij het stimuleren van private investeringen en ontwikkelingen centraal staat. In beide gebiedsontwikkelstrategieën is deze visie vertaald naar flexibele doelstellingen die ruimte bieden aan 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 bovendien 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 voor 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 verruiming van het bestemmingsplan een basis om private contributies te genereren voor de realisatie van publieke voorzieningen in het gebied. De regulerende gebiedsontwikkelingskaders kenmerken zich in beide cases door de nadruk op het mogelijk maken van private investeringen door het stellen van realistische en objectief meetbare doelstellingen waarmee ook het planningsproces vereenvoudigd is.

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 empirische en inspiratievolle lessen getrokken uit de gebiedsgeoriënteerde investeringsstrategieën van Amerikaanse ontwikkelende beleggers.

<table>
<thead>
<tr>
<th>NV</th>
<th>VS Cases</th>
<th>Lessons, inspiration &amp; preconditions</th>
</tr>
</thead>
<tbody>
<tr>
<td>NL</td>
<td>Investors mainly oriented on building scale.</td>
<td>Community as investment market – anticipating on value growth community by redevelopment.</td>
</tr>
<tr>
<td></td>
<td>Investment sector characterized by specialization instead of broad scope.</td>
<td>Involvement in public, private and civic community network.</td>
</tr>
<tr>
<td></td>
<td>Mainly single sector real estate investment funds.</td>
<td>Full service organizations, multisectoral real estate development, management, and urban planning.</td>
</tr>
<tr>
<td></td>
<td>Financial structure which allows flexible allocation of investments in terms of real estate sectors.</td>
<td>The integration within the local community provides the developing investor the ability to optimize the returns on real estate based on the local market knowledge (direct) and capacity building (indirect). Multisectoral in-house knowledge in a multidisciplinary organization are required to be able to anticipate on the local market demand and to steer the redevelopment process.</td>
</tr>
<tr>
<td></td>
<td>Ability to freely invest in any sector or location.</td>
<td>Multisectoral and flexible allocation of investments allow the investor to anticipate on changing local market demand.</td>
</tr>
</tbody>
</table>

Table 7 – lessen, inspiratie en voorwaarden met betrekking tot VS gebieds-georiënteerde investeringsstrategieën

Gebiedsgeoriënteerde investeringsstrategie

Kenmerkend voor de Amerikaanse investeringsstrategieën is de toelegging op het investeren in herontwikkelingsgebieden. Hoewel beide op een eigen manier anticiperen CIM Group en Vulcan Real Estate op de potentiële waarde stijging van het gebied. CIM Group investeert en ontwikkelt om een kritieke massa te genereren waardoor de lokale vastgoedmarkt hersteld. Vulcan speelt in op de toekomstige waardestijging door de aankoop van haar strategische grondpositie. Met een specifieke
investeringsvisie voor het gebied kan lange termijn commitment van de ontwikkelende belegger als waardevol worden beschouwd aangezien het financiële rendement ook indirect geoptimaliseerd wordt door de waardeontwikkeling in het gebied. Deze aanpak vereist wel een multidisciplinaire organisatie die sterk gefocust is op intensieve kennis met betrekking tot ontwikkeling en management van vastgoed in alle sectoren. 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.

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| FINANCIAL |
| Uncertainty in long term public policies and inconsistent local public policy. |
| Too much strict preconditions based on public wishful thinking. |

| CLEAR prioritization redevelopment projects coupled to objectively measurable goals and conditions. |
| Little preconditions & strong alignment of public and private objectives. |

| LEGAL |
| Prioritization of redevelopment projects and transparent regulations provide public capacity required for private initiatives. |

Incorporation of measurable objective criteria in urban planning regulations.

Table 8 – lessen, inspiratie en voorwaarden met betrekking tot VS gebiedsontwikkelstrategieën

**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 markcondities. 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 de er onder de private sector bereidheid is om bij te dragen aan publieke doelstellingen binnen het gebied in ruil voor lokale verruiming van het bestemmingsplan.

**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 daardoor 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.

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, de harde commitment van de beleggers aan organische gebiedsontwikkeling is sterk afhankelijk van de marktcondities aangezien de vastgoedbelegger niet financieel verbonden is aan het gebied. Het biedt de private partij de mogelijkheid om ontwikkelingen uit te stellen of uit te wijken naar een ander gebied wanneer de economische condities ongunstig zijn. Dit beperkt de ontwikkelkracht van deze vorm van beleggers-gestuurde gebiedsontwikkelingsstrategieën.

Conclusies

Beleggersperspectief
Vanuit het investeringsperspectief bieden de onderzochte beleggers-gestuurde approaches kansen voor de Nederlandse gebiedsontwikkeling. Een gebieds-georiënteerde aanpak biedt de ontwikkelende belegger kansen om het gebiedsontwikkelingsproces te sturen. Door de integratie in het gebied kan de ontwikkelende belegger zijn markt-, multidisciplinaire- en multisectorale kennis benutten om draagvlak te ontwikkelen voor de herontwikkeling en een eigen markt creëren door in een vroeg stadium investerings- en ontwikkelkansen te kunnen signaleren. Deze bottom-up aanpak van de ontwikkelende belegger wordt door de Nederlandse experts als een waardevolle les gezien. Hoewel de ontwikkelende beleggers een groot belang hebben bij verhogen van de functionaliteit en kwaliteit vastgoed aanbod in het gebied, kunnen ze niet gezien worden als weldoeners. Door te anticiperen op de potentiële waardeontwikkeling
van de herontwikkelingslocatie is het voor de belegger waardevol om voor langer termijn gecommitteerd te zijn aan het gebied.

De kansen voor een succesvolle implementatie van de beleggers-gestuurde aanpak in de Nederlandse context wordt beperkt door ruimtelijk-economische verschillen tussen de Verenigde Staten en Nederland. Enerzijds is het de vraag of Nederlandse herontwikkelingsprojecten wel voldoende potentie voor waardeontwikkeling bieden. Anderzijds is de Nederlandse markt te homogeen om een multi-gebieds investeringsstrategie, vergelijkbaar met die van CIM Group, toe te passen aangezien geografische diversificatie een belangrijk aspect is van deze aanpak.

Gebiedsontwikkelperspectief
De lessen uit het onderzoek laten zien dat het creëren van ruimte voor privaat initiatief binnen de gebiedsontwikkelingsstrategie een belangrijk aspect voor de implementatie van beleggers-gestuurde aanpak in organische gebiedsontwikkelprojecten. De belegger vaart voornamelijk op het beantwoorden van de lokale markt vraag. Continue afstemming van publiek en private doelen op zowel gebouw als gebiedsniveau is daarom van belang. De ontwikkelende beleggers zijn gebaat bij prioritering van gebiedsontwikkelprojecten en objectief meetbare ontwikkeldoelstellingen. Het publieke draagvlak dat hiermee wordt geuit is belangrijk voor de betrokkenheid van de belegger bij de herontwikkeling van het gebied.

Kenmerkend voor de onderzochte Amerikaanse gebiedsontwikkelingsstrategieën is het ontbreken van financiële publiek-private afspraken op gebiedsniveau. Het investeringsrisico van de belegger wordt daardoor beperkt tot het gebouwniveau. Dit onderdeel van de Amerikaanse investeringsstrategie vormt wel een belemmering voor een succesvolle implementatie binnen de Nederlandse context. Het verhalen van kosten voor publieke voorzieningen binnen het gebied op eigenaren en beleggers wordt bemoeilijkt door de regelgeving, jurisprudentie en beperkte bereidheid van de private sector. Het tekort op het publieke investeringsbudget dwingt de publieke sector mogelijk om ook binnen organische gebiedsontwikkeling verruimingen van het bestemmingsplan af te wegen tegen private bijdragen aan noodzakelijke publieke voorzieningen. Echter is het maar de vraag of de Nederlandse private sector bereid zal zijn om bij te dragen aangezien de in de Nederlandse planning cultuur de overheid nog steeds gezien wordt als probleemeigenaar. De beleggers-gestuurde gebiedsontwikkelingsstrategie vraagt dus ook om een andere cultuur in de private sector.

Commitment
Dit onderzoek heeft inzicht geboden in de commitment van de Amerikaanse ontwikkelende belegger aan organische herontwikkelingsopgaven. Zonder financiële pubieb-private afspraken op gebiedsniveau is de harde commitment van de belegger, in termen van het committeren van kapitaal en grond, sterk afhankelijk van de marktcondities. Desondanks laat het onderzoek zien dat de gebieds-georiënteerde
ontwikkelende belegger commitment ook kan uiten in betrokkenheid bij het planningsproces, ontwikkelen van draagvlak voor herontwikkeling en het stimuleren herontwikkeling van het gebied. Deze vorm van commitment is gedefinieerd als *soft commitment*. Hoewel deze vorm van commitment niet direct leidt tot investeringen of ontwikkelingen is het wel degelijk waardevol voor de herontwikkeling door de sturende rol van de belegger.
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# introduction

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 describes the relevant theories and concepts concerning urban development (chapter 2) and real estate investment (chapter 3). Furthermore in chapter 4 relevant theories and concepts regarding the applied research methodologies are described. Part 1 sets the stage for the in-depth case study research. 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). Part 3 – synthesis – covers the synthesis of theories and practices and includes the findings form the expert panel discussion (chapter 9), the empirical and inspirational lessons (chapter 10). Furthermore, the main conclusions and recommendations are provided in chapter 11, and lastly the reflections regarding the research relevance, the methodology and validity, and the graduation process are included (chapter 12).

Enjoy reading!
1 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?”

Expert meeting:
An expert panel discussion is held to provide insights in the main barriers and opportunities for the application of the studied investor-led approaches in the Dutch context. The findings are described chapter 9. By conducting the expert panel discussion we aim to answer the following research question:

“What are the main opportunities and challenges for the implementation of the studied investor-led urban development approaches in the Netherlands according to Dutch urban development professionals?”

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 10 the following research question is answered:

“What empirical and inspirational lessons can be learned from the studied US community oriented investment strategies and related urban development strategies?”

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 & Wigmans (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, 2011, De Graaf, 2011). 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 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, an expert panel discussion and the literature review, empirical and inspirational lessons are drawn for the Dutch urban development practice in chapter.

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 & CONCEPTS
urban development theories

In this chapter a stage is set for the empirical research by describing relevant urban development theories and concepts. This chapter has been established in cooperation with Boudewijn Stumpel (2014) as his graduation research is based on a shared problem analysis. In section 2.1 the changing context of Dutch urban development practice and the consequences for urban development projects are described. In section 2.2 investor-led urban development is placed within the context of urban development projects. Lastly the an insight is provided in the main aspects of management, organization and strategy regarding urban development.

2.1 Context of Dutch urban development practice

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 deficits withholding 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. This section discusses these changing context and the consequences for the urban development practice.

2.1.2 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 causing in the stagnation of developments. The current stagnation in the real estate market appears to have structural imbalances, next to the cyclical components. (Van Joolingen et al., 2009). 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.

Except for the fact that budgetary cycles are under pressure and cannot be contrived due to monetary reasons, there is ample reason to speak of a structural imbalance. The current real estate stock seems sufficient enough to overproduction in the last decades. Therefore urban development will in particularly be focused 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).

2.1.3 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 a deviations of the agreements between public and private parties which are not in line with the market. In the worst case this can 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. 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 (Hagendijk and Franzen, 2012) (Peek 2011). This bottom-up approach, also known as gebiedsontwikkeling 2.0, is mostly applied on stranded large scale integral urban developments, such as the Binckhorst in The Hague.

2.1.4 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 or investors could be the salvation for the project developers.

Investors
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, 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 are forced to repel real estate projects. Though there are first signs of renewed interest in real estate investments. Eventhough the total amount of 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.

**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 development resulting in limited municipal investments in urban area developments (Praktijkleerstoel Gebiedsontwikkeling, 2011a; Van Joolingen, et al., 2009). 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) some municipalities choose to facilitate urban developments by allowing more influence of private parties while others fall back on the traditional active land policy. 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 (Praktijkleerstoel Gebiedsontwikkeling, 2011b). Likewise, other financiers and banks are currently to scant to provide some loans or credit.
2.1.5 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). An important question that needs to be answered is who takes the lead in these new urban development processes. ‘There remains a need for ‘old’ arrangements, but in a new lease of life like a facilitating government. Thereby, sustainable initiatives will 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.

2.1.6 The ‘New Reality’ in Dutch 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). Nonetheless 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).

Van Joolingen et al. (2009) outlines a future for urban area development in The Netherlands expecting 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. According to Peek (2011) 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. 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.
Urban development & Collaboration

<table>
<thead>
<tr>
<th>Approach</th>
<th>Focus</th>
<th>Roles</th>
<th>Added value</th>
<th>Private partners</th>
</tr>
</thead>
<tbody>
<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 9 – 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) current 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 that 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.

**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). 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. 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. 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 by providing labor and very often housing and facilities for their workers and 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 like Samsung are directly involved in urban
2.1.7 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. 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 5 shows the Dutch urban governance shifts described by Heurkens.

### 2.2 Investor-led Urban Development

#### 2.2.1 Urban Development

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 of experts (Daamen, 2010; De Zeeuw, 2007) who have dared to define this term as comprehensive as possible illustrates the diversity, submissiveness, multifunctionality 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.’ These definitions 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. Hence, the following definition of urban development is used in this study:

“Urban development is 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.”

### 2.2.2 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. Furthermore two main urban development approaches are described.

**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).

Managing risks is an important aspect of urban development projects. Wolting (2006) distinguishes various types of risks related to urban development projects. Overarching ‘internal’ and ‘external’ risks

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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.

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. 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 (see section 2.1.6). 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 12. 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 (PBL and Urhahn Urban Design, 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 (PBL and Urhahn Urban Design, 2012, Peek, 2012). In this approach local governments have a **role as facilitator** of the urban development.

*Figure 12 - Characteristics of integral and incremental urban development (PBL & Urhahn Urban Design 2012)*
Most urban plans are 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 section 2.1.6, the new reality in Dutch urban development does comprise 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.

2.2.3 Investor-led urban development

In this research the emphasis is on the investor as leading actor of urban development projects; investor-led urban development. 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 . 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 urban development and the role of the investor the term investor-led development can be defined as 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, have a large share in the investments in the area. It does not matter whether 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.”

2.3 Management, Organization and Strategy

As described in the research proposal, this study focuses on urban development strategies that facilitate investment strategies in urban redevelopment projects. This section elaborates on the perspective of urban development and describes the related aspects of management, public private organization and strategy.

2.3.1 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 in 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)

2.3.2 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 is focused on how public and private actors together form a strategy for an urban redevelopment process. Based on the perspective of strategy formation Daamen (2010) defines an 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, 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 to 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 15. 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). Daamen’s (2010) UDP Strategy model is oriented on the analysis of an urban development strategy over a long time, thereby incorporating deliberate and emergent actions over a longer period. It is not within the scope and the limitations of this research to track the urban development strategies over a long period, as it is oriented on the strategy as a deliberate public private ‘business 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 section 2.1.

To identify the relevant aspects used 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, foremost the financing of the project, and the urban development rules, as a legal framework, are of significant importance to analyze the urban development strategy. Section 4.4, comprising the analytical research framework, elaborates on the variables of the urban development strategy.

Urban Development Force
Daamen (2010) further emphasizes on the force of urban development strategy. 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 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 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”.

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

Urban development force is 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, to urban projects have to deal with changing conditions and goals and location-depended 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.”

2.3.4 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 co-
operate. 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

For over 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. According to 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></th>
<th>Public actors</th>
<th>Private actors</th>
<th>Tension</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Core business</strong></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>
<tr>
<td><strong>Values</strong></td>
<td>Loyalty</td>
<td>Competitive</td>
<td>Government reluctant in process versus private party reluctant with knowledge</td>
</tr>
<tr>
<td></td>
<td>Devoted to a public cause</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>Controlled by politics</td>
<td>Controlled by shareholders, based on results</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Emphasis on risk avoidance and preventing expectations</td>
<td>Emphasis on market opportunities and risk, and innovations</td>
<td></td>
</tr>
<tr>
<td><strong>Strategies</strong></td>
<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>
</tr>
<tr>
<td></td>
<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>
</tr>
<tr>
<td><strong>Consequences for PPP</strong></td>
<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>
</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</td>
<td>Public or Private</td>
<td></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>Private</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Design plan</td>
<td>Public</td>
<td>Public &amp; Private</td>
<td>Private</td>
<td>Private</td>
<td></td>
</tr>
<tr>
<td>Realization</td>
<td>Land development</td>
<td>Public</td>
<td>Public &amp; Private</td>
<td>Private</td>
<td>Private</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Real Estate</td>
<td>Public or Private</td>
<td>Private</td>
<td>Together or Private</td>
<td>Private</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Construction</td>
<td>Private</td>
<td>Private</td>
<td>Private</td>
<td>Private</td>
<td></td>
</tr>
<tr>
<td>Management/Operation</td>
<td>Maintenance public space</td>
<td>Public</td>
<td>Public or Private</td>
<td>Public or Private</td>
<td>Public or Private</td>
<td></td>
</tr>
<tr>
<td>Land use policy</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></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 16 – 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. Hence, if investors are expected to obtain a bigger role in urban development projects it will affect the role the government has to take.

2.3.5 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.

Project and process management activities

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 project 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 co-operation 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. 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 utilized as an analytical model to study the public and private roles in the urban development projects.

2.4 Conclusions

This chapter provided an insight in the main theories and concepts concerning investor-led urban redevelopment, the contextual changes in Dutch urban development practice and strategies, organization and management of urban development to set a stage for the empirical research. The main findings described in this chapter include:

- Effects of the economic crisis are considered structural and have to the ‘New Reality’ in urban development in which the investor is expected to fulfill a central role;
- Anglo-Saxon values are gradually replacing Rhineland values resulting in a shift toward the private sector regarding the public-private power balance;
- Investor-led urban development can be defined as a form of private sector-led development in which the investor has a steering role;
- Urban development strategies include all decisions and actions of those involved to realize concrete material inventions;
- The relevant aspects of urban development strategies regarding the objective of this research include vision, organization, financial and legal.
real estate investment theories.

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 can be distinguished. Secondly the combination of development and investment is discussed. Lastly, investment decision making and investment strategies are explored.

3.1 Real Estate Investment

This section introduces the theory of investment in real estate and urban development, thereby distinguishing different types of real estate investment and their characteristics. Thereafter the investment process is described.

3.1.1 Classification of real estate investments

Van Gool et al. (2013) argue a distinction should be made between investment in real estate, investing and developing. Investment (D: beleggen) 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 (D: investeren) 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. In terms of investment, the emphasis is on real estate as an investment asset (Van Gool et al., 2013).

Direct and Indirect real estate

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). Like direct real estate, there are various types of indirect real estate. However, investment in indirect real estate always comprises 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.

Real estate markets

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 18 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.

3.1.2 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. Hence, an investor not always acts on a capital market. Direct real estate is illiquid as it comprises 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 12 – 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 explored the pros and cons of indirect real estate investments, which are shown in the table below.

<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 13 – 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 18 – Advantages of direct, private, indirect and publicly traded real estate (Van Gool et al., 2013).

3.1.3 Process of investing

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.
3.2 Developing and Investing

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). Hence, this research focuses on developing investors.

3.2.1 Investors & 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 retains 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).

3.2.2 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’, which implies the focus on profitable core business instead of wasting money on less profitable secondary businesses (Brounen and Eichholtz, 2004). In the real estate domain 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, hence extensive inhouse knowledge is required. 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 that the combination of developing and investing is synergetic.

3.3 Investment Decision-making and Strategy

This section describes decision-making and strategy of investors by investment criteria, portfolio management and investment strategy.

3.3.1 Real Estate investment decision-making

The main aspects of investment decision-making which are described in this section include the investment criteria, the risk and return ratio of an investment, portfolio management and asset liability management.

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 the 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.

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

Table 14 – Criteria of investment styles based on Roosen (2004), Bruggema (2011) and Van Gool et al. (2013)

**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.
### 3.3.2 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 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 15 shows the differences between the old and new business model.

The investment strategy described by Van Gool et al. (2010) mainly comprises the investment-object related aspects. This research aims to study investment strategies of developing investors in a broader context. Little has been published about real estate investment strategies in a broader context. Hence, we have to define the term investment strategy. On the one hand, we have to define how an investment strategy is related to urban development. On the other hand, we have to define how an investment strategy is linked to the investor itself as we aim to define what the requirements are for the implementation of the investment strategy.

#### Strategy related to urban areas

To be able to define the relation between an investor’s investment strategy and the urban scale (i.e. communities) we have to consider the organizational levels of real estate management. Miles et al. (1996, in Gruis and Nieboer, 2004) distinguished three organizational levels of real estate management; property management, asset management and portfolio management. Portfolio management is considered at strategic management level, whereas property management is related to operational management. This relates to practice of real estate investment. Portfolio management in real estate investment comprises the decision-making on the composition of the managed real estate portfolio in terms of risk and return of the entire portfolio which are related to real estate types or sectors, risks and returns ratios on investments and locations. Real estate types include residential, commercial and retail. The risk and returns ratios, core, value-add and opportunistic are related to the investment type including development, leasing or standing development. The location of the investment is related to the local real estate market. Real estate cycles differ geographically. The risk-level of the same kind of investment in
two geographically separated locations varies. Hence, to profit geographical diversification benefits an investor can spread its investments over various locations throughout the world. Translated to investment strategies that are oriented on specific communities or redevelopment projects this means the investor’s geographical diversification benefits can be limited if the investor only focuses on a few or one urban areas.

Figure 19 – Organizational levels of real estate management (Gruis and Nieboer, 2004)

**Investment company and investment strategy**

Here we argue that the investment strategy of an investor is related to the investment company. For example the combination of developing and investing requires extensive in-house knowledge on both development and investment (Brounen and Eichholtz, 2004). Another example regards the liabilities of the investor to its capital providers. As described in section 3.3.1, the liabilities of the investor have to be aligned to the risks of the investment strategy. Hence, the liabilities of the investor are related to the investment strategy. In this study we defined an investment strategy as ‘a real estate investment approach which is bilaterally related to the vision, organization, financial structure and legal structure of the investment company’. As such a certain investment strategy can set conditions for the organization of the investment company, while its liabilities set legal conditions to the investment strategy.

### 3.4 Conclusions

This chapter provided an insight in the main theories and concepts concerning real estate investment, developing and investing, and investment strategies to set a stage for the empirical research. The main findings described in this chapter include:

- Investment in direct real estate via development is considered more profitable than investment via property trade markets, however it requires extensive knowledge and management;

- By their long term commitment investing developers are able to redeem the benefits of intensive property management;
- As the emphasis has shifted toward a core business strategy a lot of investors have repelled their development activities;
- Nonetheless the performance of developing investors is significantly higher compared to investors;
- An investment strategy can be defined as a real estate investment approach which is bilaterally related to the vision, organization, financial- and legal structure of the investment company;
- The orientation on an urban community is related to the investor’s portfolio management as it confines the geographical diversification benefits.
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 and theories 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 focusing on differences in by focusing policies adopted by governments. The research methodology of lesson-drawing has a practical nature, as cases are researches, and is focused on a specific issue (Spaans and Louw, 2009). Several best practices are selected and analyzed on structured way based on a research objective. According to Rose (in Spaans and Louw, 2009), lesson-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 from 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 focuses on transferring experiences and lessons between countries with a different planning system, inspiration and learning are relevant 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.
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 section 4.4, two US urban development cases are studied to establish a concept of investor-led urban redevelopment. 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. Section 2.1 showed that the future challenge of urban development in The Netherlands mainly concerns the redevelopment of inner-city areas. Hence, 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>South Lake Union</th>
<th>Strand East</th>
<th>Hollywood Redevelopment</th>
<th>Frasers Broadway</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project owner</td>
<td>Vulcan Real Estate</td>
<td>Inter Ikea Group</td>
<td>CIM Group</td>
<td>Frasers Ltd.</td>
</tr>
<tr>
<td>Type</td>
<td>Developing investor</td>
<td>Investor</td>
<td>Developing investor</td>
<td>Investor</td>
</tr>
<tr>
<td>Type</td>
<td>Mixed-use redevelopment</td>
<td>Mixed-use redevelopment</td>
<td>Mixed-use redevelopment</td>
<td>Mixed-use redevelopment</td>
</tr>
<tr>
<td>Size</td>
<td>24 ha.</td>
<td>10.4 ha.</td>
<td>450 ha.</td>
<td>3.6 ha.</td>
</tr>
<tr>
<td>Accessible/Affordable</td>
<td>+/-</td>
<td>+</td>
<td>+</td>
<td>--</td>
</tr>
<tr>
<td>Network</td>
<td>++</td>
<td>+</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>Information intensity</td>
<td>++</td>
<td>++/</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>Development phase</td>
<td>realization</td>
<td>start realization</td>
<td>realization</td>
<td>realization</td>
</tr>
<tr>
<td>Incremental/Integral</td>
<td>Incremental</td>
<td>Integral</td>
<td>Incremental</td>
<td>Integral</td>
</tr>
</tbody>
</table>

Table 17 – 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 9 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 discuss 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 9 participants of the expert meeting are introduced.

### 4.3.2 Structure

The expert discussion is open structured, as this allows the panel to discusses freely. Firstly the subject of discussion, American community oriented developing investors, is presented by the researcher. Afterwards, two propositions are pose 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.

### 4.4 Analytical Research Framework

In this chapter we have described the relevant concepts and theories regarding the research methodology applied to learn lessons from US investor-led development cases. In the forgoing chapters we have set the stage of this study concerning urban development strategies and real estate investment strategies. By bundling the findings of the literature review this section describes the analytical research framework which is used to study the two case urban development cases.

#### 4.4.1 Perspectives and aspects

As described in the research proposal this research focuses identifying the relation between two perspectives; the investment perspective and urban development perspective. The investment perspective comprises the community oriented investment strategies while the urban development perspective is related to the urban development strategies. On the one hand, we aim to compare both
studied community oriented investment strategies and both urban development strategies. On the other hand we try to identify the relation between the investment- and urban development strategy of the two cases. Hence, the analytical research model has to facilitate the comparative analysis of investment and urban development strategy based on the same variable. In section 2.3.2 (Urban development Strategy) and section 3.3.2 (Investment Strategy) we have introduced the four aspects of strategies relevant for this research; vision, organization, financial and legal. The table below further defines the variables of the investment- and urban development strategies.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Investment Strategy</th>
<th>Urban Development Strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>vision</td>
<td>Conceptions regarding the real estate investment approach in relation to the urban area.</td>
<td>Public and private conceptions and objectives regarding the urban development project, planning and process.</td>
</tr>
<tr>
<td>organization</td>
<td>Type of organization. In-house knowledge and expertise.</td>
<td>Public private roles concerning process and project management. Public-private partnerships.</td>
</tr>
<tr>
<td>financial</td>
<td>Financial structure, funds and portfolio. Type(s) of capital providers.</td>
<td>Financing, risks and revenues concerning land- and real estate development, operation and public amenities. Public financing instruments.</td>
</tr>
<tr>
<td>legal</td>
<td>Legal structure and related conditions on real estate investment. Investor’s liabilities to capital providers.</td>
<td>Land use regulations. Planning regulations and documents.</td>
</tr>
</tbody>
</table>

Table 18 – Variables of Investment- and Urban Development Strategies

4.4.2 Analytical Research Framework

Figure 20 shows the analytical research framework in which both the investment- and urban development strategy are combined. Next studying the investment and urban development strategies we aim identify the relation between the investor’s investment strategy and the urban development strategy by means of this framework. On the one hand, we can define this relation as the way both strategies are intertwined. The investor’s investment strategy can set conditions to the urban development strategy and the same counts the other way around. On the other hand, the relation between the investment strategy and the urban development strategy can be defined as the commitment of the investor to the urban development project.

Commitment

The term commitment originates from sociologic studies and can be described as the linkage of extraneous interests with a consistent line of activity (Becker, 1960). Based on this definition we can describe commitment as the linkage of the investor’s interests to urban development process. However,
the definition remains vague. Various dictionaries provide different definitions on the term commitment including:

- An agreement or pledge to do something in the future.
- The state or an instance of being obligated or engaged (Webster’s Dictionary, 2014).

Considering the various definitions of commitment we distinguish two types in this research; hard commitment and soft commitment. Hard commitment is essentially a pledge which is often related to a financial obligation. In terms of urban development practice, for instance the purchase of land or the pre-funding of development projects can be considered as hard commitment. Hence, hard commitment can be related to pledge to deploy ‘hard’ management measures such land and capital. The involvement in- or engagement to processes related to the urban development project which do not directly lead to the financial or concrete investments can be referred to as soft commitment. Soft commitment can be related to the pledge to deploy soft management measuring, including negotiation, stimulation and capacity building (Heurkens, 2012).

4.5 Conclusions

This chapter provided an insight in the main theories and concepts concerning the relevant research methodologies and the analytical research framework setting a stage for the conduction of the empirical research. The main findings described in this chapter include:

- Lesson drawing based on several best practices is not only about what to do; lesson-drawing can also imply what not to do;
- From the three levels of transferring knowledge across borders (transplantation, learning and inspiration), transplantation is considered unlikely;
- Case study research comprises the empirical inquiry that investigates a contemporary phenomenon within its real life contexts;
- Case study research does not contain a greater bias toward verification compared to other research methods;
- Triangulation of data gathering is a technique which enhances the validity of the research results;
- Expert meetings can be conducted to synthesize a variety of inputs providing recommendations concerning the discussed issue. This methodology is particularly suitable for issues requiring highly specific or multidisciplinary knowledge;
- The analytical research framework links the investment strategy to the urban development strategy in order to identify the relation between the two strategies.
- This relation can be defined as intertwinement resulting in bilateral conditions and as the commitment of the investor to the urban development project;
- Hard commitment is essentially a pledge and is often related to financial obligation while soft commitment is related to involvement in- or engagement to processes related to the urban development projects which do not directly result in financial or concrete investments.
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>Market regulated economy</td>
<td></td>
</tr>
<tr>
<td>Negotiation (gaming)</td>
<td>Consensus (debating)</td>
<td></td>
</tr>
<tr>
<td>Hierarchical relations</td>
<td>Self-reliance</td>
<td></td>
</tr>
<tr>
<td>Individual</td>
<td>Group</td>
<td></td>
</tr>
<tr>
<td>Economical based</td>
<td>Socially based</td>
<td></td>
</tr>
<tr>
<td>Priorities:</td>
<td>Priorities</td>
<td></td>
</tr>
<tr>
<td>Legal – Organizational - Relational</td>
<td>Organizational – Relational - Legal</td>
<td></td>
</tr>
<tr>
<td>Expression, success</td>
<td>Leveling</td>
<td></td>
</tr>
<tr>
<td>Financial returns/profit</td>
<td>More than financial returns/profit (societal etc.)</td>
<td></td>
</tr>
</tbody>
</table>

Table 19 – 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 *stenenbouwkundige* 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 as 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 en 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>Coherent</td>
</tr>
<tr>
<td>Fragmented</td>
<td></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>
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<tr>
<td>Political oriented</td>
<td>Policy oriented</td>
<td></td>
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<tr>
<td>Directive based</td>
<td>Consensus based</td>
<td></td>
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<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 20 – 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.
5.2.3 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.
hollywood community redevelopment case.

This chapter comprised description of the Hollywood community redevelopment case in which the developing investors CIM Group is significantly involved. As confidential information is used to describe and analyze this case it is not enclosed in this publicly available report.

UNDISCLOSED – CONFIDENTIAL

For the purpose of this research to investor-led urban development approaches we have used confidential information from CIM Group. To respect the confidentiality of the used information this section of the report is not disclosed.

In dit onderzoek naar beleggers-gestuurde gebiedsontwikkeling hebben we gebruik gemaakt van vertrouwelijke informatie van CIM Group. Wij respecteren de vertrouwelijkheid van de gebruikte informatie. Daarom is dit hoofdstuk niet openbaar toegankelijk.
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. 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 counts 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 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 on-going 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 were reverted to his ownership. 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 single 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 24 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 21 – 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 was 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 22 – Development activities in South Lake Union – phase 2 (Heurkens, 2012)

Second phase of development – incremental

Table 25 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. Nonetheless, 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. Eventhough, the orientation on the redevelopment of South Lake Union had changed resulting in a shift towards incremental 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 sector 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 25 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 m² gross floor area real estate for different uses. Still, the redevelopment of South Lake Union should be considered an ongoing process. 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 to 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. 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 hired 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 services 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 department 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 form 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 development projects Vulcan applies investment criteria that are in line with the market standards. 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 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 disclose 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. 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

![Figure 24 – Cumulative investments of Vulcan (Heurkens, 2012)](image-url)
financing for its projects. 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 oriented on 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. Hence, by enhancing the quality of the neighborhood, the returns on its investments are optimized.

Legislation
Vulcan Real Estate is a full subsidiary 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. Nonetheless, 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. 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. Though, 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>
</thead>
<tbody>
<tr>
<td>Project Management</td>
<td>Initiating</td>
</tr>
<tr>
<td></td>
<td>Private</td>
</tr>
<tr>
<td>Process Management</td>
<td>Negotiating</td>
</tr>
<tr>
<td></td>
<td>Both</td>
</tr>
<tr>
<td>Management Tools</td>
<td>Shaping</td>
</tr>
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<td></td>
<td>Both</td>
</tr>
<tr>
<td>Management Resources</td>
<td>Land</td>
</tr>
<tr>
<td></td>
<td>Private</td>
</tr>
</tbody>
</table>

Table 23 – 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 scale 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 private landlords are 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 scale. 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 did 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 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 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 a 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 shown in the table below.
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. Without having the financial capacity to invest, the SDPD has to rely on other public, and private actors to finance improvements and development. 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. Since the approval of the Rezone a Tax Increment Financing program is effective on the property taxes on the additional floor space developed above base zoning.
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 as they result from negotiations on development. 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.

Legal

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. 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 binding 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 instrumental 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. Figure 25 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. Nonetheless, 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 legitimize 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. Costs for holding undeveloped land, without income, should be taken into account. Though as being a private equity investor, Vulcan was able to retain this strategic land position. Although it was not part of 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.

**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 Vulcan 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**

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).
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 been 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 as administrative authority. This difference in politics between Seattle and Los Angeles is reflected in the cases. 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. Nevertheless, ‘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><strong>Vision</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Initial objective</td>
<td>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><strong>Organization</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Structure</td>
<td>Multidisciplinary fund manager</td>
<td>Multidisciplinary private developer</td>
</tr>
<tr>
<td>Knowledge</td>
<td>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><strong>Financial</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Structure</td>
<td>Various investment trusts</td>
<td>Own real estate portfolio</td>
</tr>
<tr>
<td>Investment Capital</td>
<td>Institutional</td>
<td>Private</td>
</tr>
<tr>
<td>Risk-return profile</td>
<td>Core &amp; Opportunistic investment funds</td>
<td>Opportunistic development, but long term core investments</td>
</tr>
<tr>
<td><strong>Legal</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Legal structure</td>
<td>Limited Liability Partnership; Low influence of capital providers</td>
<td>Limited Liability Partnership; Owner/Private capital provider</td>
</tr>
<tr>
<td>Dependency</td>
<td>Outperforming benchmark</td>
<td>Market conformity</td>
</tr>
</tbody>
</table>

Table 25 – 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 scale, they both anticipate on indirect returns due to the increase in value of the community. As such, both investment visions are strongly tied to redevelopment on urban scale.

CIM Group applies specific criteria to select communities to invest in, including favorable economic and demographic conditions and a potential for real estate value increment. Although Vulcan has not applied these kind of criteria to deliberately choose South Lake Union for development, they have expanded their strategic land position based on the potential of the area. Hence, economic drivers and potential for growth important drivers for investors to select communities to invest in. Furthermore, CIM Group and Vulcan have the objective to redevelop the community based on the actual market demand. As such, both investment strategies are not oriented on specific real estate sectors or types. Instead they 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 signal investment opportunities or potential tenants in an early stage. This investment strategy can be define as a bottom-up approach as investments result in the first place form local market demand instead of top-down investment criteria. This enables the investors to create their own market as they utilize strong relations with local businesses. An important difference between the community approaches of CIM Group and Vulcan is the sequence of their actions. When CIM Group has selected a 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 CIM decides what investments and developments it will make. On the contrary, Vulcan has invested in a strategic land position first. 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 view of both investors regarding the involvement of other private real estate developers and investors. 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.

8.2.2 Organization

Although the studied developing investors are financed in a different way, the organizations resemble in their multidisciplinary and multisectoral in-house knowledge and skills. Within the organizations development and investment knowledge are combined. Nonetheless with over 330 employees real estate fund manager CIM Group is significantly larger than privately financed developing investor Vulcan RE (40 employees). Both full service organizations are fitted-out to facilitate the implementation of their community oriented investment strategy. The organizations are not limited to a single asset type or single sector. Instead of specializing on sectoral knowledge on project level 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 multisectoral organization allows both developing investors to anticipate on local market demands within the communities.

8.2.3 Financial

The main difference is to be observe between the financial structure of the developing investors. CIM Group manages and invests 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 fund structure of CIM Group, with both core and opportunistic real estate investment funds, allow 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 financial structure of Vulcan do limit both investors to a single real estate sector nor to fixed amounts of investments over various real estate sectors. Hence, both financial structures allow the developing investor to fully serve the local market demand.

The interesting similarity regarding the financial aspect between the investment strategy of both CIM Group and Vulcan Real Estate is the 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 thereby creating an ‘own market’. Indirect returns are optimized by their comprehensive community vision, anticipating on real estate value gain. Both CIM Group and Vulcan Real Estate benefit from the recovery of the local real estate market, mainly spurred by 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 Legal
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 capital providers of CIM Group have only a little say in the allocation of investments to different real estate sectors. Hence, CIM can focus on the current market demand, whether this comprises only commercial, residential, or a mix of sectors.

As being a private investment company without having external shareholders, Vulcan has no liabilities towards other capital providers. This allowed Vulcan to retain a strategic land position untouched for years without generating a cash flow. 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 as well. However CIM 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. Hence, Vulcan has a greater
staying power, perseverance, regarding the ability to keep a strategic land position waiting on better economic conditions.

8.3 Investor-led 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 legislation. 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></td>
<td>Physical: Transformation, mixed use</td>
<td>Physical: Brownfield, mixed use</td>
</tr>
<tr>
<td></td>
<td>Market: market-led</td>
<td>Market: market-led</td>
</tr>
<tr>
<td><strong>Organization</strong></td>
<td>Private role: RE development and management, Capacity building</td>
<td>Initiating, RE development and management, Capacity building</td>
</tr>
<tr>
<td></td>
<td>Public role: Initiating, facilitating, regulating, stimulating &amp; co-investing/developing</td>
<td>Initiating &amp; regulating</td>
</tr>
<tr>
<td></td>
<td>Public private partnerships: Project level</td>
<td>Public private partnerships: Project level</td>
</tr>
<tr>
<td><strong>Financial</strong></td>
<td>Real Estate development: Private, &amp; Public-Private</td>
<td>Private</td>
</tr>
<tr>
<td></td>
<td>Public space: Public &amp; Private</td>
<td>Public space: Public &amp; Public-Private</td>
</tr>
<tr>
<td></td>
<td>Public amenities: Tax Increment Financing, Development Agreement projects</td>
<td>Private contributions on development agreement project-level</td>
</tr>
<tr>
<td><strong>Legal</strong></td>
<td>Land use: Mixed-zoning</td>
<td>Mixed-zoning</td>
</tr>
<tr>
<td></td>
<td>Flexibility: Negotiations on development agreement</td>
<td>Double zoning; base and maximum</td>
</tr>
<tr>
<td></td>
<td>Urban plan: Community plan</td>
<td>Urban Design Framework</td>
</tr>
</tbody>
</table>

Table 26 – Urban development strategies Hollywood and South Lake Union case

8.3.1 Vision

Characterizing for both urban development strategies is the emphasis a broad redevelopment vision within a process oriented on incremental development and mainly focused on facilitating private sector-led investments. Little visual plans are incorporated in the urban development plans. In contrast a broad set of objectives regarding economic and demographic drivers and societal goals such as affordable housing incorporated. These objectives include for instance the creation of temporary and permanent jobs, and the growth of inhabitants.

Both urban development strategies are oriented on facilitating investments and developments by the private 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 mainly oriented on the residential sector, livability and safety of the public spaces.

8.3.2 Organization

The figures above shows 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. CIM Group and Vulcan Real Estate are responsible for the main tasks within the project management on development scale. 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. In contrast to the role of CIM Group in the Hollywood redevelopment, Vulcan has a more steering role within the redevelopment process of South 

Figure 25 – Public and private roles in Hollywood and South Lake Union redevelopment cases (based on Heurkens, 2012)
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. Nonetheless, 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. Hence, 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. Furthermore, Vulcan has initiated the establishment of new planning regulations in the Rezone. It has to be said that this involvement in the planning process was also due to the good relation with the former Mayor Nickels.

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. Characterizing for both urban development strategies is the lack of public private financial agreements and exploitations on urban scale. No risks and returns are shared between public and private actors on urban level. Hence, the risks for the developing investors are limited to the project-, or asset-level, which is common to real estate developers and investors. However, without public private partnerships the recovery of costs for public amenities is to be realized in a different way. The realization of public amenities within the communities is in both cases financed by both public and private capital. Nonetheless, there are differences in how financing for public amenities is gathered. In both cases the initial public budget for redevelopment was low. 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 contrast, the local authority in South Lake Union had to rely on various public departments for the financing public amenities. Hence, the Seattle Department of Planning and Development 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. Since the approval of the new zoning code (i.e. Rezone see; 7.1) the SDPD can also utilize a TIF program that is applicable on the developed floor space above the base zoning. However, the amount of capital generated is considerably lower compared to the TIF program applied on urban scale in Hollywood.

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 on development agreements. In return for the private contributions usually the adaptation to the zoning code are made. 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 exploit in South Lake Union. Instead of contributing financially, the private actors can also incorporate the public amenities within their own development plan to be eligible for extended entitlements. In both Hollywood and South Lake Union the private sector has been involved in business and local improvement districts for respectively the management and safety on the public space and the realization of the streetcar.

8.3.4 Legal

In the planning documents 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. In SLU the Design Guidelines, an additional non-binding planning document, has been released to provide an clear insight in what is expected from the developers in terms of design and public space. This document is used by the Design Review Board regarding the approval of building permits.

From regulatory perspective both urban development strategies 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 is 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 and eventually led to the establishment of Rezone. These negotiations on project-scale 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 development agreements. 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. These private contribution are carried out either financially to for instance an affordable housing project, or by the incorporation of public amenities within a development plan of the private actor. In South Lake Union this room for negotiation has been incorporated in the Rezone. This Rezone includes the maximum zoning within the area. The Rezone is an additional zoning document next to the zoning code. This 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 28 the main characteristics of the community oriented investment strategies of CIM Group and Vulcan Real Estate are compared. Characterizing for both developing investors is their anticipation on indirect returns by focusing on the community scale instead of the real estate asset scale. Hence, both organizations are quite similar regarding the in-house knowledge and expertise. CIM Group and Vulcan Real Estate unroll their investment strategy by integrating in the community. As such their role includes capacity building, marketing of the community and urban management.

Table 29 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. Nonetheless, both cases show similarities including the lack of public private agreements on community scale, public private negotiations on development agreements 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.
PART 3  SYNTHESIS
To be able to draw lessons from the studied investor-led urban development practices a better insight is needed in both the challenges and opportunities of the approaches regarding the Dutch urban development practice. Dutch urban development professionals, investors and public actors are consulted during an expert meeting to discuss these opportunities and challenges based on the case study findings. The following question is answered in this chapter:

“What are the main opportunities and challenges of the implementation of the studied investor-led urban development approaches in the Netherlands according to Dutch urban development professionals?”

9.1 Expert meeting

To get an insight in the main challenges and opportunities for the implementation of the US investor-led urban development approaches in The Netherlands, an expert meeting is held in February 2014. The expert meeting is organized in cooperation with Grontmij and Grontmij Capital Consultants. In this section the expert panel is introduced briefly. Thereafter the methodological structure and discussed issues of the expert meeting are described. Lastly findings of the expert discussion are described thematically.

9.1.1 Expert Panel

As this study is oriented on both the investment and planning and development perspective, both private and public sector actors are invited for the expert meeting. Furthermore, urban development professionals and academics attended the expert meeting. The panel consisted of the following participants:

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.

9.1.2 Structure and discussion subjects
The objective of the expert meeting was to explore the challenges and opportunities of the studied investor-led development approaches by consulting relevant Dutch experts. As the main scope of this research is to learn lessons from US urban development cases, the main focus is on the in-depth case study research. Hence, this expert meeting is considered subordinate to the case research. Considering
the explorative character the expert meeting and the amount of participating professionals an open
discussion structure has been applied. The expert meeting has been divided into two phases. Firstly the
main case study findings have been presented to the panel. The second phase of the meeting comprised
the expert discussion based on propositions derived from the research findings. In the discussion that took
over an hour the following two propositions have been presented to the panel;

“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).

9.1.3 Expert discussion

In this section the discusses issues are briefly described thematically. An extensive summary of the expert
discussion has been included in Appendix C.

Developing investors in The Netherlands

In chapter 3 we described that the last two decades more and more Dutch investors have repelled their
development department based on the trend to focus on the core business. Although the positive effects
of combining development and investment are clear (see section 3.1.1) the panel discussion showed that
in Duthe private sector it is still assumed separate development and investment is more efficient.
However, 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. Nevertheless most Dutch investors do not focus on specific communities within these urban regions. Moreover, most of the Dutch developing investors were commonly active throughout all of the Netherlands. Hence, Dutch investors are strongly oriented on the investment asset, rather the community to invest in. 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, regarding the geographical diversification opportunities of investing in multiple communities 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 were the cultural differences between the United States and the Netherlands. Nicole Maarsen (HAL Investments) mentioned the lack of welcoming successful competitors in Dutch culture. According to Maarsen 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 as they seem to benefit from the increase in private interest in an area. Another discussed cultural difference concerns the sense of ownership regarding spatial challenges. The role of the public sector as problem owner concerning spatial challenges is deeply rooted in Dutch planning culture (see chapter 5). According to public residential director Bob van der Zande (OGA), the collectivity between public and private in tackling spatial challenges is lacking in Dutch urban development projects.

Political risks and inconsistent public policy on State and local level
One of the main points of concern discussed by the panel is the political risks and inconsistent public policy on both State and local level in the Netherlands. According to Wensing the new Housing Act (Dutch: nieuwe Woningwet) incorporates long term uncertainties which thwart long term commitment of Dutch real estate investors. Also on local level public policy is considered inconsistent by several experts. According to the experts local authorities should prioritize urban development projects for the long run and as such transparently provide public support. According to the experts consistent and transparent public governance is required to limit the long term risks of urban development for the private sector.

Flexibility in urban planning
The characterizing flexibility in the planning of urban development projects in the US is a delicate topic in the Netherlands. Indeed Dutch urban planning approaches have become more and more flexible and oriented on private sector objectives. Although flexibility is sought for in The Netherlands, the panel discussion made clear that still too 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 kind of developments are desired instead of what is feasible under current market conditions. These public preconditions hamper 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. According to the experts 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 nor deterioration in the area. Additionally it is questioned whether land conversion potential in Dutch urban redevelopment communities is financially attractive enough for the private sector. The Binckhorst, a community in The Hague, passed the discussion as example of a redevelopment project in which the current use still functions well. Hence, the potential capital gain of 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, in Dutch practice urban redevelopment is less attractive. However, contemporary planning policies are restricting Greenfield development in The Netherlands (Ministerie van Infrastructuur en Milieu, 2012). Both the sense of urgency and the potential capital gain regarding urban redevelopment projects might be an impediment for the implementation of the American investor-led community redevelopment approach in the Netherlands.

9.2 Conclusions
Based on the finding of expert panel discussion we can draw some conclusions regarding the main opportunities and barriers of the US investor-led redevelopment approaches for the Dutch urban development practice.

Opportunities for Dutch urban development practice
According to the experts, one of the main opportunities of the American community oriented investment strategies comprises the focus of the developing investor on bounded communities rather than fixating on the real estate object. As such, the developers anticipate on indirect returns due to the increase of real estate value in the community. As Dutch institutional investors are looking for unique investment opportunities, the redevelopment of inner-city communities might be a valuable business case. Another opportunity comprises the double role that studied American developing investors have adapted. The bottom-up approach, including 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 and allows the investor to signal investment opportunities and to “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

According to the private sector panel members long term uncertainty of political policy and inconsistent public policies form a major barrier for private sector initiative in urban development. However, some Dutch municipalities already set a good example of transparent and consistent planning. Moreover, if the sense of urgency is high enough urban planning policy is more likely to change. Nonetheless, 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.
empirical and inspirational lessons.

In part 2, 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). In the previous chapter the main barriers and opportunities for Dutch practice of these investor-led urban development approaches are identified based on an expert discussion. This chapter elaborates on the findings of the case study research by drawing empirical and inspirational lessons for Dutch urban development practice. Firstly lessons are empirical lessons (section 10.1) and inspirational lessons (section 10.2) drawn regarding investment- and urban development strategies. Section 10.3 elaborates on the transferability of the lessons learned, while in section 10.4 the main findings concerning the commitment of investors to incremental redevelopment projects are discussed.

10.1 Empirical lessons from US investor-led urban development practice

In this section empirical lessons for Dutch urban development practice are drawn based upon the findings of the in-depth case study and the expert meeting. First, empirical lessons are drawn regarding the investment strategy of Dutch real estate investors. Secondly, lessons are drawn from the perspective of urban development and planning. The empirical lessons are introduced by issues concerning the implementation the investor-led development approaches in The Netherland derived from the expert meeting. Based in on the case study findings empirical lessons are drawn and briefly substantiated. This section aims to answer the following research question: What empirical lessons regarding the investment- and urban development strategy can be learned from the US investor-led urban development practices for the Dutch urban development practice?

10.1.1 Lessons regarding investment strategies for Dutch real estate investors

Incorporation of the urban scale in investment strategies

According to the expert discussion Dutch both developing investors and the investment sector in general do incorporate transparent investment criteria for the selection of potential investment-regions. Nevertheless, Dutch investors are mainly oriented on the building scale rather than the urban scale. Hence, their investment strategies lack the incorporation of comprehensive thinking at community-scale. Furthermore, the Dutch real estate investment sector is characterized by a high degree of specialization of investors toward real estate investment classes. In contrast, the investment strategies of CIM Group and Vulcan Real Estate are characterized by the incorporation of the community as local investment market. By this matter both US developing investors anticipate on the future real estate value growth throughout the selected community. Hence;
By incorporating comprehensive community thinking into the investment strategy, long term commitment to incremental redevelopment projects can be considered valuable as it allows the developing investor to indirectly optimize its return on investments.

Central to the community oriented investment strategies of both studied investors is the anticipation on changing local market demand. By aligning their investments to the local market demand and by aiming to restore the balance between functions in the community, CIM Group and Vulcan Real Estate intent to restore the local real estate market. To be able to anticipate on the changing local market conditions the investor’s organization requires extensive and multidisciplinary in-house knowledge regarding real estate investment, development and management. Moreover, the financial structure of the investor should allow a flexible allocation of investments in terms of different real estate sectors.

Combination of a top-down and bottom-up investment approach

Just like all common real estate investors, Dutch investors set hard criteria for investment decision making. Although the community-scale is usually not incorporated in the investment strategy, some Dutch investors do apply criteria for the selection of potential urban regions similar to CIM Group. Both CIM Group and Vulcan RE have coupled their top-down investment decision making to a bottom-up approach to roll out the investment strategy. Hence;

Integration in a local community provides the developing investor the ability to optimize the returns on investment by extensive local market knowledge and by capacity building.

The integration within the local community is a deliberate part of the community investment approach of both studied developing investors. Integrating in the public, private and civic local network allows the investor to signal investment opportunities or potential tenants in an early stage. Moreover, both CIM and Vulcan actively build capacity for redevelopment amongst public and civic actors, and promote the redevelopment of the community amongst the private sector. As such, they actively steer the urban redevelopment process.

10.1.2 Lessons regarding urban development strategies for Dutch redevelopment projects

Public-private partnerships

According to the expert meeting Dutch local planning authorities still set too much preconditions in urban development plans. While the emphasis is shifting from an comprehensive development approach toward incremental development, public authorities still aim to establish formal public-private agreements on the urban scale. In contrast the studied redevelopment projects of Hollywood and South Lake Union did not incorporate formal public-private agreements on community-scale, nor do they share operation costs and revenues of the community. In both cases the public-private cooperation regarding negotiation on planning and visioning can best be characterized as an informal partnership in which ongoing reciprocal consultation leads to the adaptation of public and private redevelopment objectives. Hence;
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 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 project development. This development-led urban redevelopment approach requires a different way of financing public amenities (see next lesson) while hard commitment of the developing investor is triggered less due the lack of financial public-private agreements on community-scale (see 10.4.2). On community-scale public and private redevelopment objectives are aligned during the consultation of the private sector in the planning processes. The interview with the SDPD revealed that as local authority they were aware of their dependence on private initiatives and investments. Basically, when contributing to economic or demographic growth the developer is able to influence decision-making in the planning process. This is reflected in project specific changes to local zoning in both South Lake Union and Hollywood. However, if a private actor requests to adapt the zoning code to the objectives of the project, the public authorities commonly negotiate private contributions to the realization of public amenities in return.

Financing public amenities

As mentioned above, both studied redevelopment processes are characterized by the lack of formal public-private partnerships structures on urban scale. The lack of such partnerships confines the ways public amenities can be financed. In large scale public-private partnerships, private revenues are balanced to public objectives by means of in-plan settlements on land development (D: binnenplanse verevening). Hence, without public-private agreements on an urban scale, private contributions for the realization of public amenities should be gathered in other ways. Both studied US cases show that these private contributions can be generated by negotiations leading to development agreements. Thus;

Incremental urban redevelopment projects do not necessarily ask for financial public-private arrangements on community-level as private contributions to the financing and realization of public amenities in the community can be negotiated on development agreements.

Both CIM Group and Vulcan have contributed to the realization of public objectives by incorporating public amenities in development plans or by a financial contribution. These contributions are the result of public-private negotiation on development agreements. However we should consider that there is only reason for these negotiations when the private sector needs adaptations to the existing zoning plan. Hence, the realization of public amenities is dependent on economic conditions. Therefore public authorities utilize financial instruments such as Tax Increment Financing and have to rely on State and Federal funding. Moreover, we have seen that the private sector is willing to contribute extensively to societal interests such as the street car in South Lake Union and the refurbishment and safety of the public space in Hollywood via Local- or Business Improvement Districts. The willingness of the private sector to contribute to societal interests can be related to the US culture in which both public and private sector are
commonly seen as problem owner of spatial challenges. On the contrary, in Dutch planning culture the public sector is seen as problem owner and as such as responsible for safeguarding societal interests (Heurkens, 2012). The ability to decouple the recovery of costs from formal public-private partnerships in Dutch practice is hampered by the absence of effective public instruments for loosely coupled recovery of cost (Sorel et al., 2014). Furthermore, effective recovery of costs via for instance the baatbelasting is hampered by the jurisprudence. But foremost, the Dutch private sector should realize that without sufficient public budget their role in realizing and maintaining public amenities will grow.

**Transparent and consistent public regulations**

One of the issues discussed extensively during the expert meeting concerned long term planning risk resulting from National policies and the inconsistency of local public policy (see section 9.2). According to the experts the lack of clear prioritization of urban development projects and ambiguous planning objectives hamper private initiatives. Characteristic for planning regulations in the studied American cases is the extent to which objectively verifiable goals and expectations of the private sector are incorporated. This can be related to the US culture of litigation (see section 5.1.1). In addition, in both Seattle and Hollywood a clear prioritization of redevelopment projects is coupled to public commitment in the form of State and/or Federal funding. Hence;

> **Transparent development and planning regulations concerning what is expected from the private sector, combined with a clear public prioritization of urban redevelopment projects enable private sector initiatives and long term private commitment.**

The incorporation of clear objectives in regulatory- and non-binding planning documents, such as the design framework, proved not to speed up the planning process and procedures in South Lake Union, but do allow Vulcan to already design comprehensive development plans and adapting these plans to community interests before applying for development permits. In Hollywood clear public objectives are incorporated in the planning documents that private actors should meet to be eligible for public incentives, such as public funding. These transparent but not limiting expectations ease the application process for the private sector, and limit the planning risks of real estate development. Moreover, CIM deliberately selects communities in which the public commitment to the redevelopment is clear. Clear prioritization coupled to State and Federal funding projects and the utilization of financial planning instruments such as TIF contribute to the public commitment.

**10.2 Inspirational lessons from US investor-led urban development practice**

Based upon the in-depth case studies more lessons for Dutch urban redevelopment can be drawn which are not directly related to the studied variables and research objectives. This section aims to answer the following research question: *What inspirational lessons regarding the investment- and urban development
strategy can be learned from the US investor-led urban development practices for the Dutch urban development practice?

10.2.1 Private sector cross-fertilization

As described in the previous chapter the panel discussion showed that competition between private actors hampers incremental urban development projects in The Netherlands. It seems unfeasible to deploy different private development approaches in one area. The US case studies show a different attitude of the developing investors toward private sector competition.

_Vulcan Real Estate and CIM Group seem to benefit from successes of- and competition from other developers and investors in the community._

Their investment strategy is partly based on capturing the value growth of the community. Hence, the more pressure on the local real estate market, the higher the value of real estate in their possession. In other words; the more investments are made in the community, the faster a critical mass is reached to restore the real estate market. For CIM Group, private sector support is even one of the criteria on which potential investment communities are selected. 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.

10.2.2 Tax Increment Financing

In Dutch urban development practice were facing public deficits which have led to a decreased public investment capital. Characteristic for the American urban development practice is the lack of public investment capital. Although in a different way, in both cases Tax Increment Financing (TIF) is utilized as public financing instrument. In the State of California a Tax Increment Financing program has been set up in the late 1950s to stimulate the redevelopment of blighted communities. In short, when a TIF-program is applied on an area, the local property tax is fixed for a set term. As property tax rises each year driven by regeneration and transformation activities, the tax increment is redirected to finance the local redevelopment activities and public amenities. In South Lake Union a TIF-program has been linked to an incentive zoning program. Basically tax increment on specific projects is redirected to finance infrastructural projects in the community.

_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.
10.2.3 Formalized negotiations on development agreements

The TIF-program that has been implemented in South Lake Union is far less extensive than the one in Hollywood. Therefore, the financing of public amenities in SLU mainly derives from private contributions. For some of the first development projects in SLU, Vulcan lobbied for development-specific zoning changes, known as ‘text amendments’. These individual rezones to amend the base zone incorporated private contributions to public amenities such as social housing. Based on the success of the text amendments, a new zoning was established in SLU. This so-called Rezone sets the maximum amendments 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. By means of the Rezone the local government has formally set the room for negotiation on zoning in a new regulation.

*By setting an additional zoning regulation comprising the maximum allowable regulations the local planning authority can create a room for negotiating private contributions to realize public amenities.*

As current Dutch regulations to recover costs for public amenities seem insufficient, this approach might be effective as it sets a transparent and level playing ground for negotiation with private actors. Nonetheless, this regulatory instrument is strongly dependent on market conditions. No contributions are generated if the private sector has no need to exceed the base zoning to optimize its returns.

10.3 Transferability of lessons learned

In this section the transferability of the empirical and inspirational lessons learned are discussed based on the contextual differences between the US and NL. Firstly a stage is set by briefly describing the three contextual aspects related to the literature study (see chapter 5), the cases and expert meeting. Based on the contextual aspects the transferability of the empirical and inspirational lessons are determined before briefly discussing the context dependent lessons.

10.3.1 Contextual differences between the US and NL

**Cultural conditions**

The American culture can be typified as Anglo-Saxon which is strongly based on a free market economy coupled to a limited influence of the government. This strongly contrasts to the market regulation and extensive government influence in Dutch culture. Moreover, US culture is characterized by the emphasis on negotiation and economic aspects whereas Dutch culture is about seeking consensus and emphasis on societal values. These differences can be related to the emphasis on promoting success in US culture versus the emphasis on leveling success amongst society in Dutch culture. The strong emphasis on litigation in US culture is translated into a strong reliance on objective planning decision-making coherent to jurisprudence. Both cases showed the emphasis on legal aspects over the organizational and relational aspects as for instance measurable and transparent objectives are incorporated in the planning
documents. In contrast, the organizational and relational aspects are valued over legal aspects in Dutch culture.

**Planning System**

As described in chapter 5, American planning culture is characterized by a high degree of decentralization. The fragmentation of governance is reflected in the differences of urban planning practices between States. The case study clearly revealed a mayor difference in local governance between Los Angeles and Seattle. In contrast to the City Council’s authority in making planning decisions in Los Angeles, the Mayor is the main administrative authority in Seattle. This is reflected in the favorable relationship that was built between former Mayor Nickels and Vulcan Real Estate. Although formally the extent of mayoral influences in not to be expected in Dutch planning culture, Dutch mayors are able to leave their mark on local planning policy. Furthermore, the studied urban development projects of Hollywood and Seattle showed the development-led character of the American planning culture, while in Dutch planning culture the emphasis is traditionally on spatial planning and design.

**Spatial-Economic conditions**

According to the expert panel, an important issue to consider from investment perspective is related to the economic autonomy of urban regions. The economic autonomy of urban regions and thus the autonomy of real estate markets, is linked geographical correlation between the real estate markets. Hence, the lower the correlation, the higher the benefits of geographical diversification. The economic autonomy of urban regions in The Netherlands is considerably smaller compared to urban regions in the US which is mainly due to the geographical scale of the country. Hence, the benefits from geographical diversification by investing in various communities in The Netherlands are considerably less than investing in various communities in the US. Furthermore, the literature study in chapter 5 discussed the profitability of land conversion in the US and NL. It is argued that urban redevelopment is relatively more profitable in the United States due to the restrictions on Greenfield development. However, we should also consider that the US trend of urban sprawl has led to the deterioration of many inner-city urban areas resulting in decreasing real estate values due to the lack of public interference. Although current policies indicate that Greenfield development is restricted in The Netherlands as well (Ministerie van Infrastructuur en Milieu, 2012) the expert meeting showed that transformation of urban areas is still hampered by the high real estate values in The Netherlands.

10.3.2  **Context dependent- & Context independent lessons**

Based on the three issues described above the empirical and inspirational assessed on transferability regarding the Dutch context. The table below indicates whether the lessons learned from the US cases are context- dependent or -independent. In this section we will briefly discuss the context dependent lessons.
Comprehensive urban investment strategy

Although incorporating comprehensive urban thinking in the investment strategy should only ask for a change of mindset for some of the investors in The Netherlands, we should consider the transferability of this lessons from spatial-economic perspective. The case study revealed that economic- and demographic growth are important conditions for the investors to either select communities to invest in, or expand their strategic land position. Hence, it is unlikely the investor will be oriented on redevelopment projects in shrinking regions. This brings us to the expert meeting in which is discussed whether the Dutch government is willing leave more room for private initiative for the redevelopment of urban communities in the economically stronger regions.

Another barrier for the investor can be the level of diversification of its investments. The Dutch market is probably small to implement a multi-community investment approach like CIM Group does. As The Netherlands and the United States are incomparable in terms of geographical scale, we should consider that a similar multi-community investment approach could better be implemented throughout Europe. Nonetheless, whether the investment strategy incorporates multiple communities or only one, the community should house enough potential for value growth by redevelopment activities. The discussion during the expert meeting proved the concerns whether Dutch redevelopment projects house enough potential for future value growth or not.

Financing public amenities via negotiations on development agreements

In both cases the private sector contributions to the realization of public amenities within the community are negotiated on development agreements as no formal public-private partnerships are established at community-scale. In return for adaptations to the local zoning, private actors either contribute financially or by incorporating public benefits in the development plans. According to Hobma (2014) it is the question whether this way of recovering costs for public amenities is feasible in The Netherlands. On the one hand, the current regulations and jurisprudence do not allow for extensive recovery of costs on development agreements. On the other hand, the private sector is not willing to contribute extensively to the realization of public amenities in incremental redevelopment projects.
Private sector cross-fertilization
As described in section 10.2.1 this lesson implies that US investors seem to benefit from competition with other private actors and their involvement in a redevelopment project. In contrast, the discussion of the panelists (see chapter 9) showed that in Dutch culture competition between private actors hampers redevelopment projects. According to the experts this is mainly due to the negative attitude toward free riders and toward other private business models within the community. Hence, this cultural barrier hampers the application of the studied investor-led urban development approaches in the Dutch context.

Tax Increment Financing
As mentioned in section 10.2.2 the financial planning instrument Tax Increment Financing has crossed the Atlantic. Some pilot projects are already underway in The Netherlands. The interests of several panelists regarding this planning instrument which redirects property tax increment to local redevelopment activities proves the status of TIF as trending topic in Dutch urban development practice. However, it is questionable whether TIF programs can be effectively applied in The Netherlands due to the differences in planning systems. 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 mechanism; 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 (alternative forms of) TIF for Dutch practice.

Formalized negotiations on development agreements
As mentioned above, the recovery of costs in current regulations is hampered by the planning system and the Dutch culture in which the private sector is not willing to contribute extensively to the realization of public amenities in incremental redevelopment projects. In South Lake Union these private contributions are matched to incentives in the form of extensions to the base zoning plan. This room for negotiation is transparently and objectively recorded in an additional zoning code; the Rezone. By means of providing incentives by allowing greater building heights and densities the private sector is triggered to contribute to the realization of public amenities elsewhere in the community. As the current Dutch planning and development legislation does not allow the recovery these costs via private sector contributions, this planning regulation in which public and private benefits are matched might be a solution. Nevertheless the question remains whether the implementation of this kind of planning regulations is feasible in The Netherlands.
10.4 Insights regarding commitment of the investor

This section elaborates on the insights in the commitment of the developing investors in incremental redevelopment projects. These insights are based on the analysis of the relation between the investor’s investment strategy and the urban development strategy in the studied cases of investor-led urban development. These insights are derived from the analysis of the cases studies, based on the analytical framework, with the objective to provide understanding concerning the commitment of the developing investor in general rather than providing lessons for Dutch practice.

10.4.1 Perseverance related to long term commitment

The comparative case analysis revealed that the perseverance (D: lange adem) related to the long term commitment of the developing investor to incremental redevelopment projects is dependent on the legal aspect of the investment strategy. In other words, the staying power regarding lengthy prefunding of redevelopment activities is confined by the liabilities of the investor to its capital providers. Hence;

*Considering the ability to steer incremental urban development projects privately financed investors can relatively better exploit their perseverance compared to institutionally financed 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 RE 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, 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.

10.4.2 Hard and soft commitment

A key objective of this research is to provide insight in how the community-orientation of the investor is translated to commitment to the urban development. As mentioned above (section 10.2.1), the commitment is partly dependent on the type of developing investor; financed by private or institutional capital. This has effect on the hard commitment of the developer. By that is meant the financial commitment, in this case, in the form of prefunding. The case studies show that;

*Private sector commitment to incremental urban redevelopment projects is not necessarily tied financially to extensive pre-funding but can also be effectuated by private involvement in community and capacity building, and the management of the public space.*

Both CIM Group and Vulcan RE are involved in capacity building for redevelopment amongst public and private by integrating into the community network. As such, they are able to steer the redevelopment process. 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. This form of commitment to urban redevelopment projects can be defined as soft commitment. In contrast to the Vulcan, CIM’s commitment to the redevelopment of Hollywood is characterized by its managerial involvement prior to financial investments. Based on ties to the local network CIM is able to investigate local investment opportunities and is generate public support for the development. Moreover, as significant landlords, both Vulcan and CIM are involved in the financing of public amenities via local- and business improvement districts.

10.4.3 Market dependency of the investor’s commitment

Nonetheless, without financial public-private agreements on an urban scale, hard commitment of the developing investor is dependent on market conditions. Vulcan RE is able to postpone its investments while CIM Group can move to other selected communities.

Without financial public/private agreements on community-scale and due to the strong emphasis on market-led development, the commitment of the investor to the community redevelopment project is strongly dependent on the market conditions.

In the studied incremental redevelopment projects, characterized by their market-led approach, extensive prefunding by the private sector is not required. On the one hand this can be considered favorable as the extensive pre-investments are a reason for investors not to commit themselves to risky redevelopment projects. On the other hand without long term public private financial agreements the urban development force (i.e. development power) is strongly dependent to market conditions. The Seattle case shows that Vulcan is able to postpone its developments while the Hollywood case shows that CIM Group can shift the focus to a variety of other communities. Furthermore, we have to consider that CIM and Vulcan are active in economically and demographically strong metropolitan areas. Hence, due to the strong reliance on market conditions, this investor-led development approach is not likely to be deployed in urban areas with unfavorable economic and demographic conditions.

10.5 Conclusions

In this chapter we have described the empirical and inspirational lessons from the US investor-led urban development practices. We have indicated and discussed the context-dependent lessons. We found that many of the empirical lessons and inspirations are context-dependent as application in the Dutch context is hampered by cultural differences. Nonetheless, the expert discussion showed that Dutch practice could not only learn from foreign practices but also from foreign cultures. Hence, although the current Dutch context of urban development limits the application of several lessons learned, they might become valuable in the future as culture is subject to change as well. In the last section we elaborated on the commitment of the US investors providing some useful insights in how investors can be committed to incremental development projects. Thereby preconditions and limitations of the commitment are indicated based on the studied US practices.
conclusions.

This research aimed to provide useful insights in investor-led urban development. In Part 1 we discussed a better understanding is needed in community oriented investment strategies of American developing investors in order to learn lessons regarding the commitment of investors to urban redevelopment projects. Part 2 described the in-depth case study research conducted in the United States. The foregoing chapter described the lessons learned for Dutch urban development practice. In this chapter the results of this research are summarized by answering the main research question and recommendations for further research are provided.

11.1 Answering the main research questions

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 this is a rather broad research question, the answer is broken down into themes that correspond to the structure of this research report. First the main findings and lessons learned regarding the community-oriented investment strategy are described. Subsequently, the lessons regarding the urban development strategy are provided. After we have discussed the developing investor’s commitment briefly a final conclusion in drawn on the relevance of the insights form US practices.

Community oriented investment strategies

In the community oriented investment strategies of both CIM Group and Vulcan Real Estate the redevelopment of urban communities is regarded as a central aim. This commitment to urban redevelopment does not make them benefactors; their investment criteria are in line with the market. By incorporating a comprehensive community redevelopment vision instead of solely focusing on singular real estate as an investment object, the studied US developing investors value multisectoral market-led investment over sectoral specialization. Creating a high quality and functionally balanced community is in the interest of the developing investors as they anticipate on the future value increment of the real estate.

Based on close ties to the local network of public, private and civic stakeholders they are able to steer the development process by building capacity amongst involved organizations and individuals, and creating an own market based on their expertise, network and market knowledge. Hence, they optimize their returns on real estate directly, on building scale, and indirectly, on community-scale. These multi-sectoral investment strategies require extensive in-house knowledge regarding all real estate sectors and a multidisciplinary organization skilled in real estate development, management and urban planning processes.
Furthermore, the financial and legal structure of the investment company should allow flexible allocation of investments in terms of real estate sectors to be able to anticipate on the changing market demand. Hence, if diversification is required from investment perspective, it is to be sought geographically.

Table 31 shows the main lessons, inspiration and preconditions regarding the community oriented investment strategies.

<table>
<thead>
<tr>
<th>NL</th>
<th>VS Cases</th>
<th>Lessons, inspiration &amp; preconditions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investors mainly oriented on building scale.</td>
<td>Community as investment market — anticipating on value growth community by redevelopment.</td>
<td>By incorporating comprehensive community thinking into investment strategy, and anticipating on capturing value increment of the community, long term commitment to incremental redevelopment is considered valuable.</td>
</tr>
<tr>
<td>Investment sector characterized by specialization instead of broad scope.</td>
<td>Involvement in public, private and civic community network.</td>
<td>The integration within the local community provides the developing investor the ability to optimize the returns on real estate based on the local market knowledge (direct) and capacity building (indirect).</td>
</tr>
<tr>
<td>Mainly single sector real estate investments fund.</td>
<td>Full service organizations, multi-sectoral real estate development &amp; management, and urban planning.</td>
<td>Multisectoral in-house knowledge in a multidisciplinary organization are required to be able to anticipate on the local market demand and to steer the redevelopment process.</td>
</tr>
<tr>
<td>Financial structure which allows flexible allocation of investments in terms of real estate sectors.</td>
<td>Ability to freely invest in any sector or location.</td>
<td>Limited restrictions on sector, and geographical allocation to be able facilitate market demand.</td>
</tr>
</tbody>
</table>

Table 28 – Lessons, inspiration and preconditions regarding US community oriented investment strategies

**Urban redevelopment strategies**

To determine the role and influence of the investor in the redevelopment process and provide an insight in the preconditions on the urban development strategy for facilitating the community oriented investment strategies, the urban redevelopment strategies are studied. Both cases can be characterized as development-led incremental urban redevelopment projects in which the emphasis of the public authorities is on facilitating private developments driven by mainly economic and demographic objectives. In terms of Mintzberg’s (2007) formation of strategies, the strategy of these US urban redevelopment projects is foremost the result of patterns and perspective adapted to the changing market demands, whilst in Dutch urban development practice the emphasis is more on strategies as a plan and tangible positions. As no private prefunding is required on an urban scale the lack of public-private partnerships provides flexibility for the private sector and allows continuous adaptation of public and private development objectives to changing market demands.

Nonetheless, this approach requires other ways of recovering costs for the realization of public amenities. In both cases the investors, as other involved private actors, contribute to the realization of public amenities based on negotiations on development agreements. Furthermore, public financing instruments such as TIF are applied to generate a public investment capacity. Nonetheless, we discussed it is unlikely that TIF can be implemented effectively in the Dutch context, while cost recovery via land use negotiations require the willingness of the private sector and perhaps changes to the regulations.
Next to real estate development and management, the main role of the developing investors in the studied investor-led urban development projects is building capacity for redevelopment activities amongst public, private and civic stakeholders. On the one hand, the local authorities strongly have to rely on private sector investments for the realization of planning objectives and as such the private sector is able to steer the urban planning process. On the other hand, the developing investors are willing to contribute by for instance financing security programs for the public space and value-adding infrastructural projects.

According to Dutch experts the investor’s proactive, community-oriented role might be valuable for Dutch practice. This investor-led redevelopment approach requires more room for private initiatives. Wishful thinking by public authorities should be converted to setting market-led and objectively measurable urban development conditions in consultation with the private sector. Prioritization of urban redevelopment projects for a long term provides public support which stimulates private sector commitment, as it ensures required public support and consistent public policy. Creating a transparent and level playing ground might enable positive private competition within the community.

The table below shows the main lessons, inspiration and preconditions regarding the urban redevelopment strategies are provided.

<table>
<thead>
<tr>
<th>NL</th>
<th>VS Cases</th>
<th>Lessons, inspiration &amp; preconditions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commitment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>This study revealed that the investor’s commitment to incremental redevelopment projects is strongly dependent on the market conditions; no formal public-private long term agreements are made on financial matters at urban scale. Nonetheless, the investors are committed to the urban redevelopment projects in a ‘soft’ managerial way. Therefore, this research introduces the distinction between hard and</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
soft commitment to urban development project. While hard commitment is defined as commitment in the form of prefunding in land of real estate, soft commitment can be explained as managerial commitment in order to steer the urban development process. This soft commitment is effectuated by US developing investors through capacity building and involvement in the urban planning process. Soft commitment can be considered valuable for urban development practice as the investor stimulates redevelopment activities by capacity building amongst

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:

More (case study) research to community oriented investment strategies
There is little scientific literature on community oriented investment strategies or on the linkage of real estate investment strategies to urban development. This research aimed to partly fill the scientific gap. However, only two community oriented investment strategies are studied while many more other investment strategies might be valuable as well for Dutch urban development practice. Moreover, this study only focused on the two types of developing investors, other possible role of other investors in urban development projects should be studied as well. Hence, more case study research is needed to provide a wider view on investor-led urban development projects and community oriented investment strategies.

Dutch Real Estate Investment sector
Due to the limitations on time, we have not been able to develop a conceptual public-private cooperation model for investor-led development in The Netherlands as significant cultural differences had to be taken into account. To be able to develop an implementable conceptual business model better insight is needed in the Dutch investment and urban development practice. It would be valuable to study the main barriers and conditions for Dutch investors, developers and other private actors to be involved in redevelopment projects. Based on those insights the next step can be taken to develop a conceptual business model for Investor-led urban development in The Netherlands. The first steps in this direction are taken by several students at the TU Delft.

Financing public amenities
This case study showed an alternative business model of financing public amenities. Recovering costs for public amenities is an important issue of discussion in current incremental urban development practice (see Sorel et al., 2014), as in the studied American cases which lacked formal public-private partnerships or agreements on community scale. This research showed that private financial contributions can be
negotiated on development scale. Nonetheless it is questionable whether this form of recovering costs for public amenities is feasible in The Netherlands. Furthermore this research described a public financing instrument for redevelopment: Tax Increment Financing. As discussed in section 10.3, 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.
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). Nonetheless, 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 is 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 had 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 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.
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.


appendix a – hollywood redevelopment case.

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

A1 Case references

Interviews & Project visits
Keij, Gerrit (16 January 2014). HOF Capital, real estate investment advisor (see appendix A3)

Documents
A2 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>FRT &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>FRT &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>FRT &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>FRT &amp; Other</td>
<td>Retail/Parking</td>
<td>Operating</td>
<td>1999</td>
<td></td>
<td></td>
<td>6,020</td>
</tr>
<tr>
<td>6410 Hollywood Boulevard</td>
<td>FRT &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>6611 Hollywood Boulevard, Hollywood &amp; Cherokee</td>
<td>CIM III</td>
<td>Retail</td>
<td>Redevelopment, Repositioning</td>
<td>Operating</td>
<td>2007</td>
<td></td>
<td>2,750</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</td>
<td>CIM III</td>
<td>Hotel</td>
<td>Management</td>
<td>Realized</td>
<td>2009</td>
<td>2013</td>
<td>5,100</td>
</tr>
</tbody>
</table>
A3 Interview transcript Gerrit Keij

On Thursday 16th of January, 2014, and 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 in 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, 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.

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 analyse 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 gebeurt. Dat is niet van achter de desk, vanuit Excel, maar dat is juist erg op persoonlijke relaties. Dat betekent ook dat ze al heel veel tijd van tevoren moeten steken in zo'n omgeving, en dat je dus niet wacht tot een deal die gepresenteerd wordt 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 wel 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 ontwikkelaande 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 fons 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, teruggestomen 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 meegekregen, dat ze op alles bieden. Maar als ze voor een gebied kiezen, dan betekent het dat 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 wijzen 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 op dat moment het beste rendement op kan leveren, er zijn geen restricties. Het zijn dus echt opdrachtgevers, 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. Zie kiezen natuurlijk wel, meer dan andere ontwikkelaars, om binnen kleinere gebieden, geconcentreerde investeringen aantrekken.

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.

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 heel hard te werken. Maar ook ontzettend getalenteerd zijn. En bereid zijn om 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 verschaf 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:
*Vergelijk 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, waar 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:
*Dat is inderdaad het perspectief dat ze niet heel gecommitteerd aan een gebied maakt. Daar staat tegenover dat CIM geregeld, en door middel van meerdere fondsen, investeert in projecten en objecten in elkaars nabijheid. Daarmee proberen ze bewust te profiteren van de waarde ontwikkeling in het gebied, en vanuit dat perspectief maakt het ze toch ook een soort gebiedsontwikkelaars. Zij hebben er financieel baat bij, als de kwaliteit van het gebied, en voorzieningen, dus ook naast het vastgoedaanbod, verbeterd, aangezien ze dat terug zullen zien in de waarde van het vastgoed en dus het rendement. Een goede balans tussen wonen, werken, retail en andere sectoren is voor CIM ook van groot belang dus. Voorwaarde is natuurlijk wel dat de markt relatief laag moet staan, en de regulering van de overheids transformatie en functieververderingen dus ook mogelijk maakt.*

GK:
Ja dat klopt inderdaad.

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.
A4 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.
appendix b – south lake union case.

This appendix includes the additionally included documents concerning the South Lake Union redevelopment case described in chapter 7, including the transcripts of the interviews with Vulcan Real Estate and the Seattle Department of Planning and the zoning map.

B1 Case references

Interviews & Project visits

Coleman, Sharon (29 October 2013). Vulcan Real Estate, real estate development director (see appendix B1)
Mason Curran, Lori (29 October 2013). Vulcan Real Estate, real estate investment strategy director (see appendix B1)
Holmes, Jim (30 October 2013). Seattle Department of Planning & Development, land use planner. (see appendix B2)
Holmes, Jim (10 May 2011). Seattle Department of Planning & Development, land use planner. (conducted by Erwin Heurkens)
LaClergue, David (10 May 2011). Seattle Department of Planning & Development, land use planner. (conducted by Erwin Heurkens)
Coleman, Sharon (12 May 2011). Vulcan Real Estate, real estate development director (conducted by Erwin Heurkens)
Mason Curran, Lori (12 May 2011). Vulcan Real Estate, real estate investment strategy director (conducted by Erwin Heurkens)

Documents

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


B2 Interview transcript Vulcan Real Estate

On Tuesday 29th of October, 2014 this interview is conducted with Lori Mason Curran and Sharon Coleman. Lori Mason Curran (LM) is real estate investment strategy director at Vulcan RE and Sharon Coleman (SC) is real estate development director at Vulcan RE. The interview was held at the South Lake Union Discovery Center at 101 Westlake Avenue North in Seattle, State of Washington.

CS:
*Explains about his research as follow-up on research on the Phd of Erwin Heurkens.. Introduction of topics to be discussed. Introduction of interview*.

LM:
*Tells about the SLU development* The whole neighborhood goes a bit further north then you see on the plan here, and is about 340 acres. (Streets around Amazon) really the center of the developments, although there is also some development along Dexter (road/ave). The Vulcan developments are all the really detailed buildings, and the light yellow buildings and sites are to be developed by Vulcan. Technically the developments behind the Danny Road are not in the South Lake Union urban planning zone. They have different zoning, and are not part of it, and because we own those sites, and it’s so much part of what we have done here we showed it as well.

SC:
It’s also an important part of the entrance of the SLU from Down Town.

LM:
*pointing at the model* It is also connected to the streetcar. As you can see the streetcar starts at the Westlake Center, Downtown. Which is where you can get on the regional transfer, bus tunnel and light rail. And then it comes op here in the 2.5 mile loop that goes up to the Fred...ZOEK OP Research Center and then goes back downtown.

CS:
*And what about the extension of the street car routes?*

LM:
So the next line, the second one, is under construction. It’s starts south of downtown, where pioneer square is and goes up to first hill near the hospital area, along Broadway. And then the third line is being studied and the idea is that will go along First Avenue in Downtown and will connect those two lines. So it will become more of a full transit system.

CS:
*So the City is really focusing on streetcar as main public transportation?*

LM:
I don’t know if you could say that they are really focusing on the streetcar, but it’s definitely getting some attentions and it expands. Ultimately, they’ve talked about ideas of expanding it north towards the university, towards Ballard. So in terms of the developments the last years. I can give you some broad statistics and you can certainly follow up with me if you are writing things down. So if you go back the first developments really started, I mean there were some employers, Fred Hatch has been here for a long time, the REI flagship store which you must visit if you haven’t because its iconic and exiting, and has a great outdoor area.
SC: And what about investments of Vulcan in the last two to three years?

LM: I will have to go down and look what we have done specifically by year. But we've invested about 3 billion dollars total, a little more than that. About 55 million of that is invested in infrastructure projects, such as the park, or contributions to the road and streetcar.

CS: I recon the Upzone has been accepted. How did that effect the investments?

SC: The upzone has just been approved, earlier this month/may. So prior the upzone we have built Amazone phase IV, Amazone phase V. These were built under a ‘text amendments’. We knew we had to move up with these, while the City knew the Upzone was coming. Basically before that the heights were mainly limited to some of 45, 85 etc, so basically five to six stories high. So we had a couple of buildings ready that as soon as the Upzone was approved we were ready to get the entitlements.

*Tells about some other developments that has been established from the late eighties to late nineties.*

So since 2004 when some of the new buildings where getting delivered, there has been a tremendous amount of investment in the neighborhood, about 4.8 billion dollars, and most of that has been private development. But there has also been public money invested, that includes infrastructure projects. So when your colleague was here some years ago, Mercer corridor probably hadn't yet broken ground. This used to be a one-way onramp onto I-5, now it’s a two-way boulevard, its basically completed. The street got narrowed and has biking lanes and has a better connection to the park. The second part, Mercer-West is funded and under construction, and that will continue the two-way configuration all the way down to the waterfront. Other important things that are happening in the neighborhood and around. Our viaduct downtown (Highway 99) is going down. It will be a tunnel which is under construction. The tunnel will exit right here, and the reason I’m pointing that out is that now this road is a separation between South Lake Union and Seattle Center. You literally cannot walk or drive across the street. When the tunnel happens, the above tunnel part of the street will become more of an arterial, and the street grid will be reconnected on three places. So the connection will be improved. So those are some major things happening in the neighborhood, that I think are significant.

SC: Yes, on some plots that are close to downtown can go up to 400 feet residential and 240 feet commercial. And then most of the other zones are 240 residential and 160 commercial. These few blocks nearer the lake have a separate zoning allowing only 160 feet residential and no tower commercial buildings, so the City is very strict about that. Furthermore the Upzone only allows one tower per each of those blocks. But that’s because it is closer to the lake and there were some issues about that. But in general, luckily we have the upzone now, but unfortunately a lot of our blocks has already been built out. It has taken a long time to get there.

LM: So compared to the situation in 2011 when he (E: Erwin Heurkens) was here, we were still the primary land owner in SLU, but now things have changed. So in terms of commercial development now Touchstone, Skanka, they are now also in development, not only in construction. So they have a few buildings on which they have broken ground one (mainly on the eastern side of South Lake Union). So they have come in to the neighborhood and have bought several block on which they are planning a lot of commercial. Probably they will have Amazon as a tenant, but that’s just speculation. A Canadian developer has just bought some properties from the Seattle Times.

*Tells more about all other developers, commercial and residential, that have come to the South Lake Union. MacFarlane from out of town has two sites under plan for residential*.

A few of them have been waiting on the Rezone to be approved before breaking ground, as in some areas residential was not yet allowed. So they are going to build some residential towers over there.

SC: Close to downtown three developments are breaking ground for about 1 million sqft commercial. Eventhough it is not in SLU it shows how fast Amazon is growing.

LM: If you would count all that Amazon occupies in the neighborhood, not only built by us, you would come at 7 million sqft. It is quite a lot because their initial campus block was about 800.000 sqft.

SC: Amazon was looking for a new site, and they wanted to be in the City. We had the options for them to grow, but we had no idea that they were going to grow that fast. Actually the Amazon phases I to V, were options for them as they just didn’t know if they were going to grow or not. And then they just wanted everything. So now we are building three more developments, another million sqft for them right now.

LM: The other thing that happened since 2011 is that finally that the development of residential in this neighborhood is increasing in SLU. In downtown there are a lot of residential
building, but what was actually build in SLU was very little. From the start until 2011 it were probably about 1500 housing units. If you would count what is under construction now it is 4500 units. So it is quite good that it is finally mixing up. We had some early projects that we did residential, but now with the extended height limits it is much more profitable. Back in the days there was not much we could do. Moreover, in our neighborhood about 40% of the residential renters are also working in the same neighborhood, or immediately downtown. So it is exactly what we wanted to do: keeping people out of their cars, letting them walk or use public transport.

But it is also interesting that if you look at our current projects, the parking ratio is about .7 per unit. So that’s quite low, others are even going to .5 per unit. Thus there is recognition that if you don’t offer space for the car, people will look for other ways to travel.

SC: Even for commercial things have changed. Before the Upzone it was required to build at least 1 parking space per 1.000 sqft. Now since the upzone, this is the maximum that can be build. So if you take 1 per 1000, and you compare it to the old model in which you take 350 sqft per person, you now that is 1 parking space for three people. But nowadays, Marshall Foster mentioned it me the other day, that a major employee in the city is packing people in their building at a 125 sqft per person. So then you have only 1 parking space per 8 people, so that’s changing. However, although Amazon covers such a significant part of this neighborhood, it is deliberately designed by different architects. All buildings have different open spaces, different retail etc. So it doesn’t look like a campus at all. And, of course, there is little signage. As such we prevented it to look too monotone and mono-functional. So it is pretty much urban infill.

CS: So let’s go back to my questions. It all started with the Seattle Commons Park idea. But how was Vulcan Real Estate founded?

LM: So basically with the Commons, Paul Allen (owner of Vulcan and Vulcan RE) he made a loan to the Plan of 30 million dollars and they bought 10 acres of land. When the Park got voted down, twice, he got that land back. He was going to forgive that loan, but when the park didn’t happen he ended up owning that land. So that is his first time of owning land in South Lake Union.

SC: And that was like mid-1990s.

LM: And then, he looks around and said ‘jezus it’s so close to downtown and the lake is this great amenity, this has got to be an area that has got the potential to be the next economic engine for Seattle; I think I’ll buy some more land.’ So he hired somebody who started to buy some land up. And then, in May 2001, Ada Healey, our boss, was hired. That can be seen as the moment we become a development company as at that point there were only two people in Real Estate. Ada Healey started to hire people, with development experience and we grew to about 30 people. So we became a full service development firm. So really it was around 2002 that is the starting point of Vulcan Real Estate. However there had been a lot of land assemble, as by 2002 we had about 40 acres that just sat in there. At our peak we had a little over 60 acres. Now we sold to Amazon their headquarter-buildings last year (i.e. 2002), the largest office transaction in the United States.

SC: It was a very, very good time to sell. They were good buyers as well.

LM: So we have still got 47 acres now. And in terms of redevelopment capacity we got another 20 acres left for redevelopment but that includes the area down here (NW in South Lake Union), that is not in a high intensity development area but we see this as a real critical part of what we are doing and were looking hard to decide what to do with the marina and the waterfront, so that we can make that area a world-class destination. Especially when you walk down to the waterfront.. we don’t want it to be competitive to the rest of the area, we want it to have something for its own why people want to come and visit it.

CS: Well, we see Vulcan real estate as a developing investor and as a community developer, as you focus mainly on the South Lake Union district. But how was that in the beginning? Did you as developing investor first only focused on commercial or did you from the beginning, from 2002 on, a vision for the neighborhood redevelopment?

LM: There has always been a vision, although it has transformed as the market has changed and other we made other priorities. As you would have asked as in 2002, we would probably have said that we expected this to be about a third biotech, a third offices and a third housing. But biotech changed due to Amazon. There is a lot of lifesciences, that is a really important piece. But with Amazon, Atomic. But with Skanska, we have these tenants that make it really diverse, which makes it good. Housing really started slow, but is starting to happen. But we really had to make the potential tenants to come along. So, we only build this office (pointing out on map) on a speculative basis. But other than that, everything has been preleased or largely preleased. And then I would also point out that incase that there is any misconception, that Vulcan Real Estate is a money making arm of Vulcan. So we make a market return. We get loans from banks, and insurance companies. All of our projects were started to make money.

CS: So on what was/is the emphasis, on capital gain of development or on long term lease returns/rental income?

LM:
We’ll typically before we sold Amazon, we hadn’t sold anything. We have sort of a build and hold strategy. But we also want to be smart investors so when we realized, not really realized, but we had a lot of offers, and we have got a lot of single tenant offices, and a lot of amazon. The cap rate was really low, so well the climate was really good for investors so it made sense for many reasons to sell. But I would say we build everything with the intention to hold.

SC:
Yeah, income is most important.

CS:
So what about the future then. What is Vulcan going to do when all its land is developed?

SC:
Well that will take about another ten years. And then we will be dead probably. Well, this until now has taken about ten years, and we are at about half of the sites. And with Amazon we were at a really accelerated growth, so I can imagine that we’re going to continue. So I think we will have another number of years. But year, we are thinking about other strategies, such as maybe looking at somewhere outside this area. But I want to go back to the goals that we have here, cause even although the details have changes, the goals have always been a diverse, integrated community with residential and office, and a lot of retail. We had a retail strategy that we didn’t put in national chains. So we want to attract the local businesses. So we are not only investing in our buildings. We want to do the best for the community, and not just one project at the time. Economics is important but also sustainability is important.

CS:
Vulcan has a large range of inhouse expertise. Do you only utilize that for your own activities, or also for clients?

SC:
Yeah we just started to do that.

LM:
Yeah we definitely have the capability to do some consulting services. Potentially you will see more of that in the future.

SC:
A few years ago we were involved in a project the predevelopment of a project in Washington about 30 miles away. We haven’t done a lot of predevelopment for clients as we were too busy. But if it slows down we can definitely pick that up.

LM:
You might have read about an area south east of downtown called Yesler Terrace. And in Yesler Terrace housing is hurtfully old, low density, it is about a 30 acres site. And a public housing agency owns the land. They’ve been looking for a development partner to work on this for a while. So little les then a year ago after a proposal we went into a discussion with them. So that is a potential project for housing and office, but it is still yet to be decided what our role might be. But that is the kind of area that we would potentially be interested in.

CS:
Do always develop by yourself or do you outsource that?

SC:
We’ll we develop ourselves, but we always hire architects and contractors. So we don’t build our own stock but hire contractors.

LM:
In the early years we had our development chain because we had some land. So before we had some partners in a couple of projects. But that is not the model that we are going for. We just prefer not to have these partners unless if it really aligns.

CS:
So let’s move on to the investment strategy. Do you have an investment strategy for the area? And what contains the investment strategy of Vulcan?

LM:
In terms of investment strategy I would say we are a little bit unusual for a real estate company, because typically a strategy would involve a diverse portfolio, which might be by geographic or by tenant. We are certainly diverse by type, although we have so much offices because there was so much demand. So were not typical that way, but we have an owner (Paul Allen) that is interested in this area, and not so interested in going out and buying buildings in other places. And we would not develop in other markets because that is hard enough to do it right here where we know everything. So really focusing on our development strategy here is to continue with what we do well and that is building on that economic engine and sustainability and improving the pedestrian and transit experience, to turn this into a 24/7 neighborhood.

SC:
So actually we let the market dictate what we build. So we aim to build quality for what the market demands. Lori does the market research.

CS:
And what about the leverage, on investments?

SC:
Yeah, all of these buildings are traditionally financed through banks and insurance companies. *LM: we love using others people’s money* and we try to leverage as much as we can.

LM:
So I mean, for our construction that could mean about 75, or 80 percent of all the costs. And if you’re lucky you can get even more than that.

SC:
And it has changed over the market cycle too. There have been some projects that we didn’t get as much as we hoped for.
CS:
To get it right; first the land and the properties were bought by pure private equity of Paul Allen, and the only the construction is leveraged.

SC:
That’s correct. And the land is part of the total development costs, so that’s part of our equity. So the private equity that we bring in is mainly the land costs.

LM:
And some of the development costs and the costs for design as well. Well it would be important to leverage for any developer, but it is particularly important for us, because we do own so much land, and even though some may have a little bit of income, such as parking, or the old building with some tenants, it’s very expensive to just hold the land for that period of time. So whatever we can do to boost the return on the portfolio as a whole, including leverage we try to maximize.

CS:
Ok. And do you have stated certain investment criteria, for instance based on the risk return ratio?

LM:
We do, but we typically do not share what those hurdles are.

SC:
And we do a lot of analysis. We do SWOT analysis to know what all the risks are. We have done geotech and water analysis to identify those risks. We do all of the due diligence on all our projects before we start.

LM:
Typically you can expect our leverage and returns to be in the mid and high range.

CS:
Ok, and how important is the market information than? So knowing what the market demand is. How do you manage the market risks?

LM:
Well its critical to be educated, so do keep a database of all projects that have been proposed, and what their status is. And what we think about when they will break ground, and what their leverage is. And we look at all of that to make our decisions. So for example. *pointing at a property* We have just delivered this apartments, and although it’s a little outside our core area, but its right next to a Cinerama theater. And as Paul Allen is really into movies he bought that Cinerama and renovated it many years ago and got this parking lot at the same time, so we turned it into a development site. So when we decided to build this 24 story building, we were very aware of what was happening in the market because there had been a lot of apartments in the market, so that had an influence on the decision when to break ground at that building. That counts for all of our buildings. Were not speculative but knowing what the market is doing is important at something a bit more speculative.

CS:
Is that also a drive to mainly focus on South Lake Union; as you know what is happening here?

SC:
Well we own the land.

LM:
Well, if we just would start, or if we would end up working in Yesler Terrace, to acquire some other sides, we would certainly bolster our research.

CS:
And are you still acquiring new land and properties in South Lake Union?

SC:
Well we only when its strategically. Well would like to did buy this small site next to our land. We’re not in a hurry but it just doesn’t work out with the current owner. So in these blocks here *pointing out* we now were going to get. So if we still acquire land it is just strategic. It is actually too expensive for us now. We were so successful that the land prices have gone way up.

LM:
So we used to own a little piece right here *pointing out on map*. The block were another developer just has broken ground. So a few years ago we were thinking about buying the other land in the block, because it is a great site, near Amazon. We might do some residential there. But it could also be a good expansion side. So we were looking into that and heard about what the those people were thinking to get for it. So we said really, if you think you can get that for the land then we are seller. And then Greystar came in and made offers to all of us. We negotiated and sold the land for a staggering price. So we will sell to if it is the better choice.

CS:
So you could actually say that Vulcan has build up the capacity for private developers to get into this area?

LM:
Yeah, we definitely have been the catalyst for this area.

SC:
And people now really want to be in South Lake Union, so that’s great, that’s our success.

CS:
How does Vulcan try to optimize the returns. Is it also in the proximity of the investments?

LM:
We definitely want to maximize our returns but not at the expense of going against our core goal. So we will not decide to build something without a lead standard.

SC:
We’re not a merchant builder. We do not going to build something cheap and sell it. We build things really high quality. So we would maximize are FAR’s for sure, we will not go short on that.

LM:
So if you wander through the neighborhood, you will see some artworks, some really nice finishes, outdoor seatings. So that’s stuff that another developer would not do. But as we got so much invested in the whole neighborhood I think it certainly valuable to do.

CS:
So do you also consider the indirect effect of the investments from one development on the other? So like, another developer who’s just here for one development, could consider not to build retail on the ground floor, or other amenities, as he just wants to optimize the returns on that investment, not considering the surroundings.

SC:
The other things that we have done, and what we try to make other developers to do, is... we like to preserve any interesting buildings that are here. There are not a lot of interesting old buildings. But there are a few little buildings, like to so story brick buildings. But we try to save those. If those buildings were in a standalone project it would have been hard to preserve them. But because they are part of a bigger project we were able to make it work, and as such keep the character of the neighborhood. But there were other developers who wanted to tear a historic building down. Again it was a two story building that may not have been a landmark, but it had the old character and the people living in this neighborhood liked it a lot. And so we kind of put pressure on other people, who were able to put pressure on them to save those buildings.

CS:
So how are you able to put pressure on another developer?

LM:
Between you and me...

SC:
So you have to go through a whole design process with the Design Review Board a couple of times. All of the neighbors are invited. And they talk about the designs. So you don’t get a permit without the approval of the Design Review Board, so they push if you go against the neighbors, even if you meet the code it will be hard to get the approval. Why would you do that? You want to work with the neighbors right? So most of the developers have figured that out. And on Terry Avenue, we made very large sidewalks, and opened up a lot of retail, much more pedestrian friendly retail. We did not have to put retail there, but we think it actually is successful and attracts people and businesses. Most of our tenants are Amazon, so they don’t buy anything else but something to eat. They buy everything online. So we have mostly food and service related retail.

CS:
So is there like indirect gain or value creation in the neighborhood? Do you anticipate on that? Like in the donations you made to the Park and guess to the Mercer corridor? But also via the Upzone in social housing. But how can you legitimize the donations if you don’t get back any via amendments on zoning?

SC:
Well, most of the donations aren’t real estate. So let’s go back to Vulcan. There’s Vulcan Real Estate, and there’s the PGA Family Foundation, a philanthropic arm of Vulcan.

LM:
The park is a donation, actually it was from Vulcan. Let’s go back to 2002, when we bought these sites from the city. And we had some requirements that went with them. One of them was to create 50 units of affordable housing that we did on our own land (SW in SLU) without any subsidies of the government. Another was to contribute to a cultural facility. When the park was going to be build, we negotiated with the City that a donation for the cultural facility could be turned into a donation for the Park. So that’s what happened there. The Mercer corridor, I wouldn’t call that a donation, it was a contribution negotiated. We recognized the benefits to ourselves in ultimately negotiating a contribution of 30 million dollar, to that project. The street car was certainly not a donation but it was a Local Improvement District of the owners of certainly two to four blocks down the line that would pay in to an 18 year additional tax they voted themselves in. So that was about 8,5 million dollars. So those are the major contributions that we have made. Although the park was a donation it was tied in the land deal with the City.

And then, what we do with these expenses we made. All of our master planning worked, but those expenses direct expenses, or costs for time working with the city council planning, all those costs get spread across our land. Not on the projects that already have been build. But on the remaining land. So when do our pro-forma’s, the land value at market, and we look at our market returns. But we also have our Vulcan return which is basically at costs; which means it’s boosted up with that master planning allocation. So that’s how we make it work here. So that’s how we justify those costs and spread it out through the neighborhood, seeing it as an added value.

CS:
Well to me, Vulcan Real Estate seems quite a transparent company. Is that also part of the business strategy. Like being open to the city, to tenants. Also this discovery center, it might not be the main priority of a developer to have a center like this where everybody can walk in.

SC:
Well initially it has been built to show the market what we can do. And now it is used by every other developer in town, because its free, and to let people see ‘look here is my property really close to...’
When this was built in 2005, the neighborhood didn’t look like what it is today. So we really had to show the people what we were doing, and what we were building. Look at the streets now, there are people walking. That was not the situation in 2005, we used to hire models to walk down the street and take pictures to show people, look what’s happening in South Lake Union. With all our vision, we just couldn’t let people see that back then with all the parking lots, and old fore houses. So the model was really important to show what we were planning. And now, it has evolved to... In the beginning it was really to market the neighborhood, were we marketed condominiums and stuff. Now it is really more about Vulcan, to show what we did. So we really put the neighborhood first. And after we had achieved what we wanted to, were now showing that.

CS: Ok, interesting, let’s talk about the development strategy. About how the investment strategy is translated into a development strategy. Vulcan has a significant amount of land of the SLU. Did you have a vision for the area in the beginning? And how do you influence other private developers and the public authorities to reach your own objectives?

LM: Let’s start to say that is had always been a sort of public private partnership with the city of Seattle. So we established goals for the neighborhood with them. If you look at the 2004 plan, and following the 2007 update.. you can see those goals. We were very much on the table with them. If you let’s start to say that is had always been a sort of public developers and the public authorities to reach your own objectives.

CS: And now, it has evolved to... In the beginning it was really to market the neighborhood, were we marketed condominiums and stuff. Now it is really more about Vulcan, to show what we did. So we really put the neighborhood first. And after we had achieved what we wanted to, were now showing that.

SC: The code allows only a certain things, but the City really encourages retail but they realized that some streets... well you can’t put retail in every project.

LM: So I think you can say that one of our challenges is; you don’t own everything, so you can’t influence it all and what happens here. So sometimes you see buildings like these *pointing at model* that is build to the prior zoning, no public benefits, build to the maximum height, you now, street to street... that was in 2006. You know, you can’t control that, because it is within the code. They have a dining on top so they were a big opponent of the Upzone because they didn’t want high buildings around them. So you can’t really do anything about that. But concerning the community. We’ve got a lot of endeavors to engage with the community.

And we also went through an era with the former Mayor. We had a good relation with Mayor Nickels who was very engaged and supported this area, part of its platform was to get this area developed. We were able to accomplish a lot under his authority.

Did you say how many taxes go to the city with all these developments?

LM: Well I didn’t. The first ten years of development here, the commission estimated that the tax revenue coming out of these developments that went to the city were a 155 million dollars, and 75% of that is recurring as it comes out of the yearly property tax. And they’ve also estimated that the next ten years it was going the be double that, about 300 plus million dollar. So there is the big reason way the City would want to see it happen. Not to mention the excise tax that comes out of the sale of this property. So the strategy has been to work with the Community and work with the city. Working with the City got more challenging when the existing mayor came in to office, and right now, coming in a few weeks the new elections we have to see what will happen.

CS: Aha, did you try to influence the plan making of the upzone? Because I recon you have like initiated it more or less?

SC: We were very, very, very involved in the Upzone. Yes, actually we started discussing it with the City ten years ago and it finally happened this year. So we hired people to do visuals and images of flyovers.. so people could grasp what it looked like. We had an economic report that talked about what the value would be, and the tax revenue. We did a lot of working with the city council and the mayors.

LM: And we have been working with the federal level as it came to approval for the tiger funding of this (The Mercer corridor), helping the city get grants for funding, and also at State level. As revenues go to the State also.

CS: So who has taken the initiative for the Mercer Corridor, to get that started and funded?

LM: It’s a combination. We were very big proponents of that. One of the best things that could happen for this project was the economic crisis that resulted in the Tiger funding, and the money that came available from the Federal government for the shovel-ready projects. Tiger grants stand for the shovel-ready projects, to keep people working in construction. The recession was actually good for the project. But I will say, is that when it came to the City, or actually the department of transportation, getting funding for the rest of this project they were not going to apply for funding as not having the bandwidth and so we did a lot of the grant writing, economic benefits and jobs projections, and gave that back to them so they could submit that to get the funding. So we definitely work a lot behind the scenes to really advocate for these things with equal benefits for them.

SC:
We definitely work in partnership with the city whenever we can, because they need to be at the table for a lot of the stuff.

CS:
So it’s like an informal partnership.

SC:
Right, there are no formal agreements made.

CS:
And how is the role of other private developers and investors in that kind of situations.

SC:
Well the people who bought land, they had a call in the Upzone as well. So they were involved in that planning. But other than that, I’m not sure what else they have been involved in. You know, for most of them it comes a little late, like the Mercer corridor was already under construction and the street car was already in.

LM:
Well what you will see, not specifically the developers, but they employers being engaged in these processes. For example Amazon, Groupon, Fred, UW Medicine, right now have the lovely street car. There are now 3 Street Cars, and only two of them are in operation at any time, and the wait-time between the cars is about 15 minutes. So these employers that I mentioned, have invested a couple 100,000 dollars so that the third street car comes into services, so the wait-time is only 10 minutes.
And although unrelated to us, Amazon in convention with a developer for these three buildings "near downtown" they are buying a fourth Street Car. Part of it public benefits. These employers have also contributed to the Park, however not that much. And Jeff Bezos, CEO of Amazon, invested 10 million dollars for the a science museum down the street here. So there are also a lot of investments, not specifically by the developers, but by the people working in the neighborhood to keep things going. So some of the tenants are really involved.

CS:
And what is the role of the Local Improvement District?

LM:
So that was only used for the street car. And it was the first LID in Seattle, and in 15 years it hasn’t been used widely. Although there is a LID proposed for the waterfront redevelopment and that will be a pretty big one.

CS:
Next to this, how is your collaboration with the other developers in the neighborhood?

LM:
Well I think it’s good, you now we’re not building anything with them, but we talk and...

SC:
So we compete, and you now, there are a spec. office building now, that I would like to have a tenant for, so were competing. But we work together on a lot of things for the neighborhood, for the Upzone. But its friendly.

CS:
And how is the role of the local government. Was it involved actively from the start? Did their role change over time?

LM:
I think in putting together the comprehensive plan they were certainly involved. Obviously the Upzone was a pretty big deal and they had to respond to that need. There’s a new substation...

SC:
They are finally building a new substation for electricity, because we are running out of power as so much has been built. As far as every project it’s like getting out of our way. It’s unfortunate that every permit process will take at least a year, from the time we start to talk with the City until we get to a permit.

CS:
How important than is it for Vulcan that it they are transparent about what can be build?

SC:
Well you now, the building code, and the zoning code give you so much, about how high, setback, etc. We have all of that, and then you present your projects to the Design Review Board a few times, and that is where you get your feedback from, basically.

LM:
You now there involvement, I wouldn’t say they are active on a daily basis with this neighborhood. But they have set the plan together and then they sit back and respond and watch. They are more reactive, there not at the design table, not even in the design review board (only community people), they should not even be in the board some times.

SC:
But that’s the common problem with a design committee, because some people are just against everything.

CS:
Does the local government try to attract more private investments to the SLU?

SC:
They did that originally. But it has happened, so now they don’t have to do that anymore.

LM:
I don’t think they had a real active role. Well when we came to them and said that if Amazon could not be able to come down here, they would move out of the City, they responded actively to that very quickly. But I don’t think they see it as their role to drive new businesses to SLU, that’s beyond their role.
SC: So with Amazon, we walked in there, hand in hand, because they had other options, so we needed those amendments otherwise (Bells Blocks) otherwise we would have needed more land.

CS: What has actually been changed after the Upzone? Did it speed up the process of development?

LM: Well it has been all so new. It only happened in may. We have two buildings in Upzone, Skanska has one. We are starting to look at other projects in the Upzone.

SC: City wants the residential, so the residential can go higher, pin towers to 400, while commercial only 240, but with a bigger floorplan.

LM: I don’t want to get too deep into this, but there a few projects planned or under construction. You now, the way the Upzone worked, is you could still build what is allowed under previous zoning, or you could build under the Upzone and pay a fee for affordable housing. The four projects, residential, under construction or planned now, that could have used the Upzone, none of them used it.

CS: So the incentive is not big enough?

LM: Well for residential probably not. For commercial its working, were doing it, and some others are doing it. I think time will tell if it will work out. Actually you pay a price for every extra sqm you get.

CS: And is that what you pay, invested back in SLU?

LM: That is the idea, that the affordable housing get’s build somewhere around here. All the fees that we pay for the extra heights here, have been reinvested in the neighborhood. But I don’t think it’s a requirement, and that’s hard to know where it goes from that fund.

CS: How do you try to manage planning and development risks?

SC: Well we don’t build speculative offices. We pay close attention to what the market is doing.

LM: Well there was a time that it didn’t work so well. We build residential condominiums. We had three projects under construction at once. And then the market for condominiums went down. This building over here, across the street was designed as condo’s, it was nearly constructed completion, 208 units only 20 had been pre-sold. We got a hold at every buyer and said ‘were really sorry but it’s not working out’. And we gave them all their money back. Cancelled the contracts and turned it into rental. Although it is really doing well as a rental, it was an expensive lesson.

In fact, our strategy is working well. For this project here, 99 unites, aimed for entry level homebuyers. We kept the prices really low and it sold out completely. Another project that we pre-sold completely at the top of the market. We knew some were not going to be able to afford it after the crisis, and people would walk away. So we went back to all buyers and, not negotiated it, but gave them a new price and the option to break their contract.

SC: But part of the strategy, We’re not going to do the condo’s again. You have the market risks, but then you have the risks for five years later, where they come and sue you. Every condo project has a homeowners group that sue the developers based on their warranty. And that happens almost every project. It doesn’t matter if there is a defect or not, they will sue you.

LM: Lessons learned, we are really big at that, to come together and learn from our mistakes.

CS: So what about the future of Vulcan? If all is development, what is Vulcan going to do?

LM: Well if we focus on property management, Sharon and I will be gone. I think that is has yet to be decided. We want to let this area develop organically, and our business model will develop organically as well. So I don’t think we have a real answer. But I think everyone in our group is really passionate to be involved in Vulcan Real Estate, so we like to see that continued, no matter what the business would be.

CS: So the approach of organically building this neighborhood is also due to the fact that you had all the land. But is it somewhere in the idea of Vulcan to try to apply this approach on another neighborhood somewhere else?

LM: You know, it is really expensive to buy and hold land like we did. So I that we won’t be able to replicate what we have done again. But we can take some of what we’ve done here to somewhere else, whether Yessler Terrace or somewhere else.

SC: Back to your question about development risks. What we do, even before we go to the design review board, we go to the community, talk to our neighbors, tell people what we’re doing, and include their input in our projects. And that is before the formal project. And when then the board comes, we hope we don’t have to change it become people already have been involved. We do that on our own, we don’t have to. And it really helps if people know what is going on. They
will react negative is they see it for the first time at the board. But if you hold their hand the whole time it’s just so much better.

CS:
Ok, I would like to thank you for all the information.

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B2 Interview transcript Seattle Department of Planning & Development

On Wednesday the 30th of October, 2013, and interview is conducted with Jim Holmes, land use planner at the Seattle Department of Planning and Development (SDPD). The interview was held at the Seattle Municipal Tower, 700 5th avenue, Seattle, State of Washington. Below the transcript of the interview is included.

CS:
*Explains about his research as follow-up on research on the PhD of Erwin Heurkens. Introduction of topics to be discussed. Introduction of interview.*

JH:
*Tells about the SDPD, and the Commons*

CS:
So if I understand correctly, Paul Allen was buying more and more land after the Commons Park Plan was voted down. When did the SDPD got involved, or interested in the South Lake Union neighborhood?

JH:
We’ve got a long history of doing work in the neighborhood, with different interest groups. Our first involvement in the modern area, might have been 2004 when we designated SLU as Urban Center. Urban Centers are at the top of the hierarchy in our urban management, with the greatest concentration of jobs and housing.

CS:
And it also allows more, easier State Funding?

JH:
Well, obviously, there’s a variance in participation in planning activities depending on the Mayor…. Under the last Mayor they had more influence then now....

CS:
Well, I heard from them (Vulcan) yesterday that Mayor Nickels was a really good contact of them. So that was really important of how does that relation with the mayor works?

JH:
It was not a really satisfying planning process as a planner. They pretty much gave us the answer and we just had to adapt the planning. This Mayor is quite different, much more willing to listen to the planners, and following up recommendations, so it is a very different thing. So prior to this Mayor.... Amazon had a great deal of saying what we did in terms of scope and in what was in the possibilities.

CS:
Was it Amazon or Vulcan?

JH:
Well, let’s say Vulcan. But was a bit the same, but is actually was Vulcan.

CS:
But let’s go a bit back to 2002. Did the planning department made a vision for SLU in that time?

JH:
The vision for the area.... So 1998, there was a neighborhood plan for the South Lake Union area as Urban Village, that kind of set out a vision. Pretty general. And in 2006 we updated that plan as SLU became and Urban Center, setting out a new vision for the neighborhood, little more detailed, still pretty general. We started the rezone work, and the urban design framework which is much more specific about the character of future development throughout the neighborhood.
CS: Was that urban design framework binding?

JH: It’s not an official binding plan. But we use it to control other departments in following our plans. That works really well. It guides what we do. And the design review board. They rely on the urban design guidelines. The framework is actually more of a strategy document which looks at the important developments and public ground. And it sets out some things to be implemented in the design guidelines and some things to be implemented in the zoning, and some things that had to do with capital spending. So the design review board will rely on the design guidelines and not the design framework.

CS: Okay. After the prior Mayor had left, did the vision for the area change?

JH: No, same vision for the neighborhood. The vision, as Urban Center was set in 2006, including regional concentration of jobs and housing, good jobs and housing balance, green building etc.

CS: Did the City try to stimulate private investment in SLU?

JH: We don’t have that kind of tools, we can’t... a lot of Cities and States, and in other countries, have tools so they can participate in real estate development, they can offer incentives, and tax abatements. But we can’t do that, we don’t have that power. But what we did to incentivize development is the incentive zoning. That is the only tool we have.

CS: What does that incentive zoning include?

JH: So, the incentive zoning means that throughout the neighborhood, the base zoning is 65ft or 85ft in height. So in our Rezone, you can get above the 85ft for residential in some places for up to 400ft in height, but all that floor area has to be achieved by providing public benefits. The public benefits are contribution to affordable housing or provision of it on site. And the other part of it is to be achieved by the purchase of transfer of development rights from farm and forest land.

CS: How does that work?

JH: Well, here (drawing) is South Lake Union, and here is the rural part of King County. So, if I want to build a tall tower, and this is the extra height, I have to buy development credits, and its set out how much credits I have. I go to the County and buy the development credits, and I’m buying them from the rural forest and farm land, so they are prohibited from development in the future. So it conserves the forest and farm land. It’s actually a great program that controls sprawl. So that is a key part of what we have been doing in South Lake Union. The other key thing that allows us to do, because it is a very new program made possible by the Washington State, is... I earlier said we don’t have the economic development tools that every other state has. We actually in SLU, through this program, we can do a limited form of Tax Increment Financing. So that’s brand now, and we are doing that to make some investments in infrastructure to support development of the neighborhood. And that’s all financed by tax increment financing.

CS: Is that also used in SLU?

JH: That is just only for South Lake Union.

CS: And on what cases is it utilized?

JH: Throughout the whole neighborhood. Any place where there’s extra height. So some places we don’t have the extra height. But in the majority we do. It is in those places. So the TIF starts above the base height. The way the infrastructure is financed then, is by the property tax. Which is a pretty important revenue sources. So if no extra height, and no investments, this is the property tax. So we know, that if we make certain changes, in for instance infrastructure, but also in extra height, that will increase the value that the property taxes are generated from. So that property tax revenue goes up. So this increment that is created we can spend on infrastructure.

CS: What are the main responsibilities of the City in the South Lake Union area? What is the City’s role next to the planning. Do you have to manage the public spaces etc.?

JH: Sure... Well, parks have to be maintained by the Parks and Recreation department. The Transportation and Infrastructure department maintains the streets, and the street lights as well. Seattle public utilities, and Seattle city light, take care of the energy in the neighborhood.

CS: How are they funded then?

JH: Seattle Public Utilities and Seattle City Light are funded by the people paying their bills. Uhm, Department of Transportation, Parks department and us, we are all funded by general tax revenue from the city. That’s just property tax, the reit taxes etc.

CS: So as the Department of Planning and Development you don’t have that much financial capacity to invest?
JH: We don’t make any investments, we just plan.

CS: So that’s quite different, compared to the other case I’m studying, the Hollywood redevelopment case.

JH: I used to work in Los Angeles for the City Planning Department.

CS: That’s interesting. Do you perhaps know whether that redevelopment agency is still running or not?

JH: Well they got rid of that Redevelopment authority, but they have this successor agency which looks like the exact same thing, but they can’t create new tax increment financing. They can just finished what they started.

*Conversation about getting in contact to the CRA. Jim Holmes says he’s probably able to help.*

CS: Well let’s go back to SLU. The vision for South Lake Union, was that developed in cooperation with private actors, such as Vulcan.

JH: Sure. Much of what we did, passed a community process. We worked with lots of actors, not only Vulcan. Also with Seattle Times that own significant property in SLU. *States several private actors that have been involved in the community processes.* We work with everybody. But, I will say, that the former mayor, together with Vulcan, did quite a bit to define the vision of the neighborhood.

CS: In that collaboration, do you involve them for every plan, or only for the zoning changes?

JH: We consult every development stakeholder. So we try to bring developers… Well, South Lake Union is unique because there is such a significant property owner (Vulcan), who was very clearly going to redevelopment large parts of the neighborhood, so it would be very foolish not to talk to them and engage them. But we try to have a good cross-section. So everything we do we have to take to the City Council. And I don’t know what you’ve heard about us. But public process is a relentless process that takes years. But you never want to get to the city council without having talked to everyone, because you’ll lose your credibility.

CS: So that’s kind of part of the, what Vulcan called the Informal Public Private Partnership?

JH: Informal Public Private Partnership? I think they related that to their relation with the former mayor. They would have the team meeting, with the former Mayor and the staff, to resolve things, and getting it in the right direction. It was really a partnership, to help Vulcan get its… Everything from vision, long range planning, to coordination street scape improvements on projects that were occurring. The whole City was… we had what was called a hatched departmental team, and we sat at the mayor’s office every month to discuss how we could reach the objectives, which were also the objectives of Vulcan. That was that kind of public private partnership.

CS: I guess I read something in the paper about some people who were doubting the role between the Mayor and Vulcan, who taught the Vulcan benefited from the relation with the Mayor...

JH: …mm yeah, that’s fair.

CS: Did that relationship, did it end up in changing plans that the planning department otherwise would not have supported?

JH: …Yes. So what happened was. When we moved forward, part of that process involves an environmental impact statement. Part of that is, we have to develop alternatives to test impacts. And every time we had alternatives to go, we were called in to the Mayor’s office because Vulcan had to see them in before we released them to the public. And then Vulcan wouldn’t like something about it, usually all of it. And we were asserted to revise them. That happened over, and over, and over again. So by the time the next mayor came in. We had these EIS alternatives concerning these height allowances. We were able to bring the heights back down because the Mayor was listening to the planners. And Vulcan did not have that access to change the vision. So under one Mayor Vulcan was able to change the vision, under this Mayor Vulcan can’t.

CS: Ok, one of my other questions was; ‘did the City had a preferred relation with Vulcan Real Estate’?
JH: Yeah, we get along and we are close with Vulcan. It’s all very professional. We have all the respect for Sharon, in how she is engaged in the design framework process end so on. So it has the good things. But in the big picture stuff, they had a preferred relation with the City.

CS: And in the perspective of the Mercier Corridor. I heard part of it was out of the reach, the ability, of the City to find funding and time for the approval for the part that runs to the Space Needle. Sharon told that as it was in their interest that the rest of the Mercier Corridor was redeveloped also, they prepared all application for that part of the Mercier Corridor. How did that work?

JH: I have no idea they did that. They people of the Department of Transportation and Infrastructure work on that kind of applications. Whether there is an application for a small part of it, I have no idea.

CS: To what extent did Vulcan initiate the establishment of the new plans, updates of the zoning plans, etcetera?

JH: They have come and asked for change in zoning to accommodate specific projects. Usually that is per block or a couple of blocks.

CS: Who came with the initiative for the Upzone?

JH: Actually I think that came from the former Mayor, and probably Vulcan too. Actually, we do had the idea, with the Urban Center, to increase heights and densities, and what we wanted to see happen. We were looking to increase the heights at all Urban Centers.

CS: And nowadays, does the Upzone work as it is supposed to?

JH: It is brand new. There’s a bunch of projects using the extra height. My concern is that balance, or the ratio between commercial and residential is way too high. There are some residential projects, but the Upzone is mainly used for commercial projects. There are a lot of commercial projects and we would like to see more residential. We want a good balance.

CS: Is the DPD ably to steer that process and to try to bring in more residential for instance?

JH: We don’t have the tools. It is the structural economic thing. So we are really left to the forces of the market.

CS: For sure the South Lake Union redevelopment is private-led, but it is also to be considered incremental. But there are some public private partnerships such as the development of the park. How did these PPPs break ground?

JH: So Vulcan, the City and the Parks foundation all kicked in 10 million dollar. The money basically went to the department of Parks and Recreation as they are responsible for the development of the parks.

CS: Are there other examples of those kind of Public Private Partnerships in SLU?

JH: Well yeah, Lake Union park is exactly the one. So that’s a big PPP. The Street Car is financed through a Local Improvement Districts. Which means the City paid part of it, and the businesses that profited of it paid their part. So Vulcan, and some of the other companies, founded an urban mobility plan to implement pieces of it, mainly transit throughout the neighborhood, which could lead to some public private partnerships.

CS: When I was walking through the SLU neighborhood, I recognized that there was not always that much coherence between the buildings, which is probably because there is no master plan I guess. But then there is the REI, with its small forest which really doesn’t fit in with to the rest of the neighborhood. What is the role of the community and the other public actors in controlling the design?

JH: Well, that was one of the earliest big investments in the neighborhood. Well that’s build a long time ago. However, it does not feel like part of the neighborhood, I know. The part of it I really like is across the street of it, Alley 24. Which has the quality in the block. That’s the kind of thing we are aiming for. With high quality shared spaces, still functioning service alleys.

CS: That kind of public areas in the blocks, who is responsible for the management of those areas?

JH: The owner of the building. That’s not public private. Although public can use it.

CS: How does it work concerning the alignment the design of all the developments?

JH: We have a design review board. Everything has to pass the design review board. So they look at the projects and review to the design guidelines. That’s really a key step in getting the building permits.
CS: Are there other public actors involved in that process?

JH: For sure. So in that permit process, Seattle City Light, the Fire Department... Department of Transportations, all that kind of departments are also involved.

CS: And what is the role of the community council?

JH: There is no formal role of the community council. A smart developer goes to the community council and asks what they think about what the developer wants to build. Before going to the DRB. The DRB is a public meeting, so the community council can show up and make complaints. They can also go to the council meetings and complain. So uh, there is no formal role other than public hearings and public comments.

CS: What is the current role of the City in the SLU redevelopment, as in, does it need extra attention over other urban projects?

JH: Well, we’ve got some capital to invest in infrastructure due to the TIF and TDR instruments. We’re updating the design guidelines to catch up with the new building heights. There are still some things to do with the implementing of the new zoning. That’s really about it, at this point.

CS: I forgot to ask it earlier, but how did the economic changes affect the redevelopment process?

JH: Well, that interesting, because during the worst of the recession, the cranes were still spinning in SLU because of Amazon was still growing. We were very fortunate. I worried about over dependency on Amazon since they took up millions and millions of sqft commercial. So two things happened during the economic downturn; the mayor changed and development slowed down. We were planning in a hurry before. It gave us time to rethink all of it. It worked out well. I actually helped the planning effort.

CS: How are the development in South Lake Union received by the society in Seattle?

JH: Well, most people are generally positive about it. There are those who are worried that there is too much attention being paid to SLU. But generally people are supportive to all developments in SLU.

CS: And how does the City and especially the DPD think about the result? Is it what you thought it could be?

JH: Yeah, I mean, nothing is ever going to turn out exactly as you thought it could be. Well we are generally satisfied, but we know it could be better. There are some things happening that we are worried about, that we wish we would have anticipated on. But all and all, we are reasonably satisfied.

CS: So if there would be new areas of communities for redevelopment know, would you do it differently? And what would that include?

JH: There are absolutely things I would do different. I talk about that process of developing the EIS alternatives, we would have done those ourselves. As the whole community process, that would have saved us about 2 years of planning. Well I learned quickly that when Vulcan is at the table you have to make things public very fast, as they tried to change everything when they wanted it to. Those are the main things.

CS: Are the developments in SLU profitable for the City?

JH: Yeah, they are definitely creating new tax revenues, lots of jobs which is a multiplying effect. It has been really good for the City.

CS: Ok, that’s about it. Thank you for the interview.
appendix c – expert meeting.
This appendix includes the additionally included documents concerning the Expert panel held on the 12th of February in 2014.

C1 Extensive summary expert meeting discussion

**GEBIEDSGEORIËNTEERDE INVESTERINGSSTRATEGIEËN VAN AMERIKAANSE ONTWIKKELENDE BELEGgers**

Gronmij, De Bilt | 12-02-2014

Op 12 februari 2014 vond de expert meeting “lessen van gebiedsgeoriënteerde investeringsstrategieën van Amerikaanse ontwikkelende vastgoedbeleggers” plaats op het hoofdkantoor van Gronmij in de Bilt. De expert meeting borduurt voort op het afstudeeronderzoek van Carlo Sturm, student op de TU Delft, uitgevoerd in samenwerking met Gronmij Capital Consultants en Gronmij Stedelijk Gebied. In het onderzoek is de rol van twee ontwikkelende beleggers, CIM Group en Vulcan Real Estate, onderzocht in de herontwikkeling van respectievelijk Hollywood (Los Angeles) en South Lake Union (Seattle). Deze herontwikkelingsprojecten kenmerken zich door de organische aanpak waarbinnen meerdere private actoren ontwikkelen en investeren binnen een beperkt regelgevend publiek kader dat sterk is afgestemd op doelstellingen van private partijen.

De volgende experts namen zitting in het panel;

**Private Sector**
1. Nicole Maarsen
   HAL investments – strategie ontwikkeling & vastgoed
2. Wim Wensing
   Amvest – directeur investment management
3. Rick Gijzen
   Bouwfonds ontwikkeling – senior locatiemanager
4. Job van der Veer
   SDK Vastgoed, VolkerWessels – directeur
5. Robbert van Dijk
   CBRE Global Investors – fundmanager Dutch residential (verhinderd)

**Publieke Sector**
6. Bob van der Zande
   Ontwikkelingsbedrijf Gem. Amsterdam – woningbouwregisseur
7. Tjeerd Talsma
   Provincie Noord Holland – gedeputeerde RO (verhinderd)
8. Edwin van den Heuvel
   Gemeente Tilburg – adviseur vastgoed en gebiedsontwikkeling

**Onderzoek- en adviessector**
9. Niels Sorel
   Planbureau voor de Leefomgeving – onderzoeker Ruimte
10. Geurt van Randeraat
    Master City Developer – directeur, programma manager
11. Erwin Heurkens
    Technische Universiteit Delft – assistent professor
12. Johanneke Mulder
    Twynstra Gudde – senior adviseur
13. Jan Nijhof
    Clean Tech Delta/ Gronmij – directeur/ divisiedirecteur
14. Norbert Bol
    Gronmij Capital Consultants – directeur
15. Nicolaas Veltman
    Gronmij – ontwikkelmanager
16. Boy Wesel
    Gronmij Capital Consultants – senior adviseur
17. Carlo Sturm
    TU Delft, Gronmij – afstudeerder
Na een uitgebreide presentatie van de resultaten van het case studie onderzoek in de Verenigde Staten is het expert panel een tweetal stellingen voorgelegd om de relevantie van de bevindingen te toetsen op de Nederlandse praktijk. De eerst besproken stelling omvatte de samenhangende aspecten van de investeringsstrategie voor de selectie van gebieden door de Amerikaanse ontwikkelende beleggers. In de tweede stelling werd ingegaan op de haalbaarheid van de gebied georiënteerde aanpak. De duidelijk getriggerde experts stuurden de open discussie zelf van onderwerp naar onderwerp. De samenvatting is dan ook gestructureerd aan de hand van de meest besproken thema’s die gekoppeld zijn aan de bevindingen uit het onderzoek.

Institutionele rolverhoudingen

Uit het internationale case studie onderzoek blijkt dat de onderzochte Amerikaanse aanpak gepaard gaat met een andere institutionele rolverhoudingen. Publiek en privaat onderhandelen vanuit gelijkwaardigheid, waarbij de private sector zich mede opstelt als probleemeigenaar van de herontwikkelingsopgave. Bovendien blijken beide ontwikkelende beleggers gebaat te zijn bij concurrerende private activiteiten die een positief effect hebben op de waardeontwikkeling van het gehele gebied. Zodoende vervullen zowel CIM Group als Vulcan RE een actieve rol binnen het genereren van draagvlak voor de herontwikkeling onder niet alleen publiek en particulier, maar juist ook onder de private sector.

Maarsen (HAL Investments) kaartte de cultuurverschillen tussen Amerika en Nederland aan: “We missen de Amerikaanse cultuur waarin private partijen van een succesvolle concurrent beter kunnen worden.” De Nederlandse private en publiek sector beconcurreert elkaar voornamelijk. Als voorbeeld geeft Maarsen het Rotterdam Central District waarin verschillende verdienenmodellen van private en publieke partijen voor enorm knelpunt zorgden. De verschillende belangen zijn onverenigbaar wanneer iedere vastgoedeigenaar, en elke gebruiker naar elkaar blijft kijken. Volgens Maarsen ligt daaraan ten grondslag dat we binnen onze cultuur “het succes van de buurman niet laten afstralen op ons eigen succes.” Dit cultuurverschil bemoeilijkt de implementatie van de Amerikaanse strategie. In Amerika lijken de ontwikkelende beleggers zich niet tegen te houden door freeriders, ze lijken juist baat te hebben bij concurrerende private partijen.

Volgens Van der Zande (OGA) ontbreekt juist de gezamenlijkheid tussen publieke en private sector in het aanpakken van ruimtelijke opgaven.

Strategie en Organisatie Nederlandse private sector

Karakteristiek voor de onderzochte Amerikaanse beleggers is de multidisciplinair en multi-sectorale in-house expertise ten behoeve van het uitrollen van de investeringsstrategie waarin het bedienen van de veranderende marktwaarde centraal staat. Bovendien hebben CIM Group en Vulcan RE het gebiedsniveau geïntegreerd in de investeringsstrategie in plaats van enkel te focussen op het gebouw binnen één bepaalde vastgoedsector als investeringsobject.

Volgens Gijzen (Bouwfonds ontwikkeling) en Van Randeraat (MCD) worden heldere criteria voor de selectie van gebieden ook door Nederlandse (ontwikkelende) beleggers toegepast. Partijen als Bouwlnvest en Syntrus Achmea selecteren topregio’s op basis van sociaal economische en demografische criteria. Buiten de grenzen van deze regio’s wordt niet ontwikkeld of geïnvesteerd. Maar de focus daarbij ligt meer op het investeren in het gebouw; een gebiedgeoriënteerde aanpak mist. Wensing ziet kansen in de focus van Amerikaanse ontwikkelende beleggers op specifieke gebieden. De Nederlandse ontwikkelende beleggers waren juist in alle regio’s aanwezig. Als een van de weinig overgebleven ontwikkelende beleggers focust Amvest zich specifiek op de voor haar meest kansrijke gebieden, bijvoorbeeld het Cruquiusgebied in Amsterdam. Maar volgens Wensing vormen freeriders wel een probleem. Bij voorkeur heeft Amvest zelf de controle over het hele gebied. Volgens Gijzen werkt Bouwfonds op een vergelijkbare wijze als de Amerikaanse ontwikkelende beleggers, maar wel vanuit een bestaande grondpositie. Hij acht
vindt het interessant dat de Amerikaanse beleggers voorinvesteringen doet in de *community building en draagvlak ontwikkeling vóór het acquireren van een grondpositie.*


Nijhof (Clean Tech Delta/Grontmij) kaart aan dat de dubbele taak van de private sector, de betrokkenheid bij de herontwikkeling vanuit zowel investeringsperspectief als bottom-up gebiedsmanagement, in Nederland mist; “de Amerikaanse partijen hebben op een of andere manier, ook in de publiek private samenwerking, een modus gevonden om de sturende partij te zijn, en de rest mag mee.” In bijvoorbeeld Rotterdam Central District neemt de publieke sector een enorme verantwoordelijkheid. Volgens Mulder (Twynstra Gudde) moeten we in Nederland misschien op een andere manier gaan kijken naar een gebied. Meer oriënterend op meervoudige waarde toevoeging in plaats van te focussen op alleen het gebouw. Daar komt volgens Nijhof bij dat de Nederlandse private vastgoedsector maar weinig vernieuwende initiatieven aandraagt in de gebiedsontwikkeling.

**Beleid en regelgeving overheid**

Kenmerkend aan de herontwikkelingsprojecten van zowel Hollywood en South Lake Union is de consistentie van het publiek beleid door duidelijke publieke prioriteiten en de ruimte voor privaat initiatief in de regelgevende kaders door het stellen van een beperkt aantal strikte randvoorwaarden. Economie en groei zijn belangrijke drivers op basis waarvan het bestemmingsplan wordt ingericht ten behoeve van het stimuleren van private ontwikkelingen.

Het expert panel is het er over eens dat er een juist een grote groep beleggers is die willen investeren in Nederland, waaronder ook buitenlandse investeerders. Maar vooralsnog een op deze groot belemmering ervaren voor het investeren in Nederland is de consistentie van politiek-bestuurlijke afspraken en beleid op de langere termijn. Volgens Maarsen zijn bijvoorbeeld selectieve erfpachtmaatregelen een groot risico voor de business case van een private partij; voor de private sector is het van belang om consistent binnen het gebied waarde te kunnen toevoegen zonder onverwachte maatregelen. Niet alleen op gebiedsniveau vormt een consistent publieke lange termijn opstelling beleid een uitdaging, ook op landelijk niveau wordt het als een noodzakelijke voorwaarde gezien.

Ook de kenmerkende flexibiliteit in het beleid en regelgeving rondom Amerikaanse gebiedsontwikkeling is in Nederland een gevoelig onderwerp. Er wordt wel flexibeler omgaan met planvorming, maar privaat initiatief wordt nog belemmerd door vele randvoorwaarden van de overheid. Maarsen geeft als voorbeeld dat meerdere malen haar initiatief om 500 tot 600 woningen te realiseren in Amsterdam werd afgewezen. De oorzaak ligt volgens Van der Zande aan slechte ervaringen met andere private partijen; het werkt niet om meerjarig, over de hele stad, afspraken te maken over woningbouw, maar binnen een gebied kan het wel. Nijhof stelt dat er te veel regels en randvoorwaarden gesteld worden; “er kunnen nog steeds kamers gevuld worden met alle blauwdruk plannen van lokale overheden.” Volgens Heurkens (TU Delft) ligt het wensdenken van de publieke sector daaraan ten grondslag. Er wordt teveel gedacht vanuit wat zij willen realiseren in plaats van in te spelen op wat de private sector denkt te kunnen realiseren. Volgens Gijzen en Van den Heuvel (Gemeente Tilburg) is er een groot verschil tussen gemeenten betreffende het faciliteren
van privaat initiatief. Zo zijn er enerzijds gemeenten die vanuit een sterk ontwikkelbedrijf de ruimtelijke ontwikkeling regisseren, anderzijds zijn er gemeenten die de private sector reeds meer ruimte bieden.

Volgens Veltman (Grontmij) moeten gemeenten durven aan te geven voor welke gebieden ze echt willen gaan. Zonder prioritering wordt er nauwelijks privaat draagvlak voor herontwikkeling gegenereerd. Juist dit publieke commitment is in de Amerikaanse cases transparant en consistent. Van den Heuvel geeft aan dat de lokale overheid in Nederland consistenter kan aangeven wat het over de lange termijn met bepaalde gebieden wil, waarbij ook duidelijkheid geschept moet worden over publiek investeringen. Volgens Mulder zullen gemeenten zich in de toekomst steeds meer gebiedsgericht moeten gaan oriënteren op basis van de Wet maatschappelijke ondersteuning. Niels Sorel (PBL) kaart aan dat juist de selectie en prioritering van gebieden ook een keerzijde kan hebben doordat de waarde virtueel hoog gehouden wordt en de transformatiewaarde daarmee in het geding komt. Daarnaast is het verschil in functioneren en kwaliteit tussen gebieden in Nederland minder groot in vergelijking met de Verenigde Staten. Dit belemmert goede prioritering.

**Sense of urgency**

Zowel CIM Group als Vulcan RE kiezen bewust voor gebieden waar de potentiële transformatiewaarde hoog genoeg is. *De urban sprawl in de Verenigde Staten heeft er toe geleid dat talloze binnenstedelijke gebieden in verval zijn geraakt. De laatste decennia is de focus binnen de Amerikaanse ruimtelijk planning komen te liggen op de herontwikkeling van deze gebieden door onder andere het beperken van nieuwe uitleglocaties.*

De noodzaak voor herontwikkeling wordt ook door het panel bediscussieerd. Hoe slecht moet de situatie zijn om de belangen tussen publieke en private partijen te kunnen verenigen. Volgens Maarsen heeft Nederland last van de verscheidenheid aan eigendomsconstructies; een Duitse belegger maakt zich niet zo druk om een leegstaand kantoorpand, daardoor mist er een sense of urgency van de eigenaar. Aan de andere kant vormt de relatief hoge grondwaarde van herontwikkelingsgebieden een belemmering voor de implementatie van de Amerikaanse aanpak. Klaarblijkelijk functioneren vele gebieden in de huidige bestemming nog te goed waardoor de hoge grondwaardes de transformatie belemmert.

**Conclusie**

De discussies die gevoerd zijn tijdens de expert meeting tonen aan dat de kansen van de Amerikaanse gebiedsgeoriënteerde aanpak met name liggen in de oriëntatie van de vastgoedbelegger op specifieke gebieden in plaats van alleen het aan één bepaalde vastgoedsector gerelateerd gebouw. Resulterend in een private rol als zowel gebiedsmanager en vastgoedinvesteerder. Voorinvesteringen in waardeontwikkeling door *community building* en *gebiedsmanagement* bieden perspectief voor de Nederlandse vastgoedbelegger. Maar de overheid dient daarvoor een meer faciliterende en uitnodigende rol te spelen in gebiedsontwikkelingen om ruimte te bieden aan privaat initiatief. Succesvolle implementatie wordt verder gestimuleerd door een lange termijn consistentie van publiek beleid op zowel nationaal als lokaal niveau. Het teveel aan randvoorwaarden door het publieke wensdenken belemmert het private initiatief. Ruimte bieden voor privaat initiatief vraagt juist om een goede afstemming van publieke en private doelstellingen. Daarnaast mist de cultuur waarin een private partij beter kan worden van een succesvolle concurrent. Ook een concrete gebiedsvisie is nog niet opgenomen in de investeringsstrategie van vele Nederlandse vastgoedbeleggers. Er ligt enorm veel (buitenlands) investeringskapitaal op de plank. Maar dit komt niet van de plank zonder vertrouwen door initiatief van de Nederlandse private sector.