INVESTOR-LED URBAN DEVELOPMENT

“Lessons from community oriented investment strategies applied by American developing investors”
• UD practice affected by economic downturn
• Change of process approach
  – Emphasis shifted toward incremental development
• Change of institutional roles
  – Emphasis on private sector & real estate investor
  – Public sector in enabling role
• Future challenge; redevelopment of urban areas

How is the real estate investor able to be long term committed to incremental urban redevelopment projects?
content

• research proposal
• theories
• practices
• analysis
• lessons
• relevance
• conclusions
research proposal

Providing insight in community oriented investment strategies of American developing investors and the related urban development strategies in order to learn lessons for Dutch urban development practice.

- Identifying the relation between the perspectives of real estate investment and urban planning and development.
- Regarding long term commitment of the developing investor to incremental urban development projects.

What lessons can be learned from community oriented investment strategies applied by American developing investors for Dutch urban development practice?
research proposal

community investment strategy

institutional capital

private equity capital

urban development strategy
research proposal

context.
- theme
- problem analysis
- research relevance
- research objectives

main research question

theories.
- investor-led urban development
- urban development strategies
- public-private co-operation
- research questions
- analytical model

P1/P2

case study US community investment strategies

CIM GROUP  developing investor institutional capital

VULCAN REAL ESTATE  developing investor private capital

empirical.

cross case analysis

P3

empirical & inspirational lessons for Dutch urban development practice

expert meeting
To what extent are the lessons learned relevant for Dutch urban development practice?

P4

conclusions and recommendations
What lessons can be learned from community oriented investment strategies applied by American developing investors for the Dutch urban development practice?

P5
theories

• investment strategy
• urban development strategy
• urban development in US and NL

• analytical research model
theories | investment strategies

• investment decision making
  – risk-return ratio
  – diversification portfolio (geographically, sectoral, type)
  – liabilities of the investor

• developing and/or investing
  – core business > NL investors repelled development activities
  – crisis > investors more interested in performance real estate
  – developing investing proved to be more profitable
    • extensive in-house expertise required
theories | urban development strategies

• urban development strategy
  – all actions and decisions of public and private actors involved
  – intended to realize concrete material interventions
  – important aspects of UD strategy
    • vision, organization, financial and regulation

• public private partnerships and roles
  – public and private domains forced to co-operate in UD
  – history of public private partnerships – active government
  – shift toward private sector-led development
    • Changing roles
    • Shifting power-balance toward private sector
theories | urban development US & NL

Anglo-Saxon (US) versus Rhineland (NL) culture

– Cultural differences
  • free market vs. market regulating
  • negotiating vs. consensus seeking
  • expression of success vs. leveling success and returns

– Differences planning culture
  • decentralized & fragmented vs. centralized & coherent
  • passive government vs. active government
  • bottom-up – local vs. top-down – central
  • development-led vs. plan-led
theories | analytical research framework
practices
practices | developing investors

• Founded in 1991
  – Initial societal goal: CalPERS – investing pension capital in redevelopment areas throughout California

• Various types of funds under management
  – Multisectoral real estate, infrastructure
  – Core (IRR 10%) & Opportunistic (IRR 20%)

• 330 employees
  – Multidisciplinary, full service

• $7.6 billion dollar invested
  – in various communities throughout US
practices | developing investors

• Invests in qualified communities based on 5 key principles:
  1. Selection based on transparent criteria including:
     • Favorable economic and demographic conditions
     • Public and private capacity for redevelopment
     • Dysfunctional real estate market > potential for value growth
     • > $100 million investment potential
  2. Integration within the community network
  3. Multi-sectoral approach
  4. Community oriented approach
  5. Anticipating on market cycles
practices | developing investors

• Founded in 2002
  – Full subsidiary of investment company Vulcan Inc.
  – Billionaire, philanthropist Paul G. Allen, co-founder Microsoft
  – Initial societal goal: financial support Commons Park plan

• Developing investor
  – For own investment portfolio
  – Based on strategic land position SLU

• 40 employees
  – Multidisciplinary, full service

• > $3 billion invested in SLU
practices | cases

Hollywood redevelopment
Los Angeles, California

South Lake Union redevelopment
Seattle, Washington
practices | hollywood
practices | hollywood

• 450 ha. redevelopment of blighted film district

• 1986 > Community Redevelopment Project
  – Community Redevelopment Agency (CRA/LA)
  – Tax Increment Financing
    • $922 miljoen dollar over 30 years
  – Public actor in active and enabling role
    • Stimulating private sector, financing catalyst projects, affordable housing

• Incremental development
  – Emphasis on transit areas
  – Redevelopment to balanced work and living community
practices | hollywood

• Involvement CIM Group
  – Realized the potential of Hollywood in mid-1990s
    • Selection as investment community
  – Establishment of Business Improvement District in 1996
  – In 1998 first investments around Hollywood Boulevard
  – Investment in over 21 projects
    • 300,000 m² GFA
  – Majority still in portfolio
practices | south lake union
practices | south lake union

• 140 ha. redevelopment of decayed commercial/industrial community

• Part of Seattle Commons Park Plan
  – Support of Paul Allen – land donations
  – 1996 public votes plan down > land position in ownership Paul Allen

• Since 2002 incremental redevelopment to balanced living-working community
  – Local authority enables private investments and safeguards public interests
practices | south lake union

• Involvement Vulcan RE
  – Paul Allen (Vulcan Inc.) significant land lord (5 ha.) after Commons defeat
  – 2002 Founding of Vulcan Real Estate
  – Emphasis on sustainable development community and real estate
    • Mixed-use
    • 610,000 m² GFA real estate developed
  – Vulcan takes initiative
    • Street Car
    • Mercer Corridor
    • Planning process - Upzone
analysis | comparative study

- investment strategy
- urban development strategy
# Analysis | Investment Strategies

<table>
<thead>
<tr>
<th>Urban Investment Strategy</th>
<th>CIM Group</th>
<th>Vulcan Real Estate</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Vision</strong></td>
<td><strong>Initial objective</strong></td>
<td>Reinvest pension capital in urban redevelopment in California</td>
</tr>
<tr>
<td><strong>Focus on community(-ies)</strong></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><strong>Community selection</strong></td>
<td>Transparent criteria</td>
<td>94 communities in North America</td>
</tr>
<tr>
<td><strong>Approach</strong></td>
<td>Integration in community, bottom-up</td>
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</tr>
<tr>
<td><strong>Organization</strong></td>
<td><strong>Structure</strong></td>
<td>Multidisciplinary fund manager</td>
</tr>
<tr>
<td></td>
<td><strong>Knowledge</strong></td>
<td>Development &amp; management</td>
</tr>
<tr>
<td></td>
<td><strong>Employees</strong></td>
<td>330</td>
</tr>
<tr>
<td><strong>Financial</strong></td>
<td><strong>Structure</strong></td>
<td>Various investment trusts</td>
</tr>
<tr>
<td></td>
<td><strong>Investment Capital</strong></td>
<td>Institutional</td>
</tr>
<tr>
<td><strong>Risk-return profile</strong></td>
<td>Core &amp; Opportunistic investment funds</td>
<td>Opportunistic development, but long term core investments</td>
</tr>
<tr>
<td><strong>Regulations</strong></td>
<td><strong>Legal structure</strong></td>
<td>Limited Liability Partnership; Low influence of capital providers</td>
</tr>
<tr>
<td></td>
<td><strong>Dependency</strong></td>
<td>Outperforming benchmark</td>
</tr>
</tbody>
</table>
### Analysis: Urban Development Strategies

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

• investment perspective
• urban development perspective
• investor’s commitment
Lessons | Investment Perspective

Long term commitment to incremental UDP is valuable due to indirect optimization of financial returns by value growth community

- requires a knowledge intensive organization
- requires flexible sectoral allocation of investments

Incorporation of bottom-up approach allows the developing investor to steer the development and optimize returns

- by building capacity amongst public, private and civic actors
- by signalizing investment opportunities in an early stage
- ‘creating its own market’
Informal PPPs provide the opportunity to continuously align public-private objectives to market conditions while private planning & development risks are limited to project level

- requires a development-led planning approach
- requires other ways to finance public amenities – public private negotiations on project-level

Transparent regulations, limited restrictions, and clear prioritization of UDP stimulates long term commitment of the private sector

- public commitment and consistent public policy stimulates private commitment
- limited restrictions enable private initiatives
lessons | urban development strategies

Urban redevelopment projects do not necessarily ask for financial public private agreements on community-level as private contributions can be negotiated on project-level

– by financial contributions or by incorporating realization of public amenities in the development plan

– requires the willingness of the private sector to contribute and the need to exceed the base zoning regulations (market dependency)

– requires regulatory instruments and process to enable negotiation of private contributions on development agreements
lessons | investor’s commitment

Private sector commitment can also be effectuated in private involvement in capacity building and urban management rather than financially

- *soft commitment*
- private steering and stimulation of redevelopment process

Without (long term) public private partnerships on community-level the commitment of the developing investor is strongly dependent on market conditions

- strong emphasis on market-led development
- postpone developments/shift interest to other communities
Private sector cross-fertilization; as developing investors seem to benefit from private sector competition

- private capacity building amongst private sector anticipating on future value growth community
- as more investments and developments positively affect the value growth of community

Formalizing negotiations on development agreement utilized to generate private contributions for the realization of public amenities

- in SLU room for negotiation of private contributions against expansion of zoning regulations formalized in Rezone
- transparent and consistent public decision making
relevance | expert meeting

• briefly assessing the relevance of the lessons learned by conducting expert panel discussion
• public- and private-sector decision makers
• UD- and investment-consultants and academics
relevance | expert meeting

opportunities

– incorporating community-level in investment strategy
– private role in urban management and capacity building
– incremental redevelopment valuable as unique investment
– positive competitiveness between private actors

barriers

– political instability and inconsistent public policies - uncertainty
– cultural differences US & NL
– sense of urgency for urban redevelopment
– lack of developing investors and private initiative in UD practice
conclusions

• Investment strategies of studied developing investors are inextricably linked to the community-level
  – valuable for urban development based on the conception that societal gains result in financial gains for developing investor

• Incremental private sector-led redevelopment
  – emphasis on development rather than urban planning
  – financial structure and regulations allow room for private initiative
  – however: UDP force strongly dependent on market conditions

• Relevance
  – if Dutch public sector end up with chronic shortage of resources to influence urban development
  – and cultural shift towards Anglo Saxon values continues
  – Then this approach might be valuable for UD in NL
questions | ?