

Urban Investment Network Summit 2009

28-29th October 2009, Barcelona, Spain

Conference Summary Report

Introduction

Between the 28th and 29th October 2009, Barcelona played host to the inaugural Urban Investment Network Summit. The agenda was carefully designed to encourage debate and discussion between expert practitioners and to consolidate a common agenda around urban investment across Europe – a topic vital to the future success of Europe's cities, particularly given the current crisis.

The 150-strong Summit audience, comprised of high-level city employees (14%); city politicians (4%); investors (15%); lenders (8%); developers (24%) and advisors (26%), heard from an impressive diversity and calibre of speakers. They ranged from the Network's *Founding Partners* **Jordi William Carnes**, Deputy Mayor of Barcelona and **Menno Maas**, CEO ING Real Estate Development, to *former Mayors* **Valentino Castellani** of Turin and **Joan Clos** of Barcelona, and *senior Urban Land Institute (ULI) figures* including **Jeremy Newsum**, Chairman ULI, **Patrick Phillips**, Chief Executive ULI, and **Bill Kistler**, President ULI Europe. The day was chaired by city advisor and ULI EMEA/India Senior Fellow **Greg Clark**.

Throughout the Summit the audience were encouraged to interact with speakers through open dialogue and the use of a modern interactive voting system. These discussions were used to sharpen understanding of key themes and to refine a set of ten principles to guide urban investment into the future.

This short report summarises key discussion points from the Summit itself and will inform the Summit Paper, due for publication in November 2009. The Summit Paper will build on the themes discussed in this summary report and set a firm foundation for action around the urban investment agenda over the near future.

Info Burst: The ULI Urban Investment Network

Jordi Sacristan Adria, Director of Marketing and Communication, 22@Barcelona and **Gert-Joost Peek**, Director of Research at ING Real Estate gave an excellent overview of the Network. Launched in October 2008, they described how the Network aims to facilitate a continuous dialogue between public and private sector leaders who are seeking to improve their ability to collaborate. It sees, they went on, public - private relationships with a high level of collaborative working to provide more opportunities to bridge investment gaps and overcome city development challenges.

'Barcelona is proud, not only to become the first city to host the ULI Urban Investment Network but also of the role it has played in the creation of the Network'

Jordi William Carnes,
Deputy Mayor, City of
Barcelona

'It is fantastic to see such an initiative as this. There is a strong chance it will translate itself onto a much bigger stage within ULI'

Jeremy Newsum,
Chairman, ULI

'We need to develop tools to evaluate the effectiveness of urban developments'

Menno Maas, CEO ING
Real Estate
Development

A Global View: Insights from Europe, Asia and North America

To provide a context to the discussions a range of speakers gave an insight into the socio-economic climates of Europe, Asia and North America. These presentations and discussions created an excellent springboard for the rest of the Summit. They concluded that now is the time. More than ever, public and private sector stakeholders must join forces to tackle the challenges and capitalise on the opportunities of the present global financial crisis. A fresh approach, based on new ways of collaborative working, will create the return to sustainability that is needed to deliver effective urban development whatever the stage of the business cycle.

➤ *The European Investment and Development Context*

Various speakers gave an excellent insight to the socio-economic conditions in Europe. **Jordi William Carnes**, Deputy Mayor of Barcelona, described how public administrations will face an extraordinary deficit over the next few years. He supported carefully crafted public-private partnerships which meet the needs of all partners as a way of securing effective urban development. **Andrea Tinagli** of the European Investment Bank JESSICA Task Force saw how the European Union (EU) could contribute. Tinagli advocated the use of public funds but in a very efficient way. The JESSICA initiative, for instance, could maximise the efficiency of the deployment of EU structural funds. **Olivier Piani**, Chief Executive of Alliance Real Estate, argued that the crisis was perpetuated by a shift from the long-term to the short-term and an excessive focus on profits. He argued for a return to sustainability through a more long-term and considered approach to real estate and urban investment. **Enrique Fuentes**, Head of Market Studies & Analysis at the Business Unit of Ferrovial, saw a strong role for the private sector in not only the funding but also the maintenance and management of urban infrastructures. In the light of public budget cuts, Fuentes also described how end-user pays finance mechanisms should become more widespread. From his perspective as Chief Executive, ECE, **Alexander Otto** described the constraints that face European cities and the strategies which could help overcome them. Amongst others, he highlighted urban sprawl, social exclusion, climate change, and a declining public finance context as challenges. He saw strategies underpinned by sustainability, effective PPPs, leveraging public land assets, culture and events as central to meeting these challenges and capturing the benefits of the future. He went on to suggest that investment would be stimulated if legal barriers are removed and frameworks simplified. To counteract the short-term, maximum profits development philosophy which has contributed to the downturn, **Menno Maas**, CEO ING Real Estate Development and **Jeremy Newsum**, Chairman ULI argues for a new approach towards valuing

'There needs to be a new era of dialogue with the people of the city'

Jeremy Newsum,
Chairman, ULI

'Real estate and urban investment is a long-term thing. The best city governments will manage the whole cycle, not just the peak'

Olivier Piani, Chief
Executive, Alliance Real
Estate

'The task of the Urban Investment Network is a mutual understanding between cities and investors through open interchange and dialogue'

Alexander Otto, Chief
Executive, ECE

'Social and environmental imperatives for cities also need to be addressed by the network'

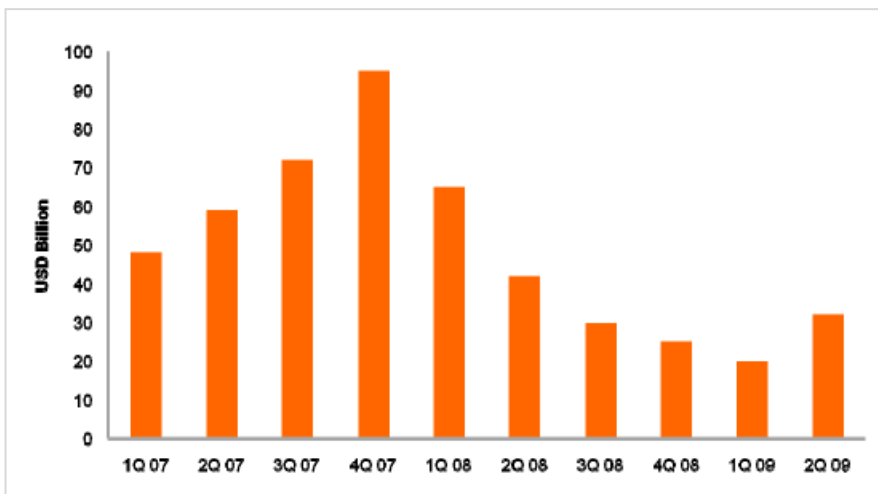
Greg Clark, City Advisor
and ULI EMEA/ India
Senior Fellow

the impact of urban development projects. They both underlined the importance of attaching greater value to creating thriving communities ahead of substantial profits.

➤ *The Asian Investment and Development Context*

Tim Bellman, Head of Research & Global Strategy, ING Real Estate Investment Management, offered his perspective on the urban investment context in Asian cities. Bellman suggested that the recession had ended in Asia first. Growth rates show that a short and sharp recession in Asia is over and a bounce-off-the-bottom phenomenon is now moving into a period of strong economic recovery. A strong fiscal stimulus has supported this process. The same stimulus is driving an intense phase of infrastructure construction. The real estate market, too, is picking up. In Q2 2009, Asia Pacific accounted for 53% of total global real estate sales. Because rates of urbanisation are still strong the real estate market is set to grow. Bellman added that much of Asia's current economic strength is derived from its rapid modernisation and "catch-up" staged in just the past few decades. With one of the main consequences of the recession being a shift in the focus of capital from west to east, Bellman saw this process likely to continue.

Asia Pacific Quarterly Volume of Real Estate Transactions



Source: Real Capital Analytics, September 2009

➤ *The North American Investment and Development Context*

Patrick Phillips, Chief Executive ULI, gave an account of the impact of the recession on the development and investment market of the United States. He described a mixed outlook for the US recovery. With unemployment measured at 9.8 million in September 2009, compared to 4.7 million in September 2007 there was no doubt the US was still suffering. Its stimulus package, totalling USD 789 billion is the second largest in the world. To be spent over the next two years, it will fund USD 68.9 billion of energy; USD 48 billion of transport; and USD 14.6 billion of water works. Funding, Phillips explained, is directed towards 'shovel-ready projects, which will support large scale employment, rather than strategic projects. None

'Cities are incentivised to make large investments which are not necessarily sustainable. We need to create the right incentives'

Enrique Fuentes, Head of Market Studies & Analysis, Busines Unit, Ferrovial

'I see the Network as incredibly valuable. The opportunity to sit down face-to-face and talk about key issues is rare. I am hoping it spreads to the US, Canada and beyond'

Jeffrey Steiner, Past President and Chief Executive of the Toronto Economic Development Corporation

'A flight to quality is required but also to maturity about how PPPs are reported and deployed'

Greg Clark, City Advisor and ULI EMEA/ India Senior Fellow

'We must be prepared to fail fast and move on'

Dave Anderson, Director, City of Edinburgh Council

the less, the ULI has established some further emerging trends which include: 1) Average real estate values will have fallen 40% from early 2008 peak pricing; 2) Real estate market lags into late 2010—2011 based on slow job growth; 3) retrofitting buildings at scale will become more widespread e.g. the Empire States Building; 4) Apartments are likely to rebound first; and 5) population growth of approximately 25 million per decade is the US's underlying asset.

Jeffrey Steiner, Past President and Chief Executive of the Toronto Economic Development Corporation (TEDCO), told the audience that Canada had avoided the banking crisis. Its progressive but regulated banking system has isolated Canada from the sub-prime crisis. With the nation's trade tied tightly to the US economy, Canada's cities are now dealing with the global economic recession. The Ontario automobile industry has suffered and a general lack of confidence from overseas investors has caused a general retrenchment of investments. In terms of real estate, there are many similarities with the US. Stimulus packages, for instance, have to be spent by cities within two years. Steiner reinforced a number of important further points: 1) Canadian City's cannot legally operate with a deficit; 2) the media can destroy potentially successful PPPs and should report the benefits of collaboration; 3) private developers could have their profits capped; and 4) that expectations should not be raised so high that they cannot be met.

A focus on....

Making Urban Investment Pay Its Own Way: Value Capture Financing (VCF)

A recent ULI report defined VCF as the 'appropriation of value, generated by public sector intervention and private sector investment in relation to an underused asset (land and/or structure), for *local* re-investment to produce public good and potential private benefit.' In this way, VCF deals are designed to create a win-win situation from development which benefits both public and private sector actors. **Andrew Carter**, Director of Rocket Science, an urban consultancy based across the UK, chaired a discussion on the subject with panellists including **Stuart Howie**, Director, PricewaterhouseCoopers; **Francesca Medda**, Lecturer University College London; **Jörn Walter**, Chief Planning Director, City of Hamburg; and **Jan Maarten de Vet**, Managing Director, ECORYS.

The following key points emerged:

- Before we can capture value we need to create it first. This is going to be more challenging in the next few years than it was previously.
- National fiscal, financial and regulatory context is critical in defining what can be done and how it can be done. Very often VCF is fighting against the national system it sits within.

'We need joint mechanisms that will offer benefits to both public and private sectors. After a certain amount of return, the private sector should share profits with the public sector'

Jeffrey Steiner, Past President and Chief Executive of the Toronto Economic Development Corporation

'VCF deals are designed to create a win-win situation from development which benefits both public and private sector actors'

ULI Value Capture Finance Report (October 2009)

'We need knowledge from both public and private sectors. I specifically don't say money – that can come later but the first stage is to share knowledge... We don't have all the answers and that is why we participate in the Network'

Annius Hoornstra, Adjunct Director, City of Amsterdam Development Corporation

- ‘Value’ is a contested term that means different things to different actors and uses – this needs to be considered before entering detailed discussions about structures and mechanisms for VCF.
- For VCF to work there needs to be a clear link between the finance raised and the return realised. This is particularly the case if you have to sell the mechanisms to elected officials.

A Shared Destiny – Making Collaboration Work in the Aftermath of the Crisis

Chaired by **Greg Clark**, City Advisor and ULI EMEA/India Senior Fellow a panel consisting of **Dave Anderson**, Director, City of Edinburgh Council; **Menno Maas**, CEO ING Real Estate Development; and **Annius Hoornstra**, Adjunct Director, City of Amsterdam Development Corporation discussed whether old models of collaboration had failed and new ones needed to be invented from scratch.

The following key points emerged:

- Belief in the city is critical – confidence has been lost in recent years. It has to be brought back.
- A new way of working is needed but this may not mean going back to the drawing board. It could possibly mean returning to the old ways of working - a more classical way of public and private sector working together based on clearer roles, a return to quality and the longer-term.
- Phasing and downsizing of projects will be key. It will be very difficult to get all partners to agree an entire area development in one go. Large-scale urban area development is still the ambition but it needs to be managed in a more scaled fashion.
- There needs to be a far more robust approach to the analysis of risk and where the next challenge is going to come from. Scenario planning by both private and public partners is a useful tool to think through eventualities and deal with future challenged and opportunities.

Investment Catalysts: What Will Work for Cities Now?

Bill Kistler, President ULI Europe, hosted a panel consisting of **Debra Mountford**, Senior Policy Analyst and Manager, OECD LEED Programme, **Mateu Hernandez**, Chief Executive of Economic Promotion, City of Barcelona, and **Michael Goldenburg**, General Manager for Spain of Value Retail. The session focussed on how large scale events and projects have been used in the past to leverage private sector investment and how these catalysts may be used towards an uncertain future. The following key points emerged:

- Investment catalysts have had an undoubted impact on the development of cities worldwide. They are not, however a

‘We need to move away from transactional nature of relationships and have a genuine joint venture in sickness and in health’

Dave Anderson,
Director, City of
Edinburgh Council

‘Catalysts are a solution, but not a panacea. They should be part of a sound strategy, not replace it.’

Debra Mountford,
Senior Policy Analyst
and Manager, OECD
LEED Programme

‘We know about how to deliver waterfront recovery, cultural heritage projects, airports, railways and major events, but what about the catalysts of the future?’

Mateu Hernandez, Chief
Executive of Economic
Promotion, City of
Barcelona

panacea nor should they be a shot in the arm for urban development. They should accelerate activities already in train within the framework of a clearly defined strategy and strongly supported objectives.

- Investment catalysts do not have to be large, complicated and expensive projects. They can be symbolic and produce a range of powerful intangible outcomes that support urban development and investment.
- New catalysts will be sophisticated and require a lot of research.

Info Burst: The JESSICA Initiative

Andrea Tinagli, Head of Product Development for Southern Europe, European Investment Bank (EIB), gave a succinct overview of how the JESSICA initiative can contribute to the next phase of urban development in Europe's cities. The acronym, JESSICA stands for the **Joint European Support for Sustainable Investment in City Areas**. It represents the EIB's approach to sustainable development finance by using EU structural Funds not as grants but to capitalise revolving development funds instead.

The purpose of JESSICA is to 1) receive and manage Structural Funds provided by the Managing Authorities; 2) investment them in Urban Development Funds for consequent investment in urban projects and PPPs which are aligned with integrated plans for sustainable urban development.

Tinagli explained how 2008-9 represent(ed) important years in advancing JESSICA from a political, legal and technical point of view. In Q3 2010 EUR 2.5 billion of structural funds will be under management with the JESSICA initiative. It is hoped that this amount will leverage between four and five times more funding for urban development. To date, of over 40 evaluation studies initiated in 18 member states, 23 have been finalised (17 published thus far). In addition, six Holding Fund agreements have been signed. They include, for instance, an energy efficiency project in Lithuania and for the 2012 Olympic Games in London.

Principles For Urban Investment Success

Perhaps the most innovative and constructive part of the day came with the session where members of the Summit audience were asked to vote on a set of principles for urban investment which had been developed prior to the Summit. The response was overwhelmingly positive as the table below shows. A collation of the responses that strongly agreed/agreed with the principles showed them to be between 68% and 92% in support of each principle. Where disagreement lay it was explored and is noted in the table below. This will calibrate and refine the exiting principles and will feed into the Summit Paper.

'The JESSICA initiative represents a new dimension to how public funds can be used to capitalise other investments across Europe'

Andrea Tinagli, Head of Product Development for Southern Europe, European Investment Bank

'Urban development and investment dialogues often don't do enough – they leave out the real people...they must involve the people who the city is for'

Jeremy Newsum,
Chairman, ULI

Principles for Urban Investment Success: These will be developed further in the Summit Paper, November 2009

Principle	Detail	Strongly Agree/ Agree	Notes
I. CITIES SHOULD BE DISTINCTIVE	<ul style="list-style-type: none"> Every city should look and feel different. Investment projects should be novel and authentic. 	85%	<ul style="list-style-type: none"> A city should be honest with itself and not force itself to be distinctive. There may be a cost to developing distinctiveness.
II. SUSTAINABILITY MAKES CITIES LIVE AND CREATES LONG TERM VALUE	<ul style="list-style-type: none"> Smarter asset management, integrated social and environmental goals, making long-term arrangements to achieved desired outcomes and maintain facilities and development is crucial. 	92%	<ul style="list-style-type: none"> Though we can't address everything, sustainability is defined too narrowly. We need to prioritise and take into account other considerations such as the social and environmental.
III. ADAPTABILITY AND FLEXIBILITY IN PLANNING IS CENTRAL TO INVESTMENT.	<ul style="list-style-type: none"> Negotiated flexibility in planning and regulations are central to opening up investment decisions. 	71%	<ul style="list-style-type: none"> Too much flexibility does not set the foundation and limits within from which and within which to build confidence. There are different levels of planning to apply flexibility to.
IV. CITIES ARE JOINT-VENTURES	<ul style="list-style-type: none"> Cities only work when the needs of public and private partners are met. 	74%	<ul style="list-style-type: none"> This leaves out the real people and presumes that urban development represents a deal between developers and politicians. The dialogue with people is often too superficial. A deeper collaboration is needed. A balance should be struck through skilful public dialoguing. The term joint-venture can be unpalatable.
V. PUBLIC INVESTMENT SHOULD BETTER LEVERAGE PRIVATE INVESTMENT.	<ul style="list-style-type: none"> Better use of public assets and revenue flows underpin urban investment. 	88%	-
VI. OPENNESS AND TRUST IS THE CORE OF GOOD RELATIONSHIPS BETWEEN CITIES AND INVESTORS.	<ul style="list-style-type: none"> Longer term deals based on open books and forging long term relationships can solve problems and allow adjustments of plans as circumstances evolve. 	87%	<ul style="list-style-type: none"> Dealing with market stability is to a large extent about sharing risks. Trust is build over years and decades.
VII. PUBLIC AND PRIVATE ARE BOTH RESPONSIBLE FOR COST AND RISK REDUCTION AND SHARING.	<ul style="list-style-type: none"> It is the role of both parties to reduce each other's costs and risks. 	68%	-
VIII. INNOVATION AND INVENTION MUST BE USED TO DRIVE INVESTMENT.	<ul style="list-style-type: none"> Attention must be paid to new drivers of investment and ways to structure investment to make it work in the long term. 	76%	-
IX. URBAN INVESTMENT EXPERTISE, KNOWLEDGE, AND UNDERSTANDING SHOULD BE FOSTERED.	<ul style="list-style-type: none"> Higher skills and expertise in city investment in both sectors is required, coupled with much greater understanding of the needs of the other. 	85%	<ul style="list-style-type: none"> In Europe learning is fragmented. Learning circles are poor. There needs to be multiple levels of exchange and learning. This could be the future of the Network to teach urban investment skills. It is a multi-disciplinary process which combines technical skills with wider awareness of trends. New tools such as JESSICA require knowledge which isn't always present.
X. INVESTMENT PERFORMANCE SHOULD BE DRIVEN BY SOUND MANAGEMENT.	<ul style="list-style-type: none"> Better use of private project and asset management optimises performance is required. 	79%	-

See The Future: Ask the Giants

In this session, two investors and two former Mayors shared their experience and insight into the future of urban investment in Europe. Their hindsight as survivors of past recessions helped provide foresight to successfully negotiating this downturn.

➤ *The private perspective...*

Ric Lewis, Chief Executive and Chairman, Tristan Capital Partners, explained how the current financial crisis has had a significant impact on real estate markets. The road is improving, Lewis suggested, but real estate markets will not have a rapid exit. The crisis will alter the size, nature, and function of what is built, bought and invested in. A new paradigm of economic paradigm will emerge from 2010. According to Lewis, it will favour those more comfortable operating in an environment of uncertainty. He argued that there is a need to return to a time of investing in economically and socially sustainable projects of high quality.

Michael Spies, Senior Managing Director, Tishman Speyer, suggested that two central challenges jump out: 1) the fundamental mismatch between the need to establish a long-term vision and political and economic cycles; and 2) there is a tremendous need to better understand the true economics and value of land at all stages in the process. He went on to argue that if done properly the benefit of PPPs are far greater than the sum of their parts. It is critical, though, that there is a clarity of responsibility for every partner in every type of PPP.

➤ *The public perspective...*

Valentino Castellani, former Mayor of Turin, gave an insight into how to lead a city through a process of transformation. In 1993, Turin was in the worst point of a serious crisis. The FIAT factory in the city had lost 80,000 jobs lost in less than 10 years. In 1995, the City adopted a new urban masterplan. The plan was a great success. It involved EUR 50 million of public incentives which leveraged EUR 700 million of private investment. The Piemonte Agency for Investments, Exports and Tourism was vital to this success. According to Castellani, key factors for the next decade of urban investment include: 1) a clear strategic vision for a city to give to all investors a sound frame of reference and confidence in the city's future; 2) Transparency is essential to PPP success - making profit is fine but the important thing is to communicate it; 3) the presence of an agency which takes care of all the problems of the investor via one entry point; and 4) there is a role for catalytic events and projects to accelerate existing plans and ambitions.

'We're traversing the most difficult time in the real estate markets in the past ten years, perhaps since the great depression'

Ric Lewis, Chief Executive and Chairman, Tristan Capital Partners

'We are back to the old model of business which can be slow and painful but which is ultimately fruitful. It's about doing the right things very well'

Ric Lewis, Chief Executive and Chairman, Tristan Capital Partners

'Plans laid at the wrong time in the political of economic cycle may be unrealistic'

Michael Spies, Senior Managing Director, Tishman Speyer

'We learnt from Barcelona to make a strategic plan. Only learning cities have a future'

Valentino Castellani, former Mayor of Turin

Joan Clos, Ambassador of Spain to the Republic of Turkey and former Mayor of Barcelona, gave an insight into the successes of the Barcelona model of development and investment over the past three decades. He described how vision was not a luxury. In the Barcelona of the 1980s, vision came as a need to survive. The city was lucky to have the crisis, he suggested. De-industrialisation caused employment to shoot up from 3-4% to 22 % in very few years and the City Council budget deficit grew to 40% as a result. PPPs were therefore crucial to the city as it had no money and there was no way to ask other levels of government for money. For the process of urban development to be successful the City understood the need for transparency and the communication of the process to residents. Clos went on to explain how difficult conversations between public and private stakeholders are often necessary. He described how Barcelona's process of change was a permanent fight and much to do with political will. You need to build energy to promote city transformation, he said. As long as you don't overheat the engine you can deliver effective change. He pointed to the Olympics, the 22@ Innovation District, cultural renaissance and a new high speed train connection as examples of success.

Concluding Remarks

Bill Kistler, President of ULI Europe, closed the Summit on a very positive note. He thanked all the speakers and audience for their contribution to a very successful first Urban Investment Network Summit and made special mention to the role of **Greg Clark**, whose insight and energy had proven key to the creation and subsequent success of the Network. Kistler ended by explaining that he hoped the Urban Investment Network model would be the model used in the future to tackle the problems and capture the opportunities that were discussed during the event.



'PPPs need to be very very transparent as there are lots of people suspicious of it'

Valentino Castellani,
former Mayor of Turin

'The change that has been made in Barcelona over the last three decades has been about vision, the will to change and focus'

Joan Clos, Ambassador
of Spain to the Republic
of Turkey former Mayor
of Barcelona

'I hope the Urban Investment Network model will be the model used in the future to tackle the problems and capture the opportunities that we have talked about today'

Bill Kistler, President,
ULI Europe