

Urban Investment Network gets on track

THE STUNNING PALAU DE LA MÚSICA IN BARCELONA WAS THE VENUE FOR THE FIRST SUMMIT OF ULI'S URBAN INVESTMENT NETWORK

BY JUDI SEEBUS

IN BRIEF

- Amsterdam, Edinburgh and Istanbul join network
- Founders call for more public and private cooperation
- Long-term vision needed for real estate as an asset

It is no coincidence that Barcelona played host to the first summit of the Urban Investment Network at end-October. The Spanish city was the first municipality to join as a founding member alongside private-sector partners such as Allianz Real Estate, ECE, Eurohypo and ING Real Estate Development. Meanwhile ULI's new platform to improve public-private collaboration in urban investment and development has attracted three more European cities: Amsterdam, Edinburgh and Istanbul. Each of the trio has now also signed as founding members, bringing the total membership of the network to 18, said Bill Kistler, president of ULI EMEA (Europe, Middle East and India). The financial crisis has amplified the need for a deep knowledge and relationship-building platform for cities, investors and developers, he added. 'Our goal by the end of 2011 is to create a vibrant network of 100 cities and metropolitan areas with investors and developers, facilitated by ULI and with the support of leading European institutions, to

share knowledge on the best ways to collaborate in urban investment and regeneration. We are well on track.'

While there is still room for expansion, the network aims to achieve the right balance between quantity and quality, stressed Menno Maas, CEO of ING Real Estate Development. 'The network has now been in operation for 18 months and we think it's successful. We've already produced two knowledge intensive reports. Cities can learn from each other on how to become vital cities for the future. But we don't want to copy paste events like Mipim or even ULI itself. We will be glad to have 50 top cities, developers, investors, financiers by the end of next year and 10 to 20 knowledge centres like the OECD.'

Geographic spread is important, noted Brian Kilkelly, vice president of global development at ULI Europe. 'The Nordics is the next region we're looking at, we are currently in talks with Stockholm. We are striving for a good level of leadership at the political level. We also hope to welcome an Anglo-Saxon or Spanish investor in

INTERACTIVE SURVEY ON URBAN INVESTMENT HELD AT THE SUMMIT (SELECTED QUESTIONS)

How important are Europe's cities to the success of the European economy as a whole in the next 10-20 year period?

- 4% Not important
- 21% Quite Important
- 75% Very important

In your opinion have the problems of the last cycle, including over-borrowing and over-building, been understood by investors, developers and city leaders?

- 10% Yes, fully understood
- 33% Somewhat understood
- 57% No, not fully understood

Where do you expect to see investment grow most quickly in Europe's cities in the next three years?

- 10% Residential
- 6% Commercial
- 5% Leisure
- 7% Retail
- 16% Public facilities
- 52% Infrastructure
- 4% Other



THE PALAU DE LA MÚSICA CATALANA (PALACE OF CATALAN MUSIC), DESIGNED BY THE ARCHITECT LLUÍS DOMÈNECH I MONTANER, FORMED THE BACKDROP TO THE SUMMIT

due course.’ Other members include Deutsche Bank, the UK Government Department for Communities and Local Government, and the city of Birmingham. Ecorys, an international company specialising in economic, spatial and social development in Rotterdam, has also joined the network as a knowledge centre.

RISING PUBLIC DEBT

During an introductory speech at the one-day summit, Maas outlined 10 new principles that should underpin how urban investment takes place in the future. Local governments face major funding issues in the years ahead, he pointed out. ‘Public sector debt is rising and we will see a scarcity of funding. We need to work together and share knowledge to ensure that public investment is able to leverage from private investment.’ Many area developments are long-term projects covering a span of five to eight years or even longer, he added. ‘In that time, a city may have gone through two or three mayors. That

is why a city needs a long-term vision based on the DNA of the city. Private-sector players need a framework of choices and potential.’

Maas said the public and private sectors needed to find a new way of working together that embraced a classical form of cooperation. The formation of strong consortia was also crucial, he added. ‘Investments must be more market-driven and designs will need to be simplified due to lack of money. That does not mean less quality, but we will have to simplify the scale.’

ECE CEO and ULI Europe chairman Alexander Otto endorsed Maas’ message and called on his industry peers as well as city officials to step up their cooperation during his keynote speech. ‘If Europe’s cities want to succeed in the long run, there has to be a profound exchange of know-how between private investors and cities,’ said Otto. ‘The private and the public sectors have the chance now to create a win-win situation together. The ULI Urban Investment Network makes a continu-

What are the main barriers to making investment in Europe’s cities at this time?

- 22% Lack of capital
- 7% Lack of good projects to invest in
- 7% Lack of demand for developments and infrastructure
- 38% Lack of confidence
- 26% Lack of good partnership between city governments and investors

What are the good city governments doing to encourage urban investment after the crisis?

- 5% Building a new investment strategy
- 9% More flexible planning
- 10% Using public land more creatively
- 10% Co-investment with investor/developer
- 16% Sharing the risks that investors face
- 9% None of the above
- 42% All of the above

What are good investors/developers doing to help make investment happen in Europe’s cities?

- 14% Taking time to find the right cities to invest in
- 27% Building long-term relationships with the cities
- 10% Investing in whole districts rather than single buildings
- 38% All of the above
- 11% None of the above

LEFT (FROM LEFT TO RIGHT): ALEXANDER OTTO, ANDREA TIGNALI, JORDI WILLIAM CARNES, OLIVIER PIANI, ENRIQUE FUENTES, MENNO MAAS) RIGHT: MENNO MAAS



ous exchange possible in the first place.’ The future of urban investment in Europe faced many challenges, Otto added, pointing to issues such as the ongoing urban sprawl, traffic problems, the aging population and climate change. The financial crisis is also contributing to urban projects being delayed, he said. ‘It is essential to formulate strategies for the future. ‘We are experiencing a renaissance of inner cities which offers a tremendous opportunity for downtown city development. However, we can only be successful if we work together.’

Citing ECE’s home base Hamburg as one of the more successful examples of urban investment in Europe, Otto noted that a recent survey indicated that only 20% of the general public was able to communicate the vision for the city. The development and growth of the city’s port area known as Hafencity was not high on the agenda of the ruling Green Party, he commented. The same is true of the new sports developments for the city, he added. ‘This is a common pitfall. Cities need to develop a long-term vision of how they can make things work over a longer period of time.’ Other obstacles that need to be overcome revolve around legal barriers and the ten-

dering process, he noted. ‘These obstacles lead to major delays and higher costs.’ At the same time, Otto sees opportunities to develop the more under-developed parts of the city such as obsolete industrial sites or disused railway stations by leveraging the value of public land to stimulate investment. In this context, it is vital that investors be involved at an early stage, he said. Pointing to Liverpool One, a project led by London-based Grosvenor, he said that project had revitalised the city and brought about a ‘tremendous change’.

Another good example of public-private partnership is Braunschweig Schloss Arkaden, a project by ECE, Credit Suisse and the government of Braunschweig. More public-private partnerships are on the horizon, Otto said, but warned that local municipalities needed to exercise more caution in selecting their partners. ‘It’s a common pitfall for cities to pick out the most beautiful design in a competition without thinking about whether the partner can deliver. Another problem is that investors are not involved early enough. That leads to lack of dialogue and mutual understanding.’

While conceding a point raised by ULI chairman Jeremy

What tools will investors/developers and cities need in the next 10-20 years to make urban investment work?

- 12% More public borrowing for investment
- 12% More use of costed masterplans
- 12% More use of PPPs
- 12% More use of value capture finance approaches
- 12% More use of special investments funds
- 12% More joint ventures between public and private sector
- 12% None of the above
- 12% All of the above

What is the best role for EU institutions like the European Investment Bank in making urban investment in Europe happen more quickly?

- 13% Provide capital to other banks and investors
- 9% Lead syndicated investment consortia into EU cities
- 23% Develop special investment funds between public and private sector
- 6% Provide research on urban investment issues
- 9% Foster collaboration between city governments and investors
- 5% None of the above
- 35% All of the above

Which European cities will succeed in coming out of the crisis quickest?

- 53% The larger successful metropolises (London, Paris, Frankfurt, Amsterdam)
- 8% The Mediterranean European centres (Barcelona, Milan, Madrid)
- 9% The Central European cities (Prague, Warsaw, Berlin, Budapest, Vienna)
- 15% The mega-cities (Istanbul, Moscow etc)
- 14% None of the above
- 1% All of the above



LEFT TO RIGHT: PETIT PALAU, ECE CEO ALEXANDER OTTO, COFFEE BREAK IN THE INNER COURTYARD OF THE PALAU DE LA MÚSICA CATALANA

Newsum, that public citizens should also have a say in major urban developments, Otto cautioned against organizing plebiscites for every single project. ‘There are examples of projects voted down by plebiscites because people didn’t have the level of understanding on an individual basis that the developers and city officials had.’

LONG-TERM HORIZON

During the ensuing panel discussion, Olivier Piani, CEO of Allianz Real Estate, pointed out that it was also necessary to get a better grip on what went wrong with real estate investment activity during the boom period. He noted that insurers like Allianz have invested in real estate for over 150 years. ‘Why? The answer is simple. We invest in bonds, and we also earmark some money for better returns, either from stocks or real estate. Real estate requires a long-term investment horizon but these last few years it has moved from being a long-term investment to a short-term investment with demands for high returns. The risks went up and so did the leverage, and ultimately that caused the crisis.’

Andrea Tignali, head of product development for South-

ern Europe at the European Investment Bank, likewise called for a long-term vision on urban investment. ‘To be effective, we must take account of the demographic evolution,’ he said, referring to the ageing population in Europe. ‘By 2030, our environment will be completely changed in terms of population, with the exception of

‘Cities can learn from each other on how to become vital cities for the future’

France. This arena must be taken into consideration.’ During an address later in the day, Tignali pointed out that the EIB – which is also a member of the Urban Investment Network – can play a crucial role in pushing forward sustainable development in urban areas. Set up in 1957, the EIB is the financial arm of the European Union and provides €58 bn a year in lending, with the

Cities should be distinctive. Every city should look and feel different. Investment projects should be novel and authentic.

- 52% Strongly agree
- 33% Agree
- 8% Neither
- 2% Disagree
- 5% Strongly disagree

Cities are joint ventures that only work when the needs of partners are met...

- 31% Strongly agree
- 43% Agree
- 13% Neither
- 11% Disagree
- 2% Strongly disagree

Public investment should better leverage private investment. Better use of public assets and revenue flows underpin urban investment.

- 51% Strongly agree
- 37% Agree
- 9% Neither
- 3% Disagree
- 0% Strongly disagree

Public and private are both responsible for cost and risk reduction and sharing. It is the role of both parties to reduce each other’s costs and risks.

- 26% Strongly agree
- 42% Agree
- 19% Neither
- 8% Disagree
- 6% Strongly disagree

10 PRINCIPLES FOR URBAN INVESTMENT

1. Cities should be distinctive and have a clear vision of the future
2. Sustainability delivers liveability and creates long-term value
3. Adaptability and flexibility are key to navigating change
4. Cities are joint ventures
5. Public investment should better leverage private investment
6. Robust relationships through openness and trust
7. Responsibility for cost and risk reduction are shared
8. Innovation and invention must be used to drive investment
9. Urban investment expertise, knowledge and understanding should be fostered
10. Investment performance should be driven by sound management

bulk of this amount – or €52 bn – allocated within the EU. Within the context of the JESSICA project (Joint European Support for Sustainable Investment in City Areas), EU member states can opt to use part of their entitlement in Structural Funds for revolving investments

in projects which form part of an integrated plan for sustainable urban development. These investments, which may take the form of equity, loans and/or guarantees, are delivered to projects via Urban Development Funds and, if required, Holding Funds. A key area of emphasis is energy efficiency, Tignali said, in particular of existing buildings. ‘For the period between 2007 and 2013, JESSICA will provide twice the budget of the Marshall Plan in the post-war period. That will have a great impact...We are at the beginning of a new era of investment. But we need to go back to a long-term vision of real estate as an asset. Whether it’s an office block in London, Barcelona or Paris, makes no difference. Real estate is not for the short term.’

Dave Anderson, director of city development at Edinburgh Council, predicted a flight to quality by the private sector in response to the crisis. Cities with good connectivity and education facilities will be in the best position to enable the private sector to invest with a degree of confidence, he added. ‘The losers will be the ones that are not hubs or nodes.’ ■

Innovation and invention must be used to drive investment. Attention must be paid to new drivers of investment and ways to structure investment to make it work in the long term.

33% Strongly agree
43% Agree
14% Neither
7% Disagree
3% Strongly disagree

Urban investment expertise, knowledge and understanding should be fostered. Higher skills and expertise in city investment in both sectors are required, coupled with much greater understanding of the needs of the other.

58% Strongly agree
27% Agree
11% Neither
4% Disagree
0% Strongly disagree

Investment performance should be driven by sound management. Better use of private project and asset management optimises performance.

49% Strongly agree
30% Agree
13% Neither
5% Disagree
3% Strongly disagree

ULI EUROPE AND PROPERTYEU

The ULI Europe section in this issue is the result of an agreement between the Urban Land Institute Europe and PropertyEU. Under terms of the deal Amsterdam-based PropertyEU provides a platform for the ULI district and product councils throughout Europe in the form of a monthly magazine and daily newsletter. ULI Europe, which is headquartered in London, has also selected PropertyEU as a media partner for European conferences and local events.

MORE INFORMATION: WWW.ULI.ORG

ULI EUROPE EVENTS

1 DECEMBER 2009 – FRANKFURT, GERMANY
ULI GERMANY

ULI Trends Conference ‘Seeing beyond the Clouds – Silver Linings and Opportunities’

Keynote speaker: Prof Norbert Walter, chief economist Deutsche Bank

Keynote panel: Looking forward to the Future - Inside Track - Ask the Giants

Speakers include Dr Frank Pörschke, CEO Eurohypo and Alexander Otto, CEO, ECE Projektmanagement

Leadership Dinner and presentation of ULI Germany Leadership Awards by Dr Petra Roth, mayor of Frankfurt