City Investment Strategies

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Successful Cities

Investment is the critical ingredient in how cities adjust to the Metropolitan Century. That investment must help cities adapt to new realities and demographics.
Closing the Investment Gap in Cities
The Urbanisation of Capital

- Urban real estate growing in popularity with major investors: commercial property transactions totalled $1.2 trillion in 2015.

- Seen as an important hedge against inflation, a means of diversifying investments and spreading risk.

- Global stock of institutional-grade real estate will expand by more than 55% 2012 to 2020 (PWC).


- Now expanding horizons to a wider range of cities in search of value:
  - Gateway cities eg Mumbai, Jakarta, Auckland, Seoul
  - Secondary cities in safe national markets e.g. Lyon, Berlin, Manchester.

Who wants a piece of the cities pie?
Why are *cities* looking to enhance investment readiness?

- **Because firms and investors:**
  - Generate employment, growth, diversification
  - Are sources of investment in productive assets.
  - Provide options for how to grow.
  - Generate municipal revenues and national taxes
  - Create urban vibrancy
  - Supply opportunities for citizens
Post GFC: New capital investment for cities?

- **Decline of**
  - Tax Base
  - Transfer payments
  - Grant Aid
  - Easy debt
  - Speculative development
  - Small projects

- **Return of**
  - Tax incentives
  - Zones
  - Job subsidies
  - Special taxes
  - New generation PPPs
  - User charges

- **Rise of**
  - User charges
  - Value Capture finance
  - IFIs and financial intermediation
  - Project Bonds
  - SWFs and Private Equity
  - Capital Flexibility in public budgets
  - Public Equity/Land Deals/Joint Ventures
  - Reforms and consolidations
  - New fiscal responsibilities
Can cities make the most of them?

• Nature and scale of opportunity is different. Can they adjust?
• Requires investment strategy not just project strategy
• Investor needs to the fore
• Citizen concerns require vision and engagement.
• Investment advocacy tactics have changed.
• Political courage.
• Risk management.
• A new conversation about the future.
City government span of power and authority

Singapore
Hong Kong
Hamburg, Berlin, Zurich
Stockholm, Vienna, Oslo
Amsterdam, Shanghai, Beijing
New York, Tokyo, Seoul
Barcelona, Milan, Mumbai
Toronto, Auckland, Sao Paulo
London, Manchester (post-2017)
Other UK cities, Dublin, NZ cities

NB: 'Guestimate' based on range of powers and fiscal autonomy
Business-Friendly and Investment Ready

Business-Friendliness

“The level and quality of attention paid by city managers and leadership to improve upon national framework conditions at the local level to develop a positive and differentiated approach to attract and retain firms and corporate locators, and to support their trading needs.”

“The demonstrated capacity of a city to prime itself towards the needs of external investors, by providing a credible and efficient framework and process for external investment, coupled with a development pipeline of bankable propositions and opportunities that meet the specific process, asset, scale, and risk management requirements of the investors.”
Strategic Planning

Planning to address the negative externalities of metro growth
Strategic Planning – Business Planning for Cities

• Adopted from business – influenced by models such as Porter’s Five Forces, the balanced scorecard. Increasingly popular in cities + metros.

• Advantages
  • Prioritisation and Target Setting
  • Integrated plan for land use, transport and infrastructure investments over the medium to long term.
  • Continuity of strategic direction beyond individual electoral cycles
  • Prudent budgeting and fiscal management
  • Growth management, environmental and technological change.
Public Land

Co-ordinated approaches to public land

Amsterdam

Bilbao

Berlin

London
City Branding

- Customer orientation
- More than logos and slogans
- Co-ordinated stories
- Curated experience
- Marketing alliance
- Recruitment of locals
- Balanced approach
Catalytic Events and Projects

The Urban Investment
Opportunities of Global Events

A Report of the Urban Investment Network

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August 31, 2010

To Bid or Not to Bid
Making global events work for city development
Densification

Density: drivers, dividends and debates

January 2015

Authors:
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The Density Dividend: solutions for growing and shrinking cities

October 2015

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Value Capture

Value Capture Finance

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INFRASTRUCTURE

• Provides critical mass + value creation

DENSITY

• Unlocks sites and scale
• Increases connectivity and access
• Enables mixed income and mixed use

Value can be captured and reinvested.
Tomorrow’s City Centre
Technology and Innovation

Technology, Real Estate and the Innovation Economy

September 2015

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Cities are Hubs of Business Innovation

Why?

Density & Proximity

Assets & Entrepreneurs

Institutions & Corporates

Examples
- Tech – Lisbon, London, Tel Aviv, Berlin, Amsterdam, Nairobi
- Fashion – New York, London, Amsterdam, Milan
- Life Sciences – Dundee, Dortmund, Boston
- Creative and Media – Seoul, Manchester, Shanghai, Lagos
Competitiveness

The new mobility and city competition

Competitiveness = Productivity + Liveability + Sustainability + Co-ordination + Promotion

Competitiveness is also a mindset.
Leadership

4 Cycle City Strategy

1st Cycle
- Projects & Physical Renewal
- Promote the city
- Tourism
- Events
- FDI

2nd Cycle
- Strategic plans
- Specialist Agencies
- New spaces and places
- Connectivity
- City brand
- New funding tools
- Entrepreneurship
- Economic development

3rd Cycle
- Growth & diversification
- Governance reforms
- Business Friendly City Investment
- Ready City
- Innovation/Universities
- PPPs
- Metropolitan sphere
- Specialised space
- Broader leadership
- Integrated brand
- Internationalisation

4th Cycle
- Growth and externalities
- International scale
- Competitive benchmarking
- Eco-system management
- Business Leadership
- External governance reforms
Summary: what makes a city optimise investment?

Appetite & Mindset

Vision & Strategy

Assets & Catalysts

Transparency & Incentivised governance

Capability & Bold leadership

“I'm right there in the room, and no one even acknowledges me.”
Which cities have made a difference?

How did they do it?
Making Best Use of Existing Resources

Boston – the BRA

Municipal planning and development agency

Owns nearly $1bn worth of property

Has authority to:
- buy & sell property
- acquire property through eminent domain
- grant tax concessions to encourage commercial & residential development
- Leverage land and projects, and reinvest profits in future projects.
- catalyse development of adjacent privately-owned parcels.
- Engages community stakeholders in urban development through planning initiatives.

Example Projects
- Bring in investment to South Boston and East Boston Waterfront
- 62,000 new housing units built to cater for a range of incomes.
Making Best Use of Existing Resources

Bilbao – Ria 2000

Created in 1992 to recover former industrial space around city

- Consolidated use of public sector land assets from multiple bodies: Bilbao Port Authority, rail companies, governments and town halls

- Successfully resolved complex land management problems:
  - All public companies/institutions, transfer land they own in central areas of Bilbao/Barakaldo to Ria 2000.
  - Ría 2000 develops land, selling off resultant plots to finance its activities.
  - Does not have planning powers, but planning authorities are shareholders - ability to ‘re-classify’ or re-zone land.

Achievement

- Regeneration of waterfront, opening up previously inaccessible city areas
Making Best Use of Existing Resources

Vienna - Wien Holding

- Founded in 1974 as a wholly owned City subsidiary
- Structural bracket for all city’s business enterprises and activities
- 75 subsidiaries in different areas of city economy
  - e.g. Vienna International Exchange – teaching and learning networks
  - e.g. TINA Vienna - centre for transport strategies
- Active in 5 sectors: Culture, Real Estate, Logistics; Environment; Media
- Dispatches its functions as a holding company in accordance with private sector principles of business administration.
- Non-profit aims: capital reinvested in local economy
- Annual turnover of €400m, 2,200 employees
Making Best Use of Existing Resources
Toronto - Blueprint for Fiscal Stability

- 2008 fiscal review
- Assessment of Toronto’s relative competitiveness, financial position, revenue opps and savings potential

Recommendations to improve Toronto’s efficiency, effectiveness and prosperity.
- Reformed governance structure that enables the City to set priorities and make clear choices.
- A new multifaceted approach to increase the revenue base including encouraging more development, greater recovery on user fees.
- Systematic review of capital assets
Creating and Using New Tools
Manchester - Earn Back Scheme

- City Deal: agreed in 2012. Earn back at heart of deal.

**Earn Back Mechanism**
- Greater Manchester consolidated council will invest £1.2bn up front in infrastructure improvements: funds raised by borrowing against business rate revenues
- In return, national government commit to allowing a max of £30m/yr to be ‘earned back’ over 30 year period
- Government only surrenders revenues once city’s investment generates value above an agreed baseline
- Earned back funds reinvested in further infrastructure improvements
- First time a genuinely long term TIF style scheme set up in England
- Long term economic impact - £1bn per annum by 2025
Creating and Using New Tools
Hamburg Hafen City

- Europe’s largest inner-city redevelopment zone
- 40% extension to existing Hamburg CBD
- 10.5 km of new waterfront

Funding Mechanism:

1. Initial ‘City and Port’ fund established

2. Stream of land donated to the fund by municipality free of charge

3. Grants from Hamburg government ministries (€1bn excluding ‘City and Port’ Fund Contributions) (15%)

4. Private sector investment leveraged (€5bn) (75%)

Lend against ‘City and Port’ fund a public sector loan rates to finance infrastructure (€750m) (10%)

Sale of land as freehold to repay loans
Creating and Using New Tools
Turin – New Powers for Mayors

National Context
- 1993 Italian government introduces Directly Elected Mayors
- Local tax systems re-jigged to increase financial resources available to Mayors
- Ability to levy own taxes, manage own revenues, control education and env. policy
- Mayors enabled to privatise municipal enterprises

In Turin
- 1st DE Mayor Castellani recast municipal government’s role as a ‘forum’ and facilitator: led city wide debate that formulated a city recovery plan – the Strategic Plan.
- Council streamlined from 17,000 employees to 12,800.
- Able to access regeneration funds from local bank foundations
- Core municipal services privatised (including electricity and energy)
- Introduction of municipal property tax
- Strategic Plan created Invest in Turin and Piedmont (ITP) promotion agency
Improved interaction with private finance
Zurich - Private investment

Plan Lumière
- Uses lighting to give Zurich international distinction, encourage night-time economy

Public Private Partnership
- Plan Lumière actively encourages private sector co-investors.
- Idea – City pays for concept design and consultation. Private investment sought from owners of (non public) buildings which would be uplit as part of project. The private money funds the upgrade works/installations. City then pays the energy bills.
- Completed PPP lighting projects in Franklin Square and Tessinerplatz.
- Has helped forge relationships with private partners for next cycle
Improved interaction with private finance
Moscow- Sovereign Wealth Fund Investment

Abu Dhabi’s Sovereign Wealth Fund is planning to invest as much as $5bn in Russian infrastructure projects up to 2020. Investments include:

• New Moscow central ring road;
• Fast-speed train line connecting Moscow and Kazan;
• Overhaul of Trans-Siberian Railway

Russia actively courting foreign private finance:

• Russian Direct Investment Fund set up in 2011 to co-invest with large international investors in order to attract long-term investment finance
• Leading institutional investors consulted on fund strategy
• Qatari advisors placed on board
Improved interaction with private finance
Manchester Airport – Chinese Investment

- £800m redevelopment of Manchester Airport
- Creation of new 61 hectare international business district
- Chinese financial support from Beijing Construction Engineering Group (Joint Venture Partner) + Industrial and Commercial Bank of China (Debt Finance) working with UK govt and local authority
- Potential 16,000 new jobs
- Recent relaxation of controls on property investment for Chinese insurance companies and potentially state pension funds ....... Important future financing source.

Head of CIC in January 2014:

"In the next 5-10 years, infrastructure investment will be a big theme for both emerging and developed markets. So, we want to increase our investment to get better returns"
Improved interaction with private finance

Amsterdam - private investment in housing

- Unique **ground lease system** affects 85% city land: land ownership remains with city, private sector granted rights for fixed period
- Generates €60m p.a. for city
- **Equalisation fund**, set aside by council, aims to create extra value on publicly owned land so as to attract more private investment.
- Tool enables council to make **bespoke** deals to attract private sector: leases can be paid all at once / yearly / monthly – flexibility for investors.

- E.g. Ijburg: East Amsterdam
  - Suburban development on 6 man-made islands.
  - 18,000 dwellings
  - Council learnt lessons: too much land subject to market (i.e. not within public ownership) which lead to inflated prices.
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