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THE PUBLIC SECTOR ROLE IN REGENERATION

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THE AUTHOR:

From a background as a Chartered Surveyor with senior executive roles at British Land and the Crown Estates Commissioners, Ken has worked in a number of entrepreneurial roles in his own companies, Urban Catalyst and Regeneration Investments, as well as for a wide range of organisations in the public, private and not-for-profit sectors.

Whilst his forte has been in development and regeneration unlocking public/private partnership opportunities, he has acted for central government in a number of positions including Ministerial Advisor to the Under Secretary of State for Defence. He has also spent a significant time in the financial sectors and uses his experience in M&A to identify new investment structures and opportunities.

He currently has a number of roles including the Chairman of the British Property Federation's Regeneration & Development Committee and has recently led the launch of the BPF's Regeneration Manifesto.

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THE PUBLIC SECTOR ROLE IN REGENERATION

INTRODUCTION

My background is property development although I stopped developing a little over three years ago and decided to move into infrastructure investment. I have spent the last three years doing consultancy work, working for first of all with Banks on merger and acquisition work around health and education and then more latterly I have been doing a lot of work for Building Schools for the Future. My full resume(*) is

- Urban Catalyst 98 – 06
- British Land 87 – 97
- Crown Estate 79 – 87
- Past President British Council for Offices
- Circle Initiative SRB Founder Chair
- English Heritage LAC
- British Property Federation Regeneration Board Chair
- Director and Governor of London South Bank University
- Ministerial Advisor to the Secretary of State for Defence on Sustainability
- Adviser to Government on Investment into Infrastructure and into PPPs
- Former BPF Visiting Fellow at Reading University

I have a history of always having one foot in the public sector and one foot in the private sector and that continues.

Currently the most active in that list is Ministerial Advisor for Sustainability to the Secretary of State For Defence which is interesting as there is a major public sector property portfolio and the overall strategy of delivery is going to be rethought to get more out of the process.

Where will we be tomorrow?

This was the title of a presentation I gave in 2004 when I spoke to the Urban Regeneration Companies about the changing roles of cities, which, at the time, were growing more towards city regions; something that has been happening more dramatically since. I spoke then about the need for greater connection with rural areas. Sadly we still have not seen the engagement between urban and rural in the way I hoped and still feel should happen.

New patterns of government, an interesting devolution of decision making, is high on the Tories agenda at the moment. In my BPF role I have a lot of engagement with Government, Civil Servants, HCA, Treasury, CLG and so forth, and now also with the Tories because we feel it is important to establish an agenda in preparation for the General Election, coming up next year.

Effectively embracing sustainability, which I described back then as “not just a bolt on” is mainstream agenda now and will remain so, recession or otherwise.

Money Talks

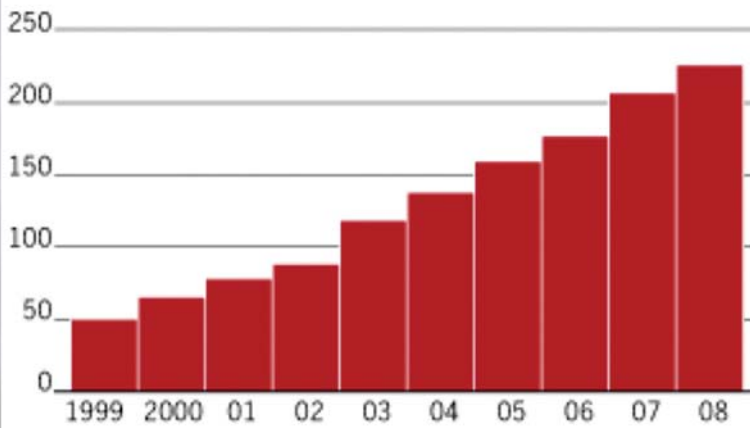
I love the ACES Conference title Recession v the Public Sector. It sounds like the battle of the giants and whilst one might think that maybe the recession is winning I take one look at the ACES Presidential Badges and I think that with badges like that the public sector will definitely win.



I produced this slide about two years ago, when the ODPM was looking at these budgets. It is interesting to look at the scale of money that was available then. If you start to compare that with the money that is available now through the HCA, we are seeing a dramatic reduction in what is available for Regeneration. In my opinion it is important that we do not let go of regeneration.

The commercial property sector owes the banks £225bn...

Aggregated value of outstanding debt (£m)



Regeneration Investments

The big challenge is money. How we have managed to get into a situation where the commercial property sector owes the banks £225 billion, an enormous amount, but the worrying thing is that a large chunk of it is due to be repaid this year.

my is going and when the economy for property recovers.

My view on the economy is that there is another dip to come. I worked through the last recession with British Land in 1990 and saw it all at first hand. Using that

in the banking system. You will be aware that the banks are not currently engaging much and are just sitting on their assets, partly because they are waiting for the Asset Protection Scheme to come through, and partly because they have just absorbed some of the losses. Re-financing continues as a big problem.

Prior to the crash everyone was bringing more and more debt into their property companies and now, as values are falling substantially, 50% to 60% in some sectors, we are already seeing major breaches of covenant. What will happen depends on where the economy

is going and when the economy for property recovers. My view on the economy is that there is another dip to come. I worked through the last recession with British Land in 1990 and saw it all at first hand. Using that experience, although we have seen a big fall in values, I think we will see a further fall. There has been a consolidation recently due to equity coming in and there is a view in the market that now is a good time to pick up stock. The banks are not releasing stock so that the little stock that is available is starting to increase in value, so everyone is starting to get the feeling that perhaps the market is recovering.

I do not think the market is necessarily recovering. I think we have reached the bottom and are bouncing along. The view generally is that it will probably be 3 or 4 years before we start to see some sort of value creation, or value growth,

coming through the system.

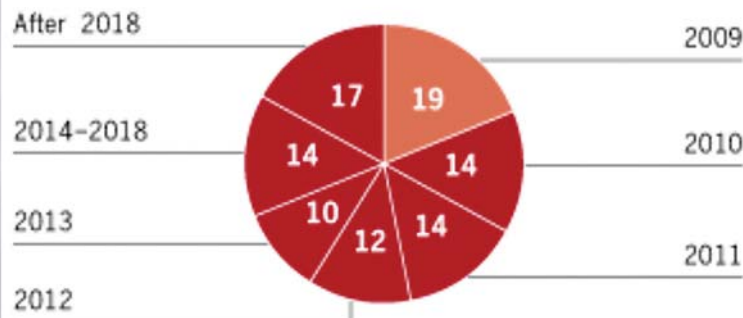
The British Property Federation regeneration manifesto

The manifesto has five key points:

1. Revisit the application of the public procurement laws on regeneration and development schemes

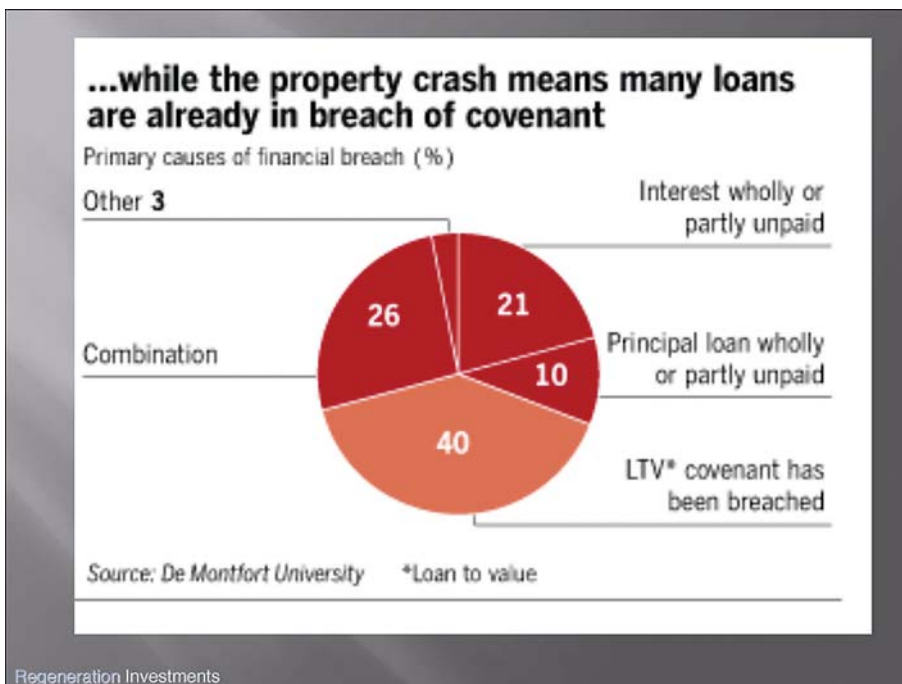
...and a large chunk of it is due to be repaid this year...

Proportion of debt due for repayment (all lenders, %)



Regeneration Investments

These figures show a tremendous amount of re-financing needs to take place, and not just in the commercial property sector. One of the sectors that has had little publicity is the private equity market where there is a lot of ongoing work on merger and acquisitions. I predict that in the next six months a number of private equity firms are going to struggle to address their re-borrowing. This will cause major hiccups



curement process was stopping investment in regeneration schemes and property and was deterring investors from abroad from coming into the UK. We should be selling UK plc to get those investors back and to get money flowing into the market.

The Roanne case has had a major impact through destabilising the process. When we met the CLG they were open to discussion, and were aware that there was a problem, but when we explained the realities of what was happening on the ground, and the problems with competitive dialogue, their response was to talk to OCG

2. Enable the creation of UK Tax Increment Financing districts (TIFs) in the UK
3. Use public sector powers to support regeneration
4. Use public sector equity sharing and guarantees to attract private finance
5. Promote and harness the role of the private rented housing sector

It could have been a 100-point plan except that we wanted to create some focus.

Market realities; market solutions

This is where we are.

- The recession and financial crisis have prompted the severest downturn in house building and commercial property sectors for decades.
- Much planned regeneration is no longer viable and schemes shelved. In a recent report E C Harris said overall it was estimated that regeneration schemes totalling about £75 billion had stalled. Somehow we have got to get those going because that means jobs.
- Against this background there is a need for new policies to sustain the regeneration sector in the current crisis and pave the way for recovery.
- High quality development that improves the built environment and fosters mixed and balanced communities remains the right policy objective. The question is how do we get there?

One of the areas that the BPF and the HCA have been working hard on is the European Procurement Process. We recently went to see CLG to argue that the pro-

and then issue further guidance to local authorities. The BPF position is that there is a lack of consistency in the procurement process and the Local Government Association backs this view. We were promised that a paper bringing some clarity to the process would be published in April 2009 but it has disappeared from sight, and we have no idea now when it is likely to come through.

Tax increment financing (TIF) districts in the UK

Most of you are now familiar with this, which is an American concept of harnessing the increased rateable revenue that will be created by a scheme and pushing that through the system to get the development process going. BPF was pleased with the budget announcement that Government is to investigate the feasibility of the TIF approach and may establish pilots.

Funding infrastructure to support major regeneration projects is a longstanding concern but is more of a hurdle in the current economic climate.

TIF should focus on regeneration schemes that would otherwise be unviable and BPF will be working closely with Government to investigate how to overcome the policy barriers to introducing TIF districts into the UK.

Disappointingly few local authorities are engaging with the TIF process, which is, in some ways a shame. The TIF process is one we should all be pushing hard, as it is almost a win/win situation.

If authorities plan to have their own direct conversations with CLG and Treasury then BPF would be more than happy to help in that process.

Use public sector powers to support regeneration

Greater coordination of large capital spending programmes is needed to ensure that their regenerative benefits are fully utilised, including leveraging in private sector investment. I have spent two years on the BSF programme now and one thing that staggers me is the silo thinking that exists whereby we put money into a major town centre educational scheme but no one considers how that spending affects the town centre. For example no one considers how we can leverage in other spending and other investors or users. And there is little coordination. For example can we bring health and education together, and police, or whatever? We need to consider how to get better value from the BFS process. This is not yet being done in any meaningful way. We need to get this right because the probability is that after the election the BFS programme is likely to be brought to an end or at least put under a lot of scrutiny. It is an expensive programme that I am not sure UK plc can afford.

And a more proactive approach is needed from councils and public bodies to facilitate and, where feasible, to “de-risk” regeneration schemes, for example by the proactive use of compulsory powers, master planning and provision of infrastructure.

Expand equity sharing and public sector guarantees

- BPF is keen to work with Government to review the effectiveness of the current range of public/private joint venture vehicles. Those, which are deemed to be achieving the best results, should be highlighted in best practice advice.
- Consider creating a central team within HCA, similar to the Advisory Team for Large Applications (ATLAS), to support local authorities in the establishment of joint venture vehicles.
- Encourage local authorities to use their considerable asset bases to support stalled development projects.

Promote and harness the role of the private rented sector

The private rented sector initiative is a currently contentious issue. A lot of discussions are under way and we are hard at work with HCA looking at structures to match the public sector assets with private sector support. The BPF feels there is a need for a private rented sector, other than the social housing sector, as the country’s reliance on house building is one of the reasons why we are in the mess that we are in. For example Holland has had a private rented sector for 30 years and this has been an additional area of investment for institutions. The HCA and the Treasury are in vigorous discussion about the guarantees that would be necessary to attract investors. HCA forced through a consultation process and got more than 60 firm expressions of interest from major financial institutions and a lot of

enthusiasm from a lot of other potential investors. If this concept could become a reality it would improve the supply of houses, correct the current big under supply situation, bring money into the system, get building going, and it would create jobs.

HCA were hoping the Treasury would introduce guarantees on rental streams and voids, but off the record we understand this will not happen. Although there is still a need to press Government regarding tax changes to get the private rented sector initiative off the ground it is felt that some of the portfolio proposals to bring in broader private rented sector involvement will not happen and instead we are going to consider a localised basis for delivery of the private rented sector initiative. This will affect all local authorities and the BFP hopes authorities will be looking to support this wherever possible.

BFP conclusions

- There is a need to sustain drivers for regeneration otherwise tipping point reached with socio-economic decline.
- Focus on pragmatic solutions that harness the best of public and private resources.
- Financial structures helped to get us into this mess; now lets use financial structures such as TIFs to get us out!

Optimising investment

These are some of the issues I see as important in optimising investment.

- Recognise the uniqueness. There is a tendency to be rather bland in our approach to property; working to unlock the uniqueness in the situation is very important. I recall delivering Igloo in Bermondsey Square, now seen as an exemplar, breaking the mould, as it is not a shopping centre but a truly mixed-use scheme. Local authorities can embrace innovation and bring new ideas to the table.
- Anticipate – take into account future demographic changes.
- Smaller cities can offer a “niche”.
- Spot the talent and cultivate education. We must harness more from the educational process. I chair the property committee of London South Bank University and we expect to face substantial spending cuts. Therefore we have to work more closely with local communities and change any ivory tower approach. Every local authority should be looking at how education fits into the whole regeneration process. There is a lot of potential there.
- Focus on the well connected
- Be entrepreneurial
- Make it vibrant and attractive
- Look for the right government – willing to team up with the private sector

Risk and skills; the missing ingredients

In my opinion there is a need for the public sector to be a little more adventurous and probably the current market gives the opportunity to do that.

and so on. We plan to identify the various public sector organisations that deliver education or health for example and consider how we can get to share those resources as ours are insufficient and we have got to work more efficiently.



I chair a body called Rivington Place and we came up with the concept of delivering a new arts facility in Shoreditch. Having secured the money from the Arts Council we went out and raised the money from private sector and eventually raised £8 million in total for the new arts facility. This self-financing facility is now fully occupied.

It is easy to overlook the opportunity for joining in with the not for profit sectors when looking for funding and again it is maximising resources and making sure that we deliver the project.

Exceptional times require an exceptional response

This was produced to demonstrate the complexity of regeneration and the various issues that need to be addressed. We need to find ways of ensuring that we have that all embracing approach to regeneration. Do you have all the required skills?

Sustainable regeneration, smart growth and healthy living

The Community agenda for the future; we need to look again at how we plan our cities. Consider this example.

I act for and advise the Ministry of Defence. We are looking at all the super garrisons, the big locations like Catterick for a major rebuilding process. But we are not just saying we are going to build a shop there or we need this bit of accommodation, we are considering what we need to do to make this a sustainable community; it is a ground breaking approach.

We have set aside a whole day down in Aldershot next month to look at how to re-plan Aldershot as a sustainable community; how do you deal with communications, how do you actually share resources

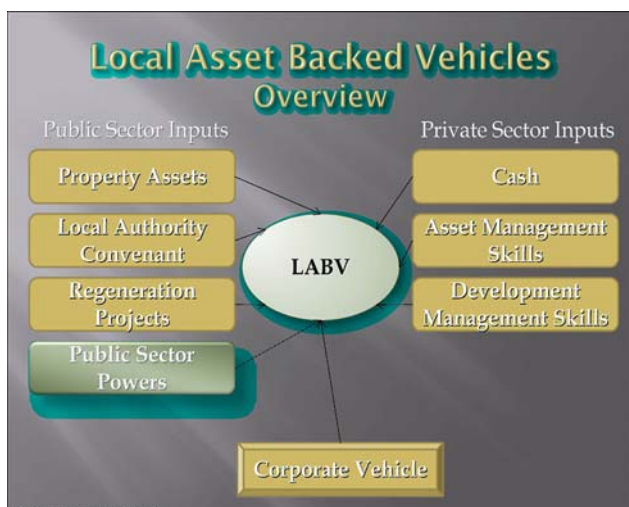
This was produced for the HCA launch.

- £400 million to invest in new social housing over the next 2 years
- An additional £775 million of housing and regeneration investment
- Clearing house for surplus stock
- Work with RDAs and regional partners to bring forward funding



- L.As to bring forward own development packages for funding
- Scope for land purchase
- Potential to access new sources of investor finance

You will be familiar with most of the detail. But exceptional times do need an exceptional response. We need to be open and work together to deliver solutions in the recession. Otherwise the recession will win. I would like to see the public sector beat the recession but we have to be creative and “think out of the box”.



This is a diagrammatic representation of the LABV, a concept that is becoming more familiar to local government.

What the public sector can deliver

The public sector can deliver

- Leadership
- Championing the cause
- Confidence building
- Land
- Resources; the public sector has massive resources that could be made available
- Clearing the way; often the private sector is not placed to deal with those issues or engage with those stakeholders that might get in the way
- A faster process; I do not want to go on about planning, because I think the planners should stop being policeman and have the power to actually create opportunities. I would love to see our planners stop saying, “don’t do that,” and start saying, “let’s do this!” It would help dramatically - but is likely to be contentious.
- Breaking down the silos
- Achieving results that matter

And just in case we should decide that local authorities are too difficult at times and elected members sometimes say the most outrageous thing I found this report recently in a US newspaper of a Mayor about to

Key conditions for private sector investment

- Genuine desire by the public sector to engage the market
 - Not merely seen as a necessary evil
 - Speaking the right language
 - Effective partnering relationships
 - Realistic s.106 requirements
- Up front public investment
 - Infrastructure - including integrated transport - IIF Process
 - Public realm and greening
 - Town centre management
- Less quantifiable issues
 - ‘Sustainability driver’
 - ‘Wow factor’

start a major crusade about how their urban environment was being destroyed.

Mayor Roefaro of Utika City, NY: take care of your lawn or pay the price

“Overgrown lawns are a catalyst for urban blight, and a safe haven for rodents, an overall eyesore I won’t let aggravate our citizens.”

I like to think, hopefully, that we have a more informed debate about regeneration here in the UK than in some parts of the USA.

Finally

The BPF approach is that we want to see regeneration continue. We have experienced 15 years of very successful regeneration, and whilst there have been a number of failures, there have been a massive number of successes and regeneration has moved forward on a massive scale. But if we allow funding for regeneration to disappear the improvements will slip away and the crime issues, health issues and all the other problems will begin to come back. The BPF believe it is very important for all of us, collectively, to fight the general regeneration corner when we are engaging with Government, whether it is the current Government or any incoming Government.

Ken Dytor, Chair,
Regeneration and Development Committee,
British Property Federation