



## Benchmarking Urban Regeneration

The potential for property markets in regeneration areas

The Universities of Ulster, Aberdeen and Glasgow  
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### Introduction

The regeneration of deprived areas of cities and towns has been a policy objective of successive governments over the past two decades. While there have been many evaluations of initiatives and schemes, to assess the impact in regeneration terms as part of the review of policy, there has been no attempt to assess property performance and investment trends, which have suffered from the relative lack of market transparency in regeneration areas. Indeed, weak and confused market signals in regeneration areas have perpetuated misconceptions regarding investment returns, leading to regeneration opportunities being ignored by many investors. As a consequence, most institutional investment in the UK is focused upon the prime commercial property for which transaction evidence is best developed.

This research seeks to address this information gap by establishing a performance index for urban regeneration property, to provide a benchmarking facility for the investment decision-making process. Benchmarking plays a fundamental role in both private and public decision making in facilitating performance measurement and informing investment strategy. To ensure that the results of this work would be readily accepted by the

industry, it sought to mirror two of the main methodologies that are currently used for index construction, which are a total returns approach as utilised by Investment Property Databank (IPD) and a technique based on standardised properties, known as the beacon approach as developed by CB Hillier Parker (now CBRE).

### Key findings

Based on the major metropolitan areas of the United Kingdom, and using both the methodologies described above, the study showed that investment property in these areas can out-perform national and local benchmarks and over the long-term, regeneration areas offer significant investment opportunities. This finding challenges conventional wisdom regarding investment returns. The message to major institutional investors is the need to reconsider strategies regarding the potential of property within regeneration areas.

Over the period 1981-2001 the annualised returns for the regeneration index are 12.8% compared to a national benchmark of 10.3% and a comparable figure of 10.8% for the metropolitan areas. This is particularly so in the retail sector, where the annualised return of 15.5% outperforms both industrial (12.3%) and office (10.0%).

### Sixty second summary

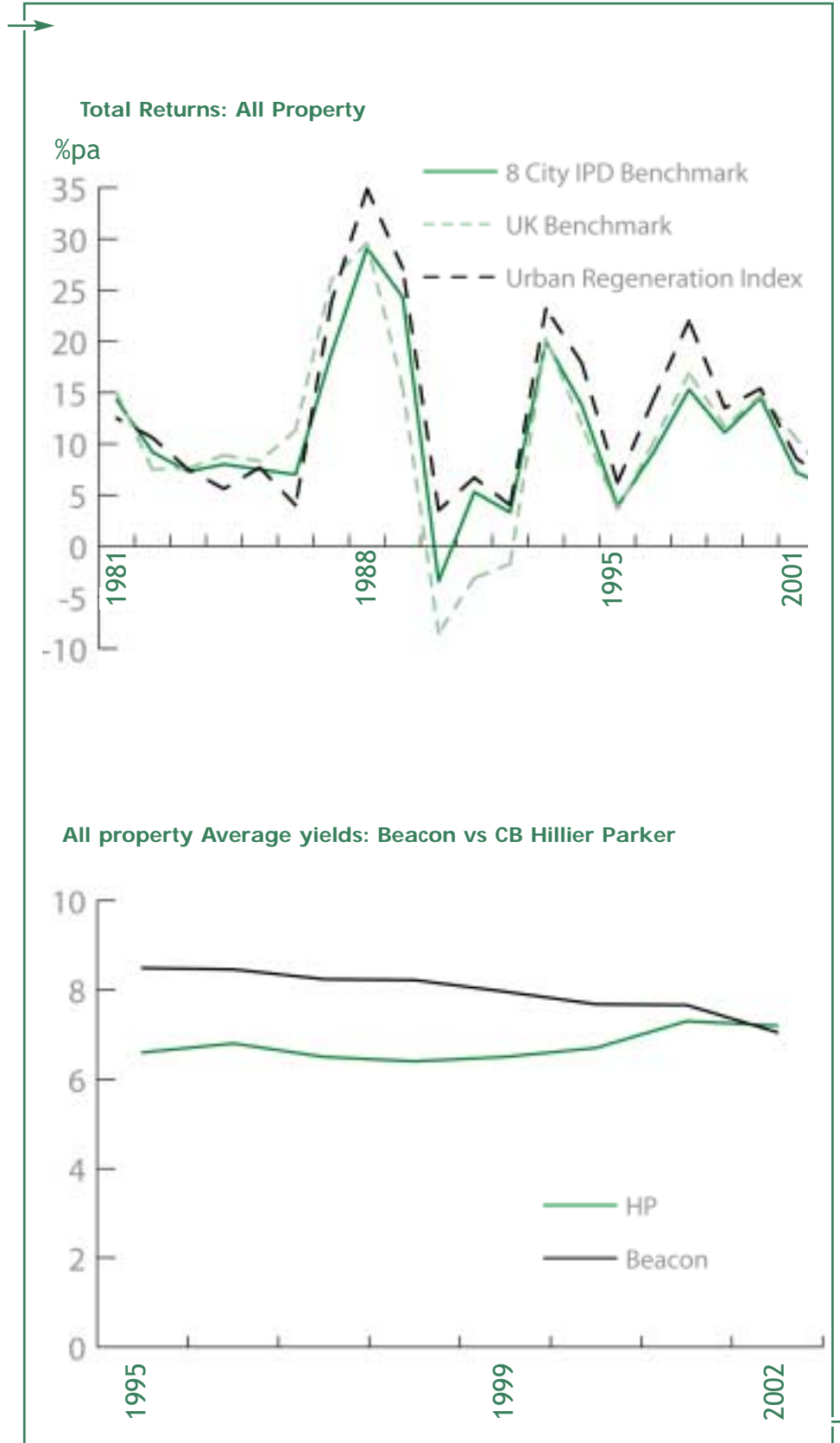
Investors are often unwilling to allocate funds to a project or an investment opportunity without adequate information. There are many areas of our towns and cities that require regeneration, which are being deprived of much-needed investment

because investors are unsure of the returns that they could expect. This research has developed a property performance index for urban regeneration areas, which shows that it is possible to achieve financial

returns that exceed recognised performance benchmarks. This is important in changing perceptions in investment decision-making and in the encouragement of private finance into urban regeneration.



“ ...the message to major institutional investors is the need to reconsider strategies regarding the potential of property within regeneration areas ”





### Comparison of annualised returns 1981-2001: All UK, Eight City total and Eight City Regeneration returns

Sector	All UK	Eight City total	Eight City Regeneration
Retail	11.1%	11.4%	15.5%
Office	9.4%	9.9%	10.0%
Industrial	11.9%	12.1%	12.3%
All property	10.3%	10.8%	12.8%

Over the period 1995 to 2002, the beacon all property average yield improved by 144 basis points from 8.49% to 7.05%. Average yields in all three sectors experienced downward pressure. In contrast, the CB Hillier Parker all property average yield rose from 6.80% to 7.2% (40 basis points), with two of the sectors, offices and retail, recording upward movement in yields and the retail warehouse and industrial sectors experiencing downward movement. The effect of this convergence between yields is to remove and then reverse the yield gap between the beacon yields and CB Hillier Parker yields.

This highlights a major yield shift for property in regeneration areas in the short to medium term. The downward pressure in yields suggests that, once a regeneration area becomes established and rental growth emerges, investor interest is stimulated resulting in increased competition and a hardening of yields.

The results infer that the systematic under-pricing of properties in regeneration areas, a symptom of the information deficit, is based on incomplete evidence. The absence of

returns information has been detrimental to investment strategies in relation to regeneration areas and the pricing of investment opportunities. Retail property performs well in regeneration areas, which are particularly suited to shopping centres and retail warehouses. It may be that the restrictions on out-of-town development arising from PPG6 and the sequential test have benefited regeneration areas.

Another significant finding is that differences in performance trends emerge at the start of the property market downturn. The analysis shows that this point marks a clear step change in performance with regeneration areas benefiting from a 'cushioning' effect of various initiatives.

From a policy perspective the research is of relevance in confirming the maturing of locations that have received high levels of public sector support and indicating the effectiveness of regeneration policy mechanisms in creating sustainable urban environments capable of meeting private sector investment goals. As government agencies are increasingly looking for greater private sector participation in regeneration the success of previous

“...a key message from this research is that property market data is under-utilised by both the private and public sectors”



### About the study

This study was carried out by Alastair Adair, Jim Berry, Stanley McGreal and Joanna Poon from the University of Ulster, Kenneth Gibb from the University of Glasgow and Norman Hutchison and Craig Watkins from the University of Aberdeen, with funding provided by the Economic and Social Research Council (ESRC Award No. R000239291), the Office of the Deputy Prime Minister and the RICS Foundation. It was based around an analysis of eight major metropolitan areas and used two methodologies for constructing the returns index – one based on a total returns index, enabling comparison with the Investment Property Databank, and the other based on the assessment of standardised buildings producing a rent and average yield index, similar to that published by CBRE.



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and current policy mechanisms is fundamental. Furthermore, this study provides the missing component not found in other value for money studies which have concentrated upon physical output and economic indicators but lacked information on property investment returns.

The finding that regeneration areas can offer vibrant property markets and new development/investment opportunities has wider relevance to the economic competitiveness of UK cities. The work by the Office of the Deputy Prime Minister on Core Cities, several of which are included in this study, has raised concerns over the competitiveness of these cities relative to European counterparts. As regeneration areas frequently offer the most significant opportunities within these cities the potential clearly is there to attract investment, raise value and increase competitiveness. The policy agenda therefore needs to be consistent and focussed to facilitate delivery of these goals.

A key message from this research is that property market data is under-used by both the private and public sectors. The former possess key information on all the significant physical and financial variables required for index construction but often is not held in a systematic fashion. Likewise, the public sector holds potentially valuable information but again not in a format that is always conducive to facilitate this type of analysis. Collectively these are under-used resources. Simply making greater use of what already exists could make a huge difference to the economic and social life of some of the most deprived parts of our towns and cities.

### Further reading

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### Further information

The full report is available on the RICS Foundation website at [www.rics-foundation.org](http://www.rics-foundation.org)