

Policywatch What to look out for in the months ahead

New regeneration forum

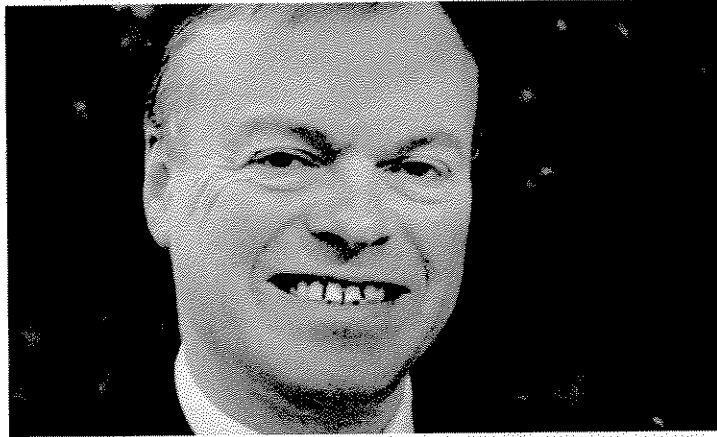
AN ALL-PARTY PARLIAMENTARY group launches this month to provide a forum for MPs and peers to raise awareness of matters concerning urban renewal and sustainable development.

The All Party Parliamentary Urban Development Group will be launched on 19 July, chaired by Clive Betts MP. A series of inquiry sessions will begin this autumn as the group starts to tackle a range of concerns, including: financing infrastructure – how devolved financial powers and private sector consortia can fund urban infrastructure; regeneration funding and governance – streamlining the structures, planning barriers, and bureaucracy that hold back successful regeneration; housing supply – how to encourage institutional investment in affordable housing; business in deprived areas – finding new incentive structures to attract private investment into deprived areas to kick-start regeneration; and sustainable growth – how to ensure that the government's designated growth areas are economically viable over the long-term to avoid creating vast housing dormitories.

Regeneration and REITS

From 1 January 2007 a new property investment vehicle will be accessible to UK property investors: the UK Real Estate Investment Trust. Although REITs are undoubtedly a major boost to the property industry, their beneficial impact on regeneration is likely to be at best indirect.

REITs were introduced to improve both the quantity and quality of investment in the commercial and residential property markets. A potential barrier that could restrict the development of regeneration-focused REITs is that the legislation is clearly designed to prohibit



The All-Party Parliamentary Group will be a dynamic vehicle to inform parliamentarians about urban renewal Clive Betts MP

income from trading/development activities. The UK government sees this as a check on the tax advantages offered to REITs as investment trusts.

The BPF believes there is scope for clarification of the restrictions on development activities which clearly has relevance for regeneration projects. Property development or re-development projects are particularly complex activities and there is a concern that the current rules on limiting development leaves a number of uncertain areas for participants in large-scale development and regeneration projects.

The government is increasingly seeking to ensure greater involvement of the private sector in the financing and delivery of regeneration and sustainable community targets. However, the scale of institutional capital targeted towards regeneration is still limited.

Key to the future involvement of institutional capital in regeneration projects is an increased

understanding of the institutional investors' requirements, namely, their expectations of asset returns over the medium to long term, how investors perceive the packaging of returns, understanding their risk tolerances, the nature of security they require, alternative financial models and market testing.

The introduction of REITs and the growth in REIT products raises the potential for significant increased institutional and individual investment into regeneration over the longer term. REITs may offer the opportunity for the development of a working model suitable for encouraging institutional investment and bank finance into regeneration schemes. There are also likely to be indirect benefits for regeneration because it should help to maintain properties in the commercial and rented residential sectors as REITs compete for the best tenants.

There has been a particular concern with major regeneration schemes such as Thames Gateway which clearly require enhanced

participation by institutional investors. A criticism of past regeneration initiatives and policies is that all too often they are seen as public sector-driven. Again, the introduction of REITs, along with the general increase in investor appetite for property, should improve private sector involvement.

Property development and the community

The BPF has published the findings of research examining the benefits that Section 106 agreements deliver to local communities. The aim is to better explain the positive role the commercial property industry play in local communities and the superiority of a system that maintains a direct link between developers and local authorities over that of a centrally administered planning gain supplement.

The BPF's survey of its members provided details of 126 major development projects across the UK. These 126 developments have agreed a total of £3bn worth of benefits to local communities. This figure represents a tiny fraction of what the entire property industry collectively contributing in Section 106 agreements nationally.

Property Development and the Community will be used to inform political stakeholders of the value of directly negotiated planning obligations, many of whom are unaware of the benefits achieved through Section 106.

The report disproves the notion that developers build buildings, make large profits and leave without contributing to the local community and demonstrates that property companies develop to invest for the long-term and therefore it is in the interest to ensure that their communities are successful.

■ **By the British Property Federation**