DELIVERING SUSTAINABLE **URBANISM**

SLIM *A Strategic Land Investment Model*

The Prince's Foundation
FOR THE BUILT ENVIRONMENT

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The Prince's Foundation for the Built Environment helps to build and improve communities that are beautiful, long lasting and healthy for people and the planet. We help to make this vision a reality through projects, research and education.

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This report was co-authored by The Princes Foundation for the Built Environment, Nottingham Trent University and Knight Frank and does not necessarily reflect the views of either the individual members of the steering group nor their organisations.

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FOREWORD

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The collapse of the housing market over the past two years has exposed cracks in both the larger economy and family budgets. The fact that shelter had become simultaneously the source of wealth and the source of debt for most families created a structural volatility in the economy from which it has yet to recover. Property, seen for centuries as a long-term asset to be held as capital for the generation of income, was redefined as a commodity. Families, who had seen housing as shelter and security, suddenly saw it as investment, and a boom and bust market for buy-to-let flats for investment purposes was the result, despite the lack of the same level of underlying demand for this type of accommodation.

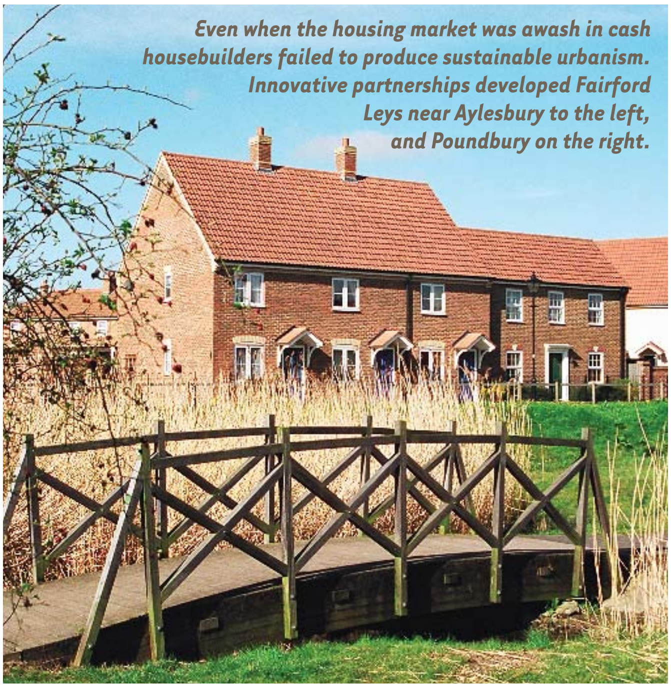
The large housebuilder model of development, based upon planning uplift and margins, has been similarly rocked, as this report outlines. Despite the evidence of a failed model, most seem bent on reinflating the bubble and taking it for another ride. Driven by the understandable desire to cushion the effects of the downturn, the Homes and Communities Agency's "Kickstart" programme has invested in many projects where design quality has been challenged.

This report proposes that it is time to think about another way forward. The Prince's Foundation for the Built Environment's "Valuing Sustainable Urbanism" report, published in 2007, found substantial additional value accruing over both the short and long term from mixed-use, mixed-income, walkable neighbourhood-scale developments. The report also found that such developments built stronger social capital and enhanced the natural environment. All the projects we analysed were masterplanned and guided by landowner/developers, and we found that PLC house building companies were not persuaded to take a different approach in the boom market. This report's exploration of new approaches to project delivery that enable landowners and developers to viably deliver mixed-use, mixed-tenure projects through new kinds of arrangements is indeed timely.

In his Richard Dimbleby lecture in 2009, our President HRH The Prince of Wales spoke about "The need to ensure that community and environmental capital is indeed put alongside the requirements of financial capital . . . An alternative that needs to become mainstream, and which would enhance both community and environmental capital, lies in the way we plan, design and build our settlements. This approach emphasizes the integration of mixed-use buildings and the use of local materials to create local identity which, when combined with cutting-edge developments in building technology, can enhance a sense of place and real community."

This idea of community capital, where long-lived natural and built assets not only create a strong social framework but generate robust financial returns, is core to a long-lasting economic recovery. We hope this report generates a robust discussion about new models of delivery, tenure, and the finance of sustainable urbanism.

Woodland, sustainable drainage and productive gardens are integrated into a new neighbourhood proposed for Romsey in Hampshire.



Even when the housing market was awash in cash housebuilders failed to produce sustainable urbanism. Innovative partnerships developed Fairford Leys near Aylesbury to the left, and Poundbury on the right.

VALUING SUSTAINABLE URBANISM

In 2007 the Prince's Foundation for the Built Environment published a study that found that new build neighbourhoods characterized by strong master planning and a mix of uses outperformed conventional residential products in the same market by a premium of 18 percent to 48 percent. The report, entitled "Valuing Sustainable Urbanism," was intended to make the case to property investors, developers and landowners that this kind of development is commercially viable. And it was intended to make the social case to public planning authorities that the benefits of sustainable urbanism are sufficient to compel them to require that housebuilders provide it.

The ultimate goal was to convince both the public and private sectors to take advantage of the massive urban developments being promoted under the banner of the Government's Growth Agenda, and to produce communities that are walkable and human-scaled, with local character and a sense of place, that provide for people of all incomes and ages, and show respect for the environment.

In order to make the commercial case we sought exemplar projects that met the following sustainable urbanism criteria:

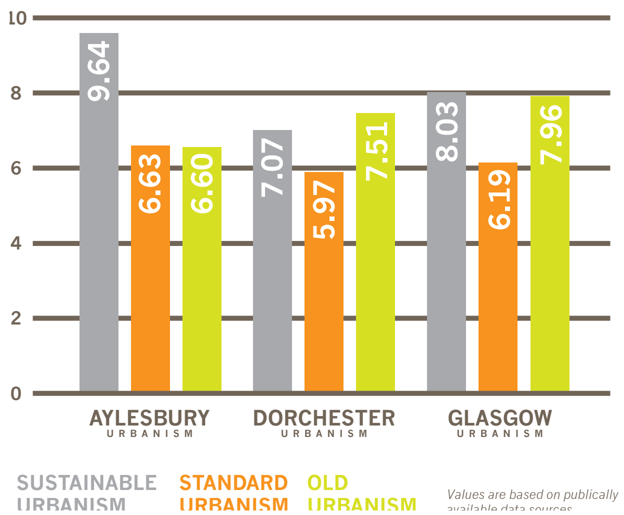
- A mix of uses, but predominantly residential;
- A mix of tenures to provide for a variety of income groups;
- A mix of housing types for all kinds of home buyers – from first-time buyers to older households without children;
- Good connections to public transport;
- Walkability, and an interconnected street network to provide pedestrians and cars with a range of routes;
- Relatively high densities to support local businesses and provide riders for transit;
- Well-integrated and managed open space;
- Opportunities for a range of work and lifestyle choices, thereby providing for economic and residential activity.

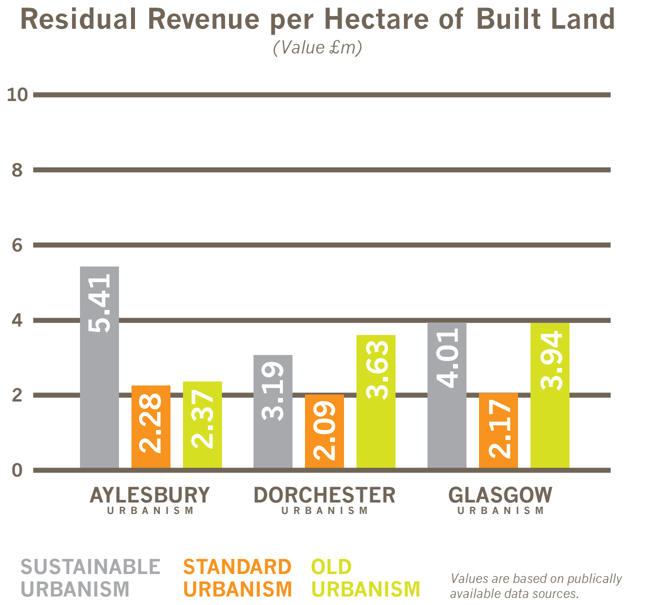
Three developments were identified that met these criteria in different parts of the country – Fairford Leys near Aylesbury, Poundbury near Dorchester, and the Crown Street regeneration project in Glasgow. Each was matched with a standard new build development as well as an example of old urbanism in the same town, in order to see what could be learned from traditional urban form in terms of the mix of land uses and the values generated, and how the exemplars compared to the standard housing product.

The chart below shows the value of sustainable urbanism was greater than standard development in every case. Even after accounting for build costs and developer margins it appears that sustainable urbanism provides a compelling financial incentive, as shown in the chart of residual revenues. In each of the three case studies there appears to be a sufficient revenue surplus to fund substantial additional build costs. Additionally, sustainable urbanism diversifies risk by spreading market exposure over building types and sectors (owner-occupied versus buildings-to-let, retail and office) and by providing the flexibility for uses to change as the market changes over time.

Total Market Value of Buildings per Hectare of Built Residential Land

(Value £m)





Finally, interviews with landowners and promoters in Poundbury found that initial appraisals significantly underestimated the value of the development, suggesting that early master planning and associated quality control confers potentially higher land values over the longer term. This suggests that a developer who is also an investor and who holds on to properties will reap the greatest rewards.

Our conclusion is that sustainable urbanism can enhance development value and may enhance land value, and that build costs need not be higher than for conventional development – but that where they are higher, they may be paid for out of the enhanced revenues. We also concluded that returns may be enhanced if there's a single landowner or developer who serves in the role of master planner and promoter, releasing tranches of land over time and controlling the pattern and quality of development through tightly controlled development agreements, design codes and other quality control mechanisms.

The study presents a challenge to both the public and private sectors: The public sector must promote sustainable urbanism in order to achieve it. Financiers must find long-term funding mechanisms that can maximize value for landowners, developers and the public over the long term. And developers must figure out delivery mechanisms that make sustainable urbanism the rule rather than the exception.

THE CHALLENGE OF DELIVERING SUSTAINABLE URBANISM

Since the release of "Valuing Sustainable Urbanism" in 2007 the Prince's Foundation for the Built Environment has been studying real estate market dynamics in order to better understand why the market can deliver the standard residential product but has not produced sustainable urbanism. The environment in which developers operate has changed immeasurably since the top of the market in 2007. By March 2009, prices fell 21 percent. Despite a partial recovery by the end of 2009 the adjustment has been a major setback, particularly because most land acquisitions made prior to the peak assumed continuing price inflation.

The plunge in sales volume has been even more severe, with transactions in the second-hand market down more than 65 percent from peak to trough. By the end of 2009 sales volumes remained 40 percent below normal, which has provided a serious challenge given the scale of upfront investment in land and associated costs. The result is that the private sector began work on only 80,000 units in 2009, a significant proportion of which involve public subsidy, with a negligible increase in 2010 – the lowest level of new home production since the 1950s.

This downturn has led to serious questions about the standard business model. Property essentially sold itself as an investment, irrespective of quality, prior to 2007. Now it appears there will be a move back to catering to the needs and desires of buyers who regard the house or flat not as an investment but as a home, rather than to investors seeking immediate returns on venture capital.

A bigger problem lies in the supply of land, and the question of whether landowners will sell at prices that developers can now afford given the scarcity of capital, the burden of sunk land costs, and the level of debt on many balance sheets. Moreover, there is the question of how to finance the full range of infrastructure required to support development. Although community infrastructure levies and S106/S75 arrangements have been proposed, both depend on land increasing in value once planning permission is obtained. The lack of development indicates this increase is not being realised, and the risk is even greater for large scale development proposals.

Housing production now stands at the lowest level since the 1950s.

Fortunately, new privately backed vehicles are emerging to unlock strategic lands. There are also new opportunities to involve sustainable energy funds in the supply of power and heat, and public-private partnerships in the delivery of social infrastructure including schools and health care. Our analysis suggests, however, that while the conventional business model is well-suited to the construction of a high volume of residential units, it is not well-suited to the longer time frames required to promote and manage strategic lands and deliver a more complex product with a mix of uses, amenities and infrastructure – thereby creating value through the delivery of a sense of place over time.

The cyclical and unstable nature of the British housing market compounds this problem by causing developers to extract returns as quickly as possible in case property values fall. As a result, the viability of a new model with the potential to achieve higher returns over an extended horizon merits examination. Until now this option has been ignored by property investors and analysts whose business model is geared to produce short-term gains.

NEW APPROACHES TO RESIDENTIAL DELIVERY

Niche-market developers are emerging, however, who take a long-term, quality-driven approach to housing that can truly be called sustainable urbanism. They include landowners, long-term land investors, commercial developers, and regeneration specialists. For example, none of the developers whose schemes were studied for the "Valuing Sustainable Urbanism" report was a conventional housebuilder. The developer of Poundbury in Dorchester was the Duchy of Cornwall, a long-term landowner; Fairford Leys near Aylesbury was developed by the Ernest Cook Trust, an educational charity with extensive landholdings; and Crown Street in Glasgow was developed by a three-way partnership involving the city council, economic development agency, and a housing association.

These projects were all driven by commercial principles but differed from the conventional volume approach. Both the Crown Street Regeneration Project and New Gorbals Housing Association in Glasgow are non-profits but still operate under an obligation to balance the books. The Duchy of Cornwall is subject to strict Treasury rules regarding the disposal of assets and has to achieve the best values, and the Ernest Cook Trust is subject to Charity Commission rules that require a similar standard of economic viability.

Both the Duchy of Cornwall and Ernest Cook Trust take a long-term approach to their assets in order to secure revenue streams that ensure future prosperity. Both invested upfront in master planning, design and intensive project management in order to optimize gains in the long term.

At Poundbury Leon Krier produced the master plan. A detailed design code was then drawn up and architects were commissioned to work with a local builder. Land has been released in tranches over an extended period, depending on market conditions and the value created as new phases enhance the sense of place. At Fairford Leys architect John Simpson produced the master plan and design code that became the basis for development agreements between the Earnest Cook Trust, the owners, and volume housebuilders who built the scheme out. At Crown Street, Piers Gough of CZWG did the master plan, with a series of super-blocks based around communal gardens. Developer competitions were held for each block.

Housebuilders face tremendous uncertainty and are unlikely to get the margins they want, particularly on large strategic projects. Landowners and property investors may need to adopt a longer profit horizon.

The results have been positive, and master planning has been an important factor in this overall success. The cost of master planning was once considered a deterrent to sustainable urbanism because it wasn't required for the standard housing scheme. Now, however, all developers are required to do a master plan before taking large-scale land development through the planning process. (The production and administration of a detailed and enforceable code may still constitute an additional expense.) In the end, though, promoters of large-scale developments often use a master plan to gain planning permission but then sell the land to third parties who do not follow it. Both Poundbury and Fairford Leys had legal agreements that ensured that final design and quality would be in keeping with their long-term aspirations.

The approach at Crown Street, where the overarching agenda was to restore the viability of the Gorbals by introducing market housing and increasing property values, was very different. Significant public subsidy was available for social and affordable housing as well as regeneration. The three-way partnership invested in upfront costs, securing an extremely well-designed scheme. Sales prices and rates have risen far above the area's average, and the local housing market has rebalanced toward owner-occupation.

Alignment appears to be a critical success factor. The interests of the Crown Street partners were aligned early in the process. A similar alignment was achieved at Poundbury through the Enquiry by Design master planning process, which involved the council, community and other stakeholders and facilitated a common vision for development.

Consensus and collaboration will be essential if the public sector plays a bigger role in underwriting the delivery of infrastructure, and may, in fact, be prerequisite to re-starting the UK's residential property market. The involvement of the public sector must come with a commitment from all parties to seek a triple bottom line that delivers a higher quality of life, uses resources more efficiently, and contributes to the economy.

The other innovators who are helping establish a new model for the delivery of sustainable urbanism fall into the four categories mentioned above: regeneration specialists, commercial developers, landowners, and a more general category of promoters who are pursuing various business models including the private rented sector and land promotion. Each is discussed below.

The Regeneration Specialists

The mainstreaming of urban regeneration as a sector in the property market has resulted in the emergence of specialist companies that promote and develop mixed-use schemes in city centers or other inner-city locations. These players have developed an approach that is very different than the volume housebuilders because they are required to adapt to the issues inherent to their operating environments. They incorporate a variety of uses due to location and policy, and their management teams are flexibly versed in both housebuilding and commercial development.

Because the goal of regeneration is to increase property values and attract investment, these teams are skilled at using place-making techniques, whereas conventional developers simply depend on a rising land market and price inflation. Commercial development and amenities are as important as the housing in regeneration schemes, and typically require the investment of significant capital upfront. Regeneration companies are usually run by investors with longer-term interests, such as pension or ethical investment funds.

The Igloo Regeneration Fund, for example, is a sustainable property investment and development vehicle set up to invest in projects that transform land values. All potential investments are subject to an intensive screen to minimize risk and maximize returns. Bee Bee Developments also invests in regeneration schemes in London, and has purchased hundreds of acres in the Government's Milton Keynes South Midlands growth area. Bee Bee takes planning and infrastructure to the point where development can begin on individual plots but will not build homes. The business model anticipates creating value through rigorous master planning, amenities and place-making.

Commercial Developers

Investors and traders who build commercial schemes use a different business model because they often rent their buildings, and can pre-let them to minimize risk. They also sell the schemes, whole or in parts, to pension funds or other property companies for prices based on projected income streams. (Many of these companies have been converted to Real Estate Investment Trusts, however, which lose their tax benefits if they trade their properties.) Planning policies favouring mixed-use development have prompted some of these companies to begin developing residential units, an interesting trend given their skill base and appetite for longer-term income streams. A good example of this approach can be found at King's Cross in London, where Argent is pursuing London's largest mixed-use regeneration project on a diversified, long-term strategic model.

The Land Securites Strategic Projects team, to cite one example, is in a strong position to master plan large mixed-use sites because of its skill and experience in project and risk management and strong asset base. The company has embarked on a mixed-use scheme in Kent, with 10,000 homes and 9 million square feet of commercial space that capitalizes increased land values caused by a high speed rail link into St. Pancras International that reduces commute times to central London to 17 minutes. Land Securites is investing heavily in master planning and considering mechanisms to ensure homes are built and managed to create value over a longer term.

Similarly, O&H Hampton is a management company that is developing a mixed-use community called Hampton on a 2,500-acre brownfield site after upgrading the master plan to link the development with Peterborough and increase residential density. Fifty-four percent of the site will remain open space. O&H has served as strategic land promoter, undertaking land remediation, negotiating planning, delivering infrastructure, and parcelising land for sale to housebuilders and commercial developers. Land sales provide income. A deed-of-development and pre-meetings with contractors helps to ensure a good design mix. O&H's commitment to build the schools before completing the housing helped with marketing and may have created a price premium.

Landowners

Many of London's finest residential districts were laid out by landowners who retained the freeholds of townhouses and mansion blocks by offering residential leases, and who exerted significant control over the architecture and materials used by builders. The evident quality of areas such as Pimlico, Belgravia, Marylebone and Mayfair is testament to the effectiveness of their business model, which aligned a long-term interest in the land with the creation of highly desirable places that could adapt to changing lifestyles and occupations.

Outside the capitol, the Calthorpe Estate has maintained Edgbaston in Birmingham as a desirable location, despite proximity to deprived inner-city neighbourhoods, by working with the city council, university and medical facilities to maintain the area's appeal. The burgeoning new residential suburbs developed north of the border in Edinburgh and Glasgow in the 18th and 19th centuries were built by speculative developers and often sold freehold, with the landowners retaining a long term interest through the old feudal land

Many of London's finest residential districts, such as Pimlico, were developed by landowners who retained ownership.

tenure, allowing the retention of a ground rent or "feu" enabling the feu-holder to control how plots were developed and managed.

Today landowners would find it difficult to follow these historic models. Enfrancisement legislation allows leaseholders to force the sale of the freehold, and feuhold was taken away by the Scottish Land Reform Act. These reforms make it difficult to provide for mid- to long-term land-management interests, and pose a challenge to investors who want an enforceable estate management regime that maintains quality and regulates occupation for the greater good.

It is noteworthy that 10 of 11 projects that are part of the Scottish Government's Sustainable Communities Initiative are being promoted by long-term land interests – whether public, charitable or family holdings. Tornagrain near Inverness, for example, is being promoted by a traditional landowner, Moray Estates, which is planning 12,000 residential units in a new community between Inverness and Naim. The town, designed by noted American New Urbanist Andres Duany, will be compact and easy to navigate on foot, with shops and community and leisure facilities. The estate wants to create an architectural model to complement the stunning scenery and built heritage, with public transport, an airport, business park, and 7,000 jobs. Housebuilders and contractors will build the houses and facilities. Land will be held under contract or licence or be sold to companies under restrictive covenants.

Other Business Models

THE PRIVATE RENTED SECTOR: Britain does not have a large, institutionally owned private rented sector like the US, where property companies and funds retain and rent properties as investments. The shorthold tenancy, changes in pension arrangements, and innovations in the mortgage market have increased the number of amateur landlords, but institutions have remained averse because of high capital values, the management-intensive nature of the enterprise, and low yields.

The market downturn has increased interest in a build-to-let sector, however, and the social and economic case is strong. High house prices mean fewer people can afford to buy. Moreover, a professionally run rental accommodation sector could aid labour market flexibility, meet the needs of families whose circumstances change, and provide more options for temporary workers. This approach could also offer a better opportunity to implement sustainable urbanism, as the developer or investor retains the scheme in the long term, providing incentive for greater investment up front in exchange for better and more resilient value in the medium term.

LAND PROMOTION: In the US a separate class of company pioneered the market in New Urbanism by specializing in land promotion and preparation, and then selling plots to developers who build and sell to homebuyers. Similar companies used to exist in the UK, but today housebuilders take on the development risk of strategic sites, and instead of building them out sequentially they sell the larger portion to their competitors for a simultaneous build-out. A few companies specialise in site assembly and promotion, but mostly as speculators looking to maximize short-term land sales. New players are entering

Countryside's Accordia, which organizes apartments and condos around productive gardens and connects them with footpaths and cycleways, was the first residential scheme to win RIBA's prestigious Stirling Prize in 2008.

the market, however, to work with housebuilders on stalled strategic sites or to acquire their position and benefit from the increase in land values when planning permission is obtained.

INNOVATIVE HOUSEBUILDERS: Other housebuilders show signs of appreciating the qualities of sustainable urbanism, but the acid test will come when their schemes move from concept to development. Countryside has led the way with development of Accordia in Cambridge, Great Notley Garden Village at Braintree, and St. Mary's Island at Chatham. Linden Homes has also delivered urban village schemes including the redevelopment of Caterham Barracks, Queen Elizabeth Park and an urban extension to the town of St. Austell in Cornwall. St. Georges PLC has evidenced its interest in quality with Grosvenor Waterside, and a mixed-use greenfield development in Knowle Village at Fareham.

A NEW RESIDENTIAL **GROWTH MODEL**

Unlocking Land and Value

The Government's Growth Points agenda has highlighted the need for promoters of larger-scale allocations to begin funding the delivery of infrastructure or meet costs through the onerous CIL tariff. Given recent public spending cuts it's unlikely this position will change. Meantime, speculative development finance continues to be difficult to obtain because access to capital remains severely constrained. Combined with landowner demands and a leveling of house prices (at best) or volatile fluctuations in prices (at worse), there are huge pressures on housebuilders. As a result, housebuilders face tremendous uncertainty and are unlikely to get the margins they want, particularly on large strategic projects, and landowners and property investors may need to adopt a longer profit horizon.

Meantime, the market has stalled because landowners are locked into option arrangements that developers cannot fulfill because their schemes are not viable when all costs and uncertainties are taken into account. As a result it is becoming more common for the land interest to come in as a co-partner in the scheme, easing the early cash flow and benefiting from the fact that the land value will be crystallized later, when the market recovers. The introduction of this investment dimension to the delivery of large-scale schemes, where the land interest is held over the longer term, may be key to unlocking the funding of roads, services and the public realm. It will be important, however, to ensure that there are no tax disincentives to landowner participation.

New Business Models

Our analysis suggests that the current residential procurement model, which brings strategic land promotion and housing development together under the same plc umbrella, cannot accommodate the longer-term perspective required to produce sustainable urbanism. The cash-flow-driven requirements of the plc model require promoters to crystallise value early by selling off housing units and excess land to recoup investment funds. This model was highly successful in a rising market with relatively inexpensive debt finance, but the downturn has exposed its fragility. Moreover, it has not proven capable of delivering sustainable urbanism's more complex mixed-use product, with its attendant infrastructure, management and occupation issues.

Developers now have to invest in substantial upfront planning costs for a more strategic approach to growth, a problem compounded by the growing list of S106/S75 requirements – which under the proposed CIL will be set as a tariff per housing unit. In a rising market these costs could have been offset by rapidly rising property values, high absorption levels, and the sale of excess land.

One possible solution is to recognize land promotion and investment as a separate category of activity from property development. The development trends discussed in the previous section help illustrate this new "master developer" role, which would align the acquisition of planning permissions and master planning services – including infrastructure provision and place-making – with funding sources that have matching time horizons.

Separating land promotion and investment from property development helps manage risk. It will be attractive to some investors to have a stream of receipts over five to 20 years backed by real estate assets, and with the potential to add value over and above the market trend through active management. This could help move the UK away from a situation where infrastructure must be funded through taxation to a public-private partnership that co-invests in infrastructure.

Engaging Investors

Investors are interested in strategic land as a distinct property investment category, and pension and opportunity funds are already investing. The key issue for investors is whether planning permissions can be obtained and how quickly. Delay is very expensive with schemes of this scale and complexity, and uncertainty is the single biggest deterrent to involvement.

Increased market data helps promote investment, however, and the "Valuing Sustainable Urbanism" report was an important first step in this regard. Emerging residential funds could become volume purchasers of build-to-let accommodations, which would help with early absorption rates and create building blocks for denser, more urban neighbourhood centres.

THE REQUIRED **SKILLS**

The range of skills and approaches that might be used for strategic land development has been discussed in the previous section of this report. Master planning, optimizing land parcels and phasing schemes, and mechanisms for long-term estate management are key features. Regeneration specialists are skilled in complex funding scenarios keyed to different investors and delivery timeframes. Their schemes tend to be adapted to context and attuned to the triple-bottom-line criteria built into their land disposal mechanisms and grant regimes. The goal of these specialists has always been to transform tertiary or sub-market property values through quality design, preferential occupier strategies, and clever marketing.

Value and Design

A commitment to design in the early stages of a project is key — the principle criticism of the standard market product is the under-investment in design and analysis. The consumer goods market has always recognized the importance of research, development and design to a product's market success. But master plans for residential property schemes are typically stripped of design elements to increase profitability, and because units are built and sold as quickly as possible no one is left to safeguard quality and value in the longer term.

Local authorities could assume this role, and they are theoretically already in charge of ensuring the public good by seeking quality design, sustainability, and economic and social benefits. But authorities are also charged with delivering a volume of housing, securing grant aid, and administering conflicting codes and standards. And they don't want to drive investment away by making onerous demands.

If both the local authority and the developer recognize the importance of design to creating value they will have a less adversarial and more productive working relationship. Enquiry by Design is a process that promotes cooperation, and has been shown to speed the planning permission process. If planning permission can be streamlined without negative effect on the quality of the development product, the money that developers save in terms of professional fees, finance costs and overhead could be used instead to pay for the provision of infrastructure and other public benefits.

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Aligning Interests

The key characteristic of the Enquiry by Design process is that it is simultaneously interactive instead of sequentially reactive. In other words, it provides a process for information-gathering, negotiation and resolution within a compressed timeframe. Aligning interests is key to a new funding approach that identifies a scheme's enabling infrastructure and that requires the willingness and flexibility to consider novel arrangements to deliver community capital over time as catchments and the tax base are established.

Professional Challenges

The emergence of this new residential model may be seen as threatening to established professional relationships, practices and conventions. Traditionally land agencies promote housebuilder deals to private landowners, who get an option premium in the short term and payment for the land when planning permission is obtained. In the new model, land agencies would introduce a developer and/or investment to the project, and there may be need for a development advisor over the long term, who could be paid a professional fee. It will be important to watch that there are no conflicts of interest.

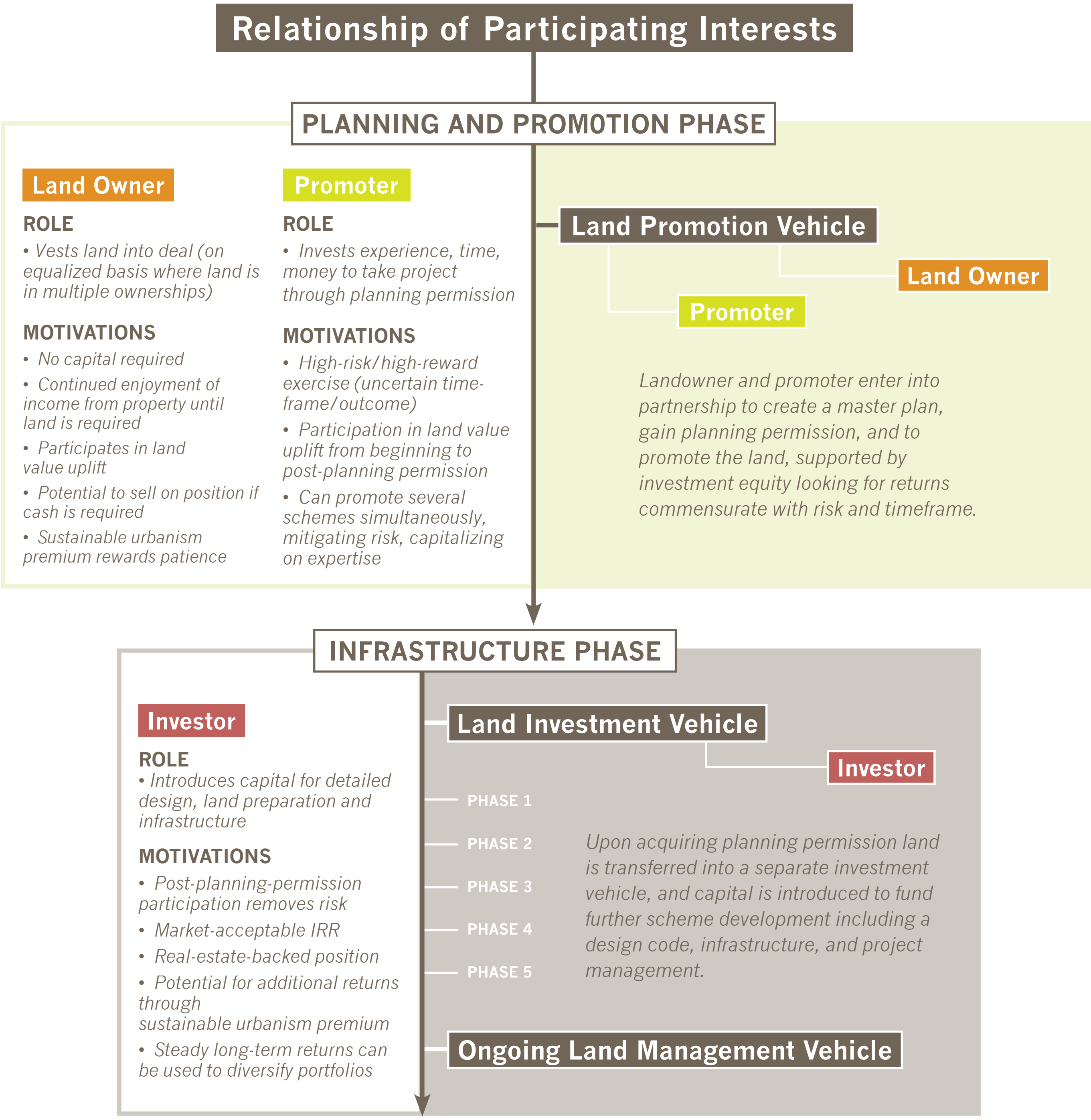
Valuation techniques must be adapted to provide valuation at several points in the process, an area that may need further research. The tax implications also need to be explored to ensure taxes are not an impediment to this investment-driven approach. If we agree there is broad public benefit to be gained from this new approach, the tax treatment could incentivize development. It is important that local authorities become more knowledgeable about financing and the market, and land promoters must better understand why high quality design and land use planning can expedite planning permissions as well as create value.

A STRATEGIC LAND INVESTMENT MODEL, **OR SLIM**

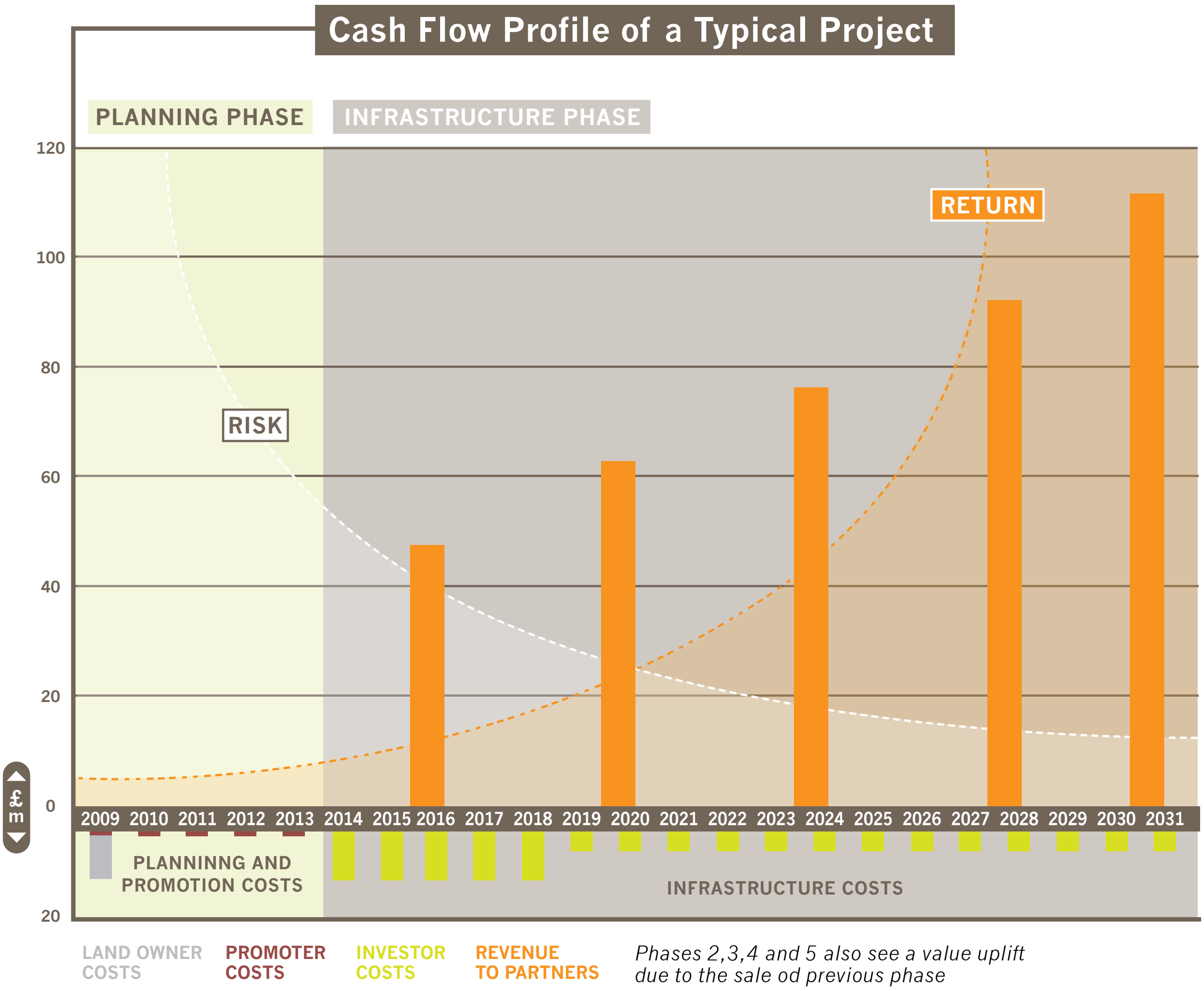
The new "Strategic Land Investment Model" we propose makes a clear distinction between land promotion and investment on the one hand and, on the other, the construction of buildings. Investments in master planning, infrastructure delivery and estate management become the key to unlocking value, and the sale of land is phased to capture values as they rise. In contrast to the standard business model, where value is created through planning permission, the new model posits that value is created through the delivery of infrastructure and establishment of a sense of place through quality urban design. The land promoter/investor maintains an ongoing interest and enforces quality through contractual mechanisms.

The land interest stays in the scheme as equity to reduce cash burn in the early phases, allowing landowners to benefit from the uplift in value. Investments are principally used to fund enabling activities and infrastructure, and the investment horizon is extended to capture value over the long term. A collaborative working partnership between the land promoter/investor and the local authority is required to develop an optimal scope and phasing arrangement that delivers the infrastructure and creates value.

This diagram shows the relationship of the roles in the process. The three key players – landowner, promoter, investor – are depicted



In the SLIM model returns come from the phasing of land sales over time, with the promoter being fully paid through receipts of early land sales, while the landowner and infrastructure investor receive their returns over the life of the project.



With this study we propose that now is the time to adopt a new model of residential growth that fully considers the potential for long-term value creation through master planning, infrastructure delivery, the creation of a sense of place, and careful estate maqnagement.

separately but the landowner or investor could also be the promoter. In fact, any one of a number of other players – including the local authority, housebuilder, investor or a registered social landlord – could serve in one of these roles. At the beginning the landowners and promoter become partners in promoting the land for development, supported by investment equity looking for a return commensurate with the risk and timeframe of participation.

Returns come from the phasing of land sales. We envisage that the promoter is fully paid through receipts of early land sales, while the landowner and infrastructure investor receive their returns over the life of the project. The landowner/investor maintains an ongoing role in site preparation, infrastructure delivery and parcelisation of land, and enforces quality control and contracts an estate management regime.

CONCLUSION

The market downturn has exposed the fragility of the business model used to deliver housing during the boom years, and it appears unlikely there will be a return to business-as-usual any time in the near future. But even when the housing market was awash in capital it wasn't able to produce a quality housing product that delivered the triple bottom line of economic, social and environmental benefits called for by sustainable urbanism. With this study we propose that now is the time to adopt a new model of residential growth that fully considers the potential for long-term value creation through master planning, infrastructure delivery, the creation of a sense of place, and careful estate management.

This model requires a landowner to come in to the deal as a co-partner with the promoter and the investor, using the land as an equity investment to ease the early cash flow, and benefiting from the fact that the sale of land is phased to capture values as they rise. Returns are commensurate with the risk and timeframe of the investment. The introduction of this investment dimension to unlock value over the longer term is in sharp contrast to the standard business model where promoters need to immediately sell housing units and excess land to recoup their investment – and that fails to deliver a more complex product that creates value over the longer term.

This is a model that has proven successful in Fairford Leys, Poundbury, on Crown Street in Glasgow, and that is presaged by many of the other innovative partnerships and schemes that are emerging, many of which are cited in this study. It requires collaboration, of the landowners, promoters, investors and the local authorities. But it may be the win-win proposition that creates value for everyone, including the home-buying public, by delivering places that are diverse, interesting, lively, prosperous, and sustainable.

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