Closing the Investment Gap in Europe's Cities

Launch Report: Urban Investment Network

A ULI Europe Publication in partnership with ING Real Estate

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Urban Land Institute

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Urban Land Institute (ULI)

The mission of the Urban Land Institute is to provide leadership in the responsible use of land and in creating thriving communities worldwide. ULI is a non-profit research and education organisation founded in the USA in 1936 and dedicated to the best in land use policy and practice. It has over 35,000 members across 92 countries worldwide including over 2,400 in Europe representing the entire spectrum of land use and development disciplines in both the private and public sectors. The ULI is the leading multidisciplinary industry forum encouraging the exchange of ideas, information, and experience, and a think tank where members grow through sharing, mentoring and problem solving.

ULI is a non-partisan research and educational institute directed by its members and supported by dues. It neither lobbies nor acts as an advocate for any single profession or industry. The Institute operates on a USD 55 million budget with a global staff of 140 headquartered in Washington, D.C. At the heart of the ULI experience is an open exchange of ideas, networking opportunities, and the ability to work with the leaders of the land use industry.[1]

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The ULI Europe office was opened in 2004 in London and is committed to bringing timely and informative programmes to all segments of the property community in Europe.

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- **Provide Information**–ULI leadership in education and research examines key trends and issues, provides practical tools for industry professionals.
- **Share Best Practice**–ULI draws upon the knowledge and experience of its members to encourage and recognise excellence.

ULI's activities in Europe are diverse, frequent, and high quality. The annual Property Development, Investment, and Finance conference held each January in Paris attracts over 500 leaders from Europe and North America.[2]

ING

ING is a global financial services company of Dutch origin offering banking, insurance and asset management services to over 85 million private, corporate and institutional clients in more than 50 countries. With a diverse workforce of about 130,000 people, ING is dedicated to setting the standard in helping its clients manage their financial future.[3]

ING Real Estate

ING Real Estate is an integrated group that is engaged in the development, finance and investment management of quality real estate in the world's major markets. With a total portfolio exceeding EUR 115 billion, it ranks among the leading global real estate companies, serving a broad client base from 22 offices across Europe, North America, Australia and Asia.[4]

ECORYS

ECORYS is an international company specialising in economic, spatial and social development. It works with clients in the public, private and not-for-profit sectors and applies its expertise to improve the economic and social conditions of:

- The countries in which we live and have our offices;
- The European Union and its neighbouring states; and
- Developing countries, especially for poverty alleviation.

Its aim is to deliver real benefit to society through the work it does. It believes that to develop good policy it is important to understand how to deliver it; and in order to deliver well you must understand the policy you serve.[5]

Urban Investment Network (UIN)

The ULI Urban Investment Network exists to promote and facilitate world class investment in European urban development. The initiative has been developed by the Urban Land Institute in collaboration with a group of leading cities, European institutions and private sector organisations.

This independent Network is facilitating a continuous dialogue between those public and private sector leaders seeking to improve their ability to collaborate. Its premise is that public - private relationships with a high level of collaborative working provide more opportunities to bridge investment gaps and overcome city development challenges.

Biographies and Acknowledgements

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Greg Clark is a Senior Fellow of ULI Europe.

He is also Lead Advisor on City and Regional Development at the Department for Communities and Local Government, UK; Chairman of the OECD Forum of Development Agencies and Investment Strategies; Professor at Cass Business School, City of London; and advisor to cities and companies world-wide. In 1995, he was elected as a Harkness Fellow and spent 18 months in North America as a guest of the US Federal Government assessing city and regional economic development in 12 North American metropolitan regions from a base as a Fellow at Columbia University in New York City. As Chairman of the European Urban Development Forum from 1996 to 2000, he oversaw reviews of development and regeneration in 24 European Cities/Regions. In 2004, he provided training to city and regional development leaders from nine Southern African cities. In 2005, he reviewed urban regeneration in seven Asian world cities for the OECD. He also has directed comparative studies and assessments of London and New York, British and Spanish cities, UK and Canadian cities, and UK and Chinese cities.

Joe Huxley

Joe Huxley is a recent Geography graduate of Oxford University with specialisms in urban and regional geographies, and applied research on city investment and development. Joe has since worked directly with the cities of Barcelona, Toronto, London, Edinburgh, Cape Town, Auckland, Sheffield and Johannesburg on themes such as urban development strategy, city branding, investment promotion and facilitation, city centres and global event hosting. He has also advised on the London 2012 Olympics for the British Government and edited three books on city and development themes for the OECD.

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Executive Summary

Proposition. In this report we assert that European cities are critical to the success of Europe socially, economically and environmentally, and that this success can only be realised if we invest directly in cities, and increase the rate of investment in Europe's cities over time. However, an investment gap in Europe's cities is identified in multiple forms and this must be bridged if Europe's cities are to succeed in our new globalised system. Europe's cities are amongst the oldest in the world and they require continuous reinvestment and modernisation if they are to keep pace with younger cities in other continents. Though important, bridging this investment gap is not just about more money for cities, it is about Europe's cities having a clearer sense of purpose and strategy for their own futures so that coherent long term investment and co-investment opportunities can be structured and realised.

Chapter 1: Introducing the gap

The chapter introduces the investment gap in Europe's cities. It begins by reviewing recent research that demonstrates that Europe's urban system is emerging as an integrated network of 13 different types of cities, differentiated by size and value, and by roles and function. This new continental system of city functions is gradually superseding old national urban hierarchies and Europe's cities are becoming more inter-dependent across national borders. This typology of different European cities both helps us to understand how the cities complement each other, often across national borders in an increasingly integrated, and globally open, Europe, and it also helps us to understand why different kinds of cities experience gaps at different levels and in different kinds of investment.

Essentially, we argue that different kinds of cities are on distinctive journeys and need investment which supports their distinctive needs. This chapter goes on to observe what the gap is: firstly manifesting itself as the difference between the investment aspirations of cities and national governments and the actual investment achieved (a numeric gap between capital needed and capital attracted). Secondly, we observe the tendency for both investors and cities to pursue the same undifferentiated formulas, despite their distinctive needs and opportunities (a knowledge and skills gap) with consequences for urban quality. Thirdly, we observe that the path to success in achieving higher rates of investment appears to lie in (1) cities taking pro-active and co-ordinated actions to set out a unique sense of purpose and integrated actions, and (2) investors working in dedicated ways to build financial models that fit with the cities' own value propositions. Successful cities are highly differentiated cities, and successful urban investment is a creative process for investors and other financiers.

Chapter 2: Defining the gap

This chapter defines and explores the investment gap in Europe's cities more directly by observing that the gap is more than a capital gap. It is the failure to translate investment aspirations into effective demand in the form of bankable propositions and investment partnerships. Therefore we see the gap as including omissions in four drivers of investment: capital, knowledge and skills, the institutional framework and effective collaboration.

We observe that most successful cities have to bring all four elements together in a working system if investment is to flow effectively. We also note important relationships between each dimension, arguing that the availability of capital is linked to the institutional framework, and that effective collaboration requires knowledge and skills that are often absent. We set out what kind of capital, knowledge and skills, institutional frameworks, and effective collaboration are required to make investment work in different types of city, and comment on why gaps appear to exist.

We also observe that the current economic crisis is having important effects on the investment gap in Europe's cities. Whilst there are undoubtedly opportunities in the current situation, the main impact of the economic crisis is to make city investment more difficult and to require greater thought and skill in how investment is framed and facilitated.

The chapter concludes by suggesting that for a city to achieve important development goals a purposeful leadership effort is required to integrate the four investment drivers together in the form of a clear and confident investment strategy. It is such strategies that deliver long term investment which will create public and private value and close the investment gap in Europe's cities.

Chapter 3: Approaching the gap

By reviewing 38 successful case studies of European cities attracting investment, this chapter identifies and compares the methodologies currently used to fill the investment gap by different cities. It builds on chapter two by observing that different strategies seem to be employed by different city types because the dimensions of the investment gap in each city are themselves different.

We also differentiate between three different levels of maturity in how cities seek to attract and facilitate investment in order to bridge the gap

Chapter 4: Bridging the gap

Though there are many examples of success across European cities, they tend to be distributed unevenly, or are not well reported and assessed. This chapter attempts to build a more comprehensive picture of what public, private and other partners must do to bridge the gap by consolidating examples of good practice found across Europe into a set of key principles and practical guides to action.

Chapter 5: Closing the gap

This chapter reviews key issues in the current moment in early 2009 and how the financial and economic crisis can be used as a spur to tackle the investment gaps in Europe's cities. It argues that the need for effective pro-investment strategies from cities has now become even more important, and the need for investors to innovate has become even more essential.

This chapter also reviews what is now needed in practical terms and builds an agenda for the future based on sound investment practices between cities and investors, with support from national and international bodies.

We propose that an Urban Investment Network be built for the combined efforts of cities, investors, National Bodies, and International Financial Institutions.

The Urban Investment Network represents a means to begin a dialogue between those individuals, institutions and organisations which are committed to making Europe's cities stronger, more sustainable and more competitive through investment.

The network will have up to 250 members when it is fully mature.

A Founding Members Group is being recruited. This will include leading cities, investors, and Financial Institutions committed to closing the investment gap.

In the interim there are important themes that an Urban Investment Network should pursue to develop a common agenda for Europe. These include:

i. Bridging the City Investment Gap: the role of city investment strategies.
ii. Building strategies to attract and retain investment during the recession.
iii. Value Capture Finance for Urban Development.
iv. Using Public Land Assets to attract Urban Investment.
v. How to market cities to optimise investment.
vi. The role of urban investment and development funds.
vii. PPPs and Urban Infrastructure: latest Trends.

Figure 0.1. The role of the Urban Investment Network (UIN)

viii. City Centres, Waterfronts, and Hosting International Events: how to use them to attract commercial investment into cities.
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x. Profiting from Urban Regeneration: the role of pensions funds and sovereign wealth funds.
xi. Investment Strategies and Financial Partners for Cities: Review of UIN Members Perspectives.

An urban investment network will provide the cities and investors in Europe with an intelligence system for raising the investment rate in Europe's cities for the benefit of all stakeholders.

A detailed appendix with all the case studies developed to prepare this report is available on the ULI website at (www.uli.org/uin).

Chapter 1

Introducing the gap

1.1 The role of Cities in Europe's Future Success

Europe is a highly urbanised continent, and Europe's cities are amongst the oldest in the world and require continuous reinvestment if they are to match the performance of younger cities in other continents. Our cities are the hubs of population, economic activity and employment, logistics and transport, and the places from which most carbon emissions originate. Over many centuries, Europe's cities have proved to be adaptable to changing times, and have become drivers of development in several eras. In this, the most globalised century the world has yet seen, Europe's cities are embarked on multiple processes of change, the outcome of which are increasingly uncertain.

Achieving EU policy goals in relation to knowledge economy (the Lisbon Agenda), sustainability (the Gothenburg Agenda), and good governance (the Warsaw Agenda) is only possible if Europe's cities are fully engaged in achieving their own long term success, and if their development and investment requirements are met. Cities in Europe provide the knowledge base, human capital, creative/innovative milieu and advanced infrastructure needed for economic competitiveness. They also provide the best scope to reducing harmful greenhouse gases both through improved energy efficiency and use in the built environment, and through advanced transport systems. Cities and their metropolitan regions are increasingly the population centres and main forms of social organisation. Their good governance is essential to building cohesive societies, efficient public investment systems and ensuring market responsiveness.

1.1.1 Recent trends

In the period 1996-2001, one third of European cities grew, one third remained stable and one third experienced a notable decline in population. The strongest population growth rates were recorded in Spain, where some urban areas saw average annual population increases of 2% or more. Cities in Ireland, Finland and Greece also experienced some of the highest population growth rates in Europe. In contrast, many urban areas in Central and Eastern Europe witnessed an overall population decline in the same time frame. In virtually all cities, suburbs grow and if they decline they still tend to decline less acutely than the core city. Overall, cities in Northern Europe and Southern Europe have been growing faster than cities in Western and especially Central and Eastern Europe where population loss is stronger.

Irrespective of demographic trends, cities are also the indisputable engines of economic growth in Europe. Bigger cities generally contribute more to the economy, but not all big cities do. For cities with more than one million inhabitants in Europe, GDP figures are 25% higher than in Europe as a whole and 40% higher than their national average. The contribution of cities to GDP levels tends to level off with decreasing size. Smaller cities (up to 100,000) tend to lag behind their nations, but display average economic growth rates.

Urban economies are rapidly becoming service and knowledge economies. The service sector is by far the most important source of employment in European cities. The service sectors of the urban economies of Central and Eastern Europe are catching up with their counterparts elsewhere in Europe – reflecting the rapid and far-reaching structural change and economic transition of the last decade.

Most of Europe's economic high performers are located in the North and the Centre of the Union. A relation with city size no longer exists when a broad range of indicators is applied – both smaller and larger cities can become high performers. With so much diversity and dynamics amongst Europe's cities, it is time to take stock and see which cities are on the right track, and which will attract the investment that enables them to help lead Europe's challenge for global leadership in the 21st century.

1.2 The State of Europe's Cities

In 2007, the European Commission published the first ever State of European Cities Report bringing together data from the European Union Urban Audit with data from other sources to produce a fresh picture of where the European Union's cities are headed in the next phase of evolution and to begin to assess the similarities and differences between European Union cities.[6] The European Commission has committed to revise and update the State of European Cities Report roughly every two years. At the same time, the growth of City Indexes has been extensive with the evolution of many new ways to measure and compare cities over the past 24 months. From transport connectivity, quality of life and carbon footprint to investment readiness and creativity, cities are now ranked by academic institutions and consultancies on an increasingly regular basis.

In response to the State of European Cities Report, ULI Europe published a preliminary report review later in 2007 offering insights about the keys to urban success in Europe and the implications for each type of city in terms or urban development and investment. The State of European Cities Report offers a powerful perspective into the emerging urban system in Europe and to the new forms and sources of urban growth in an integrating and enlarging Europe. However, the report does not yet review the investment implications of such growth and change, either in terms of the public investment required to make Europe's cities successful, or of the role of the private investors, and the investment gap that needs to be tackled.

This report on Europe's City Investment Gap is designed to complement the State of European Cities Report, by recognising and exploring concerns and opportunities surrounding the investment gap in European Union cities. It takes forwards the preliminary analysis offered and fills out the initial assessment with:

- A review of the investment gap in Europe's cities;
- A review of the position of European Union cities within the emerging global system of cities;
- A review of the investment needs and challenges of the different types of cities that emerging in Europe;
- Case studies of investment in urban development, infrastructure, housing and sustainability from the different types of European cities; and
- A review of the role of public and private investors in Europe's cities; Principles for the future.

The new European Urban system is emerging: 13 types of European City
Three broad categories of European cities can be distinguished: International hubs, Specialised poles and Regional poles. Within these groups, the State of European Cities Report has defined 13 city-types.

The first group - ***International Hubs*** - are international centres with a pan-European or even global influence. We distinguish between:

i. *Knowledge hubs* – key players in the global economy, positioned above the national urban hierarchy and in the forefront of industry, business and financial services, based on high levels of talent and excellent connections to the rest of the world;

ii. *Established capitals* – firmly positioned at the top of national urban hierarchies, with a diversified economic base and concentrations of wealth; and

iii. *Re-invented capitals* – champions of transition, engines of economic activity for the New Member States.

Figure 1.1. European city types

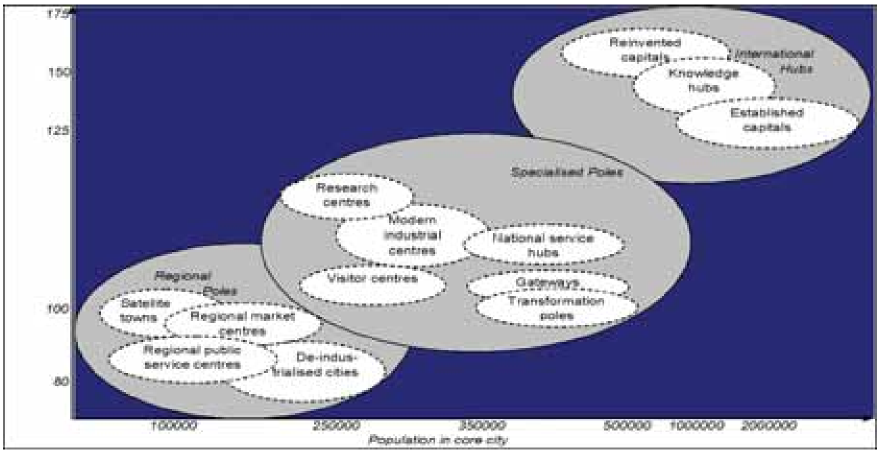


Image courtesy of the EU Commission © 2007

Figure 1.2. The distribution of European city types

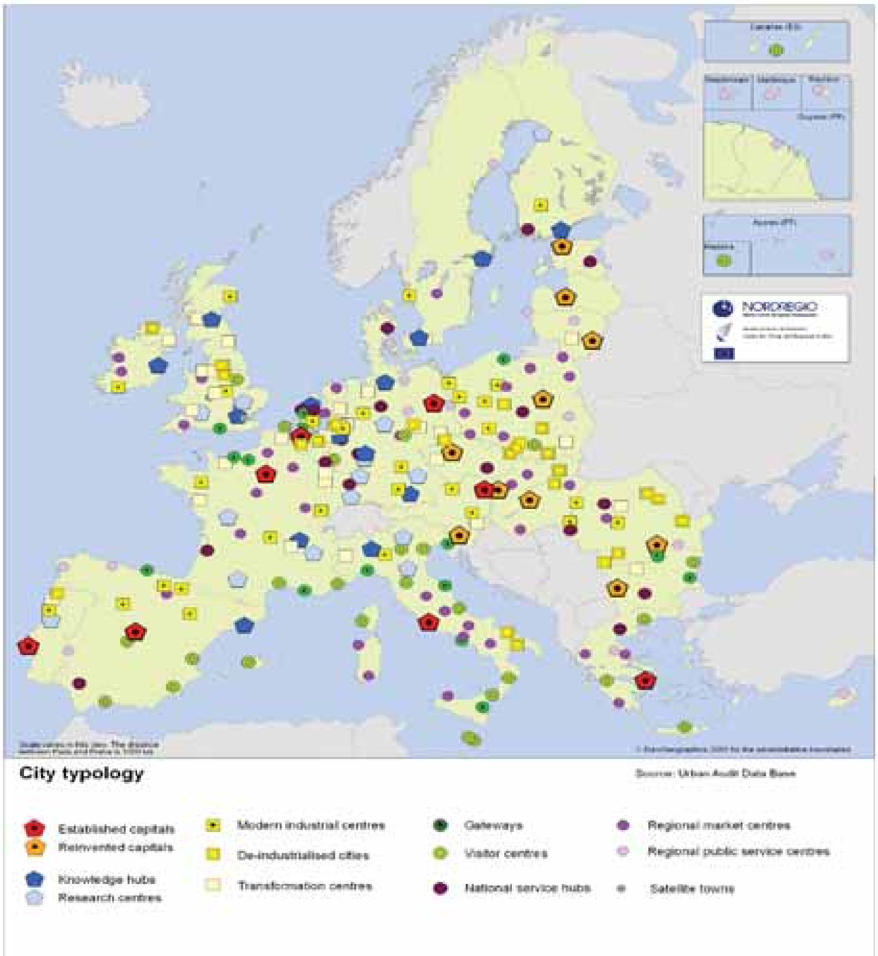


Image courtesy of the EU Commission © 2007

A second broad group are the ***Specialised Poles***. These play a (potentially) important international role in at least some aspects of the urban economy:

iv. *National service hubs* – play an essential role in the national urban hierarchy - they fulfil key national functions and often some capital functions in the (public) services sector;

v. *Transformation poles* – with a strong industrial past, but well on their way to reinventing themselves, managing change and developing new economic activities;

vi. *Gateways* – larger cities with dedicated (port) infrastructure, handling large flows of international goods and passengers;

vii. *Modern industrial centres* – the platforms of multinational activities, as well as local companies exporting abroad; high levels of technological innovation;

viii. *Research centres* – centres of research and higher education, including science and technology related corporate activities; well connected to international networks; and

ix. *Visitor centres* – handle large flows of people of national or international origin, with a service sector geared towards tourism.

Thirdly, a large number of ***Regional Poles*** can be distinguished, in many ways the pillars of today's, yesterday's or tomorrow's European regional economies:

x. *De-industrialised cities* – have a strong (heavy) industrial base, which is in decline or recession;

xi. *Regional market centres* – fulfil a central role in their region, particularly in terms of personal, business and financial services, including hotels/trade/restaurants;

xii. *Regional public service centres* – fulfil a central role in their region, particularly in administration, health and education; and

xiii. *Satellite towns* – smaller towns that have carved out particular roles in larger agglomerations.

From an investor's perspective, not all city-types will be equally relevant. We expect investors to be interested in dynamic cities with some critical mass, a strong economic performance in terms of GDP level and/or GDP growth, a thriving and evolving economic structure, and strong underlying drivers of competitiveness (such as talent, innovation, entrepreneurship and connectivity).

1.3 Performance of EU Cities on Global and EU Wide Indexes

Countless benchmarks, reports and indexes have been produced in recent years comparing EU Cities against each other and against other cities worldwide. In this section, we briefly review the results and conclusions of ten relevant indexes through which to analyse the performance of EU cities. Seven of the selected indexes are global, and three have a European focus.[7] The indexes selected cover a wide variety of environmental, social and economic indicators and range from extensive reviews of cities to benchmarks comprised of analyses of multiple urban factors and finally indexes constructed from analyses of singular urban variables. By reviewing the performance of Europe's cities and setting them against other cities worldwide, the necessity for Europe to close its urban investment gaps and become more competitive is highlighted.

European and World Leaders

Ten indices show significant correlation on which cities are performing best within the European Union and which are reaching high enough standards to truly compete with other cities around the world.

It is clear that London and Paris are Europe's 'leading' cities, but moreover they are amongst a handful of cities worldwide, along perhaps with New York, Los Angeles and Tokyo which consistently reach the highest positions across the broad spectrum of global rankings.

London and Paris are ranked as two of four top-tier alpha world cities by the GaWC.[8] They are the most successful city brands in the world (Anholt GMI[9]). They have the most expensive retail locations in Europe, and only New York and Hong Kong have more expensive streets worldwide. Of the two cities, London appeared to have the edge (leading into the recent crisis), particularly on economic benchmarks. For example whilst the Mastercard Index[10] suggests that London is the world's number one centre of commerce, Paris is placed only sixth. Naturally, the two cities also consistently feature at the top of European rankings such as the European City Monitor.[11]

Of Europe's other successful cities, Frankfurt also generally performs well on global indices – although is not yet in the same league as London and Paris. The city's strongest performances are skewed towards the economic indexes, such as the GaWC's ratings where it features as a second tier alpha world city, and the Mastercard Index, where it is placed as the world's seventh most important centre of commerce. It does not have the 'broad appeal' of Paris and London, whose success reaches into other areas such as city branding and retail. Frankfurt does not feature in the Anholt GMI top 20 brands worldwide.

Similarly Barcelona, which performs consistently well on a wide range of European indicators, also features in high positions on some global indicators – but not on all. Unlike Frankfurt, its successful performances are skewed not towards the economic indicators – the city is placed only 33rd on the Mastercard index – but rather towards indexes associated with governance and branding, including the Jones Lang La Salle[12] and Anholt City Brands indexes.

Successful 'Niche' Performances

The indexes reveal that some European cities have niche areas in which they display the best performance not only within EU indexes, but also on worldwide measures. For example, Central European cities, particularly those in Switzerland and Germany (but also Vienna) are world leaders on social and environmental measures, rivalled only by Canadian and Antipodean cities. Indeed, of the top ten cities on the Mercer Quality of Living Index[13], six are located in Switzerland and Germany.

Three of Switzerland's four largest cities feature in the top ten worldwide. Of course, this strong environmental and social performance is not totally dissociated from economic performance, and within Europe these Swiss and German cities are all (with the exception of Bern, which is hindered by its small size) relatively strong economic players, all featuring in the European City Monitor's Top 20.

However, on a global scale the success of these cities on social and environmental indices is completely disproportionate to their economic might. Apart from Frankfurt, none of the cities are alpha or beta world cities (GaWC), they do not feature in the top 15 of the Mastercard's Centres of Commerce and none are among the world's top ten city brands. It appears then, that these cities, and particularly Zurich and Geneva, have carved out for themselves a niche area of global excellence and quality of life.

European cities lead the rest of the world….

In addition to 'quality of living', European cities are also world leaders in terms of cost of retail space. Although the top ten most expensive retail locations in Europe are dominated by a handful of cities, notably Paris and London, cities further down the European rankings would still feature very highly in a worldwide ranking. The top ten retail locations in Europe are more expensive than all but two of those in Asia, and all but four in the USA.

This is indicative not only of the economic strength of European cities worldwide, but also of more intangible factors such as their historic prestige, fashionable image and successful city branding. Indeed both the Anholt GMI and Jones Lang La Salle indexes on branding show a high proportion of European cities featuring in the top city brands worldwide. Along with the consistently strong performers of London and Paris, are Barcelona, Budapest and Berlin which also have world-class city brands.

The success of European cities in these world brand indices is likely to be due to the historic nature of these 'old capitals' and 'world heritage centres', with their instantly recognisable buildings, distinctive cultures and traditions – all of which are factors which lend themselves to effective branding.

European cities trail the rest of the world….

The benchmarks reveal that in some areas, European cities are being left behind other world cities, and in particular are failing to compete successfully with North American cities. For example, the Shanghai Jiao Tong academic ranking[14] shows a clear global dominance of US universities. Indeed, Cambridge and Oxford universities are the only European Universities to feature in the 'top twenty' universities worldwide. In addition, aside from Tokyo, all the other universities featured are US based.

Arguably, the indicators used by the index are biased towards a pro-American outcome, with consideration of factors such as citations in Science and Nature – which are English language journals and presentation of 'traditional' academic awards such as Fields medals and Nobel prizes.

A ranking which placed higher value on links with industry and R&D would reward Scandinavian and German universities more richly. Nonetheless, the results are resounding and cannot fail to indicate that European universities have some work to do to catch up with their United States counterparts.

European cities similarly lag behind in the Jones Lang La Salle report on successful city governance. Only Barcelona and Budapest are commended as cities with successful governance strategies, and Barcelona's success may be explained in part by the drive created from its rather unique position as the Catalan capital and its region's historical relationship with Madrid and Castillian Spain.

The leading world region in terms of governance is not North America however (which only has one city commended), but rather Asia Pacific, where the majority of successful cities are found. Deconstruction of the indicators used by Jones Lang La Salle reveals that it is the management of European cities which is comparatively poor, as several cities feature in the top ten city branding positions – the other indicator used to calculate city governance.

Cheshire & Magrini's paper offers a possible solution, and a means of improving governance to catch up with rival cities in Asia Pacific. The paper concludes that: *"It is reasonable to expect that there could be net efficiency gains for the EU's urban system as a whole if government boundaries – at least for the highest strategic tiers of local government – were aligned more closely with those reflecting economically relevant patterns of behaviour and spatial economic organisation."* [15]

A growing dynamic system

Examination of the Europe-wide indices generally confirms the results of the global indexes – for example the same cities appear at the top of Cushman & Wakefield's European City monitor (London, Paris, Frankfurt and Brussels) as make it into the global rankings of economic factors. However, the finer scale of European indexes reveals information about the performance of a greater number of cities doing well and enables fresh conclusions. Western European cities perform better than those in Eastern Europe.

Cities in the European Union's new Member States largely fail to feature in the upper echelons of EU wide rankings – although there is some evidence to suggest this may change in coming years; for example Warsaw has recently risen into the European City monitor's top 20.

In addition, the EU Urban Audit[16] reveals national 'blackspots' of social problems within Europe. For example, cities in the United Kingdom and France display by far the worst car theft statistics. National indexes, such as Richard Florida's Boho Britain index[17], can provide an even finer level of detail and display national trends.

Cheshire and Magrini also draw conclusions on relative performance of cities within Europe and suggest that:

- local differences in human capital and R&D activity are important factors in differential urban growth rates;
- European integration has had a significant impact in accelerating growth in core regions of Europe; and
- administrative and government arrangements for cities strongly influence their growth and performance; 'a governmental unit approximating the economic boundaries of an economically self-contained city-region [means that] growth is stronger, other things being equal'..

1.4 The Investment Gap in Europe's Cities and the Role of Public and Private Investment

A report of an EU Member States Expert Working Group on City Investment in 2007 concluded:

"Despite substantial investment needs and substantial funds available through capital markets and financial institutions, there is a widespread perception of an investment gap in cities and towns, with unmet investment needs not being fully translated into effective demand (bankable projects) nor attracting effective supply, in the form of readily available financial products for urban development. The challenges are especially acutely felt in the new Member States and the accession countries that depend on support from the structural funds as well as on the transfer of know-how from the EU and its other Member States." [18]

Despite a lack of systematic evidence and review, all recent commentary on EU cities points to a substantial and growing investment gap in Europe's cities. This investment gap, defined as the gap between investment aspirations and investment made, can be observed in several ways:

i. Despite all cities having investment needs, some cities are clearly more attractive to investors than others. There is a clustering mentality amongst investors that follows perceived market opportunities, which results in high levels of investment in some cities and not in others. Sometimes this results in 'over investment' where too many retail units, houses, or offices are developed in some cities on a speculative basis. At the same time, cities often fail to differentiate their unique or distinctive opportunities and offer investors only 'more of the same', seeking the same opportunities as other cities with limited success.

ii. Processes of urban change are visible all around Europe. Adjusting Europe's cities to new realities of economy, population, environment, and mobility requires investment. The world is in a dynamic phase of change, brought about by globalisation and the emergence of new economic powers and population centres. As a result, the adjustments required in Europe's cities are large in scale, going beyond the normal investment requirements of a business or political cycle. Investment in new transport infrastructure, energy and water systems, digital telecommunications, and in sewage and waste management are long term imperatives. For example, adjusting our cities to the challenges of climate change requires investment now that will benefit society for many years to come.

iii. EU National Governments regularly identify investment requirements in housing, transportation, social infrastructure and urban development that are beyond the means of public finance in any one investment cycle alone. National Governments have committed themselves to external fiscal disciplines (such as the Stability Pact/Maastrict Principles for Euro membership) and this means that they cannot easily raise the rate of public investment through public debt. Consequently, they seek to leverage resources from other sectors. There is a gap between public policy goals and available public finance.

iv. Investment in cities offers both public goods and benefits and returns for private investors. However, there are limited mechanisms for combining public and private finance in urban development across the EU Member States. There is a tooling gap in terms of finance and investment at the local and regional levels, and no easy means to recycle investment locally.

iv. Attracting external capital investment into cities is not yet a core responsibility of all city governments and there are gaps in the competences, capacity and skills of city governments to undertake such tasks. In Europe, city governments do not generally enjoy the same degree of fiscal and financial freedom as cities in North America and certain parts of Asia, and even cities in more devolved systems (Germany, Finland, Spain) do not have the capacity to meet all of their investment needs on their own. Sometimes, cities innovate with new organisations such as urban development agencies and corporations and this helps to bridge the skills and knowledge gap, but it does not provide additional investment capital on its own.

v. Financial Institutions operate within market economies that are subject to natural fluctuations and business cycle dynamics. The current credit squeeze impacts on some parts of Europe more than others and on some forms of investment more than others. Reduced liquidity overall decreases investment in cities, so it is essential that city investment champions are able to respond to these dynamics with flexible tools and responses to help sustain investment. At the heart of closing the investment gap in Europe's cities is the need for a new working relationship between cities and investors/developers, supported by national and inter-governmental investment organisations.

1.5 Overcoming the Investment Gap: identifying success and some promising practices

In the globalising world, some cities see the growing importance of competitiveness drivers. Cities like Hamburg, Amsterdam, Stockholm, Torino, Barcelona, London, Manchester and Glasgow have proven that the improvement of these drivers leads to a much higher level of presence at the global stage. Others share this aspiration.

Our observation can be put at its most simple, cities that focus on offering a clear value proposition are able to become both more sustainable and more competitive, and will be more attractive locations for investment from public and private sources.

Success stories

Hamburg

The second largest city in Germany and home to Europe's second largest port facility, Hamburg is becoming an increasingly significant knowledge hub in Europe. With strengths in the shipping and logistics, media, publishing, music and ICT sectors the city has a healthy economy. It boasts the highest GDP per capita in Germany at EUR 50,000, has the highest employment rate at 88% and is home to over 120,000 companies. With momentum being maintained by the relocation of firms and talented individuals to Hamburg, the signs are that this trend of economic expansion is set to continue. The evidence suggests that the city has one of the most dynamic investment and development agendas across Europe. An example of the city's ambition can be found in the HafenCity development project. HafenCity is one of the largest city centre development projects in Europe. It aims to create a new 'city within a city', transforming 155 hectares of land around the old harbour area and increasing the size of Hamburg's city centre by 40%. With other projects completed and underway the city is determined to maintain its forward momentum by closing its investment gap.[19 20]

Figure 1.3. Stockholm – a thriving North European metropolis

Image courtesy of the Wikipedia Commons © 2009

Amsterdam

Amsterdam has been a relatively consistent and strong performer in the European hierarchy of cities - a fact confirmed by the 2007 European Cities Monitor, which rates Amsterdam as fifth best for business, fourth best-placed to access markets, having the sixth most qualified workforce and fourth in terms of internal transport on the continent. There are many interrelated drivers behind Amsterdam's success. Most fundamentally, the city occupies a strategic position at the heart of the geography of Europe. Indeed, its connectivity to global, continental and regional capitals flows is impressive. Building on its accessibility advantages, Amsterdam also boasts a highly educated and flexible workforce, a high quality of life with an openness to international populations and a thriving knowledge sector. It is from this position that Amsterdam is working hard to reinforce its claim to be a leading European knowledge hub. To achieve this goal City Authorities are working to build the necessary relationships between the public and private sectors to deliver on a dialogue as to how to fulfill the city's investment requirements. Large infrastructural projects in the city to support its high level of internal and external accessibility such as the construction of Line 52 on the Metro Network are primarily public funded. Other real estate and area developments such as the creation of the Ijburg neighbourhood are funded by more collaborative models between the public and private sectors. By consolidating and building on the city's strengths the investment and urban development processes in Amsterdam are likely to be effective and drive the city towards its goal of becoming one of Europe's premier knowledge hubs.[21 22]

Stockholm

Producing 28.7% of the Swedish GDP in 2006, Stockholm is today regarded as one of the foremost metropolitan areas in Europe. According to the OECD, the metropolitan area has experienced consistent and impressive growth 'drawing on its role as the national capital, its research and development strengths, concentration of advanced business, logistical and financial services, and specialisation in high growth, high-tech sectors, notably ICT.' The city also rates very favourably on various other socio-economic indicators such as quality of life, poverty, education and health. The OECD does warn, however, that investment gaps remain particularly in the provision of transport infrastructure, housing and the emergence of new, high-growth firms. City Authorities should look to address these challenges to maintain the competitivity of the Stockholm region. To tackle the investment gap several projects are planned, underway and have been completed in the city. Some of the most prominent include the Arlanda Express, the Western bypass and Hammarby Sjöstad. To move forward urban development in the city and bridge its investment gap the OECD review recommended that Stockholm inaugurates a *'Competitiveness Council.'*
In particular this could support the development of a regional strategy through political leadership and public private sector dialogue.[23 24]

London

By the late 1970s, the decline and deindustrialisation of London's industrial heritage left the city in crisis. Thousands of jobs were lost, social tensions grew and London's infrastructure was creaking. Today, the city represents one of the most impressive examples of what it means to be a truly global city with advanced business activities in creative, media, IT, and science, as well as finance and business services. This remarkable turnaround is in large part thanks to a coordinated and strategic effort by UK and London authorities to improve the city's investment readiness, and investment attractiveness, including major urban regeneration programmes and better international promotion. The London Plan, today, represents the latest key milestone in this effort. The London Plan is a densification strategy to shape and manage London's growth mainly through transport orientated developments. Its premise is that infrastructure and transport will underpin the way in which growth is managed in the city. From the Olympic Games to Crossrail and other major area developments London leaders will oversee billions of pounds of investment across London towards 2025.[25]

Turin

The traditional heart of the Italian automobile industry, Turin suffered acutely when its factories began to close in the late 1970s. As unemployment rose shapely and the urban landscape degraded, the region convinced itself that it had lost its identity. Externally, research showed that the city was seen as 'grey,' 'automotive-focussed' and 'dry' - all visions which were at odds with attracting investment and bolstering civic pride. From the early 1990s, the city began a strong vision for the future that people and businesses both inside and outside the city could buy into. The inauguration of Turin's first directly elected Mayor in 1993 gave the city the necessary political stability to plan for the longer term, balance its books, consolidate a metropolitan plan and complete a comprehensive transformation from Fordism. A series of interventions, including the hosting of the 2006 Winter Olympics, galvanised a resurgence of the city into the successful European hub it is today.[26]

Barcelona

In the 1970s, Barcelona wasn't even on the map. It was seen as a declining city that was suffering from the impacts of acute deindustrialisation. By 1986, unemployment stood at 22% and the city's budget was tending towards the red. However, the end of the Franco regime in 1975 and the first direct election of a Barcelona Mayor in 1979 had raised the expectations of the city for a brighter, more positive future. In 1986, these hopes were realised when the city was successful in its bid to host the 1992 Olympic Games. The Olympic Games were used to leverage a series of both cosmetic and more profound changes to the city that would transform Barcelona into the vibrant place it is today. The result of a coordinated programme of investment, the city's infrastructure and image has been modernised, its landscape beautified and its global connectivity improved.[27]

Manchester

When deindustrialisation hit Manchester in the 1980s, the city was trapped in a cycle of decline. From the moment the Commonwealth Games were awarded, a strategic decision was taken to create a positive legacy of employment and investment in the city and its human capital in particular. Manchester also responded positively to another crisis – the bombing of its city centre. Seizing the opportunity, the City Authorities leveraged substantial investment to rebuild and reinvent Manchester's city centre, which today is a real jewel in the city's crown. Behind its growing positive reputation Manchester is now a thriving and investment attractive location and a city which now rivals Birmingham for second city status.[28]

Glasgow

By the 1980s, parts of Glasgow, steeped in decline and socio-economic problems, were in desperate need of regeneration and a new image in order to improve the quality of life of many Glaswegians. Glasgow, more than most cities, has used events as a tool to leverage positive change and deliver a lasting legacy at the local scale. Although the Glasgow Garden Festival of 1988, the Capital of Culture title in 1990, and the successful bid for the Commonwealth Games of 2014 are the headline events, they form part of a wider package that includes other smaller projects such as Mayfest (1983), Glasgay! (1997) and The River Festival (founded in 2004). Notably, the city has pursued strategic image-changing marketing campaigns alongside these events to consolidate and maximise the potential positive impacts of new investments and projects in the city. By using events effectively and working to identify and address weaknesses in the city, often over the longer term, Glasgow now competes with Edinburgh in terms of retail, connectivity and levels of investment.[29]

What do success stories teach us?

These European Cities have all improved their global position over the past 20 years or so. What their cases mean will be reviewed in detail in subsequent chapters of this report. In summary, these cities appear to have:

- A clear and unique sense of their own purpose, based on a robust assessment of their strengths and weaknesses and local assets. They have a unique value proposition, not a 'copy-cat' vision of themselves.
- An Integrating Strategy that sets out how they will bring together different strands of action (transport, land, human capital, environment, quality of life) and how they will deploy their own resources and assets, measure their progress, and mobilise support from other actors. Their strategies are clear and accessible to potential partners.
- A business case for investment, and capital to invest, from public and private sources. Clear returns for both public and private investors from their success.

Cities that have improved their position are cities that have addressed the investment gap adequately. These themes are explored more fully in chapter two.

Chapter 2
Defining the gap

2.1 Understanding how cities succeed

With the growth of interest in city performance in the past two decades, clearer models have emerged to explain the ingredients of city success, and how they work together. The model below shows one system for thinking about city success. It points to the need for cities to combine public investment in pre-conditions such as land and physical infrastructure, education and research, ecological base, with ensuring effective governance, quality of life, and a good business environment.

This model also identifies key drivers of growth and change such as innovation and creativity, human capital, connectivity, environmental management, industrial structure, and business ownership and management. The drivers and preconditions come together to help the city produce population growth, productivity and an efficient use of resources if they are well orchestrated and can offer a compelling advantage. In other words, the quality of life of the city is the product of these things brought together in ways which positively reinforce each other. There are spill-overs and feedback loops between the different factors and the distinctive points in the process. The performance of individual factors influence each other and the whole system for city management and growth.

This model suggests that city success is about getting all of these ingredients right. Doing well in one or two drivers, or pre-conditions, will not be enough on their own. Successful cities do well in all the individual factors and bring them together effectively in *integrating strategies* which:

- Set an overall vision and sense of purpose based on unique advantages that can be used to calibrate and adjust the different factors.
- Co-ordinate between the different providers and sources of the factors of success so that they share a common sense of purpose and orientation.
- Provide a means to review progress, address gaps and adjust priorities as they arise in the pursuit of success.

Our observation is that cities that embrace an integrated approach to their development, guided by a clear sense of what their unique and distinctive assets are, and roles should be, are better able to attract and sustain investment over time. They have a smaller investment gap.

Figure 2.1. A conceptualisation of the urban development process

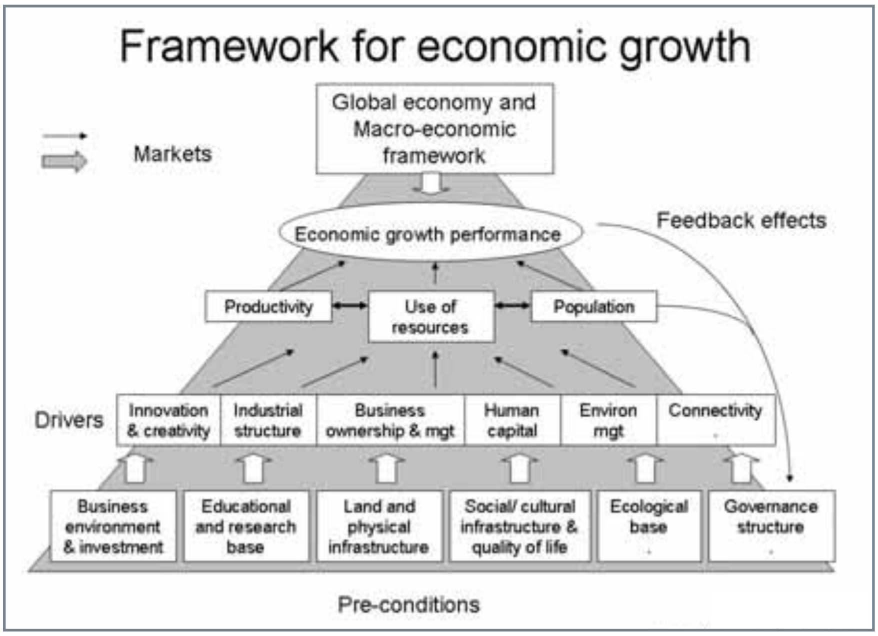


Image adapted from Martin, R et al, 2007: Office of the Deputy Prime Minister © 2007

2.2 The Investment Gap

Our review of successful and unsuccessful city investment case studies reveals an investment gap with four key elements that vary from one location to another.

- Capital gaps;
- Knowledge (skills, management) gaps;
- Institutional framework gaps; and
- Collaboration (communication, leadership, trust) gaps.

There are important relationships between these: these impact upon and relate to each other. The investment gap is not just about money – it is about other things that create the right environment for investment and the right propositions to invest in. Changing the amount of capital available or the institutional framework around public finance is not enough on its own. Knowledge and know how are also required, especially those skills in city-building and understanding investment markets and the roles cities play. Equally, collaboration which is driven by clear leadership, and aims to support public and private outcomes from investment is also essential.

A recent OECD book, *Investment Strategies and Financial Tools for Local Development,* identifies the important contributions of public and private sectors to city and regional investment:

"For those promoting city and regional growth, private co-investment can add important ingredients that are otherwise absent. Development programmes are increasingly moving away from traditional attempts to substitute for the absence of private investment, and are now more concerned with explicit attempts to leverage private investment instead. Tackling market failure through 'market making' is the focus. Improving the incentive structure to make cities more bankable is the new agenda. Private finance is key to city and regional development because:

- *It provides more capital than is otherwise available, and in a quicker and more efficient manner.*

- *It helps to rebuild local investment markets and averts other 'disinvestment' from occurring.*
- *It creates a greater commercial and professional discipline within city development policies and initiatives.*
- *It attracts wider interest from other commercial players, giving confidence that something of value must be occurring which might merit their interest.*
- *It builds a more sustainable finance strategy into city development initiatives, allowing public funds to be gradually unlocked for alternative actions.*
- *It re-positions good city development activity as 'investment' rather than 'expenditure' in the modern economy.*

Cities and regions are therefore increasingly in search of the best propositions and instruments to attract commercial investment.

Equally, for private finance providers, participation in city development programmes can provide some important contributions to business strategy. It can:

- *Utilise public sector support to help develop new business and markets sectors that would otherwise not be easily accessed, acting as R&D activity for future financial product lines.*
- *Contribute to diversification of the asset classes over which investment is spread.*
- *Contribute to achieving ethical and/or local investment priorities.*
- *Provide some predictable returns in periods of instability.*
- *Build relationships with a wider set of partners from which other business might evolve.*
- *Strengthen local and regional economies in ways which can safeguard or improve other investments, or expand the market for other financial services.*

City and regional governments want to be in business with private financiers, and many have now embarked on the task of learning together about how to do this more effectively" [30]

2.3 **The Capital Gaps**

Much previous analysis has focussed on the recognition of a capital gap in terms of the difference between what cities and national governments aspire to invest and what the public purse can afford. This gap clearly exists. Each year, public bodies set out investment aspirations that go unmet.

Public finances are limited by a wide range of factors from the fiscal resource base of nations which is linked to the size and dynamism of national economies, to the fiscal disciplines that nations and cities adopt in order to foster sound public management, and the choices that governments have to make between a wide range of competing priorities. All nations now also restrict and supervise the amount of public debt that can be issued, especially by local governments.

Overall, this means that public sector capital is not enough to meet all the investment needs of cities, and cities and their partners must seek investment from other sources. This is the primary gap. However, this is a normal state of affairs in a market based economy where investment from private actors, and from financial institutions, would always be expected. Indeed private investment is considered essential, not just to bridge the numerical gap in financing, but also to add market disciplines and expectations to the investment, to raise the quality of what is delivered, and to demonstrate to wider investors that the city, and its locations, are attractive for external investors, they provide competitive returns from which others can also benefit. In most cases of successful city investment, public and private capital play complementary roles. Public finance invests in both public goods (such as infrastructure, schools and hospitals) and the wider pre-conditions of investment, such as environmental management and land reclamation. Private finance invests in buildings, sites, amenities, and facilities, and increasingly in infrastructure and other public goods (if appropriate mechanisms for that investment exist).

Combining public and private investment in the optimal mix therefore becomes the key task of city development leaders.

Investment in cities needs to be sustainable in both public terms and in commercial terms, and this requires a good Internal Rate of Return (IRR) for private investors and a good External Rate of Return (ERR) for public investors (Figure 2.2.).

Public actors will always need to invest in some activities where there is limited opportunity for private sector co-investment (box B). These will include fundamental public services or welfare oriented expenditures (a high ERR). Equally, private actors will always need to invest in certain activities that hold limited interest for public actors (box A) such as purely commercial assets including shops or luxury goods for private use (a high IRR).

However, increasingly there is a growing range of activities which are able to offer both a strong ERR for public investors and an acceptable IRR for commercial investors (box C). The range of activities included here are now very wide, from major urban development projects, to infrastructure, public service facilities, and many activities associated with urban regeneration. Because cities are a complex mix of public and private functions, investments in many activities offer potential for positive spill-overs and spin-offs between sectors.

Figure 2.2. Rates of return from city investment

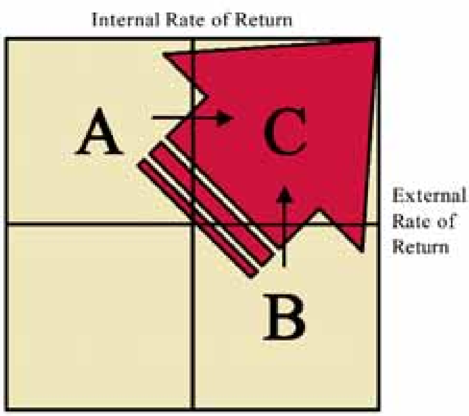


Image adapted from the European Investment Bank © 2008

City investment is therefore most likely to be successful and sustainable when city development leaders identify opportunities which can deliver both outcomes, and actively shape those opportunities to deliver optimum outcomes for both sets of interests.

The current economic climate in Europe and world-wide is very challenging for both public and private investors. Reduced liquidity and limited inter-bank lending combined with a reduced fiscal base in the public sector due to depressed demand and recession. Even more important then that city development leaders should seek to identify opportunities which can combine public and private returns in order to attract optimum investment.

2.4 Knowledge, Skills, and Information Gaps

Our research shows that knowledge, skills and information gaps also exist and these gaps are important to stress. Much of the reason that larger cities are more successful at attracting investment than smaller cities is not solely to do with the scale or quality, of the opportunities that they offer, but the skills of local leaders and professionals in engaging with the investment market. Larger cities often have a larger skill set and greater opportunities for interaction with investors that gives them unique knowledge, relationships, and choices.

One reason that urban regeneration has been a successful movement in Europe in the past 20-30 years (as our case studies show) has been that it has attracted, into city governments, skills from the private sector to help make investment happen. These skills were otherwise absent. Smaller cities with a strong regeneration programme (e.g. Turin and Leipzig) have been able to attract investment because they have deployed dedicated skills sets for the first time to make it happen. Smaller cities have often set up dedicated investment and development agencies in order to institutionalise these skills sets and make them more visible to private investors.

There have also been skills and knowledge gaps in the private sector. These have included the lack of understanding of how public planning processes and redevelopment markets can work, what investment opportunities inner cities and central cities provide, as opposed to green field sites, and why it is important to manage urban developments effectively and to ensure 'quality of place'. As with the public sector, there have been rapid improvements in the past 20 years with major investors, urban developers, and consultants taking on staff with skills sets from public sector, including planners, community organisers, and others.

Overall, this knowledge and know how gap might be summarised as:

- Lack of knowledge between public and private actors about how the other works and what is required for effective joint working.
- Information gaps on what investment opportunities are available within cities and which investors are interested in urban investment.
- Lack of municipal skills in facilitating investment or understanding how their actions impact upon the risk and return profile for private investors.
- Lack of municipal skills and confidence in utilising some of the investment tools they do have at their disposal.
- Lack of information within the private sector about who to engage within city governments and inaccessibility of incentives and support.
- Lack of information between investors and developers on what they are considering and the potential for joint working.
- Lack of co-ordination between different public bodies active in the same cities.

There are many examples of attempts to bridge these gaps that stand out from our case study analysis. The first concerns the creation of specialist bodies with unique skills sets, designed to facilitate investment actively between public and private sector. Notable examples are the urban development corporations and urban regeneration companies established in the United Kingdom and Irish cities (London, Manchester and Dublin). There are also examples of similar bodies in Spain, Germany and Italy (Barcelona, Hamburg and Turin).

A second set of examples concern initiatives in the private sector to address the skills and knowledge gap, such as the modes of engagement of ING Real Estate described in the following chapter.

There have also been national and international initiatives such as the European Urban Knowledge Network (EUKN)[31] in the Netherlands and the UK Academy for Sustainable Communities.[32]

2.5 Institutional frameworks

Our review also highlights the importance of deficient institutional frameworks in creating and sustaining investment gaps in Europe's cities. We referred above to some of the problems faced by national governments and local governments in bringing forwards urban investment capital and the gap in the public funds available. But these factors should be seen in the light of the wider institutional framework in which city governments operate and they include other important variables that impact upon city investment including:

- Public investment cycles have become shorter over the past 50 years as national governments seek to make investments that will yield more immediate returns than in former times. The life cycle for much infrastructure investment is 50-100 years. The period over which returns are expected for public investments is much shorter (e.g. 12-15 years) and the financial models applied reflect these shorter cycles, giving rise to shorter pay-back periods that are not always realistic and do not provide the right incentive structure for large scale public investment.

- Fiscal and financial authority is located at different tiers within public finance systems across Europe. In some countries, cities have very limited freedom to generate investment capital and in others their freedoms are more substantial. Different tiers of government have different freedoms in each country, requiring co-ordination patterns that vary from one country to another. Larger cities often provide a larger share of the national or regional tax base than their proportion of population, but do not enjoy the freedom to direct how public investment is made to increase their success.

- Methods for defining, calculating and appraising public sector debt vary across nations. Although the methodologies are largely harmonised within the Euro-zone they are not harmonised across Europe as a whole and a major area of variation is the position of sub-national public debt. This means that credit-based investment in for example, affordable housing in cities, is considered as public debt in some countries and not in others. This impacts upon the risk / return profile for private investors because it changes both how much can be borrowed to support private investment, and it also changes the degree of risk that is shared between public and private investors.

- Legal systems also play a part. Basic property rights, planning law and other legal frameworks that support urban investment are critical to creating a sound basis for commercial investment. Some systems are simply more mature, or have greater capacity than others. This is especially critical with larger urban development projects.

- Transparency underpins all aspects of the legal and fiscal system. The requirement for clear and open accounting and for the 'rules' to be open and accountable and consistent for all players is essential to a strong investment market developing. Not all cities exist within equally transparent markets systems and despite the potential for high returns many investors are put off by the absence of transparency.

- Habits of 'incentivising', 'ring-fencing' or 'hypothecating' certain public funds or fiscal revenues for specific purposes are at varying degrees of being established. Some countries do not see fiscal instruments are appropriate tools for encouraging local investment, whilst others do. Many successful city development instruments, such as enterprise zones and business improvement districts, are impacted by this.

- Mechanisms for attracting, appraising and managing public/private co-investment vary significantly. PPPs are most successful in those countries where a sound legal and regulatory framework has been created to support and simplify co-investment. These are more prevalent in the nations in North West Europe so far, but are now developing elsewhere. Where they are absent, PPPs are very difficult to do at any level of scale.

- Regimes for encouraging financial institutions to get involved in economic development vary widely. For example, in Italy and Spain, there are laws that regulate how financial institutions should engage in not-for-profit investment and lending. In Germany, the Regional Development Banks provide an operational framework for engagement with financial institutions.

- Substantial variations in the extent to which public sector assets (especially land assets) are subject to limiting controls about their sale, re-use, or participation in a financial transaction. This is an important variable because the creative use of public land is often an important means to achieve the commercial viability of a publicly desirable project.

Political cultures also vary in terms of appraising and accepting risk in relation to public sector investment in wealth creating activity and civic cultures vary in terms of how, and how much, popular support can be garnered for long term debt within more local tiers of public sector. Some national cultures are simply more 'entrepreneurial' than others, often reflecting historical circumstances and recent experiences.

Given the substantial complexity of the institutional frameworks and the potential for each of the aspects listed to impact upon the opportunities for public and private investment in cities, there is great scope to rationalise institutional frameworks so that they become more open for city investment. Relative to both Asia and North America, Europe's Institutional Frameworks for city investment are complex and highly variable.

2.6 Effective Collaboration

The fourth dimension of the investment gap that appears in Europe's cities concerns collaboration. We have already commented upon the importance of public and private collaboration. A lack of trust and effective communication represents a significant information and skills gap in some of Europe's cities and a major bottleneck to fruitful collaboration and investment. It is essential to build working relationships between the public and private sectors in cities to identify and create co-investment opportunities which can deliver high internal and external rates of return, and will both build good investment markets and create substantial public goods.

As our case studies reveal there is also substantial scope for both greater:

- Public-Public collaboration; and greater
- Private-Private collaboration.

Public-Public collaboration

Because different public administrative systems give distinctive responsibilities to public bodies there is always a need for public-public co-ordination if there is to be a successful city investment market. At the simplest level, this will include the need for co-ordination between providers of land use planning, transport infrastructure, energy, public investment, relevant public land assets and other amenities.

Box 2.1. **Zlote Tarasy, Warsaw, Poland – the impact of collaboration**

The development of Złote Tarasy represents a major contribution to the fibre of the local community. The project has created nearly 2,000 jobs and regularly hosts charitable, cultural and non-profit events and exhibitions, making it a vital focal point and contributor to the surrounding neighbourhood. In addition, its development influenced the impetus for new development initiatives in the neighbouring quarter like the 192 meter 54-storey Złota 44 residential tower by Daniel Libeskind. The project makes a stimulus in the reshaping of the centre of Warsaw.

The design of the complex reflects the latest trends towards innovative solutions for the inner city developments and received several international awards, including amongst others the MAPIC Plaza Retail Future Project Awards, the MIPIM Architectural Review Future Project Awards and ICSC European Shopping Centre Award. The realisation of such major long-term project is a source of pride for all the stakeholders involved. At the same time, it has also taught some lessons.

The project was pioneering due to the fact that it was the first development in Poland involving a complex range of stakeholders. Indeed, the City of Warsaw had no legislation specific to the subject of public-private partnerships. ING Real Estate, one of the largest developers in Europe, benefited from its international experience to make such co-operation feasible in Poland and introduced some models as exemplary solutions. Even so, this could not prevent changes in political direction during the process and such changes had a major impact on the project. The project higlighted the importance of maintaininghigh levels of communication with all political and neighbouring stakeholders, something especially importantto allow effective responses to the fast changing external conditions in young democracies.

Sources: see endnotes [33 34 35]

In almost all European cities, these different functions are not all held by a single public authority. The lack of effective collaboration between the different parts of the public sector is identified by many private investors as a serious deterrent to investment, as they find that the co-ordination failures erode their confidence in the outcomes of decision-taking and the certainty with which they can appraise investment. Lack of public-public collaboration increases the risks and reduces the returns for private investors.

Private-Private collaboration

Private-private collaboration is also important because it enables both effective supply chains to develop in city investment markets and it can help to encourage innovation and risk-taking amongst investors. Competition is also a generator of innovation and risk-taking and is desirable in open growing markets. Occasionally, there are opportunities for investment that are so big that the scope for collaboration to make major investment occur is profound as no single investor will take on the project alone (e.g. Canary Wharf).

Where no private-private collaboration exists this often results in large scale redevelopment opportunities not being fully realised because the sheer size and scale of the opportunity is beyond the means of any one investor or developer. In these situations, a gap occurs and cities sometimes try to bridge the gap by mounting major initiatives (including Olympic Games, major events, or new land use concepts).

Figure 2.3. Canary Wharf, London – built by an unprecedented collaborative effort

Image courtesy of the Wikipedia Commons © 2009

Table 2.1. Defining the investment gap by city type

City type	Investment gaps	Investment drivers: Capital	Knowledge & skills	Institutional framework	Collaboration
Knowledge hubs	Often occur in large scale needs such as new infrastructure and affordable housing. They are expensive and difficult to deliver.	Major projects are very expensive due to land and labour costs.	Despite savvy players in both public and private sectors, complexity of arrangements leads to co-ordination failures.	KHs often have net fiscal surplus with higher govs but limited influence over how public investment is made.	KHs are often very complex institutionally with many players impeding effective collaboration.
Established capitals	Established capitals are wealthy both by European and national standards but can suffer from stagnation as a result of their established positions. It is often assumed that capitals do not need help. Capital city 'brands' sometime deter new and niche activities from emerging. This leaves investment gaps in know how, institutional frameworks and collaboration areas in particular.	Reluctance of national govs to invest in capital cities due to perceived favouritism. Limited fiscal frameworks. Perception of 'nothing new' for private sector.	Coasting on old momentum, ECs don't necessarily develop or attract the talent required to facilitate investment in all its forms.	Capital cities often have weak fiscal systems for investment. Other cities and regions do not support investment in the capital.	Difficult to get collaboration between national and local govs in capitals. Many national costs fall to local govs. Private sector collaborate with national govs but not local govs.
Reinvented capitals	Economic structuring and impressive growth lead to a dynamic investment agenda, but one which could be destabilising without strong public sector leadership. Gaps exist particularly around capital and know how to improve infrastructure to high standards.	Re-emerging nations tend to invest in regions outside their capitals. Limited appetite to support capital city success beyond other regions.	Young and growing, RCs can attract pools of talent to manage investment strategies but often need to bring in further knowhow to build and populate entire investment facilitation bodies.	The speed at which RCs have grown means that they sometimes lack mature public sector leadership to build solid institutional frameworks.	There is a risk in RCs that the private sector acts too autonomously and rapidly to secure profits. The public sector must collaborate and lead to ensure the best interests of the city are not lost.
Transformation poles	Following massive restructuring, a main challenge for the Transformation poles is to build on the existing successes and to provide a sustainable basis for creating future prosperity and well-being. Particular investment opportunities exist around large area developments, improving infrastructure and creating positive brands.	Weak demand for disused land and prohibitive costs of redevelopment discourage investment.	Transition to new knowledge economy requires new approaches often with limited experience.	Limited tools for reinvestment in disused land and need for new system for infrastructure investment.	New partnerships needed as old industrial mode had monopoly actors.
Gateways	Gateways are still firmly locked into their traditional port functions – and this can hamper the pursuit of new opportunities and diversification initiatives. Where they do exist they tend to focus around improving connectivity and physical attractiveness of place to tap into the tourism market.	Perception of low return on investment, and high cost of redevelopment.	Transition to new knowledge economy requires new approaches often with limited experience.	Limited tools for reinvestment in disused land and need for new system for infrastructure investment.	Frequent lack of collaboration between port authorities and local governments.
Modern industrial centres	In order to maintain their productive function, it is crucial that these cities capture and hold onto international companies by providing international business with an excellent production climate. They need to address bottlenecks such as schooling, accessibility, lack of space and levels of service in particular. Opportunities exist around renewal, science parks and cultural projects for instance.	High costs of modernisation. Perception of low returns.	Limited understanding of modern industrial opportunities prohibits market enthusiasm.	System of institutions and policies does not favour production sectors.	Limited collaboration with large cities and regions and with infrastructure providers.
Research centres	Proof that bigger isn't necessarily better, to stay ahead, research centres must continue to invest in their academic and skills bases to maintain a leading position. They also need to maintain and where possible improve the quality of life on offer as well as ensure good accessibility by air.	High cost of blue sky and proof of concept research. Limited land availability leads to high costs of development.	Small size of locations does not attract top talent to city management.	Problem of justifying investment in RCs within regional policy frameworks.	Regional and national collaboration is difficult with niche global R&D leaders.
Visitor centres	Main investment gaps relate to connecting these centres to global flows, especially tourist flows. Other issues facing these cities concern strong suburbanisation pressures, the affordability of housing for local residents, and the long term environmental sustainability of new developments.	Perceptions of low return fail to justify investment required to make better links to higher value added economies. Cyclical economies do not attract sustained investment.	Struggle to devise new niches beyond visitor economy.	Limited fiscal and financial tools for investment.	Limited interest from regional and national actors. Lower profit private investors unable to take decisive lead.

2.7 Investment Gaps and City Types

It is clear from table 2.1. that different city types experience different types of investment gaps. To close these gaps it is first important to define them and then to build integrated strategies that address key investment drivers of capital, knowledge and skills, institutional frameworks and collaboration.

2.8 The role of city strategy

In this chapter we have reviewed the four key ingredients of the city investment gaps in Europe. These are:

- Capital gaps;
- Knowledge (skills, management, communication, information) gaps;
- Institutional framework gaps; and
- Collaboration (co-ordination, leadership, trust, communication) gaps.

In the next chapter we will aim to show that addressing these gaps in isolation from one another will not be effective. What is required, and what appears to exist in our successful cities, is an integrating strategy that joins together are four key ingredients around a compelling identity/brand and value proposition (or vision) for the city based on a robust assessment of its unique assets and opportunities.

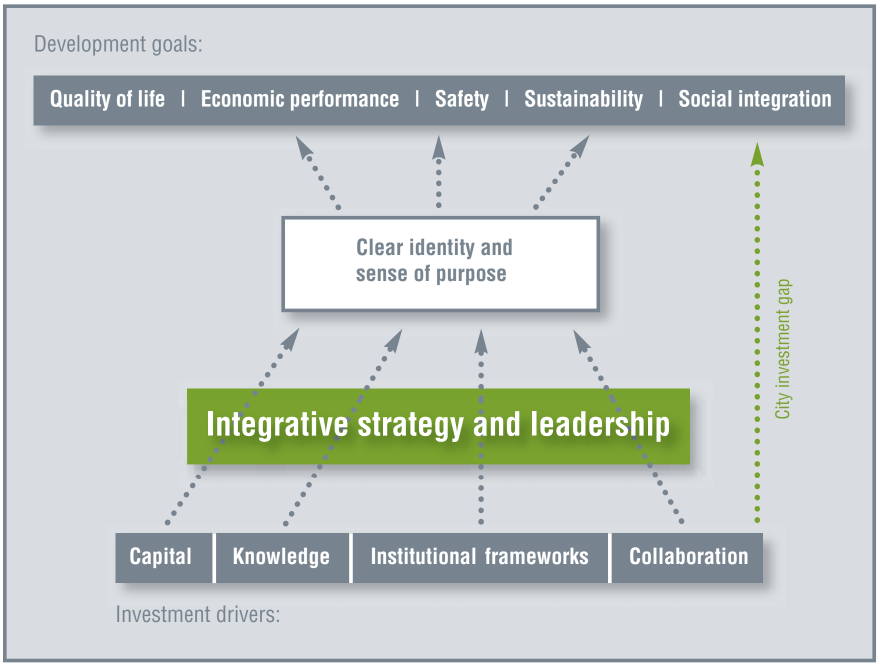
Such strategies are likely to suggest broadly cast outcomes including quality of life, productivity and growth, and better management of resources, as well as offering investment opportunities to public and private sectors alike. They are likely to be stewarded and supported by purposeful leadership.

An effective city strategy requires that these ingredients come together (Figure 2.3). Where this is achieved it is much more possible to:

i. Identify and match available capital from both public and private sectors with well-defined and bankable projects and propositions;
ii. To recruit and develop the skills required to marshal urban development and investment and to provide better information to investors and other stakeholders;
iii. To adjust the institutional framework to better respond to the agreed long term requirements of the cities and their regional partners; and
iv. To achieve effective collaboration around agreed and shared goals and to recognise the different outcomes required by the participating partners.

In these ways, effective city investment strategies are the key tool for unlocking the investment gap.

Figure 2.4. Bridging the investment gap: integrative strategies and purposeful leadership



Box 2.2. **Poznań, Poland – towards an integrative investment strategy**

A traditional industrial powerhouse, Poznań is one of Poland's oldest cities dating back 1,000 years to the foundation of the Polish state. Though the economy is restructuring, Poznań remains a relatively industrial city and an important centre for the food, chemical and electro-machinery industries. However, recent years have seen the city increase its offer in the service, higher education, tourism, and scientific sectors. The city's average GDP growth since 1996 has been 6.7% - a very healthy figure, which is driven by the highest levels of city trade in Poland and the productivity of Foreign Direct Investors. Because of its strategic situation in one of the most important transit corridors that links eastern and western Europe and for its labour market advantages, between 1990 and 2007 the city attracted USD 5.6 billion of foreign investment – about 5% share in the Polish total.

As well as being a centre for corporate investment Poznań has been successful at attracting finance for housing, area development and infrastructure projects in the city.

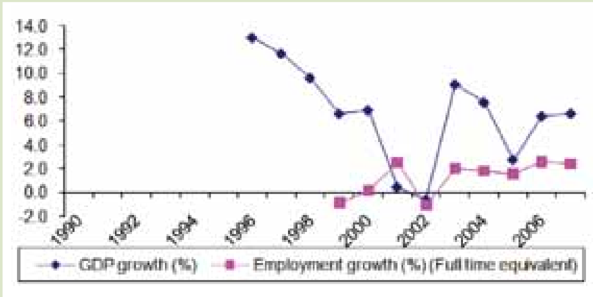
More specific to the Real Estate and residential market in Poznań, the city's web portal, Poznan.pl, is an excellent resource. It provides good quality detail on what the city has to offer and what makes it a high return on investment destination. On top of this, the 'Investment Offers' section of the website is excellent. It offers:

- Investment priority sectors: details of the sectors the city wishes to invest in. In August 2008, the sectors included technologically-advanced production, centres for joint services, research and development, conference and exhibition activities, and recreation and entertainment infrastructure.

- A dedicated investment pilot: businesses or developers which invest at least EUR 5 million or create at least 50 work places will be offered the assistance of an investment pilot from the city's Investor Relations Department.

Image courtesy of the Poznan City Hall website © 2008

Poznań, Poland – high and volatile levels of growth since 1996



Adapted from Experian © 2008

- Investment offers: the city puts forward a number of areas with development potential for bidders. In December 2008, these included Grodziska, Jasna – Łubieńska, Jana Henryka Dąbrowskiego, Łubieńska, Dąbrowskiego 78a - Polna 11a and Bułgarska.

- Investment search engine: the city provides a search engine of investment projects. Potential investors can specify the investment area, investment cost and investment type.

The evidence suggests that, though Poznań may have a reputation as an industrial centre, the city is very well geared to both facilitate and implement investment in line with its own investment priorities.

Sources: see endnotes [36 37 38 39]

Box 2.3. **Dublin, Ireland – establish a firm basis for building investment momentum**

Dublin's 1999 Urban Renewal Scheme led to the development of Dublin City Council's Integrated Area Plans (IAPs) which have transformed the City Centre, bringing physical and social regeneration to inner-city areas. These plans have attracted EUR 1.3 billion of private investment and resulted in 3,000 new homes and 200,000m² of commercial and retail developments. As of December 2008, the Dublin City Council Economic Development and Forward Planning Unit are working on an Economic Development Strategy for the City.

The redevelopment of Dublin's Docklands is one of the most significant urban regeneration projects currently underway in the city. Dublin Docklands Development Authority was created by an Act of 1997 to lead a major project of physical, social and economic regeneration in the East side of Dublin in an area of some 520 hectares. The project is projected to continue until 2012 and total public and private investment is estimated at EUR 7 billion.

Recent achievements include, in 2006, the completion of 36,000m² of office development, the completion of 116 social apartments including affordable scheme dwellings and the granting of planning approvals for landmark future developments such as the Point Village and the U2 Tower. Point Village will include a theatre, shopping centre, cinema complex, offices and luxury apartments, whilst the U2 Tower will be comprised of mainly residential space and U2's recording studio. The adjacent Britain Quay development will extend to approximately 11,500m² and contain a mix of uses including leisure, residential, commercial, arts and culture uses. The Dublin Port Tunnel was completed and opened at the end of 2006 in order to ease the heavy goods traffic in the Docklands area, whilst an extension of the Luas Red Line through Docklands was planned and a new rail station (Docklands Station) was completed. Other important projects in the Docklands include Grand Canal Square, Grand Canal Theatre, the Watch Tower and the CHQ Building amongst others.

Sources: see endnotes [40] [41] [42]

2.9. The current economic situation

The current economic situation has many important implications for Europe's cities and for the city investment gap that we have defined above.

The most recent business cycle (c. 1992 to c. 2008 - the period from the end of the last recession and the start of the current one) has generally been good for cities and urban investment in Europe. The transition towards a knowledge and services mode within an enlarging and integrating Europe (which intensified in this period) has enabled many European cities to become more internationally competitive and to attract contested mobile investment and talent.

Progress has also been made in this period in the re-investment into Europe's city centres, urban transport systems, housing and higher education, science and medicine, energy efficiency, and into digital and other infrastructures, as well as a vast range of amenities that support creative and visitor economies. Europe's cities have generally seen some significant programmes of reinvestment, despite the remaining gaps and challenges that we have described above.

This period of economic growth has also coincided with the emergence of much more sophisticated and ambitious real estate investment companies and instruments, and urban real estate has established itself as a long term traded investment asset in new ways. Similarly, the emergence of new means to finance urban infrastructures (such as PPPs, Value Capture Techniques, and dedicated fiscal instruments) has been a key feature of the recent business and investment cycle.

However, the current context will make sustaining this momentum very difficult, if not impossible.

Firstly, the credit crunch itself impacts directly on the amount of capital available in both public and private sectors to invest in cities. Debt financing is not just an important source of city investment capital, but it is also a key component in wider investment strategies that involve other forms of capital. A prolonged restriction in the amount of debt financing available will have an impact on all forms of urban investment, not just those that are primarily debt financed.

Secondly, the wider economic recession will severely hamper the appetite of investors and developers to make investments in cities to service the consumption activities of urban citizens and visitors (who will have decreasing disposable income and a lower propensity to spend/consume for the next few years). The numbers of new homes and offices built or refurbished, retail and entertainment centres created, and brownfield sites redeveloped for such uses will be hampered by the fall off in aggregate demand. The drop off in both production activities, and in consumption and investment supported by diminished disposable income will impact on all aspects of city life.

Thirdly, there is an important international dimension to the crisis that will see changes in the global distribution of where assets are owned and held. Some nations are entering the recession highly indebted, others enter with trade surpluses and large stocks of foreign currency. The recession will accelerate the processes of global restructuring that are ongoing, giving rise to many more investment opportunities for the more newly rich nations and their larger corporations with stronger balance sheets. Europe's cities will need to adjust to new investment partners as well as to compete effectively for investment with established partners who may have greater choice and less capital to invest.

In section 2.6 we pointed to the importance of effective public and private collaboration in cities. There is a strong possibility that recession conditions may damage emerging and established fruitful relationships. New economic realities will test relations between the public and private sectors. Questions emerge as to how robust and sustainable are existing relationships and whether each party will be capable of openness, trust and placing themselves in the position of the other to come up with necessary solutions. In more trying times, when profits are in decline, it may become easier for the private sector to blame the public sector of inflexibility for instance. As a result, with the risk of a breakdown of important collaborative efforts between the public and private sectors comes an increased risk of a more acute investment gap in Europe's cities.

Of course, expansion in public sector borrowing may help finance major projects as a means to sustain employment and investment in the short term, and many cities will need to pay attention to how they can attract enhanced public investment where this is made available by national and other levels of government.

Figure 2.5. The credit crunch and global recession –powerful imperatives to improve urban investment strategies

Image courtesy of the Wikipedia Commons © 2009

In addition, individual investment institutions and development companies do not find themselves all equally challenged by the credit crunch. Some investment companies will undoubtedly find that the recession brings opportunities to invest in reduced cost assets. Cities will need to know how they can attract such investors.

Overall, our conclusion about the general impact of the economic climate is that:

- It will increase the aggregate gap in city investment by reducing the quantum of capital immediately available, even if capital is available later.
- It will foster a deep environment of uncertainty in which only the most confident investors and cities will take on larger and riskier projects.
- It will require considerable re-appraisal of existing and planned investments to check that they are relevant to longer term strategy for both cities and investors.
- It will increase the importance of making public-private sector collaboration genuine, robust and sustainable whatever the economic realities.
- It will reveal that some of the investments recently made in cities were not well considered and need to be re-evaluated (e.g. over provision of certain kinds of housing in cities, or hotels in some locations).
- It will provide some investors and some cities with exceptional opportunities to succeed in finding new partners if they prepare effectively.

It requires all cities and urban investors to review their investment strategies and to develop distinctive and precise tactics for the next few years as the economy emerges from the shocks of the past six months.

We will describe some of the more important steps that city leaders can take in chapter five and we will draw attention to the activities of enlightened investors and city builders.

However, our main conclusion is that city investment has become both more important for Europe as a result of this crisis, and more difficult to do. More than anything, the current crisis creates a powerful imperative to improve our investment strategies, to reduce the investment gap, and to foster deeper collaboration between public and private sectors.

Chapter 3
Approaching the gap

3.1. Identifying urban investment methodologies

As chapters one and two suggest, an investment gap in Europe's cities is visible in multiple forms and it is essential for their success that this gap is bridged. Investment in cities in several other continents is currently very high and there is a danger of Europe's leading cities slipping in global perceptions.

To provide an insight into the ways in which individual European cities and city types are bridging the investment gaps that exist in their cities, a total of 38 cities have been reviewed. Each case study examines eye-catching urban infrastructure, area regeneration, and real estate development projects. Specific attention was also given to how each project was financed, by whom and the size of the investment.

By collating these broadly based examples of good practice from across Europe's cities and presenting the important themes which emerge, this chapter begins to build a picture of what successful city investment looks like.

3.2. The evidence

The case studies represent a cross-section of the investment strategies and mechanisms employed across the 38 European cities sampled. They serve as a useful insight into the methodologies used by each city to finance urban development.

From the case studies we can identify 19 specific investment strategies and mechanisms employed to directly and indirectly finance city development. They range from international event hosting strategies and direct state funding to value capture, municipal bond finance and national lottery contributions. These approaches to bridging the investment gap are summarised by city and city type in table 3.1..

From this starting point it is possible to make some simple observations:

- **Variety**. Cities have at their disposal a real range of investment strategies and mechanisms to finance municipal development.
- **Degree of sophistication**. Strategies and mechanisms range in their complexity and degree of innovation.
- **City type**. The approaches taken tend to vary broadly by city type.
- **Replicable**. Though project specific, very few strategies and mechanisms are place-specific. They can therefore be applied in a range of locations.
- **Composites**. In a single project, investment mechanisms and strategies may not only be used in isolation but also in sequence and combination to provide adequate finance.
- **Leadership**. Different projects see different balances of public/private sector leadership.
- **Directness**. Different projects are financed with differing degrees of directness.

Box 3.1. London, United Kingdom – a flexible and varied approach to closing the gap

The planned route for Crossrail

Image courtesy of the Wikipedia Commons © 2008

As a growing knowledge hub city, London faces many challenges. As well as vertical and horizontal coordination failures, there are a number of investment gaps in the city. London has been particularly innovative in making itself investment attractive and investment ready.

The London Plan 2008 is a comprehensive assessment of where London stands currently and lays out a vision for the city's future until 2025/26. It addresses the challenges laid out above. It concludes that significant investment is required, particularly in these areas, for London to sustain its position as a world class global city.

The Crossrail project is a joint venture between the Department for Transport (DfT) and Transport for London (TfL) with the specific objective of supporting ‘the continuing development of London as a world city, and its role as the key financial centre of the United Kingdom and Europe’ by improving accessibility across the city. The cost of the project has been estimated at GBP 16 billion, which represents a tremendous funding challenge. A range of funding mechanisms have been utilised to meet this enormous figure. The deal breakdown as of December 2008 is as follows:

- BAA: GBP 230 million.
- City of London: GBP 200 million
- City of London business sector: GBP 150 million
- Department for Transport: GBP 5.6 billion
- Transport for London and the Greater London Authority: GBP 37.7 billion
- The Canary Wharf Group and Berkeley Homes will pay for the stations at the Isle of Dogs and Woolwich respectively (value capture finance)
- Network rail: GBP 2.3 billion wider improvements
- Business supplement rate across London boroughs.

According to the London Plan (2008), there is a significant investment shortfall in London’s residential stock. In November 2008 it was announced that section the target is for 30,500 new homes per annum over ten years of which London aspires to build 23,000 affordable units. The Mayor recently gained far greater control over the regional housing capital programme that contains approx GBP 3.5 billion for affordable housing. Public private partnerships are fruitful avenues towards financing and delivering housing projects. One example of such a PPP comes from the London Borough of Havering. The GBP 1 million cost of the social housing development is being met 50:50 by Havering Council’s Social Housing Grant Programme and The Swan Housing Group – a socially progressive property development company.

The regeneration of certain areas of the more deprived London Boroughs is also an investment priority for the city. Sections of five London Boroughs including Hackney, Waltham Forest, Greenwich, Tower Hamlets and Newham, are being redeveloped as part of the work to deliver the 2012 London Olympic Games. Indeed, in July 2008, the Olympic Delivery Authority (ODA) Chairman John Armitt set out how ‘75 pence in every GBP 1 spent by the ODA is being invested in long-term regeneration of East London.’

Because of the scale and complexity of a city such as London, there is a real need for a high quality organisation to co-ordinate investment in the city. The London Development Agency (LDA) is such an organisation. Using the Mayor’s Economic Development Strategy (EDS), a document which identifies investment priorities in the city, as a reference the LDA produces it own Corporate Plan. This Corporate Plan is a three-year rolling plan which is updated each year to maintain an overall balance of investment. Based on these priorities, the LDA facilitates investment into the city by providing match funding, expertise, and information to investors both corporate and capital.

In the face of the downturn, there is now significant discussion about how between Crossrail, the Olympics and the housing investment monies, London is reasonably well placed with some counter-cyclical capital investment programmes lined up and going. London hopes that they will work and will help take the edge of the worst of the downturn.

Sources: see endnotes [43 44 45]

Table 3.1. Investment engagement strategies and mechanisms by city type

City Type	CITY	Level one: Council funding	Level one: State funding	Level one: City investment facilitation body	Level one: EIB/EU funding	Level one: City development strategy	Level two: Event hosting	Level two: Keynote mixed/ cluster, infrastructure development	Level two: Private (property) developer	Level two: Investment strategy/ portfolio	Level three: PPP	Level three: Commercial loan	Level three: Venture capital	Level three: Value capture	Level three: Tax/ fiscal incentives	Level three: Temporary investment grants	Level three: Congestion/ toll charging	Level three: Bond/ bullet finance	Level three: Lottery funds	Level three: Build operate transfer
Knowledge hub	London	✓	✓			✓	✓	✓	✓		✓		✓	✓			✓			
	Barcelona	✓		✓			✓	✓												
	Stockholm	✓				✓						✓			✓	✓	✓	✓		
	Dublin	✓		✓	✓	✓				✓		✓		✓						
	Amsterdam	✓							✓		✓		✓	✓			✓			
	Lyon	✓		✓		✓	✓			✓	✓									
	Hamburg	✓	✓			✓		✓	✓		✓		✓	✓						
	Helsinki	✓	✓	✓	✓	✓		✓			✓			✓						
Established capitals	Paris	✓	✓	✓		✓					✓									
	Madrid	✓	✓	✓		✓				✓	✓									
	Brussels	✓		✓		✓					✓			✓						
	Vienna	✓	✓			✓		✓	✓					✓						
Reinvented capitals	Warsaw	✓	✓		✓	✓	✓				✓								✓	
	Prague	✓			✓	✓			✓											
	Budapest	✓	✓	✓	✓	✓			✓											
	Bucharest	✓	✓		✓	✓			✓		✓	✓					✓			
	Ljubljana	✓				✓			✓										✓	
Transformation poles	Glasgow	✓			✓	✓	✓	✓	✓		✓				✓					
	Turin	✓	✓	✓		✓	✓													
	Manchester	✓				✓	✓		✓		✓									
	Malmo	✓	✓		✓	✓		✓	✓		✓						✓			
	Enschede					✓		✓	✓				✓							
	Leipzig	✓	✓		✓	✓		✓												
Gateways	Rotterdam	✓	✓			✓			✓		✓									
	Antwerp	✓							✓		✓									
	Gdansk	✓			✓	✓		✓	✓											
	Genoa	✓	✓		✓	✓	✓		✓		✓									
Modern industrial centres	Gothenburg	✓	✓			✓			✓					✓						
	Wroclaw	✓	✓		✓	✓	✓		✓		✓		✓						✓	
	Posnań	✓			✓	✓		✓	✓	✓	✓									✓
Research centres	Cambridge	✓				✓		✓	✓				✓							
	Eindhoven					✓		✓	✓				✓			✓				
	Bologna	✓	✓			✓	✓		✓											
Visitor Centres	Malaga		✓		✓	✓	✓													
	Venice		✓		✓		✓	✓	✓											
	Krakow	✓	✓	✓		✓			✓	✓							✓			
	Valencia	✓				✓	✓	✓												
	Bruges	✓							✓											

3.3. Emerging city investment trends

Though the situation on the ground is different for each city, it is possible to begin to compare, contrast and categorise the different ways in which Europe's cities are approaching their investment gaps.

3.3.1. The 'maturity' of the approach

Across the approaches identified in table 3.1., we identify three broad levels of actions adopted towards bridging the investment gap in Europe's cities, each drawing upon the four ingredients we identified in chapter two.

The difference between the levels is the relative maturity of the approach adopted in terms of its comprehensiveness, degree of innovation and directness.

Of course, the particular level or levels of the strategies and actions employed will vary according to the exact conditions on the ground and the nature of the investment gap in that city. However, cities with the most purposeful and effective approach to bridging the investment gap will have elements of all three levels to their approach with a large number of the strategies and actions of level one covered such as a clearly articulated city development and investment plan or strategy.

Each level assumes an increased degree of integration of the four key ingredients (capital, know how, institutional framework and collaboration) in strategy combined with increasing sophistication in the way that city investment is sought (Table 3.2.). It is important to note that, of all the levels, actions relating to level one will address these ingredients/drivers of investment most directly by creating a solid foundation from which to develop the approach taken forwards.

The level one approach

Though the most obvious, the level one approach is the most fundamental to building the city as a persuasive, investment attractive and investment ready proposition. It tends to involve public sector driven finance, sometimes through public-public sector collaboration and the creation of the institutional frameworks and strategies required to ensure effective investment facilitation. Once in place, the foundation created allows for a much more innovative and collaborative approach to be taken to municipal finance. The pillars of this approach also begin to build purposeful leadership, vision and identity around the city – something the private sector looks for before investing.

Table 3.2. Increasing maturity of investment strategy and actions

	Level one	Level two	Level three
Methodology	Clear long term strategy. Public sector investment and energy committed to creating an investment attractive and investment ready urban environment.	Articulation and provision of specific investment opportunities to initiate and reinforce development momentum.	Innovative mechanisms engineered to overcome the challenge of accessing conventional sources of finance. These mechanisms can also incentivise investment where traditional methods are likely to or have already failed.
Increasing degree of public sector innovation and risk taking			
Increasing degree of private sector leadership/participation			
Increasing directness of financing			

Table 3.3. Level one approach: specific strategies and mechanisms

	Investment engagement mode	Detail
Level one	**Council funding**	City council revenue is spent to ameliorate the urban environment so it is actually or perceived to be more investment attractive.
	State funding	Central government funding is drawn down, often to supplement council funding, to ameliorate the urban environment so it is actually or perceived to be more investment attractive.
	City investment facilitation body	Generally a specialist department within the city council, an urban development agency or a specific investment facilitation organisation. Business angels or urban investment networks may also correspond to city investment facilitation bodies. They tend to be populated with talented individuals with a good knowledge of the offer in their city. They have a broad aim to improve investment attractiveness by improving the perception of the city's investment readiness.
	EIB/EU funding	Various forms of European Union funding can be drawn down from funding streams (European Regional Development Fund, European Social Fund, European Investment Bank) to finance projects to improve the attractiveness of the urban environment to investors. Can take the form of grants and low interest loans.
	City development strategy	Strategic and integrative plans to prioritise where funding should be spent to improve the offer of the urban environments to investors. Should incorporate the investment drivers of capital, knowledge, institutional frameworks and collaboration.

As well as the creation of a coherent strategy to city development and investment and a city investment facilitation body to deliver it, this level also tends to see high levels of public sector capital invested in the urban environment, and particularly its infrastructure (Table 3.4.).

The level two approach

Building on level one, the level two approach sees cities think more clearly about their investment priorities. Specific key note investment propositions are tabled which are sufficiently eye-catching and of sufficient critical mass to attract capital investment. The scale and deadlines associated with some large projects also force cities to adopt purposeful collaborative relationships and to recruit the necessary talent required for delivery. This approach also sees a more surgical form of intervention in the city with the development of specific investment propositions and specific, special purpose planning delivery vehicles. These propositions tend to be more defined and therefore more tangible to potential investors.

Key note projects and the event hosting strategies tend to involve huge sums of money, which are often realised through more direct collaboration with private sector partners. The more surgical interventions tend to be less multi-lateral in approach – perhaps involving the city council and a specific developer – and are smaller in size (Table 3.6.).

Table 3.4. Level one approach: European examples

	Investment engagement mode	Project example	Value of investment
Level one	Council funding	Line 52 Metro construction in Amsterdam	EUR 346 million [46]
	State funding	Malaga Airport upgrade and expansion	Ministry for Public Works EUR 530 million (2006-2007) [47]
	City investment facilitation body	Lyon Area Development Agency (ADERLY) and Lyon-Business.org	EUR 572 million invested in 2005. Second only to Paris in France. [48]
	EIB/EU funding	Helsinki-Vantaa airport's international terminal expansion	EUR 130 million agreed on the 10th July 2007. [49]
	City development strategy	The London Plan (2008)	Unspecified

Table 3.5. Level two approach: specific strategies and mechanisms

	Investment engagement mode	Detail
Level two	Event hosting	The legacy of hosting events, from local to global in scale, can: improve the hardware in a given city zone, project the city's brand and offer to a wide audience and raise aspirations and civic pride amongst residents. These benefits are relatively spatially concentrated around the delivery site and culminate to make this area particularly investment attractive.
	Keynote mixed/ cluster, infrastructure development	The offer of a defined city area is improved and championed in such a way that investors are energised to engage for reasons of both prestige and potentially high returns on investments.
	Private (property) developer	Individual property owners opportunistically target specific sites with development potential. Can be encouraged by the public sector or may act independently.
	Investment strategy/portfolio	Efforts often by public but sometimes private sector organisations to clearly articulate the investment opportunities in the city. This may take the form of intense support and proactive engagement with potential investors or the provision of a quantified investment portfolio. This strategy aims to facilitate the investment process by matching investors to specific opportunities.

Table 3.6. Level two approach: European examples

	Investment engagement mode	Project example	Value of investment
Level two	Event hosting	Manchester Commonwealth Games 2002	GBP 600 million of public and private investment in both corporate and capital projects realised [52]
	Keynote mixed/ cluster, infrastructure development	Hafen City, Hamburg (completion somewhere between 2020 and 2025)	EUR 6.75 billion [53]
	Private (property) developer	Aerodrom Ljubljana new car park at Ljubljana Airport	EUR 2.6 million [54]
	Investment strategy/portfolio	Dublin City Council's Integrated Area Plans (IAPs)	EUR 1.3 billion of private investment and resulted in 3,000 new homes and 200,000m² of commercial and retail development (from 1999) [55]

Box 3.2. **Überseequartier HafenCity, Hamburg, Germany – changing the face of the city**

Construction work for the HafenCity began in 2001, but it was only in 2007 the project turned towards what will eventually be its centerpiece: the Überseequartier or Overseas Quarter.

In December 2005, following a two-stage international competition procedure, the 7.9 hectares Überseequartier site was sold to a Dutch/German investor consortium, comprising ING Real Estate, SNS Property Finance, and Groß + Partner GmbH. The Überseequartier will be the new heart of the HafenCity quarter and will play a central role. In addition to 53,000m² residential and 124,000m² office space, there will be 65,000m² of retail and gastronomy establishments in the north and southern part of the Überseequartier centering the new HafenCity metro station. The pier for cruise ships that berth in Hamburg is located at the South Quay. A cruise ship terminal with a hotel and congress centre will be constructed for this purpose. Moreover, a new science centre and aquarium next to the cruise terminal will be of significant importance for the tourists coming to the Überseequartier.

The northern part of Überseequartier has been under construction since September 2007. In these sections, named “Am Kaffeelager” and “Altes Hafenamt”, there will be 360 city apartments and a varied mix of small businesses, restaurants and cafés. In the southern section, which has access to the new U4 metro station, there are more distinctly commercial-style properties. The upper storeys of the buildings offer residential and office space, the ground floors will accommodate shops, restaurants and cafés. Retail and catering will be distributed around ground-floor premises throughout Überseequartier, including the first and in some parts second floors in the southern section. There will be no shopping mall. Instead, the focal point of the plans is the Überseeboulevard. It cuts through the whole quarter like a meandering river, with curved pathways, tilted façades and attics of varied height helping to create an exciting city space, at times opening out onto squares. It is reckoned some 40,000 people will stream through the quarter every day adding approximately 1,000 residents and 6,000 to 7,000 people working in the area.

Travelling to the heart of HafenCity from the city centre and main railway station takes just a few minutes by metro. Access by car will also be easy. A two-level underground parking garage will be built underneath the whole 7.9 hectare site, providing approximately 3,100 parking places. On foot it will take less than ten minutes to get from Jungfernstieg in the centre, via Domplatz, to Überseequartier, where you can easily continue along the Überseeboulevard to the waterfront.

The boulevard, as well as the remaining area around the Magedeburger Hafen harbour, has been designed by Catalan architect Beth Galí. She has made intermittent use of coloured concrete and natural stone on the roads and pathways. Over the whole area Galí plays with height variations; ramps, steps and terraces link different levels, succeeding in creating intimate city spaces in the otherwise vibrant Überseequartier district. Each architectural design has set new standards. For example, the only remaining brick building in the area, the listed former Port Authority Building, is being incorporated into a covered market and food court by architects Bolles + Wilson from Münster. Überseeboulevard leads towards the waterfront that features three building of distinct architecture, the Science Center designed by Rem Koolhaas; the cruise terminal and 400 rooms hotel by Italian architect Massimiliano Fuksas; and the Waterfront Towers, two free-standing buildings on the banks of the River Elbe by the Erick van Egeraat.

The entire project is scheduled for completion at the end of 2011, ultimately comprising 16 brand new buildings with 275,000m² of gross floor of living, office and shop space. Construction of the southern part of Überseequartier will start early 2009, once the rough work of the stop for the new U4 metro line will have been completed.

Being involved is such a huge undertaking as developing the Überseequartier asks ING Real Estate and its partners to take area development to the next level. The experience taught valuable lessons which stakeholders gladly share. In its relations with the HafenCity Hamburg GmbH, the public company responsible for developing the area, ING Real Estate learned the value of good governance as dealing with the company, instead of directly with the municipality and the State, avoided political discussions on every decision. Successful public-private collaboration starts with the public side having things in order. Next, a tender procedure should respect the added value of private partners in the beginning of the process. This asks for public authorities to refrain from laying everything down into detail, but being flexible in response to private ideas and ambitions. CEO of HafenCity, Jurgen Bruns-Berentelg, gives account of this by stating "I consider myself a public entrepreneur". Also working in the consortium partnership has taught some lessons. For instance, joint venture agreements are easily too much focussed on getting the 'project' and forming the public-private partnership. But instead, a consortium is much more than a marriage of convenience. It asks for a spirit of sharing, both in good and bad times. In area developments like this it is all about joint understanding and handling of the complexity of the development. This is done best when all parties share their ambitions and concerns.

Together, the consortium and HafenCity GmbH, are changing the face of the city.

Sources: see endnotes [50 51]

An artist's impression of the Hafen City complex

Image courtesy of M. Korol/HafenCity Hamburg GmbH © 2008

Box 3.3. **Manchester, United Kingdom – catalysing investment through global event hosting**

Spurred on by the investment after the 1996 bomb, and aided by the XVII Commonwealth Games, Manchester's city centre has undergone extensive regeneration. New and renovated complexes such as The Printworks and The Triangle have become popular shopping and entertainment destinations. The Manchester Arndale is one of UK's largest city centre shopping malls.

The largest and highest impact urban regeneration project in Manchester of recent years has been the transformation of East Manchester using the 2002 Commonwealth Games as a catalyst. From the moment the Games were awarded, the city took a strategic decision to use the Games to create a positive legacy for residents local to East Manchester. The investment of the Games and the associated regeneration infrastructure and activity amounted to GBP 477 million at 2002 prices, of which some GBP 330 million was spent in East Manchester. Moreover, the Games brought forward a number of major transport schemes. The total cost of these schemes ran to GBP 800 million, of which just GBP 125 million was sourced publicly. Indeed, Manchester City Council very explicitly defined how much it was willing to spend, and that should overspend occur then other funding sources would be required. Manchester also successfully applied to the Single Regeneration Budget Programme – NW2002 – which allocated funding on the basis that benefits would be shared with the wider region. In total, the Games helped to secure over GBP 600 million of public and private investment in both corporate and capital projects. Moreover, the Games have projected a positive image of the city which has realised a string of other important developments.

The city is also benefiting from some pioneering public private partnerships. The pioneering venture between NCP Manchester Ltd and Manchester City council is making a significant contribution to the regeneration of the public realm and the infrastructure in and around the city centre. Using NCP's asset management expertise and Manchester City's assets in the form of its off road car parking facilities, the pair were able to dramatically improve the returns from the assets –and reinvest significant sums to assist with Manchester's regeneration. Indeed, since the start of the relationship NCP has invested GBP 13 million to repair and refurbish the car parks, and replace and modernise parking equipment. Amongst other things the relationship has realised a new multi-storey car park at Shudehill transport hub in conjunction with the Greater Manchester Passenger Transport Executive to ensure delivery of a joined up transport network policy.

Located less than a mile east of Manchester city centre, Holt Town will be the largest residentially focused development in Northern England. Currently an underused area with an industrial character set in a valley along the Ashton Canal and River Medlock, the 38 hectare site will be transformed over the next 15 years into a new residential urban quarter integrating space for businesses, shops restaurants and leisure activities. The master plan, which was approved in January 2007, calls for a sustainable mixed use community with significant landscaping and a Manchester Metro Link station at its heart. Over a period of 15 years, Holt Town Waterfront will provide a mix of more than 4,300 family homes, including houses, family apartments and duplexes, each with their own parking space and access to green space and private gardens. In addition to residential development, the focus of the project will be on generating employment by 11,000m^2 office, public service and leisure space, providing innovative design approaches, sustainability, a good environment, high quality design, facilities supporting families with 2000m^2 retail space and a primary school and 35,000m^2 green landscaped areas linking adjacent areas and communities. In addressing the key social, economic and environmental challenges posed, the regeneration of Holt Town presents an opportunity to create a community where families will want to plant long term roots.

One Central Park represents another innovative PPP in the city. It is an GBP 18 million joint venture between Manchester's three universities, MANCAT and Manchester Science Park, providing an access point for all that further and higher education in Greater Manchester has to offer and is located just two miles from Manchester City Centre in East Manchester. Activity at One Central Park is based around six core activities: MANCAT Learning Centre, New Technology Institute, Research and Graduate Centre, Business Creation Unit and The Technology Centre. It is the aim of One Central Park to act as an economic catalyst stimulating the creation of jobs, investment and opportunities in the East Manchester community.

Sources: see endnotes [56,57,58,59,60,61]

The Sportcity campus in East Manchester: a legacy of the Commonwealth Games

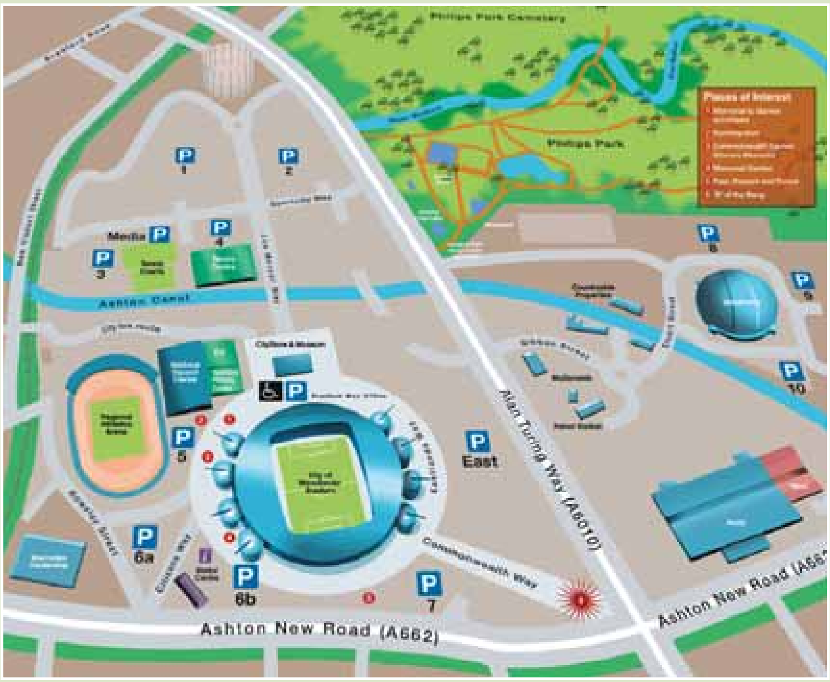


Image courtesy of the Sportcity Estate Maangement Service © 2008

The level three approach

Level three sees the private sector taking a stronger leadership role. It is important to note that the private sector is much better placed to undertake this sort of leadership if the public sector have already set their agenda and have a clear sense of purpose, vision and leadership themselves. If this is not in place, the private sector either finds it difficult to engage or sporadic and uncoordinated engagement leaves the approach to urban development disjointed and the urban environment appear haphazard in places. The risk of developers and investors seeking a 'quick buck' instead of approaching projects from the perspective of what is best for the city's long term development is also higher.

There is tremendous scope for innovation and variety in this category with some mechanisms being riskier than others. The potential for these mechanisms to bridge the investment gap when all other finance possibilities have been exhausted is one of their greatest strengths. Because of the global nature of the stakeholders involved and the flexibility of these sorts of mechanisms they tend to be relatively transferable.

Table 3.7. Level three approach: specific strategies and mechanisms

	Investment engagement mode	Detail
Level three	PPP	Public private partnerships are effective municipal finance mechanisms as they utilise the advantages of each partner to focus and facilitate investment. Whilst the private sector bring finance and an entrepreneurial edge to these deals, the public sector maintain the progressive focus of the investment and a sense of stability whilst removing barriers such as land use zoning for instance.
	Commercial loan	Relatively short term loan to a municipality to project finance. Can be secured (backed by collateral) or unsecured. Lenders often require municipalities to maintain insurance cover on the financed item.
	Venture capital	Generally loan or equity capital offered to a municipality by private investors of institutions to finance development projects. Also known as risk capital.
	Value capture	Value capture is a means to finance municipal infrastructure projects in a way that encourages for efficient economic performance, simple administration, financial justice, and social facility. For instance, it can involve a real estate paying for infrastructure improvements in exchange for access to land whose desirability and value will rise following project completion.
	Tax/fiscal incentives	A tax incentive is the deduction, exclusion or exemption from a tax liability, offered as an enticement to engage in a specified urban activity such as real estate development for a certain period. A fiscal incentive involves the use of government policy (often financial) to reduce the cost and risk of investments in a given area or for a given project.
	Temporary investment grants	The issue of a financial award to a deserving applicant for the delivery of a development project.
	Congestion/ toll charging	A form of recovering initial investment by charging a premium on the use of the infrastructure constructed. Business plans can quantify return on investment, break even periods and degrees of risk. This encourages investors to provide finance with more confidence.
	Bond/bullet finance	Municipal bonds are offered by states or local governments to investors in exchange for project finance. Investors are attracted by their low risk nature and the fact their interest is tax exempt. A bullet bond is a specific type of bond with a single maturity date and no opportunities for early redemption.
	Lottery funds	Funding from the purchase of lottery tickets by the general public is utilised to deliver beneficial development projects. The general public are incentivised by cash prizes.
	Build operate transfer	A type of arrangement in which the private sector builds an infrastructure project, operates it and eventually transfers ownership of the project to the government. Timescales are agreed by both party and usually allow for the private sector operator to realise a reasonable return on its initial investment.

Table 3.7. summarises the exact dimensions of the level three approach. These mechanisms are often used alongside others to secure the total value of the capital required for a city project. They are also deployed for a wide variety of infrastructure and area and real estate projects (Table 3.8.).

Table 3.8. Level three approach: European examples

	Investment engagement mode	Project example	Value of investment
Level three	PPP	Coen Road tunnel, Amsterdam (complete by 2010)	EUR 500 million [62]
	Commercial loan	Temple Bar development, Dublin	GBP 60 million (shared with EIB).[63]
	Venture capital	Crossrail, London	Unspecified
	Value capture	Crossrail, London	Unspecified [64]
	Tax/fiscal incentives	'Special Economic Zones' in Krakow such as Krakow Technopark	Unspecified [65]
	Temporary investment grants	House building, Stockholm	Unspecified [66]
	Congestion/ toll charging	A4 Toll road from Katowice to Krakow (ongoing three phases)	EUR 111.7 million. High proportion to be recouped by Stalexport Autostrada Małopolska S.A. through tolls.[67]
	Bond/bullet finance	Arlanda Express rail connection to the city airport (1999)	Macquarie European Infrastructure Fund five year bullet of SEK 1.2 billion (GBP 104 million) as part of larger package.[68]
	Lottery funds	Multifunctional Sports and Entertainment Arena	Grant from Totalizator Sportowy.[69]
	Build operate transfer	Poznan's multi-story underground car park (2006)	EUR 11.95 million by a French Construction and Civil Engineering French firm called Eiffage.[70]

Table 3.9. Broad investment methodologies observed by city type

City type	Nature of investment gap	Broad investment methodology observed		
		Level 1	Level 2	Level 3
Knowledge hub	Collaboration gaps	Strong	Average	Strong
Established capitals	Know-how and collaboration gaps	Strong	Average	Weak
Reinvented capitals	Institutional framework and know how gaps	Strong	Average	Weak
Transformation poles	Know how and institutional framework gaps	Strong	Strong	Weak
Gateways	Capital and collaboration gaps	Average	Strong	Weak
Modern industrial centres	Capital, institutional framework and know how gaps	Strong	Strong	Average
Research centres	Capital, institutional framework and know how gaps	Weak	Strong	Weak
Visitor centres	Capital, institutional framework and know how gaps	Average	Strong	Weak

3.3.2. What strategy for what type of city

As chapter two suggested, different city types can have different investment gaps. It is unsurprising therefore that different city types tended to broadly deploy different approaches to bridging their own investment gaps.

Building on the broad trends established already, it is possible to make a series of more detailed initial observations about the methods used by different city types to bridge their investment gaps:

- Knowledge hubs, transformation poles and reinvented capitals tend to display the widest variety of techniques used to initiate and implement project finance.
- Knowledge hubs tend to develop more innovative financing models which have a bias towards private sector participation.
- Transformation poles and reinvented capitals tend to have a bias towards models based on initial public sector participation.
- Knowledge hubs and established capitals display the highest incidence of specialist investment facilitation bodies.

In broad terms, it is apparent that different city types experience different investment gaps. Knowledge hubs experience different gaps to research centres and will therefore require different investment strategies to close their investment gap (Box 3.9.). An honest assessment of the nature and the size of their investment gap will give individual cities a list of investment priorities, which can then be translated into tangible visions and strategies. It is hoped that this paper will provide a starting point for cities to conceptualise where they stand and how they should begin to approach their investment gaps. Building on this, the foundation of the Urban Investment Network will refine this process by providing a mutual learning platform to help make cities both more aware of their own gaps and how to craft and deliver appropriate solutions.

Chapter 4
Bridging the gap

4.1 Principles for closing the gap

Building on the comparative preceding analysis of chapter three, a list of key principles for ensuring effective urban investment begin to emerge. Sections 4.2 and 4.3 begin to build a picture of what the public and private sectors must do to bridge and close the investment gap in Europe's cities. These sections also provide examples of what real world success looks like.

4.2 What city governments must do

In order to solve the conundrum of National Governments wanting to raise less tax and spend less money whilst cities conversely need to invest more, cities must adopt a dual strategy. They must simultaneously develop and adopt both public and private finance strategies. Much can be done in a strategy built around public finance for a city, but such a strategy will only work really well where it is reinforced by a clear strategy for private finance. The two limbs are complementary and reinforcing. The more work done to attract appropriate amounts of public finance, the more likely it is that private investors will want to co-invest. The more it is proven to higher tiers of government that a city government is capably and responsibly attracting additional investment from external commercial institutional sources, the more likely that higher tiers of government will want to co-invest in a value added partnership between public and private.

Some commentators voice concerns that this is equivalent to privatisation: a way of reducing the democratic accountability of how public resources are spent. However, although care must undoubtedly be taken to preserve the dignity of the public realm, this approach need not equal privatisation. Certainly the cities within the Organisation for Economic Cooperation and Development (OECD) group have begun to consider appropriate ways of making such steps and Europe's cities must follow suit.

Box 4.1. European examples:

- **Barcelona**. Even in the face of global financial recession, Barcelona is well-placed thanks to a pragmatic fiscal strategy over the past decade. The city's credit ratings are impressive: AA+ by Fitch and Standard & Poor's, Aa1 by Moody's Investors Service and AAA by Rating and Investment Information. This gives Barcelona's authorities good access to various financial markets to raise monies to invest in the city.

Sources: see endnote [71]

Box 4.2. European examples:

- **Dublin**. Dublin Docklands, 520 ha, EUR 7 billion, 15 years
- **Helsinki**. Vuosaari Harbour, 150 ha, EUR 687.5 million, land reclamation, road and rail tunnels
- **Hamburg**. Hafen City, 155 ha, EUR 6.75 billion, 15-20 years, 40,000 jobs
- **Malmo**. Western Harbour (Bo01), 175 ha, revolutionary 'green' architecture and design
- Glasgow. Clyde Waterfront, 800 ha, GBP 5.46 billion, 20 years, 20,500 jobs

Sources: see endnotes [72 73 74 75 76]

A symbol of the Dublin Docklands: The U2 Tower

Image courtesy of The Dublin Docklands Development Authority © 2006

4.2.1 Attracting Public Finance

i. Accept reality – sound fiscal strategy

Cities which overspend consistently and which generate large debts do not attract finance. It is clear that accepting reality and adopting a sound fiscal strategy is the first step for any city to build the necessary foundation of trust and resources to promote themselves in such a way that engenders confidence amongst financiers (Box 4.1.).

ii. Prioritise larger or visionary catalytic investments

This strategy has proven extremely successful in several cities across Europe. The scale and vision that large and innovative or creative projects bring help attract public finance in a number of ways. The creation of a vision in itself is persuasive. It aligns stakeholders and encourages budget commitments from stakeholders. Scale brings with it a necessity to perform which again galvanises stakeholders into action. The sense of purpose around large or visionary area developments can also carry enough momentum to encourage further investment, often from the private sector (Box 4.2.).

iii. **Pursue sustainable growth of tax base**

One of the most sustainable ways in which to finance development across Europe's cities is for Europe's cities to become more self-sufficient. There will always be a degree of reliance on external investment but by more effectively growing a domestic municipal tax base European cities will be able to fund development in a more sustainable fashion (Box 4.3.).

iv. **Make the case for cities through tangible investment projects**

Clearly defined plans with tight deadlines, logical budgets, risk analyses and unambiguous objectives represent far more investment attractive propositions simply because the level of investment readiness is so much higher. When cities map clearly how and where money will be spent and how investors will recoup their investments, finance is much more likely to be generated (Box 4.4.).

v. **Efficiency and effectiveness of city government**

At first glance, building an effective city government is another relatively intangible factor in relation to securing public investment. However, good governance is a key ingredient in fostering the sort of environment needed to build the case for certain projects as well as the confidence that they can and must be delivered. The creation of strategic city development plans which directly refer to investment priorities and visions of development are essential. Though it will be discussed in better detail later in this chapter, equally important are the creation of the structure and vehicles to deliver on any plans (Box 4.5.).

Box 4.3. **European examples:**

- **Barcelona**. Until recently Barcelona had a municipal infrastructure which it struggled to support from its tax base. The city followed a strategy of not increasing tax rates but increasing the number of tax payers. By nurturing the SME sector and creating the space necessary for it to grow, Barcelona grew the income side of its balance sheet enough to support further infrastructural development.

Sources: see endnote [77]

Box 4.4. **European examples:**

- **London**. One of former Mayor Ken Livingstone's major achievements in his eight years in office was to successfully lobby the UK state government to co-finance Crossrail - a GBP 16 billion cross London fast rail system which will carry passengers from Heathrow Airport to Canary Wharf at high speed. The project was given go-ahead after the former Mayor (alongside a group of private sector individuals) dedicated a large amount of his first term in office towards championing the project and building a workable financial model around it to include cost and benefits.

Sources: see endnote [78]

Box 4.5. **European examples:**

- **London**. Relatively clear governance structure, The London Plan, The Economic Development Strategy, The London Development Agency.
- **Turin**. The Turin Strategic Plan, direct election of Mayor.
- **Poznań**. Investors Assistance and Investment Promotion Office.
- **Leipzig**. Planwerk Masterplan for public space development.

Sources: see endnotes [79 80 81 82]

Box 4.6. **Barcelona, Spain – catalysing investment through global event hosting and effective leadership**

Catalysed by the success of the 1992 Olympic Games, Barcelona is today one of the foremost metropolitan centres in Europe. Home to 4.6 million inhabitants, it is the cultural, economic, and administrative capital of Catalonia, which is situated in the northeast of Spain on the west Mediterranean coastline.

The Olympic investment of USD 6886 million and USD 4647 million of private and public sector money respectively, which were spent to both host the Games and improve the infrastructure of the city, changed Barcelona's image, which in turn created momentum behind a more widespread socioeconomic, cultural and environmental transformation in the city. This momentum has been further maintained by ongoing urban investment.

Since 2000, there have been a series of keynote urban development projects across the city.

- The extension of the Metro: in May 1999 it was agreed that over the next ten years the city would add 35km of track to its existing network across 12 line extensions. The extensions of the Lines 2, 3 and 5, and the construction of Line 9, amount to EUR 7,100 million, plus an extra EUR 200 million for rolling stock.

- The construction of a new tram network: completed in 2003 the TramBaix network is a 16.8km stretch of line with 35 stations. The new TramBesos network, the stations for which opened in 2008, measures 14km in length. The finance of the former amounted to EUR 160 million in 1999-2000 and the latter to EUR 200 million.

- The upgrade of city buses to gas power: introduced in 2001, the hydrogen fuel cell-powered bus system represents a 'highly successful example of a public-private partnership providing an outstanding service.'

- Investments related to the network of the high-speed train: the covering of the tracks in Sants, the reforms to the station of Sants, the tunnel from Sants to Sagrera, the new Sagrera station and related projects.

- The enlargement and reform of the Port: increased area of the docks and the working area, and a new mouth to the Port.

- Enlargement of the airport, the new T-Sud (South Terminal) on the point of being inaugurated. The extension of Line 2 and the new Line 9 of the metro as far as the airport.

- The 22@ Barcelona: the project utilises EUR 180 million of public investment to transform two hundred hectares of industrial land in Poblenou into 'an innovative district offering modern spaces for the strategic concentration of intensive knowledge-based activities.'

Since the mid 1990s the City Council has conducted a careful fiscal and investment policy, based on a generation of high levels of gross savings (on average, over 20% of current revenues) in order to fund the majority of local public investment and reduce government debt at a sustained rate. The financial strategy of the City Council has been developed in both domestic and international financial markets. Thus, depending on its credit needs and the state of the financial markets, the City Council has obtained funding through bank loans, schuldschein loans, private placements, and the issuing of municipal bonds, both in Euros and foreign currencies (US Dollars and Japanese Yen). Currently, all the debt of Barcelona City Council originates in the Eurozone. Needless to say, in order to access financial markets, it is crucial, and sometimes necessary, to have debt obligations assessed by credit rating agencies. In this regard, the City Council of Barcelona has been assigned the following credit ratings: AA+ by Fitch and Standard & Poor's, Aa1 by Moody's Investors Service and AAA by Rating and Investment Information As a result of this careful management and investment, the quality of the urban environment in Barcelona, combined with the city's very positive and vibrant image, has led it to score highly in many evaluations carried out in relation to the city's performance, particularly in the wake of the Olympic Games. In two assessments by Cushman and Wakefield for the 2006 European Cities monitor and the Economic Observatory Barcelona, Barcelona scored very highly – topping the hierarchy of the best European cities for quality of life of workers, and finishing fourth in the hierarchy of the best European cities for business, showing particularly strong progress since 1990.

In more practical terms, this clear appeal of the city has translated into a sustained high level of FDI, which has acted to consolidate 'home-grown' economic success in the city. In 2001, Barcelona occupied fifth position in a hierarchy of European centres of FDI, and since 2000, levels of FDI in Catalonia as a proportion of total FDI into Spain has remained stable and above 15%, second only to Madrid. The resultant creation of new jobs, and consistently high levels of employment in the city have led to an above average GDP per capita in Barcelona relative to other European nations. In 2003, the Barcelonan GDP per capita stood at EUR 25,215, 16% above the European average and 25th in a rank of European cities.

This short analysis shows Barcelona's socio-economic well-being has been catapulted forwards by the hosting of and the funding of the 1992 Olympic Games. Not only has the city benefitted in the short term, but with ongoing efforts to draw more funding into the city's key sectors it looks to have secured for itself a sustainable and profitable future.

Sources: see endnotes [83 84 85 86 87 88]

vi. **More public-public joint ventures**
Accross Europe, there are examples of projects which are co-financed by two, three or even four tiers of government: local, provincial, regional, state or supra national government. In general, such public-public joint ventures are rare leaving tremendous scope for future opportunity in this area (Box 4.7.).

vii. **Capable development agencies and corporations, shared agencies and intermediaries**
Historically, municipal governments have had insufficient skills and capabilities to manage complex projects, projects with complex assets, or those which have complex financial arrangements. Management of these kinds of projects has typically been taken out of the normal bureaucratic system and municipal governments have created special purpose vehicles to carry out the management for them. Today in Europe, many cities have created specialist investment facilitation bodies and the cities that have tend to be more successful at attracting and managing investment. These bodies could be a specialist department within the city council, a development agency or be a specific investment facilitation organisation. They could also take the form of a business angels or an investment network. They should be staffed with talented individuals, have a clear understanding of the city's offer and investment potential, be accessible (linguistically for instance), and be involved in destination marketing and promotion (Box 4.8.).

viii. **Asset Management**
Most city governments possess assets which are not being used optimally either in terms of delivering public services or in producing a return. Nearly all European city governments would benefit from a more refined, stratified strategy of asset management (Box 4.9.).

Box 4.7. **European examples:**

- **Poznań**. The modernisation of the city's rail network is being managed and financed by the City of Poznań, the Polish central government and the EU Cohesion fund (as well as a private investor).
- **Glasgow**. Project 2002 involved both City Council and Scottish Government funding.
- **Leipzig**. The Leipzig City tunnel is being funded by the City of Leipzig, the Saxony Federal Government and the German State Government (as well as the German Rail Company - Deutsche Bahn AG).

Sources: see endnotes [89 90 91]

Box 4.8. **European examples:**

- **Poznań**. Investors Assistance and Investment Promotion Office.
- **London**. The London Development Agency.
- **Lyon**. The Lyon Area Development Agency (ADERLY).
- **Brussels**. The Brussels Enterprise Agency and the Brussels Regional Development Agency (SDRB GOMB).

Sources: see endnotes [92 93 94]

Box 4.9. **European examples:**

- **Warsaw**. Warsaw has a fairly advanced asset management programme divided into four units each of which are designed to make the most of existing city assets.
    - Property Market: retail, residential and office based developments are facilitated by improving the information on the property market. The 'New Spatial Policy' divides the city into zones by their function and development possibilities. It specifies plans for the expansion of the road and transportation system and engineering infrastructure, designates sites for new constructions, and precisely defines limitations on buildings' height and density.
    - Rental Prices: details of spatial differences in rental prices.
    - Construction Opportunities: plots for construction projects are put up for tender at the start of each year. These areas tend to be in and around the city's rail stations such as Dworzec Gdański, Dworzec Zachodni and Dworzec Południowy.
    - Technical Infrastructure: includes details of existing and planned infrastructure in the city.
    - Market Practice: details of the cost of doing business in the city.

Sources: see endnote [95]

ix. **Recruit Financial Talent**

Because development finance is a specialist, complex and often innovative activity, for it to be successful, it is essential that cities attract and retain financial talent. Skilled economists, financiers, project managers, marketing specialists, linguists and deal brokers should populate the vehicles built by cities to facilitate investment. Talented individuals, often with an excellent knowledge of the city's politico-economic context, are required to make the city investment ready and to promote investment attractiveness (Box 4.10.).

x. **Business Investment friendly services and approaches**

Corporate investment is an important theme in a city's urban investment strategy. It is essential that cities promote themselves clearly and confidently, professionally and in places where people will listen. It is essential that messages are communicated efficiently and that, given the global climate of competitivity, both the hard and soft advantages of the city are promoted. These can include tax breaks, connectivity and workforce advantages as well as the city's quality of life offer for instance (Box 4.11.).

Box 4.10. **European examples:**

- **Lyon**. Experts specific to different investment sectors are easily accessible making an open and effective dialogue between the public bodies and public and private sectors as straight forward as possible. Experts are also made very accessible.

Investment ready: experts are on-hand at ADERLY to facilitate the investment process

Image courtesy of the Lyon Region Development Agency website © 2008

Sources: see endnote [96]

Box 4.11. **European examples:**

- **Madrid**. Es Madrid, the city's web portal is an excellent example of how to effectively engage with businesses. It provides succinct, factual and business-like details of the city's strengths along key themes from 'a solid economy' to 'workforce' and 'infrastructure.' A fully furnished directory, which is divided into 'Business Associations,' 'Embassies and Consulates,' and 'International Headquarters,' provides a clear path towards investing in the city. The city have recently inaugurated Madrid Global, an office responsible for fostering Madrid's international reputation and relationships.
- **Lyon**. Accessible in seven languages including French, English, Chinese, Italian, Spanish, German and Japanese, the Lyon web portal provides an excellent foundation for attracting corporate and municipal investment. Similar to Madrid, Lyon looks to engage internationally. ADERLY, the city's development agency, was one of the first to open offices overseas. It inaugurated new branches in New York and Tokyo in 1982 and 1993 respectively. This move shows a sort of entrepreneurism and ambition that makes Lyon more attractive and accessible to businesses. At the same time, Lyon-Business.org – a business portal of the Lyon Metropolitan area – provides practical information for businesses relocating to Lyon. Specific to investment, the portal details what finance (grants, venture capital, loans advances, and guarantees) is available to firms at every stage of their development (start-up, innovation, development, transfer).

Sources: see endnotes [97 98]

4.2.2. **Attracting Private Finance**

i. **Foster an investment dialogue with the private sector by seeking advice and partnership early**

The public sector has a natural focus on the here and now, and the demands of the voters, whereas the private sector has a more strategic outlook, with its focus on the market and on benchmarking performance against others. As a result, the relationship between the public and private sectors has been traditionally viewed as relatively fraught and incompatible. However, there remains great potential should the dimensions of the relationship be calibrated correctly. There is a significant opportunity to use each sector's relative strengths to complement one another and move development forwards (Box 4.12.).

To ensure that a relationship between the public and private sectors is built on solid ground it is important that an open dialogue is started and work is undertaken to maintain it. Both parties must be accessible, proactive, flexible, engaged and act in the best interests of the city to ensure that investment is used to secure longer term benefits.

Box 4.12. **European examples:**

- **London**. Developers of the King's Cross station area – Argent – have extended the completion date for the project following ongoing discussions with other stakeholders, particularly local public authorities. Negotiations have been very fruitful and have ensured that the development does not 'make a fast buck' but rather has the best interests of the area at heart.
- **Edinburgh**. During the start of the planning process for Project Edinburgh – a development strategy for Edinburgh's city centre the participation of a key private sector investor – Henderson Global – was included from the start. Open, frank and regular communication at each stage of the process has been vital to securing a strong and robust project with the best interests of Edinburgh at heart.

Sources: see endnotes [99 100]

Box 4.13. **Enschede, The Netherlands – growth and recovery through improved private sector engagement**

The city of Enschede has come a long way from the degradation that resulted from the closure of almost all of the textile industry, the city's main economic driving force, in the 1970s. The city embarked on a journey from the old to its new economy that was kick started with the foundation of the University of Twente in 1961. While the city still grew by suburbanisation towards the north and south in the 1980s, it was until the mid-1990s that the city was able to invest in a new city centre and filling in the surrounding former industrial sites and concentrate the suburban growth in a new large living district on the east side of the city, De Eschmarke, providing for some 6,000 new dwellings. Presently, the city deals with the challenge of rebuilding 42.5 hectares of the Roombeek neighbourhood that was devastated by the explosion of a fireworks depot in May 2000, taking 22 lives.

ING Real Estate is partner in De Eschmarke as well as Roombeek. In both residential districts ING Real Estate is able to provide for the heart of the area by developing the local centre for shopping and leisure.

The central amenities for De Eschmarke encompass some 2,350m² of retail space, including a supermarket and 23 apartments above. Parking facilities for the residents is on a parking deck on top of the shops, a quite unusual solution for a project of this size that contributed largely to the compact and sculptural form. The project was completed in 2007.

When the last bottle of Grolsch beer was bottled at the Roomweg in Roombeek, more than a century of brewing history ended here and two landmark buildings, the former office and the brew house, became obsolete. This historic

Enschede's skyline

Image courtesy of the Wikipedia Commons © 2008

site deserved a second life as vocal point for the new Roombeek. 'Op de Bouwerij' (at the brewery) is the concluding piece of the area's transformation where all central ingredients of the area accumulate into a new mix of retail, leisure, living and working completing the other amenities of Roombeek such as schools, a museum and a multi-cultural centre including day-care, a theatre and rooms for several local associations.

ING Real Estate is developing the southern part of 'Op de Brouwerij', including a shopping centre, restaurants and cafés, 150 apartments, 7,500m² for mixed-use office space for small businesses and 335 underground parking spaces, while the municipality is responsible for the northern part, consisting of lots for self realisation of residences combining living and working. The 5,800m² shopping area will serve as a district shopping centre for daily shopping, complete with several food specialists and an attractive catering programme serving some 20,000 people. The former Grolsch offices are presently occupied by the Telematica Institute and the Media Art Centre attracting knowledge-intensive companies, starters, artists, ICT and multimedia companies, related service providers, and applied technology firms, that will be accommodated in the remaining offices and the brew house.

Projects like 'Op de Brouwerij' are key to the transformation of Enschede from an industrial past to new sectors by providing for economic growth. Illustrative of this change is the outcome of a recent internet poll under 800 inhabitants asking which companies and institutions are most important for the city's image. Over one third of the respondents viewed the University Twente and the Grolsch Brewery as most prominent. Two higher education institutions featured the top ten, illustrating the growing importance of Enschede as city of knowledge and technology. Transforming the former brewery to a location for new innovative and knowledge-intensive businesses links two major features of the new Enschede and epitomises the turn the city is taking.

Sources: see endnotes [101] [102] [103] [104]

ii. **Support existing investors more effectively**

Supporting existing investors – those who currently own the real estate, privately owned infrastructure, cultural institutions - is crucial to city success. The 80:20 rule is a useful guide. Cities should spend 80% of their resources taking care of existing 'customers' and 20% seeking out new 'customers' (Box 4.14.).

iii. **Reduce risk, cost and uncertainty**

Reducing risk, cost and uncertainty, rather than proliferating it, is key to attracting investment over the long term. Particularly crucial is understanding how to exercise good public sector due diligence without creating an environment of heightened uncertainty. Investors like to see hard, tangible figures outlining risk/return ratios to give them a sense of whether an investment is worthwhile and profitable. It is rare that city's provide this level of detail (Box 4.15.).

Box 4.14. **International examples:**

- **Philadelphia**. Philadelphia's city centre businesses are involved in an ongoing dialogue about the present state and future of the city's downtown. Senior members of staff from the city's Business Improvement District team regularly visit and speak to private sector organisations to give them a chance to voice their concerns.
- **Cape Town**. Cape Town's city centre businesses are given strong representation on the Board of the city's Central City Improvement District. This offers them the opportunity to voice concerns and shape the development path of the city.

Box 4.15. **European examples:**

- **Malmo**. Sound financial and project management by Øresundsbro Konsortiet, owners of the Øresund bridge-tunnel, have reduced waste, the cost and the risk of the project – which totaled some GBP 1.83 billion to build. Indeed, a cost-benefit analysis concluded that for every GBP 1 spent on the bridge, over GBP 70 are realised in positive outputs.

Sources: see endnote [105]

Box 4.16. **Malmo, Sweden – key note projects and well-developed financial models**

One of the largest projects to impact on the development trajectory of Malmö has been the construction of the Øresund bridge-tunnel. Opened on July 1st 2000 and spanning a distance of almost 16km, the bridge-tunnel represents the longest combined road and rail bridge in Europe. As a result of a Danish-Swedish government pact in 1993, Øresundsbro Konsortiet, a Danish-Swedish company was established. The organisation was charged with the independent responsibility of the ownership, construction and the operation of the Øresund Bridge.

The construction cost of the structure and its supporting elements totalled approximately GBP 1.83 billion at the time of opening in 2000. By the end of 2006, Øresundsbro Konsortiet had borrowed approximately GBP 1.85 billion to finance the construction costs of the bridge and its early operating costs. As part of the project, landworks took place on both the Danish and Swedish sides to the value of GBP 740 million and GBP 240 million respectively. These costs were also financed by loans, which will be repaid by Øresundsbro Konsortiet. In addition to the loans secured by Øresundsbro Konsortiet, the project was also adopted as one of fourteen initiatives taken on by the European Council in December 1994. As a result, the EU Commission provided 6% of the total construction cost, equal to EUR 191 million. The project has had a significant impact on the social, economic and political development of both Malmö and Copenhagen by effectively creating a new growth corridor between the two cities.
Øresundsbro Konsortiet has the role of levying fees for traffic across the structure. Both the Danish National Railways Agency and the Swedish National Rail Administration pay a fixed fee for the right to run trains across the bridge. This income, combined with the road vehicle toll earnings, is intended to cover all costs – interest payments, construction loan repayments, and operating costs. Based on current projections the Øresund bridge-tunnel will have repaid its debt after 33 years of operation. Moreover, a cost-benefit analysis concluded that for every GBP 1 spent on the bridge over GBP 70 are realised in positive outputs.

The Øresund bridge-tunnel – realised with an exemplary financing strategy

Image courtesy of the Wikipedia Commons © 2009

'Western Harbour' or 'Vaestra Hamnen' is a pioneering green housing project situated near the heart of the City of Malmö. A former shipyard and heavy industry site, the waterfront location is being turned into a showpiece for carbon neutral living, efficient energy use and the use of 100% renewable energy. The area, covering 175 hectares and located half a mile from downtown Malmö, is planned for 30,000 people on completion in 2025 according to masterplanner Klas Tham – a leading urbanist.

The project also represents an interesting approach to finance. The development was initially awarded GBP 18 million funding by the Swedish government to host the nation's Housing Expo and create a model of sustainable living. Bo01, the first phase of this ambitious venture set the standard for the rest of the Western Harbour development. Intended to showcase what could be achieved, local architects were asked to 'raise the bar' when designing the initial 350-house development. Moreover, because Bo01 was to be the centrepiece for the 2001 Housing Expo in Malmö, and would attract significant international attention as a result, planners were inspired to work harder to create a working demonstration of what could be achieved in modern residential construction. In this way, the quality and ambition of the Bo01 development was leveraged to attract and retain further capital investment. As a result, the initial public sector investment began to draw down funds from private sources who found the proposition attractive. For instance, the total investments for the energy supply system for the area totalled EUR 10 million. This cost was shared between Sydkraft AB, the EC, 5th FP,SURE/RESECO-project, and the Swedish Government's Local Investment Programme. To date, organisations invested in the area's development include Midroc, Celsius, Skanska, Wihlborgs, Skandia, JM AB, Malmö University, HSB, Ncc and PEAB.

On the back of the success of both Western Harbour and the Øresund bridge-tunnel, Malmo is now preparing for a new round of urban investment.

Sources: see endnotes [106 107 108]

iv. **Build 'investment ready' propositions**
As has been discussed, in a competitive market, where cities across the globe compete with one another to attract investment, promoting investment attractiveness and establishing an ethos of investment readiness is essential. Creating the structures and the vehicles to deliver is just one aspect of investment readiness. It is also important that these investment facilitation bodies build a clear catalogue of costed and risk assessed investment ready projects in the city. This is rarely done. However, when it is provided and the information is made accessible, the city becomes immediately more investible (Box 4.17.).

v. **Better information on city finances and investment opportunities**
In line with the above, it is essential to make available quantitative assessments of investment prospects in the urban environment. Articulating investment readiness in a form that businesses use (quantitative forms) will create a solid and confidence-based relationship between the city and its investors. Other forms of socio-economic information such as demographics, footfalls, growth rates and rents should also be made readily available to facilitate the investment process. Cities across the world are relatively good at providing good contextual information but less adept at quantifying specific development opportunities – a more specialist task.

vi. **Build an Investment prospectus**
It is essential that cities formulate both well developed investment propositions and information relating to the socio-economic context in the city. Presenting these details in the form of an investment prospectus, which is well-supported by important organisations and individuals, is an excellent first step to generating and sustaining municipal investment. There could be scope for a European-wide investment prospectus. There are very few cities that provide a specific prospectus (Box 4.18.).

Box 4.17. **European examples:**

- **Lyon**. The 'Business-Lyon.org' portal outlines the city's real estate market advantages, forecasts for the future and investment opportunities. Specifically, the website provides detailed and fully interactive maps which details local development plans and sites with particular development potential within the city.
- **Warsaw**. Plots for construction projects are put up for tender at the start of each year. These areas tend to be in and around the city's rail stations such as Dworzec Gdański, Dworzec Zachodni and Dworzec Południowy.
- **Poznań**. Poznań attempts to build a reputation for investment readiness in a number of ways.
  - Investment priority sectors: details of the sectors the city wishes to invest in. In August 2008, the sectors included technologically-advanced production, centres for joint services, research and development, conference and exhibition activities, and recreation and entertainment infrastructure.
  - Investment offers: the city puts forward a number of areas with development potential for bidders. In December 2008, these included Grodziska, Jasna – Łubieńska, Jana Henryka Dąbrowskiego, Łubieńska, Dąbrowskiego 78a - Polna 11a and Bułgarska.
  - Investment search engine: the city provides a search engine of investment projects. Potential investors can specify the investment area, investment cost and investment type

Sources: see endnotes [109] [110] [111]

Box 4.18. **European examples:**

- **Poznań**. An investment prospectus is rare but Poznań is the city which comes closest to producing one of the cities examined. In one document the city details how and why investors should finance projects in the city, to what extent and which projects the city is prioritising.

Sources: see endnote [112]

Box 4.19. **Rotterdam, The Netherlands – building an investment prospectus with private actors**

To keep playing a significant role in the international competition among urban regions, Rotterdam has decided on an spatial development strategy towards 2030 that not only aims at the development of the knowledge and services economy but can also guarantee an appealing residential and social climate capable of attracting more graduates and creative workers. Based on an estimation of the effects of urban investments by Ecorys, the municipality nominated 13 'Very Important Projects' (VIP) that have priority and special attention will be given to collaboration with (private) actors. Wilhelminapier, Zuidplein, Station Quarter and the Science Port Holland represent four major examples of the VIP areas.

Rotterdam, especially on the Wilhelminapier, shows the importance of a tenacious municipality, sticking to its ambitions and not holding back on public investments, like the Erasmus-bridge and the metro station linking the former harbour area to the city-centre. When public authorities are willing to go that extra mile, so will private actors. This fits the hands-on mentality that characterises the 'workman-city' Rotterdam in some ways still is.

Sources: see endnotes [113, 114, 115]

The Erasmus Bridge – the result of a tenacious municipal strategy

Image courtesy of the Wikipedia Commons © 2009

vii. **Promote the city for investment**

The proactive promotion of a city's development potential is a key pillar in the path to success. However, cities across the world have already woken up to this idea. Many promote themselves confidently, professionally, and in places where people will listen. To differentiate and stand out as particularly investment attractive, cities are striving to build their own unique brands, market themselves in innovative ways and to portray themselves as distinct and investment ready. A combination of all these approaches to city promotion will see the most effective results in terms of attracting investment. Many cities have their own portals but few have a unique and powerful brand (Box 4.20.).

viii. **Develop infrastructure as an asset class**

Infrastructure development is fundamental to the effective operation and competitiveness of a city. The quality of a city's infrastructural offer affects its businesses, visitors, residents and commuters. However, it is also an asset class which is often ignored by cities and investors alike. There have been a number of ways in which infrastructural projects have been important investment projects not only for cities but also financers across Europe in the past decade (Box 4.21.).

Box 4.20. **European examples:**

- **Madrid**. The city has made important strides towards developing a strong city brand and integrating it with investment readiness. Es Madrid – the city's promotion portal represents an excellent example of a step towards projecting a persuasive brand to investors.

Sources: see endnote [116]

Box 4.21. **European examples:**

- **London**. The London Crossrail project will see a great deal of private sector investment in the city's infrastructure. Most interestingly, The Canary Wharf Group and Berkeley Homes will finance the construction of stations at the Isle of Dogs and Woolwich respectively in exchange for the right to build around these stations and capture the increased value of the land.
- **Malmo**. Based on current projections by its owners, the Øresund bridge-tunnel will have repaid its debt after 33 years of operation. From then on, the impressive piece of infrastructure will realise profits for its owners - Øresundsbro Konsortiet, a Danish-Swedish company

Sources: see endnotes [117] [118]

Box 4.22. **Turin, Italy – infrastructure orientated development**

Over the next ten years, more than EUR 30 billion of investments have been planned and started, to improve the region's road network, airports, rails, intermodal and logistics platforms. The construction of the Italian section of Corridor 5, a key link between Eastern and Western Europe, from Kiev to Lisbon is one significant part of the infrastructure plan. The project includes the construction of two high capacity and high speed rail lines (Turin-Milan and Turin-Lyon), positioning the city even more strongly as the central node along the west-east route. The transalpine line between Lyon and Turin will carry 50 million tonnes of goods and seven million passengers annually and upon completion, Lyon and Turin will be only 105 minutes apart. The goal is to be fully operational in 2018.

Turin's intra-urban infrastructure is also undergoing renewal. The Crossrail system is one of the fundamental drivers of the change in the city. The project plans to put underground 15 km of tracks that cut the city in two from north to south. It will thus be possible to cross the city from north to south along a metropolitan rail system with six city stations that will also be used by national and international trains. The city's future main railway station will become Porta Susa, which will see the passage of trains on the high-speed Milan-Turin-Lyon line in addition to all national trains and, thanks to the presence of a Metro stop in the new station, the system will be perfectly integrated. Running above the Crossrail system, the Backbone Boulevard, a tree lined avenue, is surrounded by one of the city's most important development and transformation projects: the Central Backbone. The project is divided into four key areas denominated Backbones 1, 2, 3 and 4. Each of these areas is organised around one of the stations of the Crossrail system and represents key areas for investment. There is also upgrading of the metro system and a planned airport expansion.

The funding of infrastructural changes and upgrades in the city has preoccupied Turin's Mayor, Sergio Chiamparino. According to The Star, much of his energy is spent 'figuring out how to raise money.' The Mayor is championing a combination of effective public private partnerships and the selling off of public utilities to institutional investors. 'The private sector will play a big role in the future,' says the Mayor, but 'the question is how to maintain public control but put a number of shares on the market.'

Sources: see endnotes [119] [120]

Innovative Turin: The renovated Fiat Building in Lingotto

Image courtesy of Carlo Spinelli © 2008

Box 4.23. **Leipzig, Germany – coherent planning bridges investment gaps effectively**

According to the city's international portal, 'Leipzig is a dynamic, forward-looking city that seizes opportunities and actively seeks out new challenges - partly in order to sharpen its profile in competition with other places.'
In order to create and maintain this competitive edge and to adjust to the challenges and opportunities presented by German Unification in 1989, Leipzig has an awareness that it must gear itself very directly to its future development. At an early stage Leipzig undertook numerous efforts to address the challenges of depopulation and de-industrialisation. The city enforced an urban and economic development plan which embraced a range of economic, ecological and social issues. Since the mid-1990s an essential focus of these efforts has been city-wide strategic urban development planning which defines focus areas for investment and activities over the next ten to 15 years. The intention was and is to dispose of development deficits as well as to enhance new or existing potentials. These "Urban Development Plans" include development strategies for housing, retail trade, industrial sites and infrastructure and established a basis for the positive development in these fields. Particular mention should be made of the refurbishment of 80% of the historic residential housing stock.

Besides these strategic plans, a visualisation of Leipzig's current, medium-term and long-term urban development projects, with specific respect to urban spaces, was created through the "Planwerk" (a set of city wide plans) providing a basis for spatial and conceptual planning. In reaction to the current demographic and economic challenges the urban development strategy is being revised at present. In an integrated urban development concept even more aspects of urban development are taken in and interlinked in order to focus on an optimised use of potentials and resources.

Leipzig, Germany – planning to catalyse growth through effective strategy building

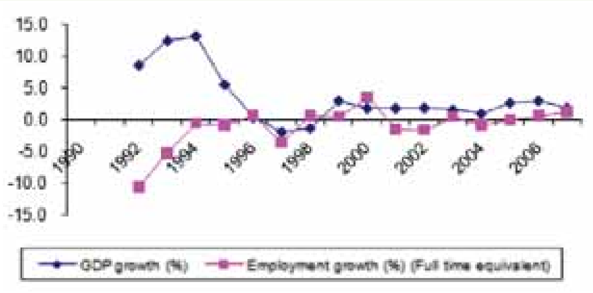


Image courtesy of the Wikipedia Commons © 2009

In other words, this document provides a clear perspective on the future development of the city from the public perspective – a very helpful starting point for attracting investment into the city. Importantly, it also laid out to prospective investors both the themes and geographical areas where the city wishes to concentrate its development efforts.

Sources: see endnotes [121] [122]

ix. **Build templates and pilots to make complex finance easier**

Creating a catalogue of successful and innovative public-private finance initiatives could prove an excellent road map to filling the investment gap which exists in European cities. They can serve as templates to use again or to be adopted by others. This could stimulate further discussion and debate about future projects which could then be piloted and catalogued themselves should they prove effective. There is tremendous scope for this approach both because it provides a relatively simple answer to a complex, important and often intangible problem – that of city finance – and because such an answer is in great demand.

Box 4.24. **European examples:**

- From the 38 cities examined there were very few examples of investment mechanism piloting or any collaboration between cities and investors about how to make the investment process more effective.

4.2.3. **Strategy and branding: investment alone is not enough**

Because the task of making a city both investment attractive and investment ready is both complex and vital to cities' longer-term sustainability, it is important that these principles are addressed in an explicit way.

This is one of the reasons why most cities today have clear development strategies with some focus on investment priorities and potential implementation mechanisms. The better strategies tend to consolidate and coordinate more of the themes outlined above, whilst the best see these strategies planned and implemented by a specialist organisation. In other words, money is not enough today. To bridge the urban investment gap, cities must now craft and deliver explicit development strategies which help promote the city as:

- having a sense of purpose;
- having market logic;
- well-governed;
- innovative;
- supporting hardware and software;
- an ambitious and compelling investment option; and
- competitive.

As the box later in this chapter will show (Box 4.27), investors are today developing relatively sophisticated mechanisms by which they choose where to invest. It is these types of factors in particular, which cities must look to address in order to become more investment ready and attractive.

One key consideration of urban investment strategies is the overarching issue of the way in which a city brands itself. Successful marketing and destination strategies are fundamental to creating the image of investment attractiveness. Moreover, as investment strategies take a long time to materialise, the creation of a clear and stable city branding is an essential way to keep the strategy on its track and as it were managing expectations. The core of the brand is formed by core values of the area or city that are well rooted in the DNA of the place, old and new end-users and stakeholders.

This brand is realised by a combination of end-users, stakeholders and the DNA of the city itself. It is fundamental to the creation of an image of investment attractiveness which can be capitalised upon by the action of a specialist investment coordination team working within the framework of a well-articulated strategy.

Figure 4.1. Bridging the investment gap: the collaborative approach to branding

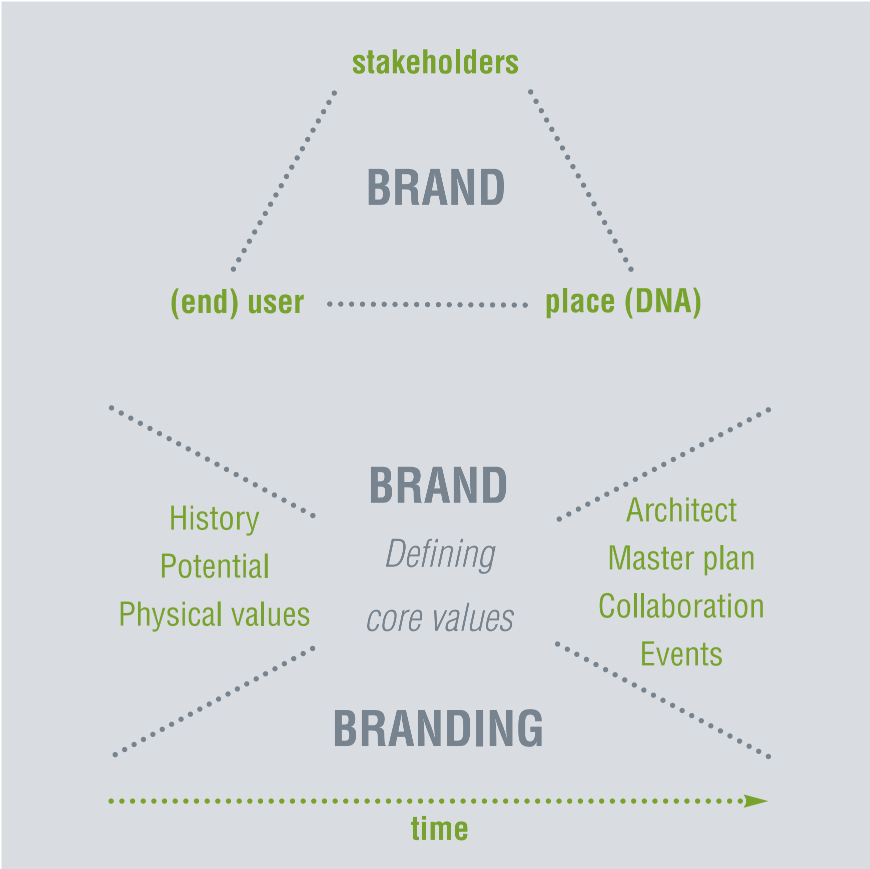


Image Courtesy of ING Real Estate © 2008

Box 4.25. **Amsterdam, The Netherlands – how city branding and urban development can work together**

Real Estate activities in Amsterdam play a vital role in the city's urban development, in term of volume, but also by enhancing the public image of the city. Being a vital stakeholder to the city involves investments in the cultural climate and areas that tarnish its image, like presently the Damrak linking the central station to the central Dam Square. ING Real Estate faces up to those challenges as activities in Amsterdam have shown the added value of the reinforcing strengths of the brands 'I AMsterdam' and 'ING' at the city-level, but even more at the level of individual projects where branding helps to reposition entire city-districts.

Sources: see endnotes [123 124]

4.2.4. What can national governments do and public banks and regional investment boards?

It is not only municipal governments which can create the conditions necessary to facilitate urban investment. Whereas the cities themselves articulate and design the dimensions of their own particular urban investment offer, national governments and regional investment boards help provide a supporting framework or context which can facilitate and galvanise the process.

Across Europe, it is rare that city governments act alone. Central governments and regional investment boards have a range of tools they can utilise to support the investment process. These can include:

- providing tax and fiscal incentives;
- supporting strategies to show a shared sense of purpose and leadership; and
- the release of public lands for specific development opportunities.

4.3. Principles for closing the gap: What the private sector must do

Just as it is important for the public sector to think carefully about the investment strategies and branding, it is important that the private sector is energetic, flexible and proactive in its efforts to collaborate with the public sector to secure investment opportunities.

The scope and diversity of the ways in which the private sector can assist in the investment process are broad. There are many opportunities for innovation and the sharing of best practice. Despite this diversity, effective private sector engagement is nearly always underpinned by effective dialogues with the public sector and mechanisms to support the communication of clear messages between public and private bodies.

4.3.1. What are the key principles for successful and sustainable city investment in Europe?

We have again established a number of guiding principles which shape the efforts of the private sector's engagement with cities in Europe so that it is effective and profitable as it can be.

i. **Recognising the uniqueness of cities - there is no 'one size fits all.'** Developers and investors responding timely and rightly to this uniqueness will profit; those with standard and uniform formulas are less likely to respond and benefit.

ii. **Anticipate – and take into account future demographic change.** How will demographic developments lead to economic change and alter development opportunities over time?

iii. **Size does matter after all.** Even strong projects are not easily tradable when located in smaller or 'obscure' cities. Smaller cities offer niches that are not well understood. Building the brand and reputation of smaller cities is a key to success.

iv. **Spot the cities full of talent.** A bright and well-educated population is a strong driver behind today's and tomorrow's competitiveness and future growth: Knowledge workers will have to spend larger sums of money – on housing, retail and leisure – and generate a range of personal services.

v. **Focus on the well-connected cities.** In a global economy, connectivity is of increasing importance as a vital driver of competitiveness: air, high-speed trains and ICT-interconnectivity are all crucial. Plugged-in cities are also innovative cities.

vi. **Entrepreneurship – having enough new people and ideas to start up businesses.** This makes a city tick; it not only pushes up demand but also improves the vibe, energy and overall attractiveness of a city.

vii. **Look for the right neighbourhoods.** Even Europe's most prosperous and dynamic cities have their less attractive districts and neighbourhoods. Stay away from them, unless you are betting on some change in the air.

viii. **A vibrant and attractive city centre still matters.** Attractiveness not only to residents and workers but also to visitors brings additional cash. With increasingly mobile consumers, a less attractive city centre fails to attract visitors but also sees its own residents spending their Euros elsewhere.

ix. **Look for the right city government – with a willingness to team up with the private sector.** Focus on cities where economic development is perceived positively. You may not always find them in the most prosperous cities! Some cities are more committed to achieving 'investment readiness.'

x. **Do not forget the national context and business cycle.** Despite strong performance at city level, the national economic context remains important. A sluggish economy is just not the right background for profiting from urban development. There is however the need to be attentive to turning points in order that investors can be ready when the tide is changing!

The most impressive examples of private sector engagement with the municipal investment process are characterised by innovation, a firm commitment of developers to sustainable development in the city and by clear communication and open dialogues.

There are many examples across a range of European cities and organisations which illustrate best practice in this area. This window into how private sector organisations operate and what they look for in the realm of urban development helps build more effective dialogues between stakeholders and helps provide an insight into how cities can become more competitive.

Box 4.26. **Prague, Czech Republic – the importance of a responsible private sector partner**

ING Real Estates Prague project portfolio compiles of contributions to solutions for the city's urban challenges, committed to transforming the city to a sustainable network of sub-centres and dense but comfortable living quarters mirroring the compact and highly attractive structure of Prague's world-renowned historic centre. Working in Prague shows the importance of a long term perspective. Not being too distracted by public opinion or trends has made projects like "Dancing Building" and Zlatý Andel possible. The same goes for most residential projects. In contrast, Galerie Butovice, that offered short-term gain and success, cannot be considered a success presently.

The most recent ING Real Estate's project in Prague is proof of its sustainable and city oriented focus. The A7 Holešovice Brewery project includes the reconstruction of three listed industrial buildings, plus the construction of four new buildings and an underground car park with 441 parking spaces. The reconstructed and new buildings will be used as office, commercial, and residential premises. The former brew house and the cask store provide the opportunity to create spacious loft-apartments in which the client will have a say in the finishing.

Sources: see endnotes [125] [126]

Box 4.27. **Henderson Global - considerations of a private sector urban retail investor**

The list below is the example of what a private investment firm looked for when considering Edinburgh City Centre as a retail investment option:

i. **Stable political climate and long-term vision.** Though the City has a relatively stable political climate, the City Centre lacked a clearly defined and long-term vision or masterplan, or indeed a determined, skilled and trusted organisation to manage this vision. This is a necessity to inspire confidence amongst investors in relation to the development potential of the City Centre.

ii. **Demographics.** For an investment to be a success there needs to be a high proportion of those with high levels of disposable income within the ranger of the City Centre. This is true for Edinburgh but effective competition from urban centres such as Glasgow, which attracts two million shoppers per year to Edinburgh's 800,000, means that this potential is not realised. In fact, a very poor '65.9% of those living in Edinburgh's urban core shop in it.'

iii. **Quality of setting.** The backdrop of the Castle, Arthur's Seat, and the City Centre gardens provide a potentially stunning setting for shopping.

iv. **Quality of buildings for retail.** The age and layout of the Princes Street buildings are not well-suited to retailing-use.

v. **Anchor stores.** Princes Street is made up of very few anchor stores. There are currently too many independent traders and faceless chain outlets.

vi. **Car Parking.** The City Centre car parking situation is very poor. This problem has no easy solution but must be addressed to make the area more investable.

vii. **Retail circuits.** There is a current disconnection between George Street and Princes Street as there is no obvious linkage between the two. A linkage could begin to energise pedestrian flows and thus 'circuit' shoppers around the City Centre, exposing them to more shops.

viii. **Public Realm.** The current levels of public realm are very mixed, exhibiting both world class elements and those that are very poor indeed. The standard of the public realm must be improved to make Edinburgh City Centre a more viable and comfortable shopping experience.

ix. **Transport access.** The arrival of the tram system within three years represents a significant step forward for accessibility to the City Centre by public transport. The bus congestion along Princes Street represents an important problem that needs to be addressed.

x. **Complementary land uses.** By creating a City Centre that is of mixed use with separate but complementary functional niches, as is suggested by the 'String of Pearls' development plan, there would be more people in and around the City Centre for more of the time, which maximises pedestrian exposure to shopping opportunities. Edinburgh City Centre can improve its multi-functionality, particularly along Princes Street.

Sources: see endnote [127]

Box 4.28. **Eurohypo – specialist real estate and public financier in Europe**

Eurohypo AG, a member of the Commerzbank Group, is Europe's leading specialist bank for real estate and public sector financing. It is also a major bond issuer and the market leader in the Pfandbrief segment. Corporate divisions include:

Real Estate: Commercial real estate financing including forms of structured financing both inside and outside Germany, international real estate investment banking.

Public Finance: The Public Finance division of the company covers conventional public sector lending, project and infrastructure financing, private public partnership models (PPP models).

In accordance with the company motto "all business is local" Eurohypo provides clients with a first class, one-stop service in their own locality covering advice, finance and support. Eurohypo identifies the best solution for its client's needs and their local contact will advise on all aspects of real estate, arrange tailor-made finance and, where necessary, bring in product specialists.

Sources: see endnote [128]

Box 4.29. **ING Real Estate – an example of effective private sector leadership**

The global real estate company ING Real Estate has been particularly impressive in the way in which it has facilitated and driven the development and investment process across Europe. The company has developed three tools in particular which help to establish, strengthen and retain relations between public and private sector partners to reach a sustainable and long term collaboration situation.

City Visions

Through the City Visions initiative, ING is able to provide municipalities with a creative approach to urban marketing. It is based not on specific development opportunities or deal-making, but rather relates to starting a conversation about a long-term vision of the development of the entire city which links local identity with the image the city promotes. The present self-image is first mapped and is based on desk research, media scans and interviews with experts within the municipality and prominent local personalities. Next, an internet panel of 40 to 50 city inhabitants complete a questionnaire scoring the city on 14 dimensions which are based on its present self-image, the image the city should strive for, and the city's perceived image (from the non-resident perspective). Results are then presented in a spider diagram which highlights scores for the present and desired city image. All results are then reviewed by an internal workshop and are translated into a small number of propositions which express ING's vision for the future development of the city. This vision is then presented at a seminar attended by prominent representative of the municipality, such as the Mayor and other Politicians, Further Education Institutions, local residents and the media. The initiative provides a more tangible definition of the investment gap in cities – a fundamental starting point to the process of investment attraction and retention.

The development game

ING uses a Development Game during the 'Master Class Area Development' section of its in-company training scheme. During the urban redevelopment process, apart from appropriate knowledge, it is also essential to adopt a flexible attitude and to develop negotiation and communication skills. The Development Game is designed to teach these skills. The game places Project Developers in the position of other stakeholders involved in the area development so that they experience new perspectives with different interests, values and objectives. The purpose of the game is to simulate the processes involved in area (re)development as

The development game

Image courtesy of ING Real Estate © 2008 closely as possible. Evaluation of the game is essential for it makes participants better aware of their behaviour and points out key lessons learned. The aim is to sensitise participants to the complexities of the area development process and to encourage them to discover and experiment with new modes of thinking and acting. The provision of an experienced team of supervisors to provide assistance is therefore an essential ingredient for a successful learning experience. This type of game challenges participants to look beyond their own private interests by developing their communication and negotiation skills. The underlying principle of the game is the attempt to highlight the fact that it is in the best interest of all actors to realise outstanding development projects. In other words, when private and public actors are able to share goals and concerns and have some insight to each other's limitations they begin to establish common ground they thought never existed.

Branding

ING has introduced a branding process in a number of area developments. For branding to be successful, it is necessary for key stakeholders to come together in a partnership. During the brand strategy development process, the members of the brand partnership need to understand and reconcile differing policies and strategies, decide on what the future of the area will look like, what it will offer to consumers and what can be done jointly to make that future a reality. This requires a willingness to collaborate and work through these matters even when that may be difficult due to conflicts of interest, different opinions, differing timescales and sometimes personal dislikes. Once the brand strategy has been agreed by the partnership its task changes. It then has to ensure that the right actions are taken so that the brand 'comes alive.' At its core, destination branding is about giving an area a new identity in the mind's eye of its audience. This requires a clear message which has to be developed and propagated by all stakeholders. As such, branding is a powerful tool in area development process as it deals with critical success factors such as trust, communication and exploring new opportunities. Successful branding can also make the discussion between stakeholders more open and underpin more sustainable long-term relationships. This is because the development of a brand forces stakeholders as a collective to think about what the future vision for an area should be. In this way, branding becomes a positive and shared means to think about a development, diverting attention away from solely focusing on negotiations on cost and finance. As has been suggested, to be effective, branding should be initiated before definite decisions and actions are taken on any of the other aspects of area development.
In this way, the brand may well lead all other development activities.

Sources: see endnote [129]

Box 4.30. **Budapest, Hungary – proactive private sector work can drive ambitious city development**

Park Atrium (2000) and Vorosmarty 1 (2007) were implemented on re-development sites in the downtown area of Budapest. Both buildings are iconic statements of modern architecture and probably the most often photographed new buildings in Budapest. Park Atrium, designed by Erick van Egeraat, has three "wings", offers 24,000m² creative working environment for ING Group Hungary, Deloitte and other tenants including 376 underground parking spaces. Facing the Central Park, between the Liget Centre and late 19th century eclectic style villas, Park Atrium's façade composition, detailing and treatment of materials reverberate the richness and complexity of the historic façade detailing evident in the city. The dynamics of the exterior continually fold indoors through one of the atria, connecting all office floors creating a flexible space framework to accommodate multiple tenant requirements for growth and contraction. Vörösmarty 1 (15,000m²) is situated in the heart of Budapest, at the city's most famous square, which is the gateway to the main pedestrian shopping street Váci utca, and offers a mixed use function of ground floor retail, three floors office, two floors of residential penthouses and 150 underground parking spaces. The façade by design of architects Jean-Paul Viguier and György Fazakas is a multilayered structure, where the exterior clear glass skin in a decorative geometrical structure composed of triangular elements is wrapping the functionally different internal layers into one homogenous building appearance. A three storey high internal atrium, starting from the 2nd floor, enhances the exclusivity of the building. A public-private partnership between the Hungarian Foundation for Art and Free Education and ING Real Estate made this outstanding project possible.

Presently, a three hectare redevelopment project with mixed use functions is underway. The Buda District Centre (ALLEE) will include 40,000m² retail, 6,000m² leisure, 7,000m² office, 88 high quality residential units sized between 35-130m² with over 12,000m² public space town- and landscaping. The retail and leisure centre will offer high quality range of goods and services, a fitness centre and 13-hall cinema operating as a part of it will provide the possibility of sporting and relaxing. On the basis of the Area Development Agreement the surroundings will profit greatly from the development as a public transport tunnel, underground parking, green plots and pedestrian malls will be created that diminish round level transport and parking in the area.

For the future, Budapest is focusing to build up its development pipeline for even larger area development projects. This will involve a shared vision between the municipality and private sector about how urban and real estate development can facilitate and enhance the city's economic progress towards a national and international business service hub.

Sources: see endnotes [130] [131] [132]

Box 4.31. **Allianz Global Investors – world class and flexible asset management group**

Allianz Global Investors is one of the world's top five asset management groups, with investment centres around the world and more than 900 investment professionals. Providing products for all major asset classes and investment styles, covering all major financial regions, and catering for retail and institutional investors worldwide, Allianz Global Investors follows one goal: to protect and enhance its clients' wealth.

Allianz Global Investors brings together a distinctive network of investment firms, each with its own dedicated resources and specialised area of expertise. Whilst most asset management firms manage all their investments in-house regardless of the type of fund, at Allianz Global Investors funds are managed using the most appropriate company within the Group.

For instance, bond funds are managed by PIMCO - the global fixed income company of Allianz Global Investors and one of the world's leading fixed income fund management companies. Equity funds, for example, are managed by RCM, the specialist global equity company of Allianz Global Investors.

The snap shot of the company is equally impressive. With about one trillion Euros of assets under management, access to more than 60 million clients around the globe and a staff of 4,300. Allianz Global Investors is well placed to work with cities to overcome their investment gaps.

Sources: see endnote [133]

4.3.2. **Other relevant bodies**

It is important to note that there are often many more stakeholders involved in the urban investment process than city and state governments and property developers. The case studies of the 38 cities across Europe provide evidence of the involvement of many actors. Often these are public or quasi public bodies where there is significant potential to contribute either to:

- Direct investment in the city;
- Provision of assets for external investment; and
- Pro-investment strategy making.

Good examples that appear in our case studies include:

- Housing companies;
- Infrastructure companies;
- State owned enterprises;
- Port Authorities and Airport Authorities; and
- Universities.

In many cases these quasi public bodies enjoy certain fiscal and financial freedoms that are not available to city governments and they are thus able to contribute to both bridging the capital gap and gaps the institutional framework. Equally, because they enjoy more freedoms and are only dedicated to a limited range of tasks they are able to build up specialist knowledge and be highly collaborative within a focussed set of arenas.

Thus, quasi pubic bodies are important partners in city investment activity for both city governments and for the private sector and may make a decisive contribution.

Box 4.32. **ECE: Investing in partnership with Szczecin City in Poland**

ECE Projektmanagement has been developing, planning, realizing, leasing, and managing shopping galleries since 1965 and is European market leader in this sector. Currently, ECE manages more than 100 centers in which more than 10,000 shops generate an annual turnover of approximately EUR 12 billion. Moreover, ECE also develops and builds transport complexes, logistics centers, company headquarters, office complexes, industrial buildings, as well as other special-purpose properties.

ECE commits itself to strengthening the city centers and works together with municipalities on a successful public marketing. This includes the creation of high-quality architecture that blends in with existing civic contexts as well as an effective and sustainable traffic planning. This means long-term investment in the projects and of course long-term investment in the cities' future. The reconstruction of the Braunschweig Residential Palace is a current example of ECE's engagement in private public partnerships. In obtaining the best possible results for a special region, ECE and the investors always work hand in hand and stay in close dialogue with the public authorities. In this case, ECE made a special effort to provide space to the town's public and cultural institutions in the restructured palace area. A museum, a public library, a cultural office, a congress and event hall, the registry office, and the town archives have found a new home in the rebuilt palace.

ECE also helps turning the cities into bustling places and vibrant markets - by winning new international, regional and local retailers, by regularly organizing cultural events or sports competitions and by sponsoring local activities.

Sources: see endnote [134]

Box 4.33. **United Nations Economic Commission for Europe (UNECE) – supranational institutional support**

The United Nations Economic Commission for Europe (UNECE) was set up in 1947 to promote pan-European economic integration. Specifically, the organisation provides analysis, policy advice and assistance to governments. It also gives focus to the United Nations global mandates in the economic field, in cooperation with other global players and key stakeholders, notably the business community.

The UNECE focuses on nine strategic programme areas, many of which directly relate to closing the European urban investment gap:

- Economic cooperation and integration;
- Environmental policy;
- Housing and land management;
- Statistics;
- Sustainable energy;
- Technical cooperation;
- Timber;
- Trade; and
- Transport.

Total expenditure by the organisation in 2007 amounted to USD 8,604.9 million.

Sources: see endnote [135]

Box 4.34. **Caisse des Dépôts – the French answer to closing the investment gap in a sustainable way**

Caisse des Dépôts is a public financial institution that performs public-interest missions on behalf of France's central, regional and local governments. In relation to urban investment the organisation supports low income housing, local and regional governments, local development services and real estate subsidies, private equity, long term institutional investment and infrastructure financing.

Caisse des Dépôts is present throughout France thanks to its regional offices, which work directly with local and regional governments, making the full range of Caisse des Dépôts's expertise and financing know-how available to them.

From extracts of the 2007 Financial report it is clear that the organisation has its own clearly articulated vision for the development future of France. It reads:

"Caisse des Dépôts is committed to serving the cause of sustainable development in France. To ensure that the necessary human and financial resources are allocated to this effort, the group's Elan 2020 strategic plan focuses on four critical areas: housing, universities and the knowledge-based economy, financing for SMEs and the environment."

To help meet the challenge of ensuring development is sustainable, Caisse des Dépôts has created a sustainable development department to coordinate and promote these activities and has adopted a three-part approach: (1) social and environmental responsibility; (2) socially responsible investing; and (3) the fight against global warming.

Specific to the fight against global warming, Caisse des Dépôts now promotes the development of carbon market mechanisms provided for by the European Union since 2005 and the Kyoto protocol from 2008. In this regard and very innovatively, the organisation is investing in four areas: research, market intermediaries, registries and technologies and carbon assets.

Sources: see endnote [136]

Box 4.35. **The European Investment Bank (EIB) – long term finance for sound investment in Europe**

The task of the European Investment Bank is to further the objectives of the European Union by making long-term finance available for sound investment. Very often, finance is made available to realise projects in Europe's urban areas. The EIB raises substantial volumes of funds on the capital markets which it lends on favourable terms to projects furthering EU policy objectives. The EIB continuously adapts its activity to developments in EU policies. Within the EU the EIB has six priority objectives for its lending activity which are set out in the Bank's business plan, the Corporate Operational Plan (COP). These priorities include:

- Cohesion and Convergence;
- Support for small and medium-sized enterprises (SMEs);
- Environmental sustainability;
- Implementation of the Innovation 2010 Initiative (i2i);
- Development of Trans-European Networks of transport and energy (TENs); and
- Sustainable, competitive and secure energy.

The COP is approved by the Board of Directors and defines medium-term policy and operational priorities for objectives given to the Bank by its Governors. It is also an instrument evaluating the EIB's activities. This rolling plan spans three years, with the strategic projections adapted annually to take account of new mandates and changes in the economic climate.

In 2007, the EIB approved EUR 48,663 million of projects in the European Union.

Sources: see endnote [137]

Chapter 5
Closing the Investment Gap in Europe's Cities

In this section we summarise our conclusions on what is now needed to close the investment gap in Europe's cities.

5.1 What is required now for successful city investment?

It becomes clear from the case studies and comparative analysis that though great variety exists across Europe, bridging the city investment gap requires a proactive dialogue between stakeholders. The product of this dialogue should be a clear and fully articulated, locally sensitised city investment strategy managed by a team of specialists and commanding support amongst wider public authorities and private investors.

The most successful examples are long term strategies that link investment, branding, purpose and they also tend to integrate capital, knowledge and skills, institutional frameworks and collaborations. When pursued with conviction, they acquire greater financial and investment sophistication over time. The analysis showed some examples of real and tangible success.

However, what is needed in Europe now, is not that just that individual cities become more effective at attracting investment, but that the whole urban system becomes better able to access investment on a sustainable basis. This will require some pan-European actions as well as local and national initiatives. We need a dynamic network of stakeholders in the city investment process to sustain a permanent dialogue surrounding how to make Europe's cities more competitive and sustainable by consolidating and coordinating investment efforts. At the heart of closing the investment gap in Europe's cities is the need for a new working relationship between cities and investors/developers, supported by national and inter-governmental investment organisations. This new working relationship needs to focus on:

- Fostering a long term market in urban investment in Europe by demonstrating the benefits for public and private interests that are available from shifting to a higher investment/higher return equilibrium.
- Increasing skills and knowledge on investment in urban areas in both public and private sectors.
- Driving up innovation in investment mechanism and tools. Drawing attention to innovative practices.
- Benchmarking and supporting interaction between cities and investors on a Europe wide scale, learning lessons and building relationships across Europe.

5.2 Tackling the Economic Downturn

In chapter two we reviewed some of the key implication of the current economic downturn for city investment in Europe. From this analysis it is clear that cities can take a number of steps to better withstand the recession and to retain investment and development momentum. We codify these in themes:

i. **Focus on retaining investment, business, incomes and jobs**
A major effort should be on retaining and supporting firms and investors in order to retain jobs and incomes in the local economy. These are critical to retaining populations which is important for longer term investment overall.

ii. **Manage assets and resources differently**
Public assets such as land and buildings can be important ingredients in making investment work. Cities can consider how to use 'none-cash' resources better to incentivise private investors.

iii. **Use the time to develop long term investment strategies and investor relationships**
The recession is an important time to plan and bring forwards long term thinking which differentiates the city from others and makes a compelling case for the future. Longer term goals such as environmental sustainability and quality of life should not be forgotten: they are key to future investment.

iv. **Make public investments that will attract private investment**
Public investments should be designed to attract private investment not substitute for it. The basic rule for achieving both high ERR and IRR from developments should be observed.

v. **Make improvements in the three other drivers of investment and in integrated planning**
When capital is tight it is important to address other investment drivers and ensure that they are performing optimally. Therefore, attention to skills and knowledge, the Institutional Framework, and to effective collaboration are essential during the recession.

Box 5.1. **Glasgow, United Kingdom – battling the gap during the downturn**

Glasgow is Scotland's largest city and a major contributor to the nation's economy, generating over GBP 13 billion Gross Value Added each year (GBP 14.1 billion in 2007 – 16.3% of Scottish gross output) and supporting over 400,000 jobs. The city has seen significant economic and employment growth over recent years with over 60,000 additional jobs boosting the city's own employment rate and increasing Glasgow's importance in the wider region. Private development activity was at its highest ever in the financial year 2007/8 - GBP 4.3 billion. Four years before, this figure was GBP 2.8 billion. The city's economic transformation remains incomplete, however: significant challenges, such as low productivity, worklessness and derelict land remain and others will grow or emerge. However, there are a number of key redevelopment projects currently underway within the city to upgrade its property and infrastructure stocks.

Evidence shows that a range of methods has been used to encourage capital investment in the City of Glasgow over the past ten years. According to the Glasgow City Council Finance Committee, Scottish Government funding has been made available and combined with resources City Council. There are a number of cases which illustrate how the city has generated capital investment to stimulate development. Project 2002 represents an ambitious plan public-private partnership by the by the city council to regenerate the city's schooling system. Providing an upfront investment of GBP 225 million, which will equate to GBP 1.2 billion over the project's 30 year life span, the project delivered 11 new build and 18 refurbished schools over a three-year period. It has also provided the city with 29 well-equipped, up to date schools capable of delivering a quality education service for the duration of the project. In June 2007, the City Council transferred the ownership of its car parks to city parking LLP. This generated over GBP 40 million for the council, and the LLP has gone on to raise GBP 5 million of investment to ensure that the car parks are fit for purpose. In March 2003, some 81,000 houses were transferred from the City Council to the Glasgow Housing Association (GHA). This wrote off GBP 900 million of debt and saw the GHA initiate a GBP 1.7 billion investment programme over ten and a half years.

The Clyde Auditorium at the Scottish Exhibition and Conference Centre

Image courtesy of the Wikipedia Commons © 2008

In November 2008, Council Leader, Steven Purcell announced a series of new measures in the city to help Glasgow remain investment attractive and ready throughout the credit crunch period. These included:

- A new Economic Advisory Board comprising of Sir Tom Hunter, Willie Haughey, Jim McColl, Akmal Khushi and Dr Lesley Sawyers.
- More flexibility in the Council's land disposal policy to make it easier for projects to get off the ground.
- Deferring requests for the payments companies have to make to develop sites.
- More flexibility in the way the Council allocates grants for social housing.
- Extension of a Business Investment Fund which offers low-cost loans to small and medium-sized businesses.
- Creation of a GBP 36 million Better Glasgow Fund to pay for regeneration projects.
- Free parking in all Council car parks and Strathclyde Partnership for Transport park-and-ride car parks on the last Sunday before Christmas in 2008.

As well as tackling the credit crunch and nurturing very positive public-private partnerships Glasgow has simultaneously employed an events-led development strategy. In conjunction with effective destination marketing campaigns, events such as Mayfest (1983), Glasgay! (1997) and The River Festival (founded in 2004) have drawn down funding from the City and National Governments not to mention the private sector.

Sources: see endnotes [138] [139] [140]

5.3 Building an urban investment network

Given the importance and the complexity of the investment process in terms of the diversity of stakeholders involved and of the strategies and mechanisms employed, it is surprising that more conversations around bridging the investment gap are not under way.

5.3.1. The Urban Investment Network

We propose that an Urban Investment Network be built for the combined efforts of Cities, investors, developers, National Bodies, and Inter-national Financial Institutions.

The Urban Investment Network represents a means to begin a dialogue between those individuals, institutions and organisations which are committed to making Europe's cities stronger, more sustainable and more competitive through investment.

The network will have up to 250 members when it is fully mature.

A Founding Members Group is being recruited. This will include leading cities, investors, developers, and Financial Institutions committed to closing the investment gap.

In the interim there are important themes that an Urban Investment Network should pursue to develop a common agenda for Europe. These include:

i. Bridging the City Investment Gap: the role of city investment strategies.
ii. Building strategies to attract and retain investment during the recession.
iii. Value Capture Finance for Urban Development.
iv. Using Public Land Assets to attract Urban Investment.
v. How to market cities to optimise investment.
vi. The role of urban investment and development funds.
vii. PPPs and Urban Infrastructure: latest Trends.
viii. City Centres, Waterfronts, and Hosting International Events: how to use them to attract commercial investment into cities.
ix. Foreign Direct Investment: Latest Trends in Europe and Real Estate Implications.
x. Profiting from Urban Regeneration: the role of pensions funds and sovereign wealth funds.
xi. Investment Strategies and Financial Partners for Cities: Review of UIN Members Perspectives.

Figure 5.1. The role of the Urban Investment Network (UIN)

An urban investment network will provide cities and property professionals with an intelligence system for raising the investment rate in Europe's cities for the benefit of all stakeholders.

To find out more contact www.uli.org/uin.

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