Kranspoor, Amsterdam, The Netherlands

Leveraging Public Land to Attract Urban Investment

A ULI Urban Investment Network Report

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Urban Land Institute

Urban Investment Network

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.

ULI Europe

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.

- **Bring People Together**–ULI activities in Europe are diverse, frequent, and of high quality including conferences, invitation-only roundtable District Councils and research panels.
- **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.

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Urban Land Institute

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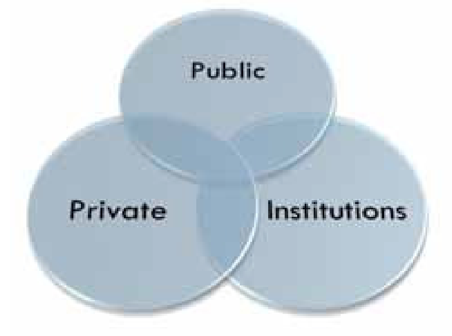

What is the ULI Urban Investment Network?

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.

Why is the ULI Urban Investment Network needed?

Effective collaboration is essential if Europe is to meet the 21st century challenges of being globally competitive in a knowledge-led economy, reducing carbon emissions and making the most effective use of land for urban development. The ‘investment gap’ is broader than capital, as opportunities also exist to improve knowledge and skills, institutional frameworks and techniques for collaborative working.

Who is engaged with the ULI Urban Investment Network?

- Corporate and institutional investors, developers and advisors
- Specialised urban, property and infrastructure fund-managers or financiers
- City and metropolitan leaders and development executives
- European financial institutions and National development bodies

Next Steps

A network of up to 200 organisations is being built which will meet regularly and develop trusted relationships that deliver a high level of knowledge exchange. Following successful workshops and the first annual Urban Investment Network Summit in 2009. A series of workshops, leadership forums and summit will take place in 2010 and 2011. Please contact Sarah Nemecek for more details sarah.nemecek@uli.org

www.uli.org/uin

Founding Partners:

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Contents

Introduction

The Urban Investment Network was created by ULI and its Founding Partners to foster a permanent dialogue between public and private sectors on urban investment issues and to help build a new agenda and tools for urban investment following the economic and banking crisis of 2008-2010.

This report presents the conclusions of an Urban Land Institute workshop that explored the role of public land and public land holdings as a means to attract urban investment and to provide a means to stimulate development at a time when investment capital is scarce. The workshop was run in March 2010 by ULI under the auspices of the Urban Investment Network.

This workshop explored the experiences of seven different cities in using public land to promote urban investment. The workshop also heard from private sector experts regarding their views of what works in making public land management good business for cities in the long term.

Public land is an important resource in many cities, but it is often caught in a low investment and low return equilibrium with sub-optimal uses. Public land in cities may be owned by local, regional, or national governments, or by quasi-governmental or para-statal organisations. Public land ownership and management is often not well co-ordinated between such bodies and there is rarely a strategy or programme for managing public land effectively. Cities often have high concentrations of public land due to their historic roles as centres of government, utilities, and infrastructure and due to their administrative functions.

For cities that are seeking to raise their rate of investment, public land is potentially an underutilised resource, especially when public finances are tight. Public land might be used in a variety of ways to attract private co-investment. It may be that public land can be used as:

- A means to plan and develop new functions and districts and to establish longer term and higher value goals to certain land parcels.
- A means to lower costs and boost returns to private co-investors in land, or projects, which are otherwise un-economic.
- An equity contribution to a longer term joint venture with a private partner.
- Part of a land swap arrangement that helps to assemble one or more parcels of land for development.
- A means to resource and deliver social and environmental infrastructures within a larger development which is commercially driven.

However, simply selling public land at the highest achievable price, whilst it will generate a capital income for the land owners, may not produce the best outcomes in terms of urban development, and only result in such public land holdings becoming depleted over time and becoming unsustainable. So what else can cities do to attract private investment using public land?

"We need to forge the tools to move forward. The Urban Investment Network and ULI can be critical to engage these discussions."

Nicolas Buchoud, Advisor to the President, Ile-de-France Region

"Cities have the most powerful tool in land use zoning/ permitting which is hugely valuable."

Jörg Banzhaf, Managing Director, ECE

"The recent ULI/PwC Emerging Trends survey shows that city rankings have changed. Investors now want the stability of German cities, UK and France. Before the most popular cities were Moscow and Istanbul."

Kees Hage, Global Real Estate Leader, PwC

Case Studies

Case Study 1: **HafenCity, Hamburg**

Overview

'HafenCity' is Europe's largest urban development zone. The development is under the management of HafenCity Hamburg GmbH, a 100% subsidiary of the Free and Hanseatic City of Hamburg. The agency has been charged with developing the masterplan for the area under powers that were granted to it by the City in 1998.[1]

Where Is The HafenCity Redevelopment Occurring?

The agency's work is focussed on reclaiming the 155 acre site which makes up the former harbour areas near to the city centre. The development of this public land is intended to extend and enlarge Hamburg's city centre by nearly 40%.[2]

What Is HafenCity Hamburg GmbH?

HafenCity Hamburg GmbH is a wholly owned subsidiary of Hamburg City State Government, working with both public bodies and the private sector. The city state is responsible for creating the right framework for HafenCity Hamburg GmbH to operate in. In addition, the city state sponsors its initiatives, adding credibility to the agency's work.

Whilst HafenCity Hamburg GmbH has a degree of autonomy to act, they must also work in partnership with the Authority for Urban Development and the Environment, which has its own working group covering building approval.[3]

HafenCity: A Flexible Masterplan

In 2000, Hamburg's State Parliament adopted the HafenCity masterplan, to be developed by HafenCity Hamburg GmbH. One of the most important attributes of the masterplan is its inherent pragmatism, which ensures that development plans are always considerate of the 'current' operating environment. For example, the original masterplan was reprinted in 2006 as part of the ongoing development process, detailing major new projects and changes such as higher density development, dissolution of restricted areas, as well as a new underground line and educational and cultural facilities.[4]

What Is The Role Of HafenCity Hamburg GmbH In The Redevelopment Process?

In addition to creating the masterplan, HafenCity Hamburg GmbH has been tasked with buying back privately owned land in the project area, bringing it under the control of the city.

Furthermore, HafenCity Hamburg GmbH carries out two distinct, but highly inter-related functions. At one level, the agency is involved in high-level and complex project management. It is responsible for managing the project of urban restructuring through planning, implementation, development management and promotion. This responsibility for 'urban restructuring' encompasses all infrastructures in the area, such as streets, promenades, parks, plazas and the quay wall. Simultaneously, the agency is charged with managing the performance of the district e.g. making the public realm attractive, keeping signage in good condition and encouraging people to come to the area.[5]

HafenCity Hamburg GmbH offers no financial incentives or tax breaks for developing within the area.

Partnership Working Is Key

There are very close working relationships between the city state of Hamburg, HafenCity Hamburg GmbH and the private sector. The agency acts as a lobbyist, attempting to attract private investment into HafenCity in a way that shares risks and costs. To induce private sector success, Jürgen Bruns-Berentelg, CEO of HafenCity Hamburg GmbH, states that the important factors are: relating the project to the overall strategy of the city; an appropriate spatial strategy; reducing risk; increasing competition; increasing transparency; reducing free rider strategies/coordination time-wise; increasing innovation and quality; and increasing diversity and creating market niches. The private sector firms involved are mainly property firms, large corporate companies, investors and smaller companies which will be tenants.

With the exception of the amendments made in the 2006 masterplan, the development is proceeding largely as planned. In many cases, work has progressed faster than expected, with the city not changing its overall approach in the light of the financial crisis, but merely emphasising different projects. The first quarter was completed in 2005 and work on the others continues, with many expected to be functional between 2009 and 2011. The whole project is envisaged to be completed between 2020 and 2025.[6]

HafenCity Development
Source: Jürgen Bruns-Berentelg, HafenCity Presentation, UIN Workshop 2010

"Public investment is not substituted by private investment."

"Private development market for a new city of this size does not exist but is created."

Jürgen Bruns-Berentelg, CEO, HafenCity Hamburg

"Risk is inherent in the length of time these projects take to come to fruition – Barcelona took 10 years to get going and needs another 30 to complete, HafenCity took 15 years."

Jörg Banzhaf, Managing Director, ECE

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Case Study 2: **The 22@ District, Barcelona**

Overview

Barcelona's hosting of the Olympics in 1992 marked a definitive step-change in urban planning in the city, which manifested itself in Barcelona City Council's approval of the planned transformation of the old derelict industrial area of Poblenou into a centre for innovative, knowledge based businesses.[7]

What is the 22@ district?

The area of previously derelict industrial land is being built as a new compact city. It is to become the home of the most innovative companies, which will co-exist with research, training and digital centres, as well as housing, facilities and green areas. The project aims to rezone and redevelop 200 hectares of derelict industrial land in the Poblenou quarter and transform it into a new innovative business district.

To this end, 22@Barcelona currently houses some of the world's most innovative companies, universities and researchers. From internationally recognisable names, such as Microsoft, through to smaller, more niche SMEs. Companies are attracted to the district because of benefits such as good returns, low vacancy rates and a public commitment from the administration, amongst other benefits.[8]

How Is The Development Being Funded?

In 2000, Barcelona City Council approved an urban planning ordinance which led to the creation of the new 22@ district. Simultaneously, they introduced new regulations to change the use of industrial land in the Poblenou quarter. These regulations set out the conditions and parameters for land exploitation, payment of urban planning overheads, and for the fair distribution of benefits and expenditure. Within the new 22@ zone developers were given new opportunities and increased rights if they were willing to share the preparatory costs of the urban transformation.

In exchange for a planning permit, which allows for a change in land use or land development density, the city council 1) demands rights to 30% of the total land area of the proposed development or the equivalent current monetary value of the land be transferred to the city; and 2) charges a development levy of €80 per square metre of land developed (updated annually). The transfers and levies are donated directly to the publicly-owned 22@BCN company and are an excellent example of value capture finance in practice.[9]

Companies and institutions located in the 22@ district
Source: Jordi Sacristán Adrià Presentation, UIN Workshop 2010

Who Are The Key Players Involved In The Development?

Initially, Barcelona City Council provided the initial catalyst for change. However, further redevelopment within the 22@ district has arisen as a result of partnership working between the city council, private sector companies and the 22@ BCN company, who are the recipient of all the financial and in-kind contributions leveraged from developers. Subsequently, the company is also responsible for managing the re-investment and re-distribution of these funds within the district.

What Benefits Has Value Capture Finance Provided To Barcelona And Its Economy?

The 30% land or monetary contribution, as well as €80 per m2 levy, have funded many of the improvements that have taken place within the 22@Barcelona zone. These include:

Encouraging knowledge transfer. The 22@Barcelona project is committed to creating an environment which is conducive to the growth of knowledge based activities. This includes the creation of business incubators and R+D centres, as well as encouraging collaboration between businesses and research institutions. Universities are also being installed in the district, where private factories were previously located, which gives private companies better access to talented individuals.

Land clearance and site preparation. The removal of many dilapidated industrial buildings has been a core component of the improvements that have taken place in the district.

Infrastructure improvements. These have included the provision of fibre optic cabling, selective and pneumatic waste collection, a centralised air-conditioning system and Wi-Fi connection in the streets and beaches.

Green space and public facilities creation. The 22@Barcelona project is committed to devoting 10% of the previously industrial land to the creation of 114,000 square metres of green spaces and 145,000 square metres of public facilities in the area. This commitment dramatically improves the quality of living for Barcelonians.

Social and student housing provision. As well as student housing, implementation of value capture finance has funded the provision of 4,000 affordable housing units. These subsidised developments allow young people to be able to afford a flat in the new technological quarter of the city, which in turn serves to make the community more vibrant.

Effective destination marketing. Part of the development levy is used to market the area to potential investors and developers.[10]

"Barcelona is devoting the new public land to the knowledge economy."

"With a PPP orientation, Barcelona will be able to deliver a project as big as La Defense, in half the time."

Jordi Sacristán Adria, Marketing and Communications Director, Barcelona City Council

7 22@ Barcelona (2010): What is 22@ Barcelona?, 22@ Barcelona, http://www.22barcelona.com/index.php?option=com_frontpage&Itemid=83

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Case Study 3

Project Edinburgh, Edinburgh

Overview

Project Edinburgh started in 2004. The project aims to utilise the City of Edinburgh Council's assets,authorities and statutory powers to assist the private sector in creating investment potential through the physical regeneration and economic reinvigoration of four key development regions. Working at either end of the process means that Project Edinburgh is able to develop the city in the way that they need in order for the city to progress.

Development Is Taking Place In Four Spatial Regions Across The City

The model used for development is slightly different in each of the four regions, but the theme of utilising Public Sector land use planning, infrastructure planning and land acquisition powers are prevalent in each of the four regions to varying degrees.[11]

i. City Centre redevelopment and the string of pearls.

Princes Street, the location of the city's retail sector, simply does not have enough space for the number of retailers who want to trade in the city centre and those that are already there are too often forced to trade from inadequate sites. Subsequently, Princes Street has been divided into ten sections, each representing a pearl, with a number of planned and live interconnected developments stretching from Calton Hill to Haymarket. The String of Pearls project aims to generate greater architectural quality and better shopping provision by developing the unique character of each block, rationalising the retail floor plates and providing tenable occupation in the vacant upper stories.

In order to successfully attract large scale hotel and retail developments, such as those being developed by Deramore, Henderson Global, Stockland, Apex Hotels and others, Edinburgh Council have actively pursued a policy of improving infrastructure in the city centre. The city centre is well serviced by an extensive network of bus services, but from 2012 the city is set to benefit from trams as part of an integrated transport network. In addition, Edinburgh City Council has also committed to improving the built environment in order to make the area more attractive to shoppers and businesses alike.[12]

ii. City Centre West Development.

West Edinburgh is the Gateway to the city. In recent years, the developments at Edinburgh Park have led to the area becoming a business hub, with the business park adopting a campus style layout and attracting a number of high profile companies, such as the international Headquarters for the Royal Bank of Scotland. The park is attractive to such companies because it is within commuting distance of a 'large and talented workforce' and its proximity to Edinburgh Airport provides an unrivalled level of international connectivity.[13]

A further 20 hectares of Green Belt land has been strategically allocated for the second phase of construction within Edinburgh Park in an effort to attract increased private investment.

iii. Edinburgh Science Triangle

Edinburgh's Science Triangle is ranked among the world's top-20 and Europe's top-10 science park locations. The seven science parks are within just 30 minutes of each other, the city centre, the airport and all of Edinburgh's acclaimed universities and research institutes. One of the highest profile developments taking place in the Science Triangle is the construction of the Edinburgh BioQuarter. By using public land to construct the BioQuarter, the city hopes that its completion will be followed by an influx of private investment from companies wishing to capitalise on the clustering advantages of the site.[14]

iv. Waterfront Zone

The 30 year masterplan for the Waterfront, devised by Forth Ports Plc, will transform the industrial periphery of Edinburgh into a new urban quarter for the city. The 305 hectare development site is owned by three separate organisations: Waterfront Edinburgh Ltd, Forth Ports Plc and National Grid Property.[15]

Forth Ports Plc began regeneration activities during the 1980s. However, in more recent times, the masterplan for the Waterfront has hit an unexpected funding crisis due to the global recession. The city council believes that the future of the development rests on leveraging public land further in order to attract increased private investment. In response to the crisis, the council is set to become the first in the UK to utilise a system of Tax Incremental Funding (TIF) in order to

Edinburgh Waterfront Development
Source: Jonathan Guthrie Presentation, UIN Workshop, March 2010

attract further private investment to the Waterfront. By spending £84 million on infrastructure work, the move will encourage businesses and developers to invest in the Waterfront area. TIF allows the Council to raise the capital required to facilitate the infrastructure improvement against future increased income from business rates. The money from the proposed finance arrangement would be used to fund a public esplanade for new shops and restaurants at the water's edge outside Ocean Terminal and a new pier for the Britannia and visiting cruise liners. Secondly, the money would be spent on a new road link between Seafield Road and Constitution Street to improve access from the east and new lock gates to make ferry and marina facilities possible.

The TIF method, if adopted as anticipated, is expected to create anything from 2,630 to 7,172 new jobs in the area and is set to attract additional investment of between £72 and £206 million.[16,17]

"Project Edinburgh accepted that the public land was of low value so have instead joined with a private owner to create a new shared vision – the Forth Ports redevelopment."

"We use not just public land, but public permissions to add value, creating a vision for the future."

Jonathan Guthrie, City Centre Development Partnership Director, Edinburgh City Council

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Case Study 4:

Integrated Province Planning, Istanbul

Overview

Turkey has been experiencing unbalanced national development patterns for the last 50 years; which have resulted in massive migration from its underdeveloped central and eastern areas to the mega-region around Istanbul, the nation's economic hub. Therefore, Istanbul and its metropolitan area now have a population of more than 20 million and the surrounding Marmara mega-region has 45 million of Turkey's total population of 70 million.

The Impact of Natural Disasters

Beyond the daily impacts that over-population and its effects have on the livability and vitality of the Istanbul metropolitan area, this excessive concentration of economic activities and residents could have an even more catastrophic effects on the whole nation in the event that a severe earthquake were to strike Istanbul, a seismically active area.

While the official forecast of potential earthquake related deaths from a severe tremor striking Istanbul is 200,000, some forecasts have concluded that as many as several million deaths and injuries. A major quake would result in losing not only much of Istanbul, but much of Turkey and its productive capacity for months or even years due to the over-concentration of the country's economic activity and population in the Istanbul region.[19]

A New National Development Plan

Turkey urgently needs to develop its own national development plan to promote more balanced development patterns. The strategy should focus on revitalisation of the economy in underperforming areas of central and eastern Anatolia through the creation of alternate "growth poles" that could become magnets for new jobs and residents. This plan would provide benefits to the entire country and all of its citizens.

If successful, this national strategy would encourage residents to stay in these regions, and would discourage continued migration to Istanbul and the Marmara mega-region. This national development plan would also provide important advantages to Istanbul and other rapidly growing areas of the country, by permitting these places to sustain their quality of life and meet their urban development and infrastructure needs. This national strategy should also include initiatives to improve mobility and other infrastructure systems and the structure of future urban development in the Marmara mega-region and other mega-regions.[20]

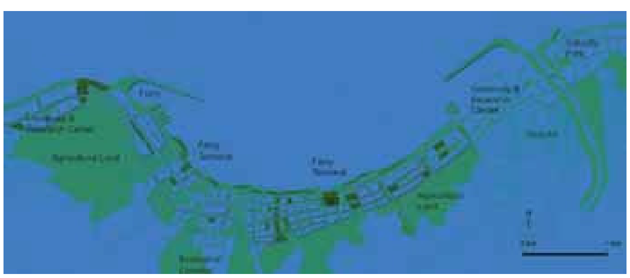
Regional And Integrated Province Planning

Regional planning should identify linkages among road, rail, and water traffic to distribute population, commerce, industry, and recreation across mega-regions. New zoning laws should be set in place, regulating the locations of residential, commercial and industrial uses as well as the size and bulk of buildings, reducing conflicts in use throughout the city while preserving light and air for streets and public spaces.

Integrated Province Planning In Action: The City of Rize

Integrated province planning should be developed throughout Anatolia to regenerate existing cities and villages around them. An integrated province plan has been developed by the University of Michigan for the Rize province, on the Black Sea cost of Turkey. The design and planning concepts for the city of Rize:

- An appealing city which rationalises the distribution of industry and services, creating a healthier quality of life, as a place to live, work, conduct business, and visit.
- A high-functioning city, with the power, water, transportation, and infrastructure to satisfy 21st-century demands.
- An equitable city, providing residents with access to resources that will enable them to be productive and enjoy higher standards of living.
- A safe and healthy city, with good security, sanitation, recreation and health care for its people.
- A beautiful city, with gracious parks, fine streets, and elegant public spaces and buildings.
- A city of learning, where children, adolescents, and adults have access to life-long learning.
- A tourism city that will draw people around the world.
- A sustainable city, making Rize a leader in the use of local construction materials for new resident buildings, alternative power sources such as sea water, wind, and the sun.[21]



Rize city centre
Source: Istanbul Konut Inc

"Typical solutions don't work for Turkey because we don't have time, particularly with the long-term regeneration challenge around the earthquake risk."

Hüseyin Eren, Assistant Secretary General, Istanbul Metropolitan Municipality

"For Turkey, urban regeneration needs to consider environmental sustainability as well as the development of potentially entire new cities and towns."

Musa Yetimoglu, CEO, Istanbul Konut, Inc

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Case Study 5:
The Ground Lease System, Amsterdam

Overview

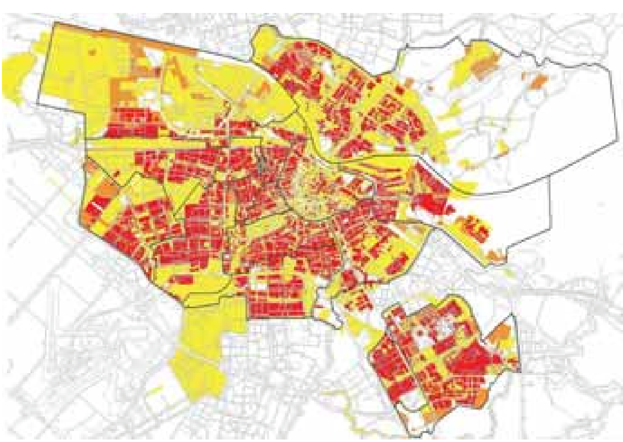
In 1896, the municipal council of Amsterdam decided to cease the sale of land in the city and introduced the ground lease system, which remains in operation to this day.

The Ground Lease System: A Brief Description

The land which is leased to the lessee remains the property of the municipality, but the lessee is given the right to hold and use the land in return for ground rent paid to the municipality. The price of sale can vary depending on land use. The lessee has the authority to sell the ground lease right or grant a mortgage on the property. However, this does not affect the original agreement that the lessee signed with the municipality. The rights apply for an indefinite period, parted into administrative periods of lease of 50 to 75 years. If any change of general conditions takes places within this period, it will be included in the contract at the end of the administrative period of lease.[22]

Why Was The Ground Lease System Introduced?

The ground lease system was initially introduced to prevent large-scale land speculation, to improve the living conditions for workers and as an alternative to raising taxes. Although some of these reasons still hold true, today the reasons for its existence have evolved to include: The prevention of land speculation, especially with regards to housing; it increases the influence that the city government has on development; the benefits which arise from the increase in land values flows back into society.



Map illustrating the proportion of land under the ground lease system
Source: Jan Hagendoorn Presentation, UIN Workshop 2010

The map below illustrates what proportion of the land in Amsterdam is owned by the city council under the ground lease system and what proportion is owned by the private sector. The areas marked in red (over 85%) are owned by the city council and are subject to the ground lease system.

Where Is The Money From The Ground Lease System Spent?

Each year, the city council has an income of around €60 million from the ground lease system and much of this money is put towards general city costs, such as education provision and the arts (€45 million), as well as a housing fund (€15 million).[23]

The Equalisation Fund

The equalisation fund, set aside by the city council, aims to create extra value on publically owned land in an attempt to attract private investors. Over the next 20 years, the city council has committed to spending over €6 billion in future city investments. However, the global recession's impact on businesses means that the city estimates it will only have an income of €5 billion over the next 20 years, leaving it with a €1 billion deficit and a €360 million direct cash flow problem.[24]

IJburg

IJburg is on the east side of Amsterdam in a suburban area, with planning beginning as early as 1996. The land was reclaimed by the City of Amsterdam and is subject to the ground lease system. The project is taking place on man made islands which were created specifically for this development. The development, once stage 2 is complete, will have 18,000 dwellings and 45,000 inhabitants, divided over 6 islands.

Responsibility for the urban layout lay partially with the market, which resulted in a drawn out process which saw land prices inflate. Consequently, the city council has learned that they should focus on developing smaller plots of land and shorten their construction period.

Other ground lease projects include the Zuidelijke IJoevers and Zuidas developments.[25]

Lessons Learned From Past Experience

In response to past successes and failures, the city council has made the following pledges with regards to their activity: Making sure that projects are within the city council's capacities; the city council will again take the lead; there will be a clearer division between public and private roles. The first new step will be for public parties take lead in infrastructure provision.

What Opportunities Exist For The Ground Lease System In The Future?

- The city council can make made to measure deals with market parties.
- Leases can be paid at once, or alternatively on a yearly basis, which gives the private sector a bit more freedom to commit, which is especially important during the recession.
- Build up new relations based on trust.
- Be open for new relations, Europe and newcomers.[26]

Lessons have been learned from Hamburg's method of operation in terms of parting company with private actors with mimimal fuss at the end of lease agreements.

"When there is not enough, we create new public land!"

Jan Hagendoorn, Director Land and Development, City of Amsterdam Development Corporation

[22] City Of Amsterdam Development Corporation, The use of public ground lease in European cities, City Of Amsterdam Development Corporation

[23] Hagendoorn, J, Leveraging Public Land to Attract Urban Investment (2010), Urban
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[24] Hagendoorn, J, Leveraging Public Land to Attract Urban Investment (2010), UIN Workshop 2010

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Case Study 6:
Paris And The Ile De France Region

Overview

The future growth of Paris and the Ile de France Region is laid out specifically in the 2030 masterplan. Its realisation is as reliant on public-public partnerships as it is on public-private partnerships.

Ile de France is aiming to use overall public planning and the normative land management system at the regional metropolitan level to deliver:

i. Effective policy for compact urban environment with increasing pressure to factor in environmental considerations.
ii. A full re-organisation of the public transportation system.

The Ile De France 2030 Masterplan

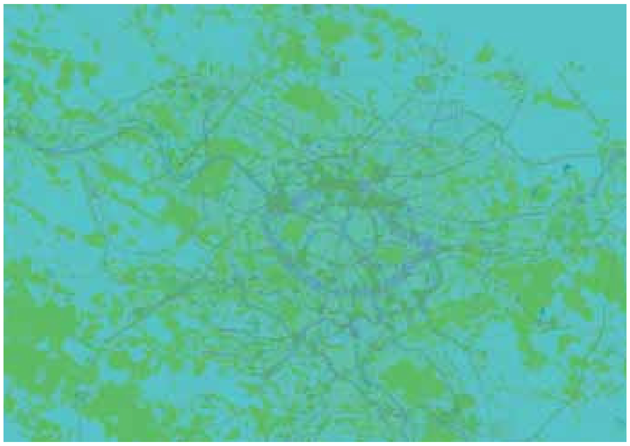
In September 2008, the draft Ile-de-France 2030 masterplan was officially adopted by the regional council and is a decisive step towards a new future for the region. The plan outlines the key policies that need to be made to meet three overall goals: Improved social equality, and territorial and social cohesion; anticipation of, and action against, climate change; enhancement of the region's international attractiveness.

The 2008 Schéma directeur de la région (SDRIF) masterplan outlines plans to build 60,000 houses per year up to 2030. 35,000 dwellings are to accommodate new households, 6,400 to eliminate the accumulated deficit since 1990, and 14,000 in compensation for the existing fleet. Housing will be located to minimise travel to new job growth poles, and will be guaranteed strong transport links. The plan explicitly states the city must battle against gentrification and the creation of unaffordable suburbs. Sprawl is also discouraged.[27]

The SDRIF is also a land-use document that regulates local master plans. It aims to prevent urban sprawl, promote a compact city and support urban regeneration.

Public Planning And Normative Land Management System At Regional-Metropolitan Level

In order to facilitate the growth outlined in the SDRIF masterplan, the availability of the requisite land is key. The diagram on the following page illustrates the urban growth potential of the Ile de France region. The red and orange dots on the diagram illustrates that there is in excess of 34,000 hectares of land which has been made available to facilitate the achievement of the urban growth potential of the region between 2010 and 2030. The land identified is predominantly public owned. However, the land is often owned by multiple public actors, each of which can often have conflicting interests. Therefore, the Regional Council, responsible for the implementation of SDRIF, must negotiate with public actors in order to acquire the land needed for the masterplan to be implemented.



Map showing plans for urban growth in the Ile de France region
Source: Nicolas Buchoud Presentation, UIN Workshop 2010

Regional Direct Investments Through A Dedicated Agency (EPF)

Whilst the SDRIF masterplan lays out the vision for the Ile de France Region and the regional council acquires land and brings it under its own control, the next stage sees some of the publically owned land leveraged by a special purpose vehicle in order to attract private investment. Subsequently, the Public Foncier Ile-de-France (EPF), a legally and financially autonomous public entity, was created on 13 September 2006.

The aim of the agency is to make land "ready" for development. Therefore, the agency acquires an area of brownfield land, clears it and ensures that it has the requisite planning approvals to attract private investment. The land is then parcelled up and sold to private investors. In addition, the agency adds value by providing expertise to its partners during the development phase of the project. Crucially, the EPF ensures that all developers meet their strict criteria with regards to social quality, environmental quality and architectural quality.[28]

The Development Of A Regional Transport Infrastructure

The challenge is how to sustain expansion without a suitable transportation system in place. There is a need to investigate what kind of large-scale transportation system is needed for the future, which must connect with the pattern of development identified. The current peripheral metro is the ARCEXPRESS, which would require a €6.5 billion investment and €18.5 billion investment in connected projects to deliver a regional vision. The aim is to echo Tokyo with links around the core. ARCEXPRESS is partially funded by public sector and private funding is being sought. In addition, a private sector tax for funding transportation (€150 million annually = €15 billion in 10 years) and value capture finance are being considered.[29]

"Flexible financing such as Tax Increment Financing, Value Capture Finance and other forms of public expenditure need to be considered."

Dion Panambalana, Partner, Lovells

"Now very clearly the core of the metropolitan area has changed and the core accounts for the bulk of the economic development – 6.7 million inhabitants need better connections!"

Nicolas Buchoud, Advisor to the President, Ile-de-France Region

"We are moving into a new dimension of building on a metropolitan level."

Nicolas Buchoud, Advisor to the President, Ile-de-France Region

27 Ile de France (2008), 'Objectif : penser le développement dans la durée', Ile de France, http://www.iledefrance.fr/les-dossiers/conseil-regional/le-projet-de-sdrif/le-schema-directeur-de-la-region-est-vote/

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Case Study 7: **The Olympic Park Legacy Company, London**

Overview

Prior to the Olympic Park Legacy Company's (OPLC) formation in May 2009, much of the land which is now being utilised to attract private investment was not publically owned.

Stage One: Securing Land For Public Use And The Role Of The LDA

Before the OPLC was inaugurated, it was the job of the London Development Agency (LDA) to secure the 312 hectares of land that was required for the Olympic and Paralympic Games, as well as the legacy. In addition, the LDA was tasked with relocating businesses and residents located within the site boundary, simultaneously making available a large amount of LDA-owned land for relocations from the Olympic Park site. The LDA successfully acquired a majority of the land through negotiating preferred route to acquisition through private agreements. However, the LDA was also required to issue two compulsory purchase orders (CPOs) in 2005.[30]

The Mayor borrowed money from central government to buy the land with the expectation that land receipts would pay back promptly. There was a huge disconnect in realising the timeframe between when the land could be sold and the debt paid back. If the government stays with the debt model, the whole project could fail. The debt needs to either be addressed as the debt of invested capital and allowed to accrue value over time or it needs to be paid off in a different way. The masterplan was unrealistic, given this situation and is *"now being reworked to better align government expectations on debt repayment and stated policy. Both need to be aligned to the market."* [31]

Olympic Park, October 2009
Source: http://commons.wikimedia.org

Stage Two: The Formation Of The Olympic Park Legacy Company

Since the requisite land has been brought under public control, the Mayor of London and Central Government established the OPLC in May 2009. The not-for-profit company's Board was established in November 2009. The stated aim of the OPLC is "to create a lasting legacy from the London 2012 Games by developing the Park to become, in time, a new and prosperous metropolitan area of the city."[32]

How Does The Olympic Park Company Intend To Leverage The Site To Encourage Urban Investment?

After the 2012 Games, the OPLC intends to leverage the publically owned land on which the Park is being constructed by focussing on the promotion of the sites inherent advantages. The legacy plans need to remain realistic. The goal is to build quality, use public land/amenity value and allow growth over time. OPLC are building relationships with developers to create more innovative projects over time.

What Will The Site Look Like After The Games?

The OPLC aims to create a unique environment following the Games, which includes the following key developments.

- A new 'Great Park' for London.
- Housing, including significant levels of homes for families with a range of affordability and unrivalled access to nature, schools, social infrastructure and sporting facilities.
- A physically, economically and socially interconnected site. Could expect 70,000 new residents in and around the Park.
- A premier centre for sport and leisure, building on the heritage of the 2012 Games.
- A distinctive campus environment to attract new sectors of London's economy including research, innovation and media, as well as new business clusters that contribute to London's competitive advantage.[33]

How Does The Olympic Legacy Company Intend To Deliver Its Vision?

The OPLC will deliver its vision "to create a new, prosperous and sustainable community for London which celebrates its Olympic legacy" in four distinct phases.

Phase 1: Planning and promotion (2010-2011). The Company is currently focussed on developing its strategy and beginning to promote the Olympic Park as a destination for events, leisure and investment. Westfield Stratford City is due to be completed by 2011 and will comprise 1.9 million sq ft of retail and leisure space, making it the largest urban shopping centre in Europe. The Olympic venues are also already 50% complete (2010).

Phase 2: Partnerships and procurement (2011-2012). The second phase will see the appointment of key partners and service providers, as well as securing updated planning permission to enable a seamless transition and handover after the 2012 Games. This phase of legacy planning can potentially be seen as the most important as it is the point at which the 5 key Olympic venues will undergo a transformation from their original function to their legacy function.

Phase 3: Reinstatement and handover (2012-2013). The OPLC will take control as parts of the Park begin to reopen from summer 2013. The Legacy masterplan will cater for the provision of 10,000 new homes, 102 ha of new parkland, 117,000sqm of commercial floor space, 1 secondary school, 3 primary schools, 2 NHS walk-in centres and 1 primary care centre.

Phase 4: Activation and regeneration (2013-2018). During the first five years of development, the Company will open venues and the Olympic Park to the public with an exciting programme of sporting, cultural and commercial events, which will establish the Park as an essential destination for Londoners, visitors and investors.[34]

"Pragmatic engagement by public sector with the private sector that is respectful of their need to make a return needs to be met by the private sector having sensible goals for return on investment."

Dion Panambalana, Partner, Hogan Lovells

""To see London's future, look east."

"There were no creative tools – LOTS of money bought LOTS of land!"

Andy Altman, CEO, Olympic Park Legacy Company

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[32] Olympic Park Legacy Company (2010): A New Metropolitan Area For London, Olympic Park Legacy Company

[33] Olympic Park Legacy Company (2010): A New Metropolitan Area For London, Olympic Park Legacy Company

[34] Olympic Park Legacy Company (2010): A New Metropolitan Area For London, Olympic Park Legacy Company

Ten Principles For Using Public Land To Leverage Urban Investment

Public land in cities can be a great asset for urban investment but it could also be a deterrent to investment if it is not used optimally, or is allowed to undermine market led investment. Cities are full of public land for many historic reasons, but that land is rarely under the control of one public authority. Taking steps to marshal public land under the supervision of one public body and to use the land use planning process to help create public and private value on such land is the key step to achieving higher investment and better internal and external rates of return.

The investment environment and assets vary in every city. However, during this workshop key principles have become evident. Below are ten of the most important points to arise:

i. Leadership is the key	The private sector will invest most confidently within cities where there is a clear and achievable vision for the public land; decisive, credible mechanisms for delivery, and a visible leadership that is open to discussion and partnership with the private sector. To be attractive to the private sector, the investment project must be part of a broader vision which will support it
ii. Get the fundamentals clear	Cities that want to use public land to help stimulate private investment will find this is a useful tool providing it is combined with both land use planning arrangements that make development possible, and with a clear focus on other fundamentals of good property development (investment discipline, channels to market, and others) . It is the confident achievement of planning permission to change the use of the land, and the ability to deliver that changed use and value, that creates the value added resources to meet the needs and expectations of the partners.
iii. Land ownership is not enough	Land ownership is itself potentially a helpful contribution but should also be combined with planning, site assembly, infrastructure provision, and other public measures if it is to succeed. Improving infrastructure is essential if public land is to be successfully used to leverage private investment.
iv. Manage the interface with the market	Vision, quantity, quality, and timing of land sales are all areas which need to be considered carefully in order to maximise the chances of generating long term private investment effectively. Cities should seek to create or foster the tipping point at which structural intervention facilitates the mobilisation of private capital.
v. Understand, and be responsive to the business cycle	Acquisition of public land is a pre-requisite for investment in most of the case study cities in this report, although the land value is realised in a number of distinctive ways and over different time periods or business cycles. Private sector involvement is not always necessarily easy to negotiate, but it can make a huge difference to the success of the project if utilised in the correct way e.g. Barcelona. The offer made to private investors must be clear. Whilst a long term planning approach must be adopted, it is important for cities to remain pragmatic in their approach. Initial plans may not be as successful as was initially conceived, but learning from mistakes can ensure a more successful long term approach.
vi. Innovate and solve problems	The most successful projects are generally the most innovative projects. They also tend to be the projects which have the strongest leadership. There is no one size fits all model. Each city must react to its own environment.
vii. Develop templates that can be used more than once	The first transactions involving a new approach are the most costly to appraise and design. Wherever possible it is desirable to create replicable templates that can reduce the costs and uncertainties associated with future transactions.
viii. Realism	Cities need to adopt a realistic approach to leveraging private investment using public land. This must include having a well informed expectation of what is deliverable in both development and financial terms. There are many cost overruns in public projects and these must be accounted for and minimised as they are something which many private sector partners are wary of. Equally, anticipated private sector contributions to public works should be proportional to the private benefit that will be derived.
ix. Pick the right partners	Not all private sector investment partners are interested in joint ventures, land use changes and redevelopment, or other 'effort sharing' mechanisms for creating new value. It is essential for cities to know who is interested and to work with them to make it happen.
x. Sell the success of public and private collaboration	The public may be sceptical, and so may be other private investors/developers and it is important to show them the advantages of public and private joint investment using public land and private capital, so that they understand that this is neither highly risky nor unusual activity but a good way to optimise the contribution of both partners.

Workshop Participants

16 March 2010

Cannes, France

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About the Urban Land Institute

ULI is a global, non-profit organization dedicated to providing leadership in the creation of sustainable and thriving cities worldwide. Established in 1936, ULI has over 35,000 members in 92 countries and offices in Washington DC, London, Abu Dhabi and Hong Kong.

ULI members come from both the public and private sectors and include developers, owners, investors, advisors, policy makers and academics. The Institute's research, publications and events are interdisciplinary and practical. At the heart of the ULI experience is the open exchange of ideas and best practice. 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.

www.uli.org

About the ULI Urban Investment Network

The ULI Urban Investment Network is an independent European network designed to promote and facilitate world class investment in urban development. The initiative has being developed by the Urban Land Institute in collaboration with a group of leading cities, European Institutions and private sector organisations.

The Network is working to facilitate a continuous dialogue between public and private sector leaders who are seeking to improve their ability to collaborate. It's 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. For more information on joining the Network, please contact Sarah Nemecek sarah.nemecek@uli.org

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