Urban Renewal Investment:
A CASE STUDY OF HAMILTON, ONTARIO
TYLER WILSON
Master of Science thesis

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Abstract

Urban Renewal activity can be attributed to the reuse and intensification of tertiary areas. Past research suggests areas of regeneration can perform at par and/or better than prime property sectors. Policy initiatives lowering perceived risk, attracting investment is conditional to the unique characteristics of renewal areas. As a progressive area of research there still remains insufficient data to quantify related returns and associated risks. Financial institutions tend to favor prime property and neglect tertiary areas. Local, smaller developers can comprehend the holistic nature of renewal investment. A comparative analysis of past urban renewal investment behavior with actors of renewal investment in Hamilton, Ontario, Canada, were evaluated leading to empirical possibilities of investment alternatives.
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1. Introduction

Metropolises yield to urban trends that create areas undervalued and in need of alleviation. As sections remain dormant, often excluded to encompassing investment activity, patterns of conventional investor behavior create further dissonance in contrast to the impending benefits from regeneration development.

“Regeneration is not a simple process. Rather it is characterized by, complexity with many dimensions stemming from the perspective that regeneration in its widest sense incorporates physical development, economic renewal, social inclusion, the building and maintaining of communities, and environmental quality” (Adair, Berry, & McGreal, 2003a, p. 1078).

Urban renewal development is often illustrated with actors from the private and public sector, representing a variety of agendas. Collaboration of these multiple stakeholders facilitates a complex, functional environment due to levels of governance, numerous public service initiatives, long and short-term investors, and developers and residents (Adair et al. 2003a). Investment within these tertiary markets continues to be confined by the risk assessment of these participating actors.

With consideration to the earliest research of emerging renewal investment schemes of the UK during the 80’s and 90’s, support of government grants rather then tax initiatives, facilitated by public and private partnerships, encouraged the welfare of the community. The trend increased the number of lower value risk averse projects, met with more cautious lending procedures, giving way to a wider mix of financing options characteristic of a shift from flag ship developments to the regeneration projects of the 1990’s (Adair, Berry, McGreal, Deddis & Hirst, 1999).

Unfortunately, as McGreal, Adair, Berry, Deddis & Hirst, (2000) confirmed early in their research within regeneration development, there is a broad misconception affiliated with low rates of capital appreciation and occupier demand, acting as primary deterrents in attracting further investment; demonstrating a need for information networks. Subsequent to the 2008 financial crisis, financial institutions worldwide, have adopted even more stringent lending standards in regards to risk analysis. Thus, there is still a certain amount of discrepancy regarding the information required to alleviate misjudgment.
The analysis of this research focuses its entirety on the urban core of Hamilton, Ontario; a small city that was once a bourgeoning metal processing and secondary manufacturing hub due to its geographic location. Although still a contributor in the Hamilton economy, downturns in the 80’s and 90’s led to a contraction of the metal industry and to the current economic initiatives of diversification, with a focus on a service-based economy. Presently, the municipal platform “Invest in Hamilton” leads initiatives for targeted industry sectors. With regards to real estate, specific agendas focus on the intensification of the downtown core via the reuse of urban property as immigrating and new companies, take advantage of the resources and vibrant community offered to cultivate economic growth.

As current real estate development in Hamilton pertains to renewal development and related financial complications, its important to consider past academic case studies while progressing with innovative investment options. Research undertaken, will be based on past findings from related literature and compared for further analysis, consistencies, and the exploratory nature of investment alternatives in renewal development. As biased notions of associated risk and return diminishes access to equity necessary for capital accumulation, alternative forms of investment that favor the smaller local developer active in renewal development will be considered for the subsequent analysis:

1. Present the astute affects from risk and financial conservatasm, the evolving utilitarian nature of local real estate investment, and the associated public led initiatives.
2. Correlate background information from respondents with postulations of reviewed literature and empirically analyze investment alternatives used within the framework of the subsequent section of the survey.

**2. Methodology**

First, this study consisted of an extensive literature review of all issues related to urban renewal development and investment. Relative to other fields of real estate academic research, urban renewal could be considered as a novel subject matter, thus reflecting a limited amount of academic articles and associated authors. As a result, research in this field of study was thoroughly covered,
expectantly bringing attention to further research and the need for data of successful regeneration schemes.

The introduction of renewal investment highlighted the constraints and related misconceived associated risks. As financial institutions evaluate real estate transactions with conservative templates, along with the strict regulatory nature of the market from the recent financial crisis, innovative vehicles of investment have been considered that could potentially favor the local, smaller real estate proprietor. As these perceived risks relative to prime property have been alleviated through many policy initiatives, renewal areas have in turn, dealt with many different extenuating circumstances.

2.1 Questionnaire

Next, a survey was constructed using “Survey Monkey” that attempted to evaluate the renewal development and investment behavior of the actors of Hamilton, Ontario. Reference to the actual survey can be found in Appendix B. The first third of the survey illustrated a general background of the participants. Investment and development terminology used to identify the profiles of survey participants was referenced from Fundrise; an online real estate investment platform based out of Washington D.C.. Other municipal zoning and or building terminology were referenced from the City of Hamilton.

Referencing prior research from Adair et al. (1999) and McGreal et al. (2000), the next section attempted to identify and compare the behavior regarding priorities, perceived risks and expected returns of renewal development to the former studies.

The last section of the survey attempted to indirectly identify, if participants would be in favor of an investment platform that served the needs of local development. These questions were derived to insure that there were no biased answers with regards to the current trends of investment platforms.

The academic advisor reviewed the initial draft of the survey and the necessary steps were followed for further feedback from industry contacts. Ranges and classification within the background questions were amalgamated for clarity and time. Questions regarding information of corporate sensitivity were omitted.
An extensive review of every question was undertaken with Bayne Anderson, the Director of Development of Build Toronto. This review attempted to ensure that all participants would easily identify the terminology within the questions and answers. Each set of answers was reviewed to confirm legitimacy within the range of options. Lastly, the final draft of the survey was presented to Sylvia Renshaw, a business consultant with the City of Hamilton.

Next, extensive research was taken to identify actors that have participated in real estate development and investment within the Hamilton urban area within the last ten years. All information was obtained from recent online newspapers, municipal business directories and online real estate platforms.

Upon completion of the survey, an extensive analysis was supported with figures that helped illustrate the results. Analysis attempted to identify any significant and similar characteristics of the participating companies with past research, current trends in renewal development and the potential for innovative investment platforms.

**2.2 Difficulties and Limitations**

As expected, corporate confidentiality was a major limiting factor with regards to the participation and response rate among potential and actual survey respondents. Confidentiality will be assessed later in the paper, as it’s comparative to the idea of transparency among those involved in urban renewal development. Specifically, contacting those deemed necessary to participate in the survey, were often unresponsive to emails and or unreachable due to screening from assistants.

Noted in the subsequent research, the holistic nature defining urban renewal, not universally identified throughout the industry, created inconsistencies with the responses.
3. Literature Review

This literature review will attempt to transpire the valued benefits and acknowledge a more conducive environment for regeneration investment. By evaluating current factors of strategic market entry, in contrast to institutional deterrence, previous practice of urban renewal investment and associated policy initiatives, will emphasize certain limitations and potential research areas.

3.1 Overview of Urban Renewal Investment

3.1.1 Progressive Developments

Early research by Leinberger (2001) indicated funding for progressive real estate development would be constrained by the conservative nature of financial markets. This study identified the limitations of analyzing progressive developments with the same financial methodologies performed on conventional developments. The importance of this research should be considered with regards to current innovative methods of real estate investment and the trend of smaller more progressive developers often involved in renewal areas of development.

Investment returns for progressive developments occur over the mid to long term, which is unconventional for underwriting techniques based on shorter investment periods. Conventional developments favor a minimal amount of construction quality, equating the required returns determined from financial methodologies over the short term. Resulting in a form of dis-investment from an increase in operating costs complemented with a decline in real estate value. Gradually, dis-investment contributes to the decline in the neighborhood, as people move away to the next community on the fringe (Leinberger, 2001).

The biased nature of traditional financing can create higher costs of capital, impeding on the ability of the progressive plans within a development. Conventional financing techniques do not capture the environmental, social, market and niche goals by the individual actors. Thus, completed progressive projects generate a high price tag relative to the other developments in the local market. The success of these developments with price premiums may lead to more conducive future financing (Leinberger, 2001).
Before World War 2 and the use of Discounted Cash Flow (DCF), investments created a design and construction quality that was sustainable over the long-term. (DCF) methods that favor short-term investment and modular real estate templates have created suburban housing patterns and related social and environmental problems (Leinberger, 2001). The (DCF) model and the Internal Rate of Return (IRR) tend to set a higher rate of return for projects that have less of a track record. This implies the cost of capital would be set higher for progressive developments. The use of time trenches could be beneficial and create higher quality products, by increasing the time construction costs are to be amortized, lowering the debt to cost ratio, and reducing the related risk of the development and the costs to paid back over a longer time frame (Leinberger, 2001). Possibly most important, financing within progressive developments is not linear with the practice of prospective investment property valuation. Current valuation methods are not valid in determining the financial viability of sustainable development (Leinberger, 2001).

In summary Leinberger, (2001) argued that it was difficult to compare conventional and progressive developments, since the life cycle returns of the latter, had yet to be determined. This needs to be followed up with research and collection of historical data on demonstrating the success of progressive developments. A more comprehensive range of real estate products will guide developments away from the template nature of conventional developments (Leinberger, 2001).

3.1.2. Local Development

“Small investors are seen as key players in local markets using local knowledge to identify and invest in development opportunities. In this context it is essential to involve the private sector at an early stage in the urban regeneration process” (Adair, Berry, McCreal, Deddis & Hirst, 2000, p.152).

Earlier research by Guy, Henneberry & Rowley (2002) considered policy that encouraged institutional investment in areas of urban regeneration based on investment criteria within the framework or analysis institutional investors used to evaluate investment decisions on prime property locations. The cultural functionality of institutions inhibited their perspective at a local level, where traditional investments favored larger properties associated with organizations that held favorable covenant strength. Smaller properties tended to be less liquid and their overall significance
in a large portfolio was quite low.

In general, a great deal of attention regarding investment into urban regeneration areas has involved institutional investment (Guy et al., 2002). However, institutional investors are perceived as being risk averse, only attracted in large scale, institutional property. Past and current policy initiatives have focused on ways to alleviate the risk and the perceived lower returns in renewal areas to attract these larger investors. Confined to investment strategies in which they’re comfortable with; “institutional investors are only interested in institutional property” (Guy, Henneberry, & Rowley, 2002, p.1194).

Smaller developers should be targeted as institutional investors in urban regeneration are often disconnected with the needs of local development. However, policy shouldn’t focus on discouraging institutional investment, but rather focus on alternative forms of local investment and development (Guy et al., 2002). Guy et al. (2002) argue the holistic and challenging nature of fringe locations should be met with the culture and aesthetic appeal that smaller local developers use in their approach to unlocking the value renewal developments offer. Urban policy should foster independent and local based investment and development; local developers accept development opportunities that are not completely quantifiable within traditional investment models, due to the unconventional nature of the development. Thus, without completely disregarding institutional investment as a means of raising capital, Guy et al. (2002) state, policy should also focus on alternative investment processes, commonly preferred by local, independent property investors.

The rational linking local investment with regeneration projects can be introduced from a brief summary of Weber, (2012). The study suggests, neo-liberal political regimes of laizere-faire economics and reduced government spending associated with grants, are now funding redevelopment projects from speculative activity of tax incremental financing (TIF); these costly projects pay for themselves, from the expected value created and then compensated from the associated future tax revenue. However, the tax revenue from TIF is also introduced into global capital markets with costly guarantees nullifying the associated political risk, where they are later bonded and arbitraged. This of course exposes the fiscal health of cities to the circulation of distant and fictitious money (Weber, 2012).
3.1.3. Outward Economic Initiatives

Hall (1997) emphasized an outward looking approach focusing on economic related issues to regeneration policies rather than inward looking policies that favor social goals. Inward looking policies are deemed limited and unbalanced, failing at addressing the root of the issues. They directly focus on the causes of local estate decline, such as crime prevention, while directly improving local amenities by housing re-investment and empowering housing tenants. An outward looking approach addresses the factors external to the housing area but directly impacting the urban area. They tend to portray economic policies relying on strategic partnerships represented throughout the entire city in order to focus on a number of outlined targeted areas. Outward economic policies often represented citywide, are transparent and flexible, in order for all local authorities across the city to easily identify (Hall, 1997).

In contrast to Hall (1997), Priemus, (2004) suggests from a Dutch analysis that a vision should consider the substantial number of urban neighborhoods where local residents, businesses, and predominantly local government, rather than national, play a key role in the decision making process. In addition, the involved tiers of government need to demonstrate their financial commitment over the long term, from their contributions in urban renewal initiatives. Priemus (2004) also states that this “multi-functional orientation” should not only involve the renewal of housing but other social and cultural amenities, and the various public services included within these urban renewal strategies. Urban renewal policy should target specific “social climbers” in the area to prevent segregation. Instead of attracting new residents in the area, policy should focus on improving the living conditions of the current residents. In conjunction with improved living conditions, urban policy should adopt a more broad approach to prevent the migration of social and economic issues to neighboring areas (Priemus, 2004).

On a much larger scale within the context of the former East Germany, Wießner (1999) demonstrates the value of high subsidies and financial transfers implemented through successful urban planning policy. Wießner (1999) used a comparison study of large scale renewal investment policy and lower occurrence of social polarization and socio-spatial segregation of East German cities relative to other East Central European cities. It is important to note that much of this success was due to the incorporation of East Germany into the West German social system and because of the direct subsidies from the European Union.
3.1.4. Alleviation of risk

With regards to their early study Adair et al. (1999) suggest that the regeneration process requires an integrated approach. The private sector provides funding and strategies, while the public sector is responsible for the appraisal and monitoring of systems that provide information on risk-return profiles imperative for regeneration development to occur. As regeneration schemes are often long-term, entry and exit strategies need to be accounted for in policy that attracts private investment (Adair et al., 1999). Subsequently, Adair et al. (2000), suggest that due to the market uncertainty often related to regeneration schemes, having a clear exit strategy becomes difficult, increasing the associated risk of investors with a long-term perspective. As a result, these investors favor stable income streams over the holding period of the investment; resulting from building quality, covenant strength, rental growth and capital appreciation. The private sector clearly understands their role at the business level and believes its up to the public sector is to promote urban regeneration (Adair et al. 2000).

The impression that urban regeneration projects are of high risk and low return should be met with public sector support, targeting areas by underwriting the associated risk (Adair et al., 2000). Adair, et al. (2000) adds, the most effective use of public money is to facilitate an environment that attracts investment from the private sector. The public sector could act as a buffer via a regeneration agency where they would be required to fill the void if the returns in the investment did not meet the minimum level.

McGreal et al. (2000) insert market trends as the main influence behind investor behavior in regeneration areas. Specifically, the information gap between investors and financial institutions reflecting the perception of risk is a major impediment to investment. Property investors tend to have lower perceptions of risk in comparison to the higher thresholds of risk alleviation criteria by financial institutions. Thus, it is assumed that investment companies are more likely to fund regeneration projects (McGreal et al., 2000). The variance of risk thresholds among potential actors in regeneration schemes suggests that policy implementation needs to maximize investor involvement, with more flexibility, sensitivity and sophistication (Adair et al., 2000; McGreal et al., 2000).

Investors seek returns greater then normally accounted for from non-regeneration areas. Decision-making involves strategies that encompass all of the locational conditions to reduce their risk. As a result, the least difficult areas fall within the profile of their strategies. Thus, urban regeneration
areas need to consider the risk reduction strategies of private investors, by making these areas more attractive in the manner of generating the required returns and, contributing to the sustainability of the project (quality of life - job creation) (Adair et al. 2000).

Adair, Berry, McGreal, Poon, Hutchison, Watkins & Gibb, (2005) confirm policy has recognized the success of intervention from the maturing of regeneration locations contributing to sustainable urban environments while harboring private investment. These policy mechanisms are fundamental in the progression of private investment in these areas. The results from their analysis (Adair et al., 2005) clearly demonstrate that UK cities were still very investable and have potential to be competitive, by attracting further investment to raise value and facilitate a competitive environment. Institutional investors need to consider these results in regard to investment strategies, rental growth and yields (Adair et al., 2005)

In regards to the role of public sector support, consideration to the current economic climate and the phase of the regeneration project, will determine whether initiatives should focus on enhancing returns or alleviating the associated risk of the area. Short-termism is to be avoided where regeneration schemes should be considered over a 7-15 year period. Grants are an effective means to build confidence in the early stages, whereas policy that attracts more institutional investment is important for the duration of the regeneration process (Adair et al. 2000).

3.1.5. Institutional Investment

As stated earlier by Adair et al. (2000), and reaffirmed later by Adair et al. (2003a), due to the perceived risk of urban renewal projects, the private sector often requires leverage from the public sector. Urban renewal schemes often progress with the developers acting as the short-term investors, creating investment opportunities for long-term investors. Policy often favors offsetting the development costs that are short-term, giving banks more assurance to lend to developers. Thus, any form of deferred investment or other long-term market activity from institutional investors is often incompatible. Emphasizing a need for innovative approaches to development with encompassing investment vehicles for the entire length of the renewal process. Short-term risk takers usually involve developers that create long-term investment opportunities for more risk adverse financial
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Institutions. Thus, the majority of regeneration investment policy is focused on incentives geared towards developer involvement, where future policy needs to consider innovative forms to attract financial institutions to further lending and investment schemes and to stimulate further market activity (Adair et al. 2003a). Policy should consider that building quality is noted to be of the utmost importance to institutional investors, where they are concerned with the site value upon the end of a long-term lease in contrast to short-term investors that are more concerned with covenant strength (Adair et al. 2000).

3.1.6. Institutional Investment Vehicle

In more recent research, Adair, Berry, Hutchison & McGreal (2007) go into detail, how regeneration investment vehicles should be structured to consider the different requirements of return and “appetites” for risk from institutional investors. Interviews with fund managers assisted Adair et al. (2007) to propose a regeneration investment vehicle that would be different then traditional property funding; structured from a cross-asset class of bonds, complemented with private equity and long-term financing, in order to fund across the entire regeneration process. Initially, the government would organize the fund issuing long-term bonds with consideration to the size and scale of the regeneration scheme. Demand for these bonds issued to equate to a minimal fund size, would underwrite the potential risk associated with the early stages of the project, signaling and attracting the second wave of institutional and private investment that would then take on the responsibility of managing and engineering of the fund. It’s important to note that these vehicles would be tailored to existing or new regeneration projects. Governments would have value to underwrite the risk of the regeneration bonds due to the potential value from the future increase in taxes. However, the public sector needs to support the private sector with the management of the many complex phases of the regeneration projects in order to insure the flow of these funds to these schemes (Adair et al., 2007).

With consideration of a UK wide based fund, a master developer, along with an appointed strategic allocation committee would oversee all potential regeneration schemes. Together, they would work with local authorities during site acquisition and planning. The master developer would oversee all stages and implement the building of the project with local developers. The emphasis of this scheme lies in the key first stage; attracting the financial institution with the support of the government (Adair et al., 2007). In the UK, the Igloo Fund and the English Cities Fund (ECF) have been successful in
funding regeneration opportunities, however, they are limited in their geographical coverage and size of the fund (Adair et al., 2007).

Steiger, Hebb & Hagerman, (2008) advocate the partnership between the community and the institutional investment vehicle in order revitalize the community and deter detrimental gentrification. The ability for communities to partner with investment vehicles is the key to creating more deals and the flow of capital to under deserved areas. In general, investment vehicles that formally recognize the role of the community partner will be most considerate of the local community, ensuring social returns. Further, Steiger et al. (2008) suggest numerous ways to overcome market barriers, including pooling of assets and investors, leveraging public incentives, and more coordination between fund managers, communities and municipalities. They also suggest that governments need to strategically consider programs that will attract large investments from institutional investors, tailored to deal with particular barriers to investment.

3.2 Practical Implications of Urban Renewal Investment

3.2.1. Responsible Property Investment

A comparative study by Hebb, Hamilton & Hachigian, (2010) evaluated the financial cost of responsible property investment associated with socially, environmentally aware and regeneration property development. Financial portfolios contained property companies numerically rated by the Jantzi ESG rating, based on a level of environmental, social and governance practice. Evidently companies apart of the study alleged there was a lack of evidence showing any correlation with their portfolios bottom line and a high ESG ranking. However, companies reduced their perceived risk and improved their corporate reputation, holding and attracting desired employees. It’s important to note there was no evidence of ESG rankings having any effect on stock price. Currently, when considering responsible property investment, most of the attention is given to environmental and green buildings as social factors emerge becoming more significant in the integration of LEED standards.

By means of a regression analysis, Pivo and Fisher (2008) consider how investment in energy efficient, transit oriented and urban regeneration properties have performed in comparison to properties exclusive of these features. Specifically, responsible property investment (RPI) factors were included in the analysis to determine whether there were any significant effects on income,
Higher rents for properties in urban regeneration zones resulted in a higher net operating income (NOI), generating a higher market value than properties not in or near regeneration zones. However, rents in urban regeneration zones and the corresponding market values, were only significantly higher in the central business district (CBD) and not in suburban areas. Properties in or near regeneration zones did not create significant appreciation (returns) for investors because the higher (NOI) was already accounted for in the acquisition valuation by investors at the beginning of each quarter. Although properties had a higher (NOI), this was offset from minimal appreciation (returns); resulting in total returns not significantly different than other properties not in, or near urban regeneration zones. It is stated that investors could have gained from the higher valuations if the developments costs were not higher for regeneration zones (Pivo & Fisher, 2008).

Overall, Pivo & Fisher (2008) findings suggest that investors should consider (RPI) because there is no increased risk or no damage on total returns. Second, it would be rational for investors to develop more specialized funds with regard to factors resulting in responsible property investing. Lastly, because (RPI) did not outperform conventional property investing, there is no reason to assume that investors will favor (RPI) investing to adjust the related risk from the entire market. However, evidence may suggest in the future, if energy prices increase, spatial issues arise in urban areas or from increased building regulations, (RPI) would be at most equal to the entire market.

### 3.2.2. Distorted Markets From Renewal

In Hong Kong, Chau, & Wong (2014) determined projects targeted by the Urban Renewal Authority (URA) created an appreciation of property values within that defined neighborhood, specifically with the redevelopment of high-rise buildings in densely populated areas. Older buildings in the neighboring areas not targeted under the renewal scheme but within close proximity to the renewal project encountered depreciation; effect would diminish as distance from the project increases and if the buildings were newer.

Chau & Wong (2014) hypothesized, the negative impact from exclusion of the original renewal scheme was met with high transaction costs that could only be mitigated if they were part of the government led initiatives from the URA that targeted the renewal area. Unlike private property developers, the URA had municipal authority to commandeer property from owners with reasonable
compensation, whereas private developers often dealt with untraceable owners or those just not willing to sell. If these buildings outside the designated renewal area were to be developed in the future by private developers, buildings would not benefit from the scale effect that would occur during a large redevelopment renewal scheme by the URA.

Urban renewal is not necessarily a negative externality of these surrounding non-targeted areas. The problem is with the bureaucracy of original ownership with the existing buildings relative to those that get commandeered by the URA. Private developers deal with a system that creates an unfair advantage as the URA has overriding powers that allow ownership abolishment and development with economies of scale. In addition Chau, & Wong (2014) state that there are 15000 buildings excess of 30 years in age throughout Hong Kong. Urban renewal schemes often focus on a specific area of a large city or as an initiative throughout a smaller city creating economic advantages. It’s evident that renewal is being defined to these “buildings” that are selected under the redevelopment of the URA. Future studies would benefit from how the actions of the URA distort the market competition for private developers.

Conversely, Adair, Berry & McGreal, (2003a) study of grant based initiatives in Ireland, made reference to bureaucratic polices that interrupted the flow of this support to regeneration areas. The European Commission of State Aid (1999) ruled a grant-based mechanism provides an unfair advantage to developers in renewal areas, which “distorts competition”. As a result, all member states were required to follow regulations on state aid as outlined by the Competition Directorate of the European Commission. This decreased the effectiveness of fiscal incentives in Ireland and empathized the emerging consequences of reducing competition in renewal areas of other European countries (Adair et al., 2003a).

Further studies by McGreal, Berry, Lloyd & McCarthy, (2011) suggested the decline of gap funding in the UK could be attributed to the effects from the strict competition rules laid out by the EU with respect to grant applications for commercial development and the channeling of funds to other public services related to urban renewal. Thus, calling for alternative initiatives that support private investment into underutilized urban areas.

Rerat, Soderstrom, Piguet & Besson, (2010) case study of Swiss cities, illustrates the gentrification process from the theory of “New - Build” gentrification. This process is seen more as a social upgrade rather then a rehabilitation of the community. Often, reinvestment is conceived from large
development projects that tend to favor the established social-economic class. The lifestyle of the pioneer households tend to be adopted in a way that is more commercial and profitable to those that fall under the middle to upper income class. The costly price of land and high building standards had a bearing on the quality and thus the price at which developers would sell. Resulting in indirect displacement of the existing lower income groups due to economic exclusion, declining neighborhood identity and deteriorating community resources.

Similarly, in a study of New York City, Wolf-Powers (2005) clearly implies that property led economic development in areas of post industrialization, increases the momentum of social class transition within the areas of investment; creating value for the investor and higher revenues for the city. When faced with the dilemma of sustaining diversity among residents and existing lower yielding property uses, regulators and planners need to be aware of not only the economic impact, but also the effect that policy action has on the current residents and the social consequences of the reviewed area (Wolf-Powers, 2005).

From the public viewpoint, Rerat et al, (2010) state those Swiss local authorities conducted themselves in a manor that regulated the standard “new-build” gentrification process as opposed to state led gentrification. Their interest lied in attracting affluent taxpayers to increase municipal revenues. As very little public investment was shown, local authorities controlled gentrification from agreeing to a minimal amounts of long-term lease hold rights with non-profit groups; land would be allocated at a discounted price over a 99-year period and in return, rental apartments would be offered below the going rental rate. In conclusion, Rerat et al, (2010) suggest that the social composition will continue to deteriorate with the absence of public action as the redevelopment of Swiss cities favors the middle to upper class.

In the context of brownfield redevelopment in Toronto, Desousa, C. (2002) explains how government intervention and financial aid that is often required in other North American cities to initiate urban renewal, is not as productive as allowing market forces to determine redevelopment schemes and “getting the job done”. An urban vision established by local government and planning organizations can effectively complement their ability to manage urban and economic development, and initiate future brownfield redevelopment.
Further Arvan & Nickerson, (2006) use a model that demonstrates how public expenditure used in neighborhoods at risk of urban decay can actually diminish private investment. Residents of these urban areas are likely to under invest due to foreseeable public transfer payments. The larger the public aid, the greater the adverse effect on private investment, thus, negatively affecting the overall quality of the neighborhood.

3.2.3. Financing

As part of a focus group study involving the private and public sectors of renewal projects Adair et al. (2000) reassured throughout the real estate industry, developers and investors tend to borrow against their equity as the principal method in urban regeneration financing. Short-term debt financing is often the principal method for the private sector, requiring a strong covenant allowing a 70% -75% loan to value ratio. In other words, the private sector has to have a secure covenant and provide 25% -30% of their own equity in order to borrow. This 75% value scheme is often 100% of the development costs. The developer will hedge their financing only using their equity near the end of the project, if any used at all (Adair et al., 2000).

Pre-letting is a primary method often required for financing; used to secure the income stream for the development of the project. Securing the rent, especially in commercial projects, is required to avoid any periods of vacancy after construction is completed. However, this has been known to encourage an oversupply, distorting the market (Adair et al., 2000).

Within their study Adair et al. (2000) identified that investors involved in urban regeneration schemes generally apply a premium relative to other potential property investments. With consideration to the risk premia, yield construction and risk premium for prime property and inflation rate, projects could require a return of 10.25% to 12.25%. The private sector developers involved directly with a regeneration project will seek a 20% return; a social conscious is secondary.

3.2.4. Market Timing

Nappi-Choulet (2006) case study, considered commercial private investors in the industrial Paris region of Saint Denis and their role in urban regeneration initiatives; note this was one of the largest
mixed-use urban regeneration areas in Paris. Successful urban regeneration development and investment initiatives stimulated counter-cyclical, short-term foreign investment in the Paris property market. A similar analysis by Adair et al. (2005) illustrated that potent regeneration investment markets throughout the United Kingdom challenged the preconceived notions of low investment returns. Rental values and yields of urban areas were compared using the Beacon analysis, selected on the basis of numerous geo-economic factors over the period (1995 -2002).

Investment decisions throughout the entire commercial property sector of Paris favored high investment returns or IRR; involving new building projects or renovations, and investments over a short holding period. Due to the economic recovery period, high volume of investments by debt driven investors was enabled by low interest rates, resulting in significant capital appreciation. Participation in the down turn of the Paris property market tended to be favored by those short term investors, due to the associated low interest, debt financing and the potential of high capital appreciation, thus often high risk / high return. This can result in supernormal profits, with consideration of time frame, financing and the stage of the property market (Nappi-Choulet, 2006).

Similarly, Adair et al. (2005) demonstrated a significant shift in the short to medium term for yields in UK regeneration property. Investors that enter into regeneration areas before the rental growth emerges, have more potential for greater returns. Overtime, as the market emerges, increasing competition puts downward pressure on yields. Rental index, particularly in the retail warehousing, significantly outperformed the national benchmark index produced by CB Hillier Parker. Thus, opposing the prevalent institutional investor perception regarding low investment return in regeneration commercial property.

Noted as the most important finding of the Nappi-Choulet, (2006) study, pioneer investors involved in regeneration investment initiatives, favor speculative building, with high returns over a short period of time. While traditional property actors prefer pre-let assets, with lower returns, to a longer holding period. As urban property markets become more globalized, involving more foreign investors, differentiating their investment holding patterns will help determine which actors favor traditional or urban regeneration developments. It is also noted that initiatives regarding urban regeneration developments should consider actor profile strategies and their viewpoint of potential capital appreciation over investment time frames (Nappi-Choulet, 2006).
3.2.5. Commercial Risk - Return

Over the course of their research Adair, Berry, McGreal, Hutchison, Watkins, & Gibb (2003b), McGreal, Webb, Adair, & Berry (2006) and Haran, Newell, Adair, McGreal & Berry (2011) evaluated data from the Investment Property Data (IPD) bank to consider investment returns and the associated risk of urban renewal areas. The aggregated return consisting of annualized income streams and levels of capital appreciation, in retail, office and industrial sectors, were compared to the adjoining local city and national benchmarks throughout the UK. The significance of these studies over a significant economic period illustrates the regressing misconception that investing in regeneration development results in low returns and high risk. This pre-conceived notion among institutional investors and lenders is stated from a lack of data, leading to incorrect assumptions.

With consideration to annualized total returns all commercial property sectors in areas of regeneration performed equally or better then the local and national benchmark properties over periods (1980-2001) (Adair et al., 2003b) and (1981-2002) (McGreal et al., 2006). The retail property sector had the only substantial and statistically significant difference in annualized returns when compared to the local and national benchmarks, while the office and industrial properties in regeneration areas performed no less then local and national prime properties (Adair et al., 2003) (McGreal et al., 2006). Capital appreciation in the regeneration industrial sector was the only portion of the aggregated return among all sectors that did not perform better then the local and national benchmarks (McGreal et al., 2006).

Adair et al. (2003b) suggest the availability of land and subsidies associated with new regeneration development favored shopping centres, retail warehouses and retail parks, compared to the prime property of traditional “high streets”. Although the office markets only just out perform national benchmarks, it is determined that the office sector in regeneration areas, have not displaced prime office property in terms of investment performance. Prime office property tends to be well connected to transportation infrastructure, whereas new regeneration schemes of the office sector tend to be in areas where the development of transport services tends to occur later in the transformation of the area (Adair et al., 2003b).

Again, empirical evidence from Haran et al. (2011) confirms that regeneration property performance over a 28-year period (1981-2008) was equivalent to prime property. However, the significance over this period (1981 – 2008) illustrates that leveraged driven growth in the real estate sector until 2007,
created an investment environment that was favorable and inclusive to most regeneration property. Subsequently, the adverse affects from the financial crisis regressed the means of public sector expenditure into infrastructure, indirectly affecting the alleviated risk for private investment. Due to the nature of the financial environment after 2007, regeneration lending was confined from a short-term conservative lending market and the due diligence and comprehensive analytical schemes that inform investment decisions.

In the early 90’s, post the property bust in the UK, regeneration schemes were heavily supported from public subsidies, safeguarding from cyclical forces, thus illustrating a deviation in the linear relationship (Haran et al., 2011). This property downturn as demonstrated by the data of returns, revealed that unlike the local and national benchmarks, regeneration areas declined, but stayed positive, and in the subsequent 10 years after, outperformed the other two sets of benchmarks (Adair et al., 2003b).

During times of uncertainty, private investment depends on the public sector to moderate risk within regeneration schemes. The progression of risk reduction measures should evolve to risk sharing, where the public sector is more involved in land assembly, remediation and infrastructure provision. Also, the progression of innovative regeneration financial models need to consider the intricate and extenuated time frames, and the susceptibility of regeneration schemes to the dynamic nature of the cyclical economic environment (Haran et al., 2011).

Both McGreal et al. (2006) and Haran et al. (2011) analyzed the standard deviation of the annualized returns within the three investment streams indicating the level of total risk. Capital appreciation carries a significant portion of the total risk in comparison to income stream. Within regeneration property, the retail sector had the lowest total risk relative to the other regeneration sectors. However, the total risk was moderately higher in regeneration retail and industrial sectors, compared to the other benchmark investment streams. The lower levels of risk in the office sector of renewal areas were attributed to the covenant strength of the public sector being frequent tenants (McGreal et al., 2006; Haran et al., 2011).

As, McGreal et al. (2006) research outlined that relative risk, the amount of risk for every unit of return, shows again that most of the relative risk among all investment streams and sectors lies within the capital appreciation component of the aggregated return. With the regeneration retail sector having the lowest relative risk, but still indicating almost one unit of risk for one unit of capital
appreciation. The industrial sector of regeneration zones carried the most relative risk under capital appreciation, noted to be associated with weaker industrial markets. However, the office and retail sector carried less relative risk in regeneration areas relative to local and national benchmarks (McGreal et al., 2006).

Investment strategies regarding areas of urban renewal need to be reconsidered from the evidence of returns and the risk associated from Haran et al. (2011). The risk associated with renewal areas is not any different then prime property and in some cases it is in fact, lower. Strong correlation of coefficients, suggest weak argument for diversification. However, retail has the weakest correlation among the three investment classes suggesting diversification among investment classes would only be considered in this sector (McGreal et al., 2006). With consideration to risk-adjusted returns and a multi asset portfolio over a 28 year time period with no real estate related investments, Haran et al. (2011) state, the inclusion of regeneration property can reduce risk and improve return performance. As a result, regeneration property can substitute prime property investments, within an optimal multi-asset portfolio.

3.2.6. Grants

As non-investors realize that grants do have the ability to attract private sector finance, a primary concern for institutional investors, lies in the bureaucratic nature and the insufficient amount used to be allocated to these schemes, to be ineffective. Development companies also show concern for the capability of grant authorities to facilitate developments (McGreal et al., 2000). This bureaucratic and time-consuming nature of public grants can act as a disincentive to those private investors experienced with government policy. It would be more helpful to clearly demonstrate the market returns of the associated area giving the developer more confidence in the projects financial feasibility (Adair et al., 2000).

In their research Adair et al. (2003a), outline the complexities of different means of attracting private stakeholders to renewal areas in different countries. Fiscal methods and grants are outlined as the two main initiatives adopted within regeneration policy (Adair et al., 2003a). In the case of the UK, fiscal incentives were favored over a 20-year period that provided grant based subsidies filling the gap between the end value of development scheme and the often overwhelming incurred costs. While in the US tax incremental financing has been used as a tool to bring forth private investment into designated renewal areas, geared towards capitalizing on the future value of development.
schemes. Lastly, in Ireland and other parts of Europe, tax-breaks are used to attract investors, developers and end-users (Adair et al., 2003a).

From Nappi-Choulet, (2006) a large majority (96%) of those participants in urban regeneration development favored non-grant initiatives; investment in public infrastructure and other service amenities that make the surrounding areas more attractive, ultimately aiding in capital appreciation. Furthermore, the private sector was responsible to provide construction financing and influence investment with regard to the risk profiles of those actors involved in urban regeneration projects. In turn, the public sector was expected to provide public facilities and equipment over the long-term basis.

3.2.7. Tax Incentives

As a matter of insight, it’s important to consider Corrigan (1992) study that highlights two negative effects from tax incentives related to renewal schemes. First, poor investment decisions are made due to individuals favoring to save tax rather than to fully consider all the implications behind their investments in these areas. Second, with consider to the investor duration period, where taxation schemes tend to be fairly illiquid in the short run tying up money for longer periods of time. With respect to the premature viewpoint of the regeneration process in Corrigan (1992), these effects could be presently marginalized, as it becomes more evident that renewal practice can be successful with committed and sustainable public and private investment.

Another early study by Adair, Berry & McGreal (1994), laid the foundation of creating demand via the use of a tax shelter in Dublin and other parts of Ireland. The use of tax incentives decreased the perceived risk and low returns without involving risk-averse financial institutions. Adair et al. (1994) add, further research should consider the long-term direct costs borne mostly by the municipal governments and the vast economic costs foregone in other sectors of the Irish economy from these urban renewal schemes. It was estimated that the rate of construction activity was correlated with the increase in the rate of tax incentives from 1990 to 1992. This municipal intervention generated economic and social activity over the long run that in turn, increased government revenue from direct and indirect taxation, specifically in the office and commercial sectors in 80’s and the residential markets in the 90’s.
The use of tax shelters in Dublin were a long-term cost borne by the public sector, tied to the imminent revenue of successful regeneration schemes rather then projects with immediate returns. Conversely, owner-occupiers and investors were fiscally compensated and also gained from the generated (and future) market demand in the area that would be otherwise unfavorable to private investment (Adair et al., 1994).

Within the context of their study across regeneration areas in the UK, Adair et al. (2000) confirmed that because regeneration developments require large injections of capital, taxation relief is a less favored financial incentive. The private sector is most concerned in alleviating risk. If a project results in poor or successful returns respectively, tax relief will do little to offset the former and enhance the latter.

McGreal, Berry, McParland & Turner (2004) make reference to reassessing the use of tax-based instruments as opposed to the grant-based approaches used in Dublin. In Ireland, the specifically targeted tax based methods had success in the 1980’s, however it created displacement and distorting effects in the market. In terms of research, this can make it difficult for econometric models to capture the impact of the tax-based instruments provided with limitations of the annual rental index and a short time-scale. New market locations in regeneration areas could be supported with tax-based incentives. Analysis had shown that these areas had the ability to out perform benchmark city center locations with respect to returns and rental performance. As the phasing out of tax relief demonstrates the maturity of these regeneration markets, related rental growth in prime office areas can be directly attributed from equilibrium of a dual urban office market (McGreal et al., 2004). McGreal et al. (2004) also note, that private investment rather then institutional investment into the regeneration office markets was influenced on the basis of tax incentives, rather then long term investment strategies. This was still alleviated investor risk, but McGreal et al. (2004) warned that markets can become volatile with hard yields, harboring the capital allowances from the continued tax incentives from these office buildings.

In a more recent comparative study of Dublin and the demand sided tax breaks, and the establishment of Tax Incremental Financing districts in Chicago (Mcgreal, Berry, Lloyd & Mccarthy, 2011), taxation instruments were considered effective when operated under a structure-agency framework and when the dynamics of the market conditions were considered over a duration of time. However there was a lack of evidence as to what forms of public support mechanisms were most efficient, partly due to the fact that often, grants, taxation benefits and regulatory relaxation are often
complementary on specific urban projects. Due to the constraints on public expenditures in forms of grants or subsidies, public initiatives favored forms of taxation mechanisms.

### 3.2.8. Partnerships

McGreal et al. (2000) advise, private-public partnerships are ideal to deliver development schemes because they are noted to be more efficient than the bureaucracy associated with grants and the inefficiently structured, incentive based, tax breaks. Partnerships tend to balance competition and the capital required for meaningful community reform. As social regeneration tends to lag behind economic regeneration, partnerships are advantageous in insuring commitment and guaranteeing leverage from the public sector over the appropriate time period (Adair et al., 2000).

Specifically in their study McGreal et al. (2000) make reference to Private Finance Initiatives (PFI) that were offered as a factor to improve the flow of investment with investors and non-investors. PFI’s were alleged to be favored by property investment and development companies through a partnership with the public sector that focuses on effectively using public resources to maximize the leverage of private sector finance. However, there was a need for restructuring to enable participation of smaller scale development companies that target lower value projects.

Adair et al. (2003a) affirms that partnerships were known to be the most efficient vehicle to facilitate urban renewal. The most effective form of partnerships, are those that deliver risk reduction strategies, where financial incentives and delivery mechanisms are transparent; although the diversity among the players within regeneration partnership schemes, often created degrees of complexity. The private sector was made up of short and long term investors and developers, while the public sector included different levels of governance and an array of different agencies.

Contrasting, as London, England as their case study, Ball, Le Ny & Maginn (2003) found marginal benefits from urban renewal partnerships (URP’s). They identified three main issues related (URP’s) from various interviews with property agents: governance, decision making and, costs and delays.
3.2.9. Governance

Excessive bureaucracy was identified as the most challenging problem of governance. Due to over extended decision-making, complex structures, divided interest, and exceeding time and occurring costs. Adair et al. (2003a) also suggest, that the diversity among actors in partnerships with different agendas, can be quite organizationally bureaucratic.

In addition, Li, (2012) Hong Kong based case study, determined success of public-private partnerships was dependent on the governance structure and how individual owners and private developers participated, contingent on incentives. The resources required in high-density urban environments tended to be controlled by the public sector or developers, which is relative in determining the power structure of these partnerships. As individual property owners put emphasis on the short return, of longer renewal schemes, incentive to only participate often outweighed the benefits of becoming a partner. Individual property owners were offered cash for property rights or to be a partner, where the asset of the property they retained would be used as capital contributing to the development project. Further, private property owners could opt for a non-cost or cost sharing, where any further capital used for costs would be compensated with additional profits.

3.2.8. Decision Making

With regards to decision–making outlined by Ball et al. (2003) as the second issue with URPs, concerned neighborhood residents were subsequent to excessive community consultation that directly increased the development process and associated costs. It was also noted, that often a small group held community representation, not representative of the community but only to their personal agendas; those involved with partnerships or within positions of authority were not necessarily qualified with leadership capabilities, lacking innovative and dynamic personalities.

In the case study of Polish revitalization Belniak, (2008) suggests that the process of revitalization depended on the relationship among the local authorities and communities. The involvement of the private sector was minimal compared to local authorities, especially regarding investment and risk. Many of the problems stemmed from the perceived relationship between the two groups. The lack of initiative citizens demonstrated over local affairs and the arrogance personified by local authorities.
and related professionals, made it difficult to have effective communication, creating barriers between the private and public sectors.

Cook (2010) addresses the transformation state of regeneration within the post socialist era in Prague, by comparing the latent neo-liberal capitalist society, as an asymmetric power relation between the municipality and private investors, in relation to the mature Western, public-private partnerships and practices. Also Cook (2010) affirms that there was a transparent relationship within the decision-making process, between the municipality and local businesses and residents. Planning seemed to favor larger foreign businesses, due to their ability to effectively persuade municipal policy with excess supply of capital investment. Regeneration projects tended to disregard the local community.

Specifically Cook (2010) affirmed that developments in Prague have led to an exclusionary market focusing on foreign investment, crowding out local residents and the current needs of affordable housing. Also, the planning and development process has to be met with more transparency, favoring multiple stakeholders. Personalized networks between private foreign investment dictated the terms of property development among municipality members, focusing only on profits with no regard to the local residents.

Urban renewal partnerships are often challenged from representation of private and public sectors and their assumed stereotype. As it is in most renewal schemes, developers are often accused of only being motivated by profit margins and dishonest. Whereas the developers argue the public sector doesn’t understand the constraints associated with “assumed” profit motives and the risks associated with development projects. Also, the strategies and or vision of partnerships are impervious to those involved. This is often associated with the scale of the project, as larger projects become too ambiguous (Ball et al., 2003).

3.2.9. Costs and Delays

Obvious extra costs and delays are a concern for the developer, as they will often occur the extra costs associated with a lengthier panning process from the deliberation associated with these URPs. Whereas the public sector are often assumed to be the direct beneficiaries of the same process
where certain obligations that are seen as a cost to the developer are now transpired (Ball et al., 2003). Similarity Li, (2012) identified the notion of participating as an investor may also be deterred by the risk and opportunity costs associated with construction contingencies and legal risks. Thus a form of profit-based participation had been substituted with the new idea of flat-for-flat, where individual owners obtain a flat, in lieu of development profit, upon completion of the regeneration project. Lastly, public administration must be willing to compromise decision times by effectively allocating resources to stimulate an engaging environment among those parties involved in urban revitalization and by making their presence more credible by being more efficient and more receptive during times of conflict (Belniak, 2008).

Overall, Ball et al. (2003) state that the underlying issue is the efficiency of these URP’s, that could be better served in a broad sense of a better organizational framework. Breaking down to a more personal level, by involving a mediator or other unbiased forms of management to mitigate risks outlined often associated with private and public partnerships. Also, identifying the synergy within these partnerships is an important factor in large redevelopment sites, especially in the context of infrastructure facilities and affordable housing (Ball et al., 2003).

Perhaps the most interesting, Ball et al. (2003) discovered a few developers focusing on small-scale, niche brownfield regenerative projects that favored the URP model. Working with local authorities as a cohesive unit, gave them a competitive advantage over other developers that usually worked in more generalized development projects. Another key finding under this London specific site that could be assumed with other urban areas with spatial constraints, is the unlocking of land availability for regeneration projects is dependent on the fluidity of these private-public partnerships.

3.2.10. Other Policy Initiatives

Strategies of regeneration initiatives have been known to focus on the components of the development that are of the interest group or policy initiative. Ignoring either the physical, social, economic or environmental aspect. Further complicated when regeneration initiatives are consider over a cross-border basis, where countries have different agendas and approaches with regard to urban renewal strategies (Adair et al., 2003).
Overall, Bennett and Koudelova (2001), stated the marketing was considered more operational than strategic with those involved having insufficient experience and little regard for the long-term perceptions of these areas among their target groups, and marketing platforms were not coordinated to be consistent through the many channels of public media. This article makes reference to the need for proper evaluations of the post-perceptions of those recipients of the imagery study. However, it was thought that many of the recipients would be reluctant, due to those local residents that were used in the imagery of marketing, becoming displaced or crowded out from the development of other business practice.

Ding & Knapp, (2003) consider the effect that neighborhood revitalization strategies have on housing values in Cleveland; “policies that encourage homeownership, investment in new housing and economic development”(page reference). Results have shown that out migration and in migration, respectively, have a negative and positive effect on housing values. It’s important to note that this study identified that it did not accurately identify the difference between first time homeowners or intra-region migration with consideration to total in-migration. Overall their study suggests that revitalization strategies should focus on maintaining and increasing homeownership, to improve the neighborhood housing values.

Housing focused strategies initiated by Community Development Corporations is convincingly supported from their study (Ding & Knapp, 2003), showing investment in subsidized housing as a positive effect on property values. The study also reveals that proximity to new construction has a positive effect on investment in new housing. Where the growth of businesses into an area has a negative effect, suggesting the rational behind “Not In My Back Yard”, does stand true. While investments in commercial or industrial spaces respectively, have a positive and negative effect. The proximity of employment services in the area are offset, by noise, traffic and non-conforming land uses. Thus, a threshold of cumulative negative effects will ultimately lower the value of housing. Reference for adequate urban design to integrate commercial and industrial services in residential areas is required to inhibit this negative effect on property values (Ding & Knapp, 2003).

Galster, Tatian & Accordinio, (2006) research of successful in target areas of renewal in the city of Richmond, Virginia was accounted to three key factors. The planning process was highly efficient due to effective leadership and an overwhelmingly supported, clear initiative that prioritized target areas from a data driven method. Second, funds and services were strategically applied to target
areas up to a certain threshold that further stimulated private investment and noticeable changes in the areas. Third, members of the community development industry operated well amongst each other and alongside banks, the municipality and other private stakeholders.

4. Analysis of Urban Renewal Investment in Hamilton

4.1 Survey

In total the survey analysis consisted of 76 different companies that have or are currently involved in the inner city area of Hamilton, Ontario; falling under the influence of the municipal urban renewal initiatives that guide the current development of the inner core. Of the 76 companies, 18 responded to the survey. Of the 18 respondents, 14 of the companies completely filled out the survey, resulting in a 78% response rate. These results should be considered while viewing the survey results as some of the questions have fewer respondents.

As initially concerned, some of the respondents may have found that a portion of questions to be sensitive regarding corporate confidentiality. As was the case, the same questions were skipped likely due to corporate confidentiality.

The survey consisted of twenty-seven questions. The first twelve questions were designed to get background information on each company. The following seven questions make reference to important past, academic surveys and research results, regarding investment behavior in urban renewal areas. The last seven questions were designed, with out directly implying, to evaluate the potential for alternative forms of investment in urban renewal, while referencing evidence of local renewal development. Certain questions will refer to figures located in Appendix 1.

4.2 Actor Backgrounds

As the size of companies involved in areas of urban renewal often correlates with different assumptions from past research, respondents were categorized into four population samples as shown in (figure 1 – A1). Two of the companies stated they employed more then 100 employees.
Five other companies were made up of 11 – 50 employees, while the remaining 11 companies employed 10 or less people. None of the participants were representatives of a company of 51 – 100 employees.

The results of the survey do not show any trends of vertical integration with consideration of the number of company employees (figure 2). One of the two largest companies was a representative of the public sector in which they specified their sole role as a “government agency with economic development objectives”. Within each of the categories, less then 10, and 11 – 50, companies ranged from having five different industry roles to one.

In total, 15 (83%) of the companies defined their role as developers. Of the 15 companies, five considered development as their only role within the real estate market. The role of real estate investment was included in 9 (50%) of the total companies; followed by contractor/builder at 7 (39%) and asset management at 5 (28%). Interestingly, two of the respondents included in the other role please specify section, property management. It may have helped to be clearer within the role categorization. Often, property management and asset management are thought of as the same function within real estate or closely integrated within the roles.

Half of the companies stated they have only been involved in real estate development within the last 10 years (figure 3 – A2). Whereas, 28% and 22% of the companies stated they had been practicing in this industry for 11 to 30, and more then 30, respectively. The two companies that had more then 100 employees have been involved in development for over 30 years. There is no further obvious
indication of company size and time involved in development. Also, time involved in real estate
development plays no significance in vertical integration of company role(s).

Of the 17 respondents, 13 head offices are situated in Hamilton, while the remaining 4, are
positioned somewhere in Southern Ontario (figure 4 – A3). This is important in defining those
developers “local” to the Hamilton area. It would be accurate to assume that these four companies
do not focus entirely on Hamilton as their area of development, as two of the companies are
involved in Southern Ontario, one encompassing Canada, and the last company being involved in
Canada and the United States.

Of the total companies, 28% were involved exclusively within the Hamilton area. All but one from the
28% stated that their head office was located in Hamilton; omitting to answer where their head office
is located (figure 5). A certain degree of “exclusive” localized development could be argued as 39% of
companies are involved throughout Southern Ontario. Often Southern Ontario is also regarded as
the Golden Horseshoe, encompassing a fairly amalgamated and connected urban area.

The classification of these property types were defined from the Fundrise investment platform
website, used as part of their analysis when underwriting a potential investment property. As there is
not a universal way to classify properties as potential investments, it is important to consider that
there will be possible overlap or grey areas as respondents attempt to define their involvement in
each property classification (Figure 6).
As all of the respondents answered this question, 95% stated that they were involved in primary – core urban areas. While 56% and 33% were involved in secondary and tertiary properties, respectively. The issue here becomes a matter of what actors of property development define as urban renewal, as only 33% of companies stated that they were involved in emerging markets and all of the companies have or are currently involved within the Hamilton area.

It could be more accurate to encompass the city of Hamilton under many renewal initiatives as a secondary urban market relative to other municipal areas. Hamilton is not a primary core urban area. Most importantly, if Hamilton were to be defined as a secondary urban market or as a tertiary emerging market that would leave 8 or 12 participating companies respectively, with a differing understanding to the characteristics of a renewing area.

While all respondents answered question 8, 72% stated that they were involved in both mixed-use buildings and multi-residential (figure 7). The majority of residential development with the urban area of Hamilton involves new condo buildings or the adaptive reuse of low-rise buildings often with commercial space on the ground floor.

The lowest participation of residential development activity within townhouse and two – family dwelling can be explained by the development from property rezoning that caters to a minimal level of property density. As in the commercial sector, the many small businesses associated with entrepreneurial initiatives and cheaper office space relative to surrounding municipalities, can explain the higher participation in retail and office development; moving away but not entirely, from the industrial steel manufacturing conglomerate of the past.
Figure 7. Sectors of Real Estate Market

Figure 8 illustrates a large majority of low-rise in comparison to mid and high-rise development in Hamilton, representative of the local actors in the area favoring smaller real estate properties. It was not determined to what extent the city planning process influenced the density or size of each project. It was apparent certain companies favored high-rise developments in and outside of Hamilton. Debatably, the majority of respondents in the Hamilton property sector focus on smaller projects, often characterized by local developers. It's important to note that a large proportion of those companies involved in high-rise projects in Hamilton opted to not participate in this survey.

Figure 8. Building Types

With consideration to corporate confidentiality, it was unexpected that 16 of the 18 respondents disclosed the cumulative dollar value of all completed real estate projects (figure 9). However, it was
important in order to compare the experience of developers in dollar value assuming a correlation with size, scope or number of projects, while exogenous of time. Of the total companies, 43% indicated that they had been involved with an accumulation of developed property value of less then $10 million; 25% had a completed value between $10 and $50 million, and the remaining 13% and 18% respectively, where involved in cumulative values between $51 to $250 million, and more then $250 million.

Conversely, considering the four companies that have been in development excess of 30 years, one omitted, 2 stated values of $51 and $250 million, while the remaining had a value of more then $250 million. Of the 9 companies that had indicated that they had been involved within real estate development for less then 10 years, one omitted their cumulative value, while the remaining split equally between less then $10 million and between $10 and $50 million. Respondents with development experience excess of 10 years and less then 30, were allocated as: 3 companies at values of less then $10 million and 2 companies with value greater then $250 million. Thus it can be argued that there is no correlation between companies with less experience and less cumulative value. It is important to note that it is not obvious whether these cumulative dollar values are an accumulation of development experience or a determinant of favorable size of development projects.

As only nine respondents disclosed their current cumulative development value, analysis was used to compare these individual values with past project values and experience of development practice (figure 10 – A4). Obviously data is limited to identify any trends, but it’s interesting to consider how
much capital is committed to current projects compared to involvement with past-completed projects. Specifically, considering the current value as a fraction of the value of past projects. It’s also important to note, that these current and past values of development projects have many stakeholders not always made public knowledge. Thus, it’s more beneficial to consider these values as industry trends rather then the behavior of the individual corresponding companies.

While 14 companies in total participated in this question, 8 and 6 respectively, are involved in other areas of urban renewal outside Hamilton, and are not involved (figure 11 – A5). As the respondents that do not participate in areas of urban renewal outside of Hamilton, its interesting that they’re all localized within Southern Ontario, with 4 of the 6 stating that they only practice in Hamilton. While those that do participate in renewal areas outside of Hamilton are represented through Southern Ontario, United States and Internationally (figure 5). Unfortunately the data is limited for any concluding evidence.

4.3 Evaluation of Investor Behavior

The significance of Adair et al. (1999) and McGreal et al. (2000) research, laid the groundwork to further their own research and other studies of urban renewal investment. Adair et al. (1999) interviewed 108 senior representatives for the purpose of an investment survey, targeting investors of urban regeneration areas across the UK; all investors were required to show evidence of regeneration participation. In total, 51% of investors stated that development was their primary activity; property investment companies shared the second largest participation with 27% of respondents. The remaining respondents were representatives from insurance companies, institutional investors, pension funds, trusts and banks. Large shares of investors were characterized by also being involved in other non-regeneration portfolios, in which they suggest that regeneration creates diversification benefits.

Following this research McGreal et al. (2000) added further analysis of investor surveys of non-investors of urban regeneration; on the basis to provide evidence of an information gap between those investors and non-investors of urban regeneration. Perceived total return was also highlighted
as the most important factor for non-investors in regeneration areas. Similarly, non-investors choose spreading of risk and availability of an exit strategy as important factors but with a greater degree of emphasis on both (McGreal et al., 2000).

These next three figures are based off a past analysis from (Adair, Berry, McGreal, Deddis & Hirst, 1999) *Evaluation of Investor Behavior*. As the weighted average was compared on the same scale to highlight any similarities and dissimilarities: 1 = not important to 5 = important.

As 14 of the 18 respondents considered motives for developing in areas of urban renewal in Hamilton, perceived total return was given the most emphasis, followed by security of investment/spreading of risk, company image and new business opportunity (figure 12.) In comparison to the Adair et al. (1999) study, perceived total return was considered the most important factor, but with less weight – lower mean score. Followed by, in order of importance, security of investment/spreading of risk, new business opportunities that offer diversification benefits and availability of an exit strategy. The total weighted average – mean score were overall higher with those involved within renewal development in Hamilton. This could be the result of these factors becoming more apparent over time as the last study was published in 1999. With reference to the company profiles in (Adair et al., 1999), where 51% of respondents classified themselves as developers, where 83% of respondents in Hamilton practiced development within their business model. Relative to investment companies and or other property funds, developers are more conscientious with the holistic approach and the different phases of development of a single project, that consider these factors of attracting private investment. Often investment companies and property funds, hedge their equity by diversifying their portfolio, thus they would give less importance to all factors affecting the accumulation of all their investments.
Conversely, the primary reason for property investment and development, and institutional investors not participating in regeneration schemes is the perception of low capital appreciation (weak investor demand) and low rental growth (low occupier demand). These concerns are met with the perceptions from institutional investors showing the same overwhelming concern for investment in regeneration schemes, as well as, the quality of the surrounding area; implying a perceived added risk. In contrast, the low level of concern by all parties for quality of scheme suggests these urban regeneration projects could be suffering from the assessment of the surrounding urban areas. Although of less concern, construction and land cost are identified as factors by non-investors and institutional investors. However, the latter puts more importance on this criterion, possibly due to their level of accountability and obligations to shareholders and policyholders (McGreal et al., 2000).

With regard to evaluating urban renewal developments in Hamilton, long-term sustainability of the project was given the highest weighted average; followed by construction cost/land cost, capital appreciation/investor demand, quality of the proposed development, perceived level of risk and rental growth (figure 13). All these factors in their respective order had a weighted average above 4, demonstrating that importance in evaluation was higher with renewal development in Hamilton, relative to (Adair et al., 1999).

With regards to criteria considered when evaluating regeneration projects in the UK, a risk-averse investor profile was identified among participants of the survey due to the almost equal and primary consideration of capital appreciation (investor demand) and rental growth (occupier demand). Perceived level of risk and quality of the development were also identified as important factors but with less significance. Investments were favored over the long-term with future expectations of capital appreciation. While regeneration initiatives (grants, tax incentives, partnerships and site assembly) were identified as risk-reduction measures they were determined to be a secondary priority with consideration to all the factors that guide commercial investment decisions (Adair et al., 1999; McGreal et al., 2000).

Obviously the results are similar with regards to the exact diagnostic criteria offered in both surveys. The difference, although small, between the weighted averages between Adair et al. (1999), and this present study, could be an early indication that renewal developments are becoming more risk-averse to the real estate industry as participants from Hamilton have a higher weighted average.
How important are these factors in evaluating urban renewal developments (McGreal et al., 1999)?

<table>
<thead>
<tr>
<th>Factor</th>
<th>Importance</th>
</tr>
</thead>
<tbody>
<tr>
<td>long-term sustainability of project</td>
<td>4.43</td>
</tr>
<tr>
<td>perceived level of risk</td>
<td>4.14</td>
</tr>
<tr>
<td>quality of neighbouring environment</td>
<td>4.00</td>
</tr>
<tr>
<td>employment potential/quality of labour force</td>
<td>3.50</td>
</tr>
<tr>
<td>quality of the proposed development</td>
<td>4.21</td>
</tr>
<tr>
<td>development mix of the project</td>
<td>3.36</td>
</tr>
<tr>
<td>site assembly/land packaging</td>
<td>3.21</td>
</tr>
<tr>
<td>partnership structures/facilitating</td>
<td>3.14</td>
</tr>
<tr>
<td>taxation breaks</td>
<td>3.57</td>
</tr>
<tr>
<td>availability of financial incentive programs</td>
<td>3.36</td>
</tr>
<tr>
<td>construction costs/land costs</td>
<td>4.36</td>
</tr>
<tr>
<td>capital appreciation/investor demand</td>
<td>4.29</td>
</tr>
<tr>
<td>rental growth/occupier demand</td>
<td>4.14</td>
</tr>
<tr>
<td>availability of financial incentive programs</td>
<td>3.36</td>
</tr>
<tr>
<td>tenure</td>
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<tr>
<td>ownership</td>
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<tr>
<td>availability of land</td>
<td>4.36</td>
</tr>
<tr>
<td>construction costs/land costs</td>
<td>4.29</td>
</tr>
<tr>
<td>capital appreciation/investor demand</td>
<td>4.43</td>
</tr>
</tbody>
</table>

**Figure 13. Factors in Evaluating Urban Renewal Developments**

In order to improve the flow of private sector finance into urban renewal areas of Hamilton, simplified planning procedures and clarity of public policy and process were deemed to be the most important factors respectively; followed by simplified administration of funding and contamination remediation. (figure 14). From the standpoint of the private sector in the UK, a simplified planning procedure was also considered of equal importance. Clarity of procedures of private finance initiatives, land assembly and clarity of public policy respectively were also considered important.

As there is often a process of deliberation between the private and public sector for applications related for zoning, permits, grants and other financial initiatives, they will all be accounted for within a development analysis where a certain amount of time and capital are allocated with possible contingencies. Demonstrating the importance of having a public sector that fosters an environment that attracts private sector development. As contamination remediation was also considered one of the most important factors across the UK and Hamilton, this could arguably be an indication of numerous rezoning procedures related to industrial or brownfield developments.

In terms of systemic economic variables, regeneration policy should be more sympathetic with fluctuating market conditions with less regard to increased public funding (Adair et al., 1999). In contrast, public non-finance based instruments were given heavy emphasis to improve the flow of private sector finance by non-investors, targeting investor priorities and commercial requirements, uncomplicated planning regulations, and assured minimum levels of infrastructure (McGreal et al., 2000).
While alluring individual private investment, or as part of a strategy encompassed within a larger portfolio, public policy should consider the differential risk associated to urban regeneration areas; specifically, offering a package of investment opportunities to create investment vehicles for those actors new to urban regeneration. Targeting private investment should take into consideration that the risk profile of institutional investors as they are less amenable to urban regeneration areas than smaller and non-institutional investors and developers (Adair et al., 2000).

![Figure 14. Improving the Flow of Investment in Urban Renewal Developments](image)

### 4.4 Rate of Return

As previously stated in the analysis, some of the participants only partake in development of renewal in Hamilton; 5 respondents skipped this question and 7 answered not applicable. As a concern before the survey was released, financial confidentiality is most likely the reason for the low response rate. As non-renewal development includes all other classification of property types, it’s interesting that there is such a variance of benchmarked internal rate of returns among the small sample size. Although the companies that participated in this survey outlined (figure 2) that they’re involved in many roles within development, companies involved in real estate tend to have a primary role, one of which listed in figure 2. By means of their company profile revealed on their homepage,
investment companies represented the lower IRR’s, while the two highest benchmarks were representative of developers. This could arguably be the standard in the real estate world, as investors require smaller returns, as they’re involved in numerous projects, property portfolios and investment funds. Whereas developers tend to be completely dependent on single projects, having a larger share of equity at risk. Obviously data is limited and further studies are completely necessary for any further deduction.

Figure 15. Internal Rate of Return for Non-Renewal Development

Consistent with the literature reviewed, all companies except for one stated the required IRR for urban renewal investment (figure 16) was higher then required in (figure 15). While Leinberger (2001) conceded a higher IRR for progressive developments under which renewal activity could arguably be classified as, Adair et al. (2000) also identified that urban regeneration schemes applied a premium relative to institutional or prime property. Nappi-Choulet (2006) also stated that pioneer renewal investors favored high returns over a short period of time.

As the data sample was again low and technically insignificant to make any concluding remarks, these participants do account for additional factors of risk in renewal areas.
With consideration to investment by property fund managers in areas of urban renewal, a study by Haran, McGreal, Adair & Webb, (2007) listed three investment styles that involved an arrangement of capital appreciation (investor demand) and income returns (rent); core, value-added and opportunistic. Core relied mainly on stable income returns, value-added depend on a combination of income and appreciation, while opportunistic favored capital appreciation. The majority of fund managers from the study anticipate renewal areas outperforming prime property from lower acquisition costs, capitalizing on undervalued land; and by adding value through the development process. It’s important to note that Haran et al. (2007) suggest that the simplification of the three investment decisions does undermine the complexity of the actual investment styles used among property investment schemes. Further collaboration with fund managers and data administrators would be beneficial to accurately define the diverse range of investment styles.

Haran et al. (2007) establish that core style fund managers were the main investors within regeneration due to their longer duration time, favoring the longer lifespan of renewal projects and the availability of capital that would be used to endure the different stages of the development process. Shorter, value-added and opportunistic investment styles did not complement the life span of renewal projects, along with not having the essential capital needed to invest in renewal projects. It’s important to note that core-styled fund managers would expose 5-10% of their portfolio to a greater amount of risk under renewal projects with a more opportunistic investment style; while depending on steady income streams from prime property to collectively exceed respective industry investment benchmarks.
Investment styles in Hamilton seem to be almost opposite to those outlined in favor of regeneration in the UK, as income return was favored in the short run and capital appreciation over the long run. Once again further and complimentary research would be required as the results are not definitive. However, the difference could be explained by the expected time frame for the rate of appreciation to increase, as compared to the already inflated surrounding areas of the (GTA).

As determined by Haran et al. (2007), entering an investment renewal project during the earliest stages would give the greatest return, capturing the greatest increase in value. Later points of entry would be met with more competition and higher costs resulting in lower returns. The overall success in the last decade throughout the entire real estate market has given fund managers an inclination to explore all sectors of the property market (Haran et al., 2007).

<table>
<thead>
<tr>
<th>Investment style</th>
<th>N/A</th>
<th>0 to 3 years</th>
<th>4 to 6 years</th>
<th>7 to 10 years</th>
<th>11 to 15 years</th>
<th>more than 15 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>capital appreciation</td>
<td>2</td>
<td>0</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>income return</td>
<td>2</td>
<td>7</td>
<td>2</td>
<td>1</td>
<td>0</td>
<td>2</td>
</tr>
</tbody>
</table>

*Figure 17. Investment Styles in Renewal projects*

For 13 respondents, direct public investment was considered the most efficient form of risk alleviation in renewal areas of Hamilton. Respectively, private – public partnerships were considered less effective while public investment in infrastructure and grants were given nearly of equal weight.

As past case studies covered in the literature review have been fairly circumstantial with respect to the success of tax incentives or grants as renewal investment initiatives, the former has arguably been marginally favored. However, respondents from this survey regarded the use of tax incentives as the least effective means of alleviating risk in Hamilton (figure 18). The significance of this view can be highlighted from the “Invest in Hamilton” website, where a substantial amount of risk alleviation options are of tax incentives. From this study, it is not evident that respondents are aware of, or completely understands the incentives offered by “Invest in Hamilton”.

With respect to public investment it would be noteworthy to consider investment thresholds outlined by Galster, Tatian & Accordino, (2006) Public investment thresholds are certainly met with
exceeding levels of private investment, complementary with a planning process that is publicly conceived with clear initiatives and with investments in infrastructure and public services. Success of community revitalization initiatives can often be proven from increased value in residential housing. However, appreciation can create displacement. Due to infill and upgrade developments, initial low vacancies and housing counseling, displacement was relatively low in this study. Lastly, it’s important to consider this model when neighborhoods have improved to a level that will attract private investment and allow public expenditure to shift to other distressed areas of Hamilton. Thresholds are only suggestive, meaning further studies are required to determine the definitive nature of these thresholds by measuring the required investment thresholds to initiate private investment, alongside areas with different degrees of distress (Galster, Tatian & Accordino, 2006).

With consideration to private – public partnerships the literature reviewed highlights its importance as an effective means, especially as it is often undertaken complementary with grants or tax incentives. However, the bureaucratic nature of these syndicates can be taxing and costing to development projects (Adair, Berry, & McGreal 2003). Further research directly related to the financial outcome of development schemes would be beneficial as these joint ventures can be inclusive or exclusive to renewal investment.

Obviously, a variety of further case studies will only benefit the use of determining which risk alleviation measures to take. The use of certain measures should be circumstantial with regard to similarities to past case studies. Perhaps, it would be beneficial to evaluate the economic environments of renewal areas with respect to where specific risk alleviation initiatives have been successful.

<table>
<thead>
<tr>
<th>Type of Measure</th>
<th>Rank</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct Public Investment</td>
<td>1</td>
<td>4.27</td>
</tr>
<tr>
<td>Public Investment in Infrastructure</td>
<td>2</td>
<td>2.58</td>
</tr>
<tr>
<td>Public-Private Partnerships</td>
<td>3</td>
<td>3.73</td>
</tr>
<tr>
<td>Grants</td>
<td>4</td>
<td>2.46</td>
</tr>
<tr>
<td>Tax Incentives &amp; Tax Incremental Financing</td>
<td>5</td>
<td>2.00</td>
</tr>
</tbody>
</table>

*Figure 18. Risk Alleviation for Urban Renewal Policy*
4.5 Evaluation of Potential Investment Alternatives

A study of regeneration partnerships in New York and London, by Bennett and Koudelova (2001), considered how certain areas were to be branded in attempt to endorse the availability of tax credits, low cost loans and other forms of assistance in order to encourage development. First, areas were not marketed in a way that highlighted their unique characteristics in relation to other neighboring districts. Areas branded under regeneration partnerships influenced by large economic development agencies focused on promotional imagery that attracted business investment schemes with little regard to the cultural make up of the pre-existing community. There was little regard for “positioning” marketed areas and creating brands, based on the significance of community characteristics relative to other competing areas.

From (figure 19), 31% and 39% of companies stated that the pre-existing cultural and/or historic make up of the Hamilton area respectively, was very important and important. Further studies could focus on those residents of these areas. As this question could be questionably biased as from the perspective of the property companies. Bennett and Koudelova (2001) suggested that residents in targeted areas would likely not be responsive to a post perception survey of marketed areas, as many residents used within brand imagery would or have been displaced.

The importance of the cultural and or historic make up can be argued that local developers are more consciences of preserving an identifying these factors within their development schemes. Thus, this question attempted to identify those of the same values of the local developer outlined by Guy et al. (2002); smaller renewal projects should be met with the culture and aesthetic appeal of smaller local developers.
According to (figure 20 – A6), it's evident that from the viewpoint of renewal participants, public policy is facilitating an environment favoring local based investment and development. “Invest in Hamilton”, is the designated municipal platform representative of economic opportunities offered to attract specific, targeted industry investment often external to Hamilton. The urban renewal section from this platform encourages the development of underutilized property within the urban core of Hamilton.

Studies by Adair et al. (2000) and Guy et al. (2002) suggest a need for more local based investment and development that is more considerate to community needs and forthcoming during the deliberation process involved in city planning. Specifically, Guy et al. (2002) state, urban policy should focus on fostering independent and local based investment and development.

Arguably, there is contrast between local investment considered for benchmark renewal development and the expanse of industry representatives’ external to Hamilton or the Greater Toronto Area. Thus, it could be debated that renewal policy in Hamilton is effectively hosting the ever-present influx of external targeted industries associated, and the harboring of existing local commercial and residential renewal development. This is important as these areas are underutilized and unoccupied creating a need for surrounding emigration.

As a third of respondents omitted this question (figure 21), 42% and 33% either strongly agreed or slightly agreed, respectively, with a negative perception from financial institutions regarding the perceived high risk associated with renewal development. Adair et al. (2005) suggest that there should be more information and data on the returns of completed renewal projects and the associated risk. On the other Guy et al. (2002) suggest without discouraging institutional investors, policy should consider other investment alternatives that favor the all-inclusive nature of local renewal projects.
As a third of the total respondents skipped this question, at least 91% of companies suggest they at least sometimes consider unlocked land value and holistic factors that are considered unconventional by the cultural functionality of financial institutions (figure 22). Contrary to figure 6, where 33% of 18 respondents were involved in tertiary or emerging markets. Disputably, development projects with unlocked land-value are often located in fringe or emerging markets; outside the risk-averse investment scope of financial institutions (Guy et al., 2002). However, as 67% of respondents at least often partake in projects with unlocked land value not standard to conservative lending or investment, it is apparent that alternative forms of financing, concurrent with unconventional underwriting could be offered to renewal markets.

Adair et al. (2005) emphasize the need for urban regeneration policy to be more consistent with the level of market data. The return of investment is a primary indicator that institutional investors should re-consider their policy because of the economic opportunity created within these areas from innovative investment schemes. Adair et al. (2005) express the significance and continued maintenance of market data in demonstrating to institutional investors the success of urban regeneration investment.
With regard to gap financing during the development process (figure 23 – A7), 46% of the 13 responding companies have experience with certain loans not overlapping. As this is arguably not standard real estate practice, underwriting and the financial regulation of institutions ensures that loans commence upon completion of each stage of the development. Gaps can occur when renewal schemes depend on the due diligence of publically financed initiatives that can be impertinent to the time related in the development sequence and stages. Further interviews of these respondents to get accurate occurrences of these gaps, could support a innovative form of financing that is closely associated with public finance initiatives.

Tax incentives and grants were considered the most favored risk alleviation techniques that would best compliment an investment platform (figure 24). In contrast to the other risk alleviation techniques, these financial initiatives will reduce the amount of equity required in a renewal scheme. With consideration to conservative financial lending, these initiatives could reasonably back alternative forms of innovative renewal investment. As infrastructure investment was considered by 46% of respondents, this would alleviate risk indirectly by making areas more esthetically attractive and physically accessible. It could be argued that companies are most interested in how certain risk alleviation techniques would directly affect their investment. Financial guarantees are more monetarily certain then indirect investments and partnerships that simply secure public commitment.

With regard to the other techniques offered by respondents, waving of a development charge should be consider in proportion to any financial incentives that could, to some degree, compensate the
payment. However, it’s important to consider the degree of perceived risk, as public policy initiatives attempt to attract investment, it would be counterproductive to offer financial incentives while retaining a development fee. Secondly, certainty in approval process and reasonable timelines should be considered by municipal planners that regulate the development schemes. Lastly, increased flexibility and workability would obviously favor the developer by giving them more opportunities related to their margins. Generally, what the municipality regulates, limits the intensity of a development within regulation of the official plans of a city and the associated costs to building standards.

![Figure 24. Risk Alleviation Techniques and Investment Platform](image)

The view that local developers are more sensitive to the needs of the community (Guy et al., 2002) and thus more accessible throughout the development process could create an opportunity for local residents to influence the size and type of retail tenant. Sizes of retail spaces offered in developments are important because smaller local businesses have difficulty competing with franchise chain stores and their associated covenant strength.

Kirkup and Mitchell (2003), study of “retailability” in Castle Vale, Birmingham was derived from retailers contributing to a regeneration area through an active partnership with other local stakeholders and a regeneration agency, steered by a transparent and rational vision that enabled all actors to collectively address problems or conflicts for the greater benefit of the whole regeneration area. Kirkup and Mitchell (2003) stated that a participating regeneration agency should
identify who the potential retailers will be in order to properly implement all financial resources and effectively design investments. Through community consultation the regeneration agency should articulate a vision that will lead the community forward and identify their retail needs.

To attract investment into the area, Kirkup and Mitchell (2003) reveal that a regeneration agency should put forth a campaign that highlights those advantages of investment into the area. Retailers need to be confident that investing in a regeneration area will bring customers from within and from outside the designated area. Agencies can effectively coordinate retailers to regeneration areas when there is an under-supply of sites within city centers, highlighting the advantages of these perceived underperforming areas. However, evaluating the potential investment of retail regeneration areas will depend on luring a customer base from beyond the regeneration area (Kirkup and Mitchell, 2003).

Supporting retail investment in regeneration areas Nase, Berry, & Adair (2013) state that the quality of retail design increases the real estate value of buildings. Empirical evidence of investment in quality design can be used in urban development benchmarks with consideration for regeneration initiatives. This idea can be used in contrast to smaller commercial-mixed use spaces with consideration to a holistic approach to development, the integrates quality design into the decision making process. (quality of design – improve quality of life – regeneration / urban development) (Nase, Berry, & Adair, 2013).

With regards to (figure 25 – A7), other then the one respondent that would be very willing, there is an even split between those companies that would be willing, and not willing, to allow accredited investors to be apart of the decision making process of retail renters. As renewal areas deal with gentrification, new and old local businesses can be more sensitive to the needs of the community. As this idea would be regarded as fairly progressive in the real estate industry, it’s important that insight from similar hypothetical models evolve to bring further community business initiatives.

As the capital structure varies among developments its important to consider the seniority of the underlying securities. The most senior security that gets disbursed first in the event of bankruptcy tends to have lower returns due to lower associated risk. Thus, most equity that is junior to most forms of debt requires higher returns.
Since only 11 respondents completed this question and as every choice of security had at least 4 not applicable responses, it is difficult to make any leading arguments. This question was designed to implicitly assess, if companies would consider the use of an investment platform based on a successful crowd-funding model in the United States. From this crowd-funding model, it is evident that this platform depends on corporate financial transparency and the different options of securities that were offered in (figure 26). As senior debt and preferred equity were given more consideration with regard to a renewal investment platform, further studies could investigate the different uses of these securities in renewal investment schemes.

![Figure 26. Securities Considered with an Investment Platform](image)

5. Conclusion

The collection of data relative to renewal investment and development activity is still objectively limited and questioned within literature. Based on the survey participation of this study, corporate confidentiality could hinder further quantitative studies in this field. Ideally, a benchmark for further studies would have indirect access to financial records or templates consenting further transparency to investment decisions related to renewal. Resources or memberships to organizations that could assist in conveying the importance and confidentiality of this study would have enriched the participation rate significantly. Further, it would've been most beneficial to compare further renewal investment activity with other designated municipal areas in Canada or the United States.
As the literature review attempted to illustrate how investment activity in urban renewal was evaluated and perceived, it became apparent that alternative forms of investment could be considered within the framework of development schemes. The real estate industry will continue to be susceptible to economic cycles and financial templates of conservatism. As progressive patterns of renewal activity become more apparent, showcasing innovation, conceivably more attention will reduce the adverse acuities that significantly influence market activity. In its place, urban renewal could evolve to nurture local development, as it is argued that those familiar with these areas are more culturally aesthetic and able to unlock the holistic value under which conventional valuation methods struggle (Guy et al., 2002).

Regardless, as policy initiatives continue to implement ways of alleviating risk, it’s evident that past case studies of renewal investment were circumstantial to their geo-economic features. Moreover, it’s important to identify investor profiles for future regeneration initiatives (Nappi-Choulet, 2006).

Accordingly, the analysis in this paper first attempted to identify the players in the Hamilton property sector using questions based on companies’ background. The next section of the survey focused on evaluating the investment behavior. Limited by corporate confidentiality, the preferred IRR’s for renewal and prime property were used to compare how companies evaluate real estate projects. The last section of the survey investigated the possibility for alternative means of investment.

While the majority of companies were of 10 or less employees the largest two companies, one public had been involved in real estate 30 years or longer. The amount of time involved in the real estate sector and the size of company played no significance in vertical integration.

In attempt to define local property sector activity in Hamilton, 76.5% of respondents located their head office in Hamilton while the remaining were located in Southern Ontario. Of the total participants, 28% were involved exclusively within the Hamilton area. All but one from the 28% had their head office in Hamilton. An additional 39% of companies claimed to participate in the real estate industry throughout Southern Ontario, representing a degree of localized development of the Golden Horseshoe area.

The exclusivity and relativity that is often involved in classifying property types in areas of urban renewal became apparent in the analysis. There seemed to be a grey area as to what companies defined as primary, secondary and tertiary properties. Often renewal areas are defined by the
associated public initiatives. Hamilton is a growing city with an established downtown core. A large proportion of the urban area is experiencing forms of renewal development supported by public initiatives. However, relative to other urban areas in Southern Ontario, Hamilton could arguably be considered a secondary or tertiary market.

While a large proportion of activity was reported in mixed use and residential sectors, and associated low–rise buildings, a large proportion of the non-respondents according to initial research of companies involved in Hamilton, were committed to larger high-rise projects in Hamilton and the Greater Toronto Area. Also, there was no obvious correlation between companies experience and cumulative value. It was not obvious as to whether the cumulative dollar values were an accumulation of development experience or a determinant of favorable size of development project. Arguably, local developers tend to favor smaller projects that adhere to community needs, thus being more transparent with company information (Guy et al., 2002). Again corporate confidentiality amongst the larger companies that intertwine with institutional templates will hinder further research.

By evaluating investor behavior under the template of past research by Adair et al. (1999), the large proportion of participants identifying as developers in Hamilton in comparison to the original study, may give reason as to why those same factors of motives (perceived total return, security of investment/spreading of risk & new business opportunity) were chosen but given extra weight in terms of mean score. Further, availability of an exit strategy and company image, where selected differently in Adair et al. (1999) study and the Hamilton analysis respectively; highlighting more investment companies and property fund participants in the original survey concerned with investor timelines. As developers tend to consider holistic factors while attracting investment for projects, investment oriented companies’ hedge their risk my diversifying, giving less importance to the accumulation of equity alternatives within their portfolios.

As factors for evaluating renewal were very similar between this analysis and the Adair et al. (1999) study, the higher weighted average amongst factors in Hamilton could be argued as to more risk adverse behavior. With consideration to time between the studies, evidence of evaluation of renewal investment and development schemes have not evolved to consider the returns that are often equal as compared to schemes with primary or secondary real estate property. Supporting the need for further data in investment renewal activity (Haran et al., 2011).
Procedures necessary under the guidance and regulation of city planning were highlighted as to improving the flow of finance in renewal areas. Often the bureaucratic nature of public policy specifically stated in public and private partnerships by Ball, Le Ny & Maginn, (2003) deal with issues of governance, decision making, and costs and delays. Specifically in Hamilton, simplified planning procedures, clarity of public policy and process and simplified administration of funding were deemed to be the most important factors to improve the flow of finance in the area. As these factors can be considered within the context of partnerships or specifically with the Invest in Hamilton, renewal initiative, it’s evident these issues are fairly universal and need more consideration across city agendas.

As presented in the literature reviewed, developers and investors do account for additional factors of risk with regard to evaluating projects with the internal rate of return. However, due to corporate confidentiality the finding were fairly limited as participants omitted the associated questions.

There was overwhelming evidence that praised the existing cultural and historic make up of Hamilton, while the accompanying environment hosted by “Invest in Hamilton” was considered to foster local based and independent development. However, it’s important to note according to the “Invest in Hamilton” website, tax incentives were the most offered renewal initiative. However, participants of the survey selected tax incentives as being the least favorable initiative relative to grants, partnerships and infrastructure investment. Moving forward, more dialogue between the private and public entities of Hamilton could allocate initiatives that are more effective in an already favorable, local based developer environment.

Further, as direct public investment was the most favored initiative, this could arguably be linked to the negative perceptions of risk and limited capital resources that financial institutions have regarding the renewal areas of Hamilton. Direct public investment could act as an institutional substitute, attracting substantial amounts of capital. Thus, assisting with investor confidence to the large share of survey participants that consider unlocked land value and holistic factors, unconventional by the cultural functionality of financial institutions.

The remaining survey questions were designed to explore the idea of an investment platform that would favor a localized investment approach in place of large financial institutions. As the response rate was fairly low it was still interesting to at least assume that there could possibly be a future for alternative investment vehicles in renewal development particularly if you consider the success in
the United States. A minority suggested further options for gap financing. Often a gap between when one loan closes and another starts can occur during complications related from stages of development. Respondents opted for risk related initiatives (tax incentives, grants) that would directly affect their investment with consideration to an investment platform. As these innovative platforms have had recent success in the United States, there would still be uncertainty among potential investors illustrated by the selection of direct monetary commitments rather than indirect investment associated with infrastructure improvements and private public partnerships. Development fees should be considered with regards to grants or tax incentives offered as these payments and incentives would be potentially equalized.

As areas of urban renewal tend to have more community sensitivity to development and often yielding to gentrification, it's important to consider the establishment of certain retailers that can possibly multiply this effect. Arguably, larger retail spaces attract franchises that heighten civic transformation. As respondents where divided with regards to community consultation of retail occupants, further studies of retailers as positive or negative catalysts of renewal development could be studied.

As an investment platform that offered a specific security, complimentary to other securities senior or junior, it's most important to recognize this alternative investment vehicle could only be offered exclusively with capital structure transparency. As many of the companies that responded omitted certain questions, the progressive local urbanity of this model, would need to unlock the conservative conduct of corporate confidentiality.
Bibliography


Nase, I., Berry, J., & Adair, A. (2013). Hedonic modelling of high street retail properties:


Appendix A: Survey Figures

**Figure 1. Number of Employees in Company**

- **0**: 2
- **5**: 1
- **11**: 5

**Legend:**
- Circular chart showing the distribution of employees.
- Categories: less than 10, 11 - 50, 51 - 100, more than 100.

**Figure 3. Years in Real Estate Market**

- **less than 10**: 22.2%
- **11 - 30**: 50.0%
- **more than 30**: 27.8%

**Legend:**
- Circular chart showing the distribution of years in the market.

**Figure 4. Location of Head Office**

- **Hamilton area**: 23.5%
- **Southern Ontario**: 76.5%

**Legend:**
- Circular chart showing the distribution of head office locations.

---

Wilson, T.
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<th>value current projects</th>
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<td>less than $10M</td>
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*Figure 10. Years of Practice – Value of Completed Projects – Value of Current Projects*

*Figure 11. Urban Renewal Outside of Hamilton*

*Figure 20. Fostering of Independent and Local Based Development*
Has your company ever had an issue with loans/investment that do not overlap during the stages of a project? (i.e. gap in financing)

- Yes: 53.8%
- No: 46.2%

Figure 23. Overlapping / Bridge Loans

Based on the idea that local residents are aware of what services are in demand within their community; would your company be willing to allow accredited investors to partake in the decision-making process regarding the retail tenants of your future renewal?

- Very willing: 7.7%
- Willing: 30.8%
- Moderately willing: 30.8%
- Less willing: 15.4%

Figure 25. Inclusion of the Decision – Making Process
Appendix B: Online Survey

1. In order to track all completed surveys from respondents, please state the name of the company you represent: (reminder - all responses are voluntary and confidential, and will not be identified individually)

2. How many people are employed by your company?
   - less than 10
   - 11 - 50
   - 51 - 100
   - more than 100

3. Please define your company's role in the real estate market: (multiple answers possible)
   - developer
   - investment
   - asset management
   - Other (please specify)

4. How many years has your company been involved in real estate development?
   - less than 10
   - 11 - 30
   - more than 30

5. Where is the location of your head office? (best answer)
   - Hamilton area
   - Southern Ontario
   - Ontario
   - Canada
   - United States
   - International
6. Locations of all past and present real estate projects that your company has been associated with: (best answer)

- only in Hamilton area
- only in southern Ontario
- throughout all of Ontario
- throughout Canada
- United States and Canada
- International - projects all over the world

7. Classification of property that your company is involved with: (multiple answers possible)

- primary - core urban areas
- secondary - suburban or secondary urban markets
- tertiary - emerging real estate market
- Other (please specify)

8. Which sectors of the Hamilton real estate market is your company active in? (multiple answers possible)

- mixed - use
- multi - residential
- single family dwelling
- two family dwelling
- townhouse
- commercial - retail
- commercial - office
- commercial - industrial

9. Please define the building types your company develops: (multiple answers possible)

- low-rise in Hamilton area
- mid-rise in Hamilton area
- high-rise in Hamilton area
- low-rise out side of Hamilton area
- mid-rise out side of Hamilton area
- high-rise out side of Hamilton area

10. What is your companies cumulative value of all completed real estate developments?

- less then $10 million
- $10 million to $50 million
- $51 million to $250 million
- more then $250 million

11. What is the cumulative value of current project(s) from the planning/acquisition stage to the closing stage?
12. Is your company involved in other areas of urban renewal outside of the Hamilton area?

   ○ no
   ○ yes

13. How important are the following motives for your company in urban renewal development? McGreal et al. 1999

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<td>Security of investment/spreading of risk</td>
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<td>New business opportunities</td>
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<td>Availability of an exit strategy on specific investments</td>
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14. How important are these factors in evaluating urban renewal developments? McGreal et al. 1999

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</table>
16. If applicable: What is your expected/benchmark IRR on non-renewal development projects?

- Circle:  less than 10%
- Circle:  11% - 12%
- Circle:  13% - 14%
- Circle:  15% - 16%
- Circle:  17% - 18%
- Circle:  19% - 20%
- Circle:  more than 20%
- Circle:  n/a

17. What is your expected/benchmark IRR for renewal development projects?

- Circle:  under 10%
- Circle:  11% - 12%
- Circle:  13% - 14%
- Circle:  15% - 16%
- Circle:  17% - 18%
- Circle:  19% - 20%
- Circle:  more than 20%
- Circle:  n/a

18. What best describes your investment style or the investors of your renewal projects?

- Capital appreciation: N/A, 0 to 3 years, 4 to 6 years, 7 to 10 years, 11 to 15 years, more than 15 years
- Income return: N/A, 0 to 3 years, 4 to 6 years, 7 to 10 years, 11 to 15 years, more than 15 years

19. Which risk alleviation technique used by renewal policy do you find most effective? (rank: 1 being the most effective)

- Tax incentives & tax incremental financing
- Grants
- Public-private partnerships
- Public investment in infrastructure
- Direct public investment

20. How much importance is placed on the pre-existing cultural and/or historic make up of the area when branding your developments?

- Circle:  very important
- Circle:  important
- Circle:  moderately important
- Circle:  little importance
- Circle:  not important
21. How much importance does current renewal policy focus on fostering independent and local based investment and development?
- very important
- important
- moderately important
- little importance
- not important

22. There is a negative perception from financial institutions regarding the perceived high risk associated with renewal development.
- strongly agree
- slightly agree
- undecided
- slightly disagree
- disagree

23. Your company considers unlocked land value and holistic factors that are considered unconventional by the cultural functionality of financial institutions.
- always
- very often
- sometimes
- rarely
- never
24. Has your company ever had an issue with loans/investment that do not overlap during the stages of a project? (i.e. gap in financing)
   - yes
   - no

25. Which public risk alleviation technique(s) would best compliment an investment platform for a renewal development project? (multiple answers possible)
   - tax incentives
   - grants
   - public - private partnership
   - infrastructure investment
   - none
   - Other (please specify)

26. Based on the idea that local residents are aware of what services are in demand within their community; would your company be willing to allow accredited investors to partake in the decision-making process regarding the retail tenants of your future renewal projects?
   - very willing
   - willing
   - moderately willing
   - less willing
   - not willing

27. With consideration to securities seniority, which would be most in need to help finance your renewal projects through an investment platform? (rank: 1 being most in need)

   - senior debt
   - mezzanine debt
   - preferred equity
   - common equity