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Cultures of development: property and urban regeneration

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PROPERTY AND URBAN REGENERATION: COMPETING CULTURES OF DEVELOPMENT

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Abstract. In the United Kingdom, the property market is centred on a London-based nexus of financial, investment and development interests. A relatively small number of decision-makers in banks, investment institutions, development companies and property agents exert very considerable influence over the market. Collectively, they develop and reproduce institutional rules and organising ideas - operational mores - which socially structure market behaviour. These affect development potential in individual urban/regional property sectors no less fundamentally than economic factors. Such behaviour contributes to the determination of market strength via socially interpreted perceptions and evaluations of various sub markets. These are translated into demand for and prices of property investments in the sub markets and, therefore, flows of capital into and out of urban and regional property sectors.

The paper examines this process of social construction by identifying the views of urban and regional markets held by London-based property investors. It identifies the conceptual and methodological assumptions underpinning these views and relates these to particular investment strategies. The paper then compares these images with the contrasting views of local property actors, highlighting the very different approaches to understanding the market taken by the latter. Finally, the paper discusses how these competing conceptualisations shape the relative competitiveness of urban and regional property markets.

Introduction

> "Talk about the city, then, particularly as it dwells on decay and disintegration, is also about whether or how we should act. Embedded in these representations are implications concerning the identity of legitimate spokespersons and assumptions and where we should live, how we should live, what governmental policies to support, whether to take to the streets or sit in front of the television, why one should not flee to the suburbs, and where one should invest." (Beauregard, 1995, page 77)

In the UK there are "...strong relationships between productivity levels and fixed investments in ... structures (i.e. non-residential buildings)" (Ball and Wood, 1996, page 112, parentheses added) These "...complex two-way relationships..." (page 113) are not well understood, but Turok (1992) suggests five ways in which they might be articulated, focusing on the positive effects of property development on (local) economies. The first is the direct impact of construction activity. The second is property's influence on indigenous growth via the contribution of the local building stock to occupiers' productivity and ability to expand. Additionally, the availability of good accommodation may help to attract inward investment. Property can also contribute to neighbourhood revitalisation via the positive externalities arising from investment which upgrades the physical environment. Finally, large scale redevelopment may be necessary to accommodate major changes in cities' functions in the face of economic restructuring. The potential of property development to contribute to urban economic competitiveness is, therefore, clear.

The effective interaction of property and economic development depends crucially upon the continuous reproduction of a stock of property which corresponds accurately to users' requirements. However, the growth of property developed for renting has altered the nature of the supply side response in the property sector of the economy. The intermediation of property investors between users and developers has dislocated property supply from users requirements. "... private property development is driven more by investment demand and suppliers' decisions than by final user demand - even less by any sort of final user needs". (Edwards, 1990, page 175). Buildings are increasingly produced in forms, locations and amounts and at times which meet suppliers' financial criteria rather than users' functional criteria (Henneberry, 1988; Guy, 1998). This holds fundamental implications for urban competitiveness and regeneration. Under supply of new and rented accommodation handicaps economic performance while the capacity of an economy to respond to changing economic trends and to realise productivity gains is enhanced by the availability of appropriate accommodation.

These changes have highlighted the inadequacy of traditional treatments of the property market and of property development and investment. Property researchers tend to adopt positivist methodologies which emphasise the application of rational decision-making techniques by utility maximisers within a mainstream economics paradigm. While considerably increasing our understanding of the development process, such research offers a partial view of its subject from a particular perspective (Guy and Harris, 1997). Recently, alternative methodological and theoretical approaches have evolved which strive to understand the wider institutional context of the development process (see Ball's (1998) review). Our own work on the relationship between intra- and inter-urban property market processes and their effects on urban development maintains that social structures and processes are as important as their economic equivalents in 'explaining' property development (Guy and Henneberry, 2000). We argue that any understanding of property development processes must blend a sensitivity to the economic and social framing of development strategies with a fine grain understanding of the locally contingent social responses of property actors.

The paper builds on this work. It examines how local or regional property actors' ability to reproduce an appropriate building stock is structured by the strategies of national market actors, whose investment decisions set limits on and offer opportunities for urban development activity. These structures have two main dimensions: one economic - the interplay of rents and yields determining the pattern of profitable development conditions; and one social - the character and behaviour of the dominant London-based grouping of financial, investment and development interests establishing the terms by which action is pursued. In the United Kingdom, the property market is centred on a London-based nexus of financial, investment and development interests. A relatively small number of decision-makers in banks, investment institutions, development companies and property agents exert very considerable influence over the market. Collectively, they develop and reproduce institutional rules and organising ideas - operational mores - which socially structure market behaviour. These affect development potential in individual urban/regional property sectors no less fundamentally than economic factors. Such behaviour contributes to the determination of market strength via socially interpreted perceptions and evaluations of various sub markets. These are translated into demand for and prices of property investments in the sub markets and, therefore, flows of capital into and out of urban and regional property sectors.

The paper uses the notion of ‘development culture’ to explore this process of social construction. We firstly identify the particular ways in which London-based property investors see urban and regional property markets. The methodological assumptions underpinning this perspective are identified and related to particular investment strategies. The paper then compares and contrasts these images with the perspectives and strategies of local property actors. In particular we consider the very different approach to understanding the market taken by independent developers as they engage in local development activity. In conclusion, the paper discusses how these competing conceptualisations of local markets affect urban competitiveness and regeneration.

Investment in Urban Property Markets

> “When we talk about, listen to, or read about the city, we must understand these discussions as inherently political.” (Beauregard, 1995, page 77)

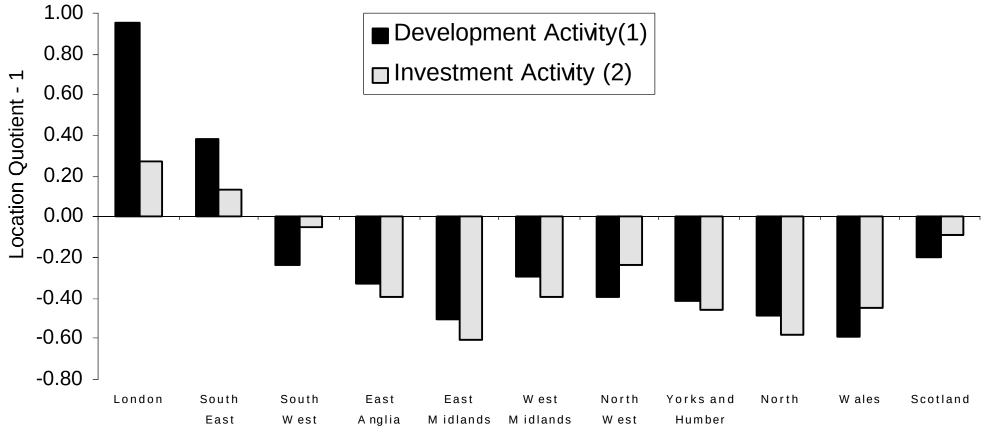
UK institutions, property companies and property financiers, such as UK and overseas banks and building societies are major actors in the property market. Most of these organisations are based in London and constitute a nexus of influential, Metropolitan decision-makers whose activities affect the whole of the UK commercial property market. Callender and Key (1996) suggested that at the end of 1995 about 45% by value of the UK commercial property stock was owned by investors and half of this holding was owned by UK institutions. The value of the latter’s commercial property portfolio was estimated to be £64.8bn. Because such a significant proportion of UK commercial property is in the control of institutions, their investment decisions have important implications for urban regeneration.

As McNamara (1993) explains, these decisions are made within a simple framework.

> “Each … asset has a unique potential for income and capital return, or both; each has a unique profile of attendant risk … The investment community will review the risk/reward profile … and calibrate the price it will pay for each asset …” (McNamara, 1993, page 7)

However, the incorporation of spatial influences on risk and reward into this framework, and into its application, has resulted in a very uneven regional distribution of development and investment. As Figure 1 demonstrates, office development and investment is centred in London and the South East with peripheral regions characterised by lower relative levels of activity (Rowley and Henneberry, 1999). At the urban level, the potential performance of a city's property market is an important element of an investment decision. If rental and capital growth are expected to be strong then an institution would wish to invest in that city. However, empirical evidence suggests that investment patterns are influenced by factors wider than performance thus (narrowly) defined.

Figure 1a) The Relative Distribution of Institutional Investment and Development Activity (1984-1998)



1. Location Quotient describing the relative distribution of new orders (DETR Regional Distribution of New Orders data 1966- 1998) using BFIBS GDP as location benchmark.
2. Location Quotient describing the relative distribution of IPD recorded investment expenditure using BFIBS GDP as the location benchmark.

> "...office investors have clearly favoured specific areas of the country (or perhaps areas of the country with specific features in their office stock) as primary locations for their portfolios. There are clearly implications of this skew in the distribution both for the risk profile of portfolios... and for economic functioning of cities (the degree to which their office stocks are controlled by a small number of major investors)." (Key, McBurney and Moore 1998, page 7)
>
> "...This distribution of office investments has not been arrived at by following long term performance." (Key, McBurney and Moore, 1998, page 7)
>
> "...Geographical location appears to have been a stronger influence on investment flows than economic performance." (Investment Property Databank, 1996, page 21)

Patterns of investment returns and investment capital flows are not strongly related (Investment Property Databank, 1996; Key, McBurney and Moore, 1998; and see Table 1 for six urban office property investment markets). Our earlier research sought to identify those factors which might contribute to an explanation of this mismatch (Rowley and Henneberry, 1999). London-based financial decision-makers presented a formal logic which underpinned their choice and pricing of investment properties, especially with regard to their regional and urban location. Three investment property and market characteristics were identified by investors as vital in shaping patterns of investment: lot size, the nature of occupier demand and market liquidity.

Lot size is an important investment characteristic. With the continuing expansion of their portfolios, institutions are constantly looking to invest in larger and larger investment properties. This is because smaller properties have little impact on the overall performance of a portfolio and the management costs of one property with a value of £20m are considerably less than the management costs of 10 properties of £2m. The strength and quality of occupier demand are of fundamental importance. They affect investment performance via rent/capital values and growth and, by the same means, they will influence levels of development activity and, therefore, the provision of institutional quality property. In addition, 'blue chip' tenants offer stronger covenants and lower risks than other tenants. Both these factors affect market liquidity, which is vital to investors. Larger markets with higher numbers of institutionally owned properties (larger buildings accommodating larger organisations with stronger covenants) are usually more liquid than smaller markets.

The combination of these three characteristics – so the logic goes - limits the potential for property investment in peripheral regions and cities. Smaller markets can rarely offer properties of the size required by most institutions and the lack of these properties will have a significant impact on market liquidity. When high quality pre-let properties become available in peripheral markets institutions will compete to purchase them, but such opportunities are rare. Institutions concentrate on investing in specific types of property satisfying pre-determined investment criteria within markets which possess certain specific investment characteristics.

However, this logic does not bear examination. Consider Table 1, which describes aspects of the character and performance of the market for office property investments in six cities. Reading experienced the highest relative levels of net investment and the City the lowest (see rows 1 and 2). This is consistent with the observation that "…Investment flows have tended to run out of London and into the rest of the South East..." (Key, McBurney and Moore, 1998, 5.1). While disinvestment from the City is understandable, given the performance of its office property investments, the attractiveness of Reading in these terms is not (see row 3). Following the wider logic presented by investors, we might expect liquidity to be higher – and, therefore, risk to be lower – in Reading than in other office property investment markets. It is not.

"Liquidity refers to the speed and certainty with which an asset can be converted … into money." (Begg et al, 1991, page 417) In the property sector the term "… is used more loosely to describe the … 'volume' of transacting in a given market." (McNamara, 1998, page 1) Key, Durkin and McBurney (1998) label this the 'trading rate' which is "trading activity – purchases and sales of standing investments, stripping out development, refurbishment and other active management - … as … percentages of holdings …" (page 4). Their analysis demonstrates that Reading is less liquid than any of the other provincial cities both in terms of the percentage of capital value traded and the percentage of properties traded (see rows 4 and 5) and is supported by our own calculations (see row 6).

Two additional points should be noted. The first is that the number of IPD institutionally owned properties was lower in Reading than in all other provincial cities except Newcastle (see row 7). The second point concerns the scale of institutional property ownership relative to the total stock of office property. The Reading market, in terms of the absolute size of its office stock, is the smallest in the Table (see row 8). However, the proportion of that stock which is owned by IPD institutional investors is the highest (see rows 9 and 10). Both points act further to weaken the argument that Reading offers liquidity and market depth superior to that of provincial urban office property markets.

Table 1: The Character and Performance of Selected Urban Office Property Investment Markets

Character/performance factor	Bristol	City	Leeds	Manchester	Newcastle	Reading
1. Net investment by capital value, 1984-1998 (%)	5.22	0.72	3.90	6.08	2.83	7.31
2. Net Investment controlled for market strength and market size (Index)	181	na	112	120	43	405
3. Total return, 1984-1998	9.5	8.7	10.6	11.1	10.6	6.8
4. Trading rate by % value traded, 1988-1997 (IPD)	12.8	11.2	13.6	15.1	18.7	11.4
5. Trading rate by % properties traded, 1988-1997 (IPD)	14.1	13	14.7	14.5	17.6	13.7
6. Trading rate by % value traded, 1984-1998 (authors)	15.3	14.9	15.7	19.4	17.6	15.7
7. Number of properties owned by IPD institutions, 1998	118	394	77	86	16	62
8. Size of whole stock of private commercial offices ('000 sq m, 1994)	1016	4002	1166	1583	585	503
9. Stock of private commercial offices owned by IPD institutions ('000 sq m, 1994)	402	1707	175	382	112	220
10. % of whole stock owned by IPD institutions, 1994	40	43	15	24	19	44

1. Net Investment by Capital Value is the average Net Investment as a percentage of the average Capital Value for a market over the period 1984-1998

2. Net investment figures 1984-1998 were controlled for market strength using the market strength index derived by Henneberry and Rowley (1999) and market size using NOMIS Financial and service employment statistics as the market size benchmark for each year.

3. Average Total Return over the period 1984-1998

4/5 Data from Key, T., Durkin, S. and McBurney, D. (1998) Liquidity, Trading and Performance. 7th IPD Investment Strategies Conference, Nov.

6. Trading rate by % value traded is calculated by dividing the average value of a market's trading activity (expenditure + receipts) by the average capital value for the market over the same period, in this case 1984-1998

8. DETR Industrial and Commercial Floorspace Statistics 1995

If "… 'illiquidity' tops the list of things property investors dislike about property ... " (Key, Durkin and McBurney, 1998, page 1), why is Reading preferred to, say, Manchester as an investment location? For an explanation we must turn to influences which are less easy to define than total return, liquidity and so on. A sense of these influences can be obtained from our interviews with financial decision-makers. Familiarity with property markets is important to them.

> *"It is undeniable that you feel more comfortable in an investment decision the better you particularly know that market. You have to pool your collective information, instinctively you are always going to feel more comfortable in those markets which you personally know and are*

going to have a strong view on the rents, those towns you know better. The more knowledge you have the more comfortable you are going to get at feeling that a certain set of circumstances are going to happen." (Property agent).

While investment appraisal is often represented as a sophisticated decision-making technique, it is as much permeated by perception as is the decision-maker's general attitude to a property market.

> *"[Personal perception] that comes into your IRR calculations and there are all sorts of prejudices that go into that. Investment decisions are subjective."* (Property company)

> *"...as we all know the IRR is only as good as the inputs you put into it and the assumptions you make."* (Property agent)

> *"...an IRR is inherently weak and only as good as your exit yield and your exit yield, it depends what period you are doing your IRR over, but it is outrageously crystal ball glazing..."* (Property company)

Investment yields should, in principle, reflect the risk/reward profile of investments. When setting yields

> *"You have to be aware of what the future possibilities are and the likelihood of those future possibilities being converted into reality."* (Overseas bank)

But forming a view of these possibilities for rewards and risks is far from being an opinion-free, technical exercise.

> *"Property yields are more a reflection of what is going on in the financial economy in terms of interest rates, gilt rates and property market sentiment."* (Fund manager, institution)

> *"… a yield shift only occurs when you get an increase in capital flow because it is the weight of money that moves yields. It may be that the weight of money is coming in because people's expectations about the future are more rosy than they were …"* (Fund manager, institution)

Sentiment and expectations are important and, where the assessment of risk is being undertaken

> *"...a major part would be something to do with liquidity. If these markets are perceived to be less liquid then they would attract a higher premium to compensate for that."* (UK bank)

But, as we have seen, liquidity is not something defined entirely objectively

> *"The advantages of London is that it is liquid, the overseas investors are more likely to be active in London than the provinces. It is liquid for a number of reasons, there is a lot of information and property, there are more market opportunities, people probably fancy their chances more in London, stronger fundamentals."* (Fund manager, institution)

To many respondents, however, the focus of overseas investor activity on London is not rational. They prefer the capital

> *"Because they know London, because they have heard of London, because they know what a double-decker bus looks like..."* (Overseas bank)

> *"Because they can get to Central London and back in a day. ... if you are going to travel you do not want to go to the ends of the earth and you also want to go somewhere where you can go and get a good dinner afterwards. So there is a psychological aversion from some overseas investors to areas outside of Central London."* (Overseas bank)

Ultimately, the perceptions of property investment decision-makers can produce structural constraints upon the pattern of investment capital flows.

> *"Where I guess prejudices occur is the fact that we do use benchmark structures. At the end of the day we will be assessed on how well each asset type has performed against its benchmark. For a pension fund for example we compare performance with the pension funds in IPD. If collectively they have a prejudice against a certain region there will be a very low exposure. The amount by which you might be prepared to take a positive position relative to that benchmark might constrain levels of investment there....To some extent you have got a circular issue. If you can persuade everybody of the merits of a particular location the benchmark structure will improve therefore the relativity changes."* (Fund manager, property agency)

Property Investment and Urban Regeneration

> "The implication is that the messy world of property development does not work like their models suggest. Cites and the buildings within them are too rigid and steeped in history and local difference. Above all, the mysterious force of power lurks within the property world. More than an economic model is consequently required." (Ball, 1998, p1501)

Thus far discussion has focused on the influences on the flow of investment capital between cities. But the same factors which shape inter-urban property investment patterns also affect intra-urban patterns. Adair et al (1999), in an examination of investors' motives for holding regeneration investments, found that

> "… perceived total return … emerges as the primary factor influencing investment decisions … Perceived security of investment/spreading of risk is the next-highest scored factor (page 2038) … (and) … that urban regeneration projects are evaluated in a manner similar to other development schemes." (Adair et al, 1999, page 2040, brackets added)

Consequently, Adair et al (1999) and McNamara (1993) offer similar analyses of the characteristics of inner city areas which inhibit development and investment and their suggested measures for encouraging greater investment in urban regeneration. Weak and volatile demand, poor tenant covenants, few large investment lots and fragile markets producing high illiquidity, complex patterns of land ownership and very limited market information all contribute to relatively high risks and low returns. The impact of these characteristics might be mitigated by combinations of grant aid, tax relief, infrastructure provision and land assembly and servicing (effectively, the subsidised supply of developable land), financial support for tenants and rental guarantees. In other words, policy makers are urged

> "… to evaluate inner city property investment opportunities in the language that institutional investors understand." (McNamara, 1993, page 15).

While such an approach would clearly be helpful, we would argue that its application to and impact upon urban regeneration would be limited. This is for two interlinked reasons. The first relates to the direction of analysis and its treatment of institutional investors. The approach considers the impact of policy initiatives on property market characteristics and property investment performance. It does not consider whether and how the processes of property investment analysis and pricing, and of portfolio construction and management, might affect property markets and the process of urban regeneration. Investors are rendered neutral by this approach. No active role is attributed to them in either the demand or the supply sides of the property market. Demand is dependent on economic drivers. Supply is dependent on existing stock and development activity. Investors – it is maintained - objectively analyse, price and trade (or not) the properties produced.

However, even if we consider investors to be objective, rational decision-makers, their decisions are partially constitutive of the markets within which they act. Capital values are determined by rents <u>and</u> yields. Market liquidity is determined not just by the number of suitable properties available but by the ability to trade them. This, in turn, is influenced by investors' willingness to trade. And where investors are not behaving like objective, rational decision-makers – as in Reading – their actions are fundamentally constitutive of the markets within which they act. What would be the outcome, in these circumstances, were investors to recognise that 'the emperor had no clothes'?

The second reason relates to the nature of the explanation offered. If we start from the position, say, that

> "... financial institutions prefer investing in prime London offices. This conclusion could be a product of an irrational preference for things London on the part of those institutions. But the behaviour, if true, might also occur for entirely rational reasons, deriving from differences in degrees of liquidity and risk associated with prime London and other UK markets. The former explanation is behavioural and is a consequence of the agencies in question in structure-agency terms; while the latter is a product of the structure." (Ball 1998, p1512)[1]

It is too easy to fall into the trap of defining investors' behaviour as the outcome of a collection of interlocking rational and irrational influences. We have to ask which – or whose – rationality is being adopted in order to make this distinction and how it is

[1] Ball is here distinguishing between different approaches to explanation. We do not infer from this that Ball necessarily agrees with the positions he portrays.

constructed and articulated. In the above case it is the rationality of the economic utility maximiser in the private market. In these terms, the removal of irrationality will result in the optimal distribution of investment. However, it does not strike us as irrational for investors to be more comfortable investing in markets of which they have the most knowledge. We would suggest that the operational rationality adopted by any decision-maker is a cultural artefact and that such a conceptualisation offers a route to a deeper understanding of the property development and investment process in inner cities and elsewhere.

Alternative Cultures of Development: the Case of Manchester

Having established the parameters of the institutional perspective on urban regeneration we turn now to consider an alternative vision. Taking development practice in Manchester as an example, we consider the approach of what we term 'Independent developers', drawing on Leadbeater and Oakley's exploration of "Britain's new cultural entrepreneurs" (Leadbeater and Oakley, 1999). In order to unpack this very different view of the property market, we necessarily have to broaden our focus away from single uses in prime locations for blue-chip tenants. In doing so we can identify a very different construction of development specification and value.

As we have seen, the main aim of institutional investors is to maximise returns and to minimise risk. As a result,

> "Institutions put stringent, explicit requirements on loans, including specifications about buildings. These specifications tend to consider the local market as a statistical aggregate and do not necessarily take into account particularities of buildings that might in fact be of high quality – and high financial value – but may not exactly fit a statistical profile. Since lending institutions are not really local, it becomes difficult for even their local representatives to base decisions on an intuitive understanding of buildings or the local market, or on personal trust. Developers therefore have an incentive to build for this statistically determined market, which sometime makes it difficult to be innovative or even to serve a small sector of the market." (Davis, 1999, p.165)

In the case of a city like Manchester this results in the production of office buildings in tightly prescribed 'islands' of development that conform to institutional requirements (Guy and Coaffee, 1999). Traditionally the office market in Manchester has been centred on what is referred to as the 'Square Half Mile', a compact portion of the central city (see map)[2]. This in morphological and design terms parallels the City of London's Square Mile. It is here that most new office development has traditionally taken place in Manchester.

> *"If you look at Manchester historically it is developed along American lines - its a grid iron and in the core we had the 'Square Half Mile' (see map) Mosely, Market, Cross and Princess Street and historically you could put any rubbishy building in the core and it would be successful. Outside of the core development only tended to take place in times of great boom and then of course the crash would come and development*

[2] This section of the paper draws upon work by Jon Coaffee.

> *would stop. But by and large the core was the focus of development" (Property agent).*

In recent years the market has been healthy and seen as a good investment opportunity. ; *"The* (Manchester) *market seems quite buoyant in terms of total take up but it depends on your barometer of judging the market. If its total take up within Manchester city centre then the last two years have been very successful"* (Property agent). Hence a number of new developments have come on line. However, the letting of these landmark buildings in the core area has proved to be problematic "… *the take-up of grade A space (has) been disappointing. Rents have stayed pretty static at £20. Its been at this level for the last 3-4 years"* (Property agent). Closer inspection of the Manchester market reveals a high degree of localism. Most of the take up of space is the result of internal relocations, especially by companies in the financial services industry. As one agent indicated "… there is not much of a relocation market in Manchester and the success of the office market is largely geared to the expansion of local companies" (Heywood 1999, page 6). The tendency Davis (1999) notes for institutions to treat the local market as a 'statistical aggregate' tends to blind investors to these secondary processes.

Moreover, the character and performance of the Manchester office market is inherently, and importantly, linked to the changing nature of the urban scene in the city. Therefore a holistic approach to envisioning the Manchester market is required. Infrastructure improvements and growth in retail and leisure facilities are key features in maintaining the city's appeal for investors. As many local development actors noted, "w*ith Manchester you can't purely look at the office market. You have to look at Manchester as a city"* (local developer).

Again, the particular cultural perspective of institutional investors which incorporates traditional descriptive and analytical practices tends to blind them to local specificity. Typical is their influence on new developments.

> *"They have approached* (development) *with what I would call a London way with very little relevance to local property markets and very little understanding of what's actually going on here… the directors there have only a vision of the Broadgate basically and the application of Broadgate in this particular instance is wholly inappropriate and doesn't respond to any of the nuances of the local property market… nobody within the City will know whether or not this is a good thing because they will just read in the press or Estates Gazette that they have secured this initiative… These schemes are wholly irrelevant to what's going on here in my mind and they would do far better to take lessons from the city and the individual entrepreneurs in the city* (Manchester) *and apply them here rather than lesson from Broadgate*" (local developer).

Beyond the Core: Re-constructing the Market

> "…linearity and box-like thinking were the words that came to mind, particularly in discussions with property developers, planners and accountants, many of whom did not seem to understand how to value what they could not calculate" (Landry, 2000, page 12).

Interestingly, local Manchester developers have not simply accepted this institutional approach as the only way forward. Instead, over the past decade, a number of independent, some would say 'maverick developers', have begun to develop a new way forward. Critically, these developers have strayed far from the traditional institutional core. Working in the shadows of the institutions, they have trodden where institutions fear to tread, in the marginal development zones of empty buildings where rents fall below £10/m2.

Typical are Tom Bloxham and Jon Falkingham who established Urban Splash in 1993. Based in the north western, post-industrial cities of Manchester and Liverpool, Urban Splash has developed, over the past five years, into one of the leading property developers in the country. The company now boasts a staff of 300 employees and a series of on-going projects worth in excess of £100 million (circa 1999). Now recognised as the region's most established developers of loft apartments, rivalled only by the Manhattan Loft Corporation, the company started off with the conversion of a large old industrial building formerly used as a chemical laboratory. Encouraged by "great windows and exposed brickwork," it was transformed into what is now known as Sally's Yard in Manchester, offering a range of apartments based on the concept of loft living. Urban Splash has expanded its operation considerably in the "niche" market for high quality, affordable and accessible work and living space produced by restoring and converting disused buildings in city centre and fringe locations. More recently, they have diversified into office and leisure development. For Bloxham, the "missing ingredient for renewal in the urban core is developers with "bottle", developers who have the vision and confidence to propose, finance, develop and market buildings to niche markets (Bloxham, 1995, page 2).

For instance, in the summer of 1995, Urban Splash approached the established architects of Stephenson Bell with the brief "We've bought this building. Excite me!". The building they had just bought was actually a city block comprised of nine individual buildings in an area known as the Northern Quarter (N/4). Once a thriving commercial centre, with famous high-street names like British Homes Stores (BHS), Woolworth's, C&A, Marks & Spencer's and Freeman Hardy Willis and Affleck & Brown, the construction of the Arndale Shopping Centre in the mid-1970s changed both the future and the economic status of the N/4. The N/4 represents a typical blind spot for institutions. However, Urban Splash hoped that they could capitalise on a growing cultural vitality in the area that had developed due to the attraction of cheap rents for local artists, musicians and independent retailers; "*What is happening around Oldham St is much more where the cultural heart of the city is at the moment, where the underground cultural scene is taking place"* (local developer). Their target was the former home of Affleck & Brown, a department store that won much acclaim as the 'Harrods of the North' situated on one of the central thoroughfares that bisects the Northern Quarter, Oldham Street.

The building lay destitute and in need of renovation and repair, a monument to the demise and dereliction of the once prosperous area it shadows. With the backing of Manchester City Council and of the local community association, now known as the Northern Quarter Association, Urban Splash obtained a grant from English Partnerships to help purchase and develop the property. The main emphasis being the premise that the revitalization of what eventually became known as Smithfield Buildings would create a new mix of activities in the area that would encourage more people to want to inhabit and work in this district. The brief settled on a mixed target audience that included young married couples to retired pensioners, requiring accommodation and services within a range of prices. Now successfully let, and with associated retail spaces accommodating the independent retailers that inspired its development, many see it as a model of urban regeneration. Critically, the challenge of combining an ill assortment of nine buildings, each with its own individual architectural style, structure and floor-to-ceiling heights into a coherent entity, did not dissuade the developers from proceeding as it would an institution. Rather the development of a design that kept the overall city block's character and richness was the prime factor why Urban Splash chose to invest in this property. As another maverick developer suggests; "*I believed that good design doesn't cost more money as it actually generates value"* (local developer).

Similarly, recognition of the contribution of local vitality to the viability of local developments was central to the approach of Urban Splash and other independent developers.

> *"It is to some extent about location but its about recognising the intrinsic qualities of a location that often property people don't, this is the soul of an area, or a sense of place of an area. The property industry is the worlds worst. What they don't realise is that the people that are making these decisions are much more human beings and whilst price is important there are equally important factors such as the cultural activities of the city such as the ability for employees to live and work in the city, such as the ability to walk to a sandwich shop and enjoy a decent quality of life and all those aspects the main stream surveying profession singularly fails to recognise and yet are absolutely fundamental too rental growth in the office market...and nobody has ever done an equation that says to me that the city council getting its act together and is promoting the city in the right way… These are fundamental to rental growth and what pisses me off is that they have to go back to their facts and figures and rationalise it to their shareholders"* (local developer).

Figure 2 below contrasts the main features of this type of independent development with the widely recognised features of institutional development.

Models > ***Features V***	**Institutional**	**Independent**
Location	Core	Fringe
Size	Large	Small/Medium
Tenancy	Single	Multiple
Use	Fixed	Mixed
Lease	Rigid	Flexible
Image	Universal	Vernacular
Design	Blind	Sensitive
Knowledge	National/Global	Local/Regional
Risk	Adverse	Positive
Vision	Retrospective	Future
Profession	Insiders	Outsiders
Value	Economic	Socio-Economic

Figure 2 - Models of Urban Development – an ideal type.

The experience of independent development in Manchester appears to be that successful regeneration has to be the kind of development that has some relevance to the city. Other notable features include a preference for mixed use, an emphasis on distinctive design, often with a preference for conservation of local vernacular styles such as the re-use of former warehouses or department stores, and the choice of peripheral locations beyond the traditional institutional core of cities. It is clearly not the institutions who are able or willing to provide this development approach.

> *…certainly its the mavericks that have succeeded in Manchester since the last recession, largely, the success stories have been few and far between in the prime core as they were in the 1980s. In the 80s it was purely the office market that was a success till the crash in the late 1980s. Since then everyone has been licking their wounds and keeping very quiet and meanwhile there have been quite a few of us actively working the fringes where public sector subsides available to offset your perceived risks, and plug the gap between costs and values and also enable you to work with schemes that are potentially far more innovative than the traditional mainstream"* (local developer).

Independent development opens up new pathways of urban regeneration that are simply not visible from an institutional perspective. This is not an either/or development scenario. As Martin Wainwright suggests, the independents are not "gunning for the corporates, only against their dominance" (Wainwright, 2000, page 17). For independent developer Nick Johnson, the institutions, planners and policy-makers must "allow independent operators to flourish and add a richness and dimension that we desperately need" (quoted in Wainwright, 2000, p17). There is some evidence that the success of independents may even stimulate new institutional development activity. Johnson's £200,000 investment in the Atlas bar in the Castlefields area was followed by Wolverhampton and Dudley investing £2 million in their Quay bar nearby. Similarly, Carol Ainscow's development of the now famous gay area of Canal Street triggered a mini development boom. As Johnson told us, "*Carol's was the first independent bar on Canal Street; she defined the village for the 90's. I can imagine the boardroom reaction if Whitbread has tabled a 'gay' pub 10 years ago. Now they've got four".*

Conclusions: Towards Independent Development

> "To contemplate public policy for our cities or to consider acting collectively requires not merely an analysis of the conditions available for success but also a reflective understanding of the language with which we represent those conditions." (Beauregard, 1995, p.77)

Wrapped up in the development of particular investment views is a particular way of seeing cities. These views clearly make cognitive and strategic sense to institutional development actors. Moreover, these views make cultural sense in that they correspond to a set of pre-conceived values and assumptions about the locations and building types that, on the basis of previous experience, are likely to generate surplus value. Given the highly risk averse nature of institutional investors, it is perhaps not surprising that they tend to confine their activities to cities and sectors with which they are familiar. Innovation within these organisational confines is very difficult as new investment proposals will be evaluated with reference to established guidelines and to previous practice and experience. The "…handing down of attitudes, habits, and rules is integral to the definition and coherence of a culture." (Davis, 1999, page 17) This occurs in property investment and development no less than elsewhere.

> "That perspective is a direct function of people's background, in particular of their professional culture. One's professional culture gives one a pre-disposition to frame situations and problems in particular ways, that is, to analyse them according to specific categories, to synthesise them into specific structures, and to represent them in specific verbal, graphic, or numerical ways." (Fischler, 1995, page 21)

Seen this way, investment theory and practice (ways of seeing and doing) are not sensitive to challenge from without their own terms of reference. If "People are subject to explicit constraints, and they are limited in their deeds and words by all that is taken for granted as belonging to the order of things, by their culture…" (ibid, page 14), then simply shouting 'you're wrong, you don't understand' will not be very productive. In contrast, we would argue that it is vital to recognise that "… finance capital is not some passive actor in the construction of landscapes, but an active participant with a logic of its own." (Wharf, 1994, page 325) The problem is that if we evaluate inner cities in the 'language' of the institutional investor (as McNamara (1993) urges and Adair et al (1999) have done), we also adopt the partial, market-referenced, economic rationality which articulates itself through that 'language'. By definition, institutional investors are only interested in institutional property. This limits the parts of the city which institutions 'see'. If a set of cities with building stocks made up of a wide variety of properties is considered (Figure 3a), only that element of the stocks which conforms to institutional investment criteria will be the subject of interest (Figure 3b). From this perspective, zones of the city such as the Northern Quarter in Manchester are unlikely to be visible. While it may be possible to extend the core market a little here and there, the use of policy to 'translate' a little more of cities' property into institutional 'language' will only have a marginal effect on the regeneration of the whole city.

> *"Personally the moment that institutions get interested in regeneration is the death of regeneration and its much more to do with the local property market and this market keeps it alive and gives it a greater amount of freedom in terms of what happens. If they are not interested, accept this and go away and formulate ways in which you can work with the local property market, with the local entrepreneur because that's where the real innovation and freedom comes from" (local developer).*

In debates about the role of institutional investors in urban regeneration, the nature, construction and utilisation of investors' strategic rationality, and the ways in which these intersect with local development needs are rarely addressed. Nor are the cultures and operational rationalities or the potential contribution of other actors considered. What is needed is a way of conceptualising the physical reproduction of cities that recognises alternative forms of property development and investment processes. While no-one would recommend discouraging institutional investment from taking an active role in urban regeneration, the experience of Manchester might suggest that we re-focus national and local policy efforts to encourage independent and locally based forms of property investment and development.

> *"If I was them (the local authority) I would be running up to them saying 'come on, what more can we do lets work together, lets get more' done whereas in reality every time I went to them for funding it was 'yeah right' as if they would rather have a developer they didn't know coming in"* (local developer).

In this way property research could usefully join the wider urban policy debate as it explores the role of new cultural entrepreneurs (Leadbeater and Oakley, 1999) and urban innovators (Landry, 2000) in stimulating urban regeneration.

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Map 1: Manchester City Centre

Smithfield Buildings

Figure 3a: Cities' Property Stocks

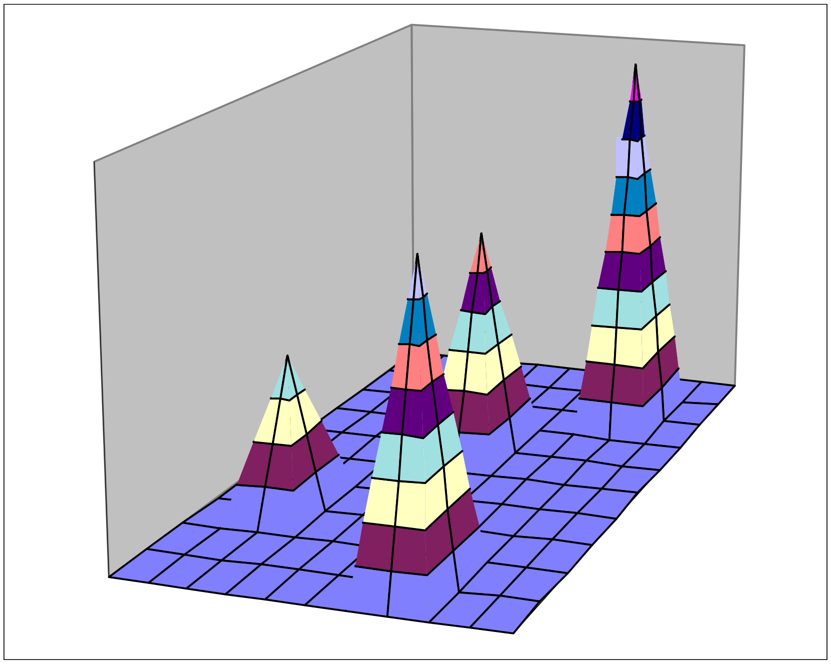

Figure 3b: What Investors 'See'