Urban Land Institute

COALITION FOR URBAN TRANSITIONS
A New Climate Economy Special Initiative

Henley Business School
UNIVERSITY OF READING

Supporting Smart Urban Development: Successful Investing in Density

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70 YEARS
SHAPING THE FUTURE OF BUSINESS

Supporting Smart Urban Development

- Research conducted by a multi-disciplinary team led by the Henley Business School, University of Reading.
- Commissioned by Urban Land Institute and the Coalition for Urban Transitions, a special initiative of New Climate Economy.
- Supported by a steering group of 10 global real estate and infrastructure fund managers and investors with over $300 billion in assets.

Context

- The C21st is the age of the urban demographic.
- Sustainable urban growth is essential to limit climate change whilst promoting economic resilience and human well-being.

"The battle for sustainable development will be won or lost in cities"

Jan Eliasson, UN Deputy Secretary-General

Research Vision and Findings

Vision

Better cities, better climate – better returns on investment.

Findings

The two-phase study shows that well-planned dense, compact cities are better for investors as well as the economy, environment and people.

Supporting Smart Urban Development: Urban Form Matters

Based on a multi-disciplinary literature review (Phase 1) and global quantitative analysis of 63 cities (Phase 2), the research found that cities with "good density" urban form characteristics are associated with higher returns, capital values, and levels of commercial real estate investment.

"The findings from the report highlight that investor attitudes to measuring density need to change"

Simon Chinn, Senior Analyst at Grosvenor

Supporting Smart Urban Development: Real Estate Investment Matters

Semi-structured interviews with the 10 industry project steering group members were conducted to provide qualitative insights into fund management and investor interest in supporting good density, how good density is currently incorporated in private sector decision making, and to help with the identification of relevant data.

Key Results Phase 1: Six Core 'Good Density' Characteristics

1. **Clustering structure** (land use patterns within cities and regions).
2. **Economic & employment infrastructure** (availability of investment, jobs, and talent).
3. **Built infrastructure** (physical density and mix of uses).
4. **Green & blue infrastructure** (quality, capacity and accessibility.
5. **Public transport infrastructure** (network capacity and services).
6. **Governance infrastructure** (coordinated governance).

Clustering Structure

Land use patterns within cities and at city-region scale determine levels of carbon-generating movement, i.e. travel for work, business meetings and leisure. They also determine the scope for agglomeration economies and inward investment, and therefore influence economic activities, inward investment, and growth.

Economic & Employment Infrastructure

The type of industries and services operating in the city and region. Connectivity to and concentration of foreign investment, quality value adding jobs, labour, skills, diversity and innovation capacity all feature in creating a strong, resilient city economy.

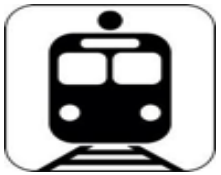
Built Infrastructure

Elements of built infrastructure that impact on good density are mixed use planning, technological and design quality, and amenity at property level and urban landscape scale.

Green & Blue Infrastructure

The network of natural and semi-natural areas, features and green spaces in rural and urban, and terrestrial, freshwater, coastal and marine areas. The capacity, quality and accessibility of blue and green infrastructure within cities contribute to ecological sustainability, human health and well-being.

Public Transport Infrastructure



The capacity of public transportation serving a city, accessibility to the public transport network and the quality of services.

Good Governance Infrastructure

Coordination of national, regional and city policies, city leadership and financial authority transparency and accountability, and policy coherence at the local level. Appropriate governance underpins good density. It needs to be spatially aware, integrated horizontally and vertically and to have a well-developed, responsible public-private investment strategy.

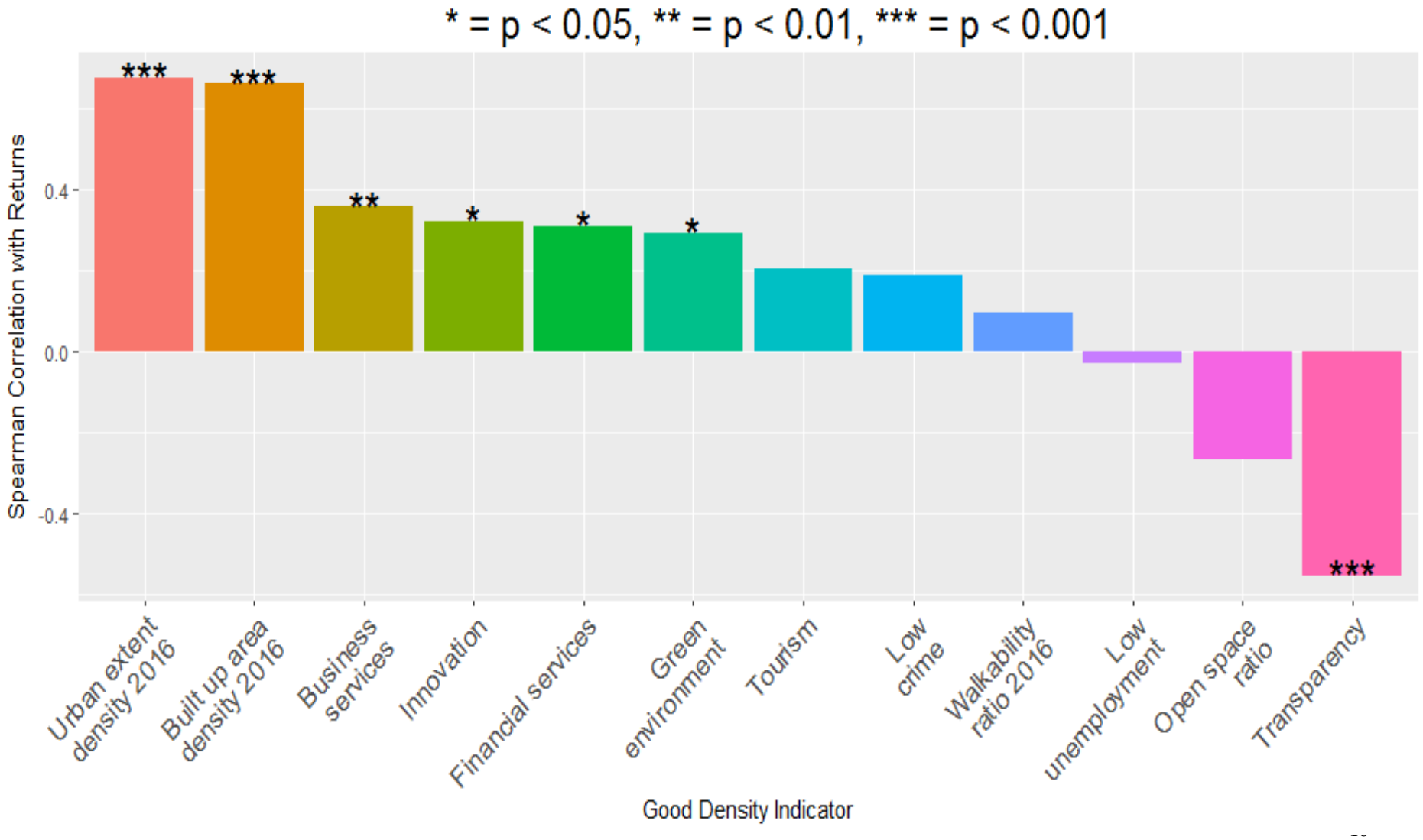
Indentification of 'Good Density' Measures

- Global indices relevant for the six urban form characteristics underpinning 'good density' were then identified and evaluated to establish the robustness and comparability of their underlying data.
- 12 indices were finally incorporated in quantitative analysis in Phase II of the study to examine the significance of good density for real estate investment returns.

Caveats

- Some cities with returns data had large proportions of missing 'good density' data, and a lack of comparable time-series data, preventing formal econometric modelling.
- Therefore rank correlation analysis based on the most recent data from 2016 was reported.
- For measures having more than 50 city observations, univariate and multivariate regressions were used and did not lead to different conclusions.

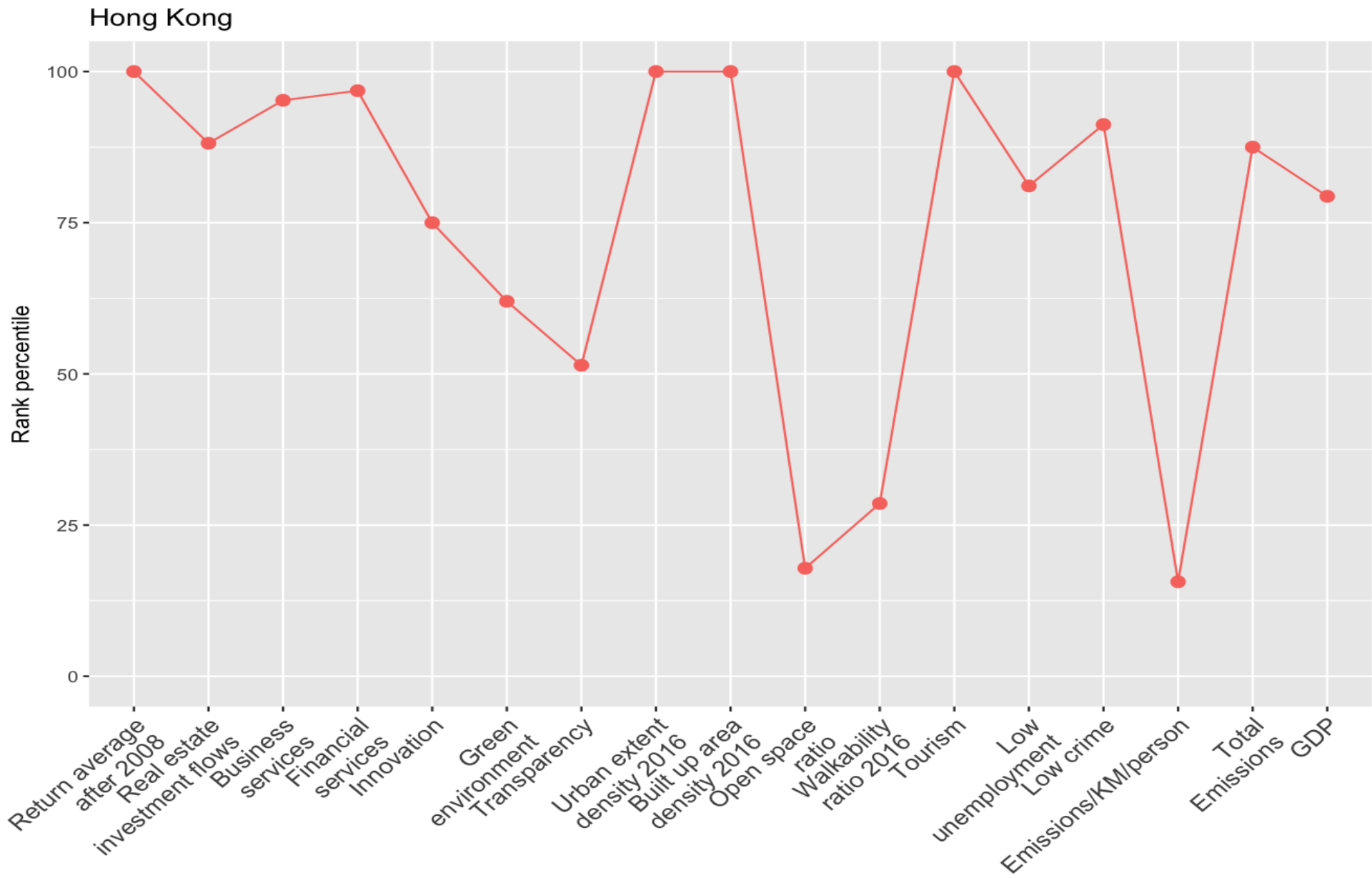
Key Results Phase 2: Returns on Commercial Office Investment



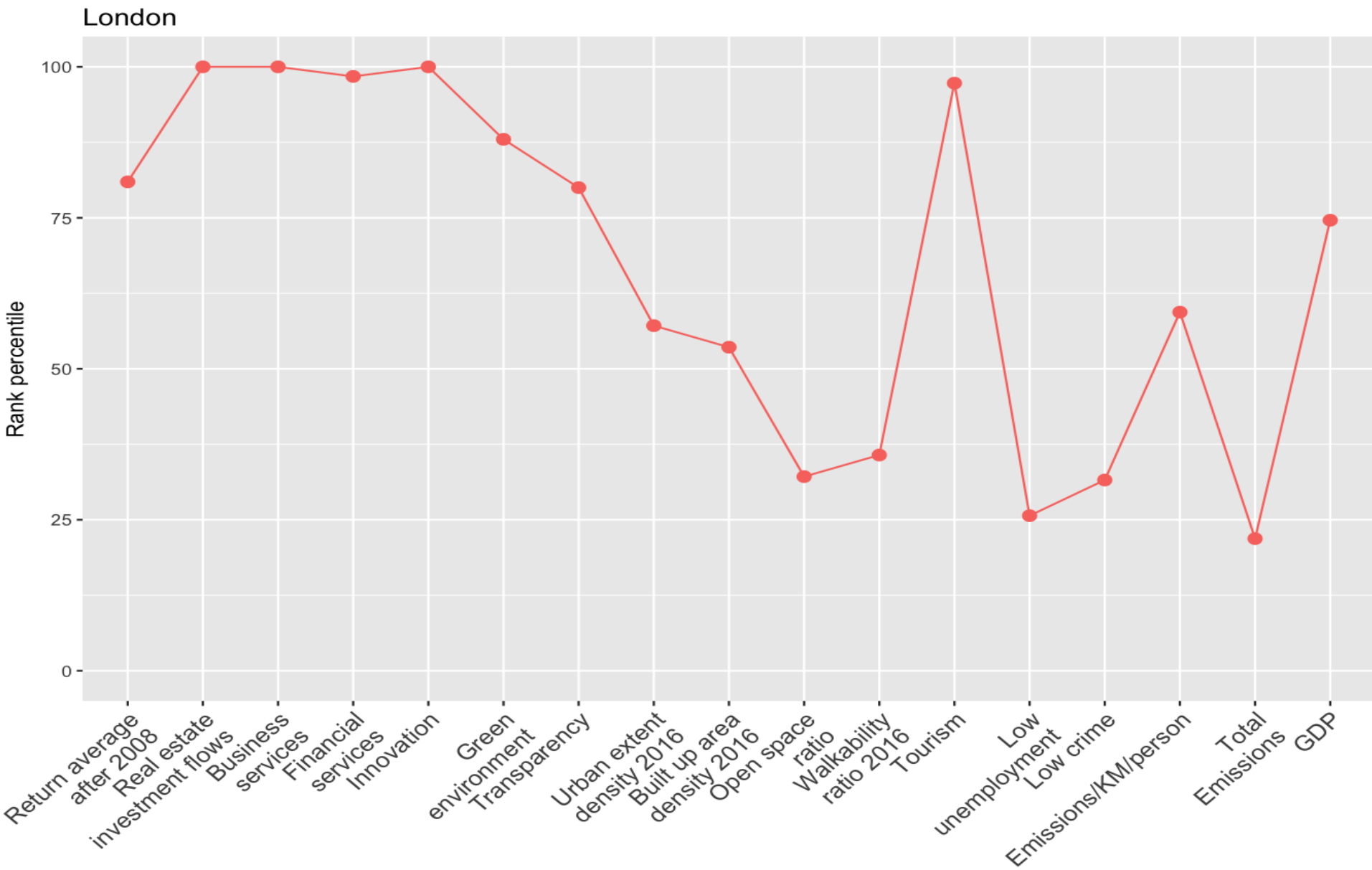
Caveats

- The general lack of significance of walkability found seems likely to reflect the fact that the AoUE walkability measure used is a city level metric and does not account for sub-city density variations associated with commercial land use.
- The strong negative correlation between returns and transparency, -0.55 is driven by cities within the US, which have the highest level of transparency but which, on average, have a low level of returns. When US cities are removed from the analysis, the correlation result for returns and transparency is 0.07.

Selected City Results: Hong Kong



Selected City Results: London



Insights for Investors

"Density encompasses more than just the number of people living or working within a defined area. It has to account for key characteristics of urban form such as clustering patterns, mixed-use planning, amenity offer, and transport infrastructure, which collectively play a role in creating the right kind of density for cities."

Simon Chinn, Senior Analyst at Grosvenor

"The benefit of this approach is two-fold: it leads to better risk-adjusted returns for real estate portfolios as well as a positive social and environmental impact as more and more investors are incorporating these elements in their investment strategies."

Lisette van Doorn, CEO of ULI Europe

Insights for Governance

A prototype working tool for city mapping and visualization has been developed to demonstrate how the present analysis could be taken forward to assist and public sector as well as private investment decision making.

https://europe.uli.org/wp-content/uploads/sites/127/ULI-Documents/supporting_smart_urban_development_web.pdf

https://www.henley.ac.uk/news/2018/supporting-smart-urban-development

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ULI has over 40,000 members worldwide representing all aspects of land use and development disciplines. It has over 3,000 members in Europe across 14 National Council country networks. Visit europe.uli.org, follow ULI on Twitter, or follow the ULI LinkedIn page.

The Coalition for Urban Transitions is jointly hosted and managed by the World Resources Institute (WRI) Ross Center for Sustainable Cities in Washington DC and the C40 Cities Climate Leadership Group in London. Visit coalitionforurbantransitions.org, follow the Coalition on Twitter @NCEcities, Facebook @coalitionforurbantransitions and LinkedIn.