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What investors want: a guide for cities

How should cities engage investors and developers?

Rebecca McDonald and Adeline Bailly
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Executive Summary

Attracting private sector investment into a city is essential for stimulating and maintaining economic growth. Cities themselves have an important role to play in this process, making investors aware of opportunities, building relationships with them and, where necessary, stepping in to facilitate investment. But it is not always clear what investors are looking for when making an investment, and how cities can make themselves more attractive for investment.

Through interviews with a range of industry experts and cities, this report demystifies this process by doing two things. Firstly, it provides cities with insight into the mind of an investor, exploring what is considered attractive in a city. Secondly, it provides practical recommendations to support cities to develop their approach to attracting investment.

For investors, the city traits they most highly value are:

1. **A strong city economy with growth potential**, a highly-skilled workforce, and resilient to economic downturns and external shocks.
2. **Excellent transport connections**, both within and beyond the city (nationally and internationally), as well as a transport system that can keep up with an expanding economy.
3. **Pro-investment city leadership**, which prioritises investment, has consistent policies and attitudes, is high profile, and has bargaining power with central government.
4. **A focus on delivery**, with a responsive, pro-investment planning system, a team with access to investment expertise, and willingness to step in where necessary to facilitate investment.

But attracting investment is not just about having these characteristics – cities must make investors aware of the opportunities they offer. The strength of the city's reputation amongst investors and their level of familiarity with contacts in the city also determine the likelihood of it being considered for investment.

So as well as developing investible opportunities, a city also requires a strong profile amongst investors. Given this, cities should focus on the following steps:

1. **Use expert resources**

   To attract private sector investors, a city must seek investment expertise to ensure they understand how investors think and behave. Doing this in conjunction with neighbouring areas or cities can strengthen the proposition that is put to investors.

2. **Know the city's offer and audience**

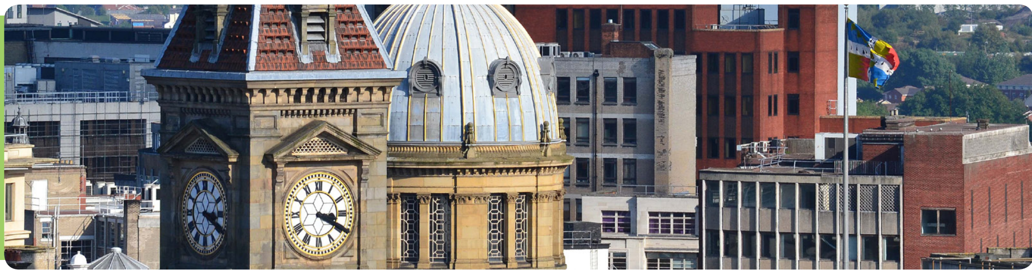
   Understanding a city's strengths and weaknesses in the eyes of an investor is crucial, allowing the city to focus on promoting what it is good at and improving where it is weaker. Designing a city vision that sets out its ambitions gives investors clarity about the investments required by the city, and an accompanying development plan should provide the information they need to consider each one.

3. **Build networks to sell the city**

   The investment industry is built on relationships and who you know is important. Rather than wait for investors to come to them, cities should proactively reach out and develop long-term relationships. Providing detailed information about each opportunity makes it easy for investors to consider them.

4. **Close the deal**

   Be willing to step in and take a more active role, such as by using city assets, where necessary to facilitate investment.



Introduction

Attracting capital investment – for example in business premises and infrastructure – is a crucial part of urban economic development. High quality facilities, efficient infrastructure and well-designed places are an important part of attracting new businesses and creating new jobs. And in the context of the devolution of business rates, securing this investment is becoming ever more important for cities.[1]

The private sector plays a vital role in delivering these capital investments, contributing their finance, expertise and entrepreneurial mind-set, and enabling cities to achieve more than is possible for the public sector when it acts alone.[2] Successful private sector-led development is a catalyst for further investment, demonstrating the competitiveness of the city to others in the industry. So cities across the UK are continually seeking investment, to both stimulate and maintain their economic growth.

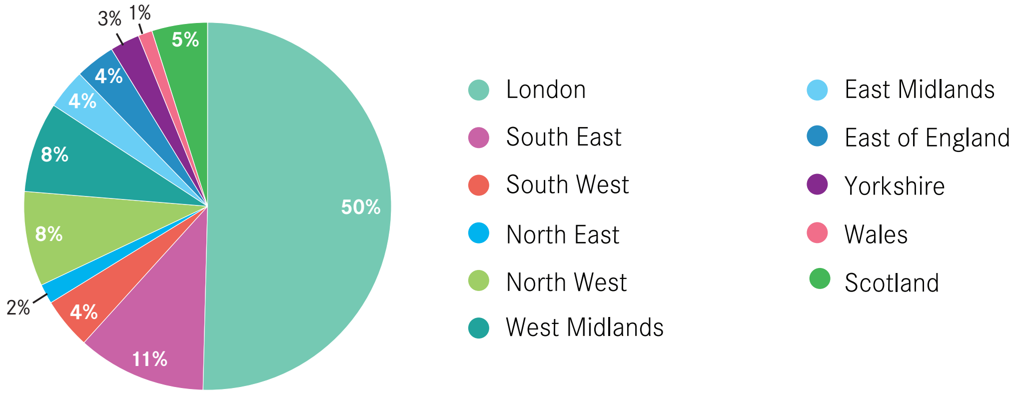
Some cities have been more successful than others at attracting this investment in recent years. London dominates commercial property investment in Britain (unsurprising given the scale of London and its standing as a leading global city). As Figure 1 shows, half of the UK's commercial property investment was in the capital in 2016, whilst the South East attracted over 10 per cent. Other regions were less prominent, collectively accounting for just over a third of total investment.

When measured by the number of transactions the figures are much more evenly spread, as shown in Figure 2. This is to a large extent due to high property prices in the capital - investments outside London are on average of a smaller value. For example, while Yorkshire accounted for just 3 per cent of the total value of investment in 2016, 7 per cent of transactions took place in the region.

1 The devolution of business rates allows local authorities to keep a proportion of the tax revenue that they generate. This means that expanding the business base increases revenue for the local authority. Since 2013/14 they have been able to retain half of new business rates raised. The previous Government intended to increase this to 100 per cent from 2019/20, but it is currently unclear as to whether this will be taken forward.

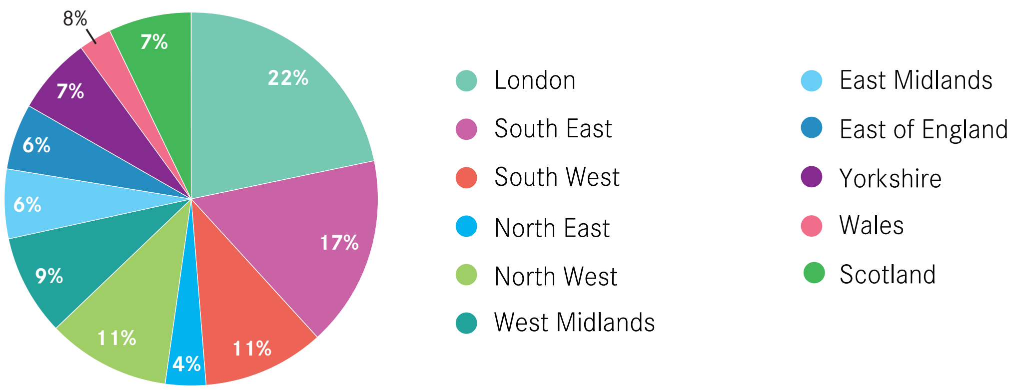
2 OECD (2003), Private Finance and Economic Development: City and Regional Investment, Paris: OECD Publishing.

Figure 1: Regional shares of commercial property investment volumes, 2016[3]



Source: propertydata.com

Figure 2: Regional shares of commercial property investment transactions, 2016



Source: propertydata.com

London's large investments occur in spite of better yields being available elsewhere in the country. This is in part due to the make-up of investors and their differing priorities. The London market is heavily dominated by overseas investors who seek to diversify outside their own economies, secure prestigious assets or make foreign currency gains and so are drawn to the capital.[4 5 6] For domestic investors the return is the priority, so regional cities, and the higher yields they offer, are an increasingly attractive option.[7] In 2016, the average commercial property yield – a measure of the annual income return to an investment - was 6.3 per cent in the North West and 6.7 per cent in Wales, compared with 4.4 per cent in London.[8]

There are clear opportunities for investors outside of London. What is less clear is the role that the cities themselves have to play in attracting this investment.

3 Figure 1 shows the share of the total volume of UK commercial property investment located in each region. Figure 2 shows the share of the total number of UK commercial property investment transactions located in each region. For both, the UK total does not include investments which do not give their regional location, or that are below £259,000 in value.
4 See: Investment Property Forum (2016) The Size and Structure of the UK Property Market: End-2015 Update. Available at: http://www.ipf.org.uk/resourceLibrary/the-size—structure-of-the-uk-property-market—end-2015-update-(July-2016).html
5 Real Capital Analytics (June 2017), UK CRE hung out to dry? The view from London. Available at: https://www.rcanalytics.com/uk-hung-out-to-dry/
6 The Independent (2016), London property snapped up by overseas investors as domestic buyers pull out after Brexit. Available at: http://www.independent.co.uk/news/business/news/london-property-house-prices-brexit-overseas-buyers-first-time-eu-referendum-housing-market-a7108026.html
7 CBRE Global Research (2016) The UK's Cities: Invest in the Future
8 Propertydata.com

This report provides a guide to what investors are looking for when making an investment, and makes a series of practical recommendations for cities to improve their approach to attracting investment. The findings and recommendations are based on interviews with investors, developers, real estate professionals and cities themselves and a review of the existing literature.

The first section of the report explores what attracts private sector investors to cities, providing cities with an insight into how investors choose their investment locations and which city characteristics and behaviours they prioritise. A strong understanding of this is the best foundation on which to develop a city's approach to attracting investment.

The second section of the report develops this insight into a guide for cities, providing practical advice on how best to attract investment. While having strong characteristics is only part of the equation, knowing the industry personally and having a high profile and positive reputation is also crucial for securing investment.

Box 1: Defining private sector investment

In this report we define *investment* as **capital investment** – investment in, or development of, a city's buildings and infrastructure. It does not refer to business investment – businesses choosing to locate in a city. These businesses are the occupiers, and users, of the capital investment. This report also focuses on investment by the private sector, rather than the public sector.

For the most part, the research refers to **real estate investment *and* development**. Real estate generally includes retail, offices, industrial and residential properties, as well as alternatives such as hotels, healthcare facilities and car parks. Development tends to be higher risk and shorter term than investment in existing buildings.

Although the report mostly discusses real estate investment, the findings and recommendations are also applicable to **infrastructure investment** (in roads, bridges and utilities, for example). Private sector investments in infrastructure tend to be less volatile than real estate and much longer-term.

What makes a city attractive to investors?

Put simply, investors are attracted to a city if there are opportunities to make money. They will assess the attractiveness of a city's opportunities by estimating their likely return or profit, and will be drawn to cities which offer them the best combination of scale, risk and return.

Cities are complex economies, so a huge number of factors impact this return. As a result, investors consider a wide range of city characteristics and behaviours when assessing the attractiveness of a city. This longlist includes:

Economic fundamentals

- Growth rate of businesses and jobs
- Resilience of the economy to shocks
- Quality and affordability of infrastructure
- Skill-level of the workforce, and quality of education and research
- Trading relationships within and beyond the UK
- Sector make-up of the economy
- Quality of place-making, city environment, and liveability

City governance

- City vision
- Strategic plan to realise vision
- Attitude and consistency of leadership
- Quality of city management
- Information and data provision

Practicalities of investment

- Scale of the city, population size, and the number of jobs and businesses
- Amount and type of land/assets available
- Planning system, and other regulations
- Taxation and incentives
- Construction costs
- Access to finance

Box 2: Assessing individual commercial property investments

This report focuses on assessing the investment potential of a city, rather than a site. The impact of the city's characteristics - listed above – on each individual investment is captured by site-specific statistics, used by investors to estimate the likely return of each site.

The yield provides an estimate of the annual return to a property investment, capturing the effect of many different factors on the investment, such as economic and political risks. It is calculated as the building's rent divided by its capital value. If the rent holds constant, a fall in the yield – due to economic growth and increased demand - leads to a higher capital value, indicating lower risk and expected income growth.[9] Given the higher risks they present, regional cities tend to have higher yields than London.

More specifically, three types of yield are used:

- Initial yield – expected on day 1 of the investment – measured using the current rent and capital value
- Reversionary yield – if the property was vacant – measured using the market rent and market value
- Equivalent yield – weighted average of the initial and reversionary – based on assumptions made by the investor or advisor about the expected reality of the investment

The actual, or passing, rent is the amount paid by the current occupier. This often differs from the **market rent** which is the rent expected if there is a change in tenant and the building is put on the market. Both provide the investor with vital information about the income they can expect to generate. In addition, investors and their advisors calculate forecasts of expected future rent, accounting for anticipated market shifts and fluctuations.

The vacancy rate is the share of total available space in the property which is occupied. This indicates the strength of occupational demand for the particular type of property, providing an indication of anticipated future cash flow and the time and effort required to find additional tenants.

9 Sarling J, Swinney P & Coupar K (2012), Making the Grade. The impact of office development on employment and city economies, London: Centre for Cities

Which characteristics do investors prioritise most highly?

Of the longlist of city characteristics, which are the most attractive characteristics, signalling to an investor that the city is a good location to invest in?

When asked this question, most investors and developers list the same priorities. Although the ideal conditions for an individual investment vary from site to site, investors have the same asks for the city as whole. They consider the most important city characteristics to be:

1. A strong economy with growth potential
2. Excellent transport connections
3. Pro-growth city leadership
4. A focus on delivery

From an investor's point of view these are the four ideal qualities of a city. This section will discuss each trait in turn, defining them and exploring why they make a city an ideal investment location.

1. A strong economy with growth potential

A growing economy, providing opportunities to generate returns

A growing economy with an expanding population of businesses and workers demands more offices, houses and shops, and therefore demands investment.

Skills are critical

Investors are particularly drawn to cities with highly-skilled workers, such as Oxford and Cambridge, as these enable cities to attract productive, well-paid jobs in innovative, knowledge-based industries. A well-educated workforce is more resilient to economic changes, due to its ability to adapt, and has greater spending power and therefore a greater appetite for investment, than a low-skilled workforce.

> ***"Investors are always keen to know how 'porous' the knowledge economy is and how well monetised the city's innovations are. The presence of tech centres, innovation districts and quality colleges are regularly on the agenda; related to how well the city will do in attracting corporates – and therefore demand for space."***
>
> **Rosemary Feenan, JLL**

A strong economy must be supported, not limited, by its infrastructure. Investors need to know their occupiers have access to quality housing and digital connections, which are now seen as a major pre-condition for investment.

Resilience to the economic cycle and external shocks

Economic fluctuations are inevitable but the change in demand they induce exposes investors to risk and unforeseen costs. A track record of relative economic stability, or of bouncing back fast from recessions, reassures investors. Resilience to external shocks, such as Brexit, is also important. Overreliance on one sector, employer or trading partner indicates vulnerability, increasing investors' risks and deterring investment.

How do investors assess the strength of a city's economy?

Investors use a variety of economic statistics to assess the strength, resilience and growth potential of a city's economy, a selection of which are shown in Table 1.

Table 1: Measurements used by investors to assess a city's economy

Priority economic indicator	Specific measurement	Why does this matter to investors?
Scale of the city economy	Local GVA, number of businesses and jobs, number of residents	Indicates the size and type of occupier demand
Growth rate of businesses and jobs	Change in number of businesses and jobs located in the city, over a long period to give an indication of resilience	Indicates growing occupier demand
Population growth	Change in number of city residents	Growth indicates popularity, leading to increased occupier demand
Employment rate	Proportion of workforce in employment	Higher employment levels create more demand for investment
Industrial structure	Proportion of jobs in each sector	Allows investors to understand economic structure and indicates potential vulnerabilities
Income level of population	Average earnings of workers or residents	Indicates spending power and therefore occupier demand
Skill level of workforce	Proportion of workforce with a degree	Indicates economic resilience and strong economic fundamentals
Commercial and residential property values, and growth in values	Average values of real estate, and changes in these values, e.g. average rateable office value	Gives an indication of potential investment returns, and growing values indicate economic strength

2. Excellent transport connections

Investors favour a well-connected city. Connections mean access to businesses, workers, residents and supply chains, reducing transactions costs, improving productivity and facilitating economic growth. Investors often seek opportunities right next to train stations or in city centres, placing the occupier as close as possible to transport links.

A well-functioning internal transport system

A city's residents must be able to reach jobs and amenities. For fast-growing cities, like Bristol and Swindon, ensuring transport infrastructure keeps up with growing demand has to be a priority.

Excellent national and international connections

Occupiers and users must be able to access their key markets, though these will differ for each investment. For some a fast link to London is the priority, for others access to neighbouring cities is most important. International transport links are also valuable, hence the significance of Manchester's direct links to San Francisco, China and Dubai.

Plans to improve transport to keep up with investment

New developments must be met with increased capacity, not congestion. To have confidence in the future quality of transport, investors need to see a forward-looking transport plan to enable the city's development pipeline, backed by sufficient funds, or an innovative approach to funding such as the Milton Keynes tariff.[10] But ambitious plans with no timetable for making final decisions undermines confidence in cities' abilities to make the necessary trade-offs to press ahead with infrastructure projects.

Investors' preference for connectivity is clearly visible by the way in which new transport schemes trigger interest. For example, the announcement of HS2 has been a catalyst for real-estate development, with Birmingham's Curzon HS2 development masterplan making the most of this opportunity by focusing development in the area around the station.[11]

How do investors assess the quality of a city's transport links?

Measures of the frequency and speed of connections are used by investors, as listed in Table 2, but quantifying connectivity is not straight forward. The multiple modes of transport and varying preferences of workers and residents means interpreting statistics is difficult. For example, longer commuting times could be due to traffic congestion or workers choosing to travel further to reach very attractive job opportunities.

Domestic investors are often familiar with the relative connectivity of UK cities. As a result they do not always use statistics, instead using their own perceptions of connectivity to guide location choices. So cities should promote new or improved connections, providing investors with information to ensure they are aware of changes.

Table 2: Measurements used by investors to assess a city's transport connections

Connectivity indicator	Specific measurement	Why does this matter to investors?
Commuting times	Average time to distance ratio, for a resident or worker's commute	Occupiers need to be able to access their homes, offices and amenities
Travel time to London	Travel time of various modes to central London	London is an important market for many businesses so occupiers desire this connection
International travel connections	Travel time of various modes to the nearest international airport, and the number of routes and destinations it offers	International connectivity is also important for occupiers

10 For further information see: http://www.eurim.org.uk/activities/psd/snsproc/MKPTariffBrochure.pdf
11 Savills World Research (2015), Spotlight: The impact of HS2 on Development. Available at: http://pdf.euro.savills.co.uk/uk/residential—other/spotlight-the-impact-of-hs2-on-development.pdf

3. Pro-investment city leadership

The attitude and behaviours of a city's leadership has a significant influence on investor decisions. Political and executive leadership which prioritises investment, as illustrated by Manchester and Barcelona, is an attribute that investors particularly look for. Leadership includes the senior management as well as the political leaders of the city.

Leadership prioritising city growth and investment

Investors are drawn to cities with ambitious, can-do leadership. This pro-investment attitude signals the city will be supportive and easy to work with, reducing the risk of delays and unforeseen costs. It is crucial this attitude is shared by the public, and city stakeholders, to further reduce resistance to investment.

Long-term consistency and clarity around growth opportunities

A sudden shift in policy could alter the return on an investment. A new leadership which is less supportive of growth could endanger the completion of developments. Having a track record of consistent leadership, beyond individuals and political cycles, is therefore favourable as investors can trust that the current leadership is indicative of future leadership, limiting the risk of unforeseen issues and costs.

> *"We operate across the UK and know the local authorities who are keen to work with us to deliver new homes in areas where people want to live. We have a long term plan for volume growth and inevitably focus on the areas where there is both demand for our product and the local leadership and commitment to help us deliver"*
>
> **Philip Barnes, Barratt Development Plc**

High-profile and prominent leadership

Being front-of-mind will increase the chance of making it onto an investor's shortlist. The Mayor of London is a household name, contributing to the profile of the capital. A prominent, respected leadership can cultivate prestige, attracting investors seeking to promote their investment portfolio. But the higher the profile of the leadership, the more critically it will be assessed.

Ability to influence central government decisions

A healthy relationship with Whitehall will enable the leadership to have a say in policy matters which impact the city. This bargaining power also increases the chance of devolution of powers or funding to the city, as in Greater Manchester with four iterations of its devolution deal so far. This is favoured by investors as it can improve a city's strategic thinking and spatial planning for the geography over which the city-region economy operates.

How do investors assess the strength of a city's leadership?

Strength and consistency of leadership is impossible to quantify, so investors consider the leadership's reputation and track record:

1. Previous statements by, and actions of, the leadership
2. Reputation of the leadership amongst others in the industry, especially those who have previously invested in the city
3. Level of resources committed to economic development
4. Public profile and credibility of the leadership
5. Level, and type, of devolution to the city

4. A focus on delivery

For an investor to see the benefits of pro-investment leadership, the openness to investment must also be reflected in day-to-day decisions and processes. Investors prioritise cities which treat them as customers rather than adversaries, facilitating investment and ensuring it happens smoothly and easily. Not all cities are easy to work with, so this can give a city a way to stand out from the crowd.

A responsive planning system, open to growth

A reputation for slow, restrictive planning deters investors even if the city leader welcomes them, as hold-ups introduce sizeable costs and risks into an investment. Investors prioritise cities they know are likely to approve their plan, and without delay.

A team which understands private sector investment and development

Knowing the aims and requirements of each type of investor, such as their timescales and risk-return preferences, enables the city to facilitate this where possible. This expertise also gives investors confidence in the ability of the team. They want access to a dedicated contact who 'speaks their language', leading to the development of a personal relationship. An awareness of the viability of each investment is also crucial for working smoothly with the private sector.

A willingness to flex processes and provide incentives, where necessary

Knowing the city is willing to step in encourages investors to commit to investments. This could take the form of accelerating a planning process, sharing risk using a publicly-owned asset or providing funds. But incentives should only be used where absolutely necessary to facilitate investment.

How do investors assess how easy it is to work with a city?

Investors often use current levels of investment activity as an indication of ease of investment. High numbers of transactions suggest a responsive, supportive system, whilst small numbers signal a restrictive environment or a small market. Expectations of the city are also based on the experiences of others, shared by word-of-mouth through their network of contacts. So to attract investment, as well as being easy to work with, a city must ensure it has a reputation for being so.

Box 3: Known for something distinctive

Investors often speak of attractive cities having a distinctive reputation. For investors with so many potential locations to choose from, a city which stands out is more likely to attract interest.

It is difficult to precisely define this distinctive quality. This visibility could be based on a cultural or historical significance, such as Liverpool for the Beatles. Or the city could be associated with a particular industry, such as Aberdeen for the oil industry or Cambridge and Oxford for their universities. Prestige is also important, particularly for international investors, and not limited to the largest cities, as proven by San Francisco, Cambridge or Munich.

Though desirable, many cities do not have this distinctiveness and it is not something they can easily create. Having a distinctive reputation is not the same as having a brand. **A brand is how the city wants to be viewed; a reputation is how it is actually viewed by the industry and this is what matters.** Rather than spend time and money on branding, investors would prefer to see these cities focus on promoting their strengths and opportunities.

Box 4: Differences between types of commercial property

The above focuses on investors in aggregate, exploring the overarching city characteristics they prioritise regardless of the sector in which they invest. However, the weight put on each trait will vary according to the investment.

Office space is particularly sensitive to the city's economic performance and the resulting demand for space from businesses. Operating costs are high, so vacancies can significantly cut into returns by incurring costs on the investor. As a result, expectations of the growth and resilience of the city economy are of particular interest to these investors.

Retail investments rely on the spending power of the population, so investors have a specific interest in demographic indicators and measures of disposable income. Footfall and retail sales growth statistics are also used to estimate demand more directly. Returns are often more stable than for office space, as retailers are slower to change location and leases tend to be longer.

Industrial investments tend to be smaller on average and require less management. As a result the operating costs can be lower than for other properties. Functionality, such as ceiling height, and transport connections, such as links to major road routes, are vital given the use of this property type for warehousing, distribution or manufacturing.

How can cities respond to this?

Attracting investment is not just about having favourable fundamentals. A city's reputation amongst investors greatly impacts its likelihood of attracting investment. Given the many potential UK and global cities to invest in, and the huge amount of information necessary to assess them all in-depth, investors must select a shortlist to investigate fully.

A positive reputation, track record for successful investment and a high profile amongst investors will greatly influence the likelihood a city appears on this shortlist.

Given this, how can cities maximise their desirability as an investment location? This section provides practical recommendations for cities developing their approach to attracting private-sector investment.

To entice investors, a city should focus on:

1

Using expert resources

Ensure the city has access to investment expertise

Conduct each activity at most appropriate scale

2

Knowing the city's offer & audience

Assess the city as an investor would

Create a city vision that communicates its ambitions

3

Building networks to sell the city

Proactively reach out to the industry

Build relationships

Provide investors with the information they need

4

Closing the deal

Be flexible and willing to step in

1. Use expert resources

Ensure the city has access to private-sector investment expertise

Think like an investor

It is crucial a city's approach is based on a robust understanding of how investors think and behave. An appreciation of each investor's timescales, risk and scale appetite, and return expectations is essential, as well as knowledge of current trends in the investment market and how it is evolving over time. Investors value teams who speak their language and understand their ambitions. This gives them confidence in the team's abilities, encouraging them to work with them and making it easier to do so.

Box 5: Risks posed by an investment

The risks an investor is exposed to strongly impact the attractiveness of an investment. The appetite for risk varies by investor, but all consider the following four risks:[12]

1. **Financial** – is the risk and return equation suitably attractive?
2. **Operational** – can commitments be delivered once the investment is underway?
3. **External –** for example, will public support for investment and growth decline? Will Brexit halt the city's economic growth?
4. **Reputational** – is the investor's public profile likely to suffer? How supportive will the city be in mitigating the impact of unforeseen circumstances?

This expertise can be achieved by recruiting from the private sector and those who have worked directly with investors, as Southampton did when creating a team to deliver their VIP developments (see Box 6), or by providing staff with specialist training. The expertise does not need to be in house. Cities can borrow this from the private sector, through partnerships, consultancy or pro bono work.

> *"Having the right resources is key to attracting investment. Cities with outward looking civic leadership, supported by commercially-minded economic development and investment teams will be the most successful – they think and speak in the same way as the private sector."*
>
> **David Partridge, Argent**

Identify target investors

Promotional material can then be individualised to provide the precise information required to assess the opportunity's potential. Sites can be prepared for investors, and designed to have the right scale and balance of risk and return, for example by combining multiple sites.

12 Bolton T & Wilcox Z (2011), Investing in Growth Cities. Fulfilling the economic potential of the Greater South East cities, London: Centre for Cities

Conduct each activity at the most appropriate scale

Collaborate with neighbouring areas or like-minded cities

Developing a relationship with a current city centre investor or promoting a specific site to a small group of targeted investors can be done by the city. But other activities, such as hosting events, may be best carried out on a wider scale.

Joining forces can provide extra resources for promotional and outreach activities, such as Northern Powerhouse and West Midlands trade missions to meet international investors. A city region or collection of cities contains many more sites and may have a more distinctive, higher-profile reputation than an individual city. Some investors may want to make large investments or see a wide range of options, so this increased scale suits them. Setting each scheme within a broader portfolio means investors can be introduced to other opportunities they might not otherwise have been aware of.

Make the most of existing geographies and networks

Use combined authorities, city regions, LEPs and city networks such as Core Cities, when a larger scale is desirable. Part of Greater Manchester's success is in part attributed to its decision to make transport infrastructure, economic development and land use decisions at a combined authority level.[13] Many cities attend MIPIM as part of a wider group. This year, for example, Leeds and Sheffield promoted their city regions, whilst Scotland's seven cities joined forces to promote themselves, using the Scottish Cities Alliance as the tool.

> *"Cities need to consider the scale of opportunity they can offer the market and think about joining together if they want to attract larger investors."*
>
> **John Tatham, GVA**

2. Know the city's offer and audience

Assess the city as an investor would

Know how the city is viewed by investors

To gain this insight, cities should assess their place against the four priority characteristics listed in the last section, just as an investor would do when considering a potential opportunity. This enables a realistic identification and communication of the city's strengths and weaknesses.

> *"There is a lot of competition so cities have to work hard to stand out. Being authentic is key – work out your uniqueness and shout about it, loudly!"*
>
> Angela Barnicle, Leeds City Council

13 CBRE Global Research (2016) The UK's Cities: Invest in the Future

Table 3: Assessing a city's attractiveness against each investor priority

Trait	Questions to ask to assess a city's attractiveness
Strong city economy	Are there a growing number of businesses and jobs in the city? Are there productive, well-paid jobs available? Is the city's workforce highly skilled? Is the city reliant on a single sector, employer or trading partner? Is the city liveable, with accessible housing and digital connectivity?
Excellent transport connections	Are businesses and residents able to access their key markets within a few hours travel time of the city? Is the city's transport system prepared for investment and growth? Is commuting affordable and congestion-free? Is there accessible international travel from the city?
Pro-growth city leadership	Is the city leadership visibly supportive of investment and economic growth? Is there public and stakeholder support for investment? Has there been consistency of city policy and attitude to investment over recent years? Is the city leader known and respected nationally, and internationally, by the industry?
Focused on delivery	Has the city dedicated resources to investor relationships and managing investment processes? Does this team have expertise in private sector investment? Is the city planning system responsive and pro-growth? Is the city willing to share risk or offer incentives to facilitate investment where necessary?

Promote the city's strengths to investors

To ensure the city's positive characteristics are known, information and promotional material should focus on these, using facts and data to evidence the claims. This will strengthen the city's reputation, and is much more effective than devising a brand or slogan. Use the private sector as ambassadors of the city, choosing specialist firms to showcase the city's expertise in specific industries.

Whilst improving all four traits should be a long-term goal, this is not immediately feasible. One may have a fast-growing economy but an unstable leadership with inconsistent policy. Another will attract investors with its distinctive global reputation, but deter them with a restrictive planning system. Cities should focus on improving those factors within their control, not be distracted by those outside their influence.

Design the city's vision to communicate its ambitions

A vision sets out what the city wants to become. By having a clear goal, the city can determine exactly what investment is required to achieve this, and set about ensuring this is secured.

Demonstrate the city is pro-investment

The vision needs to show investment is critical to the city's future and for achieving its vision. Investors use the vision to understand how the city will evolve, and consider how this will impact the success of their investment. And knowing their contribution to the evolution of the city is desired and relied upon will encourage them to invest.

Showcase the city's best qualities

Rather than starting from scratch, building on the city's best characteristics will make it easier to successfully realise the vision. An investor should be able to read the vision and know the city's economic, social and cultural characteristics. Crucially though, to be convincing, it must be an honest portrayal of the city's strengths and weaknesses and be backed by sufficient resources to achieve it.

Ensure public support

A range of stakeholders, both within and outside the city, must be engaged in the design of the vision to ensure it has wide-spread support. This was the approach taken by Edinburgh, involving businesses, residents and organisations in the design of the 2050 City Vision.[14] A vision shared by all will come up against much less resistance, and so be more likely to be achieved than one the public dislike and so investors will feel confidence in investing.

Have a detailed plan to deliver the vision with a clear pipeline of opportunities

By setting out the investments required to realise the vision, this plan can act as an investment prospectus, with the inclusion of a development pipeline to provide vital information on each proposed development. This will demonstrate the city is serious about turning the vision into reality. For example, Birmingham has used their Big City Plan to present the investment required to achieve their city vision and have generated international profile, including interest from sovereign wealth fund investors drawn to the city's ambition.[15] [16]

For some cities a vision at city–region scale is more suitable, providing the scale investors are looking for. If the future of a city is highly interlinked to that of another city or area it makes sense to collaborate. Many are already doing this, such as Leeds City Region, Sheffield City Region and Glasgow City Region.[17] The six new combined authorities with elected metro mayors offer an improved ability to plan strategically and spatially across a wider area.

14 See: http://edinburgh.org/2050-edinburgh-city-vision/
15 See: http://bigcityplan.birmingham.gov.uk
16 Bolton T & Wilcox Z (2011), Investing in Growth Cities. Fulfilling the economic potential of the Greater South East cities, London: Centre for Cities
17 For example, see http://www.scrvision.com/

Case study 1: Southampton's approach to attracting investment[18]

Over the past two decades Southampton's approach to attracting investment has been bolstered by proactively seeking investors and strategically planning the exact developments required to achieve the city vision.

Southampton has focused on raising the profile of the city amongst investors and agents, developing relationships within the industry and ensuring it has a pro-investment reputation. Hosting events, often in partnership with commercial property agents or publications like Estates Gazette, and speaking at national events like MIPIM have been important features of the city's engagement with the development industry. The launch of the City Masterplan to 200 investors and agents in 2012 was the beginning of this campaign.

The City Council's work has been based upon an understanding of what developers, investors and occupiers are looking for, their decision-making processes, and their perceptions of Southampton.

The Masterplan and City Centre Action Plan have provided investors with certainty over the city's future evolution, and information about each of the VIPs (very important projects).[19] [20]These projects have acted as catalysts for further investment by raising the profile of the city. Critical to their successful implementation was the appointment of a team of five development surveyors with the experience to engage with the private sector to bring forward large scale commercial projects.

The City Council has adopted a 'one team approach' providing developers and their advisors with a clear route into the Council, and ensuring consistent messages are communicated to the commercial world. This approach embraces planning, property, transport, economic development and skills, and gives access to all levels including the city leadership.

To date this proactive approach has already secured almost £2 billion of city centre investment plus a further £1 billion of investment across the remainder of the city.

3. Build networks to sell the city

Proactively reach out to the industry

Many cities declare themselves 'open for business' and willing to meet with investors. This assumes investors will come to them, limiting the reach of their city.

Relationships are core to the investment industry and who you know matters

To attract investment a city should make itself known and front-of-mind. Face-to-face meetings and personal relationships with a city are highly valued by investors. Target

18 Centre for Cities interview with Southampton City Council
19 For further information see: https://www.southampton.gov.uk/planning/planning-policy/supplementary-planning/city-centre-master-plan.aspx
20 For further information see: http://www.southampton.gov.uk/planning/planning-policy/adopted-plans/city-centre-action-plan.aspx

investors should be approached with information on the opportunities they best suit and the offer of a personal meeting. The city's leadership must be accessible to investors, acting as a champion for the city, relaying its vision and demonstrating they are aware of and invested in each deal.

Case study 2: Luton's approach to attracting investment[21]

In 2016 Luton launched their investment framework, in a bid to raise the profile of the city and attract private sector investors and developers to the city.[22] To fund the outreach they brought together their key developers, such as Henryboot Developments and Luton 2020, to form the Think Luton Partnership.

This relationship with the private sector also enabled the city to use developers as the main promoters of the city's opportunities. At a series of events – including a launch event in London's St Pancras Renaissance Hotel – private sector firms took the lead in showcasing their investments in Luton and highlighting the city's attractions. Consistency of message was achieved by always focusing on the city's unique selling points, its fast connections to London and internationally via its airport, and its cultural and social diversity.

The city's 'red carpet service' – a specialised support service from the economic development team, including accelerated building development through a personal planning officer and access to the city's leadership – ensures developers find the city easy to work with.

The city has seen a real change in the way it is perceived, and has received much more interest in its opportunities. Whereas in the past they had to reach out to the industry, now investors often come to them. Relationships between the city and London property agents have significantly improved, thanks to the city's ability to demonstrate evidence of its pro-investment approach.

Design the outreach to suit the city's investment needs

Outreach is not all about shouting the loudest. General outreach to promote the city may suit large cities offering a wide-range of investment opportunities. Smaller cities with more constrained resources and more specific opportunities may not suit this approach. Instead, activity can be more focused by contacting targeted investors or specific segments of the industry or by using private-sector resources, as Derby does with its bondholder scheme.[23]

Use events and the specialised press to raise the profile of the city

Events, such as MIPIM, allow cities both to meet investors, and their advisors, and to raise the city's profile. Speaking roles and promotional stands are useful tools for starting conversations with the industry. Not attending can send a signal that the city does not prioritise investment. But this type of outreach should not be prioritised over creating personal relationships as investors value these more highly than general profile building.

21 Centre for Cities interview with Luton Borough Council
22 For further information see: https://www.luton.gov.uk/news/Pages/Luton-launches-major-investment-programme.aspx
23 Clark G (2014), Business-Friendly and Investment-Ready Cities, Urban Land Institute

Collaborate with other cities to borrow scale and prestige when seeking international investment

Overseas investors tend to be less familiar with UK cities outside London, and often favour large-scale opportunities. A regional offering can offer them greater choice and a higher profile area. This collaboration can be formalised to a lesser or greater extent, depending on what they are designed to deliver. The Northern Powerhouse is an example of this collaboration, achieving greater profile by covering a wide region.[24]

Use private sector champions to promote the city

The role of the city leadership is to plan and coordinate this. A Leeds tech entrepreneur led the recent Northern Powerhouse mission to San Francisco. Outside the UK, cities such as Barcelona and Brisbane use local businesses to promote them internationally.[25]

Build relationships

Developing relationships is the most important part of outreach. Investors are increasingly looking for long-term relationships with cities as this lowers risk and makes cost predictable.

> ***"Cities should also consider the 'value add' that investors can bring in terms of advice and skills in dealing with risk and creating value. To take advantage of that, cities need good relationships with the advisory and investor market to use this advice to shape opportunities early on."***
>
> **John Tatham, GVA**

Keep in touch by providing investors with up-to-date information on the city's opportunities

A one-off meeting is easily forgotten so following up with specific information related to the conversation ensures the city remains front-of-mind and demonstrates the city understood the investor's aims. A consistent point of contact - as offered by Southampton's one team approach (see Case study 1) or Luton's red carpet service (see Case study 2) – is key to building strong relationships, preventing delay and duplication and allowing a more personal connection to develop.

Target existing investors in the city

Existing investors depend upon a city's future success. Cities can leverage this dependence by offering current investors additional opportunities, highlighting how these will further improve the city and so benefit their initial investment. Investors often favour re-investing in a city over a new location as they are familiar with the practicalities of investing there and it reduces the costs of researching others and forming new relationships.

To further embed investors in cities, cities should engage key investors in the design of city plans, treating them as a stakeholder and partner, as this will increase their confidence in the city's future performance and highlight potential opportunities for re-investment.

24 Cities Research Centre (2016), Governance, Devolution and the Investment Ready City, JLL
25 Clark G (2014), Business-Friendly and Investment-Ready Cities, Urban Land Institute

Focus on intermediaries as well as investors

Third parties – agents, advisors, specialised press – influence investor decisions. They have wide networks of contacts and the expertise to know which investors will desire each opportunity, so can help cities structure and communicate their offering to investors.

Cities should also work closely with central government. The Department of International Trade (DIT) regularly showcases the UK's larger opportunities (over £100 million) to international investors, such as a £5 billion North of England portfolio shown to Chinese investors last year.[26] To fully utilise this resource, cities should ensure they regularly share information on their sites with DIT.

> ***"Newcastle has worked closely with DIT to promote our strategic employment sites, ensure they are attractive propositions and engage foreign investors. DIT came forward with an opportunity for Newcastle to pitch at No10 in October and at MIPIM in March - a direct result of the relationships stakeholders have built, and confidence in Newcastle's track record in securing investment and getting developments out of the ground."***
>
> **Catherine Walker, Invest Newcastle**

Case study 3: Blackburn's approach to attracting investment[27]

To improve its ability to attract investors, Blackburn with Darwen Council has focused on ensuring they are easy to work with and that investors and developers are aware of their opportunities.

The Growth Team – which works in partnership with Capita - offers developers the option of a premium planning service. For an additional charge this gives support throughout the process provided by a senior planner, making it easier and faster for the investor. In addition, by ensuring cases are only brought to the planning committee where necessary, they have increased their response speed and are now exceeding national planning performance targets.

To give the political leadership oversight of progress and to prioritise investments and developments, a Growth Board was created. Comprising both political and executive leadership teams, this Board steers decisions for each important site and means the pipeline has political buy-in early on.

Blackburn has also sought to increase its profile amongst investors, such as by hosting investor and developer days and providing these targeted invitees with information about opportunities.

In the past the Council has had to work hard to attract investors and developers but now they are experiencing increased interest, which they attribute to this improved developer-friendly approach. For example, national house builders, developers and investors, with no previous links to the place are showing interest, their curiosity sparked by other investments they see such as Legal & General and pension funds investing in the Cathedral Quarter development.

26 See: https://www.gov.uk/government/news/northern-powerhouse-investments-showcased-to-chinese-investors
27 Centre for Cities interview with Blackburn and Darwen Borough Council

Provide investors with the information they need

Ultimately, investors can only assess a city's attractiveness if they have sufficient information about its characteristics and opportunities, so it is crucial this information is easy to find and use.

> *"Transparency is really important. Without information investors and developers cannot make decisions, so the city doesn't get onto the longlist never mind the all-important shortlist."*
>
> **Angela Barnicle, Leeds City Council**

Have the city's development pipeline ready for investors

The details of specific opportunities are just as important as the city's vision and strategy, and the city will lose credibility if these details are not ready to share during outreach activities.

Publish data and intelligence about the city in an accessible and user-friendly format

Investors and their agents require this data to accurately estimate the potential return of each opportunity. The easier the data is to find the more likely they will consider the city. Many local-level statistics are available from the ONS and other national data providers but require analysis to interpret. Publishing economic indicators, such as average income or the share of the workforce with a degree, saves investors time. Where a city has a long-term relationship with an investor, it can provide them with bespoke information and data to suit their ambitions.

> *"We publish economic analysis online and provide investors with bespoke information. Beyond providing relevant information, this also sends a good signal to investors, showing that we are pro-active and attentive to their needs."*
>
> **Anna Rose, Milton Keynes**

4. Close the deal

Be flexible and willing to step in

Interest from the private sector will be limited where propositions offer insufficient returns, or have levels of risk and scale which do not match investors' appetites. Initial interest may also be reduced by unforeseen events, such as a negative shock to the national economy. In these circumstances, cities need to step in to facilitate investment.

Case study 4: Coventry's approach to attracting investment[28]

To secure private sector investment, Coventry City Council is an example of a city taking an active role in many developments, using their networks and resources to ensure their viability.

The city has focused on:

- **Improving planning** to ensure it is fast and reliable
- **Stepping in to facilitate investment** where financing or securing land was difficult for the private sector

Having previously been ranked 288th out of over 300 councils for the speed of their planning process, **Coventry greatly improved the responsiveness of their planning processes** and have been ranked 1st for the past five years. The pace and reliability of the planning response (promised in less than 13 weeks) reduces investors' risks and costs and signals the city prioritises growth.

Coventry played a key role in facilitating Jaguar Land Rover's (JLR) development of its headquarters. JLR sought 60 acres of additional land but was unable to secure this at an appropriate price from the owner. Given the benefits to the city of realising these ambitions, such as the creation of 6,000 new jobs, the city council stepped in, working with JLR and the land owner to successfully negotiate the sale of the land in only nine days. In turn, this triggered an additional 60 acre investment by JLR. Although in this instance a business was acquiring and developing the land, the same techniques apply for cities working with commercial property developers.

28 Centre for Cities interview with Coventry City Council

Box 6: Facilitating alternative property investments

In recent years investors have become increasingly interested in commercial property outside the traditional sectors of office, industrial and retail.[29] Some common examples are: the private rented sector (PRS), student housing, hotels and healthcare. Growth in the PRS sector has been most pronounced in Manchester, London and other large urban areas.

These alternative investments tend to offer have lower transactions volumes, they can be counter-cyclical, and there is less market information available for them.[30] This combination of characteristics mean they provide higher returns and are often used to diversify portfolios.

For cities, the popularity of these investments requires attention and consideration should be given to whether more of these investments can be facilitated. But their characteristics can cause challenges, for example it can be difficult to secure financing.

Coventry City Council stepped in to enable a **new student accommodation development** to take place in the city centre in 2014.[31] Given the higher risks of this alternative investment the developer was struggling to secure bank financing. The city offered them a long-term mortgage instead, but as a lender of last choice and with an interest rate that rose substantially each year. Knowing they had found a willing lender gave the bank sufficient confidence to prompt them to undercut the council's offer and finance the development, which delivered 550 student rooms.

To close the deal cities may need to become involved in the investment. Cities have a variety of tools to do this, including: [32]

1. **Direct loan** – When financing is unavailable, the public sector can loan funds to the private sector to enable investment. The West Midlands Combined Authority's Collective Investment Fund is an example of this, lending £3.7 million to a developer to facilitate two developments in Coventry city centre.[33]
2. **De-risk** – Where risks are preventing investment, these can be reduced either by providing guarantees or by addressing the cause of risk. For example, a city can reduce planning risk by offering accelerated planning, or guaranteed minimum turnaround times, for priority developments (for example see Case study 4). Re-structuring developments, such as adapting the schedule of development to create an acceptable cash flow for the developer, can reduce risk.

29 CBRE Global Research (2016) The UK's Cities: Invest in the Future
30 Savills (2016) Investment in alternative real estate assets becomes the norm in Europe. Available at: http://www.savills.co.uk/_news/article/110559/200105-0/3/2016/investment-in-alternative-real-estate-assets-becomes-the-norm-in-europe
31 Centre for Cities interview with Coventry City Council
32 Swinney P & Wilcox Z (2013) Developing Interest: The future of Urban Development Funds in the UK, London: Centre for Cities
33 For further information see: http://www.bqlive.co.uk/midlands/2017/06/13/news/coventry-resurgence-continues-26166/

3. **Co-investment** – Where the public sector matches private sector monies, or provides public assets. Joint ventures between cities and investors are another example of co-investment, working in partnership to secure the necessary assets and funds for successful investments.

Create a more competitive business environment

This will increase occupier demand for investment. Cities can offer smaller interventions including tax reductions, such as Birmingham's use of Enterprise Zones in its city centre.

But too much involvement from the public sector can deter investors

Though public intervention often makes a positive and necessary contribution, limited private sector interest in a location can cause concern, signalling it may be difficult for the private sector to act alone. It is therefore important cities only step in where absolutely necessary, and take steps to demonstrate the existing private sector investment and interest in the city.

Conclusions

Private sector investment is vital to grow urban economies, so cities across the UK need to be constantly looking to improve their attractiveness to investors.

Attracting investment requires both strong characteristics and awareness of these by investors. Having investible sites is obviously crucial, but it is not enough to secure investment. Relationships are key too. The city's reputation amongst investors and their level of familiarity with its opportunities also drive investment location decisions. The higher its profile and better its reputation the more likely its investment opportunities will be considered.

Given this, cities should focus on:

1. **Using expert resources**

   Cities should ensure they have acces to investment expertise. A strong understanding of how investors think and behave is essential when designing an approach to attract investment. **Collaboration with neighbouring areas or like-minded cities** should always be considered, as for many activities it can be more effective to work at a larger geographical scale.

2. **Knowing the city's offer and audience**

   Since reputation affects investment decisions, cities need to know how they are viewed. They should focus on **selling their strengths**, making sure the industry is aware of the city's comparative advantages. Having a vision, and plan to realise it, **provides investors with certainty** and demonstrates the city prioritises investment and growth.

3. **Building networks to sell the city**

   Reach out to investors, developing relationships with them and their advisors. Events and specialised press features are useful tools to raise the city's profile. Cities should **target those who have already invested in the city**, updating them with information on further investment opportunities. Ensure investors have **access to the city's leadership**, and use the private sector as the key promoters of the city.

4. **Closing the deal**

   When investments are not quite viable, or threatened by unforeseen circumstances, cities may need to be pro-active and **step in by reducing risks or improving returns**. This must be done carefully - too much public sector involvement sends a negative signal to investors, so cities must seek private-led solutions wherever possible.

Partnerships

Centre for Cities is always keen to work in partnership with like-minded organisations who share our commitment to helping cities to thrive, and supporting policy makers to achieve that aim.

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