

**Title:**

Innovative real estate development finance – evidence from Europe

**Structured Abstract:****Purpose:**

This research provides insight into large-scale real estate projects in Europe and how they are using a more innovative blend of finance.

**Design/methodology/approach:**

The methodology involved a mix of desk-based study, interviews and case studies. Interviews were held with financiers, policy makers, developers, investors, fund managers and academics. The specific case projects were Battersea Power Station Development in London; Leipziger Platz site in Berlin; and the Lammenschans site in the city of Leiden, Netherlands.

**Findings:**

The research found that there is growth in the blend of financial products used in real estate development within large-scale mixed-use projects. This new blend is set with greater equity financing, often from domestic and foreign consortiums generating institutional funds — alongside private debt financing that utilise a mix of large-scale multi-bank finance.

**Practical Implications:**

The scale of the challenge in financing real estate development allied with capital budget constraints has meant that the appetite for innovative finance mechanisms has gained considerable momentum in practice and policy. This research investigates current examples in development finance and provides a discussion of the opinion of key multi-stakeholder participants in the individual cases, and trends more strategically at a broader level.

**Originality/value:**

This detailed study of three major development sites and at a more broader strategic level is significant, in that it provides a better understanding of the differing blends of finance that are being used.

**1. Introduction**

Real Estate plays a pivotal role in the economy, and how it is financed has come under close scrutiny following the Global Financial Crisis (GFC) in 2007-08. Since 2008, governments, regulators, and industry attention has been focused on the roles of lending institutions, the correct debt to equity mix, the pricing of risk, return requirements, and the nature of the partnership structures between the

public and private sectors (Adair *et al.*, 2011). The financing of real estate development activity is often higher up the risk curve for investors, and thus the rationale for this study is to discover what innovative real estate development finance mechanisms are currently available. The scale of the challenge in financing real estate development is significant; especially as capital budget constraints have meant that the appetite for financial innovation in real estate development has gained considerable momentum (Bartke, 2013). In 2011 (Thomas, 2015), the commercial property sector directly contributed \$310 USD billion to the European economy. Moreover, intense pressures from accelerating growth worldwide require innovative funding to support sustainable redevelopment (Medda *et al.*, 2011), and more considered international approaches to real estate development (Squires and Heurkens, 2015; 2016).

The study anchors around a single research premise to formulate its argument - that large-scale real estate projects in Europe are using a more innovative blend of finance. As such, the aim is to understand this blended characteristic of innovative finance in real estate development projects. This type of financing will be referred to as 'innovative development finance' in the proceeding narrative. Objectives of the research are to: provide a critical review of innovative development finance mechanisms; profile findings of such innovative finance blending within large-scale sites in Europe; and provide a discussion more generally on the characteristics of blending in innovative finance development. It is the intention of the paper to draw greater understanding in teaching and learning in what development finance mechanisms have and are being used more innovatively. Developing this tacit knowledge can be applied in policy and practice, for improved environmental place-making and quality of life in society.

The study is based on two main research methods involving desk-based study and semi-structured interviews carried out in 2014, combined with detailed case studies. Interview findings are drawn from informed experts on innovative development finance – particularly with regards to their financial mechanism characteristics. Further methodological detail is explained in the methodology section. The paper is structured as follows. Section 2 provides a literature review

on the scope and characteristics of innovative development finance. Section 3 explains in more detail the methodology adopted in the research, while Section 4 outlines the three case studies from the UK, Germany, and the Netherlands. Section 5 considers the results of the interviews, and reflects on their relationship with the literature. Section 6 offers conclusions and recommendations.

## **2. Literature Review: Mechanisms in Innovative Real Estate Development Finance**

The literature review explores the key characteristics of innovative development finance mechanisms – largely in a pan-European context. Consideration of innovation underpinning many of the more nuanced finance approaches to development is put forward. Furthermore, the literature review expresses the important workings of mechanisms that enable innovative development finance to flourish.

Mechanisms of development finance have gained international significance, and can be innovative at both global and European levels (Sandor et al., 2009). The World Bank broadly defines innovative finance for real estate development as that involving non-traditional forms of funding through private mechanisms, solidarity mechanisms, public-private partnership mechanisms, and catalytic mechanisms (Grishankar, 2009). However, innovative development finance is not to be viewed as an alternative to traditional forms of finance, but should be seen as complementary. The European Union (EU) defines innovative development financing as those measures providing financial support to address one or more policy objectives through the use of loans, guarantees, equity or quasi-equity investment, or other risk-bearing tools – that can be combined with grants and involve risk-sharing with financial institutions to boost investment in large infrastructure projects (Spence et al., 2012). To deal with a more complex economic condition, the reality in financing real estate development mechanisms has typically been a blending of loans and grants (Bilal and Kratke, 2013).

Innovative finance, in part, is intended to share risk, and potentially provides greater flexibility (Carter, 2006).

Innovative development finance can often be in the form of developer contributions and planning gain – these could be ‘development charges’ such as impact fees or infrastructure levies such as a Community Infrastructure Levy (CIL) (Lord, 2009). Business rate supplements are another innovative mechanism enabling cities to generate funding for infrastructure projects through a tax levied on businesses, in addition to the national business rate (Harrison and Marshall, 2007). The funds are retained locally and used to raise finance for investment in specific development projects, jointly identified by local authorities and local businesses.

Innovative value-capture mechanisms based on the uplift in real estate are being increasingly adapted at the core of development (Merk et al., 2012). Land value finance is used to recover the capital cost of development by capturing some or all of the increments in land value resulting from the initial outlay (Medda and Modelewska, 2009; Medda et al., 2012). Land value capture finance, to fund public goods by capitalizing on land rents, has a long tradition in public finance, as value capture can stimulate further land development, economic growth, and increasing property values (Starrett, 1981; Roukouni and Medda, 2012).

Bond innovations for tapping into real estate development include those such as Tax Increment Financing (TIFs) and Accelerated Development Zones (ADZs). These have become significant to funding infrastructure projects (BPF, 2008; Webber, 2010). Previous research (Hutchison et al., 2012; Squires and Hutchison, 2014) has critically examined the TIF models that are operational in the US to identify lessons for their possible adoption in the UK. Research by Squires and Lord (2012) and Squires (2012) also reflected on the extensive use of TIF approaches in the US for similar reasons. Loan and bond mechanisms, whether in value capture or otherwise, are more often used in real estate development to attract private investment in well-functioning capital markets, with bonds providing institutional investors, such as pension funds with both

limited risk and stable yields (Merk et al., 2012; Squires and Moate, 2012; Ellison, et al, 2015). Some government loans, such as the subordinated loan, can fill financial gaps formed between loans and equity. Subordinated loans can be repaid where project performance is as expected, and the outcome empowers government to receive a share of on-going revenues as interest on the loans (PriceWaterhouseCoopers, 2011).

Some tax incentives are viewed as innovative finance mechanisms, particularly, if they progressively encourage a finance mix in real estate development (Williams and Boyle, 2012). Spatially targeted tax breaks such as Enterprise Zones (EZs) offer incentives to both help start-up businesses and expand existing businesses (Squires and Hall, 2013b; Birch and Squires, 2014). Financial incentives range from business rate discounts to simplified local authority planning procedures, designed to reduce costs (HMSO, 2014). Indeed, many European municipalities compete for new investment by keeping land use taxes artificially low. Furthermore, selective tax waivers and other incentives aimed at investors, developers, and residents can play a pivotal role in improving a city's physical and economic environment (Williams and Boyle, 2012). These tax-based measures must operate within clear planning, regulatory and budgetary frameworks, particularly as the ways in which these measures operate varies depending upon national and local taxation structures (Squires, 2013a).

Partnership collaborations are considered one of the most innovative ways of financing development. PPPs relieve public budgetary constraints in addition to the improvement of the quality of public services, whilst encouraging innovation and optimising risk transfer (Liu and Wilkinson, 2014). PPPs incorporate a range of arrangements, from Private Finance Initiative (PFI), and joint ventures and concessions, to outsourcing, and equity stake sales (McQuaid and Scherrer, 2008). The financing of PPPs as development shaping is more commonly used in countries with significant private-sector schemes having long-term liabilities that need to be matched to long-term assets. PPP initiatives funded by bonds are often index-linked, known as index-linked debt, and expose procurers to potentially higher inflation risk (EPEC, 2010). Land readjustment finance and re-

parcelling of land by a municipality to unlock fragmented potential sites in deadlock can help with regards to this type of partnership working (Van der Krabben and Heurkens, 2015). This is discussed further in the case studies section later.

The application of the Private Financing Initiative (PFI) as an innovative mechanism has been contentious. PFI involves the transfer of substantial risk relating to construction and operation to the private sector — one argument being that the private sector is better placed to manage that risk (Adair et al, 2011). Services are provided on a contractual basis between the private consortium and the relevant public body, with the contract being awarded following competitive bidding. Like PPP (Public Private Partnerships), PFI is meant to offer ‘value for money’, allocated risk sharing, and improved general efficiency of the private sector (Wall and Connolly, 2009). PFI financing is structured to ensure the consortium receives a full return on costs, plus payback of interest on borrowed capital, and a return on their investment (Greenhalgh and Squires, 2011). Despite initial difficulties of PFI, such as insufficient flexibility during the operational period, governments have introduced changes to PFI to address some weaknesses (HM Treasury, 2012). This new generation of PFI is referred to as Private Finance 2 (PF2). In Scotland, Non-Profit Distributing (NPD) has now superseded PFI. NPD is reported to have the additional benefits of capped returns; operational surpluses reinvested in the public sector; and public interest represented in the governance of the NPD structure (Scottish Futures Trust, 2011).

Innovative finance in land ownership has been recognised as essential to real estate development, and it can be argued that fragmented landownership hinders finance development mechanisms (Louw, 2008). For example, there can be complications with innovative development finance due to the contestation over Compulsory Purchase Orders (CPO) (Biddulph, 2011). Moreover, the sale of surplus sites by the public sector to the private sector can be used to raise funds and fulfil other development objectives, but will often be contested (Fisher et al., 2007). Land with development potential can also be disposed of by issuing a

public bond rather than for a direct payment. Where contaminated brownfield land is present, particularly in prime locations without local government ability to remediate it, the public sector can offer land to the private sector at below market rates or in conjunction with other incentives. This has given rise to 'brownfield entrepreneurs' who remediate such sites before they redevelop or market them for redevelopment (Meyer and Lyons, 2000). Further, land ownership can be exemplified in the Netherlands, where alternatives for active public land development policies are confronted by barriers such as a legal system based on common law and one that has a limited local tax base (Van der Krabben, 2011).

Risk is a key component in innovative development finance mechanisms. Despite the opportunities offered by innovative development finance of large-scale projects, development mechanisms inducing risk, need to be considered alongside the speculative financial returns on offer. Many financial mechanisms in real estate development such as value capture bond mechanisms take on innovation risks with some sense of prudence (Squires, 2012). Although real estate development on a large scale can be risky, it can be mitigated by an increased diversification of investment finance (Havard, 2014). Furthermore, the developer profit motive will continue to drive development, whichever way the risk is managed (Weber, 2002). As a result, long-term stable innovative development finance in large-scale projects need to be shaped in an effective way — to channel the various drivers such as risk, reward, and profit.

### **3. Methodology**

The research involved desk-based study and semi-structured interviews. All 17 interviews were carried out with leading relevant organisations in the real estate and property industry (See Appendix 1). They included professional groups of financiers, policy makers, developers, investors, fund managers and academics. The semi-structured interviews, undertaken either by telephone or Skype, were carried out during 2014. Separate questions were formulated for innovative

development finance more generally (Appendix 2) and those more specifically aimed at the case study sites (Appendix 3). The selection of interviewees took the form of a snowball sampling to enhance the number of appropriate interviewees (Denzin and Lincoln, 2007), with interviewees being asked to recommend further contacts useful to the research as a 'retroductive' process (Naoum, 2013; Mason, 2002).

All interviewees were at a senior company level with the majority of input from professional roles as directors from their respective organisations. Bias from a director oriented 'elite' expertise and opinion was acknowledged, as was any bias from the snowball research method (Bryman, 2012). Despite these biases, it was felt that the greater informed professional expertise provided a rich qualitative understanding of the cases and subject matter when extracting information (Denzin and Lincoln, 2007).

A case study approach (Yin, 2002) was used to illuminate current practice in innovative development finance. Case studies were chosen following consultation with interviewees who endorsed the cases as particularly interesting and relevant to innovative development finance. The specific case projects were: Battersea Power Station Development in London; Leipziger Platz site in Berlin; and the Lammenschans site in the city of Leiden, Netherlands. Analysis was carried out by noting down by in tables the intuitive groups of key themes that were emerging as a consensus from the primary interviews and secondary literature. Furthermore, as commensurate with most small-scale research using qualitative analysis, key interesting and (most) important points to best 'answer' the initial questions were selected — particularly looking for quotes and paraphrasing that could link the literature conceptual theory on mechanisms with the research findings (Denscombe, 2014). Limitations of the study are recognised in that there is a reliance on high profile large mixed-use sites. Although the wide range of informed organisational interviews echoed the observations emerging from the cases.

#### **4. Findings: Evidence from the Case Studies**



#### *4.1. Battersea Power Station Development, London*

The Battersea project, a mixed-use residential and commercial scheme, was selected to demonstrate debt-equity financing sourced from non-domestic investors and pension funds, along with international banks. Integral to the project finance was also transport infrastructure and a partnership with the public sector. The Battersea case study illustrated a complex financial history of a former grade II listed Power Station closed in 1983. It has seen a succession of ownerships, insolvencies and receiverships until 2006 when the 750,000 square metre site, providing 600 affordable houses and commercial space, was sold for £400 million to the Irish development company, Treasury Holdings. The project was again terminated in 2011 when Treasury Holdings went into administration leaving NAMA [the National Asset Management Agency (Ireland)] as the effective owner of the site. Subsequent disposal by NAMA (September 2012) to a Malaysian consortium, led by SP Setia, provided new momentum for innovative financing mechanisms to emerge.

With freehold ownership, the consortium led by SP Setia formed the Battersea Power Station Development Company to develop the site in a series of phases over a 10 – 12 year period with a (GDV) Gross Development Value of approximately £8 billion. In terms of blended finance the project includes TIF, as a mechanism for aligning costs and benefits through the uplift in property values and capturing any betterment (Interviewee 16). The financial model employed in the Battersea project is largely premised on the residential component and the rollover of residential sales income to fund later phases of the project. Currently the residential aspect of the project is benefitting from the buoyancy of the London housing market. To further blend financing, the Public Sector Loans Board guaranteed a loan of up to £1 billion to Transport for London (TfL) to be repaid through impact fees (known as Section 106 contributions) in the project — this is to integrate the wider redevelopment of the Northern Line underground rail extension. The Battersea project developers have also

committed £210 million, paying a proportion to TfL at the start of each milestone by capturing the business rates uplift in of the area.

The financing of each phase remains separate. In phase 1, a combined debt and equity financial model prevails with the development company consortium leaders SP Setia holding 40% of the equity as an operating partner, and the Employees Provident Fund of Malaysia (the largest pension fund in Malaysia) as a 20% investment partner. The third principal shareholder is a group of five banks — HSBC, CINB Malaysia, Maybank Malaysia, Standard Chartered Malaysia, and OCBC Singapore. Subsequently the developer secured £790 million of debt funding in October 2013 to refinance the loan that shareholders originally took out from the five banks when they purchased the site (an acquisition finance facility). The refinancing converted the acquisition loan into a 5-year debt facility to fund the first construction phase.

As discussed, phase one is predominantly residential and therefore constitutes a relatively small proportion of investment in real terms, whereas phase two and three, will reflect a significant shift in terms of refinancing the assets after completion. The financing package for these next two phases is also intended to be a debt and equity package arrangement provided by the project sponsors and possibly a larger consortium of international banks. There is an intention to initially retain the commercial space income flow. When the commercial space (shops, offices) has been tenanted and the tube extension in place, it is envisaged that there will not be a need to sell or forward purchase, because the shareholders will retain and refinance the asset by switching from a development asset to an investment facility on completion.

#### *4.2. Leipziger Platz, Berlin*

The Leipziger Platz project case, is a large-scale mixed-use commercial retail (largest in Berlin) and residential development occupying over 76,000 square metres. Approximately 80% of the total leasable space is new-build development that is integrated into the existing buildings on the site. The development

employed a mixed debt and equity financing model, with land assembly financed primarily from a number of institutional investors — one of the biggest financial deals in Germany following the GFC (Global Financial Crisis) (Interviewee 13). The complex is located close to transport hubs and popular tourist and retail sites such as the Brandenburg Gate, Potsdamer Platz, and the Reichstag. High Gain House Investments (HGHI), a property development and investment company (BNP Paribas REIM, 2014) are undertaking the development of the project.

Project finance success was due in part to a high level of occupational tenancies secured by pre-rental agreements, and the perceived favourable location in the centre of Berlin. Interestingly as part of the finance blend, the financing was fully private, with no municipal authority involvement in the partnership or financing arrangements (Interviewee 15). Further, an Arabian investor purchased a 25% share in the development with an option to increase this holding, the remaining 75% of shareholder equity is held by HGHI. Debt finance for the project development was provided by a consortium of four banks led by Deutsche Hypo, the other banks being Landesbank Hessen-Thüringen (Helaba), UniCredit Bank and Eurohypo (BNP Paribas REIM, 2014). The project was equity financed by a number institutional investors: Bayerischer Versorgungskammer (BVK) (€450M); BNP Paribas REIM (€150M) and Deutsche Hypo – lead agent (€80M). Credit was provided for 10 years (BNP Paribas REIM, 2014).

#### *4.3. Lammenschans, City of Leiden, Netherlands*

Another interesting site case that demonstrated a new innovative blend of financing is Lammenschans development project; located in the city of Leiden (120,000 inhabitants) in the west of the Netherlands. The development area is situated at the southern borders of Leiden, adjacent to the railway station Leiden Lammenschans. The municipality determined a strategy that subdivided the area into different building envelopes with some land use planning restrictions. The redevelopment involved restructuring the site into a mixed-use area with several

uses including a school; housing (student, apartments); offices; retail centres; parks and squares; industrial buildings; and service outlets (Interviewee 9).

Existing land-owners and potentially interested real estate development companies were taking the initiative in securing finance and negotiating land ownership boundaries for the real estate development. Innovation in this case study lies in the use of 'land readjustment financing' or 'urban land readjustment financing' (Van der Krabben and Needham, 2008), which is a public planning instrument tailored at de-risking real estate development and creating potential value gain for private property owners and developers (Van der Krabben and Heurkens, 2015).

Based on this finance blend mechanism, owners of the land and property exchanged ownership rights over land to enable the re-parcelling of the land into suitable building plots — in accordance to the proposed redevelopment of the specific site. The temporary transfer of land rights went to a self-governing body that enabled contributions to the several organisations for any cost recovery. This particular financial innovation allows property owners to have the initiative and lead with a publically controlled strategic tool for redevelopment. The mechanism has been recently introduced into the Netherlands more widely and is believed to be especially useful for transformation projects. Furthermore, the mechanism fits well for land-owners and developers to kick-start stalling sites, given the current tendency towards passive municipal land development strategies.

## **5. Analysis: Evidence from the Non-Case Interviewees and Literature**

From the range of interviews on innovative development finance, a complex innovative blend was presented. To unpack and understand this blend more deeply, finance provision was seen to be moving towards partnerships such as those set within PPP (Public Private Partnerships) – as well as partnerships involving private foreign institutional equity funds and private development loans (Interviewee 14). As examples of this partner finance, one interviewee in

the provision of residential private renting described encouragement of more overseas institutional equity as part of the blend (Interviewee 2). For another example, partnerships encouraged a blending of infrastructure finance as part of large-scale real estate development projects. Moreover, the infrastructure component of development finance was argued to be a growing area of interest for institutional and unlisted fund investors - with many institutions attracted to the asset class by the offer of stable, long-term and low-risk returns, uncorrelated with other asset classes.

Whether the real estate development cycle is rising or falling, large-scale projects tend to have longer phasing – and the market needs time to adjust via stimulus to its supply side market inefficiencies. Innovations in development finance can fit this longer trajectory by blending new financial mechanisms that lock into different phases of a project – such as financing site acquisition, site assembly, and construction. It was argued that this finance blending over phases is paramount to the long game of large-scale real estate development projects, and that this longer-term investment is more conducive to larger and more flexible funding ‘pots’ generated by institutional funders. Indeed, the shift to institutional funding was seen to arise if the relationships with banks become more difficult, and the long-term lending restrictions associated with borrowing become tighter. As such, it was argued that banks need to lend on a long-term basis, or at least enable the developer to have money in place for the start of the project phases (Interviewee 7).

As further evidence of the occurrence of innovative finance blends in development, it was argued that value capture would become a very important mechanism as a way of securing financial advances for real estate development (Interviewee 1). In turn, the consequences of this part of the financial blend could place more pressure on the upward appreciation of asset value, and highlight the need for the public sector to capture its share of the uplift. To further tap into any development value uplift, further blending of finance could potentially lever-in greater fees and contributions to the public authority (Interviewee 6).

Blended innovative financing mechanisms also involve the magnitude of the cost, time, and scale of a development – with the financial risk of these being mitigated. Financial risks in a development can be controlled for, provided all financial appraisal factors and building performance indicators have been considered (Interviewee 10). Furthermore, blended innovative development finance can be accommodated based on strong financial appraisal methodologies. Appraisal depends on scale and it was argued that appropriate scale and sensible timeframe can be at the root of financial success in the development process (Interviewee 7). Diversity of financial sources is also important for risk strategies in innovative development finance. Particularly as at the height of the last economic boom, 90% of funding was provided by a small number of banks - leaving borrowers and savers highly exposed when the economy dipped (Interviewee 2).

Good policy and good governance encourage the blend of innovative development finance. Policy has a guiding role in the financial blend, for instance a policy that encourages developers to approach the local authority can in some instances synergise and catalyse site development – rather than developers merely crowding-out the public sector. For policy at an EU level, a number of interviewees stressed that the EU is keen to see its grant funding used more efficiently, especially as this is not going to increase significantly in the future - despite the number of projects seeking finance increasing significantly. To meet this gap in direct funding and finance needs, it was argued that innovation would need grants to leverage in additional sources of funding, such as EU national grants blending with EIB (European Investment Bank) loan products (Interviewee 1). In addition to policy, good governance enables the real estate process to develop more efficiently, but also with quality for all stakeholders concerned. The critical good governance guidance factors, such as good foresight and strategic vision, provide the most significant benefit in terms of sound financial maximisation and design quality of the finished development project.

Planning also plays a part in guiding the blend of financial innovation in large-scale development projects, and helps to frame and mediate the tensions that are generated. It was viewed that all major European bank lending for major initiatives should be planning-led, whether that is a formally adopted plan, a non-statutory development strategy, or a coherent development plan. One of the tensions during interviews was the view that planning 'slows down' development. The rebuttal being that the point of good planning is to create quality places for people, not just benefitting disconnected investors who finance projects. Moreover, innovative development finance in large-scale sites take time, therefore more resources for planning to deal with wider considerations are needed, not less. Further interviewees confirmed their frustrations with regards to the planning timeline. For example, there are often arguments that there is limited inward investment in development because it takes a long time to secure approval (Interviewee 5), and that waiting for planning approval reduces the potential financial return (Interviewee 4). These observations can be dealt with by development finance becoming more innovative through blended sophistication. For instance, by innovative finance engaging with both the important outcomes of both 'positive' planning and 'quality' development. Partnerships are therefore key to the success of blended innovative development, where such encourage multiple funders to have a stakeholder interest in making places more successful, and thus provide longer-term and larger aggregate non-financial benefits and returns (Interviewee 2).

## **6. Conclusion**

In an improving economic climate and upswing in real estate development, financial institutions are demonstrating a greater willingness to lend at more commercially attractive rates. The traditional and current mechanism of development financing has not substantially altered – although the mechanisms have become more sophisticated in their financial blend. Across Europe, there are examples of growth in the blend of innovative development finance, especially with a greater focus on equity financing rather than debt financing.

Equity financing in the form of institutional funds both domestically and from foreign consortiums appear as part of the innovation picture that is emerging.

Key characteristics of innovations in finance have included a greater combination of both loans and grants – for adding value to both the land and buildings being developed. Contributions in the form of charges, levies, rates and fees could also form part of the financial blend to fund a development. Uplift in land value to pay off financing from loans and grants are also an attractive part of innovative finance blending, as are tax incentives that offer the promise of lower rates of tax for real estate developers and occupiers. Private financing both within partnership arrangements (such as PFI) and single organisations integrate with the blends, which demonstrate the many aspects of financial risk that run throughout them.

The Battersea case demonstrated a blend of financing sourced from non-domestic investors and pension funds, along with international banks. The integration of transport and land value capture were also part of the innovation blend. In addition was an intricate refinancing approach to phases of the development, secured by advance residential sales and commercial income. The Leipziger Platz case put forward a blend involving a number of institutional investors and private bank lenders – again secured by a high level of pre-rental agreements. For Lammenschans, innovation in finance centred on blending with regulatory powers by ‘land-readjustment financing’ to unlock a stalled large-scale development site – with the land-owner and developer engaging with the public municipality who would act as the legal redistributive body for any costs that a party may need recovering.

More generally, the innovation blend amongst the case studies highlighted several interesting and emerging features. There is an apparent rise in partnerships involving private foreign institutional equity funds and private development loans, particularly, in those large-scale sites engaging with wider infrastructure needs. Finance blending over phases was also found to be more conducive to larger and more flexible funding sources. Value-capture finance and



tapping into any development value uplift was seen to be an affective contribution to the blend. Future uplift approaches to the finance blend carry risk, so mitigation of risk as part of the blending process is important, not just the sources of finance that are constituting the blend ingredients. Large-scale sites can also have an improved blending process by using partnerships, good policy and governance, that guide the financial and development interest of all those with a stake in the project. Just as good planning helps to mediate and frame any tensions to encourage value-for-money and quality of place. Overall, with respect to the initial research premise that large-scale real estate projects in Europe are using a more innovative blend of finance, the findings point towards a new 'blended' approach with intricate 'phasing' of development finance. A strong proposition for future research would be to model what these phase-blended finance mechanisms look like, and how they can lead to better outcomes for those sites and situations they are related to.

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## 9. Appendices

### Appendix 1: Institution Contributions

RICS UK
RICS Brussels
Composition Capital Partners
Buildings Performance Institute Europe (BPIE)
Consilia Capital
AEDES Dutch Association of Social Housing Organisations
CECODHAS Housing Europe
Battersea Power Station Development Company Ltd
The Commercial Real Estate Finance Council Europe (CREFC Europe)
Royal Bank of Canada
Fédération de l'Industrie Européenne de la Construction (FIEC)
British Property Federation (BPF)
European Association for Investors in Non-Listed Real Estate Vehicles (INREV)
LaSalle Investment Management
European Investment Bank (EIB)
AMP Capital
Winchester Partners
Leipziger Platz Development Berlin
Malmendier Hellriegel Rechtsanwälte Partnerschaft

## **Appendix 2: Interview Questions**

1. What is the broad context in time and space of innovative real estate development finance (IREDF) in your country?
2. What is the broad policy framework for IREDF in your country?
3. Is there an underlying economic rationale for IREDF (Austerity, added value, external costs, and so forth)?
4. To what extent are land ownership and site designation issues connected to IREDF in your country?
5. What are the differences in scale in IREDF? Please provide interesting examples/cases.
6. What role(s) does planning take in IREDF projects?
7. Are there particular sector preferences in IREDF?
8. To what extent does project and risk management feature in IREDF? If so, how?
9. How are schemes evaluated with respect to IREDF 'success'?
10. Is there a potential for repeatability of IREDF in differing projects? Please give examples

### **Appendix 3: Site Case Study Questions**

1. Who is involved in the finance model for the site project? Who are the finance partners?
2. What elements are included in the finance model for the site project? For example, are project bonds part of the model?
3. How do all the elements relate to each other in the finance model? (i.e. How does the finance model actually work for the site project?)
4. Does the finance model for your site project depend on a certain scale (financially) and timescale (including aspects of phasing)?
5. Would you say there are innovative or new components in the finance model for your site project? (e.g. changes to debt-equity, project bonding)?
6. How the finance model executed for the differences in development and investment returns? What returns are expected for developers and investors?
7. What is the exit strategy for developer and investors in the site project? How long are developers intending to hold on to the asset?
8. How does the site project asset class mix affect the finance mix of the model?
9. For Equity – who is providing equity and what is the equity share (of shareholders and partners) and what are expected returns? Are these dependent on certain milestones?
10. For Debt – Who are the contributors to the provision of debt for the project (institutionally)? What tends to be the terms and conditions of the deal, in length, rates? Is there anything relatively innovative in this debt provision?