Aberdeen Residential Strategy

Work stream 3: Comparable Cities: Policies and Initiatives

savills

Contents

Introduction

1.1. Purpose

This is the third of four work streams to be delivered under the Aberdeen City Living research programme The topic of this report is to analyse city living initiatives that have been adopted in other cities, particularly focusing on the success of the initiatives and any lessons that can be learned.

1.2. Approach

We have engaged with individuals and businesses active in City Living initiatives across the UK, particularly focusing on Edinburgh, Preston and Derby. We choose these cities as a result of the following factors;

- The aim of their initiatives has been to focus on city centre development and therefore they offer good, and relevant, insight in to a range of strategies for promoting and encouraging development;
- There initiatives have taken place in the past ten years, and consequently after the economic downturn and therefore reflect current market conditions rather than those prior to 2007. For example risk adverse access to finance for both developers and purchasers.
- They are of a similar scale to Aberdeen and therefore not large cities with heavy industrial heritage such as Manchester and Glasgow, which have and continue to encounter a different set of challenges.
- Their initiatives have been strategically planned initiatives with accompanying materials and identified, desired outcomes.

We have engaged with key public and private sector stakeholders who are active in City Living initiatives in these three cities in order to get first hand commentary on what has been successful and where the issues continue to exist. Our research has been primary qualitative, involving numerous discussions with key stakeholders from the private and public sectors in each City. It is difficult, given the complexity of cities and market dynamics to secure quantitative data which would allow us to draw significant, meaningful conclusions.

We have outlined the findings of our research and discussions within Section 2 of this report.

Thereafter, we have looked specifically at funding streams and structures that have been adopted by the public and private sectors throughout the UK to help break down barriers and drive development activity.

Finally, we have then provided SMART recommendations for consideration by Aberdeen City Council.

1.3. Next Steps

The final workstream to be completed as part of this instruction will provide a summary of our findings to date, along with a number of recommendations for Aberdeen City Council to consider as they move forward with the masterplan. We will provide a risk profile for these recommendations.

Executive Summary

Every city is different and as a result what works in one city cannot be guaranteed to work in another.

However, our analysis of other cities clearly demonstrates the benefits of a number of initiatives in delivering city centre development and residential populations;

- **Attracting investment through prospectuses and marketing the city**
- **Identifying key sites and supporting them through the development process**
- **Strong leadership to ensure that delivering the strategy is a priority is delivering success for other**

Comparables Cities- Context

Aberdeen is the smallest of the cites compared and it has also not experienced the same level of growth as the others. Edinburgh and Derby's populations have grown by 12% in twenty years, Preston's by 10% and Aberdeen's by 5%. Some of the city's potential growth has likely taken place in Aberdeenshire which has been growing steadily since the 1990s.

Since 2011 Preston and Derby have increased the number of people and number of households in their city centre wards by 2,008 and 1,066 respectively reflecting a 27% and 5% increase. Statistics for Edinburgh suggest that growth has not been significant during this period but they already had a large city centre population, which has been maintained.

Comparables Cities - Policy- Edinburgh

The City of Edinburgh Council have taken an active role in seeking to encourage both residential and commercial development within their city centre through identifying and promoting development opportunities and where necessary taking direct intervention.

Edinburgh is currently benefiting from significant investor and developer appetite with a number of large scale projects underway, many of which have benefited from the Council's change in approach, as well as favourable market sentiment.

Their initiatives have included; identification of key development sites (Edinburgh 12), introducing a single point of contact or project champion for these sites, strong leadership and prioritisation of development from within the council, attracted investment, invested in place making, compulsory purchase, funding and the Edinburgh Homes/ EDI group.

Our analysis shows that some aspects of these initiatives such as the Edinburgh 12 initiative have been very successful and the council are now looking to identify the "next 12". Likewise the use of compulsory purchase and new funding models in order to assist in bringing sites forward. It is understood that the single point of contact did not necessarily have intended outcome but this was a result of resourcing issues within the council.

Comparables Cities - Policy- Preston

Unlike Edinburgh, Preston's strategy has been entirely focused on private sector housing with an underlying desire to deliver more aspirational housing stock to attract postgraduate and young professionals to the market. Similar to Aberdeen, Preston has seen a high volume of 'out of town' development which has been at the detriment of the city centre.

The City Living strategy was launched in April 2017, with the slogan 'The time is right to invest in Preston'. As the initiative has only recently been introduced, it is difficult to fully analyse the success of the initiatives however we have discussed the various strategies with key stakeholders, including private sector developers and key public sector personnel.

Their initiatives have included; promotional prospectus, identification of quarters, identifying land and building for development, designating the city centre a housing zone and have benefitted from strong leadership and prioritisation for development within the Council.

The creation of a modern, well designed prospectus has been well received by the private sector and the designation of a housing zone which has been supported by funding for due diligence from the Homes and Communities Agency has helped a number of local, small developers to bring forward sites. Further strong leadership has helped improve relationships and in some instances section 106s(developer obligations) have been scrapped in order to overcome viability challenges for existing buildings. In contrast the identification of quarters has essentially been a branding initiative and developers did not yet feel like it had had significant impact.

Comparables Cities - Policy- Derby

Derby has much in common with Aberdeen in terms of population, scale and outward migration of commercial and residential development, at the detriment to the city centre. The city centre now suffers from a shortage of Grade A offices and a lack of demand from occupiers which has limited appetite for city living.

Similar to Aberdeen, Derby has also suffered from viability issues with low house prices and rising building costs resulting in limited development in the city centre. A high volume of redundant, vacant upper floor office accommodation which no longer meets occupier requirements with development constrained by viability issues.

Their initiatives have included; Derby City Centre Regeneration project, funding initiatives, attracting inward investment, marketing Derby, preparation of prospectus and encouraging development of redundant offices.

The regeneration team at council formed through the regeneration project have been acknowledged as helping to smooth the development process and have relaxed planning requirements for the development of upper floors. However, we understand that there are still some challenges with sites not coming forward quickly enough. Positively, the council has been identified as being very good at attracting investment alongside identifying and overcoming viability challenges through flexibility on section 106 costs (developers obligations).

The funding available has supported a number of developments in the city centre and the prospectus and marketing materials have been well received and are viewed as a positive means through which to improve communication between the public and private sector.

Comparable Cities – Financial Mechanisms

In addition to the Council's statutory role as planning, housing and roads authority and its statutory powers such as Stopping Up Orders and Compulsory Purchase Orders, there are a number of financial tools and mechanisms available to them. These range from taxes to policies to financial structures some of which are higher or lower risk than others.

We do not have sufficient insight into Council's risk/ return appetite or funding capacity/ constraints to make recommendations. However, it is clear form our research, that there are a wide number of options available for consideration and discussion. Within each option there are ways to identify and mitigate risk to come up with a tailored model that balances risk and return.

What is very encouraging to see (and is likely to resonate with private and public sector partners going forward) is the initiative and bold decisions that have already been taken by the Council to date. With further discussion and engagement with Scottish and National Governments (on perhaps seeking to establish a GAM model for residential development or secure assistance similar to what the Homes And Communities Agency in England is offering) alongside engagement in the Private Sector and the Third Sector, it is believed that further innovation can help the Council to deliver on the wider desire to create a vibrant, living, city centre.

Recommendations

Recommendation 1: Attract investment

Promote the success stories, such as Broadfold Works, in addition to Aberdeen's strong property dynamics to attract developer and investor demand at a local, UK-wide and global level. Create a prospectus, supported by a website and focus on promoting this initiative via a road show to build up momentum. The Council should take a lead role and work with the likes of SCDI, Department of Trade and Industry and Cities Alliance, all of whom are actively seeking inward investment.

The UK market for city regeneration is very competitive with many city regions competing against each other for UK and Global investment. Aberdeen needs to be competitive, flexible and alert to opportunities.

There is a financial risk to the Council as this initiative will involve early investment and resource to prepare literature with no guarantee of a successful outcome. However marketing Aberdeen as a City that is open for business and willing to be flexible to meet investor and developer requirements will assist to drive attention to the positive dynamics of Aberdeen.

Recommendation 2: Identify Key Sites

In order to attract investment, the Council should identify key masterplan projects, such as Queen's Square, that they consider to be of strategic importance to the City and the masterplan. A clear strategy on phasing, timing and release of such sites should be implemented to ensure the market is not flooded and to protect land values. The Council should consider their ability to support developers with planning, viability, land assembly, funding and construction.

The risk profile will be dependent on the depth of intervention the Council take with projects of this scale.

The Council should be careful not to focus only on large scale projects. The nature of Aberdeen City centre is such that small developments play an important role in delivering new supply to the market.

Recommendation 3: Strong Leadership

Our discussions with public and private sector stakeholders involved in the Derby, Preston and Edinburgh initiatives all identified the importance of strong leadership and support for the city living initiative from senior staff and elected members of the Council. Dedicated regeneration teams and staff members within the Council to support the initiative have also been hailed a success. Aberdeen should consider their internal structure and resource to establish if creation of such a team would be possible.

1. Comparable Cities- Context

In this section we focus specifically on other city living initiatives which are at varying stages of implementation across the UK. Our goal has been to engage with individuals and businesses who are active in those cities to get first hand commentary on what initiatives have been successful and where issues still exist. Our research has been primarily qualitative involving numerous discussions with key stakeholders in each city rather than gathering facts and figures.

We have specifically chosen Edinburgh, Derby and Preston as our case studies as they are or have been specifically focused on city centre development and as a result they offer relevant insight into working initiatives.

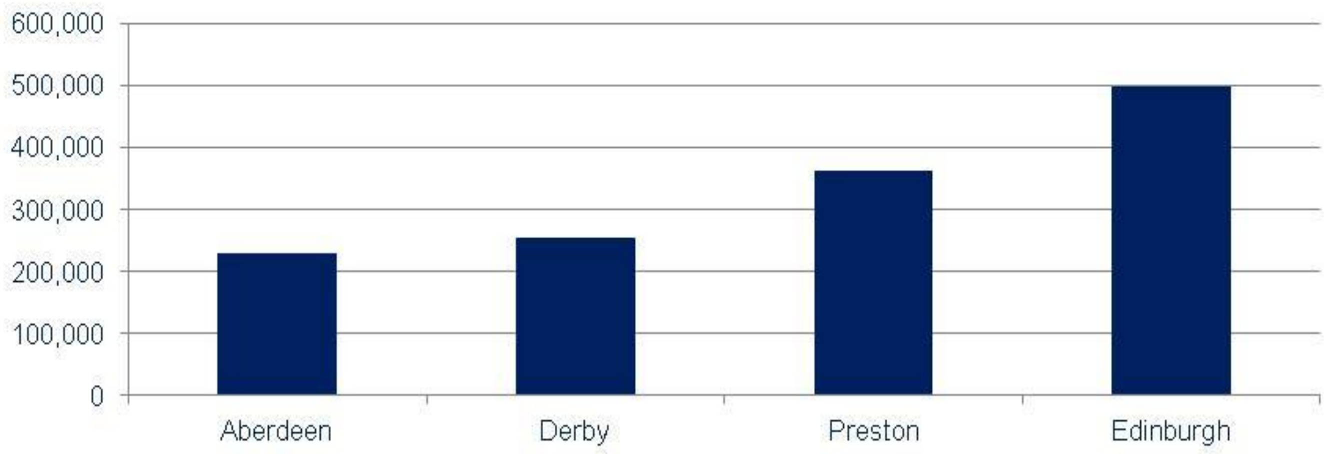
1.1. Demographic and Residential Market City Analysis

In order to provide context for our analysis of the policies adopted by Edinburgh, Derby and Preston we have considered the demographic structure of each city in respect of size, growth and tenure. We will then provide comment on the city centre population and household numbers. We will then compare the residential market in each of the city from transactional and rental perspective.

1.1.1. Size of the population

Using the most recent figures available, which are based on a blend between census, household projections and government statistics we can see from figure 1 that Aberdeen is the smallest city of all those considered, that said Derby is not far ahead. Preston and Edinburgh are notably larger.

Figure 1 – Chart showing the population of each city (local authority area) in 2015

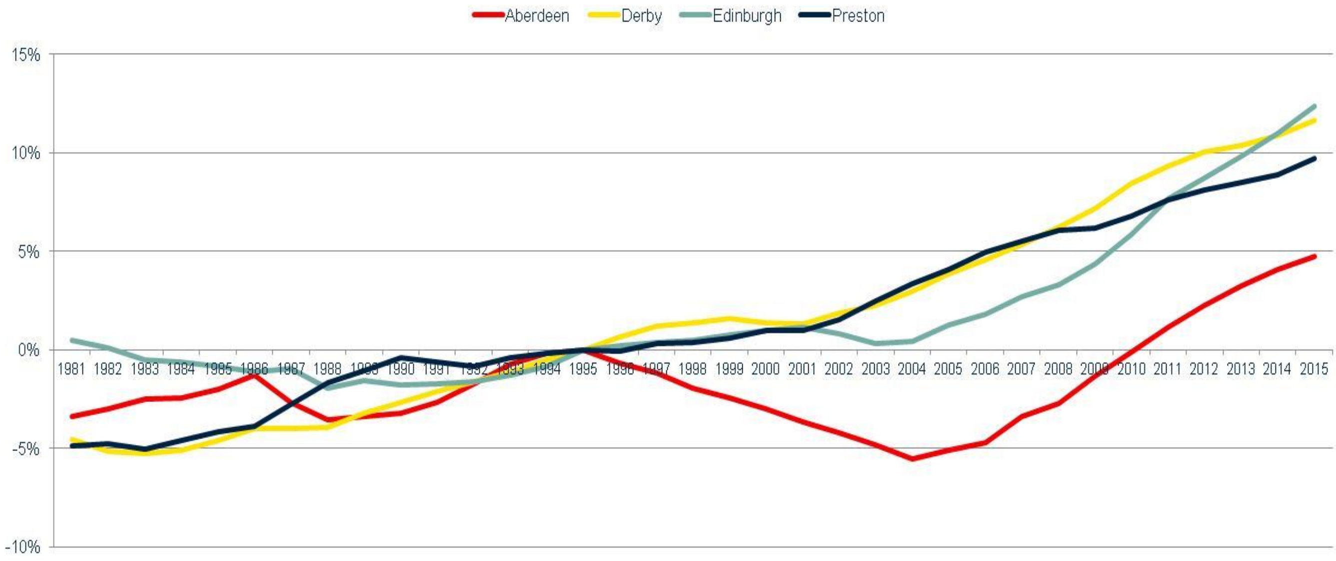


Source: ONS Census

When we consider figure 2, we can see that Aberdeen has not witnessed the same population growth as the other cities. For example Edinburgh and Derby's populations have grown by 12% in twenty years, Preston's by 10% and Aberdeen's by 5%.

There is some debate as to whether Aberdeen's recent growth has actually taken place, due to the economic conditions in the city, and updated statistics are eagerly awaited. Regardless of whether the city has grown between 2013 and 2015, the city is behind its comparables. Some of it's potential growth has likely been absorbed by Aberdeenshire which has been growing steadily since the 1990s and now stands at 261,960.

Figure 2 – chart showing population change 1981 to 2015 (benchmarked to 1995 for 20Y change)

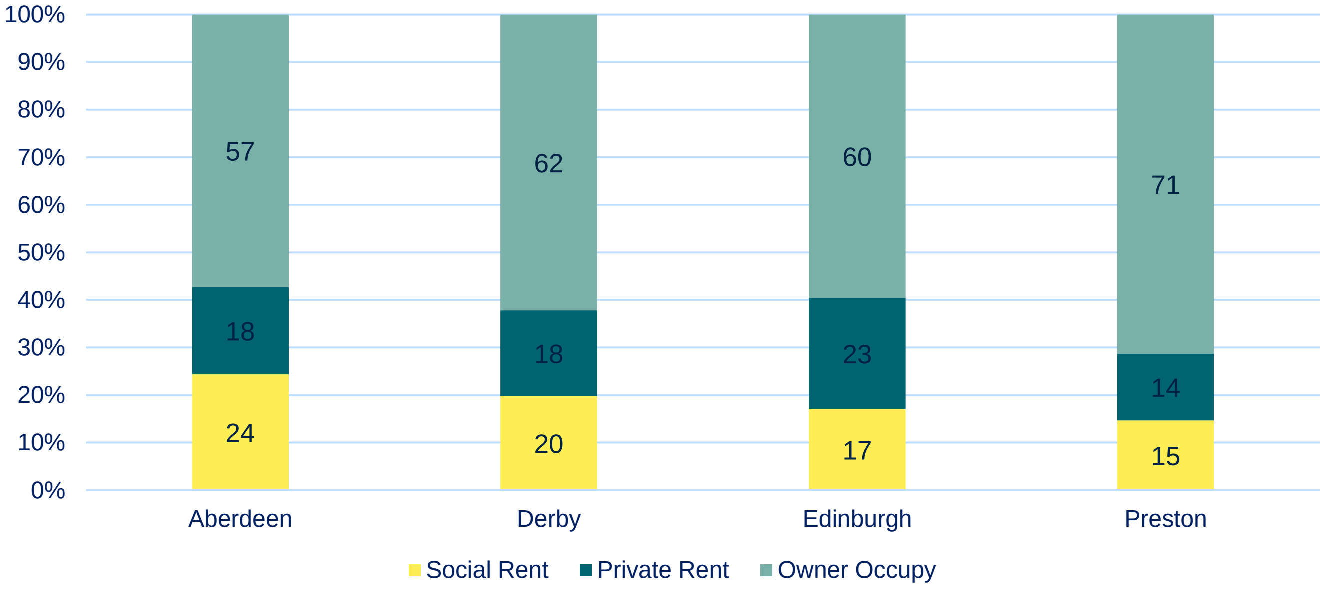


Source: ONS Census/ Savills Research

1.1.2. Tenure

Broadly, each of the cities has a similar tenure structure. Aberdeen's notable difference is the comparatively high share of affordable housing compared to the other cities. Meanwhile Edinburgh has the largest private rental sector, and more recent figures for the city suggest it has grown larger but these figures are not available for all of the local authorities analysed.

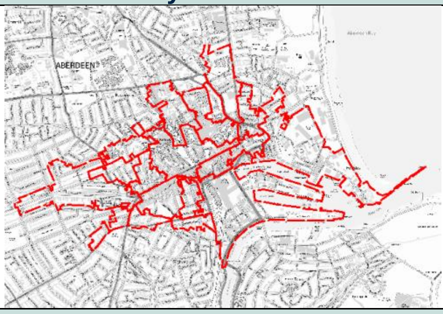
Figure 3 – Chart showing the tenure structure in Aberdeen, Derby, Edinburgh and Preston (Local authorities, 2011)



Source: ONS Census/ Savills Research

1.1.3. City Centre Populations

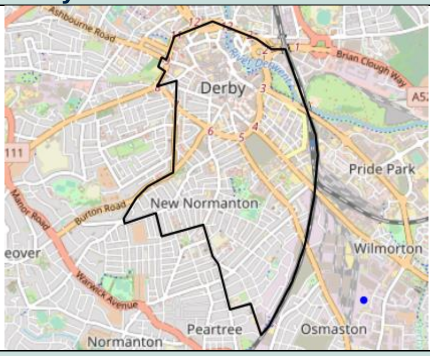
Aberdeen City Centre



Aberdeen's city centre population stood at 14,150 in 2001 and by 2011 had reached 16,526 which equates to a 16% growth. Meanwhile the number of households increased from 7,901 to 8,521, a 7% growth.

Forecast data is not available for this area as it is not a ward and therefore it is difficult to establish how this population has changed since 2011.

Derby



Derby's city centre ward, Arboretum, increased its population from 15,378 in 2001 to 18,590 in 2011. This equates to a 20.1% increase in the population or 3,212 more people.

2015 mid year estimates suggest the population is now 19,656 which is a 5% increase since 2011 and equates to 1,066 more households in four years.

Preston

Preston's town centre ward increased its population from 6,871 in 2001 to 7,380 in 2011. This is a 7% increase or 509 more people. The number of households increased by 900 in this time from 3,023 to 3,902 which suggests that smaller households were formed.

Between 2011 and 2015 the population is estimated to have reached 9,388 which equate to a 27% increase or 2,008 more people. Data on the number of households is not available.

Edinburgh

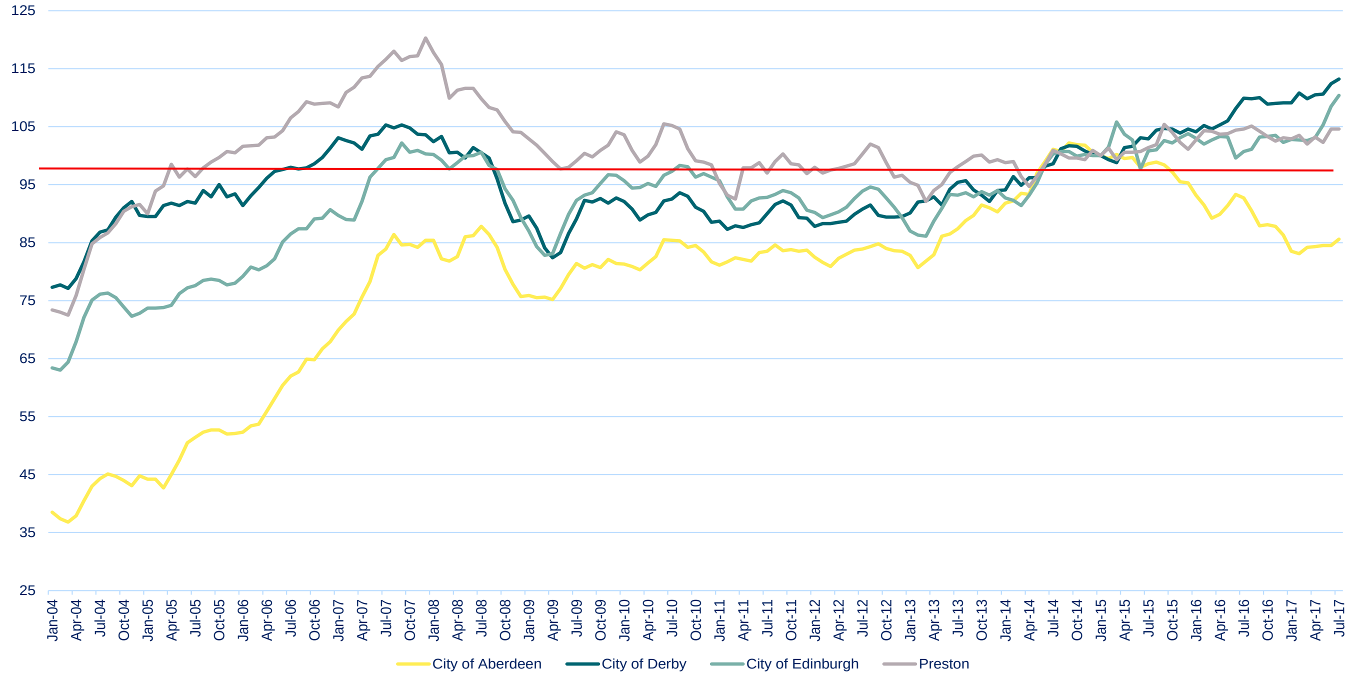
Edinburgh's City Centre Ward, Ward 11, increased its population from 22,340 to 24,150 in 2011. This is an 8% increase or 1,810 more people. The number of households increased from 11,000 to 11,833.

The most recent population counts suggest that this number has been maintained but focus had been beyond this area recently. For example Quartermile is beyond its boundary.

1.1.4. Residential Markets

The chart below benchmarks the residential markets in each of the cities to January 2015. This allows us to asses how they have performed over the past two and a half years alongside the 12 years prior to this. Of all the cities analysed it is clearly apparent that Aberdeen experienced the strongest growth between January 2004 and January 2015. Whilst the fortunes of Aberdeen have changed since January 2015, the other cities have powered ahead demonstrating the strength of their markets.

Figure 4 – Chart showing the residential transaction values (indexed to January 2015)



Source: Registers of Scotland/ Land Registry/ Savills Research

Despite this apparent change in fortunes for Aberdeen City the average transaction value in the year to June 2017 was still 7% higher than it was in 2008. Derby has witnessed the strongest growth at 17%; Preston has experienced 10% and Edinburgh 9%. These figures are for the whole local authority area and therefore do not provide insight into the city centre markets alone.

Table 1 – Table showing average transaction value in the comparable cities

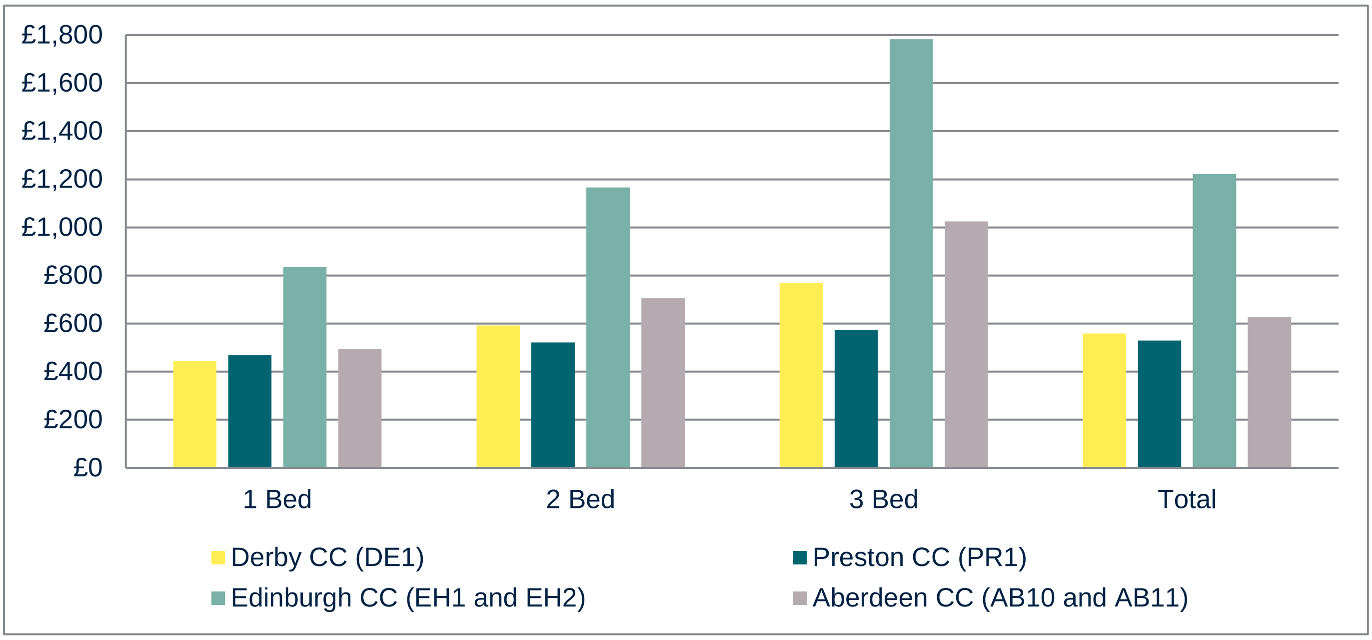
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	12 months to June-17
Aberdeen City	£102,720	£116,801	£138,397	£180,532	£184,035	£173,066	£183,922	£189,314	£191,050	£200,463	£219,901	£219,735	£201,861	£197,605
Derby	£128,941	£136,854	£145,936	£150,589	£142,712	£139,553	£141,670	£136,287	£141,663	£147,381	£153,160	£159,323	£164,914	£167,324
Edinburgh	£169,025	£180,297	£198,192	£222,550	£225,821	£208,795	£227,299	£222,751	£222,000	£222,629	£231,604	£245,695	£242,209	£246,285
Preston	£115,148	£132,907	£142,236	£149,854	£137,845	£142,141	£139,788	£132,584	£139,155	£145,723	£142,342	£150,346	£155,471	£151,386

Source: Registers of Scotland/ Land Registry/ Savills Research

1.1.5. Rental Markets

The rental markets across the centres of each of the cities vary. Edinburgh is by far the most expensive city in which to rent, in its centre, and rents have increased year on year by on average 8%. Meanwhile properties available are down 30% from 274 to 193. Aberdeen has the second most expensive rental market of the comparable cities despite annual falls in rents. Derby and Preston are broadly similar but both areas analysed are much larger and consequently have many more properties available, at 655 and 1,085 respectively.

Figure 5 – Chart showing rents in Derby, Preston, Edinburgh and Aberdeen (2017 h1)



Source: Rightmove/ Savills Research

2. Comparable Cities- Policies

2.1. Edinburgh

The City of Edinburgh Council have taken an active role in seeking to encourage both residential and commercial development within their city centre through identifying and promoting development opportunities and where necessary taking direct intervention. Edinburgh is currently benefiting from significant investor and developer appetite with a number of large scale projects underway, many of which have benefited from the Council's change in approach, as well as favourable market sentiment.

The majority of interventions have been implemented under The Edinburgh 12 initiative which was created to help accelerate the delivery of 12 strategically important gap sites in Edinburgh city centre at a time when the economic downturn and property market slump had resulted in stagnated development. The 12 key sites are identified on the map below.

Figure 1 - The Edinburgh 12 gap sites

1. New Waverley
2. Dewar Place
3. Donaldson's College
4. Fountainbridge
5. The Haymarket Edinburgh
6. India Buildings
7. 8-20 King's Stables Road
8. Quartermile
9. Former Royal High School
10. 3-8 St Andrew Square
11. Edinburgh St James
12. 1 & 7 Shrub Place

Source: InvestinEdinburgh.com

Since 2013, the property market has improved significantly in Edinburgh with a combination of positive market sentiment, greater developer / investor activity and therefore, much improved financial viability and rationale for development. This has undoubtedly assisted the success of the initiatives adopted by the City of Edinburgh Council and the private sector have commended the City of Edinburgh Council for their direct intervention and proactive approach to these sites and consider the initiative to be a success.

Following our interaction with key stakeholders including private sector developers and key public sector personnel, we make the following observations in relation to the ongoing initiatives:

Initiative	Purpose & Progress	Lessons Learned
Identification of key development sites (The Edinburgh 12)	In 2013, The City of Edinburgh Council commissioned a report to identify the most significant gap sites in the city centre that could be delivered within the next 5 years and what steps should be taken to drive deliverability. The report, which was prepared by a trio of property advisors, identified 12 flagship sites which had the potential to deliver, amongst other benefits, 1,590 residential units. Each site was eligible for intensive Council support such as using statutory powers to acquire land, facilitating discussions with public sector bodies, providing advice on historic buildings and forming development working groups.	Market based approach to site selection focusing on sites that were deliverable relatively quickly. Proactive marketing strategy by organising events and preparing supporting literature to increase awareness of the initiative and attract investment. One key developer advised that the Council's help to publicise the area has been paramount to the project's success. The Council also assisted in linking the developer up with other initiatives that were ongoing to create marriage value. The 12 sites are all now active having unlocked significant private sector investment. The initiative acted as a catalyst for identification of additional sites which are now in the pipeline. We understand there are plans to adopt 'The Edinburgh Premium' for the 'Next 12' which would offer developers of these sites augmented services, in return for a fee. This may include reduced determination times for applications and warrants.
Single point of contact or project champion for Edinburgh 12 sites	A Council resource who provides a point of contact for developers, agents and investors involved in the Edinburgh 12 sites. This initiative is intended to streamline the process and accelerate delivery of the projects, making it 'easier to do business'. Recognising that it is important to be welcoming to attract inward investment, particularly given the competitive nature across UK cities and, indeed, globally.	Feedback from the private sector has been mixed. It is felt that whilst there is some merit in the initiative, the level of service should exist for each and every application regardless of scale. In addition, whilst at a senior level there had been positive engagement and a willingness to do business, 'choke points' were still relatively common place at officer level. Possible reasons given for this were that officers were generally over worked and/or sceptical of the initiative. It was noted by a developer of a significant project that the approach from the Council was not necessarily pro-active

	Continual engagement with the private sector through the developers forum platform, created for the Edinburgh 12 sites. The forum involves public officials, consultants, developers and property advisors.	and that the developer still drove and managed the project across the different divisions within the Council. On the other hand one key development director advised that a dedicated planning and regeneration team for their projects has been crucial. The relationship has been with a junior manager and that has worked well. The developer's forum is considered to be a good way to encourage collaboration and sharing of market intelligence and challenges.
Strong leadership and prioritisation of development within the Council	To ensure focus on delivery and that sufficient weight is given to the strategy to promote and accelerate development.	In June 2017, elected members of the City of Edinburgh Council agreed to strategic development as a new addition to the executive committee remit. This allows the Local Development Plan to be considered under the housing economy committee which some believe will streamline the decision making process with more weight given to the economic benefits of development. We would also note that there has been significant public support from Councillors who have stood behind the strategy, actively encouraging investment.
Attracting investment	There is a dedicated investor support team within the Council whose remit is to support businesses, property investors and property developers. The team have created an Edinburgh Investor support pack which essentially acts as a sales tool to encourage inward investment. This is supported by a dedicated website, investinedinburgh.com.	We would encourage Aberdeen to review both the website and the support pack (brochure) which are considered to be effective branding tools.
Investment in place making	To support private sector investment and improve the public realm. Collaboration between the Council and the developer behind 'New Waverley', one of the 12 identified sites, resulted in a fund of £200,000 being made available for physical improvements to the site and surrounding area. The 'New Waverley Community Fund' is made up of £100,000 from previous Section 69 contributions and £100,000 funding from the developer and is governed by the City Centre Neighbourhood Partnership.	The Council managed to successfully utilise funds held on account from previous development and leverage this to secure a modest, but meaningful, contribution from the developer. The developer advised that this worked well. The Council and developer have no control over how the money is utilised as it is controlled by the NWCF and so the real benefit is to the wider community.

Compulsory Purchase	The City of Edinburgh Council are comfortable with the principal of using their statutory powers to facilitate development of The Edinburgh 12 sites. Indeed, we understand that the Council raised a CPO for St James Place; however the threat of a CPO resulted in a settlement being made without having to enforce it.	The developer of St James Place had undertaken formally to cover the cost of compensation claims, associated fees and expenses associated with the implementation of a Compulsory Purchase Order before the Council exercised their statutory powers. A Minute of Agreement was drawn up to ensure that the Council did not legally commit to any acquisitions until the estimated compensation figures were agreed with the Developer and the Council were either in funds, or provided with a bond to cover the costs. This significantly reduced the Council's financial exposure to the project. The Council are comfortable with the principal of using their statutory powers moving forward to take a more active role in facilitating development.
Funding	City of Edinburgh Council has been taking a proactive approach when it comes to funding and has worked collaboratively with the Scottish Government / Scottish Futures Trust in developing new models. Indeed, they have adopted the Growth Accelerator Model (GAM) specifically for the St James Centre. GAM is a partnership between the Scottish Government, The City of Edinburgh Council and the Developer. Council borrowing costs will ultimately be completely offset by new income streams, subject to proposed targets being achieved. In addition, we understand that they are exploring models which are focused exclusively on residential led projects in the City including whether they can ring fence and utilise the initial LBTT payment of each completed property to repay the Council's initial investment to enable infrastructure and whether it would be possible to ring fence Council Tax proceeds as an alternative to the TIF model (particularly where the housing mix or target demographic is likely to be less reliant on public services). This thinking is at an early stage and requires full consultation with the Scottish Government.	Adopting this approach has been key in facilitating development which otherwise may not have happened. The Council have been bold and have been willing to accept the potential risks should the business plan not be realised. Inevitably there would have been a range of factors driving the Council's approach and every Council will have their own unique challenges and appetite for risk taking. It is encouraging to see that the Council are thinking innovatively about funding models which would be tailored towards residential development.
Edinburgh Homes / EDI Group	We understand that The City of Edinburgh Council are currently considering the development of an Edinburgh Homes initiative. Edinburgh Homes would be a fully autonomous developer responsible for delivering affordable, mid-market and mainstream housing.	The Council has a large estates team and is a significant housing and commercial property landlord in its own right. They have been active participants in the development market for a number of years through EDI Group and therefore have a track record in delivery.

	The Council's vision is increasingly moving away from selling public assets to generate capital receipts and towards generating longer term income through investment in housing and commercial property. For example we understand that the Council are currently considering a mixed tenure development model which would involve 30% social rent, 40% mid-market rent and 30% private sale. They intend to develop these themselves.	EDI Group are an arm's length part of Edinburgh City Council who have over the past thirty years built and developed a number of key sites within Edinburgh. We understand that there was often a lack of clarity on the objectives of EDI Group and whether it was responsible for generating dividends or should be focused on regeneration. In addition, EDI Group lacked autonomy often having to secure committee consent to take projects forward. Accordingly, it is anticipated that any new 'Edinburgh Homes' initiative would have more autonomy. However we understand that the exact structure of Edinburgh Homes is still to be determined.

It should be acknowledged that the market fundamentals within Edinburgh are currently more favourable than Aberdeen and therefore the success of the above initiatives should take this into account. In addition, the initiatives focus on large scale development, ignoring small scale projects.

2.2. Preston

Unlike Edinburgh, Preston's strategy has been entirely focused on private sector housing with an underlying desire to deliver more aspirational housing stock to attract postgraduate and young professionals to the market. Similar to Aberdeen, Preston has seen a high volume of 'out of town' development which has been at the detriment of the city centre. In the last 12 months, Preston City Council have acknowledged that they need to be involved to encourage and support development in the city.

The City Living strategy was launched in April 2017, with the slogan 'The time is right to invest in Preston'. As the initiative has only recently been introduced, it is difficult to fully analyse the success of the initiatives however we have discussed the various strategies with key stakeholders, including private sector developers and key public sector personnel, and make the following observations:

Initiative	Purpose	Lessons learned
Promotional prospectus	Preston City Council commissioned a property advisor to prepare a promotional prospectus with the goal of articulating the city centre's living proposition. This was supported by a dedicated website www.prestonguildcity.co.uk The prospectus considers the opportunity, the market fundamentals, the spatial strategy, investments and initiatives that are ongoing and makes the case for investment whilst illustrating how the public sector can help.	The creation of a modern and well designed document has been well received by the private sector and has assisted to promote the availability of the City Deal and Lancashire County Pension Fund. The Council are keen to use case studies to emphasise how the scheme can work. The public and private sector have worked together to create an effective PR strategy relating to specific developments which are either underway or imminent.
Identification of Quarters	The City Living strategy identifies six quarters within the city centre where they are actively seeking to promote residential development. Within each quarter they identified the character of the area, potential opportunities, key priorities and a potential target market(s). The Council has been focusing on mainstream development as a way of catering for a market which is currently neglected in the city centre. However, the Council are very much aware of the need to deliver affordable housing and are actively identifying neighbourhoods where this can be done in tandem with mainstream development. The Council are also looking at areas in which they can deliver family housing and are currently looking at a potential urban village initiative within the Stoneygate quarter.	The identification of 'quarters' has been more of a marketing / branding exercise rather than providing guidance from a planning perspective. This may result in confusion and frustration between the private sector and planning officers. The Council are at the early stage of developing an affordable housing fund where they may consider subsidising affordable elements of a mainstream development by plugging any viability gap, through a cash gap. This initiative is still in the early stages.

Land & Buildings	Preston City Council are committed to setting out the first wave of opportunity sites/buildings and will work with public and private sector partners to create an appropriate pipeline of opportunities. The planners are seeking to be more flexible in design and density. The Council are committed to using their statutory powers to unlock stalled sides, where required. A local developer is currently engaging, speculatively with the local authority on a transformational proposal to deliver 300 homes across 5 separate buildings in the city centre. The developer specifically targeted buildings which are in disrepair as property owners are more willing to have reasonable discussions on price. Office conversion back to residential has been a popular approach.	One party we spoke to expressed some concern that by being overly flexible on design / density the product being delivered was relatively poor and not enhancing the city centre offering. In addition, one example was given of a high density scheme where by the development was sold off plan to overseas investors who were looking to invest in UK property as a means of preserving capital. With this approach there is a risk that the properties will ultimately not translate into more people living in the city centre. We understand that engaging with smaller local / regional developers has been critical for the initiative and resulted in good levels of interest. Also developing key relationships with local professionals, in particular architects who have been very successful in encouraging their clients to invest and develop in the city. One of the challenges has been that the larger developers have been prioritising greenfield development to the north and aren't interested in city centre development.
Housing Zone	The Housing Zone proposition offers support with site purchase, planning and marketing as well as providing access to a range of funding opportunities from the HCA (Homes and Communities Agency), an English only agency.	We have spoken to a key small scale local developer who is embracing the opportunities that this initiative offers. Indeed, the developer is now working on ambitious plans to deliver a number of units across multiple sites in the city centre using this initiative. Preston City Council secured £300,000 of revenue funding from HCA to carry out general due diligence on opportunity sites, promote the initiative and secure a dedicated member of staff. We understand that a 'Housing Zone' project manager will be joining the Council imminently to drive the developments forward. The Housing Zone has underpinned the City Living strategy and the authority has developed a strong working relationship with the HCA. We understand that Preston City Council officials have recently been presenting to the Welsh Assembly on the benefits that the Housing Zone initiative can bring. The Council have indicated that they would be happy to discuss their experience with Aberdeen City Council.
Strong leadership and prioritisation of development within the Council	There has been a lack of development activity within Preston over the last 10 years and the Council have realised the need for intervention in order to change and attract development / investment.	Nigel Roberts, responsible for City Development, and Chris Hayward, Director of Development have been proactive in creating a strong team and promoting delivery of projects. Both have had regular contact with local developers to improve relationships.

	The Council are hoping to improve the antagonistic relationship between the private sector and local officials, by working more collaboratively and adopting a more flexible approach towards developer's obligations. Recognising the viability challenge, the Council has waived Section 106 requirements (developer obligation's) for the conversion of existing, vacant commercial properties to apartments. In addition, the Council are looking to use some of their City Deal funding to help deliver any necessary infrastructure / public services within the city centre. Furthermore, the Council recognises that the additional housing numbers will result in additional Council Tax revenue going forward which will ultimately improve their financial position in the long term.	We understand that through proactive engagement with private sector companies where the Council has an existing relationship, or has collaborated with in the past, they hope to encourage the 'right development'. We understand that there has been a distinct change in attitude from the existing personnel within the Council and stakeholders as a result of the Chief Executive taking an active role in the initiative and showing strong leadership. Viability is extremely challenging in Preston to the point where, relying purely on existing values, it would be difficult to justify development. Waiving Section 106 obligations has been critical in facilitating two key projects in the city centre, including a 17 unit conversion and a 100 unit development. The requirement for public services is instead funded through Community Infrastructure Levy (CIL) a payment which raises money from housing development particularly in edge of town, greenfield development. CIL is not project specific, where as Section 106 is tailored to specific developments meaning that that the Council is able to divert funds where it feels there is the greatest need (i.e. city centre regeneration). The 17 unit conversion is a development of loft style aspirational apartments, the first of its kind in the city, and is consented for the conversion of a derelict warehouse in a Conservation Area. The Council took a light touch to their viability assessment and we understand that no Section 106 obligations are being sought and there is no requirement for affordable housing. We also understand that the developer has managed to secure funding through a heritage grant which further improves viability. One of the main challenges has been vendor expectation on price. The Council have been carrying out diligence with a view to educating property owners on the realisable price of their assets. The Council are also very keen to use their statutory CPO powers to help deliver the supply of new sites that is required to generate the level of activity they are seeking. In addition, there is an underlying expectation that as property values increase over time, the viability gap will narrow and there will be more willing sellers.

It is interesting to note the challenges that exist within Preston in terms of underlying viability and the comparison that can be drawn with Aberdeen city centre. It is also interesting to note the number of success stories emerging through the press following the implementation of a dedicated PR strategy.

Whilst the City Living strategy is relatively immature the Council have been encouraged by the level of interest shown and aim to measure the success of the scheme based on the number of units delivered, the quality of design and they will be retaining their property advisor to look at underlying market fundamental and house price inflation.

2.3. Derby

Derby has much in common with Aberdeen in terms of population, scale and outward migration of commercial and residential development, at the detriment to the city centre. The city centre now suffers from a shortage of Grade A offices and a lack of demand from occupiers which has limited appetite for city living.

Similar to Aberdeen, Derby has also suffered from viability issues with low house prices and rising building costs resulting in limited development in the city centre. A high volume of redundant, vacant upper floor office accommodation which no longer meets occupier requirements with development constrained by viability issues.

A £2bn regeneration scheme, spearheaded by the preparation of Derby Cityscape Masterplan was prepared to provide a clear vision for the city centre and, ultimately, encourage the delivery of over 5,000 new homes, 1.4m Sqft of office space, substantial improvements to leisure and tourist facilities and, the implementation of major mixed use projects. Derby City Living Initiative falls under this scheme which included designating the city centre as a housing zone.

We understand that Derby are targeting the completion of 1900 units by 2030. The City Living initiative was launched in 2016, and in the last year they have achieved almost 1/3rd in the city centre masterplan area, albeit this includes student accommodation.

We have spoken with key stakeholders in both the private and public sectors and have discussed the following initiatives:

Initiative	Purpose	Lessons Learned
Derby City Centre Regeneration	In 2012, Derby introduced the Derby City Centre Regeneration scheme, a £2billion project which involved the creation of Derby City Scape Masterplan 2030 and the creation of the Derby City Living Initiative in 2014. The Council identified twelve emerging projects that are anticipated to start within the next 5 years. These projects included major strategic sites with identified developers, large scale sites with planning consent, key projects with significant regeneration benefits, proposals for a Regeneration Fund and sites of strategic priority for Derby City Council (DCC). The regeneration project also included a fund of £100m for improvement of the public realm such as new and upgraded footbridges, improving connectivity in the city centre and enhancing open spaces. This has been carried out in partnership with key landowners and developers.	DCC have created a regeneration team who are responsible for collaborating with the private sector and the various divisions within the Council. A leading developer in the private sector acknowledged that the team have helped to smooth the process and help address market failure. We understand that there are still issues with sites not coming through quickly enough, particularly those out with the housing zone area. Castleward, the largest of the 12 projects identified for the Derby City Centre Regeneration scheme and City Living Initiative, was a development identified by Derby City Council in 2010. The Council assembled the land for the initial phase and invited bids from national house builders and regeneration development companies. Thereafter, they appointed a property adviser to assist them in appointing the developer, Compendium Living and construction commenced in 2012/2013. We understand that DCC are assembling land for Phase 2, and are considering strengthening their CPO powers in

		order to meet the timetable for delivery. Finally, in order to encourage development of vacant and redundant offices at upper floors (similar to Union Street), the Council have relaxed planning regulations in order to support a Change of Use from Office to residential. However, we are not aware of any projects having been carried out utilising this initiative.
Funding	£6.5million City Living Loan Fund has been made available to support the Derby City Centre Living Initiative and encourage the reuse of vacant and underused properties in the city centre. Funding has also been made available through Homes and Communities Agency Fund and grants through the Housing Infrastructure Fund, (both English only funds) to overcome viability issues.	The applicants for the City Living Loan Fund are subject to specific investment criteria and each development is assessed on its own merit by an independent body which considers the project and the track record of the project applicant. The City Living Initiative is working with developers to promote the actions of the fund. They hosted a launch event, are putting initiative branding on development hoardings, created a specific informative website and are promoting case studies. The success of funding initiatives and use of loan funds is discussed in detail in Section 3 of this report. The HCA has provided £10m of funding towards the Castleward development. The first phase included 164 new homes incorporating flats, terraces and houses, some of which were available for shared ownership and Help to Buy. This phase has now sold out.
Attracting inward investment	Viability has been challenging in Derby as house values are low, build costs are high and the Council have, in the past, been tough on Section 106 costs. Projects have been delayed due to lengthy discussions on viability, particularly where the District Valuer get involved. In some cases, discussions with the DV have taken 12 months. The Council acknowledged that taking an active approach in promoting development would improve investment opportunities and developer appetite and therefore created a 'inward investment' department In addition, the Council designated the city centre as a 'Housing Zone' in order unlock brownfield land and	Our discussion with the developer of Castleward was positive in this regard. They felt the Council had been very flexible on Section 106 costs. The first phase, which was in Council ownership, was purchased based on an open book viability assessment, which resulted in the Council being flexible on Section 106 costs. The Council were willing to listen to viability arguments which resulted in very little off site contributions required. The feedback regarding the 'inward investment' department has been positive, with the private sector acknowledging that they have been very proactive on development management, in particular the planning, regeneration and economics department who now share a Senior Level Director. As a result of the joined up team, the Director has encouraged the team to buy in to the strategy and adopt a

	provide viable sites for housing developments. The Housing Zone designation will help facilitating the delivery and regeneration of the key sites subject to key objectives such as ensuring new development is sustainable and that developments add to the vibrancy of the city centre.	proactive approach. Support from the elected members of the Council was acknowledged as being an important aspect to the success of the initiative. Finally, we understand that the Council have been very successful at promoting Derby nationally including hosting a property show to attract potential investors from across the UK. Our discussion with a key developer in the City suggested the Council had very hands on approach which was paramount to the success of inward investment.
Marketing Derby & Connect Derby	Marketing Derby is a board of public and private stakeholders who are active in promoting Derby in order to attract investment and support developers. The team are active in marking a difference in Derby and the board and are supported by a website, social media and have the support of a number of local organisations and businesses.	Marketing Derby has attracted non-executive board members including private developers, solicitors, Councillors and Director of Regeneration, Property and Housing at Derby City Council and a number of local businesses. It has been acknowledged as a successful initiative in order to improve communication between the public and private sectors.
Preparation of prospectus	In October 2014, Derby City Council released the 'Derby City Living Prospectus' in order to provide literature on the City's key statistics to potential investors.	We understand that the prospectus was well received as it made it clear that the city was 'open for business' and was supported by a property show which attracted national coverage. However, the document was created in 2014 and is now out of date in comparison to, for example, Edinburgh and Preston.
Encouraging development of redundant offices	In order to encourage development of vacant and redundant offices at upper floors (similar to Union Street), the Council have relaxed planning regulations to support a Change of Use from Office to residential.	A high volume of office accommodation in the city centre which was surplus to requirements has been converted to residential. The lack of demand for the existing office stock in the city centre, and the relaxation of planning legislation, has resulted in a significant volume of residential development.

3. Funding Initiatives

In addition to the Council's statutory role as planning, housing and roads authority and its statutory powers such as Stopping Up Orders and Compulsory Purchase Orders, it is proposed that the following tools and mechanisms could be further explored/ utilised to drive delivery (delivery by the public sector, the private sector and indeed the third sector):

Some of the initiatives explore below are only applicable in England – however we feel they provide an interesting context to perhaps facilitate a wider discussion with Government(s).

Fund/ Instrument	Region	Type	Description	Comments
Capital Investment Planning		Council Budgets	Financing budget from local government resources	We are unaware of potential capacity within the Council's existing resources to support any new City Living initiatives.
City Deal	UK	Financial Support (Grant or Loans) and Statutory Powers	Financial support from Government to aid investment and inclusive economic growth.	The Aberdeen Region has secured £826.2m of support over a 10 year period which is focused on 6 key projects (including infrastructure). We are unaware of there is capacity to divert funds towards any City Living Initiative or apply for additional support in the next round of City Bids. We understand that the Scottish Government is not keen for City Deal funding to support private housing development unless a clear case is made that unlocks economic growth (i.e. the need to deliver aspirational homes to attract a work force with spending power). There is a desire to use funding to support social infrastructure and this could help to create a cultural vibrancy in the city centre.
Central Government Support	UK	Grant or Loan	Direct Financial Support	We understand that £254m has been committed to North East infrastructure – which includes £20m for infrastructure funding to unlock infrastructure sites. We are unaware if there is still capacity to utilise these funds.
Bonds	UK	Loan	Local authorities raise funds in the capital markets based on their covenant risk	In Nov 2016, Aberdeen City Council raised £370m to deliver their capital and investment program – the first of any Scottish Local Authority. We note that the capital and investment program includes initiatives such as "the comprehensive City Centre Masterplan, school and housing

				developments, roads construction, digital enhancements and a variety of key projects designed to act as a catalyst for economic growth."
Tax Increment Financing (TIF)	UK (Scotland pilots are now full)	Loan (from public or private sector)	Borrowing based on projected future income generated as a result of early capital investment	Financing requires a projection to be made on the incremental taxes that could be generated over the duration of the business plan period taking into account market feasibility, take up rates of properties, etc. TIF is best suited where underlying market fundamentals are strong and future income is relatively easy to predict. It can also carry high transaction costs and therefore is best suited to large scale projects. The potential credit risk/ repayment risk also needs to be duly considered in the event that future growth in income is not generated down to unforeseen events. The advantages are that a TIF allows Governments to invest without relying on other, perhaps more costly, sources of funding and has relatively limited negative fiscal impact. The designation of the TIF district also needs to be carefully considered to avoid any, for example, double counting of increments. Requires commercial element/ income and so wouldn't be suited to standalone residential development.
Growth Accelerator Model (GAM) (replacing TIF)	Scotland (Scottish Futures Trust)	Loan	Outcome based funding model based on enhanced rateable values and increased occupancy. Suited to commercial property models or place making initiatives (such as wider public realm works)	Currently being utilised in Edinburgh at St James Place and in the Dundee Waterfront project. Underpinned by a business plan and carries risk for the Council. Funds are drawn on a pro rata basis, i.e. If 80% of anticipated income is secured then 80% of funds can be drawn. The initiative is managed by the Scottish Futures Trust who we understand have carried out a presentation to Aberdeen City Council.
Housing Infrastructure Fund	Scotland	Loans to private sector	Loan to help unlock stalled sites by "Pump Priming"	Physical infrastructure to unlock development. Examples at Grandhome in Aberdeen where

		Grant to public sector/ RSL's for affordable		£7.9m of debt was secured. The equivalent scheme in England also facilitates land acquisition costs which we understand is assisting with land assemblies in key regeneration projects.
Scottish Partnership for Regeneration in Urban Centres (SPRUCE)	Scotland	Loan	Funding was announced in 2011 and with a focus on commercial income producing development within the central belt, where there is a strong sustainability agenda	The fund was originally set at £50 million and has subsequently been increased to £75m. Examples of projects funded (by way of loans) include the Edinburgh Haymarket development (£9.6m) and the Queen Street development in Glasgow (£9.6m) which have both been repaid and freeing up capacity for new projects. Mixed use development incorporating residential development would be considered although in all likelihood would need to be weighted towards commercial income producing assets. The funds are typically used for 'Pump Priming' by either the private sector or the public sector. We understand that the fund currently offers better value than the Public Work Loan Board where the cost is weighted to the average rate of 10 year gilts. Loans are typically available for 3-5 years. As well as the infrastructure delivered, all contractors include Community Benefits in Public Procurement clauses in contracts and so provide jobs and training opportunities for local people (to ensure appropriate regeneration outputs are delivered).
UK Treasury Guarantee	UK	Guarantee	Only available to Nationally significant infrastructure projects, where a project is financially credible and is ready to start construction.	This initiative was utilised at Countesswells in Aberdeen where Stewart Milne (through their Special Purpose Vehicle - SPV) secured a Government Guarantee (to cover both capital and interest) for their £80m loan from their lender, the Bank of Scotland. This significantly reduced the risk of the project by essentially using the broad shoulders of the UK's balance sheet and credit rating. It is worth noting that the guarantee does not just

				extend to infrastructure but also to every property constructed by the SPV. This is considered to represent good value for the Treasury whilst also unlocking development. A project would however need to of substantial scale to attract this level of support. It may however be that a similar model could be developed by Aberdeen City Council using their credit rating.
Rental Income Guarantee Support	Scotland	Guarantee	This is to support Build to Rent projects by assisting with securing rent stabilisation	We understand that final details of the scheme are being finalised and expected to be launched later this year. The SFT are also looking at a Mid-Market Rental (MMR) model where rent can be collected based on 120% of the housing allowance levels.
The Homes & Communities Agency	England Only	Loan	Low Cost Loan to private and public sector	Low cost loan can help to reduce the viability gap and unlock development. This has been very effective in England in unlocking a number of projects.
The New Homes Bonus	England Only	Grant	Grant paid to local Councils to incentivise housing growth based on extra Council Tax Revenue raised	Not applicable in Scotland but a mechanism such as this could certainly assist a residentially focused strategy.
Direct Grants	UK	Grant	Reimbursement for allowable expenses	Many tools are available including the: Conservation Area Regeneration Scheme (CARS) Lottery Fund (up to £5million) Heritage funding Scottish Land Fund (for communities) Coastal Communities Fund Can be an effective intervention at a localized level particularly to drive higher quality design and external improvements or facilitate community involvement.
Regeneration Capital	Scotland	Grant	A £25m Regeneration Capital Grant	Targeted towards projects that primarily focus

Grant Fund			Fund for community projects	on areas that suffer from high levels of deprivation and disadvantage; demonstrate clear community involvement; deliver large scale transformational change with strong regeneration outcomes, and that; can encourage additional investment whilst addressing market failure. The 17/18 fund is currently closed and applications are made on an annual basis.
Shortfall Funding		Grant	Gap funding by public sector where the cost of carrying out works exceeds the value	This was used on phase 1 of the Ravenscraig Regeneration Initiative (800 homes) but was withdrawn for phase 2. Carries risk for public sector and funding is ultimately required.
Pension Fund Participation	UK	Direct/ Indirect Investment or Loan (recoverable capital investment basis)	Collaborations the public and private sectors	Increasing common across the UK with examples in Derby, Manchester and Falkirk. The £300m Manchester Fund has been criticized recently for not delivering enough affordable housing. Falkirk Council Pension Fund awarded their fund manager, Hearthstone Investments, £30 million to invest in social and affordable housing in Scotland. We understand that this fund already supports an Aberdeen project and therefor ether is unlikely to appetite to invest additional funds in Aberdeen. In the event that the market viability gap is addressed then this could represent an interesting opportunity for The North East Scotland Pension Fund which is part of the Local Government Pension Scheme and has over £3.8bn of funds under management. Hearthstone Investment have indicated that an indirect property investment fund is relatively straightforward to set up. Indeed, they have recently launched a fund called the Hearthstone Residential Fund Two (a Build To Rent focused fund made up of five English Pension Funds who are seeking to develop a UK portfolio, with an interest in exploring

				options in Scotland.)
Crowdfunding	UK	Loan	Typically a web based platform for capturing funds from the general public	Crowdfunding Aberdeen is already in place and represents an exciting way to capture public engagement in an inclusive way. Likely to be for relatively small scale projects.
Business Improvement Districts (BIDs)	UK	Collective Contribution	Public Private Partnership where property and business owners make a collective contribution and benefit from any enhanced trade/ value that is created.	The BID model could potentially be used as a platform through which to leverage contributions from a local business base towards development costs. Can focus on, for example, public safety or branding and investment promotion. A BID would not help in projects which require an injection of early equity/ investment as the income tends to be longer term in nature. Aberdeen Inspired is an example of a successful BID initiative and was awarded the best European BID 2017 by the Association of German Chambers of Commerce and Industry. This approach can help with place making initiatives at a relatively low cost to the tax payer.
Lease Wraps	-	Structure	The local authority utilises their covenant strength to underpin investment by the private sector. There is often an element of profit rent built in to manage risk.	ACC entered into a lease with Aviva for the Marischal Square development, and will pay a rental from the completion of the development for a 35 year period. The developer is contracted to let the office, restaurant and additional space within the development on behalf of the Council. After the 35 year lease period the Council can choose to buy the development in its entirety (including the land) for £1. The Council is liable for the annual rental and will carry the risk should the hotel and development not realise the income projected. The projected income on a fully let scheme is, however, significantly above the rental payment. The model can be an effective way of utilising the LA covenant to drive development of

				income producing assets (for example Build to Rent models).
Land Readjustment	-	Structure	Land Pool or Assembly	Local authority pools or assembles land parcels, develops a plan and delivers infrastructure. Useful in cases of fragmented land. Landowners secure a proportional share of future net (to reflect betterment/ enhancement) land proceeds. Benefit of engaging and involving residents and landowners as stakeholders and reduces upfront costs of the local authority. But requires a sound legislative framework and strong local institutions. Requires consent of all landowners so less certain than CPO. Also potential for dispute relating to the value of land.
Public Land as Equity to a Joint Venture	-	Structure	Utilise Public Sector land as quasi-equity. In lieu of cash the local authority offers the asset. The private sector invests cash (meaning authority doesn't have to raise funds) – minimal negative fiscal impact	This approach has already been utilized in Aberdeen through the landmark £300m Limited Liability Partnership (LLP) model between Places for People and Aberdeen City Council. Each party has a 50% share in the development partnership which will build, own and manage a range of homes across eight sites in the city, and split an equal share of any development profits.

				The developments will consist of a housing mix of social rent, mid-market rent, shared equity/low cost home ownership and private sale depending on site location and regeneration objectives. There was no requirement for government subsidy or grant funding albeit the success of the project will be influence by market dynamics.
Defer Public Sector land receipt	-	Structure	Payment for the land is postponed to assist with the debt stack. Either payment on trigger (i.e. completion) or increasingly a transfer of an income producing asset on completion to the landowner.	This is an interesting model that is becoming increasingly popular – the concept of local authority or public sector organizations receiving a long term income stream on completion is attractive when revenue is becoming increasingly challenging to secure. The developer can also save up to in the region of 20-30% of their upfront investment requirement. Could the retained assets on collection be utilized by the third sector (who would have their own business plan/ funding streams to enable them to pay an economic rent) to create a cultural identity? ACC have experience of deferred models, for example, the Marischal Square development involved a £1million upfront payment with the balance of £9million paid on completion. Note: can these funds be recycled?
Direct Land Sales with flexible/ tailored structures	-	Structure	Recycle/ rollover funds from market land sales into projects/ initiatives – ring fence funds. Develop innovative structures to create long term value.	Aberdeen City Council have demonstrated an ability to work with the private sector to create innovative structures. For example, in relation to St Nicholas House, tin 2014 the Council entered into an agreement with Muse Developments Limited and AVIVA Investors Realm Commercial Assets LP (Aviva). Monies from the development were set-aside for upgrading works to Provost Skene's House and public realm works within and out with the scheme. In addition there is also a profit share element for ACC.

				Dependent on the Council having realisable and attractive assets in the city centre area.
Sale or Long Lease through a Strategic Negotiated Transaction	-	Structure	One to one negotiations with developers – negotiate directly with large scale, prominent developers.	This type of approach involves the public and private sector working together to negotiate a land disposition deal structure that aligns both parties' interests. The timing of any discussion needs to be carefully considered to ensure transparency.
Special Assessment Districts	-	Tax	Assesses an additional tax on the full value of the property which is paid by property owners within a special district that will benefit from specific public improvements	Tied to existing development rather than anticipated or future development. Good where there is an element of urgency and stakeholders want to get going. More suited where land is held by only a few commercial landowners and market can sustain additional tax (i.e. no market failure).
Betterment levies		Tax	Tax to private sector landowners/ property owners who benefit from public sector investment (land value enhancement)	Generally not a popular tool and land value enhancement is difficult to quantify/ subjective. Still requires an initial investment from the public sector at the early stages.
Density Bonus		Tax	Enables property owners/ developers to increase the density of development (in sq. ft or % terms) in return for making a predetermined cash contribution to a city wide improvement fund	More common in North America. Typically only works in markets with there are strong underlying fundamentals to support an increased density. In the context of Aberdeen it is unlikely to address the viability challenge, at least in the early stages of any regeneration strategy.
Developer Contributions – S75	Scotland	Tax	This is the most typical form of raising funding to offset any impact caused as a result of development – to reduce the economic burden on the local authority/ tax payers	In order for a local authority to rely on contributions as a funding source there needs to be a sufficiently robust and active market place to generate the contributions in the first place and to enable robust forecasting of future income streams (World Bank). In markets which are experiencing failure or a lack of confidence, imposing a levy can have the effect of discouraging private sector investment. In addition the ability for a developer/ investor to pay is heavily influenced by land value which is a highly volatile asset

				class. This is presently considered to be a barrier to new development activity within Aberdeen city centre. Consider alternative mechanisms (i.e. waterfall payments or separate funding streams)
Inclusionary Zoning/ Affordable Housing	Scotland	Tax	Requires developers to incorporate affordable or social housing as part of a market driven development	For the policy to drive new homes they must offset developers losses or even enhance the profitability of the housing project. Accordingly, strong markets with low market risk are better able to shoulder the requirement to deliver affordable housing and visa versa.
Flexible Legislative Environment	-	Policy	Where cities lack legislative authority or fiscal ability to raise funds, it is possible to utilise other tools at their disposal including planning flexibility or more flexible building and roads requirements	More passive than proactive investment of capital but can be powerful to help deliver a vision in a fiscally sensitive manner.

3.1. Conclusion

We do not have sufficient insight into Council's risk/ return appetite or funding capacity/ constraints to make recommendations. However, it is clear form our research, that there are a wide number of options available for consideration and discussion. Within each option there are ways to identify and mitigate risk to come up with a tailored model that balances risk and return.

What is very encouraging to see (and is likely to resonate with private and public sector partners going forward) is the initiative and bold decisions that have already been taken by the Council to date. With further discussion and engagement with Scottish and National Governments (on perhaps seeking to establish a GAM model for residential development or secure assistance similar to what the Homes And Communities Agency in England is offering) alongside engagement in the Private Sector and the Third Sector, it is believed that further innovation can help the Council to deliver on the wider desire to create a vibrant, living, city centre.

4. Recommendations

We have summarised our recommendations from the content of this report below, however our key recommendations are set out in detail in Workstream 4.

Recommendation 1: Attract investment

Promote the success stories, such as Broadfold Works, in addition to Aberdeen’s strong property dynamics to attract developer and investor demand at a local, UK-wide and global level. Create a prospectus, supported by a website and focus on promoting this initiative via a road show to build up momentum. The Council should take a lead role and work with the likes of SCDI, Department of Trade and Industry and Cities Alliance, all of whom are actively seeking inward investment.

The UK market for city regeneration is very competitive with many city regions competing against each other for UK and Global investment. Aberdeen needs to be competitive, flexible and alert to opportunities.

There is a financial risk to the Council as this initiative will involve early investment and resource to prepare literature with no guarantee of a successful outcome. However marketing Aberdeen as a City that is open for business and willing to be flexible to meet investor and developer requirements will assist to drive attention to the positive dynamics of Aberdeen.

Recommendation 2: Identify Key Sites

In order to attract investment, the Council should identify key masterplan projects, such as Queen’s Square, that they consider to be of strategic importance to the City and the masterplan. A clear strategy on phasing, timing and release of such sites should be implemented to ensure the market is not flooded and to protect land values. The Council should consider their ability to support developers with planning, viability, land assembly, funding and construction.

The risk profile will be dependent on the depth of intervention the Council take with projects of this scale.

The Council should be careful not to focus only on large scale projects. The nature of Aberdeen City centre is such that small developments play an important role in delivering new supply to the market.

Recommendation 3: Strong Leadership

Our discussions with public and private sector stakeholders involved in the Derby, Preston and Edinburgh initiatives all identified the importance of strong leadership and support for the city living initiative from senior staff and elected members of the Council. Dedicated regeneration teams and staff members within the Council to support the initiative have also been hailed a success. Aberdeen should consider their internal structure and resource to establish if creation of such a team would be possible.

Important Note

Finally, in accordance with our normal practice, we would state that this report is for general informative purposes only and does not constitute a formal valuation, appraisal or recommendation. It is only for the use of the persons to whom it is addressed and no responsibility can be accepted to any third party for the whole or any part of its contents. It may not be published, reproduced or quoted in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document without prior consent, which will not be unreasonably withheld.

Our findings are based on the assumptions given. As is customary with market studies, our findings should be regarded as valid for a limited period of time and should be subject to examination at regular intervals.

Whilst every effort has been made to ensure that the data contained in it is correct, no responsibility can be taken for omissions or erroneous data provided by a third party or due to information being unavailable or inaccessible during the research period. The estimates and conclusions contained in this report have been conscientiously prepared in the light of our experience in the property market and information that we were able to collect, but their accuracy is in no way guaranteed.