OFFICE DEVELOPMENT AND THE REGIONAL CITY : PROCESS, INTEREST AND ORGANIZATION

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by

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For my Parents

Abstract

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Process, Interest and Organization.

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This study presents an examination of office development in the regional city in the period 1960-1987. The economics and structure of the development industry are analysed and related to an examination of the property markets of Leicester, Nottingham and Northampton. Information was obtained from observation surveys, unpublished material (planning records), questionnaire surveys covering estate agents, development interests and investors in office property and a postal questionnaire to property development companies.

Many office buildings constructed in regional cities are developed by highly centralized development companies. The relationship between this type of company and the space-economy forms a central component of this study. The organizational and structural constraints which restrict property companies' search strategies to specific locations and types of property are identified. A detailed examination is undertaken of the information sources development companies use to identify individual sites. The structure of the site identification process is identified and analysed in the context of the overall structure of the development industry.

Two classifications of development companies are examined and criticized for their failure to consider the role of space. The development process must be considered as a key spatial process since it provides the link between the economy and the land surface. A new classification of developers is formulated which explicitly accounts for differences in the spatial extent of their activities. This classification is used to analyse the development decision making process and a modified version is used in the case studies.

The examination of the structure of relations between the interests involved in the property development process is an important component of this study. Previous research has failed to consider the relationship between the four capitals involved in the development process. A series of development intermediaries are identified which mediate between these capitals and the space-economy. It is argued that the actions of occupiers, property developers, investors, and development intermediaries are influenced, determined and often manipulated by the structure of the existing financial and property markets.

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CHAPTER ONE

Introduction

> If ordinary consumers play a secondary part in the shaping of cities, who is it that plays the primary part ? The primary decision-makers who shape cities are the producers. Who are these producers? (Feagin, 1982, p.40)

Introduction

Urban geographers have been predominantly concerned with the description and explanation of patterns of urban land use and urban spatial structures. These patterns increasingly have been seen to be a product of a number of dynamic processes which are concerned with the reorganization of space. Often, geographical studies of urban areas have produced static explanations of city structure which have not contributed significantly to our understanding of the ways that capitalism reorganizes space. Indeed, Carter in 1982 commented that:

> . . . to a great degree our understanding of the operative usage patterns in the city centre is completely inadequate . . . Careful and detailed study of process is essential. This involves an effective realization of the interests of users of central land, the activities in which they are involved, the links which they require and the resources, both economic and political, which they can deploy. This must be carried out in the context of continuing changes and flux over time. This presents a fascinating if formidable range of influences to be taken into analysis but will bring some understanding of the city centre that much nearer (Carter, 1982, p.235).

Likewise, Bourne, in 1976, argued that:

> Cities are shaped by numerous decisions, yet urban spatial structure and locational decision making are seldom linked (Bourne, 1976, p.51).

If these writers are correct, it is clear that an examination of the decisions and processes that shape urban spatial structure should be central to urban geography.

1.1 Geographical studies of the property development process

It is a frequently stated truism that the price of a piece of property depends upon its location, consequently the processes that produce a particular pattern on the earth's surface must be one of the central themes in geographical research. Nevertheless, geographers have rather neglected the actions of those companies and institutions who structure urban space for profit. To understand what is built and where it is built necessitates an understanding of the economics and structure of the property development industry. Yet it is only very recently that some geographers have come to understand that the property development industry is an important component in the restructuring of space (Bateman, 1985; MacLaran, 1985; Perry, 1986).

Geographical studies of the property development industry have been undertaken in a number of major cities such as London (Barras, 1979a, 1979b, 1984, 1985), Dublin (Malone, 1985, MacLaran, 1985), Edinburgh (MacNamara, 1985) and Sydney (Daly, 1982). General surveys of the property development industry have also been published (Ambrose and Colenut, 1975; Bateman, 1985; Fothergill, Monk & Perry, 1987). A limited amount of work has been undertaken into the provision of industrial floorspace (Perry, 1986; Fothergill, Kitson & Monk,1987; Fothergill, Monk & Perry, 1987). A detailed literature search , however, has failed to reveal a significant body of published work on the property development process at the level of the provincial or regional city. Thus, one of this thesis's primary concerns

is with the agents of land use change at this level of the urban hierarchy. It attempts also to highlight the actions of the property development process as it operates to restructure space in peripheral areas of the United Kingdom's space-economy. The main concern is to examine the links between regional property markets on the one hand, and on the other hand, the agents of land use change which are generally located away from such markets. The central question is to examine the dependence of the property markets of regional city's on decisions that are made on the basis of national and international market conditions. The central questions therefore, to be addressed, are 'who decides what office floorspace is constructed and where it is built ?'

1.2 The demand supply relationship

a) Demand and supply

In the past, geographical studies of industrial and office location have tended to neglect the constraints which the mechanisms of supply impose onto user markets. Instead, the focus of most studies has been on individual self-maximizing behaviour. Rational economic man's locational decisions appear to be made in a climate without constraints imposed by supply mechanisms. Nevertheless, one of the primary tenets of Economics is the principle that supply reacts to alterations in demand. In an ideal situation this response would be elastic, but one of the limitations of the supply of commercial floorspace is its relatively low elasticity. User demand for certain types of commercial floor space may exist in England, but the mechanisms of supply will not cater for this demand if the creation of such space is perceived to be unprofitable in property terms. This gap between the supply of space and user demand clearly has implications for economic growth in the peripheral parts of the United Kingdom's space-economy.

b) Institutional investment

The gap between the demand for, and supply of, commercial floorspace

is apparent in the investment policies of the financial institutions who are amongst the most significant property investors. For example,

> . . . at the start of the nineteen-eighties insurance companies and pension funds not only owned more land, bricks and mortar than any other group apart from owner-occupiers, but were among the most active property developers as well . . . and they owned sixteen billion pounds worth of land and buildings, for 18% of their total investments (Plender, 1982, p.89).

A number of property developers and investors indicated that property investment North of Watford is only acceptable if it is directed into retail space (Interview, Investor-Developer, 6/8/1987). Consequently, under-investment and shortages of certain types of commercial floorspace are features of many of the United Kingdom's provincial cities. For example, the Chief Planner for Leicestershire County Council, has commented that:

> Leicestershire is one of the most successful economies north of the famous Watford Gap. We must encourage the pension funds to look outside the South East (Leicestershire County Council Economic Development Unit, 1987, p.16).

John Stone, the Business Editor of the *Leicester Mercury* has highlighted the shortage of industrial floorspace in Leicester in an article entitled "Vital jobs - but firms can't find the space". In this he indicates that:

> Hundreds of firms with existing job-creation plans could be forced to take their business elsewhere because of a crippling shortage of vacant factory space (Stone, 1987, p.17).

This trend is apparent in many of the United Kingdom's Northern cities. In its 1986 review of the office property market the *Investors Chronicle* noted that:

> In the North . . . increased demand is now evident with much of the older stock . . . being occupied. Coupled with the lack of new development, this trend is likely to lead to a shortage of supply combined with an increase in rental levels (Hunt, 1986, p.26).

The *British Land Corporation*, in its 1985 *Annual Company Report*, demonstrates the perceptions of institutional property investors towards the Midlands and Northern Britain to explain the devaluation, by £12 million, of part of its property investment portfolio:

> There is no doubt that there has been a strong trend towards the polarisation of the market characterised by an almost total lack of institutional demand for the majority of mixed user holdings, industrial and warehouse investments in the Midlands and North of England and commercial leased properties (British Land *Annual Report and Accounts*, 1985, p.5).

This confirms Stone's account of the Leicester property market. Interestingly British Land argues that even though these properties suffer from a lack of investment appeal many of them exhibit a return which is frequently greater than the cost of borrowed capital.

1.3 Property capital and the restructuring of space

The disparity between the demand for commercial property and its supply should be a central theme in any geographical understanding of regional economies, urban structure, and Britain's North/South divide. The built environment and the mechanisms that produce it must be seen as a primary geographical process. As such, the concentration of economic geography at the level of the individual decision maker (firm or individual) raises the risk of ignoring the constraints imposed by the environment in which these are taken. The operation of the commercial property market ultimately constrains the locational decisions of individual companies.

The environment external to a corporate decision making process is as important as internal factors. A company's external environment represents all the external variables that it interrelates with either implicitly or explicitly. For example, a number of features of the property development company's external environment are: the actions of planning departments, the financial markets, the structure of a specific property market, and the actions of other property companies. The property development company must operate within the constraints set by variables which are external to its corporate structure. A tenant's decision making process is also constrained by its external environment. As a corollary, a tenants locational decision is constrained by the number and types of buildings available. Available commercial floorspace is normally constructed to the requirements of a variety of *"property capitals"*.

The term "property capital" is used throughout this thesis in inverted commas. This term was formulated by Francois Lamarche in 1972 (Lamarche,1976). Lamarche argued that:

> . . . a specialized capital exists whose primary role is to plan . .
> . space in order to reduce the indirect costs of capitalist production.
> This capital is called property capital (Lamarche,1976, p.91).

"Property capital's" sole function is to create floorspace to increase the overall efficiency of the capitalist system. This term implies that only one type of homogeneous capital, property capital, is involved in the creation of built-space. This is obviously not the case since property development and investment is undertaken by a variety of different types of institutions and organizations. To amalgamate such a diverse group of institutions and companies under one term such as *"property capital"* is conceptually dangerous, though convenient in writing. The inverted commas remind the reader of the dangers associated with this term.

The types of space created by *"property capital"* are governed solely in

terms of investment criteria, because commercial floorspace is perceived to be an investment medium similar to gilts and equities (see Chapter 4, Section 4.4).The degree of investment risk is considerably reduced by developing buildings which are easy to let and sell at the right rate of profit. The right rate of profit is set in comparison to other investment areas. What fulfils the requirements of *"property capital"* may not completely fulfil the requirements of the user market. For example, when interviewed as part of this study, a number of property developers stated that the specifications imposed by the financial institutions on industrial floorspace produce buildings which are unsuitable for most types of industrial activity. Institutional specifications are designed to produce commercial floorspace which is suitable for most tenants. As such the buildings they produce suit no specific tenant perfectly.

Commercial property investment represents an investment in fixed capital which is a precondition to the production process. Such capital houses the processes of production in return for rental payments. This situation permits a reduction in total fixed capital investment without a corresponding decrease in the necessary preconditions of the production process. Capital which previously would have been fixed within the built environment becomes transformed into working capital. Depending on the conditions of the lease, companies can restructure their floorspace requirements as the conditions of production alter. The constraints imposed on a dynamic company by factors such as building inertia and user obsolescence become less significant. Many property investors will relocate tenants who are experiencing such problems within their existing property portfolio.

1.4 The motivation of the property development industry

A property developer's primary motivation in the production of commercial floorspace is the creation of profit. One property developer interviewed during the course of this study stated that his primary motivation was "greed" (Interview, 21/9/1987). The chairman of Trafalgar House, Nigel Broackes, states in his autobiography that:

> My simple plan for business life was to learn about property, to develop property to create surplus value, and to direct these capital surpluses into other fields that interested me and where they would be useful (Brockes,1979, p.254).

The creation of the greatest development profit, or surplus value, implies that a property development must fulfil the implicit and explicit requirements of the property investment market. The majority of property development and investment companies designate financial institutions who invest in property as *sheep* as a herd instinct seems to be prevalent amongst these institutions **(1)** . Keeping up with the investment returns of other insurance companies and pension funds produces a herd or flock instinct. The *sheep* like to reduce the risk associated with every investment, consequently, institutional specifications reign supreme in the property development industry. If a building does not conform to these specifications, which are, in effect, derived from financial rather then property considerations, then it will be difficult, if not impossible for the property developer to realize development value through the sale of the development to a financial institution. What is built and where it is built is not governed solely by user demand but is strongly influenced by the mechanisms of supply. What is built and where it is built is a product of the interaction between the mechanisms of demand and supply as well as the perceptions of the various types of "*property capital* ". As Smith has written:

> . . . we can expect that urban settlement patterns will continue to be shaped in crucial ways by the current socially irrational

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(1) The term property development company denotes a company whose primary aim is the production of commercial floorspace for sale. A number of development companies also develop property for investment purposes such companies are termed property investment companies. For a detailed analysis of the various types of property development and investment companies see Chapter 6.

> criteria of private gain. The "urbanscape" will continue to emerge as a consequence of a haphazard combination of profit-orientated investment planning by banks, insurance companies, and other large investors (Smith, 1980, p.286) .

Property development is a process that produces massive physical alterations in the built environment of every city. Such changes do not go unnoticed, and often result in public outcries to stop property developers destroying the city's townscape (Anson, 1981; Wates, 1976). For example, in a passionate plea to the House of Commons Anthony Crossland proclaimed that,

> It is time to stop this piecemeal hacking away at our city [London]. It is time to say to the GLC, to Westminster City Council, to Land Securities Investment Trust, to Town and City properties, to the lot of them, "Gentlemen, we've had enough. We, the people of London, now propose to decide for ourselves what sort of city we want to live in (Hansard, 26th June 1972, p.1089).

Nevertheless, this plea must go largely unnoticed if Wilsher and Righter are correct in suggesting that:

> One system of the contradictions in the cities of the rich is the essential paradox that the very desire to control or destroy the property speculator in the name of the public good could, in the developed economy, jeopardise those vast savings funds which, through banks and insurance companies, have been invested in property . . . The heart of the paradox is that the very forces which prevent a middle- class citizen from buying his house in the cities of Western Europe . . . are those on which his security depends (Wilsher and Righter, 1975, p.109).

The built environment of the city is thus *developed by capital for capital.* Any interference with the investment policies of the financial institutions may put private social welfare provision in jeopardy. This point is emphasized by *Grand Metropolitan's* property fund manager when he argued that:

> We like to think we have a social conscience. But our major problem is how to express it because of our primary responsibility to pensioners. It's no good investing their money in socially attractive projects which are not to their specific benefit - that is to say profitable (Westwell & Johnston, 1986b, p.1062).

1.5 An empirical understanding of the property development industry

a) Early work on the land market

The emphasis of research into the locational decision making process of the users of commercial property has not been mirrored by corresponding research into the mechanisms of supply. To understand disparities that exist between the demand for and supply of space implies that studies of the property development industry must be undertaken to redress the balance between geographical understanding of the *dynamic interaction* between the producers and users of commercial floor space.

During the nineteenth century a number of debates centred on the effect that private ownership of land has on the development of capitalism. Writing in 1879, George claimed that he had:

> . . . traced the unequal distribution of wealth which is the curse of modern civilization to the institution of private property in land (George, 1905, p.233).

George's argument is founded on the belief that a private land market restricts

the growth and development of a capitalist economy by channelling profit produced by industry into the hands of unproductive landlords. In the same light, Harrison has argued that certain aspects of the early Industrial Revolution were delayed because of the structure of England's land market (Harrison, 1983, Chapter 4). In 1976, the United Nations recognized the restrictive role that land can play in a capitalist economic system. The report noted that,

> . . . private land ownership . . . may become a major obstacle in the planning and implementation of development schemes" and further that, "land because of its unique nature and the crucial role it plays in human settlements, cannot be treated as an ordinary asset, controlled by individuals and subject to the pressures and inefficiencies of the market (United Nations, 1976, p.61-65).

b) The call for an empirical understanding of the property development process

In 1954 Form suggested that:

> . . . the traditional ecological processes are no longer adequate tools to analyze changes in land use . . .ecological change [should] be studied by first isolating *the important and powerful land-interested groupings* in the city (Form, 1954, p. 323, my emphasis).

Feagin has agreed with this conclusion when arguing that:

> . . . if urban ecologists are to understand the how, when and where of urban land-use change and development, they must begin with a systematic analysis . . . of *the character and operation of powerful land-interested actors* (Feagin, 1982, p.55, my emphasis).

Ellott and McCrone convincingly argue that: "we need much more empirical research" to redress the balance between theory and empirical enquiry and go on to

argue that too much theorizing based on limited empirical enquiry has meant that :

> . . . many important changes in our cities [have taken] place almost unobserved. For example, there have been . . . important changes in the nature of the property markets in Britain, the source of capital and property investment, *the nature of the development companies*, the roles of governments: all these have altered. Since much importance is attached to "property capital" (1) in Marxist writings on the city, it is astonishing that we have to turn so often to journalists rather than sociologists for information on all this. And one could make similar remarks about the lack of sociological research on the building industry (Elliott, McCrone, 1982, p.139, my emphasis).

Feagin concurs with Elliott and McCrone when he emphasizes that:

> . . . a class-oriented theory of urban land use provides significant insight into the internal dynamics of urban land use, development, and change, which traditional ecological and planning theories do not offer . . . I have illustrated this point by cataloguing major groups of capitalist actors which deserve systematic, detailed research on how and where they operate in shaping and reshaping the land uses and built environments of cities. Even the challenging theoretical discussions such as Harvey and Castells *tend to be vague when it comes to identifying the exact role of specific capitalist land-use actors* (Feagin, 1982, p.55, my emphasis).

Similarly, Blowers has noted that:

> Broad generalizations about the role of interests in land and

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(1) They also use this term in inverted commas.

> their relationship to the organization of the state and a capitalist economy are unlikely to provide insights into the process of urban development. Such insights must be sought by the use of detailed empirical evidence gathered at the local level (Blowers, 1980, p.120).

It is now possible from this introductory discussion and summary of writing by various authors to state the primary aim of this thesis. *It is to investigate the types of interests involved in the regional property markets in the United Kingdom. It is hoped that in doing this an understanding of the ways the property development process operates over and through absolute and relative space will be achieved.*

1.6 Limitations of a geographical analysis of the property development process

The complex and dynamic nature of the property development process implies that any understanding of its operation is constrained by : *the logical impossibility of providing a complex description in verbal form* (Paterson, 1974, p.5). The various components of the property development industry, because of the inherent linear nature of language, must be examined separately. A complete understanding of the operation of the property development process, however, implies that ultimately it must be viewed holistically. H.C.Darby in his 1962 presidential address to the Institute of British Geographers, entitled '*The Problem of Geographical Description*', pondered on:

> . . . the inherent difficulty of conveying a visual impression in a sequence of words. This is one of the disadvantages of the writer as compared with the painter. We can look at a picture as a whole, and it is as a whole that it leaves an impression upon us; we can, however, read only line by line (Darby, 1962, p.1-2).

This problem occurs here, for any detailed analysis of the working of the property development industry must concentrate on a specific element of that

process, yet it must be related to the operation of the complete system. One way in which this problem can partially be resolved lies with the use of conceptual models. Such models serve two functions. First, they present a picture which highlights the overall structure of relations between the various elements which compose the property development process. Secondly, they help to minimize description and highlight explanation and generalization.

This thesis concentrates on the role of the property developer and site identification in the overall property development process. Consequently, areas such as the construction process did not form a significant part of the overall research programme. Nevertheless, these parts of the overall process influence the actions of individual property development companies. These variables represent parts of the property development process which are not examined in this thesis and yet they may effect the operations of the total process. In sum, a complex multidimensional process can never be completely understood, as a corollary a study of such processes must raise more questions than it hopes to answer.

The international nature of the property development industry implies that it is impossible to completely disassociate a specific city or country from the influences of other property markets. Because a city's property market is not a closed system, particular aspects of the market will be derived from processes which are based either in other parts of the country or are a product of the international property market. The development of built-space in any locality as such cannot be seen as existing in isolation from other property markets (1). It is important that geographers are aware of these external factors and the influence they can have

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(1) The property development industry, like all industries, is engaged in the production of a commodity which is termed *built-space*. This commodity is created by the articulation of land, capital and raw materials via a capitalist mode of production. The resultant commodity represents a spatially immobile fixed capital investment.

on the supply of commercial floorspace in any part of the United Kingdom.

In the same manner, the environment external to a property development company is equally as important in its effects on that company's decision making process as its internal organization. Consequently, any provincial city's property market cannot be examined in isolation from the United Kingdom's property market. Furthermore the United Kingdom's property market, if taken as a whole, effects and is effected by the financial markets of other countries.

1.7 Social relations and the property development process

The relationships and interrelationships between the various component elements of the property development process have to be conceptualized within a dynamic framework. The inference that must be made is that the nature of these relationships, but not the overall structure of relationships, will vary over time. The fundamental aim of any study of the property development industry must be an understanding of this structure. Geographer's must understand how the various elements of the industry react with each other, culminating in the creation of a commodity, built-space. The focus must be on:

> . . . social relations, on the interaction between individuals and groups, on power and on meaning (Paris, 1974, p.7).

As has been noted previously, numerous problems are associated with such a holistic approach. These limitations should not be too restrictive as long as any study of particular aspects of the property development process is located within an overall conceptual framework. Such a framework is developed in Chapter 2, Section 5 and in Chapter 4, Section 9.

1.8 Time and the creation of the built environment

One consequence derived from the complexity of the property development

process relates to its dynamic and flexible nature. Each property development is a product of a unique combination of a variety of landed and property interests. At a fundamental level, each development's location is unique. The problems associated with such a situation are compounded once the element of time is introduced into the analysis. In the property development world, as Chapter 4 demonstrates, timing is the key to profitability and success. Over a period of time the property development process exhibits a cyclical pattern. This pattern affects the supply of space available in any specific city's property market at any point in time. The dynamic nature of the property development process and the subsequent research problems are illustrated in a letter sent by one of the Directors of *Lynton Property Holdings plc* in response to the postal questionnaire which formed part of this study. The letter argues that :

> . . . I have attempted as far as possible to respond to all the points in your questionnaire. I would comment that I have found it quite difficult to answer some of these as it is impossible to be rigid in response when the market itself has to be flexible to succeed.
>
> The type of development in which we are involved at present may not be so popular in five years time, and timing is of vital importance to the success of any property company (Personal communication, 28/9/1987).

The structure of this thesis is based on a series of models which have been developed from interviews with individuals and companies involved in the property development process. The focus of analysis is on the mechanisms which create built-space. The complex and dynamic nature of the property development industry implies that any explanation of its operation must account for the fourth dimension of geographical analysis, time (Whittlesey, 1945, p.24-36). Every city's property market is at a distinct stage in its property development cycle; different

types of property market co-exist within the same city and country. By the examination of such distinct property markets the significance of the element of time in the property development process will be clarified. Nevertheless, an obvious question is "how representative the cases chosen are" (Blowers, 1980, p.120). This problem is irrelevant to Eckstein:

> Case studies never prove anything their purpose is to illustrate generalisations which are established otherwise, or to direct attention towards such generalizations (Eckstein, 1960, p.15).

This thesis is concerned with a number of features of the property development process. The initial focus is on general processes which are applicable to all property developers. To achieve an insight into general features of the property development industry necessitates that it is examined in an essentially abstract manner. The level of abstraction is, of necessity, lapsed during the analysis of specific case studies.

1.9 Thesis Outline

This section presents an outline of the arguments presented in this thesis.

Chapter 2 analyses the relevant literature pertaining to the property development process. It highlights the conventional ways in which urban structure has been examined by geographers. A critique of office location studies and neoclassical land-rent theory is undertaken followed by an appraisal of the urban managerialist perspective. An analysis of the rent theories of Marx and Ricardo provides the background for an analysis of the capitals involved in the property development process. This is linked to theories concerned with the structuring of space by capital for capital. Finally a number of questions and hypotheses are listed which suggest the areas of research which this thesis tries to resolve.

Chapter 3 contains an account of the research into the property development

process undertaken in relation to this study. It outlines and evaluates the methodologies, types of data and collection processes used throughout this thesis.

Chapter 4 outlines the way in which the property development industry operates in the United Kingdom. The economics of the property development industry and of individual developments are considered. Particular attention is given to the identification of the property development industry's overall structure. This chapter uses information from other studies and from the interviews which formed part of the research for this thesis

Chapter 5 investigates the relationship between property development companies and the space-economy. The focus at this stage is on individual property companies rather than on the identification of specific development sites. Property companies cannot consider all possible development sites consequently a variety of organizational and structural constraints restrict their search strategies to specific locations and types of property. These constraints are identified and examined using data from personal interviews and from a postal questionnaire.

In Chapter 6 a critique of existing classifications of property development companies is undertaken. A new classification is formulated based on differences in the spatial extent of property development company's activities. This classification is used throughout this thesis.

In Chapter 7, an analysis is given of the relationship between individual property development companies and specific sites. The main focus is on the process of site identification which is incorporated into an overall model of the property development process as it operates over and through space.

Chapter 8 provides a link between the analysis of the processes of property development and site identification discussed in Chapters 4 and 7 and the examination of the property development process in specific cities in the next chapter. The preceding analysis of the site identification process is extended by an

investigation into the development decision making process. This chapter also contains the results of research into the spatial distribution of the property investment portfolios of financial institutions and property companies which provides an introduction to the analysis of the property markets of the three case studies.

In Chapter 9 the property development industry is examined in three regional cities. This chapter also embodies an examination of the role of government policy relating to office development in the East Midlands. A detailed analysis of the structure of Leicester's office property market since 1960 is undertaken.. Examples are drawn from Nottingham and Northampton to illustrate various development relationships. This Chapter's main function is to substantiate a number of the relationships identified in former chapters.

Chapter 10 concludes this thesis by examining the contribution it has made to Geography's understanding of the property development industry as it operates in regional centres. It highlights and summarizes the main findings of this thesis and suggests possible future avenues for research.

CHAPTER TWO

Literature Review

> I'm only just beginning to realize', said George, 'what a wonderful invention a map is. Geography would be incomprehensible without maps. They've reduced a tremendous muddle of facts into something you can read at a glance. Now I suspect economics is fundamentally no more difficult than Geography. Except that it's about things in motion. If only somebody could invent a dynamic map (Snow, 1962, p.67).

Introduction

The modern capitalist city's present form can be attributed to the interplay of capital, social process, the state and space. These element have interacted in a political and social nexus to produce the present form and functioning of the capitalist city. In order for capital to function efficiently it requires a physical environment which is capable of adapting to change. Nevertheless, the forces which are fundamental to the development of the capitalist city have largely been ignored by urban geographers who, in the past, have concentrated on: the structure of cities (the ecological school), the individual (behavioral) and the administrators (managerialism). Research has also concentrated on the locational decisions of individuals and companies. One of the major criticisms of these approaches is their failure to recognize the manner in which property and landed interests can influence the structure of the capitalist city, as well as the locational policies of individual firms. To Bourne:

> Urban Structure and the decision processes underlying that structure cannot be logically separated (Bourne, 1976, p.531).

The examination of the locational policies of individual firms or local managers may provide insight into urban processes at a micro-level, however :

> Detailed studies of microlevel decision-making often are carried out with little or no relation to ongoing changes in the broader urban system, or contextual environment in which these decisions are made (Bourne, 1976, p.532).

What is required is an understanding that society operates at a variety of scales or levels. Many different types and scales of process have operated and still operate to produce the built fabric of the urban arena;

> The important implication is that macro and micro levels of geographical enquiry must not be divorced if our research is to be analytically productive and policy relevant. If we artificially isolate these levels *there is a danger that we will identify, with apparent precision but undue confidence, some of the obvious moves of the players in the urban development process but miss the essence of the larger game* (Bourne, 1976, p.547, my emphasis).

This chapter examines a number of approaches which geographers have utilized in the examination of city structure and office location patterns. It is suggested that previous or present schools of thought within the discipline have looked at various levels of societal-cum-economic process. Office locational studies may be viewed as the last level in the analysis of what can be called the office locational process. The primary level may be seen as an attempt to understand the overall structure of the economy and society in which these decisions are made.

2.1 Office Location Studies

a) Supply is as important as demand

Geographic studies of the office as a facet of urban growth can be divided

into those that concentrate on user demand (Daniels, 1975, 1979; Alexander, 1979) and those that concentrate on supply (Barras, 1979a, 1979b; Bateman, 1985). This study is concerned with the mechanisms of supply, however, the spatial distribution of office functions either within or between cities is a product of the interaction between the mechanisms of supply and demand. These mechanisms are mediated by the actions of the state through planning policies or fiscal controls on capital. A building's location is determined by a series of decisions which are taken by individuals or companies who do not always intend to occupy it. Ultimately, the decision to construct a commercial building rests predominantly on financial considerations as most of these buildings are owned as investments by financial institutions such as Pension Funds and Life Assurance Companies. To concentrate research exclusively on the user of office space is to ignore the important role that "property capital" plays in the creation of built-space and ultimately on tenant's locational decisions.

The emphasis on the producers of built-space in this analysis is justifiable given that most office space is constructed by property developers and owned by a variety of financial capitals. User demand interacts with the producers of built-space in that demand determines the levels of profitability of office developments. Financial profitability in the form of increasing rental values in a city is a direct result of pressure from the user market.

b) The demand for office space

This section is concerned with a variety of studies of office location processes which were undertaken in the late nineteen-sixties and nineteen-seventies. Such research was novel in that geographers had previously ignored the service sector of the economy, preferring to concentrate on industrial location theory. It must be noted that the increasing importance of the service sector in terms of employment was a comparatively new phenomenon. These studies were prompted by:

> ... the introduction of central government initiatives in the early 1960s and the establishment of the Location of Offices Bureau

> (which) seemed to provide the right encouragement for more specific work (Daniels & Holly, 1983, p.1294).

Research prompted by the *Location of Offices Bureau* (L.O.B) objective was:

> . . . to devise ways of manipulating location behaviour in the interests both of urban and of regional policy objectives (Daniels and Holly, 1983, p.1295) **(1)**.

Academic research undertaken on office location has relied, "heavily upon an empirical rather than a theoretical base" (Daniels, 1979, p.1). Much of this work has concentrated on the mapping of office functions and the network of communications that exists between them (Alexander, 1979, Chapter 2). More recently organizational structure has been examined to ascertain its influence on the distribution of office functions as well as the effects of the incorporation of new technology into the office on employment and locational patterns .

Daniels has noted that a distinction should be made between those studies which: "concentrate on the location behaviour of individual offices and the decision makers within them" and the "equilibrium approach" to office location (Daniels, 1979, p.1-8; Daniels & Holly, 1983, p.1295). The 'equilibrium approach' to office location is similar to that of industrial location theory. This approach assumes that office establishments have a set of resource inputs which constrain their location.. Goddard agrees with Daniels and Holly when arguing that;

> In demonstrating the effect of location on office communications patterns research on office decentralization policy has added to a developing body of theory on the location of non-manufacturing activities to which flows of information other than materials are central (Goddard, 1975, p.2).

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(1) The Location of Offices Bureau was established in 1963 to encourage the decentralization of offices from London.

This statement indicates how closely connected office location research is to industrial location theory.

During the nineteen-fifties work by geographers into the structure of the Central Business Districts of American cities noted that offices seem to benefit from association with one another (Murphy & Vance, 1954; 1955). However, this observation had been made by Haig as early as 1926. The work of Murphy and Vance prompted a series of largely descriptive studies to be undertaken, for example by Scott (1959) on Australian cities, Morgan (1961) on London and Davies (1965) on Capetown. These studies emphasized the clustering tendencies of functional groups of offices within the city centre. No attempt was made to explain the mechanisms and processes which produced these patterns. Morgan's work on the West End of London concluded that functions associated with Government tended to cluster while others such as accounting were dispersed over the West End. He suggested that this clustering was a result of functional linkages between these offices (Morgan, 1961, p.207-210).

Goddard's work on London elaborated the techniques used to identify functional areas in cities. Previously, research was constrained with regard to the numbers of variables which could be used in any analysis (Goddard, 1968). With the development of multivariate analysis the number of variables examined could be substantially increased. Goddard identified 86 specific types of office activity which by multivariate analysis clustered into nine functional groups (Goddard, 1968, p.71). In his analysis he highlighted the problems associated with the classification of office functions. To Goddard the work of Morgan and Davies was descriptive and 'essentially univariate' (Goddard, 1969, p.71). While the work of Haig (1926) and Morgan (1961) had indicated that clustering was an indication of functional links, Goddard argued that this was not enough to prove the existence of such links. He stated that :

> To distinguish between these influences on the location of offices in the city centre, further research must concentrate on a spatial network of functional interdependencies that connect

establishments (Goddard, 1971, p.84).

Office location and the network of linkages that exist between office functions have been examined by Goddard (1971, 1973), Davey (1972), Bannon (1973) and others in an attempt to disentangle the network of relationships that exists between various office functions. Goddard notes that the interrelationships between office functions can be divided into three distinct types. First, functional interdependencies (contact between office sectors); secondly, spatial structure (contact between office employees in a particular sector within the same or adjacent spatial units) and thirdly physical movement of individuals and documents between offices (Goddard, 1975). Most researchers would agree that there are significant psychological advantages in face-to-face contacts for most business and office based transactions. Dordick argues that:

> . . . information work is highly transaction based and people like to talk to people, to work with people and to 'press the flesh'. Executives are willing to pay premium space prices for this access to interpersonal or face to face communications (Dordick, 1986, p.9).

It is debatable if face-to-face contacts are as significant as investigative studies on office location have made them out to be. Goddard has shown that the number of face-to-face contacts that employees make per week decreases rapidly as one moves down the hierarchy of office workers (Goddard, 1973). This is not surprising, but it is significant, given the existing concentration of space in the central areas of cities such as London. The low level of face-to-face contact required for certain categories of office staff has enabled the technical functions of a number of firms to be relocated outside of London **(1)**. This relocation has been limited to comparatively short distances from London such as

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(1) Hogg Robinson Plc dispersed its technical/secretarial side of its organization to Leicester in 1968 but retained its headquarters in London. Control of the organization is still based in London.

Croydon. A study by L.O.B in 1971 noted that relocation from London enabled the lower levels of the workforce to be recruited locally at a lower salary level. This did not, however, alter managerial salary levels (Child, 1971, p.96).

Lewis (1979) has suggested that the importance of interpersonal relationships is relative to the type of functions that are undertaken in an office. To Lewis, three types of office exist. First, the restricted office, which requires very little contact with individuals outside the office, secondly, client offices where individuals outside the office attend as clients and, thirdly, counter offices where the public attends to business over the counter (Lewis, 1979, p.124-130). Offices which require a significant over-the-counter trade are by definition locationally constrained. In contrast to the Counter office the Restricted office is theoretically spatially unconstrained. Some offices are more locationally restrained in terms of interpersonal relationships than others. The significant question is how important these relationships are as a locational constraint. Goddard's 1973 study of London concluded that:

> . . . over 80 per cent of all contacts in central London are of a type that could readily be carried on outside the centre (Goddard, 1973, p.212).

This implies that functional linkages between offices may not be an important influence on their location.

Daniels and Holly in a review of current research on office location have suggested that office locational studies are in a "transitional phase" (Daniels & Holly, 1983, p.1293). The future for this research area lies according to these researchers in an : "integrated approach to locational analysis" (Daniels & Holly, 1983, p.1293). The future of the office workforce, they claimed, lies not in centralized headquarters but distributed throughout individual enterprises. They aver that, if this is the case, locational analysis must develop into an integrative approach based on the analysis of office and industrial locational units. This appears to be little more than another form of locational empiricism.

Research must focus on why office activities cluster together. Just because a pattern of clustering is identified is not sufficient substantiation for an emphatic law that offices must cluster. Research must aim at an understanding of the locational requirements of offices rather than assuming that offices must locate in the centre of cities close to each other. The pattern of clustering may be a relic of the nineteenth century which has become ingrained in the office location process or, more probably, it is conditioned by the producers of built-space who will only develop in areas which they perceive to be profitable. Daniels notes that the:

> . . . office location patterns are not simply a product of easily accessible opportunities for information gathering and exchange (communications) but are also determined by complex financial and other vested interest . . . (Daniels, 1979, p.15).

Research on office location has also concentrated on the locational decisions of individual firms. To Alexander these studies are: "no infallible guide, since there is a tendency to rationalize location behaviour after the event" (Alexander, 1979, p.18). Daniels has argued that the varied methodological basis of these studies makes it difficult to compare their findings (Daniels, 1975, p.121). Alexander has brought together the results of five studies which suggest that the following factors influence the locational decision: communications, access to amenities, staff availability, tradition and rental levels (Alexander, 1979). The prestige of the central area may be due to tradition which tends to produce geographical inertia. Consequently, the original advantages of a central location may have disappeared, but companies may still associate their reputation and traditions with the central business district.

A number of economic considerations are important for a company's locational decision; first, the size of the office building; secondly, the rental level and, thirdly, fitting-out costs. One user of office space in Northampton managed to obtain a three year rent-free period to cover the not inconsiderable cost of fitting-out the office space to his requirements. These economic considerations, however, have

been ignored by researchers interested in the office locational decisions of individual firms.

c) The role of the property developer in the office locational decision

Research on office users has failed to consider the role of the property development industry in the locational decision. Most office space is not developed by owner occupiers but by property developers. The property developer, as has already been noted, judges a potential development in terms of its profitability which is a measure of user demand. Location enters the equation only through its influence on rental levels. During a boom in the demand for office space property developers will construct buildings in areas which are not prime office areas. This accounts for some of the larger property developments in Britain's provincial cities, which were constructed when increased competition for land in London forced property developers to search for sites elsewhere. In Northampton, in 1986 *Penwise Properties* began to develop three office buildings in a attempt to create a new office district in the Campbell Square area of the city (see Chapter 9, section 9.8). This was planned during an upturn in Northampton's office market. During times of slump property developers restrict their activities to low-risk areas like the central areas of cities such as London. Conversely they may transfer their development operations to another country.

The role played by the speculative office developer in the supply of office space implies that the user's locational decision is constrained. The office user has to choose from a limited supply of available buildings. As soon as the inter-locational decision has been made the intra-locational decision is based on available office space. The decision is based on little more than a search for existing floorspace which is affordable and which provides the highest specifications for a given cost. The locational decision of the head office of *Barclaycard* is examined to investigate a number of points raised in this section.

d) An Example : Barclaycard's locational decision

Barclaycard was launched as a new credit service, in 1966, by the Barclay group (1). The initial location of the Barclaycard centre was determined by the location of Barclay's Clearing bank which had been built in Northampton in 1960. Cheques, documents and card slips arrive in Northampton, early in the morning, from the Securicor distribution centre in Nottingham. The location of Barclaycard's operation in Northampton was seen to be sensible given the existing location of the group's clearing bank. A warehouse was available which had previously been the factory and offices of Arnold's shoes. This had been acquired by *Star (Greater London) Property Company Ltd.* a short time previously. When Northampton was declared an expanded town in 1968, *City Wall Properties Ltd* decided to acquire a four acre site at Derngate for an office centre of 200,000 square feet (net) (Plate 10, Map 5). Barclaycard decided to lease this accommodation as it was the only large office complex available in the town (This development is considered in greater detail in Chapter 9, section 9.8)). Initially, they used only a small portion of this complex, sub-leasing the rest. By 1981 Barclaycard had grown substantially and because of its ties with the clearing bank and the investments made in existing space, could not easily relocate, however, a neighbouring site had been assembled over a period of ten years by *Centros Properties Ltd,* a private property development company. In 1981 this company constructed 32,000 square feet of speculative office space on this site (Plate 13, Map 5). Centros was aware that Barclaycard would lease this space as soon as it was available, consequently development finance was easily obtained from the *Sun Alliance Life Insurance Group* who had acquired Barclaycard House from City Wall Properties in 1977. In addition, Barclaycard leases 50,000 square feet of space in Belgrave House and in the summer of 1986 had taken a lease on part of the Greyfriars Bus station complex (Both these developments are examined in Chapter 9, section 9.8).

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(1) This information was obtained during interviews with the Estates Manager of Barclaycard (20/8/1986) and the Managing Director of Centros Properties (27/8/1986).

This example demonstrates a number of constraints on the office user's locational decision. The developer of speculative office space not only anticipates future user demand, but also influences the location and type of space which is developed. The built-space of the city is conditioned by the criteria laid down by a variety of financial capitals who have increasingly come to view property as a form of capital similar to that of Gilts and Equities. The user effects this only so far as demand for space increases rental levels.

e) Office locational studies and industrial locational studies

It is interesting to examine why past office locational studies have focused so much on user demand. Office locational studies can be seen to be a branch of locational theory which conceptually paralleled the studies of industrial location. In industrial location theory the classic models such as those of Alfred Weber, tend to leave the locational decision and the production of factory space to the individual firm. The individual company builds and designs the industrial plant for owner occupation; it can only weight the relative importance of labour, markets and raw materials which are transported to the plant when completed. This perspective appears to be implicit in much of the work on office location. Office location research, during the 1970s, was seen as having :

> . . . added to a developing body of theory on the location of non-manufacturing activities to which flows of information other then materials are central (Goddard, 1975, p.2) .

Office locational studies are akin to industrial locational research; each relying on a series of resource networks. The ideal location for the factory or office is seen to be at the equilibrium point between a number of inputs.

To Grey:

> . . . the dominant explanatory referent underlying work by urban Geographers is the notion that people exercise individual

preferences made within a choice framework (Grey, 1975, p.228).

As a consequence, the actions of individual firms, acting in an unconstrained environment, determine the spatial and economic patterns of society. Massey has argued in her critique of industrial location theory that:

> . . . such distillations of common factors may form such a small part of the mechanics of any one situation that the real structure and motive power is lost (Massey, 1974, p.9)

The basic principles of industrial location theory are derived, directly, from neo-classical economics. The major criticism is that both theoretical approaches suffer from: "a concentration on individual industrialist rationality" (Massey, 1974, p.24), and "a myopic focus on individual firms" (Massey, 1985, p.3). What is lacking is an understanding of economic and social structure. Individual firm must be located in an overall structural framework;

> An autonomous industrial location theory cannot be constituted. Spatial development can only be seen as part of the overall development of the economy (Massey, 1974, p.25).

It is suggested here that this perspective apparently derived from industrial location theory may account for the overwhelming concentration of research on the users of built-space rather then on the more important variable in the location of office establishments: the property developers. According to Malone:

> Neoclassical theories of location and landuse present landowners and property interests in a neutral or 'residual' role and thus neoclassical studies have functioned to obscure the determinate role of property interests (Malone, 1986, p.25).

f) Office locational studies - An alternative approach

One possible solution to the limitations of office location studies lies in the perspective of urban managerialism. This approach suggests that individuals are constrained by the actions of a number of urban gatekeepers. This theoretical perspective may provide a framework to analyse the constraints which the suppliers of commercial floorspace impose on the user market. The individual firm's office location decision can only be understood with reference to the underlying structure of the capitalist economic system. The question which must now be considered is whether the perspective of urban managerialism provides a suitable framework for the analysis of the property development process.

2.2 The Managerialist Thesis

During the nineteen-seventies an analytic framework, centred around the allocation and distribution of scarce resources, emerged in urban sociology. This approach developed, initially, in the work of Pahl came to be known as *Urban Managerialism.* It must be emphasized that "Managerialism is not a theory nor even an agreed perspective. It is instead a framework for study" (Williams, 1978, p.236). Urban geography and urban sociology used this analytic framework for a very short period. Nevertheless, it stimulated a whole series of empirical case studies into the actions and roles of a variety of managers of the urban system (Bassett and Short, 1980, p.51). Managerialism grew out of dissatisfaction with previous conceptions of urban structure derived largely from the school of urban ecology and attempts to explain urban structure via the actions of individual decision makers. The essence of this approach is that individual's choices are constrained by the structure of the economic and social system. Individuals cannot exercise individual preferences as they live within a series of social and spatial constraints which ultimately determines who gets what and where. Access to scarce resources is controlled and managed by a series of gatekeepers or managers. Managerialism rests on the assumption that understanding of the unequal distribution of scarce resources must be based on the analysis of the decisions of identifiable managers or gatekeepers who control access to and the distribution of these resources.

The approach was overturned by the political economic perspective highlighted by the work of Harvey who commented that :

> . . . in so far as managers mediate the process of circulation of capital they are worthy of attention. However, if one tries to abstract them as autonomous units, rather than relating them to a general conception of the political economy of urbanization, then the whole point of studying these people is lost (Harvey, 1975, p.226).

Managerialism as a research framework was overtaken by concerns with the overall structure of society. The focus moved away from individual 'autonomous' managers of the urban system to the structure of the economy and society with the development of the Political Economy approach which is concerned with the examination and understanding of capitalism's structural relationships. Consequently, to focus on individuals without placing them within a structural framework gives them a false autonomy which they do not possess.

To conceptualize managers as autonomous units is to relegate analysis to a level which limits understanding of their function. It is wrong to correlate urban structure with the decisions of autonomous individuals or companies locational decision making processes. It is correspondingly a misconception to infer that urban structure can be understood in terms of the actions of autonomous managers. As Grey notes:

> . . . . the process of capitalist economic development and its associated social, political, and ideological relationships is the underlying and missing variable causing the surface of reality which geographers examine (Grey, 1975, p.231).

Managerialism must be viewed in relation to the overall structure of the capitalist economic system. In sum, managers must be conceptualized not as autonomous agents, but as constrained within and by a series of structural social and economic

relationships. If this is possible the relegation of the managerial perspective, according to Williams, to a cul-de-sac of urban social theory may have left behind a valuable contribution to understanding of the workings of the urban arena (Williams, 1982, p.95-105). A number of these themes will be examined and elaborated in Section 2.3.

Before considering the relevance of the managerialist perspective for the study of the property development process it is necessary to briefly highlight the basic tenets of this approach. A number of detailed examinations are available (Pahl, 1975; Norman, 1975; Williams, 1978; Flynn, 1979; Saunders 1979; Bassett and Short, 1980; Williams, 1982; Saunders, 1986). Pahl's publications of the nineteen- seventies highlight the importance of the distribution and allocation process as a feature of the urban system. The key question is who decides how resources are allocated between various potential users. Pahl stated that :

> [He] now sees an important area of study concerned with space as both a cause and also a reflection, both of patterns of allocation of given services and facilities, and also of patterns of access to those same services and facilities (Pahl, 1975, p.9)

Managerialism rests on the assumption that scarce resources are allocated by a variety of different gatekeepers, whose rules, procedures and ideological framework influence the decision making process.

In the initial formulation of the perspective Pahl listed a variety of private and public sector managers who controlled access to scarce resources:

> The crucial urban types are those who control or manipulate scarce resources and facilities such as housing managers, estate agents, local government officers, property developers, representatives of building societies and insurance companies, youth employment officers, social workers, magistrates, counsellors and so on. These occupations and professions should be studied comparatively to discover how far their ideologies are consistent, how far

> they conflict with each other and how far they help to confirm a stratification order in urban situations (Pahl, 1975, p.206).

This list includes a variety of public and private sector occupations highlighting one of the major criticisms levelled at urban managerialism which has been the choice of urban managers. Who decides who are the important decision makers. Pahl was aware of this problem noting that :

> . . . there is a clear danger as Goulder has reminded us; . . . of taking the underdog's perspective and attributing too much power and influence to the middle dogs which may lead to an "uncritical accommodation to the national elite and to the society" (Pahl, 1977, p.51; Quote of Goulder, 1973, chapter 2).

Crucial to this debate, as Norman indicates, is Pahl's identification of relevant managers. To Norman this was achieved descriptively rather then analytically (Norman, 1975). Theoretical constructs did not determine which were the most important managers of the urban system. Saunders considers that:

> . . . research grounded in this perspective could easily degenerate into modern empiricism, studying one set of empirically determined managers after another with no coherent theoretical rational other than some vague recognition that they all appeared to enjoy some degree of control over allocation of some resources (Saunders, 1986, p.124).

Missing from the perspective of Urban Managerialism was a coherent theory which could identify the most important managers of the urban system.

Another major criticism of Managerialism rests on the autonomy of the managers selected for analysis. Pahl stated that: " it is central to my argument that these spatial constraints on the distribution of resources operate to a greater

or lesser degree independently of the economic and political order" (Pahl, 1975, p.247). Pahl did accept that urban managers were themselves constrained, nevertheless, urban managers function in a much more constrained environment then he suggested. A number of studies showed that organizational constraints were as important as ideologies in determining the actions of urban managers. To Saunders:

> What . . . studies tended to suggest . . . was that urban managers in the public sector at least were restricted in their action by the operation of market processes in the private sector (for example, land for public housing had to be purchased at current market prices, finance for such schemes had to be raised from the private capital market at current rates of interest, and so on) (Saunders, 1986, p.124).

The work of Harloe et al (1974) suggested that managers were constrained by a series of organizational constraints, for example, the actions of public housing managers are constrained by the availability of land and finance as well as by the actions of other organizations which effect their areas of operation. Public housing managers must operate within the constraints set by the private sector, land and finance must be purchased at current market levels. Local managers must operate within the policies determined by other government departments. In these terms, the autonomous independent manager ceases to exist. These problems led Pahl to redefine the definition of what constituted an urban manager. The definition was restricted to managers operating at the level of the local state. Pahl also recognized that these local state officials functioned within the constraints of their relationship with the state and the private sector. Managers must no longer be conceived as independent autonomous individuals, but as mediators between the actions of a variety of private and public sector spheres.

The shift in Pahl's perspective represents a link between an overview of the capitalist system and managerialism. Managers were seen to act as mediators between the state and private capital, and between the local and national state. Pahl argued that "local state officers can only have a slight negative influence over the

deployment of private capital" (Pahl, 1975, p.269). Urban managers in the reformulated thesis are depicted as individuals working within the constraints of the current system. This approach has led Pahl to consider the role of the state in capitalist society and the formulation of the concept of the corporatist state.

The concept of the corporatist state implies that urban managers, local state officials, are state agents and, consequently, their actions can never be completely autonomous. Nevertheless, urban managers do have a degree of discretion which they exercise with reference to the rules of administration (Pahl, 1979, p.39). The state's actions increasingly, according to Pahl, reflect a series of bargains made with a variety of organizations and managers. This leads Pahl ultimately into the heart of political economic theory. Consequently, "it is no longer possible to consider "urban problems" and "urban studies" separately from the political economy of the society as a whole" (Pahl, 1975, p.6).

2.3 Managerialism Reconsidered

When the nature of the current economic and social system is considered it is apparent that it operates at a series of different levels and scales. The most obvious example is the contrast between the operation of the local state and the national state. The local state is a sub-system of the national state. Acceptance that societal processes operate at a number of different scales implies that the agents or actors which govern, manage or transform the urban environment, or at a larger scale restructure physical space, also operate at a variety of scales or levels. "Behaviour itself is a result of historical conditions, and position within the total system at any point in time" (Massey, 1974, p.10). The managers of the urban environment should be viewed as operating within a series of ascending or descending Chinese boxes. Each agent or manager is in consequence constrained to a certain extent by the systems that lie either above or below. Managers are only autonomous in relationship to the overall structure of the current economy and society. Scott in *The Urban Land Nexus and the State* (1980) argues that:

> If urban theory is to move beyond . . . eclecticism and

> incoherence . . . it must certainly be underpinned by a conceptual scaffolding . . . In the present study, a concerted effort is made to achieve this goal by adducing a chain of conceptual relations such that, first, the logic of the urban land nexus is derived out of the interdependent logics of private and public decision making in urban space, second, the logics of private and public decision making in urban space are derived out of the logics of civil society and the State, respectively, and, third, the logics of civil society and the State are derived out of the logic of the capitalist mode of production at large (an ultimately durable and indeed, in conceptual terms, irreducible phenomenon) (Scott, 1980, p.6) (1).

Ultimately, capital and the logic of the capitalist social relationship governs the manner in which society operates. The urban environment is primarily managed by capital for capital. The rational of capitalism, the generation and accumulation of surplus value (profit), governs the creation of the physical environment. Managerialism can never be solely restricted to the examination of state sector employees. The particular conception of the role of the state which is used in an academic study will determine how the actions of state managers are perceived. One of the arguments posed to restrict managers to the state sector is the difficulty of isolating the role private sector interests play as mediators and their role as agents of the capitalist economic system (Williams, 1978, p.239). This argument presupposes that state mediators can exist apart from the system of which they are a product. Yet, private sector companies control access to scarce resources on the basis of their perceptions of the current economic system.

It is logical to retreat to Pahl's initial formulation of the concept of urban managerialism. No one could seriously suggest that the resources of the urban arena are ubiquitous. Consequently, a series of institutions or managers exist

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(1) This term refers to the coalescence of land, land use, and location , to Scott land-contingent relationships.

whose functions are to allocate and distribute access to these scarce resources. Whether these managers are public or private interests is of little consequence. What is important is that the managers are theoretically located within an overview of the capitalist economic system and that their actions are seen in terms other than those of the managers themselves. Managers manage, but only with implicit reference to the overall structure of the economy and society.

The perspective of managerialism can be utilized in the analysis of private sector interests whose role is derived by theory rather than empiricism. Initially, private sector interests can be viewed as operating predominantly for the generation of the greatest profit. The term predominantly is an admission that human beings are not totally rational economic men. The creation of built-space on the part of private capital, in the form of a property developer, has two primary motives. First, profit, and, secondly, the creation of capital growth. These motives may be frustrated by a lack of information or understanding of the socio-economic system. Capital may manage the urban environment but it does so via the hands of *'partially economically rational men'.*

A number of public managers attempt to regulate and control the actions of private capital. Land zoning constrains property development while simultaneously highlighting areas of potential development profit. Planning, in its traditional form, passively reacts to the actions of private capital. The state functions over the actions of private capital which explains why the state and the planning process are not highlighted in this study. Developers act within the constraints set by the environment in which they operate. The role of the state and the various theoretical approaches that have been developed are examined in the work of Saunders (1986), Dunleavy and O'Leary (1987) and with specific reference to the property development process in the work of McNamara (1985).

Once it is accepted that the building fabric of the capitalist city serves two functions, first as a use value supplying floorspace for the user market and,

secondly, as an exchange value serving as an investment medium, it is a simple step to suggest that some of the most important urban managers are those involved in the creation of built-space. The integration of an understanding of the operation of the capitalist system within the framework of the managerialist thesis supplies the basis for the identification of key urban managers.

This is only a partial solution for the identification of the key managers of the urban system. Pahl's conception of urban managers, as those involved in the allocation of and access to scarce resources, refers to managers operating at the local level. The actions of these managers are influenced, if not constrained, by the actions and operation of organizations, individuals and companies who are removed from the local arena. The extension of urban managerialism to include other levels of the capitalist system implies that any one manager must be viewed in the context of the complete system. Managers act implicitly with reference to the overall structure of the system. It would be naive to think otherwise. Nevertheless managers do have an independent influence. The system and its various sub-systems set the context within which any one actor or manager functions.

The property development process may be examined in the terms of the urban managerialism debate. Property developers are engaged in the production of a commodity, commercial floorspace, for either the user or investment markets. The important contribution which this reformulation of the managerialist thesis brings to the study of the property development process is that of scale. It is suggested that managers function at a variety of different levels or scales. Each type of property developer will respond to the urban environment in different ways. To understand the role that the property development industry plays in the management of the built environment necessitates that the process be examined with reference to its various scales or levels of operation. Each level of the property development process will manage the creation of the built environment with reference to the overall structure of the property market and economy. This management does not presuppose complete knowledge. Management must always be understood in the terms of an incomplete, imperfect knowledge of the economy and property market.

The important question must be to determine the actions of the various levels of the property development process, from the local to the national and international managers of the built environment. What is important is that, with regard to the various scales or levels of manager :

> . . . those interested in the field should never be far from the practical questions of who gets what, who determines who gets what, what determines who determines what gets what. Monocausal answers will be increasingly unlikely (Williams, 1979, p.88).

In other words what is built and where it is built is governed by the actions and perceptions of a variety of "property capitals". Capital in a variety of forms must be conceptualized as the primary: "architect of spatial structure" (Badcock, 1984, p.7). To understand the nature of these "property capitals" an analysis and critique of rent theory must by undertaken as this will provide the context for an examination of the various capitals involved in the property development process.

2.4 Land Rent Theory

> . . . charging a rent for God-given land is necessary if such scarce land is to be rightly allocated. But notice that we have not proved that the competitive result is 'fair' or 'equitable' : efficiency itself does not necessarily imply justice in distribution (Samuelson, 1973, p.542)

As soon as one rejects the traditional political economic interpretation of rent, derived from an an analysis of agricultural landownership as :

> . . . a certain sum of money, which the landlord draws annually by leasing a certain plot on our planet (Marx, *Capital*, vol.3, p.622).

for the right to use 'the original and indestructible powers of the soil', (Ricardo, 1971, p.91) the path is opened for a fresh analysis of the role that rent has to play in the creation of the modern capitalist townscape. Rent in the traditional analysis

is not treated as the payment made on the basis of organized social production using land, but rather as a natural product, a "Gift of Nature" (Tribe, 1978, p.26). To Ricardo and Marx rent is paid for the use of the land in either a natural or cultivated state and not for the capital which is fixed on or in a particular land surface. Marx states that:

> The interest on capital incorporated in the land and the improvements thus made in it as an instrument of production can constitute a part of the rent paid by the capitalist farmer to the landowner, but it does not constitute the actual ground-rent, which is paid for the use of the land as such - be it in a natural or cultivated state (Marx, *Capital*, vol. 3, p.619).

Capital fixed in or on the land by, for example, the application of fertilizer or buildings, is not central to Marx's view of ground-rent. With reference to the improvements made to the land by tenants, these, to Marx, ultimately become the property of the landowner, who may gain in terms of higher rents (1). "Rent then in this analysis is paid for the right to use a piece of land with some 'interest on fixed capital' which is 'incorporated in the land, which may constitute an addition to ground-rent '(Marx, *Capital*, vol. 3, p.622).

The crux of the matter is the foundation of Marx's theory of rent. Most academics have ignored the relevance of the historic specificity of Marx's and Ricardo's analyses of the rent relation under capitalism. The term relation is the

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(1) One of the central problems with land rent theory is derived from the terminology it employs. Rent is seen as that sum which is paid for the use of land. But commonplace usage normally implies a "periodical payment to owner or landlord for use of land or premises'(O.E.D). Payment for the use of land becomes subsumed with that for the use of the buildings that happen to sit on it. The problem, as Calvert, indicates is that "it is the normal process of the growth of language to use, in labelling concepts, words that have already acquired a range . . . of definable meanings" (Calvert, 1982, p.12). These meanings ultimately effect and transform the meaning of an abstract concept, in this case rent as an economic category of land.

crucial word in this sentence. Rent is, by its very nature, a social relationship. A sum of money, under the capitalist system, is paid by a tenant to the possessor of a right, for the use of a piece of land. As the concept of historical materialism indicates, such social relationships are time-specific and, to a lesser extent, place-specific. Tribe notes the relevance of this in his analyses of rent as an economic category. Rent to Tribe is "variously constituted by distinct configurations of land and labour " (Tribe, 1978, p.25). There can be " no such thing as a 'history' of rent, for this word fluctuates and dissolves before attempts to construe an essential meaning for it" (Tribe, 1978, p.26). Macpherson concurs with Tribe's view of the concept of rent in his analysis of the changing conception of private property; "Property is both an instrument and a concept and that over time the institution and the concept influence each other" (Macpherson, 1981, p.1).

Marx's theory can be seen to be based on a specific rent relation which was important during an early phase in the development of capitalism. Landed property, which was a product of a particular set of social relations, and necessarily historically specific, was based in a system founded on a feudal rent relationship. Feudal rent was based on the particular view of private property :

> . . . as a right to a revenue (whether in the form of services or produce or money), rather then as a right to specific material things as a man's property in a piece of land was generally limited to certain uses of it and was often not freely disposable (Macpherson, 1975, p.110-111).

Rights in land during this period were not absolute. With the change from the feudal relationship to a capitalistic one private property became an individual right which was unconditional of any obligations and in contrast to the feudal period freely transferable (Macpherson, 1975, 1981). Capitalism "first creates for itself the form required by subordinating agriculture to capital" and transforms "feudal landed property into the economic form corresponding to the requirements of this mode of production" (Marx, Capital, vol. 3, p.617). This is highlighted in Hill's analysis of the change from feudal to capitalist rent relations:

> In feudal England land had passed by inheritance from father to son, cultivated all the time in traditional ways for the consumption of one family; it had changed hands comparatively rarely. But now, the law adapting itself to the economic needs of society, land was beginning to become a commodity, bought and sold in a competitive market (Hill, 1976, p.15).

This is the basis of the rent relationship which Marx analyses in volume three of *Capital* and in the second part of *The Theories of Surplus Value.* Ownership of land by financial institutions was unknown. Marx was aware of the historic specific nature of a system of landownership, arguing that "the form of landed property which we shall consider here is a specifically historical one" (Marx, *Capital,* vol.3, p.614). To Ball: " . . . generalisations via theoretical modelling have pushed historical specificity to one side", which has led to "the neglect of the historical specific social relations associated with land rent" (Ball, 1985, p.504). Marx's view of the rent relationship under capitalism is summed up in his analysis of speculative residential housing. Land was let by "the great Landlords" to speculative builders on a 99 year lease. After this period the capital fixed on the land, in the form of buildings, becomes the property of the landowner (Marx, *Capital,* vol. 3, p.621). Marx noted that if "this system is permitted to be in full operation for any considerable period, the whole of the house property in the kingdom will be in the hands of the great landlords, as well as the land" (Marx,*Capital,* vol. 3, p.621).

Massey and Catalano in their analyses of the current state of the British land market highlight the effect of three distinct types of land owner : landed property, industrial property and financial property. Marx's analysis of agricultural rent could come under the heading of industrial property if it is accepted that agriculture is predominantly capitalist (Marx, *Capital,* vol. 3, p.615).

The major problem with the existing theory of rent is that it is based in the agricultural sphere of production. Thus, the categories of differential, absolute and monopoly rent may be useful in the study of the rent relation in agriculture, but

only hamper our understanding of the capitalist urban land and property markets. Economic geography has been plagued by an implicit conception of the land market based on Ricardo's and Marx's analyses of the rent relation under agriculture production. Alonso's bid rent curves assume that the greatest rent will be paid for the most 'fertile' land (1960). Rent will gradually decrease as distance from the central business district increases. In the terminology of Ricardo and Marx the peak land value intersection of the C.B.D. is the most productive land in the city, due to accessibility factors. Land ownership is taken to be passive and inactive; a conception of land which is implicit in Ricardo and Marx. Land use is determined by demand in the belief that the land market functions to allocate land to its most profitable and efficient use. "Land supply" in traditional economic theory "passively reacts to variations in demand" while land rent is determined solely by considerations of demand and not by supply (Ball, 1985, p.506). Neoclassical economic analysis of the urban land market ignores the role supply can play in artificially maintaining a land shortage or accidentally creating an over supply of space. Either case will alter the rent structure of particular types of property in specific towns.

To turn our backs on the existing analysis of land rent derived from the agricultural sphere of production should enable the development of a theory of rent which will explain the operations of the capitalist property development industry. Ball calls for a "reformulation of the theory of urban ground rent", suggesting that such a theory requires:

> . . . the integration of rent with the notion of the structures of building provision (Ball, 1985, p.518).

This is movement away from the conception of rent as a payment for the use of land distinct from any fixed capital incorporated in or on it. Malone concurs with Ball, arguing that :

> . . . an analysis of 'rent' in the urban context might 'by-pass' the question of the relevance of Marx's categories of agricultural ground-rent to the urban context, to draw directly from the

> theoretical base on which these categories of rent are constructed (Malone, 1986, p.22-23).

In other words Marx's implicit logic, which he uses in his analysis of the capitalist system, should be applied directly to the question of urban land and property markets; ignoring the categories of rent which Marx constructed from his analysis of rent in the agricultural sphere of production. Malone suggests that such a theory of urban rent:

> . . . might recognize the varied nature of property assets within the urban context and the manner in which property interests come together to compete for surplus value in relation to specific forms of land-use (Malone, 1986, p.23).

This reformulation of the concept of rent is the starting point for this thesis' analysis of the property development process. The "varied nature" of property assets" and the capitals involved in the creation of built-space are examined in the next section.

2.5 Capitals involved in the provision of built-space

The property development industry, like any other industry, produces a commodity, built-space which represents an enormous investment of fixed capital in the economic and spatial sense. The creation of built-space, like any other commodity, involves the articulation of a variety of capitals. In the development process four distinct types of capital are articulated into working or development capital. These are deployed by four separate actors or agents: a) *commercial capital* (the property development company), b) *financial capital* (funding institutions), (c) *landed capital* (the landowner) and (d) *industrial capital* (the construction company) (Barras, 1979a, 1979b). The articulation of these capitals is depicted in a model which has been produced by Malone and MacLaran (1986) (Figure 2.1). Each type of capital competes for a share of the development profit; their relative shares are determined by their relations within the overall process of production

Table 2.1 Capitals involved in property development

Capital	Agent	Interest
Landed Capital	Landowner	Property Rights
Commercial Capital	Developer	Development Rights
Financial Capital	Funding Institutions	Property Rights
Industrial Capital	Construction Companies	Contractual Rights

Landed Capital +
Commercial Capital +
Financial Capital +
Industrial Capital

= Development Capital

(Barras, 1979a, p.1). These four types of capital with their associated agents, legal and other rights are depicted in Table 2.1.

Ownership of property represents a right established and enforced by a society's legal system. As Tawney notes:

> . . . the practical foundation of social organization has been the doctrine that the particular form of private property which exists at any moment are a thing sacred and inviolable, that anything may properly become the object of property rights, and that, when it does, the title to it is absolute and unconditioned (Tawney, 1961, p.49).

Landownership refers to the possession of property rights or interests. What is termed land or property ownership is, in fact, the ownership of rights proscribed by law relating to a specific piece of property. The land and buildings are incidental to the right. The distinction between the physical object, in this case land and

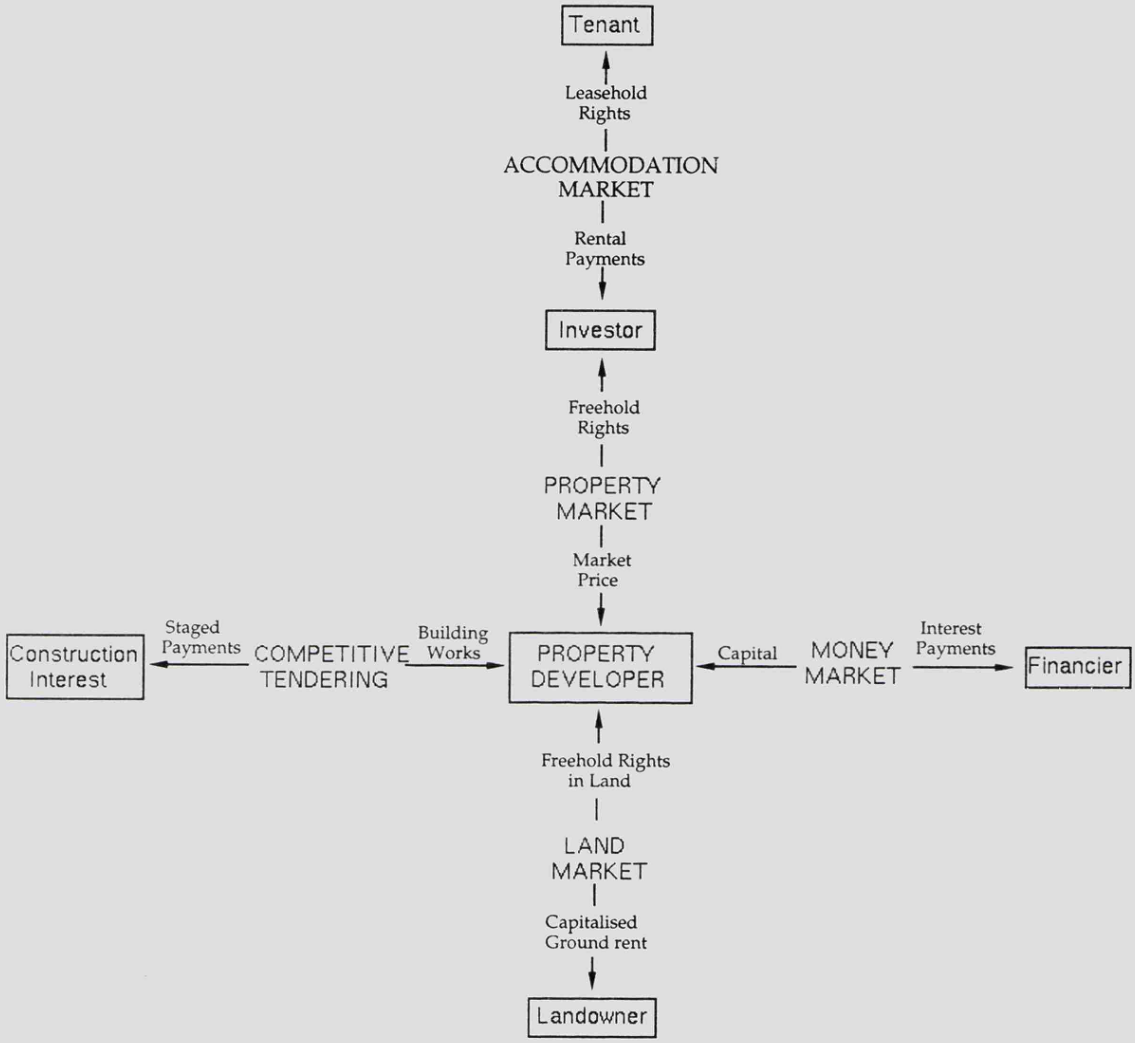

Figure 2.1 Relationships between the major private sector interests involved in commercial property development.

Source : MacLaran, 1986, p.16 ; Malone 1985, p. 21.

buildings, and the legal right to title, is especially important. A variety of individuals or companies may hold different types of right or interest in the same building or piece of land. As Becker indicates:

> . . . the right of use is itself a bundle of rights which mature legal systems separate . . . and it quickly becomes obvious that a person may own things (legally) in a variety of overlapping but quite distinct senses (Becker, 1977, p.18).

These rights range from freehold to a variety of levels of leasehold interests in any one piece of land.

Of the four types of capital articulated in the property development process only two necessarily possess property rights, landed and financial capital. The landowner trades in property rights relating to development rights; the property investor trades in property rights relating to completed tenanted developments. The developer's interest lies in the possession of development rights. The construction interest represents the *'real manufacturer'* of the building. The creation of built-space is the result of a process of production. It is at this stage that labour power enters the property development process. Industrial capital's role in the property development process is proscribed via contractual agreements with the orchestrator of the development process, the property developer.

The property development process consists of *a series of structured networks of relationships* between a variety of capitals. Development profit is passed through this network via the development interest, defined as commercial capital. The developer obtains development finance from the sphere of financial capital. This finance is articulated by the development interest through industrial and landed capital resulting in the production of a completed development. Dear and Scott have argued that it is social and property relations that constitute the urban question;

> A specifically urban question does indeed exist. It is structured around particular and indissoluble geographical and land-contingent

> phenomena that come into existence as capitalist social and property relations are mediated through the dimension of urban space (Dear & Scott, 1981, p.6).

Capitalist social and property relations are the key to the understanding of the urban question and consequently they must be a central feature of any Geographical understanding and analysis of the built environment of the capitalist city.

The most constrained agent in the development process is the direct 'manufacturer' of the building. Industrial capital's profit is prescribed by contractual agreement. The terms of this contract change as the conditions of the property market alter. During periods of overheating **(1)** in the development process, industrial capital is able to regulate tender prices. During periods of slump the contractors profits become increasingly constrained.

It follows from this that the relations between each of the capitals is proscribed by their position within the overall process of production. Their relative positions alters over time especially in relation to the property development cycle which will be discussed in Chapter 4, section 4.6.

2.6 Property Relations and Realism

The structured network of relationships identified in Section 4.2 correspond to the *realist conception of social science* highlighted in the work of Bhaskar (1975, 1979), Allen (1983a, 1983b) and Sayer (1982, 1984, 1985). Bhaskar in *The Possibility of Naturalism* (1979) applies the concept of realism to the social sciences. In the context of the social sciences, a realist philosophy implies a move away from the study of :

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(1) The term overheating describes an extremely active market. It describes a property market which is experiencing a boom in its development cycle.

> . . . the manifest phenomena of social life, as conceptualized in the experience of the social agents concerned, to the essential relations that necessitate them (Bhaskar, 1979, p.32).

Reality is, in consequence, divided into a domain of :

> . . . phenomena and events and a domain of structured relations which possess causal powers which may or may not be realised at the empirical level. The powers reside within the structures, but operate through the activities of agents, if, and only if, they come into contact with certain kinds of contingent relations in specific spatial and/or temporal arrangements (Allen, 1983a, p.27).

The important feature of a realist methodology is the identification of the network of structured relations. This network of social relations, given the right set of factors, will produce, through the medium of a variety of companies/individuals/agencies, an empirical event. This approach implies that the agents or actors are constrained by an existing set of social relationships. This leads Geography away from the mythical and mystical notion that people are free to exercise individual preferences (Gray, 1975, p.228). Sayer argues in *Explanation in Economic Geography* (1982) that:

> . . . agents are more than simply individuals. Even if people act individually, their powers to act socially depend upon the social positions they occupy; that is; their actions presuppose structures of social relations (Sayer, 1982, p.80).

The structured relations which possess causal power, identified by a realist methodology, are articulated by a variety of agents or actors. The structure is, however, separated from the actions of any one individual agent.

In the property development process the network of structured relations has been identified by the work of Barras (1979a, 1979b), MacLaran (1985, 1986) and

Malone (1985a, 1985b). These capitals are articulated by a variety of institutions companies and individuals. One institution, company or individual may perform more than one of these roles. In fact all of the capitals involved in the production of built-space may occur in the same organization. The identification of the network of social relations involved in the process of property development provides an underlying foundation for the examination of the production of built-space. It must be emphasized that the network identified is dynamic. As Section 2.5 indicated, the relations between the various elements in the network are constantly changing. One could go as far as arguing that the relations in the network will be unique to every individual development.

A central concern of a realist philosophy is its concern with the precise meaning of concepts. In Section 2.5 the meanings of the various types of capital involved in the development of built-space were examined in terms of their associated interests. To fully understand the operation of the development process some of the terms used in Section 2.5 must be *'unpacked'*. According to Sayer, research must :

> . . . reduce a complex entity into its component parts, abstracting them out one by one in order to consider their properties (Sayer, 1985, p.170).

The network of social relations propounded by Barras (1979a,b) and Malone (1985a) must be examined in greater detail. This unpacking must be undertaken during a process of a posteriori research. The 'unpacking' of the concept of commercial capital (property developer) should lead to a deeper understanding of the process involved in the creation and recreation of built-space. This process of 'unpacking' has been tentatively performed by Allen (1983b) with regard to the property relations of residential landlordism.

As the analysis of property markets in Section 4.4 shows, the property development process operates in a very complex environment. The market is far more complex than the analysis of the network of social relations might suggest. Agents do not, and cannot, act in an entirely rational manner. The concept of

commercial capital embraces a wide variety of different types of development agents. They all orchestrate the various capitals that comprise development capital. Not all commercial capitals (development companies) act in the same manner. This is not to reject the analysis of the development process propounded by Barras, MacLaran and Malone but to suggest that the identified network of social relationships must be examined at a number of different levels or scales. The concept of commercial capital must be deconstructed so that a variety of different types of development agents are identified. What needs to be identified are, according to Allen :

> . . . properties which bestow a degree of coherence upon a group's activities and by virtue of which individual members come to possess their causal powers (Allen, 1982, p.195).

2.7 The Social Production of Space

In most geographical research space is taken to be natural and objective. Nevertheless, space or *'the spatial'* is not natural but socially created. Space should not be conceived as an external objective reality distinct from the actions of a variety of social processes. Space must be conceptualized relatively, in terms of the relationship between objects and not absolutely, as a container for objects (Harvey, 1979, p.195). The concept of absolute space suggests a conception of space as external to social process. Relative space links "the spatial" with economic and social processes. Indeed, "the spatial" must be understood to be the interaction of social process with their physical manifestations (Urry, 1981, p.457). This, in effect, implies a continuous interrelationship between process and manifestation.

All social processes operate within time and space (Thrift, 1983, p.23; Urry, 1981, p.455-456). Massey in *The Spatial Divisions of Labour* (1985) examines the link in geographical thought between 'the spatial' and 'the social'. To Massey Geography matters as:

> The fact that processes take place over space, the facts of

> distance or closeness, of geographical variation between areas, of the individual character and meaning of specific places and regions - all these are essential to the operation of social processes themselves. Just as there are no purely spatial processes themselves, neither are there any non-spatial social processes (Massey, 1984 , p.520.

In these terms geography matters. Yet space itself is no longer natural; it is a product of a production process embedded in a mesh of capitalist social relationships.

To Smith capital: ". . . achieves the production of space in its own image" (Smith, 1984, p.xiii). Smith's argument hinges on the relationship between society and nature. Nature can never be separated from the actions of social processes. In fact :

> Nature is mediated through society and society through nature (Smith, 1984, p.19).

As Williamson argues :

> 'The Natural' is the meaning given by culture to nature; that it is socially determined and not a fixed quality is shown by the change in what constitutes the 'natural' from age to age (Williamson, 1978, p.123).

The natural appears to lie outside human consciousness but in reality it is a product of it. The same argument is true for our conceptions of space.

This conception of space is formulated in the work of Lefebvre who has argued that;

> Space has been shaped and moulded from historical and natural elements, but this has been a political process. Space is political and ideological . . . space, which seems homogeneous,

> which seems to be completely objective in its pure form, such as we ascertain it, is a social product. The production of space can be likened to the production of any given particular type of merchandise. Nonetheless, there are interrelationships between the production of goods and that of space. The latter accrues to private groups who appropriated the space in order to manage and exploit it (Lefebvre, 1976b, p.31).

To Lefebvre, what is required is a theory of how space is produced under capitalism (Saunders, 1986, p.157). Lefebvre in *The Survival of Capitalism* (1976a) argues that architects receive a 'social commission' which forces them to 'realise spaces which suit society' (Lefebvre, 1976a, p.88). To Lefebvre when :

> . . . architectural urban space responds to the 'social commission' of developers and the authorities, it is contributing actively and openly to the reproduction of the social relations. It is programmed space (Lefebvre, 1976a, p.88).

Architects should be able to produce space which is free from all constraints. The architect is the product of a particular social system and hence is constrained by it. The architect should be able to:

> . . . produce a space by protecting it against power, and to adapt it to relations freed from constraints and pressures. However, these constraints and pressures are exercised in space as a whole. They mould it, fill it, and produce their own specific kind of space, which is both homogeneous and fragmented, visual and pulverulent . . . social space remains the social space of Power (Lefebvre, 1976a, p.88).

Consequently, the space-economy is designed for capital by capital.

> Space, the very essence of geographical thought, is a social creation. To

bifurcate social processes from space in the form of aspatial social sciences or to separate space from social process produces a partial view of 'reality'. The statement that all social processes occur in time and natural space must be qualified by the argument that space itself is a created, produced commodity. Where human actions have altered the earth's surface by massive investments of fixed capital a 'natural' spatial environment is converted into a created one.

'The Spatial' is a product of a *dialectical relationship* , or two way interrelationship with social processes. To Soja, once the organization of space is conceived as a social product, it is no longer possible to view space as separate from social process. This leads Soja towards the development of a socio-spatial dialectic (Soja, 1980). In these terms the organization of space is a product of the actions of a variety of social processes. Space, however, acts back upon these processes. Indeed, to Urry, the separation of the spatial structures of the environment from the social processes that occur in them is erroneous since it:

> . . . neglects the manner in which most aspects of the spatial are themselves humanly produced and humanly changeable. This means, amongst other things, that they convey meanings, that they are part of the meaningful structures which flow from and which reproduce ongoing social activity. Thus, different areas, towns, agricultural zones, new trading estates, shopping centres, arterial roads, etc. are not merely elements of a given spatial structure and determinate of human activity from outside. Rather they are themselves social, socially produced and socially reproducing. They cannot therefore be separated from the significant social objects present within a given society, and the characteristic forms in which such objects are interconnected (Urry,1981, p.458).

The understanding of the concept of 'the spatial' is a social construction in the same manner as all human knowledge (Berger and Luckmann,1985). To Thrift "Space and Time are always and everywhere social" (Thrift, 1983, p.49).

Once 'the spatial' is perceived to be dependent on human action, a number of important issues for geographical enquiry are raised. Space is not natural and is thus continually changing as social and economic processes alter. Commercial capital, the property developer, plays an important role in the production of particular parts of the spatial environment. The role commercial capital plays is 'post-industrial' capitalism's response to its need for the continued development, manipulation and modification of its space-economy. The property development process is , in consequence, central to any analysis of the current articulation of 'the spatial' environment. 'The Spatial' must be understood to refer to socially created space which is in a continual dynamic relationship with the economic and social structure that produces it.

2.8 Geography and Built-Space

One of this chapter's central arguments has been that capitalism's society and economy are not homogeneous entities. The interrelationships between society, the economy and space, resulting in the space-economy, must be conceptualized as operating at a number of different spatial scales. The analogy is that capitalist social and economic relationships are as complicated as an 'infinite' series of ascending or descending Chinese boxes. An adequate understanding of any part of the economy or society can only be achieved by placing it within the context of an overall structural framework. To understand any economic and social process necessitates an awareness of the overall structure of the economy or society. Local events must be placed in a national and even international context. Scale must be one of the central features of any analysis of the property development process since it is one of the most fundamental spatial processes. An awareness of the importance of spatial scales has been lacking from most research into the operation of the property development process. Consequently one of this thesis' primary aims is to examine the relationship between the property development industry and the space-economy.

The network of social relationships identified in the work of Barras (1979a,b), Malone (1985a) and MacLaran (1986) provides a foundation for the

analysis of the property development industry. These researchers, however, have not examined the relationships and mechanisms which link these capitals together. The primary geographical relationship in the network of property and landed capitals is that between Commercial Capital (the property developer) and Landed Capital. In fact all additions to the built environment of the capitalist city are founded on this relationship.A detailed literature search, has failed to reveal a significant body of published work on this relationship. In fact the existing literature does not specify the nature of this relationship. Nevertheless, the link between a specific site and a property development company, in other words the process of site identification, must be conceptualized as the prerequisite to all property development.

CHAPTER THREE

Research Methodology

> . . . the facts of social behaviour are indefinitely variable . . . to subject these to a positivistic methodology is to make a serious philosophical error (Studdert-Kennedy, 1975, p.55)

Introduction

This chapter examines the various types of sources and associated methodologies which are used throughout this thesis. These fall into two categories, first an analysis of the property development process and, secondly research centred on the office markets of three provincial cities. This first category is divided between a series of qualitative face to face interviews with relevant individuals engaged in the process of property development and a postal questionnaire.

This section begins with an examination of the data available for analysing the property development process. This is followed by an exposition of the research undertaken into the office property markets of the three provincial cities. Finally, the methodology underlying the face-to-face interviews and postal questionnaire is described.

3.1 The paucity of data on property markets

a) Property and land ownership

One of the contradictions of capitalism is the amount of information

available concerning certain parts of the economic system and the relative scarcity of data about other parts. Land is the foundation stone of any economic system, yet there is a :

> . . . disgraceful inadequacy of information about landownership (Prest, 1982, p.187).

The property market :

> Unlike most commodity markets . . . lacks a central agency or set of agencies.In this way it is informal, decentralized, and non-institutional; being simply the abstract aggregation of all property transactions taking place throughout the country (Ratcliffe, 1976, p.23).

Indeed, in 1981, Britain's *'Society of Investment Analysts'* noted that companies engaged in the property sector were notably 'secretive' about their dealings. Annual reports were:

> . . . long on pictures but short on financial information, or illuminating comment (The Society of Investment Analysts, Nov. 1981, p.40-42) .

Information or data may be subdivided into at least two forms: private and public data. Private data sources exist to serve the interests of the companies, individuals or countries that control and own them. Over time some of this private data may become publicly available as it ages and becomes less economically or politically sensitive. In contrast, public data is relatively easily obtainable and is disseminated comparatively widely in a variety of published and increasingly electronic forms. Statistics produced by the state, and registered company accounts, are typical examples of publicly available data. Academic research tends to

concentrate on publicly available and easily accessible data but it can be argued that the motor or drive behind the economic system tends to remain hidden in the majority of published data.

Rational planning either at the micro- or macro-economic level relies on a variety of forms of information. Individual firms monitor their performance via the collection and collation of data concerned with their inputs and outputs. The state at the national and local levels has to follow a similar procedure. What is interesting is the areas in which the state does not publish or even collect data. Mercer notes that :

> . . . the availability and accessibility of information mirrors the power structure of hierarchical societies (Mercer, 1984, p.183)

The areas in which data is not readily obtainable are just as informative about the power structure of a particular society as the areas in which data is freely available. Mercer raises the question that:

> . . . the vast majority of geographical research - as well as empirical research in the social sciences in general - has always tended to concentrate on the statistical manipulation of 'freely available' and relatively uncontroversial data rather than on more 'dangerous', difficult or 'subversive' issues (Mercer, 1984, p.183).

The majority of freely obtainable data sets have, already either implicitly or explicitly subjected *'reality'* to a series of classificatory and sampling techniques. Data produced for the current economic system must function to maintain and legitimate the existing status quo. It could not be expected to do otherwise. It is commonly understood that:

> Statistics do not . . . emanate directly from the social condition they appear to describe . . . between the two lie the assumptions,

> conceptions and priorities of the state and the social order (Government Statisticians Collective, 1979, p.130-151).

In sum, all "human 'knowledge' is developed and transmitted and maintained in social situations" (Berger and Luckman, 1985, p.15). Statistics are in consequence social products which are produced to support a particular ideological framework. In geography the use of such statistics was and still is encouraged by the predominance of a quantitative research methodology. Nevertheless, if statistics on certain aspects of the socio-economic system do not exist, they cannot be quantified and analysized. The inference should not be that these unquantifiable parts of "*reality*" should be neglected by researchers. On the contrary, one of the functions of the social sciences is to provide illumination rather than obscurantism.

Information is readily obtainable about the 'labour market', 'the housing market', but not about 'the capital market'. Table 3.1 presents Mercer's categorisation of information into that which is freely available, that which is available to special groups, and that which is highly confidential. In this table, information about land speculation and the property development process is noticeable by its absence **(1)**. Statistical data which is available is usually so generalized as to be meaningless. Mercer notes that:

> The obvious relevance of all this to the work of professional geographers is that in certain areas of study - the detailed operation of the land development or property market, for example (Ambrose and Colenut, 1975, Elliott and McCrone,1975) - the researcher inevitably engages in work which is virtually indistinguishable from in depth investigative journalism (Mercer,1983, p.19).

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(1) Public access to title documents is permitted in Scotland, but not in England and Wales.

Table 3.1 Categories of Information

	Examples
1. Freely available to the public.	Aggregate census data. Some opinion polls. Dwelling, employment, Mortality statistics etc. Industrial production statistics. Social trends etc.
2. Available to special interest groups and/or individuals.	Corporate plans and strategies, e.g. planned factory closures. Rationalisation of transport network, e.g. future freeway routes, rail closures etc. Future nuclear power station sites.
3. Suppressed or highly confidential.	Precise estimates of resource reserves. Data on the deleterious effects of various industries , drugs etc. Precise details of toxic waste dumps. Defence and military information. *Land speculation.* Foreign relations. Business deals. *Personal property ownership, wealth etc.* Bribery payments.

Source : Mercer, 1984, p.184, my emphasis.

It is not surprising, therefore, that some of the more important published works written on the property development process have been written by journalists rather than by academics (For example, Marriott,1967, op cit; Norton-Taylor, 1982, op cit).

The difficulty in obtaining data concerning the land or property development

Table 3.2 Results of Howes' Private Valuers Questionnaires

Number of questionnaires sent	50
Number completed	26
Response Rate	64 %

a) Firms prepared to release specific information	6
b) Firms not prepared to release specific information	19
c) Firms prepared to release general information	14
d) Firms not prepared to release general information	11

Source : Howes, 1980, p.11

process is evident in the work of Howes in which he examined the types and availability of maps displaying land or property values (Howes, 1980). As part of this study he undertook a survey of private and public organizations to ascertain the types of information, if any, they would be prepared to release to a private researcher. He examined the availability of information concerning land values from private sources, the Inland Revenue, auction results and other published sources. Private valuers, in most cases represented by estate agents :

> . . . did not wish to release specific information (feeling) that if they did so they would be held in breach of professional conduct by disclosing confidential information. Others were unwilling to provide specific information as they considered the collection of information would be too time-consuming (Howes, 1980, p.11).

Howes' findings are summarized in Table 3.2. Fifty private valuers were surveyed with a response rate of sixty four per cent. Twelve per cent of these

firms were prepared to release specific information whereas thirty-eight per cent were not. Twenty-eight per cent were prepared to release general information while twenty-two per cent would not. In must be noted that information supplied via private valuers or commercial estate agents has already undergone a transformation process to remove perceived clashes with client confidentiality.

b) Hard versus soft research approaches

The scarcity of information on a number of key elements of the socio-economic system implies the use of a qualitative or 'soft' rather then a quantitative or 'hard' methodological approach (Paterson, 1979, p.275). Such an approach is associated with the concept of subjectivity. 'Hard' research approaches are quantitative and objective while 'soft' approaches are qualitative and supposedly subjective. This dichotomy between objectivity and subjectivity has preoccupied geographers for many years. Objective scientific quantitative methodologies are often perceived to be superior to subjective qualitative approaches. This preoccupation with methodological issues in the social sciences has tended:

> to reflect a belief in a hierarchy of explanatory modes (Studdert-Kennedy, 1975, p.54).

Methodologies derived by the physical sciences, such as Physics, for the study of the natural world, are taken to be objective and scientific. King, nevertheless, questions:

> . . . what relationship, if any, the logical structures developed by the theorists bear to the real world (King, 1976, p.300).

Methodologies and standards applicable to one type of phenomenon or academic discipline are not necessarily applicable in the context of the social sciences.

The paradox and the source of the problem is that a number of important areas

within social geography cannot adequately be examined by a quantitative research methodology (Holt-Jensen, 1981, Chapter 4). Keat observes that data in the natural sciences is based on empirical observations while in the social sciences it is based on the interpretation and understanding of social meanings (Keat, 1979, p.83). Indeed to Studdert-Kennedy :

> . . . the facts of social behaviour are infinitely variable . . . to subject these to a positivistic methodology is to make a serious philosophical error (Studdert-Kennedy, 1975, p.55).

Quantitative geography at the worst may be little more than a technical approach to a methodological problem. At the best a quantitative methodology provides the geographer with a useful set of tools to use in the proof of a theory-generated hypothesis. Nevertheless, due to the restrictive nature of the information available on the property development process, studies <u>must</u> predominantly use a qualitative methodology. This does not necessarily imply a measure of subjectivity which is greater or less than the subjective elements in a 'hard' or quantitative research framework.

The lack of government statistics concerning the various elements that comprise the property development process limits the amount of quantitative analysis. Such a quantitative analysis, if possible, would mask some of the complexities of the process. Each property developer and property investor acts in a slightly different manner. Each individual development is unique in terms of its location and consequently in its association within the totality of a specific urban arena. What is important is an understanding of the structure of relations that comprise the property development process. The majority of property interests as Section 2.5 has shown are engaged in a series of social relationships. As MacLaran indicates :

> . . . the social relationships of ownership (the possession of proprietorial right reflected in legal title) is the basis upon which the economic structuring of the land market is founded the social

relationship thereby adopting an economic dimension (MacLaran, 1986, p.3)

3.2 Definition of Office Space

The term office space covers a variety of distinct types of property. It ranges from nineteenth-century to contemporary office buildings. Such a wide range of office property implies that a narrow definition must be formulated for research purposes. Office space, in the terms of this study, excludes office floorspace which is attached directly to and serves industrial, warehouse or retail functions. It also excludes office space attached to service functions such as hospitals, schools, polytechnics, universities and similar institutions.

This study includes office space whose net lettable area (see Section 3.3) is 2,000 square feet or greater. Developments with a net lettable area of less than 2,000 square feet are excluded from this analysis. The cut off point of 2,000 square feet is roughly equivalent to the area provided by the redevelopment of a single existing shop unit. A small amount of office space is excluded on this basis.

Rehabilitated buildings were initially excluded from this study on the grounds that it was impossible to formulate an adequate working definition. Given the importance of rehabilitated office space in one of the study areas this type of space was included into this study. Rehabilitated office space is defined as space in which most of the original building fabric is retained. Where the facade alone is retained the resultant building is classified as a new development. In developments in which part of an existing building is retained the development is classified as new only if less than fifty per cent of its net lettable area is rehabilitable floorspace. Where more than fifty per cent of the floorspace is represented by retained floorspace the building is classified as rehabilitated floorspace. This classification of rehabilitated floorspace is tortuous. How much of the original building fabric is retained or replaced is often difficult to assess. In consequence, developments which are classified

as rehabilitated space are kept distinct from new developments.

A development is taken to be floorspace which stands distinct from industrial or warehouse functions. Where retail units comprises part of the development they must represent a separate letting. Office space which is let to retailers in the same development is excluded. Where office space is developed in a number of distinct phases each phase is taken as a separate development.

3.3 Lettable Area

Floorspace throughout this thesis refers to *net lettable area.* which represents the total amount of usable floorspace excluding staircases, corridors, lifts, toilets and wall thicknesses. The use of net lettable area essentially standardizes all developments.

The *gross floor area* includes the various parts of the building excluded by the net lettable area. In the few cases where the net lettable area is not available eighty percent of the gross floorspace is taken as an estimate, a figure derived from the work of Duff, Cave and Worthington on office development (Duffy, Cave, Worthington, 1977, p.33-34).

In terms of development economics the building cost is determined on the basis of the gross floor area and the overall size of the development. In contrast the value of a completed development is calculated on the basis of the net lettable or usable area. This area is then capitalized on a rental basis. The ratio between net lettable and gross floor area is crucial in terms of development profit. The smaller the ratio the greater the development profit. A development whose net to gross ratio is too small may be difficult to let and, in consequence, to sell. The relationship between these two measurements of floorspace represents the facilities the building provides for its tenants.

Floorspace unless otherwise stated is in square feet. Property developers

and investors still utilize imperial measurements in assessing potential and existing developments. Floorspace is still valued and let in terms of pounds per square foot. To convert to metric values would tend to complicate and confuse parts of this study, and might make results and calculations difficult for any interested property developer or investor to follow.

3.4 Choice of Study Area

The initial stage in this research was the identification of a number of provincial cities with distinct types of office market (1). Each city's property market is in a distinct stage in the property development cycle in terms of occupier demand and developer supply (See Chapter 4). As such it was thought that the examination of three carefully chosen cities would provide a fairly complete picture of the property development cycle (The property development cycle is examined in detail in Chapter 4, section 4.6).

Two international estate agents provide general surveys of the property investment portfolios which they manage for a number of financial institutions. The purpose of these surveys is to provide a guide to rents in specific cities and a comparison between cities over time. *Jones Lang Wootton's* and *Debenham Tewson and Chinnock's* surveys of office rents and rates since 1969 and 1973 respectively provided a general guide to the state of the property markets of provincial cities (Jones Lang Wooton, biannual; Debenham Tewson and Chinnocks, annual). Both of these reports are derived from an analysis of the property investment portfolios managed by these companies

On initial examination Leicester's office market was seen to be ideal given the low rental income obtainable for office floor space. For a number of years Leicester's office rents have been the lowest in the United Kingdom (Chapter 9, Table 9.2). This, coupled with high vacancy rates, indicates a town whose office

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(1) This topic is considered in greater detail in Chapter 9, section 9.1-9.5

property market is in a trough in terms of the property development cycle.

Nottingham was chosen because of its proximity to Leicester and its status as the administrative centre for the East Midlands. Rental levels in Nottingham are far higher than Leicester's but they are still too low to encourage any major new office development schemes. Nottingham's office market exhibits some occupier demand while rental levels are high enough to encourage a limited amount of new and refurbished property development. In terms of the property development cycle the city has reached the stage which may lead to a minor development boom.

Northampton was selected because of its status as an 'Expanded Town'. Although its office rental level is only marginally higher then that of Nottingham's it experienced an office development boom between 1981 and 1987. Northampton, represents a town which has reached the top of its property development cycle and is beginning to move into a situation of oversupply. Very little office development occurred in Northampton prior to its designation as an expanded town in 1968. The analysis of Northampton's office developments is undertaken from the date of designation.

3.5 Data Sources

An analyse of the functioning of the property development cycle in the three study areas entailed the manipulation of a number of different data sources. Detailed information was required for each individual development covering the date it was completed, its size, and associated development and investment interests. Such information is not readily obtainable in England and Wales since no central register exists which would provide the necessary information required. A number of different sources were used to identify the initial development and investment interests involved in the study areas. Once completed, this list provided a list of potential research contacts.

3.6 Observation

Preliminary research focused on direct observation of the buildings which might come within this study's definition of office space. The objective was to identify the location and number of these developments as well as to become familiar with the type of development that each of the study areas had undergone. Initial field observation was carried out in Leicester, Nottingham and Northampton in November 1985 resulting in the compilation of a list of developments and their locations which were mapped. Some indication of the relative size of developments was also established on the basis of the number of floors.

In a number of cases developments which had retained a previous facade were overlooked at this stage of the research. A number of the developments identified by direct observation were later removed from the analysis as soon as it was established that their completion date fell outside this study's datum points. The lists produced at this stage of research were used as a basis from which to track down the necessary information concerning each individual development.

3.7 Published Data Sources

Published sources available on the property development industry are extremely limited. These sources can be broken down into seven types, each of which will be examined in turn :

a) Magazines.
b) Estate Agents' Reports.
c) Reports from Commercial Research Organizations.
d) Government Publications.
e) Financial Publications.
f) Company Reports, Annual Accounts and Company House.

a) Magazines & Newspapers

Initially, extensive use was made of a number of commercial magazines and newspapers. These provided information about some of the large, prestigious office developments in the study areas. While this information must be used with considerable care as its accuracy is questionable it did provide a starting point to establish which development and investment interests were operative in the three study areas. A complete survey of the *Estate Gazette* was undertaken for the period from 1960 to 1987. The following journals and newspapers were also consulted:

a) Architectural Review
b) The Chartered Surveyors Weekly
c) Construction News
d) The Economist
e) The Investors Chronicle
f) The Estates Times
g) The Financial Times
h) The Leicester Mercury
i) Nottingham Evening News

b) Estate Agents' Reports

Published material available from estate agents can be classified into two types.

1) Advertisements and Development Brochures

Where available the initial development brochures, distributed to advertise a specific development, may indicate some of the factors which were considered to be important in the actual development decision. These brochures may highlight the characteristics of the city or building which the property developer was using to either

let or sell the development.

This material also provides some of the safest measures of a development's net lettable floor area. In a number of cases these sources provide details of the development and investment interests associated with an individual development. This material must be used with care as it may not necessarily provide accurate information.

2) Research Reports and Market Surveys

Research reports on a variety of property markets are regularly produced by the research departments of a number of international commercial estate agents/property consultants. These provide an analyses of the performance of a number of financial institution's property portfolios that are managed by these companies as well as a series of indices relating the performance of property to other available investment outlets, e.g. equities and gilts. These firms regularly produce a series of rent indices for the major provincial cities which provide information required for a comparative analysis of rental growth.

The three most important indices are those produced by *Debenham Tewson and Chinnocks, Hillier Parker May and Rowden* and *Jones Lang Wootton Research.* These reports are useful in that they provide summaries of data sets which are inaccessible to the private researcher.

A number of smaller estate agents produce reports on local property markets to encourage investment in these towns. Where available they provide a general guide to a local property market. Most of the information contained in these reports is so general as to be very little value for serious research purposes.

c) Commercial Research Organizations

Along with the research reports produced by the more important

commercial estate agents the *Investment Property Database* (I.P.D) has begun to produce a series of reports on aspects of the commercial property market. This organization was established by an economist in 1984 with the object of providing a much more detailed analysis of the property investment market than had been previously available. Sixty-seven pension funds, thirty-six financial institutions and six commercial estate agents have allowed the I.P.D's research staff access to their property portfolio records. The Investment Property Database has a much greater sample of properties available to them than the research organizations attached to the commercial estate agents. The reports that the I.P.D are beginning to produce provide a useful overview of the conditions of the United Kingdom's property market (Investment Property Database,1986).

d) Government Publications

Government publications available on the property development industry can be divided into four types.

1) Commercial Floorspace Statistics.
2) Commercial and Industrial Property Statistics.
3) Business Monitor.
4) Committee Reports.

1) <u>Commercial Floorspace Statistics</u>

Commercial floorspace statistics are available for England and Wales since 1964, intermittently until 1974, but thereafter they have been available on an annual basis in the form of the Department of the Environment's *Commercial and Industrial Floorspace Statistical Series.*

These statistics provide a general estimate of the stock of commercial

floorspace in England and Wales as well as an indication of the amount added each year. This statistical source provides a general guide for the analysis of changes in the levels of commercial floorspace within the United Kingdom.

2) Commercial and Industrial Property Statistics

From 1975 a series of reports were produced by the Department of the Environment which provide general statistical coverage of the property development industry. These reports provide a general overview of the industry, but the statistical series, unfortunately, was discontinued in 1979.

3) Business Monitor

The Department of Industry publishes a series of quarterly statistical surveys covering specific parts of the United Kingdom's economic structure.

The *Insurance Companies and Pension Funds* quarterly review provides one of the primary data sources for the overall functioning of the financial institutions. These reports contain detailed, but general information concerning the investment portfolios of these institutions.

The figures referring to the total property holdings of the financial institutions must be used with some care. Financial Institutions can mask the extent of their property holdings by, for example, the various types of valuation techniques they employ. Property investments may either take the form of direct or indirect investments. The book value of direct investments may be substantially undervalued. Indirect property investment in the form of unit trust holdings or equities usually will not appear as a property investment.

Data concerning the extent of the financial institution's involvement in foreign property investments is currently not available from any statistical source. The overseas property investments of Life assurance and pension fund investments in

overseas property are included under the heading of 'other assets' and 'other investments' in the returns sent to *Financial Statistics* and to the *Business Monitor.*

4) Committee Reports

A number of Parliamentary Committee reports are available which cover aspects of the property development industry. Of these *The Wilson Committee Report* on *The Functioning of the Financial Institutions* (1980) provides useful background material concerning the investment policies of insurance and pension funds.

In December 1974 the Advisory Group on Commercial Property Development was established under the chairmanship of Sir Dennis Pilcher. Its terms of reference were:

> To examine the arrangements for carrying out development of commercial property and the part played by investors, developers and local authorities: to consider how these might change: and to advise the Secretary of State for the Environment either generally or on issues referred to them (Pilcher Report, 1975, p.1).

This resulted in the production of the *Pilcher Report* which provides a basic analysis of the role of the property development industry in the United Kingdom.

e) Financial Publications

A number of sources were consulted to determine the interests associated with office development and investment in the three study areas. The following directories and guides were used extensively.

A.P.Financial Registers *Pension Funds and their Advisors,* (A.P.Financial Registers, London, 1981).

Dun & Bradstreet *Who Owns Whom*, (2vols.,Dun & Bradstreet, London, 1987).

Extel Statistical Services *Extel U.K Listed Companies Service*, (Extel Statistical Service).

MacMillan *The Stock Exchange Official Year Book*, (MacMillan, London).

N.A.P.F *NAPF Year Book*, (National Association of Pension Funds, London, 1986).

Newdata Ltd. *The Directory of Industrial and Commercial Property Contacts*, (Newdata Ltd, London, 1987).

These sources were consulted to determine the development and investment interests of a variety of property companies. From these sources it is possible to ascertain : a) the headquarters of companies; b) assets of companies; c) linkages between companies and d) an indication of share ownership.

f) Company Reports, Annual Accounts and Company House

The Company Reports and Annual Accounts for all of the major property development and investment companies were obtained for the financial year 1986-87. A study of these was undertaken to ascertain : a) the types of developments undertaken; b) the size of the development or investment portfolios; c) the spatial distribution of developments or investments and; d) a breakdown of share ownership.

As has been seen above, the types of data obtainable from these reports are limited. *Slough Estates Plc* is the only company to provide a fairly comprehensive analysis of its operations. It is rare to be provided with a breakdown of a company's shareholders. One of the problems with this type of data is that a variety of constructive accounting techniques may be used which enable companies to limit the amount of detailed financial information available from their company reports.

Company reports provide financial information on publicly listed companies. A publicly listed company is generally composed of a variety of Limited Liability Companies (Ltd's) which do not have to produce company reports which are

directly available to the public. They do have to supply a series of documents to *Company House,* copies of which may be obtained by the payment of £1.00 per company. The records of thirty-five limited liability companies were consulted (Appendix E). These companies had been or were currently active in at least one of the three study areas.

These records provide information on a company's assets and shareholders. In a number of cases mortgage documentation was available. This type of information on individual developments provides a useful insight into development finance. In one particular case an individual property development represented the sole assets of a limited company. Thus, detailed financial information about this specific development was fully available.

3.8 Interviews

The organizations and individuals interviewed as part of this research can be classified into seven categories. These represent the major interests associated with the property development process identified in Chapter Two.

a) Estate Agents
b) Planning Officials.
c) Property Developers.
d) Property Investors.
e) Architects.
f) Tenants.

Initially, research focussed on the records obtainable from local planning offices. The date that planning permission was granted for an office development is available from these records, but to obtain further details from this source would entail getting access to the planning department's detailed files. The amount of time that it would take to compile the relevant details on individual developments would be extremely great. Given the limitations of this data it was decided to attempt to by

pass this source by consulting those agents who are commercially involved in the property market.

a) Estate Agents

Estate agents can be a valuable source of primary data. Data available from this source can range from overviews of the conditions of a specific property market to 'memories' of individual developments. While the word memories implies that this data source cannot be used by itself it should be noted that the majority of estate agents interviewed relied on their 'memories' rather than written documentation. Only in a few cases was extensive use made of documentary evidence.

Each estate agent interviewed was asked about the general history of the particular property market under investigation. The estate agent was than asked a series of questions about each individual development using the lists compiled from observation and published sources. The questionnaire used during these interviews is included as Appendix F . Since every estate agent was supplying information on all developments this provided the first check on the reliability of the data.

The estate agents in the three study areas were entirely different in their approach to the release of information. Northampton proved to be the hardest area in which to collect primary data. It has three main commercial estate agents who deal with office property. *Swindall Atkins and Partners* are comparative newcomers to the commercial scene in Northampton, but were able to supply information about a number of recent developments. *Underwoods*, a comparatively small firm, were able to provide details about aspects of most of the major developments in the town since nineteen-sixty. However, Northampton's commercial estate agency market is dominated by *Wilson and Partners* and this firm refused to be interviewed on the grounds that the information they held was part of the company's commercial assets.

Leicester's estate agents were extremely forthcoming with their information and time. Five practices were consulted : a) *Andrew & Ashwell*; b) *Jarroms* ; c) *Norman Hope & Mann* ; d) *Tarratts Carr Commercial* and e) *Wilson and Partners* . The first four of these firms had operated in Leicester throughout the study period whereas Wilson and Partners was a comparative newcomer to the Leicester property market. The partners in the first four firms interviewed had been actively involved in Leicester's office market since 1960. In the case of Norman Hope & Mann extensive use was permitted of documentary evidence.

Nottingham's estate agents were reluctant to release precise information and four major practices refused to be interviewed on the grounds of client confidentiality. Three practices were especially helpful : a) *Frank Innes Bonfield* ; b) *Nattrass Giles* and c) *Walker Walton and Hanson..* Nattrass Giles had recently entered Nottingham's property market, however, it has played an active role in the refurbishment of the Lace Market. Walker Walton and Hanson on the other hand had been active throughout the study period and were able to provide valuable information about a number of developments.

In addition to local estate agents, the representatives of two nationally based estate agents, *Jones Lang Wootton*, and *Hillier Parker May and Rowden*, were interviewed to ascertain the role that international estate agencies play in provincial property markets. These firms were not prepared to release information on specific developments but they were prepared to discuss the nature of their interests in provincial markets.

Given the nature of much of the information obtained from estate agents, it must be cross-checked against other sources such as other estate agents operating in the same area. Cross-checking of the data on individual developments was undertaken by writing to the investment interests identified and asking them to confirm or modify the details identified on their investment interests. At this stage a number of additional developments were identified which were held as investments by a number of financial institutions.

b) Planning Departments

Representatives from the Planning Departments of each of the study areas were interviewed. The focus of these interviews was to obtain an insight into the role that planning plays in the development of office space in each of the study areas.

Representatives of the Estates Departments of each of the study areas were interviewed to establish the role that each play in its respective land and property market.

c) Property Developers

During the initial phase of data collection two property developers were interviewed as a pilot study since it was crucial at an early stage in the research to ascertain the manner in which property developers would react to the types of questions and topics which would be raised by the focus of this thesis. The aim of these interviews, each of which lasted for over two and a half hours, was to discuss the structure of the property development industry while establishing the most suitable research approach. The two property developers in questions were extremely open in their responses provided that it was clear that this was solely an academic study. With the permission of the property developers these two interviews were taped since note-taking during an open ended interview situation was felt to be undesirable.

From this pilot study it was established that the most productive research approach would be a semi-structured interview schedule. Property developers appeared to be reluctant to answer direct questions, especially on development economics. The schedule (Appendix G) provided a check list of topics to be covered during each interview. A list of property development companies interviewed is given in Appendix I.

At the beginning of the interview the academic nature of the study was emphasized and during this introduction it was also found that it was useful to

explain to the property developer that the study was an examination of an industry engaged in the creation of a product. This approach reduced what can be an emotive issue to the level of any other sort of commodity production. The majority of these interviews were taped. In a number of cases when it was found that the particular property developer would not respond freely when the interview was taped shorthand notes were taken during the interview which were transcribed in full immediately afterwards.

The question of confidentiality was raised by a number of the property developers interviewed. In one case the developer stated that if topics raised during the course of the interview were published he would deny that the interview had occurred. Material obtained from these interviews is used without reference to the specific individuals or companies contacted. Given the nature of the interviews detailed information about specific companies was obtained which can only be referred to indirectly in the text.

The primary focus of these interviews was to investigate the particular process that a piece of land passes through from the its initial identification as a potential development site to the sale of the resultant development.

Many of the 34 property developers contacted had undertaken developments in one or more of the study areas. This meant that it was possible to discuss specific developments as well as general processes. This also provided a check on the reliability of the data base established during the initial phase of research. In most cases, during these interviews documentary evidence was consulted during the discussion of specific developments.These interviews took a considerable period of time. The shortest lasted one hour, the longest over four hours, with the mean time around two-and-a-half hours.

d) Property Investors

The property fund manager of *Unilever's Superannuation Fund* was

interviewed to establish the role that financial capital plays in the development process. The aim of this interview was to establish the investment criteria of an institutional investor in terms of their preferred investment locations and property specifications.

e) Architects

It is frequently argued that the architect is the designer of the built environment (Freeman, 1986; Larkham, 1986). This assumption was investigated by interviewing one architect who had designed five of Leicester's office developments. It was established during this interview that the architect does not have complete freedom in the design of a development since the brief laid down by the property developer establishes the type and amount of space required for a profitable development. Since what is profitable is determined by user and investment demand capital is the ultimate architect of the built environment.

f) Tenants

Two tenants were interviewed, *Hogg Robinson Plc* of Leicester and *Barclaycard Plc* of Northampton. The aim of the interview with Hogg Robinson was to ascertain the reasons behind their decentralization from London to Leicester in the late 1960s. Barclaycard was interviewed as it is the most significant user of office space in Northampton.

3.9 Developers Postal Questionnaire

A number of interesting features of the development process were identified during personal interviews. To reinforce and extend this analysis a postal questionnaire was designed and sent to one hundred and twenty property developers (Appendix H).

This sample of property developers was identified from *The Directory of*

Industrial and Commercial Property Contacts - 1987 (Newdata Ltd, London, 1987). A twenty five per cent sample of the four hundred and seventy five developers listed was taken on the basis of every fourth name. If the company had already been contacted the next in the list was included as part of the sample.

On investigation, the directory, despite its date, proved to be not completely up to date for nine (7.5%) of the companies contacted were no longer engaged in property development. In one case a reply was returned from a company that had ceased to operate in 1968. Although this raised a doubt concerning the reliability of this data source no acceptable alternative was available.

The questionnaire was posted in August 1987 with a stamped addressed envelope enclosed. After a limited response, eighty-four follow up letters were sent three weeks later. This produced an overall response of 59.2 per cent (71 replies). Of these two were left out of the analysis as they turned out to be commercial estate agents rather than property developers. This reduced the response rate to 57.5 per cent. Nineteen firms (15.8%) responded to the questionnaire with a letter stating that they were unwilling to complete it as the information required was commercially sensitive. The response rate of 57.5 per cent was felt to be acceptable. Table 3.3 provides a summary of the responses to the questionnaire.

Table 3.3 Summary of Responses to Postal Questionnaire

Number of questionnaires and accompanying letters sent.	120	
Number of replies.	71	59.2%
Number of Completed replies.	69	57.5%
Number of firms who replied but were unwilling to fill in the questionnaire.	19	15.8%
Number of non responses.	21	17.5%
Firms no longer in existence or engaged in property development	9	7.5%

3.10 Summary

This chapter has examined the variety of data sources and methodologies used in this study. The difficulties of undertaking research in a commercially sensitive area of the economy necessitated the use of a qualitative research methodology. This method permitted the identification of a number of features of the property development process which had previously not been highlighted in the literature. The postal questionnaire provided the basis for a numerical analysis of a number of these features.

CHAPTER FOUR

The Economics of the Property Development Industry

> . . . the investment implications implicit throughout the property market must not be isolated from those of the general investment market (Ratcliffe, 1976, p.24).

> Successful developers are rich, unsuccessful developers are bankrupt. The same applies to grocers, to plastic manufacturers, writers and even, I believe, politicians. There is nothing sinister about developers, any more than there is anything sinister about grocers, but it matters that both developers and grocers should be good at their jobs, and do these jobs, without exploiting the people they are supposed to serve (Soning, 1973, p.559).

Introduction

The capitalist city has developed in response to the fundamental rationale of capitalism, the desire to accumulate surplus value. Capitalism's economic and social processes are housed within the built environment of the city which is a direct:

> . . . reflection of the dominant pattern of economic, social and political relationships within society (Knox, 1984, p.108).

Over time the objective conditions of the built environment change; new communications, new production technologies and new buildings become part of the existing cityscape. The capitalist city is, therefore, in a continual state of flux as it responds to changes within the social and economic systems; like history cities are always in a transitional state. The processes that create and recreate the built

environment of the city are central to capitalism's continual development.

Like any other commodity, the built environment exists on two distinct but related levels. First it possesses a *use value* for the accommodation of industrial and service functions as well as the reproduction of the labour force (housing). On this level it is involved in the continued accumulation of capital within capitalist economies. Secondly, it possesses an *exchange value* for property companies, financial institutions and other agents involved in the property market. To understand the built environment's exchange value the question which must be answered is 'how and why does investment in the built environment occur ? ' To answer this question the economics of the property development industry and the nature of property investment must be considered.

4.1 Obsolescence

The built environment of the city represents an enormous investment of spatially fixed capital; invested in, for example, transport infrastructure, factories, warehouses, offices, shops and other types of buildings. Every additional capital investment rests on decisions which are constrained by previous infrastructural and building investments. Consequently, what has been built has a direct influence on future land use changes; former decisions are the antecedents of present and future decisions. In fact, the built environment is a product of a process of incremental decision making. Nevertheless, the aggregate result of a series of independent decisions, made at different times and by a variety of different individuals or organizations, is extremely great.

Factories, offices, warehouses, and houses are produced to house the requirements of the forces of production and reproduction. Production is the operative word. Under capitalism the production of the built environment cannot be seen as dissimilar to the creation of any other commodity. Raw materials, capital and labour power are articulated via a process of production into built-space. The only difference between the production of floorspace and other types of commodities is that the property developer's commodity is spatially fixed. The cityscape, and all its composite

elements, is produced to serve the interests of a specific society's economic and social organizations. As alterations in these organizations occurs the built environment must change to accommodate them. With the deregulation of London's Stock Market financial services require large trading floors on single levels as there is a strong demand by some companies to bring large numbers of financial traders together in a single room so as to create a highly interactive work situation. Large organizations instead of tolerating floor areas as small as 5,000 sq. ft. now favour big, continuous floors of up to 50,000 sq. ft. so that large departments can be located on a single floor . Office buildings of 50,000 sq. ft. used to be considered as large buildings, but are now seen to be quite small. The increasing use of information technology in the business world has created a demand for buildings which can accommodate computer and communication cables. Property developers have to move away from the creation of the traditional 'low tech' tall buildings with small floor areas to the creation of 'high tech groundscrapers', squat buildings with large uninterrupted floor areas (Duffy,1987, p.3).

Capital invested in built-space undergoes a gradual process of devaluation or depreciation. Buildings age and decay and require a constant stream of capital investment. Even with regular investment buildings undergo a gradual process of obsolescence. The style and specifications of a building comes to be viewed as 'old fashioned' as the requirements of tenants alter with changes in the economy. Office buildings constructed in the 1960s no longer completely meet present day requirements. As a building ages, in real terms, its rental level drops so that without continuous refurbishment the returns from a building become so low that the complete redevelopment of the site has to be considered.

A building whose existing rental income is anomalous in terms of its location, exists in a state of obsolescence. Its owner must decide whether to refurbish the existing building or to demolish it and redevelop the site. An obsolete building ties up a parcel of land which could be used by a 'modern' building which would command an economic rent. Every new building undergoes a spiralling process of obsolescence as alterations in the organization of work patterns and industrial production technologies occurs. In fact, as soon as a building is completed its obsolescence clock begins to tick.

A new building is a prime investment which generates an economic return on invested capital. As the building experiences obsolescence its rental income will drop relative to newer buildings and eventually it will move from the prime property market to the secondary. The next section examines these distinct but interrelated property markets.

4.2 Property Markets

The commercial property market is a product of the demand for property by a variety of potential property investors and tenants (Table 4.1). The motives for operating in the commercial property market can be classified into consumption (tenant), production (property developer) and investment (funding/property investors) interests. A variety of tenants, property developers and investors exist, each having different motives for operating in the property market and each expects different returns. This implies that the commercial property market is not a homogeneous entity. The property market is :

> . . . diverse in the range of its activities. It possesses national, regional and local characteristics, and even these are but a convenient generalization for collectively describing a group of separate, albeit interacting, sub-markets concerned with different types of property (Ratcliffe, 1976, p.24).

Research into the commercial property market is impossible without recognition of its inherently heterogeneous nature.

Table 4.1 Agents involved in the Commercial Property Market

Agents	Interests
Owner Occupiers	Occupation / Building
Tenants	Occupation / Building Interest
Developers	Development Profit
Short Term Investors	Return on Loan Capital (Predominantly development capital)
Long Term Investors	Return on Fixed Capital Investment

Commercial property markets can be examined by first undertaking an analysis of the interrelationship between different types of property market and secondly an analysis of a specific type of property market. In this thesis only one aspect of the commercial property market is examined, the office sector. The other commercial property markets are; warehouse, industrial and retail, each of which consists of a collection of very diverse buildings. The office market, for example, encompasses buildings which range from major contemporary office developments to rehabilitated Victorian buildings. To group them all into a single category would produce confusion and over-generalization in any analysis of this market. This can be overcome by subdividing the office market into four types of investment market:

a) Prime office investments.
b) Secondary office investments.
c) Tertiary office investments.
d) Owner occupation.

a) Prime office investments

At the national level, prime office space is dominated by institutional investment. Prime office developments are located in areas of high investment and user demand and tend to be occupied by a single 'blue-chip' tenant, for example, a government department or trans-national corporation. Usually, such developments will be freehold or long leaseholds with modern leases which contain adequate provision for regular rent reviews. A development which is in a prime location, but possesses a poorly structured lease with limited facilities for rent reviews is classed as secondary office space. The significance of the terms of the tenant's lease will become apparent in the section on the economics of property investment.

b) Secondary office investments

These may be attractive to a number of institutional investors depending on the supply and demand for prime investment properties, since most of the best sites

will already be held by financial institutions or property investment companies. The competition for prime sites in the early 1970s office boom is one of the factors which accounts for the subsequent development of office space in Britain's provincial cities. Given the laws of supply and demand, the greater the investment demand for prime property, the more expensive it becomes. This encourages property developers and investors to consider the secondary office market. Secondary office space consists of older buildings less favoured in terms of location, tenant and investment demand and usually characterized by multiple occupancy. Such buildings have lower rental levels in comparison to prime office developments.

c) Tertiary office investments

These do not attract institutional investment being predominantly older smaller buildings usually owned by family trusts, individuals, speculators and self-administered pension schemes. This market is not considered directly in this thesis as it represents floorspace which was developed the time period under consideration.

d) Owner occupation

This category is included as an investment category to cover office space which may not *'consciously'* be held for investment purposes. It represents floorspace which may not be attractive to property investors because of its low rental levels and associated capital growth. In locations which are unattractive to property investors companies may have to construct buildings for owner occupation.

Each category of office market attracts a different type of investment interest. Some of these interests, especially in the tertiary investment market, are residual, with the present ownership being determined by a series of historic variables, for example, family trusts, and family businesses. Secondary office investments attract relatively small scale local investors and property developers. The latter search for potential development schemes which will generate a sufficient annual return on investment capital to cover the cost of finance. This type of office development is

classified as a secondary investment as the financial returns it generates on invested capital do not meet the requirement of institutional property investors. Prime office space is constructed to generate a rate of return which will meet these requirements.

Every city has its own office market which can be classified on the basis of these four types of investment market. Prime and secondary investment markets also exist at an inter-urban level. London's office market is the United Kingdom's prime office market with the office markets of regional cities, for example, Nottingham, Glasgow and Dundee being perceived by institutional property investors as being secondary office markets (Interview, Institutional Property Investor, 6/8/1987). This implies that what might be prime office space in one location may be classified as secondary space in the context of the national office market.

4.3 The nature of property investment

Capital which is invested in the built environment has a number of special features which directly affect property investment. In comparison to equities or gilts it possesses a long turn-over time. A financial institution can buy and sell equities over a short period of time, however, it takes between three and four years to develop a building and a number of months to buy or sell a completed development. The finite and immobile nature of land and buildings makes them unique in comparison to other investment mediums. The built environment, like any other commodity, is a product of a combination of capital and labour, but, unlike other commodities, it is immobile and limited in supply. Consequently any addition to the built environment will affect and influence the city's townscape over a considerable period of time.

Unlike other commodities the value of a piece of property is not exclusively determined by its internal characteristics. Negative or positive externalities influence the value of a particular development, for example a building situated in the City of London has a greater value than an identical building located in Leicester. A building situated in London is at the heart of a web of information networks which is not to be found in a cities like Leicester, Nottingham or Northampton. Larmarche has classified the returns from property development into two types of differential rent.

Differential Rent One represents a specific development's internal advantages, for example its layout, presence or absence of air conditioning. In contrast, *Differential Rent Two* is produced by factors external to the development, for example its location within a particular city and the buildings that surround it. By definition, these lie outside the control of individual property developers. Larmarche does suggest, however, that a large enough development may be able to produce the conditions of its own profitability. In other words Differential Rent Two becomes internalized within the confines of the development (Larmarche, 1976, p.101).

Property investment, in consequence, is a relatively inflexible investment. In comparison to the equity or gilt markets, property exhibits a higher degree of risk on the basis of its relatively illiquid nature. An illiquid investment is one which is difficult to convert to readily available working capital; the most liquid form of capital is cash in hand. The amount of risk associated with an investment is measured in terms of yield. Yield is the annual return, in the form of rental income, on investment capital and is expressed as a percentage of the total value of the investment. Property investment should command a higher yield in comparison to other 'liquid' and spatially unconstrained investment mediums because it entails a higher level of risk.

4.4 The Economics of Development

As has been shown, the property development industry, like any other industry, is concerned with the production of a commodity, built-space. The commodity produced is :

> . . . both a productive asset, in the sense of providing a flow of benefits (accommodation or income), and a financial asset, in the sense of having a capital value which can be realized by sale (Way, 1976, p.705).

Consequently, two markets for individual developments exist, the user and investment markets. The user market provides the demand for space while the

investment market holds completed developments as investments. The investment interest in this case is the right to a stream of rental income.

a) Property Investment

Development interests, represented in the development process by commercial capital, undertake individual developments in the expectation of potential profits. Development profit is obtained either by the sale of the completed office development or by its retention as an investment. In the first case, development profit represents the difference between the market price of the completed development and its total development cost (land, building materials, labour power, fees and interest payments on loan capital). In the second case, development profit occurs when the rental income obtainable from a completed development exceeds the interest payments on borrowed development capital (i.e. working capital) and management costs (administration, cleaning and maintenance). The overall returns from property investment are complex. The initial return depends on the difference between total development cost and capital value. The return over a period of time is a mixture of initial yield, income growth (rental income) and capital growth (market price). A development may be undertaken whose initial yield is below the level obtainable from other investment areas in the expectation of a periodic rise in rental levels and consequently a rise in total development value. The relationship between rental income, capital value, yield and development profit will be examined in the next two sections.

As an investment medium, property ranks alongside equities and gilts. Every investment decision should be based on a comparison of all possible alternative investment strategies. The current and potential returns available from a wide variety of investment mediums should be assessed to consider the *opportunity costs* associated with any investment decision. Undertaking a property development will either tie up internally generated capital or lead to external borrowings. The costs of undertaking such an investment must be compared to other investment areas. The return from property investment should be two or three per cent greater than those available from gilts or equities to compensate for its higher level of risk. Table 4.2 illustrates how

Table 4.2 The Spread of Institutional Investment

Scheme Asset Allocation	1		2	
	(bn)	(%)	(m)	(%)
Gilts and Fixed Interest:	2,660	(12.8)	343.9	(12.2)
UK Equities:	13,600	(65.1)	1,206.7	(43.0)
Overseas Equities:	- - -	- -	604.3	(21.5)
UK Property:	3,130	(15.0)	531.7	(18.9)
Overseas Property:	- - -	- -	59.0	(2.1)
Cash:	- - -	- -	63.8	(2.3)
Mortgages/Loans:	1,490	(7.1)	- - -	- -
Total	20,880		2,809.4	
Property Split				
Industrial:	106	(3.6)	62.9	(11.0)
Shops:	1,255	(43.2)	184.1	(31.0)
Offices:	1,429	(49.2)	261.7	(44.0)
Agriculture:	66	(2.3)	- - -	- -
Overseas:	- - -	- -	59.0	(10.0)
Others:	49	(1.7)	23.0	(4.0)
Total	2,905		590.7	
Number of Properties	2,500		N/A	
Tenants:	8,300		N/A	

1 = Prudential Portfolio Managers Ltd (1986).
2 = The BP Pension Scheme (1986).

Source: Westwell & Johnston, 1986a, 1987.

Financial Institutions spread their investments between a variety of investment areas, but it should be noted that the ratio between the various investments held by the institutions alters as the fund managers perceptions of the markets alter. This spread was highlighted, in 1985, by the chairman of *The Scottish Life Assurance Company* who commented that:

> The need to hold assets appropriate to our guaranteed sterling liabilities and the high real returns offered by fixed interest securities combined to cause us to allocate nearly half of our cash

> flow to fixed interest securities. Attracted by the growth prospects of selected property investments we allocated over 20% of cash flow to this sector. Almost all the balance went into ordinary shares (1).

Given the heterogeneous nature of the commercial property market each property type, industrial, office and retail, has a different yield. The 20% invested in property will be divided between many different property types and locations depending on the returns available.

Table 4.3 Yields Available from a Variety of Investment Areas

Investment Areas	May 1985	May 1986	May 1987
Industrial	10.2	10.6	10.5
Offices	6.8	7.4	7.6
Shops	4.8	5.1	5.3
Gilts	10.6	8.9	8.9
Equities	4.5	3.8	3.3

Source : Hillier Parker May & Rowden, May 1987c.

In conclusion, property investment is one of several investment options available to the financial institutions and other long term investors. Industrial property is regarded by property investors as possessing the highest degree of risk. This level of risk is associated with the rate at which the obsolescence of industrial buildings proceeds. Specifications for industrial property alter as the conditions of industrial production change so much so that industrial units built to the requirements of specialist user may be impossible to let if they fall vacant. Consequently, industrial property requires high yields to counter the rapid obsolescence it experiences. Offices and shops undergo a less rapid process of obsolescence and as such are perceived to

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(1) Scottish Life Assurance Company (26th March 1985) *Annual Report* (Scottish Life, Edinburgh) p.6.

have lower degrees of risk. Gilts, in contrast to all types of property, carry very little risk and thus offer a fixed rate of return Table 4.3 examines the yields available for the various types of investment areas.

b) The market price of a building

Capitalization is the expression of future benefits in terms of their present worth and the market price of a completed development represents capitalized future rental payments. This is a future return which will be effected by variables outside the control of the property development process. Consequently, the property development process is inherently speculative; its foundation resting on the capitalisation of future streams of rental income which may never materialize. The risk of any individual property development experiencing various forms of obsolescence is extremely great leading to a rapid devaluation of the investment.

The value of an individual development is based on the principle that an investor is willing to pay a specific sum for the rights to receive a annual rental income. Calculation of a property development's value involves a combination of two elements, its annual rental income and a capitalisation factor. In other words, the capital value or market value of a building is a product of its annual rental income and the acceptable yield obtainable from that particular type of property. This is represented by the equation:

$$\textbf{Capital Value} = \textbf{Annual Rental Income} \times \frac{100}{\textbf{Yield (\%)}}$$

The appropriate or acceptable yield is determined in relation to the yields obtainable from other types of buildings and investment areas (cash deposits, equities, and long dated government securities) taking into consideration their future growth prospects and degree of risk. The capital value (market price) of a completed development is directly related to its annual rental income. The relationship between the annual rental income and capital value is established through market forces. In a perfectly rational market this relationship would be in a state of equilibrium, but the property

market is not a perfect market. At times the relationship between rental income and capital value becomes distorted. As the returns from the various investment areas change investors alter the spread of their investment portfolio. If property is seen to be under-performing in relation to other investment areas, investors will restrict the scale of new investment. As the prospects for rental growth and hence capital growth increase property becomes a more favoured investment sector. Despite increased investment interest in property, the available supply is limited as the property market is inelastic in its response to demand. In addition to this problem, the total supply of prime office property is constrained, for instance in a small town prime office property may be restricted to a particular street. The increase in investment funds seeking property investments results in an increasingly unbalanced relationship between annual rental income and capital value. The market price of a building will increase as prospective purchasers try to obtain the rights to the investment. This, in effect, increases the sum needed to acquire the right to its annual rental income.and as a result, the yield that a given annual rental income represents decreases. This drop in yield is depicted in the following examples :

Market Price of Building	=	**Annual Rental Income**	x	$\frac{100}{\text{Yield (\%)}}$
1) 1.0m	=	0.1m	x	$\frac{100}{10\%}$
2) 1.25m	=	0.1m	x	$\frac{100}{8\%}$

In example (1) the building has an annual rental income of £100,000 which represents the return on invested capital. In this case a yield of 10% is considered to be an adequate return on invested capital in relation to that available from other investment areas. The capital value of the building represents capitalized rental income which in this case is £1,000,000. In example (2) increased demand from institutional investors raises the market price of the building. Consequently, the

property investor must pay an extra £250,000 to acquire the rights to an annual rental income of £100,000. This reduces the return on invested capital or the yield by 2%. Low initial yields implies that the 'opportunity costs' of investing in property, at this point in time, are extremely high with the result that annual rental income may not cover the interest payable on borrowed development capital. Low initial yields, however, may be acceptable on the grounds that the total return from property, over a short period of time, will close the investment's reverse yield gap.

4.5 Rental Levels

Rental levels are determined by market forces on the basis of a supply/demand relationship. This relationship will be different for every city and property market, consequently, different cities command different rental levels and the same is true of individual developments and types of property (industrial, office, retail, warehouse). The rental level obtainable for a specific type of property in a specific town determines the profitability of any future property developments as well as the type of new development and their locations.

Barras (1979b) suggests that the level and variation of office rental levels are in the main the product of four variables. **First**, he notes that : 'there is a strong secular trend',which reflects general price inflation. **Secondly**, short term fluctuations occur which reflect changes in the balance between supply and demand. In times of oversupply rental level will stabilize and drop in real terms. In London in 1972 it has been suggested that rental levels were artificially maintained in a market suffering from an oversupply of office floorspace. In this case the supply of office space was manipulated by holding it in reserve, by delaying completion dates and by not taking up existing planning permissions (Counter Information Services, 1973). In periods of shortage office rents will increase above the level of inflation. The imposition of *Office Development Permits* (ODP) during the late nineteen-sixties restricted the development of new floorspace in London. As a corollary, the supply of vacant floorspace decreased and rental levels increased. **Thirdly**, Barras argues that 'the spatial distribution of rents reflects the locational pattern of demand by office using activities'. **Fourthly**, rents will vary according to the quality, age and

specifications of a particular development (Barras, 1979b, p.6-7).

A specific development's rental level is a product of the following factors :

a. The type of tenant.
b. The quality of the building.
c. The amount of net lettable floorspace.
d. The overall condition of the market : supply/demand.
e. Location relative to the national office market (inter-urban).
f. Intra-urban location.

The rental level is determined in part by the type and quality of the tenant, for example a newsagent is able to pay less rent than an outlet of major retail multiple. Within the city there is a continuous pressure to 'upgrade' land use, from low to high status tenants, from industrial to office and retail space, to its most productive use in terms of the amount of rental income it can commend. This pressure produces a constant demand for larger buildings constructed to higher specifications. Office developments which were constructed in London during the 1960s are currently been demolished to make way for larger and higher quality buildings to justify The City's high land values. In Birmingham, it is planned to demolish *The Bull Ring* and *The Rotunda* office building and replace them with a £250 million centre twice their size called *The Galleries*. To maximise rental income property developers and investors try to construct as much lettable floorspace on these sites as possible.

Although the question of location has been dealt with in Section 4.2, it is important here, however, to emphasise that an identical building in two different locations will command two different rental levels. If development costs are the same the important influence on development value is rental level. As has been shown development profit bears no relation to construction cost or total development profit. What determines the market or capital value of a development is its existing rental income which is a product of supply and demand (user/investment demand) and

its acceptable yield.

An inverse relationship exists between rental levels and yields. Prime office developments possess high capital values and low yields. The yield available from an investment is a reflection of its degree of security in relation to other investments. An investment which carries with it a high degree of risk must be compensated by an above average potential rate of return. This high rate compensates the investor for the periods when such investments are unsuccessful. In contrast, prime office space carries with it a low degree of risk. Prime space, is in the best locations, built to high specifications, let on long leases with regular rent reviews (every five years) to a 'blue-chip' tenant (a government department, multi-national corporation) and, in good condition. Such space is always in demand from tenants and property investors, consequently, it exhibits high rental levels but low yields.

In contrast to prime floorspace secondary floorspace does not meet these criteria. Secondary space, is located in areas of low tenant demand, generally in older buildings which are suffering from obsolescence and which does not meet the criteria set by the financial institutions for property investments. These buildings may have relatively high rental levels, but property investors would expect them to have higher rates of return to cover the risk associated them. Consequently, the greater degree of risk associated with this secondary floorspace results in lower capital values and higher yields. The relationship between capital values and yields is demonstrated in the following example.

Example :

(1) Secondary office floorspace

$$£1{,}666{,}666 = £200{,}000 \times \frac{100}{12\%}$$

(2) Prime office floorspace

$$£2{,}500{,}000 = £200{,}000 \times \frac{100}{8\%}$$

In example (1) an office building in the secondary property market possesses an annual rental income of £200,000. Owing to the condition and location of the building property investors require a high return on invested capital causing the development to have a low capital value. The office building in example (2) has the same annual rental income but a lower yield because of its greater security and consequently experiences high levels of demand from investors wishing to obtain the right to the ownership of its annual rental income. Consequently, this building has a higher capital value than the building in example (1).

4.6 The Property Development Cycle

Due to the imperfect nature of the property market, outlined in Section 4.2, the supply of commercial floorspace is essentially inelastic. Commercial floorspace, either industrial, office, retail or warehouse, is ultimately constructed to serve the needs of the productive sectors of the economy. It has been shown that its eventual production by property developers is determined by economic criteria laid down by the various property and landed capitals involved in its construction. The property development industry's response to user demand results in the periodic boom/slump nature of the property market. This has been a noted feature of its actions and has been an area for research since the work of Cairncross (1934) on Glasgow's building industry between 1870 and 1914. Other studies have identified building cycles in a number of different cities (Ashton, 1959; Cooney, 1960; Lewis, 1961; Saul, 1962; Daughton, 1978). The long term character of many of these cycles was noted by Summerson in his analysis of the development of Georgian London :

> London's growth has not been a matter of gradual and even incrementation, but of a series of distinct waves of activity at intervals of roughly about fifty years (Summerson, 1962, p.24).

Studies have attempted to explain why the construction of the built environment operates in a cyclical fashion. The majority of the early work on this

feature of the property market focussed on the residential sector of specific cities or on the aggregate analysis of statistical data. Lewis (1965) and Thomas (1954) examined the relationship between building cycles, international migration and the movements of export capital between Britain and America. These studies demonstrated that investment in the built environment of the nineteenth century cities can be closely correlated to the movement of export capital from England to America. Habakkuk (1962), however, argued that it is incorrect to assume that building cycles were always coincident with the movement of investment capital and labour within the Atlantic economy.

Recent research has focussed on the development cycles in the office (Barras, 1979a; Catalano and Barras, 1980; MacLaran and Malone, 1986) and industrial sector (MacLaran, MacLaran and Beamish, 1985; Fothergill, Monk and Perry, 1987) and has also investigated the relationship between different types of development cycle (Lewis, 1965; Gottlieb, 1976). Using this research Harvey (1978, 1982) has attempted to develop a general framework for understanding the creation of the built environment while others have tried to link a variety of development cycles with national economic indicators (MacLaran, MacLaran and Malone, 1986).

a) The Reasons for the Boom/Slump Cycle

Barras (1979a), suggests that the inelastic nature of the property market is responsible for its cyclical nature. The boom/slump cycle is a result of the time lag between the initial demand for commercial floorspace and its eventual supply. The property market consists of a variety of distinct property companies and investors working independently. Their actions coupled with the inelastic nature of the property development process produce the boom/slump cycle. Due to the heterogeneous nature of the property market it is not possible for the producers of built-space to make a perfect response to a perceived shortage. When rental levels begin to rise indicating that prospective tenants are competing to occupy an insufficient amount of space, a number of developers will respond. This cannot be an immediate response as it takes between two to four years to construct an office building and it may take as long as

twenty years to acquire and assemble a suitable site. In the interim demand may have been satisfied leading to an oversupply of space on the market.

A typical property development cycle commences with increased user demand for new floorspace. This may be the result of either a boom in the service sector or the consequence of a period of restricted supply. Competition between potential users increases the capital value of existing developments as rental levels increase. As capital values rise the potential profitability of any new development increases. This will encourage a number of property developers to begin constructing new developments. If demand continues to grow, the available floorspace on the market will continue to decline which will encourage other new developments. Nevertheless, the first series of buildings may satisfy user demand and if this occurs the property market will enter a period of oversupply when the second series of developments are completed.

This *"over-heating"* of the property development industry, encouraged by favourable trends in user demand, results in the creation of an over-supply of floorspace. Only when this potential oversupply materializes will development cease. This over-supply will gradually be eroded by user uptake of the vacant space. Rents will stabilize or fall in real terms while yields will rise and capital values fall. Development will only occur in prime areas during this period or be let before construction commences (pre-let). Gradually the surplus will disappear and may be succeeded by a shortage. When this occurs rental levels will begin to rise as tenants compete for floorspace and in turn property developers will begin to construct new buildings. This is the beginning of a fresh property development cycle.

b) The effects of the property development cycle

The size and location of development activities varies over the property development cycle. A study of Manchester's office market noted that during the slump in the office market between 1966 and 1969 44% of the office developments were under five thousand square metres whereas during the boom of 1970 to 1974 only 28% of developments were under five thousand square metres (Catalano and

Barras, 1980, p.43-44). Developments undertaken during the boom were consistently larger than those undertaken during a slump since during a slump in the property market property developers and investors want to restrict their exposure in a under performing market. In order to test the condition of the market at the commencement of an upturn in a city's property development cycle property companies will develop a number of small buildings. If these are successful larger developments may be undertaken.

The type of floorspace constructed over a property development cycle varies in its location as well as in its size. Malone's work on Dublin's office development market since 1960 distinguishes between prime and secondary development areas. A prime office development area has an established tradition of office land use. During an upturn in the property development cycle pressure for sites within prime areas increases. This leads to an escalation in land prices which forces property developers to consider sites in secondary locations, for example in established industrial or residential areas around the Central Business District. During a downturn in the property development cycle building is restricted to prime areas of the city. Property development in secondary locations entails a high potential risk and is only undertaken during a strong property boom or when government subsidies are available to encourage development of decayed areas (Malone, 1981; Malone, 1985a). This advance and retreat into secondary development areas appears to be characteristic of most property development cycles.

Each city will have a slightly different property development cycle which is linked to national and local economic trends. There can be wholly different boom/slump cycles between cities. As well as this each property type (industrial, office, retail, warehouse) undergoes distinct and to an extent independent development cycles. This is due to the unique characteristics of particular property types in terms of the time lag between initial development planning and completion (MacLaran, MacLaran, Malone,1986). For example, it takes two to three years to construct an office buildings while it takes less than a year to built a factory or retail warehouse.

The cyclical nature of the property development industry produces

periods of under and oversupply of commercial floorspace. During periods of oversupply the costs of holding vacant buildings are substantial since capital is fixed in land and buildings which are not yielding a return on invested capital. The cyclical nature of the property development industry has important consequences for development profitability as will be discussed in Section 4.8 . As was shown in Section 2.5 construction companies represent industrial capital in the property development process. This is the least powerful capital in the overall process since during slumps in the development industry the profitability of the construction industry is considerably reduced. Tender prices and construction workers' wages are constrained and property developers hold a powerful position in contractual agreements. For example, between 1980 and 1984 despite the fact that the general retail price index increased by 33 per cent; the price of construction material by 30 per cent and wage rates by 54 per cent while the cost of construction to the customer hardly altered (Vickers, 1984, p.58). The real cost of labour in the construction industry is related to the wide spread use of sub-contracting. The rates sub-contractors pay is related to the amount of work in a locality rather than to nationally based wage settlements. As the property development cycle enters an upturn tender prices set during the slump based on current wage and material levels have to be honoured. During this period The Construction Industry Unions, seeing the rise in the level of work, will demand a rise in wages. Since the cost of material inputs will rise as demand increases the construction interest's profit may decrease further if a contract price had been set during a slump in the building industry. During a period of over-heating in the property development industry the construction interest can manipulate the level of tender prices as work is relatively plentiful. The uncertainty and instability of the construction industry's labour force is one result of the boom/slump cycle. In a number of cases industrial capital has attempted to gain a greater share of development profit by engaging directly in property development by establishing their own property development company.

4.7 The economics of individual developments

The property development industry produces a commodity, built-space which is composed of land, capital, raw materials and labour. Each type of capital

involved in the property development process receives its share of development profit: financial capital in the form of interest; construction capital in the form of tender costs; landed capital in the form of site value or ground rent. The return to commercial capital (the property developer) will vary with the funding arrangements of specific developments and the level of development costs. The most profitable period for development is during an initial upturn in the property development cycle. Land is relatively inexpensive, tender costs have not become overheated and user demand is high. As the cycle proceeds land values increase as a consequence of development pressure which makes it increasingly difficult to obtain adequate profit margins. Tender prices and construction materials will also increase in real terms.

A property company either identifies a potential site or attempts to time the development or redevelopment of a site they already own. In both cases the property company performs a site appraisal to determine a development's potential profitability. Site appraisals examine the cost of articulating the four capitals involved in the property development process. A typical site appraisal form is given in Table 4.4, however, most property companies use computer spread sheets and packages to assess the viability of potential scheme. During a downturn in the property development cycle it will be unprofitable to develop many sites as rental levels will be too low to justify the cost of development. At the peak of a boom in the property development cycle land, construction costs and the cost of external capital borrowings will be relatively expensive. Successful property developers try to identify the initial signs of a forthcoming boom in the property market. Buildings initiated at the start of an upturn will be relatively inexpensive and will be let before the market becomes saturated and rental levels begin to stabilise or maybe fall in real terms.

Site appraisal begins with an assessment of a building's future potential rental income. This estimate is based on the likely levels of user demand and the available and future supply of space on the market. This figure determines the capital value of the completed development and sets the amount of money available for the project. If the cost of the completed development is less than its potential capital value rental levels are not high enough for a profitable property development.Construction costs are estimated on the bases of current building costs adjusted to account for inflation while

Table 4.4 A Typical Development Appraisal

SITE APPRAISAL COMPARISON AS AT:
Address:
Type of Development:

Prepared by:
Ref No.
Size:

	Time One	Time Two
a) Rental Income From Development		
Rent = psf		
Total Rent =		
Less : Ground Rent		
Net Income =		
b) Costs		
Land Purchase =		
Stamp Duty =		
Legal & Agents Fees =		
c) Interest		
Holdings months @ (%)		
Development months @ (%)		
d) Roads and Sewers		
Services =		
Fees =		
Interest = months @ (%)		
e) Demolition/Ground Work =		
f) Building		
Fees =		
Interest = months @ (%)		
g) Agents Letting		
Fees =		
Promotion/Inducements = (rent free periods, fitting expenses)		
TOTAL =		
h) Institutional Rate of Return = (%)		
i) Gross Profit on Sale		
Less = Legal Fees		
Net Development Profit/Loss =		
Return on Cost =		

the cost of interest on borrowed externally generated capital is known, an adjustment for potential alterations in interest rates must be undertaken to allow for any increase. Land is a residual value in this process; after all the other costs are determined, including a suitable return for the property developer, what remains is the amount available for site acquisition. If this is too small either the development will not be undertaken or more floorspace will have to be built on the site. Provincial city landowners obtain only a small fraction of total development value as low rental levels produce low capital values. In a number of provincial cities rental levels are so low that site values are essentially negative. In contrast, in London, because rental levels and user demand are high landowners are able to extract a greater share of development profit. In an active property market landed capital's share of development profit will increase. During times of oversupply land values will drop. The latter is the right time to buy as long as the interest on borrowed capital can be met.

In *The Returns from Office Development and Investment* (1979) Barras examines the returns to each of the various property and landed capitals for London and Manchester (Table 4.5). This table includes a breakdown of the development costs of a single office building completed in 1987 in the East Midlands by an international developer-investor (1). No figure for development profit is available for this development as the property developer claimed that if development profit was taken as part of the analysis this would result in a negative site value. Presumably, the development was undertaken on the basis of future rental and capital growth. Barras notes that in London:

> . . . it is always property companies and financial institutions (sharing the development profit) plus landowners (usually from ground rent) who obtain the major returns from office development (Barras, 1979, p.33).

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(1) This information was obtained during a confidential interview with this company on the 29/9/ 1987.

Table 4.5 Components of Development Value in the City of London, Manchester and the East Midlands

	(1) City of London 1958-1972 (per cent)	(2) Manchester 1958-1972 (per cent)
Development Profit	33 - 46	10 - 25
Site Acquisition	25 - 33	9 - 18
Construction Costs	6 - 24	36 - 59
Construction Profits	1 - 4	5 - 9
Interest Paid	12 - 19	12 - 19

	(3) East Midlands 1987 (per cent)
Site Acquisition	18.5
Construction Costs	62.7
Fees on Construction etc	8.0
Finance/Interest	3.5
Other Fees/Estate Agents/ Insurance/Letting Fees	7.0
Development profit	?

Source: (1) & (2) Barras, (1979), p.63 and (3) a personal interview 29/9/1987 with an international developer-investor based in Nottingham.

In contrast, in provincial centres, like Manchester, there is an even spread of returns amongst development and landed interests. This difference is related to the overall profitability of developments. Office developments in London have higher rental levels and consequently higher capital values. In addition the mass of floorspace in London adds value to all developments. This, in effect, reduces the value of a development which is attributable to industrial capital (construction). In contrast in the provincial city the construction interest takes a greater share of development profit as is verified by the East Midlands example.

Tenants enter the property market to acquire the highest quality floorspace at a rent that they can afford. During periods of shortage rental levels increase while they decrease in real terms or stabilise when a surplus of floorspace exists on the market. Consequently, rental levels increase at the start of an upturn in the development cycle and stabilise during a downturn. Tenants are able to choose between a variety of available buildings during periods of oversupply while they have little choice during periods of shortage. In real terms buildings let during downturns in the property development cycle will have low rental levels. Modern leases contain regular reviews which allow the property investor to bring a building's rental income into line with current market conditions. A building let during a downturn will probably experience its first rent review during the next upturn in the property development cycle.

Buildings acquired during an upturn in a property development cycle will initially produce low yields in relation to their capital values. Capital values increase during an upturn in the property development cycle as demand from property investors is high. In contrast, buildings acquired during a slump will have low capital values in relation to their yields since property developers will have been more anxious to reduce their levels of external borrowing by selling completed property developments A study by Jones Lang Wootton of its *Property Performance Analysis System* (PPAS) database in 1985 highlights the importance of the timing of property investments . This database consists of 1,600 properties with a total book value of £2.5 billion owned by insurance companies, pension funds and property unit trusts. This study shows that the greatest returns from property investment were achieved from buildings acquired after the

collapse of the United Kingdom's property market in 1974. These purchases were relatively cheap and in consequence have shown good overall returns. Conversely, buildings acquired during an upturn were relatively expensive and exhibit lower rates of return. The timing of a property investment is equally as important as the timing of a property development.

4.8 Institutional Property Investment

> It was a combination of in-built scarcity, inflation and the active participation of entrepreneurs and financial institutions that transformed the British property market from a financial backwater, in which owner occupiers and specialist investors engaged in a humdrum commerce in bricks and mortar, into a uniquely important part of the financial system (Plender, 1982. p.92).

Direct investment in commercial property has been a feature of the British financial system since 1970. Prior to this period financial institutions were indirectly involved in the property development process through share ownership and loans to property companies . This section considers briefly the history of financial institutional involvement with property and the amount of capital currently invested in this sector.

Prominent amongst the financial institutions investing in property have been insurance companies and pension funds. The investment policies of these institutions have increasingly governed the property specifications and development decisions of private and publicly quoted property companies; indeed, according to the chief executive of English Estates:

> The supply side of the property industry is very fragmented and most of those involved must of necessity give priority to their own profitability and to the provision of premises which will attract institutional finance (Pender,1986).

Consequently, property companies try to meet the investment criteria set by the ultimate owners of most commercial buildings, the financial institutions. These institutions are not concerned primarily with property as 'use values', but as 'exchange values'. In fact, acceptable yields obtainable from property are a product of comparisons with the gilt and equity markets. Such investments, which are comparatively liquid, are used to measure the performance of an illiquid investment, commercial property.

Financial institutions can be divided into three types: pension funds, insurance companies and unit trusts. Pension funds are the largest group closely followed by insurance companies while unit trusts were established as a mechanism to spread investment risk amongst the smaller pension funds which cannot afford to hold an adequate spread of property investments. Property unit trusts developed to meet this difficulty; they pool the smaller pension funds' resources and consequently are able to hold a wide variety of property investments.

In 1986 insurance companies and pension funds controlled more than £349 billion of savings which gives the fund managers of such a limited number of institutions considerable power over the United Kingdom's economy. The top ten insurance companies account for over fifty per cent of all long-term funds (life assurance, pensions, annuities) (Table 4.6). At the start of the Second World War private individuals owned more than eighty per cent of the ordinary share capital of British companies listed on the stock exchange. Four decades later they owned between twenty-eight and thirty-six per cent. In each of these forty years, between 1 and 1.5 per cent of the share capital of quoted companies was acquired by the financial institutions (Plender, 1982, p.13). By 1987 the twenty five largest Life Assurance companies had a gross investment income of £7,898 million (1). This amounts to an investment income of £151 million a week. Life funds are of greater significance than general, non-life funds, as they are far greater and exhibit a high

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(1) Times Books (1987) *The Times 1000 - 1987-1988* (Times Books, London).

Table 4.6 Britain's Ten Largest Life Assurance Companies - 1987

Company	Life Funds	Premium Income	Gross Invest. Income
		(thousand pounds)	
Prudential	22,476,400	2,351,900	1,179,900
Legal & General	10,394,200	984,000	640,900
Norwich Union	10,255,300	1,339,900	577,100
Standard Life	8,482,800	1,305,500	670,600
Commercial Union	5,734,400	722,700	509,500
Sun Alliance	5,275,000	704,500	341,000
Scottish Widows	5,244,595	471,612	347,591
Guardian Royal	4,444,700	626,900	258,400
Scottish Amicable	4,057,437	560,411	270,544
Allied Dunbar	3,829,895	569,493	221,771

Source: Times Books (1987) The Times 1000 - 1987-1988 (Times Books, London) p.73.

degree of illiquidity (Carter, 1972, p.45). In the United Kingdom regular contractual savings to life assurance companies and pension funds generates a vast amount of capital which is continually seeking investment outlets. By 1986 the long term funds of insurance companies amounted to £158.551 million, £21,991 million (13.7%) of which was directly invested in property. Pension funds total assets amounted to £190,472 million; £12,359 million (6.5%) of which was invested in property while £2,424 million (1.3%) was invested in property unit trusts **(1)**.

Pension funds and life assurance companies borrow long and consequently must invest over a long period of time. These institutions are still growing rapidly and consequently their investment fund does not need to be realized to meet annual outgoings in the form of pensions and refunds. For example, in 1986 fifty-seven per cent of the *National Coal Board's Staff Superannuation Schemes* income was derived

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(1) Central Statistical Office (April 1988) *Financial Statistics* (HMSO,London) p. 87-90.

Table 4.7 The National Coal Board Staff Superannuation Scheme - 1986

Income			1985	1986
			(million pounds)	
Contributions:				
Members			24.7	30.1
Employers			75.6	116.6
Transfers from other schemes			10.9	18.3
		Total =	111.2	165.0
Investment Income:				
Ordinary Shares	-	UK	66.9	77.0
		Other	6.5	5.1
Fixed Interest Securities	-	UK	42.1	50.7
		Other	6.2	7.4
Index-linked Securities	-	UK	2.5	4.1
British Investment Trusts	-	UK	5.3	5.8
Property	-	UK	39.3	41.8
		Other	16.8	10.0
Interest on Cash Deposits	-	UK	14.1	20.1
		Other	1.4	1.6
Miscellaneous			5.2	1.9
		Total =	204.8	224.3
Expenditure			157.1	204.1
Excess of Income Over Expenditure			**158.9**	**185.2**

Market Value of Fund
(million pounds)

1982	1983	1984	1985	1986
2042	2535	3048	3490	4393

Source: National Coal Board Staff Superannuation Scheme Reports and Accounts 1985/6 (British Coal, London).

from its investment portfolio; eight per cent from members' contributions and thirty-five per cent from employer's contributions. £185.2 million or 48% of the fund's income from investments and members' contributions was invested (Table 4.7).

The investment policies of these institutions dominate the United Kingdom's economy and are an issue often raised in the popular press. It has been suggested that their investment policies are one of the causes of Britain's economic decline (Gough, 1979, p.199). This argument hinges on the suggestion that investment into unproductive areas of the economy, for example land and buildings, restricts the level of loan capital available to industry. Murray disagrees with this argument as he believes that investment in non-productive sectors of the economy are justifiable on the grounds that there is a shortage of suitable alternative investment outlets (Murray,1983). In fact financial institutions are really being criticized because they perform their job too efficiently. Indeed, Murray makes the obvious point that:

> Capitalist money cannot alter its intrinsic character, which, like capital in general is to drive always for maximum self expansion . . . It invests in property, but the fault lies in an organization of landed property which permits secular real increases in urban rent and therefore offers a secure hedge against inflation (Murray, 1983, p.90-91).

Not to invest in commercial property and other more esoteric areas like forestry and art would be contrary to the expectations of those whose future pensions rest on the profitable performance of these institutions.

Financial institutions have a long and varied association with property investment. During the 1950s these institutions provided loan capital to property companies, in the form of long term fixed interest loans and debentures while not sharing in development profit. At this time property developers acted as distinct entities with no direct links with either financial or industrial capital. After the initial process of site identification the property developer coordinated finance from either pension funds or life assurance companies. Industrial capital, as represented by a

Table 4.8 Property Company Acquisitions by Insurance Companies - 1971-1975

Date	Acquiring Company	Acquired Company
July 1971	Commercial Union	Holloway Sackville
" "	Guardian Royal Exchange	Metropolitan Railway
November 1972	Commercial Union	West Bar (Leeds)
March 1973	Commercial Union	Weatherall Property
" "	Guardian Royal Exchange	Tanway Properties
August 1973	Royal	Sterling Estates
September 1973	Prudential	Edger Investments
October 1973	Legal and General	Cavendish Land Co.
1974	- - - - -	- - - - -
March 1975	Eagle Star	Grovewood Securities
October 1975	General Accident	Brighton,Worthing & District Property
December 1975	Pearl Assurance	New London Properties

Total Acquisition Cost = £142 million

Average Spent per year = £12.9 million

Source: Franklin, 1976, p.1127

construction interest, entered the process by either open or closed tender. The eventual owner of the completed development was generally not the initial financier. Each of the four capitals examined in Section 2.5 appeared in the process as a separate entity.

By the end of the 1950s the institutions realized that they had made a number of property developers extremely wealthy. From 1959 they began to demand a share in development value either through taking a share in a property development company's equity value or in individual property developments. During the 1950s a number of development companies became linked indirectly to specific institutions. These links are examined in the work of Whitehand (1984) and Marriott (1967). A concentration of the various capital involved in the property development process has occurred overtime. Financial capital has merged with development capital either through backward linkages with property development companies or by the establishment of their own property development departments. In 1976 Franklin undertook a study of the acquisition of property companies by the insurance companies (Franklin,1976) (Table 4.8). This implies that the property developer's

role as the coordinator of distinct capitals is increasingly carried out by some form of financial capital. Franklin cogently notes that :

> Economically, the considerable concentration of financial and real assets among few companies is a potentially worrying feature of the contemporary financial system. Similarly, the nature and extent of formal interdependencies existing and being forged between insurance and property companies (and between banks and insurance and property companies) are facets of the financial system that have received little attention (Franklin, 1976, p.1129).

4.9 The Structure of the Property Development Industry

The relationship between the features of the property development process considered in this chapter must be examined to indicate the overall structure of this industry. A generalized model of the structure of the United Kingdom's property development industry is provided in Figure 4.1. Like all models it simplifies many of the relationships between the various elements of the process but it provides an indication of the total structure of these relationships. Such a model can help indicate areas for research into the processes that lie behind the creation of the built environment.

The property development industry is a primary element of the United Kingdom's financial system as the commodity it produces is an investment medium. The actions of financial institutions and the operations of the other investment markets ultimately influence what type of space is constructed and its location. Financial institutions invest the funds deposited by their members or contributors to insure safety and an adequate return in equities, gilts, property or a number of more esoteric investments, for example paintings and bridges. A decision is taken by each financial institution's Board of Directors which determines the proportion of the fund which will be invested in each of these areas. Once the proportion of the institution's fund to be invested in property is set a locational decision must be take. Initially this decision is between property located overseas or within the United Kingdom. This locational

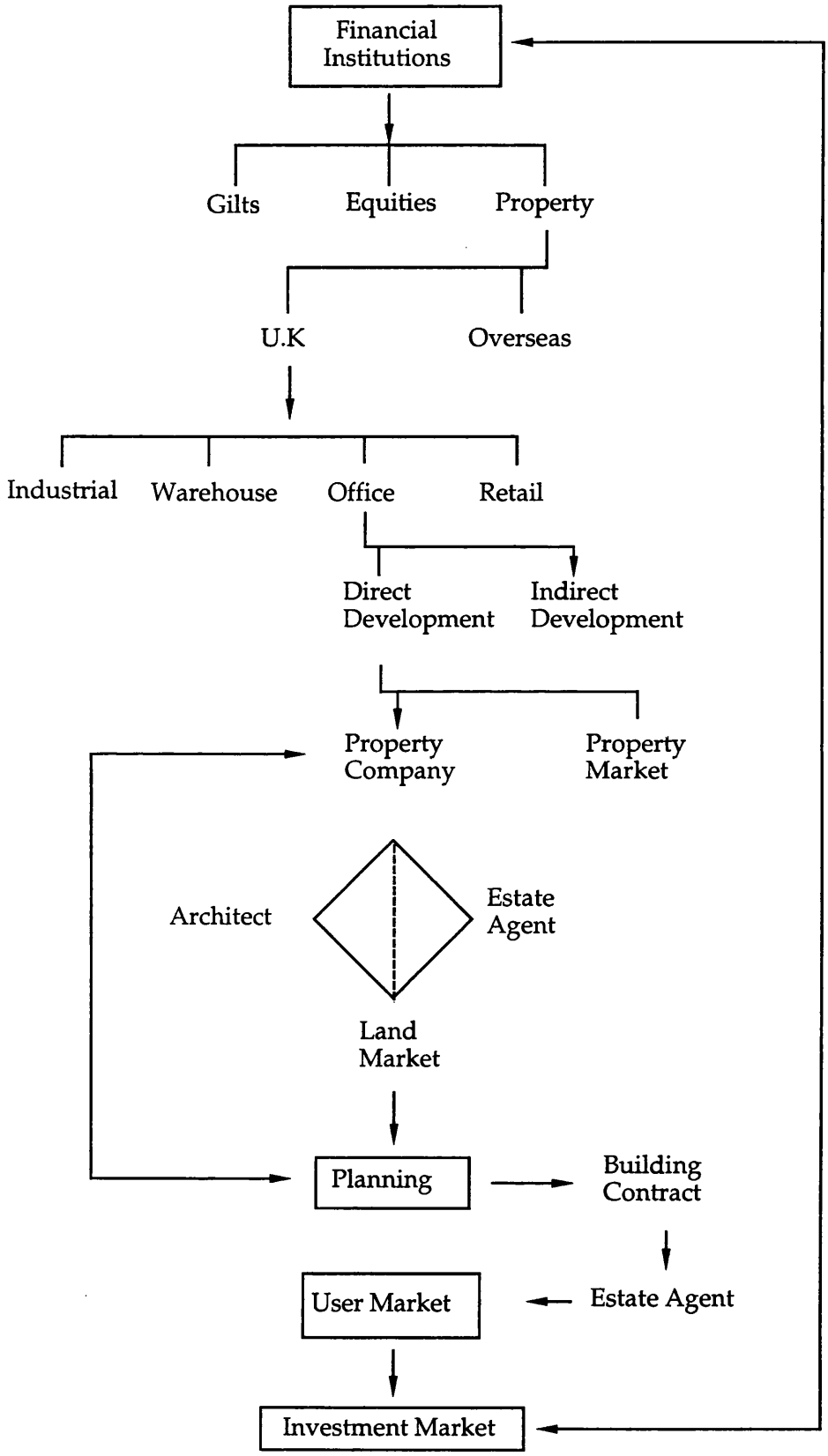

Fig 4.1 The Structure of the Property Development Industry

decision is set by the perceptions of each institution's Board of Directors and fund managers. The financial institution must decide in which type of property market it wants to invest. This decision involves an assessment of the returns available and the security of each of the property types as a long term investment medium.

Financial institutions can either become directly involved in the property development process or obtain buildings from a specialized property company. If direct development is undertaken the financial institution must follow the same pathway through the model as property development companies. At this point in the model the operations of the financial institutions have determined the type and general location of the floorspace that property companies will construct. This decision is influenced by the financial institution's perceptions and knowledge of the present state of the user market. The property developer interacts with the land market to identify a number of suitable potential development sites. Each site undergoes a rigorous site appraisal to ensure that it is suitable for development. The property company uses estate agents in its search for suitable development sites and architects to design the buildings. Potential development proposals are mediated through the operations of the state land use planning system. A negotiation process occurs between the planning process and the property company to produce a proposal which will be acceptable to both parties. Often a series of community interests groups are involved in this process. The final scheme will be the result of an intensive process of negotiation and mediation between all the interests involved in the development of the site. The development proposal is submitted to a number of construction companies by either open or restricted tendering. An open tender is advertised publicly, any construction companies can apply for the contract. Closed tenders are offered to a limited number of construction companies who are invited by the property development company to apply for the contract. Once the development proposal has been approved by the planning authorities estate agents are employed to find suitable tenants and an investor for the finished building. Where possible the building is let and sold before it is completely finished. The building than becomes the property of a financial institution or other type of property investor.The building becomes part of the built environment and consequently affects and partly determines future development decisions.

4.10 Summary

The property development process consists of a number of interrelated elements which have been examined in this chapter. An attempt has been made to develop a simplified model of the structure of the United Kingdom's property development industry. A number of relationships between elements of the model merit further investigation. Of central importance to a geographical analysis of this industry is the relationship between the property development process and the land surface or space-economy. In other words, an understanding of the forces that produce the buildings and spaces that form the United Kingdom's space-economy. This model simplifies this complex relationship, revealing little about the types of mechanisms that property developers use to identify potential development sites. Chapters 5 and 7 examine this relationship in greater detail. This chapter has considered the economics of development appraisal, however, most decisions are not founded solely on economic criteria. Non-economic variables may be equally important in the appraisal of a potential development site. These non-economic variables are considered in the next chapter while Chapter 7 examines the assessment of development viability in greater detail.

CHAPTER FIVE

The Property Developer and the Space-Economy

> You should always remember that the largest profits arise from new office developments, well located and as large as possible, which have been built on sites that were acquired cheaply before anyone else saw the possibility (C.I.S., *The Recurrent Crisis of London*, 1974, p.8).

Introduction

Commercial capital and financial capital are the most significant of the four capitals associated with the property development process. Ultimately, the investment policies of the financial institutions, financial capital or *'property capital'* , influences commercial capital's development decisions (Barrett, 1978, p.239). Not all office developments are produced or held solely on investment criteria set by these institutions. Such a restriction would necessarily imply that secondary or marginal areas of the United Kingdom's space economy would experience little or no new property development. Construction capital has little direct influence on spatial aspects of the property development process; land has, of course, to be available for a development to occur.

An office development, like any other commodity, is composed of three factor inputs : land, capital and labour. Land, is the primary input into the property development process, yet research which examines the relationship between the physical land surface, capitalist economy and the property development process resulting in the creation of the space-economy is difficult to find. A number of features of the space-economy are relics of former types of economic system, for example, modern roads often follow the path of preindustrial roads. The property development

process is one of the fundamental producers of capitalism's space-economy. Changes in the economic system lead to a demand for alterations in the existing structure of the space-economy. Such changes usually require the construction of new buildings to house new elements of the economic system. The relationship between individual property development companies and the space-economy is the fundamental basis of the property development process and merits detailed investigation.

The locational decisions of property development companies can be divided into macro-locational and micro-locational decisions. The particular area or extent of a property company's development activities is determined by a combination of implicit or explicit macro-locational decisions. These restrict the extent of the property company's development activities. Micro-locational decisions refer to the actual identification of a particular development site within a specified area while macro-locational decisions operate to identify cities and regions as suitable development locations. This chapter examines macro-locational development decisions while Chapters 7 and 8 considers micro-locational decisions. To understand the micro-locational decision the limitations imposed by macro-locational decisions must be understand since the first is the product of the second.

5.1 The developer's role in the production of built-space

The primary decision-making unit in the property development process is the property developer, whose most valuable resource is knowledge, derived from a variety of formal and informal networks the nature of which which will be examined in Chapter 7. The property developer's role is:

> . . . to understand and co-ordinate the activities of all those involved in the development process **(1)**

This role can be sub-divided into a number of distinct activities: site identification,

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(1) Lynton Property and Reversionary plc, *Annual Review of Activities,* 1987, p.1.

site appraisal, site acquisition, acquisition of development capital, arrangement of construction, management of development, the letting of completed developments and their sale to property investors. All of these, depending on the size of the property development company, may be undertaken by one individual, but large property companies have separate departments which specialize in each function. Each activity may be performed in different ways, reflecting the structure and motivation of the development agent concerned.

Section 2.5 argued that the development function involves the articulation and manipulation of a series of capitals and interests associated with the property development process. One property developer interviewed stated that most of his business was carried out over the phone. This implies that the development function is spatially unconstrained as it involves the articulation of a variety of mobile and immobile capitals rather than the direct physical creation of a commodity; office buildings are constructed by construction companies rather than property companies. The finished commodity is fixed in space, but the articulation of the various land and development interests involved in its creation are spatially unconstrained. Nevertheless, commercial capital, as will be shown below, is in reality constrained by a variety of economic and non-economic organizational factors.

In comparison to other industries property development companies require very few employees. The productivity of the labour force and the profitability of the *Wiggins Group plc* illustrate this feature (Table 5.1). The Wiggins Group plc is

Table 5.1 Employee Productivity of the Wiggins Group plc, 1988

	Turnover (£000)	Profits (£000)	No. of employees	Productivity per employee (£)
Property Development	11,922	1,150	19	627,000
House-building	23,444	4,649	73	321,000
Motor Sales	37,798	1,364	249	5,000

Source: Wiggins Group plc (1988) Annual Report

engaged in three distinct types of activity: commercial property development, house-building and motor sales. The productivity of employees working in the company's property development department is 125 per cent higher than those working in the motor sales division.

The property developer's contribution to the development process, and the justification for the role, lies in acquired development expertise which considerably reduces the risk associated with development. The continued existence of the property developer's role, whose primary function is the creation of built-space, is constantly questioned. This function to Bateman has:

> . . . become little more than an intermediary between the financial institutions and full development profit (Bateman, 1985, p.20).

But financial institutions function on the basis of least risk exhibiting a conservative approach to development. This is an argument frequently used by property developers to justify the continuation of their role :

> . . . the developer's role is to find sites and locations and put the deal together. There are no real entrepreneurial skills in the institutional environment (financial institutions). Property development is not central to their job (Interview, International Investor-Developer, 29/9/1987).

Many financial institutions are aware of the limitations of institutional property development, for example the investment manager of *The Electricity Supply Pension Schemes* clearly does not favour direct development by institutions such as his:

> . . . quoted property companies tend to be better developers than institutions . . . using developers minimizes risk - they carry the risk and guarantee rents and covenants; and they are more suited to development (Westwell & Johnston, 1987a , p.14).

This supports Bateman's comment on the developer's intermediary role. Yet this role is vital for the efficient production of built-space under the property development industry's current system of commodity production. It can be argued that the role of the property developer demonstrates Plato's maxim that:

> Quantity and quality are therefore more easily produced when a man specializes appropriately in a single job **(1)**

Bateman concludes his argument by claiming that:

> . . . the property company still has a vital role to play, possibly in *peripheral areas,* where their experience of the development process may be vital for a successful development (Bateman, 1985, p.20, my italics).

This highlights the importance of property developers who are motivated by a combination of economic and non-economic factors since a development's success may be measured on the basis of a number of non-economic variables which may justify an initial nominal development profit.

Institutional property developers are constrained by size limitations on the scale of development they can undertake. Lot size, in monetary terms, determines the size below which institutional property developers will not operate. By inference developments below this threshold must be undertaken and held as investments by small property development companies or local and regional investment funds. A number of property investors interviewed stated that they would not hold investments with a completed development value below two and a half million pounds. This is confirmed by the company reports of a number of listed property companies, for example, MEPC in its *Group Review of 1987* provides a list of investment properties with capital values over this figure **(2)**.

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(1) Plato *The Republic Part 2*, (Penguin,1955, p.103).

(2) MEPC (1987) *Group Review* (MEPC, London).

There is a need to clarify the meaning of the word 'developer'. An institutional property developer's motivation rests in the investment arena, property is seen as a long term investment; whereas for the speculative property developer property development is a means to acquire short term development profit rather than long term capital growth. For the 'peripheral' property developer, to use Bateman's terminology, property development is undertaken for a variety of short and long term gains. Consequently, it is difficult to derive a classification of development interests. The archetypical abstract classification of commercial capital presented in Section 2.5 explains the property developer's role in the overall process, *but* it does not examine variability in its performance. The model of the development process based on capital flows, in some ways, hides more than it reveals. It provides an understanding of the total process, but this is essentially static. It fails to provide an adequate definition of the development function based on the motivations of the various types of development interests involved in the creation of built-space. Consequently in the next chapter a classification of development interests based on their motivations is examined.

5.2 The Locational Decision

Economic geography has been preoccupied with organizational locational decisions, yet Dicken suggests that for the majority of organizations the locational decision is often an incidental single occurrence (Dicken, 1971, p.427). For the property developer, the locational decision is central to every development decision; success or failure is, ultimately, contingent on the development's location. Indeed, to Larmarche, a part of development value is attributable to externalities that lie outside of a building's direct influence (Larmarche, 1976, p.100-101). Developers profit from other developments in the same locality as well as from public capital investments (for example infrastructural investments). As Larmarche notes, this part of rent is :

> . . . differential because the situational advantages on which it is based are not evenly distributed throughout space. It is constituted

> by the excess 'rent' that the owner demands in exchange for these advantages (which, moreover, do not belong to him) (Larmarche, 1976, p.100).

The capital value of a completed development predominantly depends on its location and the buildings and infrastructure that surrounds it. The property developer's role is to identify such sites and to judge how their advantages can be completely utilized. It is a question of identifying underutilized resources. Marriott (1967) in his excellent account of the property development industry argues that,

> The developer is like an impresario. He is the catalyst, the man in the middle who creates nothing himself, maybe has a vague vision, and causes others to create things. His raw material is land, and his aim is to take land and improve it with bricks and mortar so that it becomes more useful to somebody else and . . . more valuable to him (Marriott, 1967, p.24).

A far sighted property developer may have a development "vision" sufficiently large enough to create the conditions of its own profitability. This process is currently occurring in London's Docklands since office users would normally be reluctant to occupy floorspace in a decayed industrial wasteland. A single development in such an area would not succeed economically, however a number of developments can bring about a physical transformation.

5.3 Non-economic variables and the decision making process

One of the central concerns of this study is that the urban environment is shaped by capital, for capital; previously geographers took for granted the primary tenet that commercial floorspace is a commodity produced by a series of specific social relationships. The supply of built-space in most traditional economic and social geography was taken as elastic; demand could instantaneously be met by the mechanisms of supply. Yet this assumption ignores the time-lag that exists between the initial demand for commercial floorspace and its eventual supply; built-space is

not an elastic commodity. For example, Alonso's (1960, 1964) theory of the urban land market is founded on the assumption that rent functions to distribute urban land uses. Alonso's theory posits that land uses determine land values while land values then distribute land uses according to their ability to pay (Alonso, 1960, p.158). The landowner plays a passive role in this process.

The assumption has been made in this thesis that capital, in most cases a 'rational capital', is the key to understanding the property development process. Property, it is stressed, is another investment medium similar in many ways to the equities and gilts markets. Rational economic decisions are made on the basis of development economics and comparisons between returns available from other investment mediums. The implicit assumption is that a state of complete knowledge exists upon which development and investment decisions are based. Complete knowledge about any economic, social or physical process is philosophically possible, but in practice is impossible. For example, one of the central difficulties in the analysis of the property development process is the unique characteristics that each development possesses; each potential development contains variables which may be difficult, if not impossible to quantify, for example, site characteristics, its contingent location and legal titles.

Rational economic man exists in an environment in which all relevant information pertaining to a decision is known. This assumption is flawed in an analysis of the property development process. For example, it is a mistake to infer that property developers decide and plan development programmes solely on the basis of development economics. An over emphasise on the types of capital involved in the production of the built environment can lead to an underestimation of the influence of a series of non-economic variables; property developers have desires, emotions, needs and intuitions which affect their judgments. Non-economic as against economic variables may have just as much weight in the development decision making process. Mounfield points to the significance of non-economic variables when he suggests that

> . . . in any decision about the "true value" of a particular piece of land, the prospective buyer, and the prospective seller of rights to

> use that land, ideally would need to be in possession of accurate knowledge . . . Clearly, some things would be unquantifiable (Mounfield, 1977, p.280-281).

In conclusion, what is built and where it is built is a complex decision making process of which economics is only one part. The decisions which lie behind the creation of the built environment are not entirely influenced by economic criteria; most decisions involve a complex interplay of a variety of factors, some of which are dictated by company policy, some by personal experience and some by training and intuition. In his biography of Jack Cotton and Sir Charles Clore, Gordon, describes a number of influences on the property entrepreneurs decision making process. He argues that:

> An entrepreneur's sudden course of action was almost never inspired by logic but almost always by an emotion brought to the surface erupting from a feeling of anxiety, from a sense of insecurity, from a desire to 'show them' - them being a member of the establishment, or a partner or a competitor or a family 'relation' (Gordon, 1986, p.5).

Emotions and feelings have a direct, but unmeasurable, influence on every decision making process. One property developer interviewed jocularly claimed that given two potential development situations he could usually "feel it in his water" which would be the most profitable. Gut feeling can be as important as rational economic reasoning since it implicitly influences individual decision-maker's perceptions of *'objective'* reality. No matter how rational a process may seem it will always be influenced by an unknown amount of human irrationality and judgment.

5.4 Decision Opportunity Costs

Once it is accepted that the development decision occurs in an environment which is not solely influenced by economic rationality, a number of interesting

research questions are raised. Rational economic decisions are supposedly based on a consideration of all available knowledge, but the cost and effort of acquiring all available knowledge may be prohibitive. Decision making would be slowed down and potential development opportunities might be missed. According to the international firm of commercial estate agents and project managers, Jones Lang Wootton;

> When compared to an equivalent sized equity or fixed-interest investment, commercial property dealing costs tend to be higher and the time-scales involved longer. These factors mean that even the most comprehensive performance analysis is worthwhile in helping to formulate management acquisition and disposal policy if it can be translated into action that takes realistic account of the price and timing of management decisions (Jones Lang Wootton, 1987a).

The timing of management or development decisions effects the overall performance of the property development company.Loss of potential opportunities due to inefficient organizational decision making procedures may be termed *decision opportunity costs* . The notion of decision opportunity costs is associated with potential schemes which are missed or ignored; it represents the cost to the organization of spending (x) amount of time on a particular development decision as against (y) time. Organizations must balance the amount of time spent in assessing a potential scheme against the number of schemes they can consider over a specified period of time. Too much time spent assessing a specific development scheme may result in a substantial cost to the organization in terms of lost development opportunities elsewhere. A state of decision equilibrium is reached when enough time is spent on each potential development scheme to adequately assess risk, but not so much as to prohibit the adequate investigation of other potential schemes. Every organization will have enough resources to adequately consider a finite number of potential schemes. A threshold will be reached when too many alternatives begin to increase the risk associated with anyone decision; this threshold will vary according to the organizational characteristics specific to individual companies. As the next section will demonstrate a number of filtering mechanisms operate to restrict the range of potential development decisions which a property development company has to consider.

5.5 Development Filters

A property development company based in London, technically, may engage in development activity at the national or international level, given commercial capital's spatial mobility. One of the restrictions is the inability of the property development company to process sufficient information about all potential development schemes. A number of filters operate which restrict the amount of information and number of development proposals that anyone property development company has to consider. These filters, in effect, operate like searchlights illuminating parts of the land surface while leaving much in total darkness. Popper uses this analogy in his analysis of scientific description:

> What the searchlight makes visible will depend upon its position, upon our way of directing it, and upon its intensity, colour, etc.; although it will, of course also depend very largely upon the things illuminated by it (Popper, 1962, p.260).

Similarly, what is built will depend upon the perceptions, point of view and interests of the property developer; in other words on the type of searchlight that is used.

In an important work Gombrich (1987) investigates the relationship between '*objective reality*', if such a thing exists, and art. A substantial part of this work is devoted to an examination of the various transformations a 'real' landscape undergoes upon the artist's canvas. Gombrich argues that an artist does not begin with "his visual impression but with his idea or concept" (Gombrich, 1987, p.62). The concept determines what is seen and what is drawn; in other words the artist classifies and holds reality within the confines of a schematic network. This accounts for differences between landscape paintings of the same locality; each artist brings to the landscape his own and his society's preconceived notions or concepts. These concepts act like a series of filters between the artist, 'reality' and the canvas. As such,

> the world may be approached from a different angle and the information given may yet be the same (Gombrich, 1987, p.78).

In a similar way property developers perceive and interrelate with the space-economy or land surface through the medium of a variety of filtering or conceptual devices. The same development can be approached from many different angles and yet the site remains the same. Filters act like a series of meshed screens with each one blocking out some of the light. The fineness of the screen's mesh will be different in each organization as will the number of screens implicitly or explicitly utilized.

Filtering mechanisms are utilized to restrict the spatial extent of any one property company's development activities. Some of these mechanisms are the consequence of the historic evolution of specific property companies while others rest on explicit policy decisions which relate to market targeting or knowledge and experience of specific property markets. Three filtering mechanisms which reflect organizational and economic constraints were identified:

a) Locational and Organizational Constraints
b) Scale of Development Operations
c) Market Targeting .

These will be examined in the next three sections.

5.6 Locational and Organizational Constraints

The first filter is a locational constraint which is often the most restrictive. A significant part of an organization's power base rests in its company headquarters although this will vary according to the degree of devolution of the decision making process that a specific company permits. Usually, the property development company's development appraisal process is highly centralized, for example in the United Kingdom the majority of non-local development decisions are taken in London. This is a reflection of the concentration in London of the majority of the United Kingdom's publicly listed property companies.

The nature and type of organizational structure deployed by a property company is a response to its surrounding environment. The point must be made, however, that it is the perceptions that the decision takers, within these organizations, have of the external environment that are important. Decisions will, of course, control and shape commercial capital's organizational and spatial policies. Potentially profitable property development schemes exist which are ignored by property development companies because organizational structures and policies do not identify them as being suitable for examination, for example a retail property developer will ignore sites suitable only for industrial buildings. Constraints imposed by location and organizational structure relate to those areas which are considered to possess development potential. The tenet is that a property development company will restrict the spatial extent of its operations to conform to the requirements of its organizational structure. On the other hand, the spatial perceptions of a particular company determines the type of organizational structure which it develops; these various types of organizational structure are examined in Section 7.12.

The managing director of St Modwen Properties plc argued that three factors directly determined the location of the company's development portfolio. First, policy decisions taken by the Board of Directors set the development types in which the company will specialize. Secondly, the Board of Directors will set a geographical policy. In St Modwen's case this restricts the development of office space to the South East but excludes Central London. Finally, a series of management constraints restrict the location of development, principally because St Modwen has offices in Birmingham, London and Manchester. Proximity to these offices is an important influence on the company's development and investment portfolio since the company does not like to manage its property developments and investments from a distance. These three policies are market orientated and are based on a continuous examination of the requirements of the user and investment markets. Board members spend a significant part of their time in the field and receive frequent reports from the company's field operators and executives. St Modwen's :

. . . aim is to have a series of policies which will put up the right

building at the right economic cost (Interview, 7/9/1987).

The right economic cost creates the most profit for the property development company.

The postal questionnaire of property developers provided an insight into the operation of this filtering device. In answer to the question about the location of the property company's development operations (Table 5.2) more than half of the respondents stated that they operated at a national level and just under one quarter at a regional level. Consequently, a variety of property companies restrict themselves to specific development locations. The predominance of development interests operating at a national level is not surprising given commercial capital's unrestricted spatial mobility. Property development companies which operate at a national or international level cannot, and do not, completely cover these areas. Complete coverage of the United Kingdom's space-economy would be impossible, as a property company would be unable to acquire and process sufficient information to adequately cover such an area. Consequently, areas which are deemed to be unprofitable are ignored as are those types of property developments in which the company has chosen not to specialize. A number of potential developments are excluded or filtered out by a variety of other filtering factors. The relatively small number of property development

Table 5.2 The Spatial Extent of 69 Property Company's Development Operations

	Number	%
Local	4	5.80
Regional	16	23.19
National	36	52.17
International	13	18.84
Total	69	

Source: Postal Questionnaire, August 1987.

companies found to restrict their operations to a local level might reflect an under representation of this type of company in the survey sample since such property development companies are difficult to identify.

Reservations must be expressed about the operation of this particular filtering factor because the restrictions it imposes vary according to the nature of the property development company and on the scale of development operations. The nature of the development company refers to the classification of development activity which will be discussed in the next chapter. The operation of the second filtering device, the scale of the development operation, has also to be taken into consideration.

An Example : Markheath Securities plc

An excellent example of a locational/organizational filter is revealed in an examination of *Markheath Securities plc*, a company established in 1972 as a development orientated trader. The term *'development orientated trader'* describes a property development company which is predominantly engaged in the development of built-space which will be sold to a representative of "property capital". Markheath identifies potential development sites, it plans and designs schemes and then supervises their construction, letting and eventual sale. The company has established a property investment portfolio which in 1986 had an annual rental income of over £360,000 in comparison to a trading profit of £1,442,000 **(1).** Markheath restricts its development and investment activities to the office market in North London and South Hertfordshire; in an area between Chelmsford, Hammersmith and Watford it calls the *'Markheath Triangle'* . In its company report and accounts for 1986 Markheath argues that:

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(1) Markheath Securities plc (1986) *Annual Company Report and Accounts* (Markheath, London).

> . . . the more Markheath have developed the Markheath Triangle, the more attractive the area has become (Annual Report and Accounts, 1986, p.3).

In this implicit reference to Larmarche's work examined in Section 5.2. Markheath is arguing that by focusing its activities on a specific area it can create and alter the conditions for the group's profitability. In fact, one of Markheath's major marketing strategies is to offer potential property investors, tenants and shareholders its acquired and unique expertise in the 'Markheath Triangle'. This spatial restriction, which is the product of a self imposed internal policy has enabled Markheath's development team to establish an extensive but spatially restricted development expertise within this triangle.

5.7 The scale of development operations

The second filter is an organizational, financial constraint, imposed by the size of the development interest's activities. The scale of development operations restricts the type of schemes that are considered. A small local property development company will be limited to small scale infills in relatively restricted locations as a consequence of the size of their organizational and financial resources. A limited choice of potential development projects exists for such companies. Conversely the larger the scale of development operations the less likely it is for the property company to consider small scale development schemes. One of the reasons for this is the size of the company's existing fixed capital investment portfolio. For example, a property company like MEPC, which in 1987 held investment and development properties valued at £2.442.5 million, finds it difficult to significantly increase its capital value and rental income **(1)**. Any new property developments and investments will represent a comparatively small proportion of the company's existing capital

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(1) MEPC plc *Annual Report and Financial Statements* (MEPC, London, 1986, 1987).

Table 5.3 An Analysis of MEPC's Property Portfolio by Bands of Investment Value as at 30 September, 1987

£	Number of Investments	£m	(%)
0 - 500,000	566	106.4	4.4
500,001-2,500,000	240	279.3	11.4
2,500,001-5,000,000	75	276.3	11.3
Over 5,000,000	108	1780.5	72.9

Source: *Annual Report and Financial Statements* (MEPC, London, 1987, p.36.

assets. Since the shareholders of every publicly listed company demand an adequate growth profile companies like MEPC must constantly increase their capital value, rental income and earnings per share. For MEPC to achieve an annual increase in its profits it must undertake a series of large property developments. From Table 5.3 it is can be seen that most of MEPCs investment properties have a capital value in excess of £5 million and consequently the company does not consider property developments which have a capital value below a set limit. Undertaking individual property development schemes is one method of increasing the value of a property company's investment portfolio. Another is to takeover other property companies or by asset stripping under-performing industrial companies, property unit trust, and property investment companies. The history of the *MEPC plc* group illustrates this process.

MEPC plc was founded in 1946 as the *Metropolitan Estates and Property Corporation,* shortened to MEPC in 1973. The group's objective is to undertake a wide variety of property developments for ownership and management. The company has grown by two processes: corporate acquisition and the management and development of its investment properties. In 1969 the group acquired *Metropolitan Railway Surplus Lands*, a company which was founded in 1933 to purchase and develop land on either side of the Metropolitan railway line (Marriott, 1967, p.276 -277, 303). In 1970 and 1985 MEPC acquired *London Freehold and Leasehold*

Properties and the *English Property Corporation* respectively. The English Property Corporation which was acquired in 1985, had a property portfolio with a book value of £215 million, fifty per cent of which was office property while seven properties accounted for seventy per cent of the portfolio's value (**1**). This acquisition was financed by a cash payment of £28.1 million and the creation of 33,232,629 ordinary shares with a value of £82.5 million. The total cost of the acquisition of a portfolio with a book value of £215 million was £110.6 million. During the period 1980 to 1985 MEPC increased the value of its property investment portfolio from £472 to £728 million while the acquisition of the English Property Corporation increased the value of the portfolio by a further £215 million, virtually overnight. A number of the properties acquired have been and are undergoing redevelopment. For example, with the acquisition of the English Property Corporation MEPC acquired Lee House, London Wall, a nineteen storey office building with a net lettable area of 157,000 square feet. MEPC renewed the headlease from the City of London for a period of 125 years with a ground rent of 6.6 per cent of annual rental income. In 1987 Lee house was demolished, and is currently being replaced by 360,000 sq.ft of office space on eighteen floors, bridging London Wall. This represents a 129.3 per cent increase in net lettable area, with a corresponding increase in rental levels and capital value (**2**).

In 1987 MEPC concluded the United Kingdom's largest acquisition of a property company with the takeover of Harry Hyam's *Oldham Estate Company plc.* Oldham's property portfolio contained 3.5 million sq. ft. of commercial floorspace, 85 per cent located in London and South East England. MEPC financed the acquisition of Oldham's net assets of £380.2 million by a share issue of £249.5

(**1**) MEPC plc, unpublished shareholder's letter dated 19th July, 1985.

(**2**) MEPC (1987) *Report and Financial Statements* (MEPC, London, p.5); information about this development was obtained during interviews with a former representative of the English Property Corporation and representatives of MEPC. The figures in the text were obtained from MEPC's company reports (1984-1987), and the details the group sent to its shareholders concerning the takeover of the English Property Corporation on the 19th of July, 1985.

Table 5.4 MEPC's Acquisition of the Oldham Group

Oldham net assets acquired	(£m)	Financed by	(£m)
Properties	451.4	Share Issue	249.5
Other Fixed Assets	5.3	Loan Stock/	
Debtors	19.9	Loan Notes	72.4
Cash (net)	21.8	Cash:Paid	25.6
Loan Capital	(25.3)	Payable	32.7
Creditors	(55.0)		
Minority Interests	(10.4)		
Capital Reserve	(27.5)		
Total	380.2	Total	380.2

Source: MEPC (1987) *Reports and Financial Statements,* (MEPC, London, p.14).

million. Table 5.4 shows the assets of the Oldham group and MEPCs acquisition costs. It will be noted that most of the cost of this acquisition is not met directly by cash payments. This acquisition added £451.4 million onto MEPC's total property portfolio value. Total development and investment properties increased to £2,442.5 million, an increase of 55 per cent while pretax profits increased from £58.4 million in 1986 to £80.2 million in 1987, an increase of 37.3 per cent. By contrast, between 1985 and 1986 pretax profits increased from £51.6 to £58.4 million, an increase of only 13.1 per cent. Such an increase in portfolio value and pretax profits between 1986 and 1987 could not have been achieved solely by managing and developing their existing property holdings. MEPC's offer to Oldham's shareholders on the 4th of March 1987 argued that the takeover was justified because:

> MEPC considers that the acquisition of Oldham is an unusual opportunity to acquire a major property portfolio on terms which are more favourable than those available with individual purchases . . . MEPC believes that there is scope for its management team to increase the revenue and capital values of the Oldham portfolio by

a programme of active refurbishment and redevelopment (1).

This example illustrates the two methods by which a property investment company can increase the value of its fixed capital assets and rental income. MEPC in its 1987 company report noted that:

> The expansion of the group over the past two years, with the acquisition of English Property Corporation plc in 1985 and of Oldham this year, contributed significantly to [the groups] this growth and continues to provide excellent opportunities to maximize income and capital growth within the portfolio (MEPC, 1987, p.5).

The excellent opportunities refer to existing property owned by the group. Redevelopment or refurbishment will substantially increase the rental income and associated capital value of underutilized sites acquired on the open market or through the acquisition of other companies.

5.8 Locational constraints and the scale of development operations combined

The two constraints on the location of a property development company's activities discussed in Section 5.6 and 5.7 do not exist in isolation; the joint effect of the locational constraint and of the scale of a property companies activities must be considered under two headings :

a) Historic Factors
b) International Property Development Companies

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(1) Letter from the Chairman of MEPC to Oldham shareholders dated 4th March 1987. This formed part of MEPC's documentation to acquire the Oldham Group.

a) Historic Factors

Locational constraints and the scale of development operations can restrict the activities of property development companies. On the one hand, organizations with a limited financial base will not be able to undertake a large development programme or hold a large investment portfolio, and on the other, the size or scale of a company's development operations will restrict the spatial extent of its development or investment programme. There is a direct relationship between the financial, technical and other resources a company can mobilise and the spatial extent of its activities. The latter may ultimately be determined by its historic evolution and former policy decisions, as exemplified by *Scottish Metropolitan Property plc.* The *Royal Insurance Group* hold 20.39 per cent, *Guardian Royal Exchange Assurance plc* 18.70 per cent and *M & G Investment Management Ltd* 7.60 per cent of this company's share capital (**1**). In 1986, 72.2 per cent of its property investment portfolio was located in Scotland, predominantly in shops (35.6%) and offices (29.4%). The character of this company's investment portfolio reflects the historic evolution and location of its headquarters in Glasgow rather than decisions based predominantly on economic criteria. The company's present policy is to try to broaden the spread of its property portfolio both geographically and by property sector.

b) National and international property development companies

A property company operating in the international market is better able to consider comparative development potential because horizontal integration reduces and spreads development and investment risk. An international development organization is able to transfer the focus of its development and investment programmes as the conditions of different national and international property markets fluctuate. This type of private "property capital" places the cities of the world in one enormous game of *'Monopoly'*. For example, MEPC's headquarters is located in the United Kingdom but the company also operates in Australia, America, Germany,

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(**1**) Scottish Metropolitan Property plc (1986, 1987) *Directors Report and Accounts* (Scottish Metropolitan Property plc, Glasgow).

France and Ireland. The geographical distribution of its portfolio fluctuates as the conditions of these markets alter. The size of MEPC's property portfolio means that its response to changes in market conditions will be slow. It takes between four to five years to complete a property development, and the size of the company's existing property portfolio means that every new property development represents a very small fraction of the company's existing property portfolio. Consequently, it is not feasible for a property investment company to respond immediately to alterations in market conditions, any changes will take a considerable time to alter the overall structure of the company's operations.

A nationally-based property company's actions are restricted to the switching of development operations between cities or between different property types. Nothing restricts property development companies from operating at an international level, but many property companies limit the extent of their operations because they lack experience in overseas property markets. A number of Irish based property companies, for example, *McInerney Properties plc* , have shifted their operations to the United Kingdom because of the depressed state of the Republic of Ireland's economy. This extension of development operations represents a 'push' away from development in Ireland rather than a 'pull' by other property markets. In its 1986 annual company report and accounts McInerney Properties plc noted that :

> . . . the 1987 Budget measures in Ireland were a disappointment and have dealt our industry a severe blow. After several years decline some sections of the market in which we were strong have now almost ceased to exist, highlighting the wisdom of your Board's decision to further expand outside Ireland (1986, *Annual Report*, p.9).

5.9 Market Targeting

The final filter relates to market targeting towards specific property types. The importance of this filter decreases with an increase in the overall size

of the development organization. As well as restricting the spatial location of development operations property developers may focus their activities on specific property types and markets, for example, retail, industrial, or office. Table 5.5 shows that while a small proportion of property developers specialize in one sector, 21.74 per cent, the great majority, 69.57 per cent, operate in two or more. Five property companies, 7.25 per cent, argued that the types of property they develop varies through time. For the small property company the advantages of this filter are obvious, first it reduces the development decision to one of location rather than location and property type, secondly, it permits the formation of expertise and knowledge of specific property types which may reduce the level of risk.

Table 5.5 Development Companies which Specialize in Specific Property sectors

	Number	%
Offices	6	8.7
Retail	8	11.6
Industrial	0	0.0
Warehouse	1	1.4
Varies over time	5	7.2
Two are more types	48	69.6
No answer	1	1.4
Total	69	

Source: Postal Questionnaire, August 1987.

5.10 Summary

The relationship between the space-economy or land surface and the property development process can never be a one-to-one relationship since it is impossible for any one property company to consider all available potential development sites. Chapter 4 assumed that all development decisions are based solely on economic criteria, however, this is not the case as a series of non-economic

variables may have just as much weight in the development decision making process. A number of these non-economic variables may restrict the types of buildings and locations which are considered by a property development company to be suitable for development.

The three filters restrict the location and types of buildings perceived to be profitable by a property development company. These filters are the primary constraints implicitly or explicitly imposed on the activities of property development companies and are the initial stage in the investigation of the relationship between landed capital and commercial capital. The macro-location of a property company's development activities is partially a consequence of the three filters. The filters restrict the search area, but reveal nothing about the complex information networks utilized by property companies in the identification of particular development sites. These micro-locational search procedures are examined in Chapter 7 while the development decision making process is discussed in Chapter 8. A property development company's micro-locational decisions cannot be fully understood without the framework provided by the preceding discussion since they operate within the limitations set by the company's macro-locational policies.

Before examining the process of site identification it is necessary to consider whether all property development companies act in a similar manner. The developer's role in the property development process must be disaggregated by examining a number of classifications which have been formulated by previous researchers. These are evaluated in the following chapter to assess whether they provide a useful classification for further research into the property development process.

CHAPTER SIX

One Property Developer or Many

> Each person follows his own consciously desired end, and it is precisely the resultant of these many wills operating in different directions of their manifold effects on the outer world, that constitutes history . . . the many wills active in history for the most part produce results quite other than they intended - quite often the opposite.
>
> (Marx, Selected Works, vol.3, p.336)

Introduction

The pivotal role that commercial capital plays in the property development process is such that it must be investigated further. 'Do all property developers act in the same manner ?', if not 'What are the causal factors that produce different kinds of developer behaviour ?' A broad theoretical concept needs to be subdivided into a number of sub-categories to produce a classification of property developers which describes how their actions shape the United Kingdom's space- economy. Such a classification may provide a basis for understanding the present and future structure of the property development industry at a regional, national and international level. The focus in the jargon of semeiotics and linguistics is on the deconstruction of the archetypical, abstract concept of commercial capital; it is not deconstruction for deconstruction's sake because, as Section 2.6 has shown, such a process is central to a realist conception of *'objective reality'*.

6.1 Classification of Development Behaviour

In Section 2.5 commercial capital (the property developer) was viewed in abstract terms as a role central to the property development processes' network of social relationships. By using an abstract formulation of a complex heterogeneous

group of agents many features of developer behaviour are overlooked. Commercial capital's role in the property development process is undertaken by a variety of distinct types of individuals, companies and organizations. Each of these operates through a series of complex interrelated variables which determine what can be loosely described as their development style, motivation and purpose. A property developer's style is a product of a series of economic variables related to financial, organizational and locational constraints as well as to the series of non-economic variables considered in Section 5.3 which affect all aspects of developer behaviour.

The abstract role that commercial capital, the property developer, plays in the property development process may be disaggregated further. Two classifications of property developers have been formulated : the classification developed by the *Centre for Advanced Land Use Studies* at Reading (CALUS) and McNamara's classification of Land Developers. These must be evaluated to consider whether they provide a suitable classificatory device for research into the actions of property developers in shaping the United Kingdom's built-environment.

6.2 The CALUS classification of developers

(a) A description of the CALUS classification

The first classification was formulated in 1979 by CALUS in a study of the provision of speculative industrial units by the public and private sectors. Perry (1986) and Fothergill, Monk and Perry (1987) use this classification as the basis for their research into the United Kingdom's industrial property market. Three types of development interest involved in the construction, finance and development of industrial estates are identified :

- the 'ordinary' developer, whose expertise is the development and management of property;

- the building contractor, whose expertise is the efficient, economic and sound construction of property;

- the investor, whose expertise is the identification of marketable property that will bring a secure return on investment (CALUS, 1979, p.33).

This provides a classification of public and private development interests, which is considered by CALUS to be the :

> . . . best indicator of the factors that might influence a developer's policy of size, specification etc of user- ready buildings erected - eg source of finance, reason for development, length and type of investment (CALUS, 1979, p.33).

The flaw in this classification of development interests is that it does not provide an adequate distinction between the development rights held by commercial capital, and the financial and contractual rights held by financial and industrial capital. A builder contractor is not a development interest given the CALUS definition but is a contractual interest; likewise an investor is a not a development interest but a financial interest. A builder and an investor may undertake a development role, but this is not central to their part in the property development process. The CALUS classification confuses the roles played by financial capital, industrial capital and commercial capital in the property development process. The crux of the problem rests in the CALUS study's lack of understanding of the overall structure of the property development industry. Without a theoretical formulation of the overall structure of property, landed and financial interests involved in the development process any attempt to classify developer behaviour is likely to lead to confusion.

From these three development interests CALUS produces a classification of property developers divided, first, between the public and private sector. The classification of public sector development interests is based upon which level of the public sector undertakes the development. Consequently, public sector developments are divided between those undertaken by local councils, regional authorities and those undertaken at a national or governmental level. In contrast private property developers

Table 6.1 The CALUS Classification of Private Developers

Type	Role
1) *Developer-Seller*	Co-ordinates development and sells to an investor or occupant
2) *Builder-Developer*	Dominant interest is construction, a development company may be established to acquire development profit
3) *Developer-Investor*	Property development is undertaken to retain completed developments as capital investments
4) *Investor-Investor-Developer*	Frequently a financial institution will establish a development department and instigate its own property developments or obtain schemes on the open market

Source: CALUS, 1979.

are classified according to their role in the property development process and not in terms of their spatial location. Four distinct types of private property developer are identified (Table 6.1); these are examined in detail below.

(1) The Developer-Seller

The developer-seller's primary motivation for undertaking developments is the retention of development profit generated by the sale of completed schemes. The level of profit depends on the relationship between development cost (capital, land, and labour) and development value as determined by the equations examined in Section 4.4. This type of development interest should be described as *development orientated traders*. Short term development finance or working capital is obtained internally or externally from banks and financial institutions. Frequently, such developers enter forward funding agreements with specific financial institutions. Forward funding is a financial arrangement under which a property investor agrees to purchase a development before construction commences. This reduces the

speculative property developer's level of risk prompting property investors to ensure that the developer's profit is reduced. The developer-seller, to use the CALUS terminology, is marketing a skill in identifying and completing development schemes.

(2) The Builder-Developer

Builder-developers are generally subsidiaries of construction companies having grown within the framework of an existing construction firm or having been the product of a merger or forward linkage with an established property development company. In many instances these subsidiaries are established to provide work for the construction company during depressions in the building industry but may also represent an attempt to acquire all of the profit obtainable from property development. The completed development may be retained as an investment or sold to either a tenant or institutional property investor. In the former case the builder-developer is acting in the same manner as a developer-investor, the third type of development interest, and in the latter as a developer-seller.

(3) The Developer-Investor

Development-investors are asset-based property companies, for example, *MEPC* and *Land Securities*, whose primary concern is the ever increasing value of their property portfolios. Financial gain is derived from rental income and associated capital growth which is retained in the balance sheets of these companies. Such companies as Table 6.2 illustrates have significant amounts of capital invested in property.

(4) The Investor-Investor-Developer

The investor-investor-developers are financial institutions and other property investors which have established their own property development department or taken over a property development company. This process of backward linkage enables them to undertake their own developments. This category will be referred to as an investor-developer as the CALUS study's double use of the word investor does not

Table 6.2 The United Kingdom's Largest Property Companies - 1987

Company	Capital Employed (£000)	Gross Rents (£000)	Net Profit (a) (£000)
1) Land Securities	3,004,400	175,800	164,000
2) Hammerson	1,677,434	127,676	100,446
3) MEPC	1,651,800	121,300	101,900
4) Slough Estates	922,800	73,10	69,100
5) British Land	882,900	38,100	63,100
6) Oldham Estate (b)	575,379	35,841	32,295
7) Great Portland Estates	417,394	26,394	23,943
8) Capital & Counties	404,935	32,395	20,398
9) Laing Properties	368,465	45,051	29,303
10) Brixton Estates	339,837	26,372	21,705
11) Haslemere Estates	312,330	25,918	22,134
12) Wates City of London Properties	249,587	8,067	10,926
13) Greycoat Group	245,641	8,835	7,481
14) Wingate Property Investments	236,992	12,717	16,032
15) Stockley	224,236	3,503	9,146
16) John Lewis Properties	213,783	N/A	27,925
17) London & Edinburgh	198,333	47,887	16,728
18) Percy Bilton	184,000	14,282	13,813
19) London Shop Property	176,187	13,705	13,153
20) Country and New Town Properties	172,348	11,510	8,260

(a) Before interest and tax.
(b) Acquired by MEPC in 1987

Source: *The Times 1000 : 1987-1988* (Times Books, London, 1987) p.75.

contribute to the understanding of this category of property developer. The CALUS study suggests that this category of property developer may not possess the skill and expertise required to undertake successful building projects. This implies that investor-developers may either purchase completed properties or forward fund a developer-sellers scheme. This category of development interest highlights the confused nature of the CALUS classification. Property investors who simply purchase completed developments represent financial capitals' involvement in the property

development process rather than commercial capitals'. Similarly, forward funding is a technique utilized by financial capital as a form of indirect involvement in the property development process. CALUS states that the property holdings of investor-developers are

> . . . all long term investments, although estate management is a secondary consideration (CALUS, 1979, p.34).

But the essence of successful and profitable long term property investment rests on sound and efficient estate management. All buildings undergo the process of obsolescence, examined in Section 4.1, which effective estate management can partially ameliorate. For example, *Great Portland Estates plc* , a developer-investor, subjects it investment portfolio to constant estate management. During 1987 this company bought out its existing tenants from 30,000 sq. ft. of office and showrooms along Oxford Street, London (1). It was rapidly refurbished and let to new tenants at rents which were at least double those obtained from this property at the beginning of 1987.

(b) The postal questionnaire and the CALUS classification

Table 6.3 shows the number and proportion of property developers in each of the CALUS categories of development interests as indicated in the postal questionnaire's returns. The additional category of 'Multiple' denotes property companies which operate in more than one of the CALUS categories. This deficiency of the CALUS classification will be considered below. Over one quarter of property companies identified themselves as developer-investors and just under one quarter as investor-developers. Property is judged by both of these categories of property developer as a long term investment. The size of the group of property companies identified as investor-developers may reflect an over representation of this group in the sample survey given the high visibility of this group's activities.

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(1) Great Portland Estates plc (1988) Annual Report and Accounts (London), p.4.

Table 6.3 Proportion of developers identified in each category

	Number	%
Developer-investor	20	28.99
Developer-seller	13	18.84
Investor-developer	16	23.18
Builder-developer	5	7.25
Multiple	15	21.74
Total =	69	

Note : The term multiple denotes development companies which placed themselves in more than one category

Source : Postal Questionnaire, August 1987

6.3 The assumptions of the CALUS classification

(a) The destination of property rights

The classification is based *implicitly* on the final destination of a building's property rights. Three types of legal right are important in the property development process: property rights; development rights and contractual rights (Table 6.4). Property rights are the rights associated with ownership of land and buildings while development rights are the rights to build on a specific site. Possession of development rights need not imply possession of property rights. Contractual rights are established by contract, for example, a building contract gives a construction company the right to construct a specific building. A developer-seller's interest in the property development process rests on the possession of development rights. In some cases the property rights may already have been sold to the final owner of the building's property rights. In contrast, a developer-investor and an investor-developer are predominantly concerned with the long term possession of property rights as an investment. Part of this investment is composed of development rights for the potential redevelopment of the site. Consequently, this assumption distinguishes between property companies which act either solely as a commercial capital, for example, the developer-seller and

Table 6.4 Developer's Rights in the Development Process

Developer	Right
Developer-investor	Property Right
Developer-seller	Development Right
Investor-developer	Property Right
Builder-developer	Development Right/ Contractual Right

those which are a combination of commercial capital and financial capital, for example, the investor-developer.

(b) Linkages between companies

Secondly, the classification is based on the assumption that property companies which have either established forward or backward linkages with other types of commercial enterprise should be grouped together., for example, a builder-developer is a combination of commercial capital and industrial capital, while an investor-developer is a combination of commercial capital and financial capital. The builder-developer's primary function in the property development process is the construction of buildings while the investor-developer's function is investment. The CALUS study fails to identify other types of property developer, for example: retail-developers, industrial-developers and occupier-developers. The list could be virtually endless and include every individual and organization who has been involved with any type of commercial property development. For example, *Sears plc*, a footwear and clothes retailer, states that:

> Property development is a key part of Sears retail strategy . . . It represents an ongoing source of development profits . . . Throughout the Group existing retail sites are being assessed for their development potential. New sites are also being secured to

produce new retail space for the Group companies and third lettings (*Annual Report*, 1988, p.16).

6.4 Criticisms of the CALUS classification

a) The First Assumption

The first CALUS assumption gives rise to a number of problems. The difference between a developer-investor and an investor-developer needs to be clarified since both hold property as a long term fixed asset. The meaning of 'long term' must be viewed within the definition laid down by individual property developers and organizations. A developer-investor, for example MEPC, may produce similar types of property developments as the property arm of a financial institution like the *Norwich Union*.. These are, nevertheless, two different types of property interest. A developer-investor's primary function is property development and investment while an investor-developer is only an adjunct to financial capital. The difference between these two types of property company becomes increasingly significant when their size is considered. A small scale, locally based developer-investor will produce a totally different type of property than an investor-developer who operates either nationally and/or internationally. Yet the CALUS classification does not highlight these differences within its groupings. One of the United Kingdom's top ten developer-investors would be included in the same group as a local, small scale developer-investor. These organizations will interrelate differently with the space-economy and have different and distinct organizational structures and development styles.

(ai) Indirect Investment in the Property Development Process

The distinction between a developer-investor and an investor-developer is further complicated by financial capital's indirect property investments. Financial capital becomes indirectly involved in the property development process by share ownership in publicly listed property companies, developer-investors. Table 6.5 illustrates the share ownership of three listed property companies, all of which have

Table 6.5 Analysis of Shareholders of Property Development Companies

	Slough Estates (Dec. 1987) (per cent)	British Land (March 1987) (per cent)	MEPC (Dec. 1987) (per cent)
Banks,discount companies and nominee companies	37.82	59.11	46.6
Insurance companies	10.18	11.21	16.8
Investment Trusts	0.48	} 15.18	0.8
Pension Funds	3.56		3.4
Other Corporate Holders	12.31	6.19	19.6
Individuals	35.65	8.31	12.8

Note : Holdings by nominee companies are owned beneficially by banks, insurance companies, investment trusts and pension funds.

Source: Annual Company Reports and Accounts 1987.

substantial property investment portfolios. An examination of this table reveals the extent of financial capital's indirect involvement in property investment and development. Indirect property investment may take the form of a single substantial holding, for example, *Clerical Medical and General Life Assurance* holds 22.45 per cent of *Brixton Estates* ' share capital while *Royal Insurance* holds 12.42 per cent. Both of these financial institutions, given the size of their share holdings, have non-executive representatives on Brixton's Board of Directors. A financial institution which holds shares in a property company cannot be classified as an investor-developer. Such share holdings are identical to share ownership in any other type of publicly listed company. Substantial indirect investment may blur the distinction between *'property capital'* and commercial capital, but it still exists. Research has yet to examine whether substantial indirect investment by financial capital affects the performance and management decisions of listed property companies. There is, as of yet, no real evidence to suggest that such differences exist, since a publicly listed property company's performance must match that of other listed property companies.

(b) The Second Assumption

The second CALUS assumption also produces a number of problems in the classification of property development interests. A builder-developer may either retain property rights for a long period or sell them to a property investor or tenant. In either case there is no reason to assume that the builder-developer is operating in a dissimilar manner to a developer-seller or developer-investor. Granted the number of developments undertaken may be significantly smaller and their location will probably be restricted by the organizational limitations of commercial capital. Fixed capital investments in machines and the management of a labour force spatially constrain the operation of industrial capital as it is the physical producer of built-space. Over time the development arm of a construction company may extend the spatial extent of its development operations and become either a developer-seller or developer-investor. As soon as this occurs the development arm will begin to act independently of the construction interest. Construction tenders will no longer be fulfilled by the parent company but be undertaken on the basis of closed or open tenders.

Wilson (Connolly) Holdings plc illustrates the difficulty of classifying types of development interest. This company is the holding company of one of the United Kingdom's most profitable housebuilding companies. The group is divided into four major subsidiaries:

Wilcon Homes Ltd.,
Wilcon Construction Ltd.,
Wilson (Connolly) Investments Ltd.,
Wilson (Connolly) Properties Ltd..

Wilson (Connolly) Properties Ltd is the group's trading arm while Wilson (Connolly) Investments Ltd in 1985 owned a £21 million property investment portfolio. This company fits into three of the categories of development interest identified in the CALUS study. The group can be termed a builder-developer. Wilson (Connolly) Properties Ltd. is a developer-seller which operates throughout England while Wilson (Connolly) Investments Ltd is a developer-investor. In this particular case the

property arm of Wilson (Connolly) Holdings plc acts relatively independently of the group's construction interest. The group trades and retains property rights in the same way as any other developer-seller and developer-investor (Interview, 18/8/1986).

MEPC is predominantly a property investment company whose objectives are to develop and manage its property investment portfolio. The group's property portfolio consists largely of freehold or long leasehold properties with a book value in excess of £2.4 billion. In 1985 the group established a subsidiary, *Ortem Estates Ltd*, whose function is:

> . . . to acquire sites and carry out smaller developments for onward sale to institutions and pension funds (MEPC, *Company Report and Accounts*, 1985, p.7).

In 1987 MEPC's held trading properties with a book value of £22.9 million, mostly located in the United Kingdom with trading profits of £4 million, a growth of 100 per cent on the previous year figures. MEPC's justification for establishing Ortem Estates Ltd was:

> . . . to maintain a presence in a sector of the acquisition and institutional investment market which would not otherwise have been undertaken in the course of our normal development activities (MEPC, *Company Report and Accounts*, 1985, p.7).

Ortem's developments, if the MEPC's *Group Review of 1987* is an accurate account of the groups activities, are smaller in size and capital value than the group's investment properties. The smaller the property development the less capital is exposed to risk, for example, a single large trading property is subject to a far greater degree of risk than a number of smaller properties. Yet a number of smaller properties may have an equivalent capital value to a large development, but they will carry a much lower degree of risk (Interview,8/8/1986). This is a restatement of the proverb that it is unwise to have too many eggs in the same basket.

The larger size of properties, both in size and capital value, in MEPC's property portfolio gives some indication of the primary motivation of a property investment company. Properties held as long term investments must exhibit steady increases in their annual rental income and capital value. Management considerations influence the size of developments held in the portfolio as a single large development (size and capital value) often requires the same amount of management time as a smaller development. In 1987 MEPC had 801 employees, 625 (78%) of whom were engaged in property management and related activities. Development activities can be centralized but management activities must be established on a regional basis. MEPC's subsidiary *Metestates* undertakes the day-to-day management of the group's property portfolio. Metesates has divided the United Kingdom into six regions, each with its own property managers and building surveyors (Interview, 8/8/1986).

This highlights a number of significant differences between trading and investment properties. Trading properties are generally smaller in size and in capital value. The greater a building's capital value becomes the fewer property investors can afford to purchase it. In contrast, for MEPC's property portfolio's book value to grow it must constantly develop larger and larger properties (Interview, 8/8/1986). A single large development may represent the capital value of twenty small schemes, but it requires less management.

MEPC is classified as a developer-investor but its subsidiary Ortem Estates functions as a small scale developer-seller. There is no reason why subsidiary companies may not fall within different parts of a development classification. Nevertheless, a company like Ortem will possess a number of significant advantages over a similar independent developer-seller. Ortem Estates was established to be complementary to MEPC's primary objective, long term property investment. Ortem has access to a substantial fixed capital base, as well as internally generated short and long term development finance which is denied to most other developer-sellers of its size. In classifying subsidiaries of property development companies the relationship between the parent and the subsidiary must be established, for example, it is not yet clear if Ortem Estates operates independently of MEPC's property investment objectives.

6.5 The McNamara classification of land developers

(a) A description of the classification

In a study of office development in Edinburgh, Paul McNamara produced a classification of land developers based on an analysis of the land development process, as

> . . . superficially similar developers act differently when developing land and that many superficially different types of developer act in a similar way (McNamara, 1983, p.88).

To McNamara the development process is:

> . . . a purposive and premeditated material change in, or intensification of, the use of a parcel of land, bought about by an investment of labour and capital (1983, p.88).

This process is a time event, in fact development interests can only be differentiated by an examination of their "purchasing, holding and selling of land rights . . . throughout the time span of a development" (1983, p.93). Three time points are identified : before, during and after development. This classification of land developers rests on the transfer of land or property rights over these three time periods, for example, a developer-seller will hold property rights before and maybe during the course of a property development but eventually will sell them to an investor. Consequently, this study notes that insurance companies hold property as a long term asset while property companies tend to sell on to a property investor.

McNamara's classification of development interest is based on the '*purpose*' of development. It is a nine fold classification which reflects whether land rights are retained as an investment or sold to an investor, as well as the length of time the land rights have been held before development commences. For example an 'entrepreneurial builder' will possess property rights for a short time before

Table 6.6 McNamara's classification of developers by purpose of development

Before development	After development: Short Term	Long Term (leasing out)	Long Term (own & occupy)
Short term	Entrepreneurial builder	Land Developer-investor	Developer-user
Long term	Asset clearing, probably investment switch	Property improver/ Rentier	Expanding developer-user
Long term	Capitalising assets	Change in returns from property	Owner-occupier developer

Source : McNamara, 1983, p.91

development commences and sell them on when it is completed. A 'land developer-investor' will possess property rights for a short time before development but retain them when it is complete. A further category examines the involvement of owner-occupiers in the development process. McNamara notes that the definition of short-term and long-term holdings raises conceptual problems which he does not examine.

(b) Criticisms of this Classification

Four criticisms may be made of this attempt to classify property development interests. First, the length of time a development interest holds a parcel of land, before building commences, does not significantly influence the outcome of the development process. The assumption produces contradictions in the classification. A 'Land Developer-investor' may own a parcel of land for a long period, demolish it and redevelop it. In this case the 'land developer-investor' would be classified as a 'property improver'. Likewise the distinction between a 'short-term developer-user' and a 'long-term expanding develop-user' will not exist in all circumstances. An

'expanding developer-user' may purchase land (short-term ownership of property or land rights) to extend an existing site. Secondly, an examination of the period of ownership of land rights before the commencement of development is not possible except in Scotland where appropriate records are kept in the form of a central register of property transactions, the record of Sasines, a source which is not available in England and Wales. Thirdly, no account is taken of differences in the scale (spatial and financial) of development operations, a similar criticism can be made of the CALUS classification. As a consequence a local property developer is grouped in the same class as an international property development organization implying that they produce similar kinds of built-space. Fourthly, McNamara's discussion of the precise definition of short and long-term ownership of land rights is severely defective. He argues that the difference between these two time periods may be identified through an examination of the yields required by the developer from his investment, higher yields indicate short term investment, lower, long term. But it is doubtful if the type of detailed information needed to make such an assessment would be readily available from property developers and investors.

The period of time for which land rights are held before development commences will be influenced by variables specific to individual parcel of land. Potential development sites in inner city areas consist of a heterogeneous assortment of property rights and landed interests. Before development can commence these must be unravelled, a process which may take a considerable number of years. For example a development site is usually formed by the amalgamation of a number of parcels of land, each of these may have different types of freeholds or leaseholds. A speculative 'developer-seller' or 'entrepreneurial builder' (note that McNamara's classification appears to ignore developer-sellers or terms them entrepreneurial builders) may hold the property rights to a parcel of land for a relatively long period of time. This type of development interest is predominantly concerned with the short-term possession of development rights as its function is the creation of development rather than investment profits. In effect the definition of short-term and long-term ownership of land either before or after a development is completed can only be measured with respect to the perceptions of those involved in the development and investment decisions.

McNamara's classification rightly places great significance between the short or long-term possession of property rights; this divides property companies between those that invest in property (long-term possession of property rights) and those that trade in property (short-term). The period of time for which property rights are held prior to the commencement of development appears to be a variable which adds little if anything to the classification. If this is removed the classification only consists of three types of development interest :

(a) Those who hold property rights on a short-term basis.
(b) Those who hold them on a long-term basis.
(c) Those who own property rights on a long-term basis as owner-occupiers.

This does not add significantly to the classification of development interests already established by the CALUS study except to emphasize the importance of understanding the motivation or purpose that lies behind individual developments. It is doubtful if this is an achievable goal. In most cases property developers will argue that their motivation for undertaking a specific property development is either a short-term or long-term profit. Beyond this it is very difficult to unravel the complex motivations and purposes they lie behind such a complex process as the creation of built-space. A property developer may undertake a project for many different reasons some of which may lie outside of the influence of a specific development. This is a basic defect in the classification since one founded solely on the examination of individual developments neglects to examine the policies which produce a property development company's or interest's motivation, purpose or style throughout its entire development and investment programme.

6.6 The Problem of Classification

The problem of every classification of property development companies rests on the definition of development interests; if these are restricted to Marriott's *'orchestrator'* of the property development process it implies that a classification must

be founded on differences in the manner of articulation of the various land and development capitals(Marriott, 1969, p.21). Consequently, two developments may be physically identical, but be the product of different types of articulation of land and development capitals. All types of property or land developer fulfil the primary function of the property development industry, the creation of built-space.

The distinction between the retention and sale of property rights influences the timing of developments. This is a point that neither the CALUS study or McNamara's takes into consideration. An asset based development company or a developer/financial institution can undertake the development of a site during a downturn in a city's property development cycle. For such development companies the profit from development represents annual rental income and associated capital growth, consequently, they can afford to develop at unfavourable periods. Long term property investors can wait until the market recovers as their development profit is long term. Development orientated traders cannot wait for an upturn in the property market as their profit represents the difference between the cost of a development and its 'real' capital value.

It is acceptable to distinguish between organizations which are engaged solely in development and those which also fulfil other functions as it can be argued that the nature and extent of their involvement in the development process will be significantly different. The final destination of a development's property rights must be seen as the *initial* stage in the classification of development interests. This distinguishes development organizations which have long and short term interests in the rights associated with specific property developments. By itself this does not produce a comprehensive classification of property developers. The property development process is one of capitalism's primary spatial processes. In fact it may be argued that the relationship between economic activity and the built-environment is the most fundamental capitalist relationship. All capitalistic production is housed within the built-environment and specifically in built-space. Capitalism operates as an international economic system; which is composed of a variety of units or regions. All of these areas are involved with and served by the property development process; consequently, some property developers operate internationally, some nationally and

some regionally or even locally. The spatial element is missing from the classifications of land developers examined above. Yet, land is the development processes' fundamental raw material. It may be ubiquitous, but it is not uniform in value or location.

6.7 The space-economy and the property development process

(a) Unravelling 'commercial capital'

The property developer has been conceptualized, in this thesis, in abstract terms, as a 'commercial capital' whose role is the creation of built-space. An abstraction necessarily is a simplification of a complex reality, however, such an approach ignores many features of the relationship between the space-economy and the property development process. In fact, what is hidden and consequently ignored may be features of the property development process which influence and *maybe* partly determine many features of the built-environment of the capitalist city. The question is whether it is possible to relate:

> . . . abstract generalizations about social phenomena to the features of a particular place at a particular time and to the actions of individuals within that place (Thrift, 1983, p.23).

The term 'commercial capital' and even 'property developer' refers to a *heterogeneous* group of organizations which are involved in the creation of built-space. In Section 6.2 and 6.5 two classifications of property developers were examined, but both fail to adequately recognize the heterogeneous nature of such interests.

To unravel the concept of 'commercial capital' requires an understanding of the complete property development process in terms of its structure and the movement of property and development rights as examined in Section 2.5. Fundamental to a classification must be the distinction between the retention of property rights as an investment and the sale of development rights. A property investor holds property rights and development rights while a development orientated

trader is predominantly concerned with short-term development rights although he may possess the property rights for a limited period of time. In the CALUS classification this is an implicit assumption while in McNamara's it is explicit. The holding of property rights must be a primary tenet of any classification of development behaviour, but by itself it does not identify differences in the scale of operations such as the spatial extent, size and specialization of a specific property developer's organization.

b) The 'Space-Economy'

Any classification of development interests must take account of the development filters discussed in Chapter 5. A classification which is founded on the notion of development filters as well as on the movement of property rights will have the advantage of being extremely flexible. The first development filter identified in Chapter 5 , *locational and organizational constraints,* is the most important one since land is the primary raw material of the property development process. All land is situated in a space-economy which is the product of a two way or dialectical relationship between social processes and space. The study of the formation and development of the space-economy at a national and international level is central to geographic thought. In most cases land is a natural product but the space-economy is *socially created* . The concept of absolute space exists in theory but in reality space is a relative concept, for example, the price of a piece of property or land as Larmarche shows is partly a product of its external environment. This would not be the case if space was an absolute quantity. The concept of relative space describes the relationships and interrelationships that exist between objects situated within the space-economy. For example, London's location is determined by its relationship to both the United Kingdom's and the international space-economy. Relative space is consequently a social creation since it is a product of mankind's historic and present interaction with the land surface. In absolute space London's site is not that dissimilar to that of Dundee's, for example. The difference lies in the transformations that occur when interrelationships with social and economic forces occurs. This converts *'natural'* non-economic space to a socially created space-economy. All fixed capital investments become part of this space-economy. Effectively relative space is the

product of historic and current social relationship's interrelationships with the 'natural' land surface.

The property development process is one of the primary elements in the creation, formation and manipulation of a country's space-economy. Demand and historic factors maybe, and probably are, equally as important. The United Kingdom's space-economy exhibits regions of productive and unproductive space. In general terms prime productive space is presently found in the South East. This region also includes areas of unproductive space. Unproductive space reflects those areas of the country which are derelict, or are in decline. The property development industry reacts, at a number of distinct spatial levels or scales, to demands from users to develop particular parts of the space-economy.

The concept of a space-economy provides an abstract conceptual understanding of the relationships between space and social forces. The space-economy is not a homogeneous entity, but a product of a hierarchy of distinct spatial scales. The analogy of a Russian doll is appropriate; towns are situated in counties, counties in regions, regions in countries and countries in the totality of the international space-economy. While the foregoing may appear to have strayed away from the analysis of the property development process it is argued that an awareness of spatial scales or levels, which was not included in previous studies of this process, is essential.

c) Realism and the classification of property developers

As Section 2.6 has shown, the role of space and time is central to a realist conception of the social sciences. Physical manifestations, for example an office block, are the result of a network of social relationships which possess causal powers which exist independently of the phenomena they produce. The realisation of these relationships is contingent on their location in a particular space and at a particular time. Figure 6.1 demonstrates the importance of realism to the property development process. Figure (A) shows a spatial surface at time 1; the network of

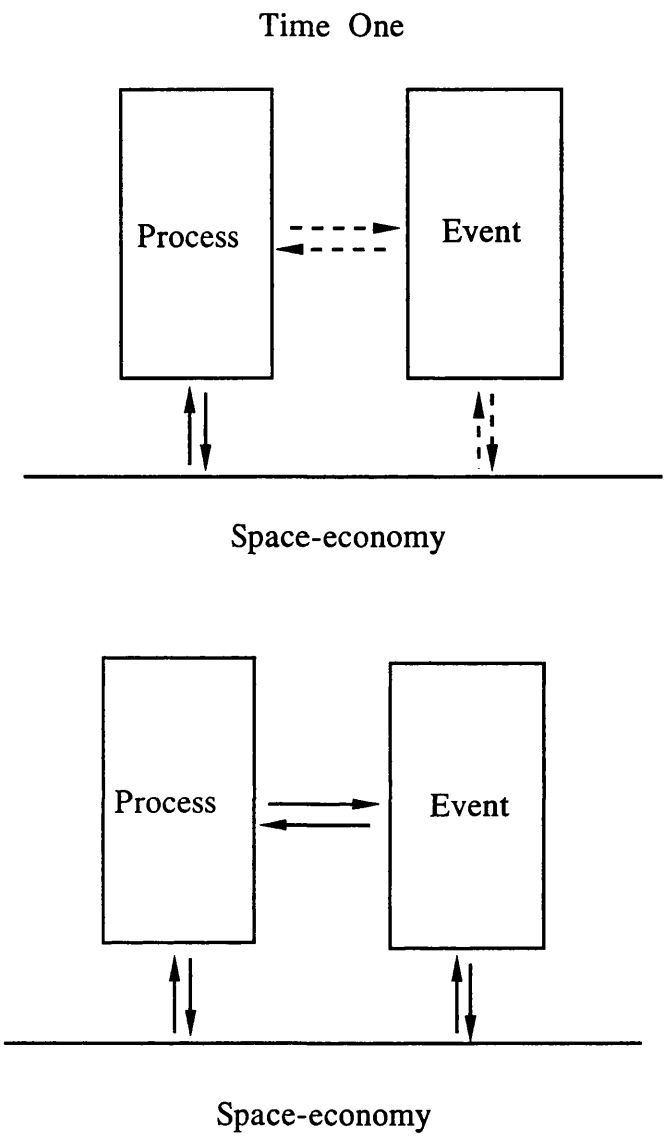

Figure 6.1 A Realist Conception of the Property Development Process

social relationships that comprises the property development process exists but the contingent conditions for the production of floorspace do not. The location may be favourable for development but the specific stage in the property development cycle may prevent it. In figure (B) the conditions of time and space permit the construction of built-space. The network of social relationships is articulated through the activities of agents who are located at a specific level of the space-economy. The articulation of the social relationships that produce floorspace is the same, but the scale of the articulation is different and consequently the type of floorspace produced may be different, for example, in their size, location, financial returns and types of tenant.

(d) The space-economy and the classification of development interests

The postal questionnaire of property companies identified the importance of spatial scale in the property development process (Table 5.2). This implies that grouping property developers operating at different spatial scales into the same category obscures differences in the scale and purpose of development. A nationally based development-investment company views property investment in a totally different way to one that is locally based. To the former, property is taken as an investment medium similar to other investment markets. Nationally based property development companies seek prime sites with yields which meet the requirements of the institutional property investment market. To the locally based property development and investment company development may be undertaken as part of a private pension scheme, such developments do not have to conform to the specifications set by financial capital. A local property developer seeks potential development schemes with yields in excess of the cost of finance, usually that set by a conventional bank loan. Completed developments are either sold to owner occupiers or to small local property investors. Projects undertaken by local property developer's may be located in areas which financial capital perceives to be unprofitable. Local property developers and investors may be operating in secondary property markets. Development costs are lower given low land prices and consequently yields are higher. Such developments are unattractive to financial institutions because they also carry a high degree of risk (Section 4.2).

The importance of the scale of development operations was highlighted in the findings of the postal questionnaire, for example 28.99 per cent of the sample were classified as developer-investors (Table 6.7). Of these most operated at the regional level or above. The differences between a local and international development-investment company relate to the scale and type of development operations (Section 5.6). The survey failed to identify any locally based developer-sellers. This is not surprising, since a local developer-seller would find it difficult to survive at such a level. During a downturn in the local property development cycle it would be impossible to develop property for sale to financial institutions or other property investors. A developer-seller needs to be able to switch development operations between a number of different cities and regions as each property market is at a different stage in the development cycle while investor-developers and financial institutions operate at a national and international levels. Builder-developers, as has

Table 6.7 The Type and Location of Development Operations

	Local (b)	Regional	National	International	Total	%
Developer-investor	2 (10)	6 (30)	5 (25)	7 (35)	20	28.99
Developer-seller	0	4 (30.7)	8 (61.5)	1 (7.7)	13	18.84
Investor-developer	0	0	9 (100)	0	9	13.04
Builder-developer	0	3 (60)	2 (40)	0	5	7.25
Financial Institutions	0	0	5 (71.4)	2 (28.6)	7	10.14
Multiple (a)	2 (13.3)	3 (20)	7 (46.7)	3 (20)	15	21.74
Total	4	16	36	13	69	

(a) The term Multiple denotes development companies which placed themselves in more than one category.

(b) Numbers in brackets are row percentages

Source : Postal Questionnaire, August 1987

already being noted, are restricted by the spatial constraints of industrial capital. Given the nature of the survey population it may be assumed that local development interests were under-represented while national and international companies were over-represented.

This information suggests that space is an important variable in the development process, yet classifications of development interests have ignored this variable completely. The CALUS classification does take account of space as a variable in classifying public development interests but not private. The property development process by definition must be conceptualized as a predominantly spatial process. The perceptions of this industry can and do alter the physical structure of cities, regions and at a greater scale a nation's space-economy. A classification of development interests based on the sale or retention of property rights as well as the spatial scale of development operations is given in Table 6.8 in which six groups are identified four of which have spatial sub-sectors to take account of differences in the scale of development operations.

Group One, development orientated traders, includes development interests who trade in property rights by selling the buildings they develop as property investments. In the postal survey of the 13 property companies identified in this category 30.7 per cent operated regionally while 61.5 per cent nationally [Table 6.8]. Group Two, asset based development companies, includes development companies which retain property rights as a long term investment. Group Three development interests are subsidiaries of other types of company such as: financial institutions who are directly involved in property development, construction companies and a whole range of other development interests including retail-developers. Group Four [State Developers] included a range of public or state development interests; these range from English Estates, the public property development and investment company, to state partnerships with private development organizations. Group Five [Developer/Owner Occupiers] comprises tenants who develop and own their own floorspace. This group is not divided into spatial categories as such developments

Table 6.8 A Classification of Development Interests

Group 1 *Development Orientated Traders/Developer-seller:*

a) Local
b) Regional
c) National
d) International

Group 2 *Asset Based Development Companies/ Development Investment Companies:*

a) Local
b) Regional
c) National
d) International

Group 3 *Developer/Builder*
Developer/Financial Institution
Developer/ ? ? ? ? :

a) Local
b) Regional
c) National
d) International

Group 4 *State Developers:*

a) Local Authority
b) National - English Estates
c) Partnerships with Private Development Interests

Group 5 *Developer/Owner Occupier*

Group 6 *Intermittent Developers*

will usually be single local developments. Group Six [intermittent development interests] identifies other development interests, for example, estate agents or other professionals which may undertake a development as a long term private investment.

An analysis of the differences between local and nationally based development companies (Table 6.9) shows that the type of schemes each undertakes

Table 6.9 Comparison between local and national property developers

Category	Local	National
Development Size	Usually Small Infill Schemes	Large Site/ Site Assembly
Site Identification	Local / Personal Contacts	A Network of Formal/ Informal Linkages
Comparison of Potential Developments	Local/ other types of local investment opportunities	National / International Property and Investment Markets
Timing	Depends on Local Market	Depends on Comparison between local property markets and other property and investment markets
Short Term Development Finance	Bank / Depending on the reputation of the developer and the type of scheme it may be forward funded by an institutional investor	Internal / Stock Market Financial Institutions
Development Management	Local	Centralized Office/ A Network of Regional Offices
Long Term Funding	Probably Sold to a Local Company / Investment Fund as an Investment / or the development may not be an acceptable investment for a fund The building may act as a personel pension scheme or keep a local builder's workforce busy during times of slump	Sold to a Financial Institution / or kept as an investment
Tenant Market	Usually multiple tenants / local users / some single users	Usually single blue chip tenants
Size of Development Company	May be an individual	May be a Listed Company or may be a subsidiary of larger organization

will be significantly different in terms of size (net lettable area) and capital value. A local property development company has a limited choice of potential development sites in comparison to a nationally based developer. Local property developers will have to develop secondary floorspace which has a higher degree of risk associated with it, but can result in higher yields. Such floorspace is unattractive to institutional investors. Nationally based companies, as discussed in Section 5.8, are able to choose between numerous potential development opportunities and opt for those schemes which will be acceptable to financial institutions. In contrast the locally based property development company has a limited number of potential developments to choose from. The choice may not rest solely on financial criteria but on a variety of non-economic factors specific to individual companies and development schemes. This accounts for developments which are constructed in peripheral areas of the United Kingdom's space-economy.

This classification emphasizes the spatial features of the development process and accounts for differences in the scale of development operations. In every city local, regional, national and international property development companies will be searching for potential development sites. Each will examine and fill specific market niches. Development companies can, as in the CALUS classification, fall into one or more classes. Researchers must recognize this and take it into account. Many property development companies fall predominantly into one category, however, those which operate in more than one category may appear in more than one of this classification's sub-groups. This is only acceptable as long as it is noted that such firms will possess advantages over non-diversified, local property development companies.

6.8 Summary

The property development process is one of the most important links between capitalism's economic processes and the built environment. Commercial capital, in other words the property development company, plays the central role in the property development process' network of social relationships (Section 2.5). This abstract formulation of a complex heterogeneous group of agents provides a useful overview of the structure of the property development industry, nevertheless it can be argued that by

using such an abstract formulation many features of developer behaviour are overlooked. Commercial capital's role in the property development process should not be conceptualized as been played by a group of relatively homogeneous actors/agents, but by an heterogeneous assortment of different types of organizations and individuals.

Previous classifications of property companies have tended to confuse commercial capital's role in the property development process. The property development industry is engaged in the alteration and transformation of the built environment of the capitalist city as well as the space-economy, consequently it is primarily a spatial process. Despite this previous classifications of property companies have failed to consider space as a variable in their analysis. Nevertheless, property companies which operate at different spatial scales cannot be compared with each other. Any classification of developers must account for differences in the spatial extent of their activities. The development of a classification of property development and investment companies which includes a spatial dimension permits differences in their actions and motivations to be investigated.

Chapter five considered three general filters which developers use implicitly or explicitly to restrict the extent of their search for potential development sites. These filters do not indicate the mechanisms that property companies use to identify specific sites. The relationship between property companies and the space-economy must be examined in greater detail if an understanding of the various formal and informal information networks used to identify specific sites is to be achieved. These information or search networks are examined in the next chapter. They represent the initial contact between capitalism's built environment and the property development process.

CHAPTER SEVEN

The Site Identification Process

> There are clear stages in the recognition of opportunity and development potential and subsequently making the development pay. These days the process is 95 per cent pure professionalism, but there still remains that indefinable 'flair' which no developer would be without. Flair can hardly be defined and certainly cannot be taught - perhaps it all comes down to a matter of style (Harvey Soning, 1973, p.559).

Introduction

The property developer produces a commodity built-space through the articulation of land, labour and capital. The primary social relationship in the network of property and landed capitals is that between commercial capital (the property developer) and landed capital. All additions to the built environment are founded on this relationship. Land must be available for a property development to occur but the development interest or property developer must be aware of its existence and location. To the property developer, land represents potential development profit. It is the physical medium on which the articulation and manipulation of all the other factors crucial to the investment decision are made. Consequently, the link between a specific site and a property developer, in other words the process of **site identification, is the prerequisite to all property development.** The examination of general development filters undertaken in Chapter Five provides the context for this process. While filters demonstrate how property development companies restrict their search areas, they do not highlight the complex heterogeneous network of formal and informal contacts, and

other types of relationships that form the foundation of the property development industry.

The importance of the *site 'finder'* or *site identifier* is emphasized in a poem in *The British Land Company plc's* internal broadsheet :

> The Architect's first, by whom we're designed
> B's for our Banker who're never maligned.
> Next the Contractor, we count on to finish
> The Developer's Dream, we'd hate to diminish.
> Estate Agents tell us "This one's a steal"
> And thanks to the Finder who brings us a deal.
> (The British Land Company, 1987, p.4).

A key point is that someone, not necessarily an estate agent, brings the potential development site to the attention of the property development company. A deliberate distinction is also made between 'the estate agent' who advises property developers on the condition of a specific property market and 'the finder' who initially identifies the site. Little is known about 'the finders' of sites either companies or individuals consequently research into 'the finders' is essential if an understanding of the role of the property development process in a regional context is to be achieved. A regional context is specified as research must focus on the relationship between centrally located property development companies, often with a single office in London, and regional property markets. Research must identify and distinguish between individuals and companies involved in the process of site identification, 'the finders', and property development companies.

7.1 Archetypal Roles, Interests and Development Intermediaries

The theoretical underpinning of this thesis is the existence of four types of capital involved in the property development process : landed capital, commercial

capital, financial capital and industrial capital. Each of these represents an abstract conceptualization of a heterogeneous group of individuals or organizations who possess the same interests and functions. Site "finders" do not fit into this framework unless, it is argued that a fifth type of capital exists whose primary interest in the property development process is the reward obtainable from commercial capital for the identification of potential development sites. This presupposes the existence of a distinct group of identifiable individuals or organizations whose primary function is site identification. This is unfounded as site identification is often an additional function undertaken on occasions by a variety of actors not necessarily directly involved in property development. To understand this argument a distinction must be made between *archetypal roles* and *interests*. Every individual, organization and company exists in and is surrounded by a series or networks of structured social relationships or "systems of interaction " which together form a particular type of society and which exist over and above all individuals (Berger, 1980, p.38). For example, the family and the educational system all exist over and above individuals. Individuals involved in these situations must orient their actions to other people. These relationships are social as they are founded on interaction between individuals or groups of individuals. Capitalism consists of a specific set of social relationships which range from the spheres of production, circulation, consumption and reproduction. Each of these spheres of action and interaction consists of the roles played by individuals and amalgamations of individuals (groups); roles which are largely determined by the existing, established structure of the society. A role is a pattern of behaviour associated with a particular position and function which represents the institutional order. Roles are defined first by a specific action, for example, property developers develop land while builders construct property and secondly in relation to other roles, for example, builders and estate agents (Berger & Luckmann, 1985, p.92). Individuals who become property developers or estate agents learn to act in particular ways and to play a particular type of role. Every individual and company plays a variety of different roles, for example, a property developer may play the role of a parent while a company may play the roles of manufacturer, retailer, consumer, employer and philanthropist. The majority of roles are very complex and consist of a variety of interconnected and

meshed relationships. A property developer's primary interest is the development of land; yet being a property developer involves participation in a complex web of relationships which include financial institutions, the state, potential tenants, builders and development intermediaries.

To clarify this further the definition of role needs to be elaborated. An *archetypal role* may be conceptualized as a typical representation or specimen of a particular function performed at one or more levels within a specific society. Levels in this definition can refer to either (a) spatial levels: local, national, international or (b) social levels: lower, middle and upper class. The property developer's archetypal role is the creation of profit from the production of commercial floorspace. An *interest* is an additional function undertaken by an individual or organization engaged in the performance of a specified archetypal role. Individuals and organizations undertake some functions which are not essential to the fulfilment of their archetypal role. This needs to be qualified further as every archetypal role is composed of a series of interests which can be divided between those which are essential to the performance of this role and those which are not. Essential interests may be termed *primary interests,* all others being *secondary* (Table 7.1). The secondary interests of property developers are associated with their archetypal role, for example land assembly. A land assembler's archetypal role is the generation of profit from the consolidation of, and speculation in, land and not property development. Land assembly may be undertaken by a property developer as a secondary interest. In such a case the property developer will acquire the rights to an area of land and sell the site and the development concept to another property developer. In this particular case land speculation is not conceptualized as an essential element of the performance of the property developer's primary interest which is the creation of commercial floorspace.

This discussion raises the question of terminology which must be considered before examining the various information networks and contacts used by property

Table 7.1 Archetypal Roles and Interests :

Archetypal Roles =	Primary Interests (essential interests) +	Secondary Interests
a) Property Developer	Generation of profit from the creation of floorspace	Site assembly & sale of undeveloped sites
b) Estate Agent	Generation of profit from the sale and letting of property on a commission basis	Site identification Property Development Financial Consultant Property Investment
c) Builder	Generation of profit from the construction of buildings	Site identification Property Development Property Investment
d) Financial Institution	Generation of profit from insurance, banking and investment management	Estate Agency Property Development

developers to identify potential development sites. In the introduction to this chapter it has been suggested that a variety of agents or intermediate actors mediate between landed and commercial capital. Their involvement in the property development process is of secondary importance to the performance of their primary interests. In a number of cases these actors are commercial estate agents, but they may also be solicitors, architects, local builders, land assemblers and land owners. Any individual or company involved in the identification of a development site, but not in its actual development will be referred to as a ***Development Intermediary*** . These mediators between capitals are not directly involved in the property development process. Instead they exist at an *intermediate* level between Landed Capital and Commercial Capital and between Commercial Capital and Financial Capital. In Marxian terms they can be conceived as increasing the circulation of development capital since they fulfil functions which attempt to link a number of different, distinct and

essentially unrelated capitals. Development intermediaries increase the frequency and spatial extent of commercial capital's contact with parts of the space-economy. They *may not directly* participate in the flows of capital involved in the property development process, instead they acquire a number of direct and indirect returns depending on the type of development intermediary involved. For example, estate agents obtain a commission on the sale of a site from the seller while they will expect to be retained by the property developers as the letting agents. Architects design a potential scheme for an available site and attempt to sell the concept to a property company expecting to be retained as the property developer's primary architects. Solicitors will expect to be retained as the project's legal agent in any negotiations such as leasing agreements, land acquisitions and planning arrangements, while a construction company will expect to be retained as the project's primary contractors.

Development intermediaries in some cases may be undertaking a primary interest which is central to the performance of their archetypal role, for example land assemblers, while in others this may be a secondary interest which is additional to their primary interest. It is important that this distinction is recognized. A solicitor may act as an informant to a property development company fulfilling the role of development intermediary in the process of site identification, **but** this will represent a small proportion of any solicitors workload, since a solicitor's archetypal role and primary interest is not that of site identification. A commercial estate agent's archetypal role is the mediation between the supply and demand elements of the commercial property markets. It is to be expected that the commercial estate agent's interests may alter with the changing conditions of the property market. During an upturn in the property development cycle the agent's interest may be the identification of sites for property development companies as well as the normal role of matching user demand with existing available space. During a downturn in the property development cycle the agent's role, theoretically, is the maintenance of the existing property market's price structure. This is partially achieved by the commercial estate agent's role in undertaking rent reviews for existing leased buildings on the basis of comparable rentals. A strong argument exists for the estate agent's role as site

identifier to be considered as a secondary interest as site identification blurs the distinction between the estate agent's role as a representative of the seller's interests and the interests of potential buyers.

7.2 The neglect of the site identification process

If the site identification process is conceptualized as the prerequisite to all property development we must consider why existing research into the property development process has failed to consider the relationship between commercial capital and landed capital in any great depth. Primarily, the role played by development intermediaries in the property development process has been neglected for three reasons. First, the emphasis that has been placed on the economic returns from property development in the work of Barras (1979b) and subsequently Malone (1985b). This body of work has highlighted the role of four distinct types of capital involved in the property development process which has been conceptualized in a model based on the movement of development profit between these various capitals. It is a model based on a conflict situation, conflict to determine which of the four capitals will acquire the greatest proportion of development profit. Comparatively little research has been directed at the examination of the relationships and links that exist between these capitals. The model identified by MacLaran (1986) explicitly over emphasizes the role of the property developer in the production of built-space as the model depicts them as playing the pivotal role in the process. Nevertheless property developers are not free agents since they have to work within the constraints imposed on the property markets by financial capital and The State. The concentration on the flows of development profit between the four capitals has, by definition, neglected those elements in the property development process which receive no significant capital rewards in relation to total development profit. In effect the process by which a specific site is identified as suitable for development has been neglected primarily because the financial return relative to total development profit is insignificant and are usually preset to an arranged percentage. This percentage may be insignificant in comparison to total development costs but is

very significant in comparison to the usual commissions received by local estate agents, solicitors, architects and other development intermediaries.

Secondly, the role of development intermediaries has been neglected because the focus of research has been conducted at a general level. Malone's detailed analysis of Dublin's office market rests on a series of interviews with key estate agents in which he ascertained the completion date plus development and investment interests for all office space constructed since 1960 (Malone,1985a). The role of development intermediaries in the process was neglected primarily because Malone's conception of the development process identifies the property developer and institutional investor as the key agents in the property development process (Malone, 1985a). Similarly the work undertaken on London's office market has ignored the role of development intermediaries for this reason (Barras, 1979a). The analysis of the office development process begins with the property developer thus neglecting the primary element in the development process, *development intermediaries.* The argument in this chapter is not that property developers do not play the pivotal role in the property development process, but that to start the analysis without understanding how they receive details of specific development sites leaves one of the key spatial elements of the process unexamined and unexplained.

Thirdly, development intermediaries have been neglected due to the difficulty of identifying them in active property markets. In London, for example, the number of individual developments examined in the identification of the city's property development cycle precluded any detailed investigation of the site identification process (Barras, 1979a). It may also be argued that at this scale of city size development intermediaries may not be as prominent as in a provincial or regional property market. In large cities property development companies may incorporate this as a secondary function of their organizational structure as most of their activities will probably be based within that particular city. In capital cities like London most of the national and international property development companies will be directly represented on the ground by either a development subsidiary or a

property management office. Consequently the importance of development intermediaries as site identifiers decreases but they will still play an important role in the identification of potential development sites. Research in a large city with an active property market is required to establish the validity of this assertion.

The role and significance of a number of intermediate agents which link commercial and landed capital together has clearly been neglected by urban geographers. To argue that our cityscapes have been physically altered by financial capital flowing via the property development process through into the built environment is to ignore the essential starting point of this process. To ignore the examination of this process on the grounds that the agents involved do not obtain a sufficient share of development profit is to neglect those individuals or companies which ultimately determine the specific location of a significant proportion of a regional centre's speculative commercial floorspace.

7.3 The Role of Development Intermediaries

Knowledge is the basis of the property developer's relationship with the capitals involved in the property development process. A series of information networks exist which constantly inundate property developers with potential development opportunities and sites. These informal information networks are reinforced by a series of financial networks which may be either formal links between financial capital and commercial capital or informal links in the form of share ownership or sharing agreements which provide access to development capital via the financial market. The economic criteria on which development proposals are assessed have been examined in Chapter 4 and will be considered further in Chapter 8 . The basis of this decision making process rests on three factors. First, the property developer's perceptions of a specific property markets development potential. This perception will rest on the property developer's own knowledge of his own success or otherwise in a particular property market as well as on general feelings about the area's future growth potential. If the property developer has no direct development

knowledge of a specific city the initial development undertaking is likely to be relatively small and as such carry a fairly low degree of risk. This size constraint may not apply if the property developer perceives that the town is experiencing a rapid upturn in its property development cycle. Secondly, the information obtained from a number of development intermediaries concerning the condition of a specific property market. To ascertain the current condition of a property market development- investment companies may also undertake informal surveys of their existing tenants. The final factor in any appraisal is the potential economic return available from the proposed development. This variable is, of course, directly influenced by the operation of the first two factors as some of the information concerning the future potential trends of a specific city's property market must come from local commercial estate agents who may have suggested the scheme in the first place.

The role that development intermediaries play in the property development process must be considered further. The four types of capital involved in the property development process are engaged in a series of relationships which rest on the transfer of legal titles and capital. Capital flows from commercial to landed capital in exchange for the legal title to a specific parcel of land. Similarly, capital flows to commercial capital from the financial markets in return for interest on loan capital. Financial brokers mediate between property companies and the financial markets, while the development intermediary's primary function is to increase the interaction that occurs between landed capital which is spatially fixed and commercial capital which is not. As has been noted the property developer functions by the articulation of knowledge which is usually gathered via a series of development intermediaries. In many cases the property developer has an indirect relationship with potential development sites; indirect as the relationship is established by an intermediate agent, the development intermediary. If a direct relationship existed between the property company and the land surface full coverage or even partial coverage of a country the size of the United Kingdom for potential development sites would be impossible. The cost of and also the return available from financing such a network would be

prohibitive (Section 5.4). Development intermediaries constantly inundate all property companies with hundreds if not thousands of potential development schemes located at different levels within a country's space-economy. Property companies examine these proposals and chose those which fit their current and future development plans or investment portfolios. The development intermediary's primary function is to increase the number and spatial extent of commercial capital's contact with the space-economy. Without development intermediaries all property companies would be restricted to a very limited development area or have to establish a complex and expensive information network.

7.4 Site Identification and Land Assembly

The property developer's initial contact with a development proposal, depending on its size, will either be via a development intermediary or by developer initiated land assembly. The larger schemes are more likely to be initiated by the property developer or by a separate land assembler, another form of development intermediary. Most property development companies do not engage in land assembly to any degree regarding it as a secondary interest to the creation of development profit:

> . . . this company does not deal in land, but buys it for development and not just to sell on to other developers. This process (site assembly) takes too long a time and is too risky as well as the profits involved are not all that great in terms of development profit (Interview, National Developer-Seller, 18/8/86).

Development sites may be divided into two categories. First, complete development sites which are owned by a single land owner, and, secondly, sites which initially are owned by more than one individual. The first type of site represents a total unit while the second represents many units whose ownership titles must be obtained and legally merged either by the property development company or by a land assembler This

thesis is concerned predominantly with the first type of site, however, the implications of land assembly must not be overlooked.

A Land Assembler is an unique type of development intermediary who identifies a potential development site owned by a variety of different individuals and companies and who gradually acquires the land rights, or options, on parts of the site. Land assembly requires that loan capital is freely available at relatively low interest rates, nevertheless, the cost of borrowed or internally generated capital must be compared with the returns available from other investment areas. The returns from all types of investment capital must be examined to assess the opportunity costs associated with a specific investment decision since a large sum of borrowed or internally generated capital might produce a greater return if invested in an investment medium other than land (Section 4.4). Property developments which have undergone an extended process of land assembly possess a high degree of risk. To take this risk into consideration the expected returns from such an investment must be greater than those available elsewhere.

With the high cost of loan capital the role of the intermediate land assembler has become less important in the property development process. The larger development schemes are increasingly likely to be initiated by property developers or by financial capital as such schemes can take up to twenty years to put together. The opportunity costs are thus significant which implies that such land assemblies will only be undertaken in comparatively low risk areas, for example in prime parts of the central business district.

Occasionally the state undertakes land assembly for itself as well as encouraging private capital to develop difficult sites or in decayed areas. This type of land assembly takes three forms. First, the assembly of sites for infrastructural improvements which can lead to planning blight with surplus land being either sold or leased to private sector property developers. In the well documented case of London's Euston Centre (completed in 1970) London County Council acted " almost like . . . a

fourth estate agent in the consortium" of property developers (Marriott, 1967, p. 189). Secondly, the state undertakes land assembly to acquire the sites for the construction of its own buildings. In Leicester, the city council spent over ten years assembling a site for a new civic centre which was never actually built (This example is examined in greater detail in Chapter 9). Thirdly, the establishment of development corporations has created a number of organizations that operate on the boundary between public and private capital. The broad aims of these bodies is the social and economic regeneration of a number of derelict and decayed landscapes by private capital. For example, The London Docklands Development Corporation's annual budget is spent mainly on the purchasing and preparation of land, infrastructural investment and marketing (Church, 1988, p.189).

Ultimately, site assembly reduces the initial land owner's returns from the sale of property or transfers part of a property company's development profit to a third, and essentially unproductive, party. Alternatively it could be argued that by buying a number of separate sites and merging their titles site assemblers create or add value to the overall site. In the final analysis the overall site is worth more than its individual components. Whatever view is accepted the impact of site assemblers on the townscape often produces derelict sites, and decaying buildings until site assembly is completed or until the site assembler has persuaded a property company or financial institution that it is a profitable development proposition.

In the provincial city the majority of development proposals can be attributed to a number of local development intermediaries other than land assemblers. Heterogeneous land ownership is not encountered too frequently as an abundance of large homogeneous development sites exist as a consequence of the decline in traditional city centre manufacturing industries such as textiles and shoes. For example, in Leicester *Epic House*, an office development of 35,000 sq. ft., is located on the former site of the *Leicestershire Horse Repository* at the corner of Charles Street and Lower Hill Street (Chapter 9, Map 1). The Horse Repository occupied a site of one acre with a frontage of 540 feet accommodating approximately 100 horses with a

substantial exercise track. *St. James' House,* an office development of 83,359 sq. ft. on the corner of Welford Road and Carlton Street, Leicester, is located on the former site of a timber mill. Finally, Enkalon House an office development of 39,145 sq. ft. on Regents Road, Leicester, stands on the former site of two nineteen-century houses which were acquired in 1964 for £10,000 and £11,000, a minor piece of land assembly. Land ownership which is essentially heterogeneous may negate to a large extent the role played by land assemblers.

7.5 The Process of Site Identification

> "And thanks to the Finder who brings us the deal."
> (The British Land Company, 1987, p.4).

a) Introduction

Site identification is the initial stage in all property development as it represents the link between the land surface and the property development process. In contrast to many mass house building companies commercial property development companies rely on a number of external information sources for the identification of specific development sites, as most do not employ their own site identifiers (Bather, 1976). Since the majority of commercial property companies are not directly involved in site identification the mechanisms and techniques used to obtain knowledge of specific development sites must be considered. During interviews with representatives of property companies seven types of site identifier or Development Intermediary were identified:

- Nationally Based Estate Agents
- Locally Based Estate Agents
- Other Developers
- Media Sources
- In House Development Team

- Others - Architects, Solicitors
- Site Assemblers

Development companies use a combination of all of these in the identification of potential development sites; some are used more intensely than others. The importance of each of these types of development intermediary were investigated using a postal questionnaire in addition to information obtained from interviews with representatives of property development companies. Table 7.2 summarises the information concerned with the site identification process. Each respondent was asked to rank, in order of importance, the five site information sources which had been previously identified in discussions with property development companies. Respondents were given the option of specifying additional site identification sources, however, only five listed an additional category: 'site identification by their own staff'.

Table 7.2 Agents Involved in the Site Identification Process

	Preference Ranking									
	1		2		3		4		5	
		%		%		%		%		%
National Estate Agents	33	48	18	26	4	6	4	6	0	0
Local Estate Agents	16	23	15	22	14	20	3	4	2	3
Site Assemblers	5	7	11	16	11	16	8	12	5	7
Newspapers\Journals	0	0	3	4	8	12	13	19	9	13
Other Developers	4	6	11	16	12	17	10	14	6	9
Own Staff	5	7	1	1	4	6	2	3	0	0
No Response	6	9	10	14	16	23	29	42	47	68

Source: Postal Questionnaire, August 1987.

b) Nationally based estate agents

Nationally organized estate agents play a significant role in the identification of potential development sites. The emphasis on nationally based estate agents is surprising as most of the sites obtainable through this source will be well advertized and consequently more expensive; 'quiet sites' those not identified by other property companies, are usually cheaper than those which are public knowledge. Property companies may have over estimated the role of this development intermediary in site identification as such companies are highly visible in the property management and development world. Their significance may be explained by transfers of information between different types of development intermediary which the postal questionnaire could not directly address. Frequently, potential sites are identified by locally based development intermediaries and details are passed on to nationally based organizations on the basis that the local company will benefit financially from the transaction. This transfer of information is explained by the substantial number of contacts nationally organized estate agents will have with national and international property companies and financial institutions. In contrast locally organized development intermediaries will possess a limited number of contacts with nationally organized property companies. Transfers of information between different organizations operating at different levels in the space-economy were emphasized by a representative of *Hillier, Parker, May and Rowden*, an internationally based estate agent, who indicated that :

> . . . most sites originate locally, from those who have local knowledge. They punt the idea around to anybody. They punt it on a share commission basis . . . Hillier Parker will have stronger ties with the developers and funds. It is not possible for us to have local knowledge (Interview, 23/7/87).

Hillier Parker's organizational structure consists of a number of departments which are divided by function and geographical region. Departments specialize in retail, office or industrial property further sub-divided into specific regions with individuals responsible

for particular areas. The person, for example, who is responsible for Leicestershire's office market will :

> . . . keep an eye on it and keep their ears open (Interview, 23/7/1987).

This person will establish and nurture a variety of formal and informal information contacts with locally based development intermediaries and tenants.

Property investment companies are normally in regular contact with at least one nationally based estate agency which periodically values their property portfolios. In other words, development companies tend to have a stable direct contact with representatives of these nationally based estate agents who have access to highly confidential information concerning the types, locations, specifications, age and value of many property company's and financial institution's investment portfolios. This enables national estate agents to construct a profile of the types of property that a specific property developer or financial institution is likely to consider :

> . . . tailoring programmes to individual client's management style, the nature of their current portfolios, their attitudes to risk, and the extent of their in-house expertise . . . as it is essential to be able to match individual schemes to the limited number of funds likely to be interested in supporting a specific development at a specific time (Jones Lang Wootton, 1987a, p.7 & p.13).

It should be noted that by tailoring a development or property investment programme to a particular company's needs Jones Lang Wootton is referring to the filters identified in Chapter five. Consequently, they can discriminate between many potential sites and identify those which a specific organization would consider as suitable for further investigation. Effectively many nationally based estate agents filter and sort information from a variety of different sources selecting for specific property

developers and investors a limited number of potential projects for them to consider.

Regionally based estate agencies may also establish contacts with property companies and financial institutions. *Frank Innes Bonfield* , an estate agency established in Leicester in 1953 and acquired in 1986 by *Blackhorse Commercial Properties* (Lloyds Bank), spent over 80 per cent of its time during its first ten years in the city selling property and establishing contacts. Today, according to a senior partner, over 80 per cent of their work is in revaluations either for insurance purposes or rent reviews. In effect most of their business is derived from long standing contacts. All commercial estate agencies appear to follow this pattern establishing a mature relatively stable client base over a number of years. In fact :

> The client of a commercial estate agency tends to be like any professional business, one has him for life. Consequently much of the information we (the commercial estate agent) need for valuation is already on file as well as knowledge of other transactions in the area (Interview, Frank Innes Bonfield, 21/8/86).

This knowledge is seen by many estate agencies to be strictly confidential and is rarely released to other companies or to private researchers.

c) Local estate agencies

Nationally or internationally based estate agents are restricted because they cannot possess local knowledge of every town and city. They rely on locally based contacts to provide them with information about potential development sites in return for a share in the commission from the eventual sale. Conversely, local estate agents may have local knowledge but they are less likely to to be in frequent contact with property development companies and financial institutions. This is not always the case, for during a boom in a regional centre's property market local estate agents may, in

the short term, establish close contacts with nationally based property companies. The initial introduction may be through a national estate agent or an 'old boys network' . A successful project encourages the property company to undertake further schemes in the locality which may be suggested directly by the local estate agent bypassing national firms. This point is aptly illustrated by quoting a representative of M.E.P.C who argued that :

> It comes back to knowing your patch. When you're in an area you get to know other things. You get to know the agents, they get to know you, you are perceived as being active and you get other things offered to you, other sites and other opportunities (Interview, 8/8/86).

Once again knowledge and contacts are emphasized as the key to successful and profitable property development.

This over emphasis on the role of nationally based estate agents may direct attention away from the activities of local based development intermediaries. Interviews with representatives of property development companies indicate that national [London] estate agents may play a less significant part in site identification than the findings of the postal questionnaire suggest. National companies may handle most of the major property transactions but they are less important in identifying not so prominent or quiet sites and sites for smaller projects. According to the managing director of a nationally based property development company

> . . . national London [estate] agents do not bring as many sites as one would think. The larger agents tend to bring the well known sites onto the market while the smaller ones are more likely to bring a quiet site, one on which profit may be quite high (Interview, 7/9/1987).

An examination of the findings of the postal questionnaire reveals that in contrast to nationally based estate agents the proportion of property companies using locally based estate agents remained relatively constant over the first three rankings. National estate agents on the other hand dropped from fifty to under six per cent over the first three rankings. The consistent ranking of local estate agents suggests that this type of development intermediary is perceived by property developers as an important information source.

Local house building companies appear to possess similar advantages to locally based development intermediaries. A study of small medium and large house building companies in Reading highlighted the differences between local and national organizations (Bather,1976). Small firms being defined as those building 50 or less housing units a year. Such firms were found to have two advantages over larger regional or national house builders. First, they can :

> . . . develop a system of information based on frequent contacts, both social and formal, with other decision agents in the local housing market (Bather, 1976, p.18).

An advantage that local development intermediaries and local property companies also possess. Secondly, many of the small firms Bather interviewed expressed the view that:

> . . . in the search for land, local knowledge and contacts often gave them an advantage over larger organizations, especially those operating from outside the study area (Bather, 1976, p.18

Small house builders undertake smaller infill developments which are not viable propositions for larger companies, as they are difficult to identify. They are also expensive to develop because they do not benefit from economies of scale. Commercial property developers and development intermediaries possess advantages similar to locally based small scale house building organizations.

d) Estate agents involvement in the development process

Estate agents are important development intermediaries linking nationally based, and often highly centralized property development companies with local property markets. To understand their present roll in the property development process a review of their past involvement must be undertaken in addition to an evaluation of the consequences of recent changes in the structure of estate agency practice in the United Kingdom.

The importance of the commercial estate agent in the identification of suitable development sites emerged during London's first post-war property boom of the 1950s. During this period many Estate agents were directly involved in the property development process, identifying sites, and developing them for private gain. Marriott, in 1967, listed 105 property developers who had made over one million pounds out of property development since the second world war. Some 41 per cent, of the individuals listed, began as estate agents, the most prominent being *Jack Cotton, Harry Hyams* of *Centre Point* fame and *Joe Levy* the enterprising creator of the *Euston Centre* (Marriott, 1967, p. 266- 269). The emergence of such individuals in the property development process was not surprising as estate agents are au fait with both the existing land market and with potential future demand. They were able to put "*two and two together to make eight*" (The Economist, 8/3/72). Whitehouse as early as 1964 realized the significance of the estate agencies function in the property development process commenting after a series of interviews with some of the pioneers of the post-war property world that:

> Property development is an extension of the function of the estate agent. The property development company did not supplant the estate agent, but grew for the first time out of the older profession . . . It is therefore not surprising to find that the men who were the first to see, and the quickest to exploit, the new

potential had their background in the world of estate agencies (Whitehouse, 1964, p.23).

With the domination of the property world by the financial institutions from the late 1960s, the estate agent's role has been reduced to that of supplier or retailer of information to either property development companies or directly to the financial institutions. This disassociation of the estate agent from direct participation in the property development process has lessened the risk of a conflict of interests between the estate agent's role as a representative of a seller's best interest, and that of property developer. This contradiction is highlighted by a letter sent by Joe Levy the estate agent/developer on the 29th of May 1963 to the Chairman of the LCC Town Planning Committee. Joe Levy, in his role as estate agent, referred several times to "my clients" who in this case were himself acting as property developer (C.I.S, 1973, p.16).

e) The centralization of commercial estate agencies

Ever increasing concentration and centralization of economic activities is a notable feature of the present development of the capitalist economic system. Estate agency has historically been a fragmented industry due to the limited amount of capital required for entry into the profession, subsequent low overheads and the importance of local contacts and specialist knowledge. Since 1978, when a Yorkshire finance group, *Provident Financial,* began to establish a national estate agency chain, many financial institutions have followed suit. Notable amongst the financial institutions involved are *Lloyds Bank* (Blackhorse) , the *Prudential Corporation* (Prudential Property Services) and the first publicly listed independent national estate agency, *Connells Estate Agents plc* . Financial institutions are entering this area for two reasons as:

> . . . a profitable investment in its own right and as a means of securing additional business for other parts of the Corporation (Prudential Corporation, *Annual Report,* 1987, p.6.)

This increasing concentration of previously independent companies must be examined to determine how it will effect the local estate agent's role as development intermediary. Much of this concentration has been concerned with residential as against commercial estate agency practices. In 1987 Prudential Property Services was Europe's largest estate agency with 622 residential branches and 42 commercial and professional offices. The company has established a specialist division concerned with commercial property which according to its managing director will enable the Prudential :

> . . . to offer a national service coupled with local expertise which is proving attractive to property clients of all kinds (Prudential Corporation, *Annual Report,* 1987, p.15).

Connells Estate Agents plc also emphasizes this point in its 1986 report on the operations of its commercial property division. This grew from a network of 5 offices in 1985, with a turnover of £1,778,000, to 14 offices in 1986 with a turnover of £5,612,000. This report describes the commercial division as operating:

> . . . from a series of strategically situated business centres undertaking both specialist London and provincial commercial property work to a standard that simultaneously attracts both national and local clients. Without the intensive understanding we have *of each urban context* - its population, its environs, its infrastructure, its commercial and civic characteristics and its *development realities* , no effective advice can be given (Connells Estate Agents plc, *Report and Accounts,* 1986, p. 7, my emphasis).

The emphasis in this statement is on local detailed knowledge of specific urban contexts and experience of national markets like London. Furthermore, Connells

argues that the development of its albeit small but rapidly expanding network of commercial estate agencies has meant that:

> an added value . . . is our increasing ability to exchange operational experience across widely differing commercial contexts, sharing data and ideas and proven better practices. Some economies of scale will increase as our centres multiply (Connells Estate Agents plc, *Report and Accounts*, 1986, p.7).

These developments in the structure of estate agency in the United Kingdom may alter the relationship between local and nationally based estate agents. A chain of local estate agencies will have a centralized office which will be able to develop continuing contacts with property companies and financial institutions and will be able to draw on knowledge of local conditions throughout the country.

A property developer, interviewed as part of this study, commented on the relationship he had with one of *Connells* commercial offices by stating that " . . . as a company they depended on good agents to introduce their developments to financial institutions", a function which cannot be performed by locally based estate agencies. The Connells outlet has local knowledge and a centralized headquarters in London and whose services :

> . . . even if the agents fees are very high they are worth it. All they may have to do is to make one phone call to arrange sale or funding [of a building]. But they [the estate agent] have the contacts already made. This is were all the expensive account lunches come in, in which information is exchanged (Interview, Regional, Developer-Seller, 20/8/86).

This indicates the informal nature of many of the property development industry's information networks. The informality of many of these networks makes them difficult

to identify and investigate and is probably one of the reasons why they have been neglected by academic researchers.

During the course of a series of interviews in Leicester one estate agent involved with the establishment of the *Black Horse Commercial Estate Agency* was identified. This organization's aim is to establish a nationwide practice similar to Black Horse's residential activities with a centralized computer data base. This will enable the organization to undertake valuations and rent reviews of the investment portfolios of pension funds, insurance companies and property companies in a manner which nationally based London firms cannot. Local offices in this organization will be able to undertake the valuation and rent reviews within their locality as they will possess detailed knowledge of the present and possible future condition of the local market. Estate agencies centralized in London with only a few regional offices cannot possess this type of detailed local information.

This change in the structure of commercial estate agencies may lead to a stifling of entrepreneurial enterprise in the local branches of nation wide estate agencies. This problem is of central concern to the directors of the Connells group for as they state:

> . . . when providing for the requirements of developers, the professional practitioner must be in the vanguard for the industry in terms of entrepreneurial flair and drive, as well as professional expertise . . . The management of the [Commercial] Division recognizes the supreme importance of motivation for its professional team, in terms both of financial reward and the enlargement of the professional challenge (Connells Estate Agents plc (1987) *Reports and Accounts*, p.10).

The danger is greatest for financial institutions, rather than publicly listed estate agencies, since they are attempting to combine a centralized concentrated industry,

financial services, with one which is traditionally extremely localized and fragmented. Estate agency networks will only be successful if they develop strong national branding and careful management of individual branches through the standardization of training and management practices (O'Hare, 1987). This tends to reduce the level of initiative at the local branch level and subsequent reductions in entrepreneurial drive and initiative. If this is the outcome then the similarity between local property companies and local estate agencies will disappear. Nevertheless, no matter how concentrated the estate agency industry in the United Kingdom becomes, small independent companies will still be established and survive relying on local knowledge, flair, entrepreneurial drive, experience and expertise.

f) Property companies

Property Companies may also act as development intermediaries, identifying or assembling sites but not developing them for at least three reasons. First, the proposed scheme may be too large tying up a significant proportion of the property company's capital with the possibility that failure would undermine the firm's financial stability. Secondly, the site may require the construction of a building which in its location, size and complexity is beyond the experience of the company. Thirdly, the property company may undertake site identification and site assembly as part of their normal business transactions in the expectation of a financial gain. According to the managing director of an international development-investment company :

> The small [estate] agent and the small property developer are nearly indistinguishable from each other in terms of sites. They are both small entrepreneurs engaged in digging out sites ahead of the market (Interview, 29/9/1987).

This does not necessarily imply that all small property development companies identify sites and attempt to sell them to other companies. What it does indicate is that local estate agents and local property developers possess detailed knowledge of particular

areas. Such property developers will obtain control of a site either by taking an option on it, or even by buying it. Outline planning permission may be obtained for a suitable development and the site may be sold to a larger regionally or nationally orientated property company which has the experience and the necessary resources to undertake the project. The property developer who acts as a development intermediary will expect to make a profit on the site and might expect to participate in the profits obtained from the completed development in the form of a profit sharing agreement.

g) The property press

A 'quiet' development site, one not widely known throughout the property world, is unlikely to be found in the pages of a property journal like the *Estates Gazette* or through a nationally based commercial estate agent, for example, *Jones Lang & Wootton.* None of the property companies listed the property press in its first ranking of most commonly used site identification sources. Sites advertized in the media are public knowledge and as such usually tend to be more highly priced. Nevertheless during a slump in a property development cycle sites bought or assembled expensively during a boom will be sold cheaply. Many of these will remain advertized in the property journals, but they will be unprofitable development propositions until the next upturn in the property development cycle commences.

A property developer may identify a potential development design which may increase the returns available from an advertized site, for example, it may be possible to increase the floorspace thus increasing the development's capital value. In the words of a property developer " *the knack is to identify a development angle which other developers have overlooked"* which will generate the greatest amount of profit. Similarly, as the managing director of a property company noted :

> the developer's role and his skill lies in the ability to find a site which currently looks like nothing and to turn it into something else (Interview, Regional Developer-Seller , 7/9/87).

This 'something else' will convert a redundant, derelict space into development profit by "creating a balance of innovation, function and visual harmony in . . . developments making them attractive to both tenants and investment institutions" (Speyhark plc, *Annual Company Report*, London, 1987, p.7).

h) In house development teams

Property development companies rely on two types of site; those which are publicly known and those which are unknown or 'quiet'. Every property development company's current development programme will be composed of a mixture of these two types of site. The typical property development company does not directly look for potential development sites, however, if a member of their staff identifies a suitable site they will appraise it to assess its development potential. A number of property development companies employ an individual or group of individuals to identify current and potential growth areas within the United Kingdom's space-economy. Research is constantly undertaken to identify towns and property sectors which may grow in the near future. In the case of property developers concerned with retail property the aim is to identify a town which does not contain an outlet of one of the major retail multiples. Some retail firms, for example, will supply property developers with a list of the towns in which they would like to open a branch. This enables the property developer to search for particular types of sites and buildings in predefined locations.

Small property development companies do not possess sufficient resources to undertake market profiles of large complicated property markets, for example, London. Research expertise and information can, however, be obtained from a number of national and international firms of property consultants and advisors which have established inhouse research departments; these will be discussed in greater detail in Section 7.6. Large and very active property development companies may establish their own research departments to undertake confidential appraisals of a variety of markets, property types and potential development projects. In 1988 *Rosehaugh Plc* , a

very active property development company, acquired 80 per cent of the issued share capital of *Applied Property Research Ltd,* a company which specializes in research and information into London's property market. This acquisition was described by *Godfrey Bradman,* Rosehaugh's chairman and one of the new property prophets, as a:

> . . . a strategy for continuing to enhance its in-house research and market intelligence capability (Rosehaugh (1988) *Reports and Accounts,* p.5).

i) Architects and Solicitors

A variety of other types of company operate as site identifiers or development intermediaries. Prominent amongst these are architects, construction companies, quantity surveyors and solicitors, in fact any individual or company which has frequent contacts with land and property markets who is able to obtain detailed information about the availability of suitable sites within a particular locality. Coupled with this some of these actors are constantly and directly participating in parts of the property development process enabling them to establish contacts with property companies. Having said this only two property companies indicated that they obtained sites from such sources. This type of development intermediary may frequently supply local and national estate agencies with potential development proposals.

The following two case studies illustrate the operation of these types of development intermediaries. The first concerns a vacant site in Leicester part owned by an architect who designed a building for the site and attempted to forward fund the project with *London Manchester Assurance* . The architect would benefit from the eventual sale of his part of the site as well as receiving a commission for his building design. Unfortunately for the architect this building was never completed as Leicester's office market crashed before building commenced but not before the site was piled for 50,000 sq. ft. of office space. Leicester is one of the few cities that possess a derelict piece of land, temporarily used as a car lot, which is piled for a substantial office

development. Similarly, *Town and City Properties*, a company which was heavily involved in the Leicester office market in the early 1970s, was introduced to the city by a London firm of quantity surveyors which had established a number of contacts in the city. This particular case study will be examined in greater detail in Chapter nine (Section 9.6).

j) Land assemblers

Land assemblers play a small but important part in the identification of potential development sites accounting for 7 per cent of the first and 16 per cent of the second and third rankings of preferred site information sources (Table 7.1). It is appropriate at this point to evaluate once again the operations of those companies who ultimately reduce the risk associated with the development of large buildings by undertaking the initial assembly and financing of sites. Site assemblers input into the operations of an international property company was emphasized by a director of M.E.P.C. in the following terms:

> . . . because we want to get on with development, and the process of development is itself complicated we are loath to take on sites that are in themselves difficult to assemble. We have bought sites of other developers who have spent a number of years assembling them. There are two sites, in particular, we have actually purchased from other developers. We know we have paid them a profit and we have said fine, as far as we are concerned we want to get on and develop. We do not undertake a lot of site assembly. It comes back to what I said earlier that there are developers and developers. There are some that will spent a lot of time piecing together sites to make what I will call a turn. They are relatively small scale, and to them £50,000 profit is a lot of money. We are looking to do the development which generates money and we are prepared to pay somebody else a profit for the work they have done which is a jolly

> site cheaper for us to do than having somebody work their legs off fitting together sites that may or may not happen. So we are able to pick up the ones that can happen and we pay someone a profit for them (Interview, 2/9/87).

This account of site assemblers' role in the site identification process highlights the transfers of sites that occurs between them and property companies as well as from property developers to property developers. Site assembly is perceived by M.E.P.C to be a long and risky process which may or may not produce a suitable development site. The use of the word 'generate' indicates that, to this particular company, the development process and commercial floorspace creates profit through the articulation of a good site, a suitable location, capital and labour.

7.6 International Estate Agents

In the last 10 to 15 years a number of commercial estate agents and property consultants have established an international network of offices to service overseas commercial property markets. Jones Lang Wootton, an international estate agency, stresses the global nature of its organization:

> . . . because of the world wide strength of the partnership, JLW has the international resources to provide a professional commercial property service on a global scale (Jones Lang Wootton, 1987a, p.11).

The internationalization of their activities is dependent on the increasing globalization of the business and investment markets. Estate agents that operate in more than one country are able to link tenants seeking overseas outlets with knowledge of a series of foreign property markets.

The internationalization of large commercial estate agencies takes two

forms depending on whether it was initiated by a financial institution or by an estate agency. First, companies like Jones Lang Wootton established offices abroad to service British financial institutions' investment activities overseas, in fact, many estate agents travelled globally on the backbone of their home based financial institutions. According to a representative of Hillier Parker May and Rowden the group initially established six offices in Australia to service British financial institutions seeking new investment opportunities. Instead of switching property investment within the same country between different types of property a number of financial institutions have established global property investment strategies. This is a clear example of risk avoidance as a global property portfolio provides the company with a very wide base on which to build. Many British funds disassociated themselves from the newly established British agents as soon as they were versed in the intricacies of the new property market preferring to deal with local companies which possessed detailed local knowledge (Interview, 23/7/1987). In the second case estate agencies expanded overseas to acquire experience, contacts and profit in new markets. In this case the motivation for the establishment of overseas offices came from estate agents who than tried to persuade its institutional clients to acquire property in these new markets.

International estate agencies acquire detailed knowledge of a number of different property markets acting as advisors to property developers, financial institutions, tenants and governments. Many of the larger estate agent groups have the resources, information and client base to establish large research departments which specialize in the appraisal of particular property markets and the performance of a variety of property sectors based on confidential information obtained through the management of a number of financial institution's property portfolios. Detailed, often highly confidential knowledge is one of the property development industries most valuable resources. Jones Lang Wootton in one of its publicity pamphlets argues that:

> Consulting and Research is one of the firm's most important activities and draws on and augments the expertise of the rest of the firm (Jones Lang Wootton, 1987b, p. 2).

These companies undertake three types of consultancy and research. First research into the performance, condition and future potential of a variety of property markets and property types which provides the basic information required by the company's specialists and advisors. Secondly, the appraisal of the performance and composition of the property portfolios of property developers and financial institution since external advice

> . . . offers an opportunity for objective and independent assessment of individual projects, portfolio management, or strategies (Jones Lang Wootton, 1987a, p.7).

Thirdly, consultancy is undertaken on behalf of a variety of clients into the future performance of a variety of property markets or sectors. These studies range from profiles of individual towns, property sub-markets, the present and future supply and demand for floorspace, the socio-economic condition of cities and regions and predictions into the likely future condition of a variety of property markets. These types of :

> . . . 'market profiles' provide a basis for advice to investors and developers on the strategies they should adopt to meet investment and business objectives (Jones Lang Wootton, 1987a, p.7).

Jones Lang Wootton claims that its investment activity on behalf of clients accounted to nearly 20 per cent of all property investment transactions in the United Kingdom in 1986 (Jones Lang Wootton, 1987, p.12). If this figure is correct then this company's activities play an important role in matching investment funds with suitable property developments nationally in the United Kingdom as well as globally.

Information plays an important role in Jones Lang Wootton's activities and it values its 'reliable, detailed and authoritative information' extremely highly (Personal

communication, 28/7/1987). In 1987 it formalized its research department, which employs over 30 "highly trained staff", by attempting to sell access to its services to external users. Access to its library of non-confidential information in 1988 cost £450 annually for ten hours of service.

7.7 Development Partnerships

Another method of acquiring a site is through a partnership with a company, local authority or state owned industry which owns land or buildings with development potential. Such partnerships involve the sharing of the risks and potential rewards from property development and only occur when land owners obtain a share of the development value, rather than simply selling the site or granting a leasehold with frequent ground rent reviews.

Partnerships allow land owners access to development profit without the risks associated with property development especially as they will often have limited knowledge and experience of the property development process. In the 1960s and 1970s partnerships between property developers and site owners were unusual, most sites being sold for a fixed sum, or disposed on long term leaseholds. Today most large landowners try to obtain some of the property developer's profits preferring to arrange partnership agreements rather than the direct sale of sites. In the 1980s due to the rapidly increasing costs of property development and the demand by users for larger buildings the risks associated with property development have escalated. Without undertaking expensive, time consuming and risky land assemblies it is difficult to obtain the large sites required by the new types of postmodern office building (Duffy, 1987). Property developer's possess the knowledge, expertise and contacts required to undertake a profitable development while the land owners own the sites. The merging of these two interests considerably reduces, for both parties, the risks associated with multi-million pound property development schemes.

Rosehaugh Stanhope Development in partnership with *British Railways Board*

is currently engaged in the development of *Broadgate* (Liverpool Street Station, London), 3.3 million square feet of net lettable office floorspace constructed and financed in 15 stages. Situated on land owned by British Railways it is far too complicated an undertaking for a non-specialist property development company to undertake by itself. A partnership with a property company leaves British Rail protected from the risks involved in such a large project while it receives a purchase price for the sites for each of the scheme's phases and a share of rentals established by a pre-agreed formula (1).

Rosehaugh is a new type of property development company, predominantly interested in the generation of profits from property development rather than investment. To enable it to undertake as much development as possible, but at an acceptable level of risk, Rosehaugh undertakes many of its projects in partnership with landowners such as British Rail, local authorities, other property developers, financial institutions and retailers like Next and Woolworths. In many cases joint companies are established which are owned equally by those involved in the partnership, for example *Shearwater Property Holdings Plc* is a company jointly owned by *Next Plc* and Rosehaugh, and *Rosehaugh Greycoat Estates* is jointly owned by the Rosehaugh Group and *Greycoat Plc.* Many of these partnerships are very complex, for example the proposed redevelopment of a 120 acre site owned by British Rail, National Freight Consortium Plc, British Gas Plc, British Waterways Board and the London Borough of Camden is being undertaken by a partnership, the *London Regeneration Consortium Plc*, which is owned equally by National Freight Consortium Plc, *Stanhope Properties Plc* and Rosehaugh.

As developments increase in size and value no one property developer will be able to undertake large schemes outside of a partnership. Development partnerships are likely to be the only means by which projects like Broadgate can be undertaken.

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(1) Further details of this partnership are given in Rosehaugh plc *Annual Report and Accounts* (1987, 1988).

The role of the property developer may increasingly become that of professional property advisor to a variety of land owners and financial capitals.

7.8 Location and the Site Identification Process

It is argued in this thesis that a classification of property developers which ignores the spatial dimension fails to consider differences in the spatial operation of different scales of private capital.. An analysis of the first, second and third rankings in Table 7.2, cross tabulated by the spatial orientation of the property company's operations, provides an indication of the effect that location has on the types of information sources used by property companies. Not surprisingly, locally based property developers tend to rely on information supplied by local estate agents though in many cases sites were identified through direct knowledge of a city's property market. In contrast, regionally based property developers use both locally and nationally based estate agents as well as site assemblers. This type of company occupies a niche between locally and nationally based property development companies and consequently relies on a combination of knowledge derived locally, an awareness of all property transactions in the area and information from nationally based estate agents.

Nationally orientated property companies do not rely on local knowledge and consequently tend to depend on nationally and internationally based estate agencies. Just under half of the nationally based property companies listed this type of estate agency as their first choice of development intermediary, however, they also list locally and nationally organized estate agencies as important site identifiers. This highlights, even at the national level, the significance of local knowledge in the site identification process. It is interesting to note that site assemblers and other property developers play a significant role in the retailing of development sites to nationally based property developers. International property development companies rely mainly on national or internationally based estate agents as sources for potential sites, however, it should be noted that they rank information derived from locally based estate agents quite highly.

The services of other property companies and site assemblers are employed when appropriate.

7.9 Property Companies and the Site Identification Process

Do different types of property company use different search strategies ? Developer-investors and investor-developers rank national estate agents as their most important site source (Table 7.3). These companies tend to hold property as a long term investment and consequently have stable relationships with at least one national estate agency. In their second ranking 25 per cent of developer-investors indicated that local estate agents are equally if not more important than national estate agents as information sources. In the first ranking only builder-developers felt that local estate agents were more important than national ones, a relationship which is reversed in their second ranking. Due to the spatial constraints of industrial capital many builder-developers are locally based companies which will have few contacts with nationally based commercial estate agents. Commercial property development is a secondary activity to their primary interest, the generation of profit through their construction activities. This accounts for their having no staff directly involved in site identification. Developer-sellers rank national and local estate agents most highly, however, all external information sources are perceived to have equal importance in the second ranking. The profitability of this type of property development company rests on the identification and turnover of as many projects as possible, consequently, the efficient and continuing identification of development sites is essential for their continuing profitability.

7.10 A Coterie of Property Developers and Advisors

The movement of financial institutions into property investment and the continued expansion of property investment companies has resulted in a small number of companies owning a significant proportion of the limited number of prime development sites that exist in the United Kingdom. In the 1950s and 1960s, prior to

Table 7.3 Site Identification by Type of Property Company

	D.I		D.S		I.D		B.D		Multiple	
Rank 1		%		%		%		%		%
Local Estate Agents	4	20	3	23	1	11	4	80	4	27
National Estate Agents	10	50	4	31	4	44	1	20	10	66
Site Assemblers	1	5	2	15	1	11	0	0	1	7
Newspapers	0	0	0	0	0	0	0	0	0	0
Other Developers	0	0	2	15	2	22	0	0	0	0
Own Staff	3	15	1	8	0	0	0	0	0	0
Missing Cases	2	10	1	8	1	11	0	0	0	0
Rank 2										
Local Estate Agents	5	25	2	15	1	11	1	20	4	27
National Estate Agents	4	20	3	23	1	11	3	60	5	33
Site Assemblers	3	15	3	23	2	22	1	20	2	13
Newspapers	2	10	3	23	2	22	0	0	3	20
Other Developers	2	10	3	23	2	22	0	0	3	20
Own Staff	0	0	0	0	1	11	0	0	0	0
Missing Cases	4	20	1	8	2	22	0	0	1	7

D.I = Developer-Investor; D.S = Developer-Seller;
I.D = Investor-Developer; B.D = Builder-Developer.

Source: Postal Questionnaire, August 1987

this trend towards concentration property development companies acquired sites by the take over and asset stripping of manufacturing companies, many which had undervalued their land and buildings, or by the identification of individual development sites (Marriott, 1967, p. 68). Concentration of ownership has produced a property market in which many of the larger deals are made between individuals who are members of a small coterie of property developers, investors and advisors.

Financial institutions and Property Unit Trusts are constantly reviewing and rationalizing their existing property portfolio. Often property portfolios rather than single properties are sold to property development or investment companies. In 1986, for example, Legal and General Assurance sold 49 properties for £93 million to The British Land Company plc. Deals as large as this are negotiated either directly by representatives of the particular financial institution or by their property advisors. Local development intermediaries do not play any part in such transactions.

Multi-million pound international property development is frequently initiated by a small number of individuals who cultivate as many contacts with relevant property people as possible. These individuals are able to identify and formulate profitable developments either for themselves or other companies. An example of this type of property advisor/developer is Paul Bloomfield, advisor to the *Mountleigh Group plc*. Bloomfield is widely thought to possess a unique set of contacts with property developers, advisors and development intermediaries throughout Europe (Counsell, 1989). This type of international property dealer is responsible for the identification of many multi-million pound developments, but is frequently a behind-the-scene actor in the property development industry.

7. 11 A Model of the Site Identification Process

The model of the property development industry outlined in Chapter two, section 2.5, needs to be modified to take into account the role of development intermediaries (Figure 7.1). The development intermediary's role in this model is to

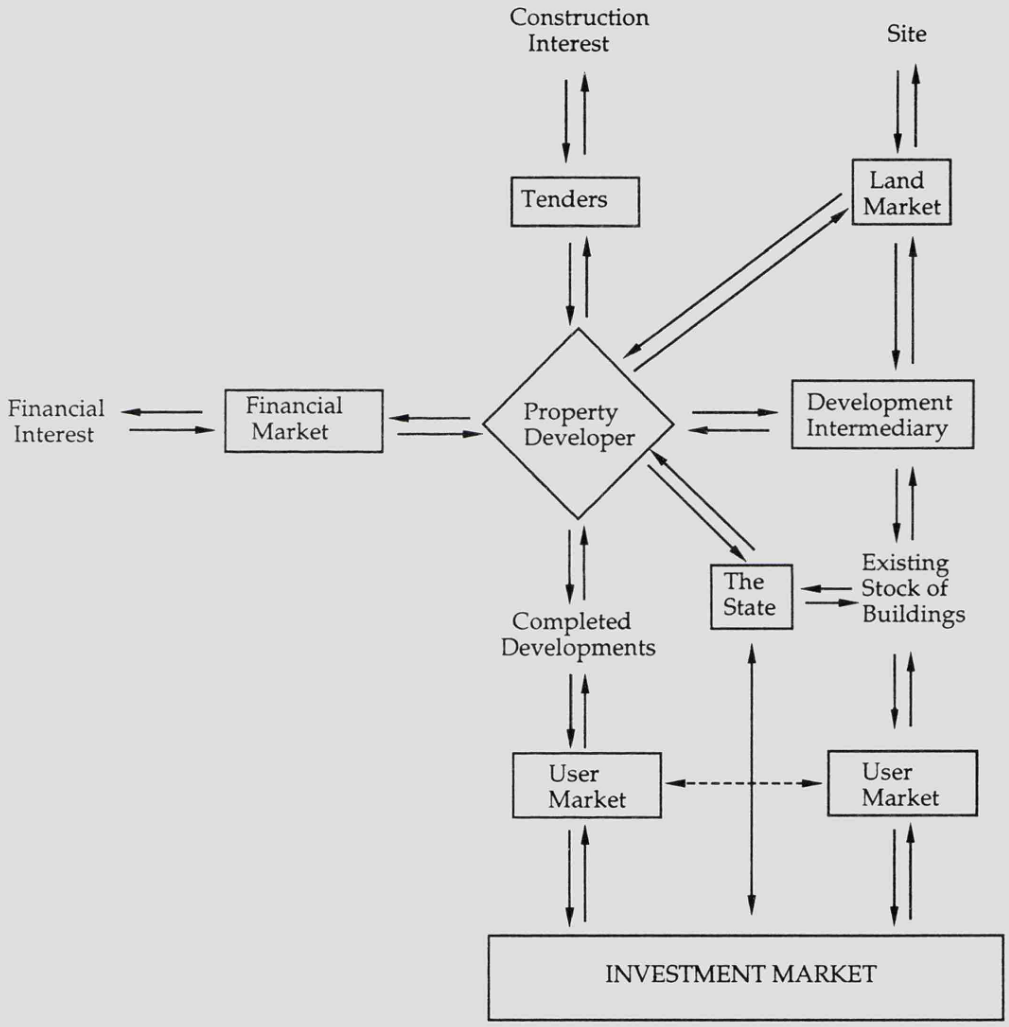

Figure 7.1 The Role of Development Intermediaries in the Property Development Industry

provide the link between the land market which contains potential development sites and the property developer. This process requires that the existing stock of building in an area be taken into consideration to identify future trends within the market. On the one hand if too much space is being constructed or is planned the market could become over saturated causing rental levels to fall in real terms, but on the other if a shortage of suitable floorspace exists rental levels will rise leading to a potentially profitable development situation. The role of the state has also been included in this model as it operates between the property company and the existing stock of buildings attempting to modify and legitimate the actions of private property development companies. The state generally plays a permissive role in the property development process, responding to and modifying the proposals of property development companies. The actions of the national state also effect property investment and development decisions through regulations concerning property taxes, development land tax, value added tax on construction, and interest rates. These may determine the viability of particular schemes. The model places development intermediaries in the context of our current understanding of the property development process, but its principle limitation is its failure to adequately identify the nature of the site identification process. To overcome this problem a model of the site identification process has been developed using the findings of the postal questionnaire and interviews with representatives of property companies.

In this model (Figure 7.2), which conceptualizes in greater detail a single aspect of the previous model, the property development company is surrounded by a variety of different information sources. These form a network of information contacts either at a regional, national or international level through which information flows. Information flows from individuals or companies which possess local, 'quiet' knowledge either directly to property companies or indirectly via a number of development intermediaries with contacts with property companies and financial institutions which locally based development intermediaries often do not possess.

The model provides a simplified account of the structure of the site

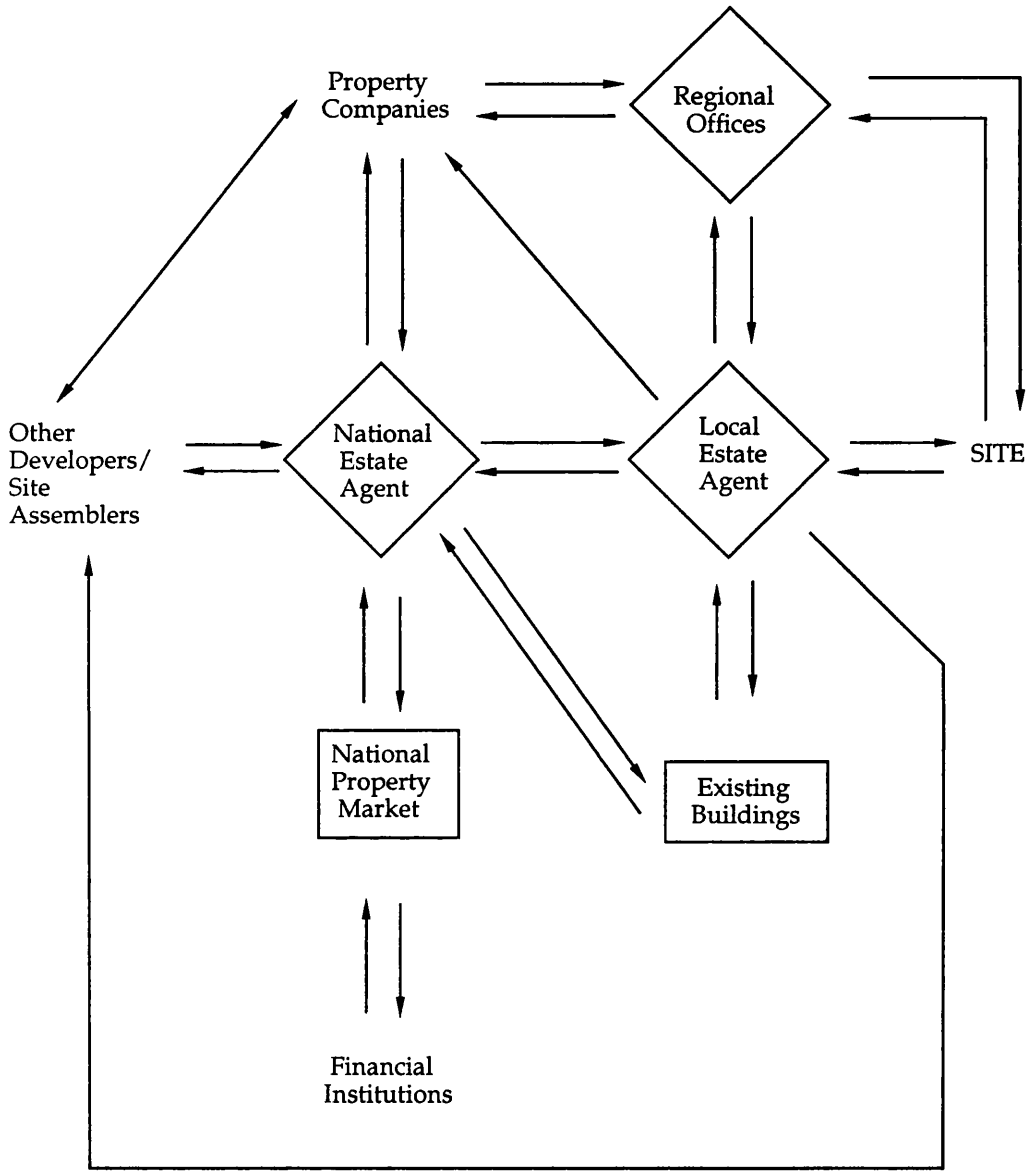

Fig 7.2 A Model of the Site Identification Process

identification process as it operates in regional centres. Property development and investment companies interact with the space-economy either directly or more commonly through a series of intermediate agents possessing local knowledge. A common route followed by unsolicited information is from local development intermediaries, in this case estate agents, but other actors may perform this function, to property companies operating nationally or internationally. Property companies will either be directly approached by a local agent, or contacted through its network of regional management offices. Part of the function of these offices is to service their property investment portfolios and to filter information about potential sites. Local estate agents have direct knowledge of their local property market in terms of the types of buildings available, current and planned property developments, past and predicted tenant demand, rental growth and the property companies and investors operating in the locality.

Frequently, local agents will have contacts with national estate agencies and in active property markets national property developers and investors. National estate agents will have established a number of long term relationships with property development and investment companies and will have detailed, often highly confidential knowledge of the current condition of the national and international property market. They will know which financial institutions and property development companies are searching for new property investments or sites and which are the preferred locations and property types. Such detailed knowledge is only possessed by the property investor and estate agents which either manage or revalue property portfolios for other companies. Occasionally a property developer or land assembler identifies and maybe assembles a site which is sold on to another property company. Initially these companies will have identified these sites either by direct knowledge of a particular locality or through local or nationally based development intermediaries. The types of sites that are identified as suitable for development depend on the investment policies of the major property investors and the financial institutions. Locations, sites and proposed buildings which do not meet these requirements are seldom pursued, but may be developed by or for a variety of small scale property companies and investors which have different investment criteria.

7.12 Property Company's Organizational Structure

The ways in which a property development company obtains information from its surroundings or environment is directly reflected in its organizational structure. The reasons for this are obvious as the property development company's relationship with the space-economy is the most important aspect of its function. Without the ability to obtain information about specific potential development sites a property development company cannot operate. Most property companies have established a centrally organized administrative structure with development decisions being taken at the head office which is generally located in London (Table 7.4). The centralized nature of the development decision making process implies that property companies must rely on external information sources constantly feeding them information. From the centre of a web of informal relationships these companies access the viability of potential schemes often having very little direct contact with actual sites.

A number of property companies have developed a regional network of administrative and management offices whose primary function is the efficient and profitable management of an existing investment portfolio (Table 7.4). An added responsibility is the identification of potential development sites and the establishment of contacts with local agents and other development intermediaries. This type of organizational structure, illustrated in figure 7.3, relies on a centralized head office to decide which projects are undertaken. Information passes from the head office to the regional offices concerning the types of schemes the company currently requires. The regional offices establish a network of contacts in local towns and cities either through their existing tenants or development intermediaries. Knowledge of an existing tenant base provides an indication of the current and future state of the local economy. M.E.P.C. and St Modwen properties operate through a series of regional offices with development decisions being taken in London and Birmingham respectively. According

Table 7.4 The Organizational Structure of Property Companies

	Single Office	Network	*Total*
Developer-Investor	15	5	20
Developer-Seller	10	3	13
Investor-Developer	14	2	16
Builder-Developer	3	2	5
Multiple	10	4	14
Total	52 (76%)	16 (24%)	68

Note : A network is defined as two or more interrelated management units

Source : Postal Questionnaire, August 1987

to a representative of M.E.P.C's Birmingham regional office :

> . . . towns are assessed at the Corporate level, from the development side of the company in London, with feed backs from the relevant regional offices. Looking at office developments, feedbacks of good development sites flow from the regional offices to the property development sector in London who analysis them. The link is often - local estate agent, regional office, headquarters. There are always agents contacting us about possible sites (M.E.P.C, interview 8/8/1986).

Those companies which have a large property portfolio distributed through the United Kingdom are more likely to operate through a series of regional offices. Developer-sellers on the other hand have no real administrative need to establish regional offices unless they want to undertake a number of projects in a particular

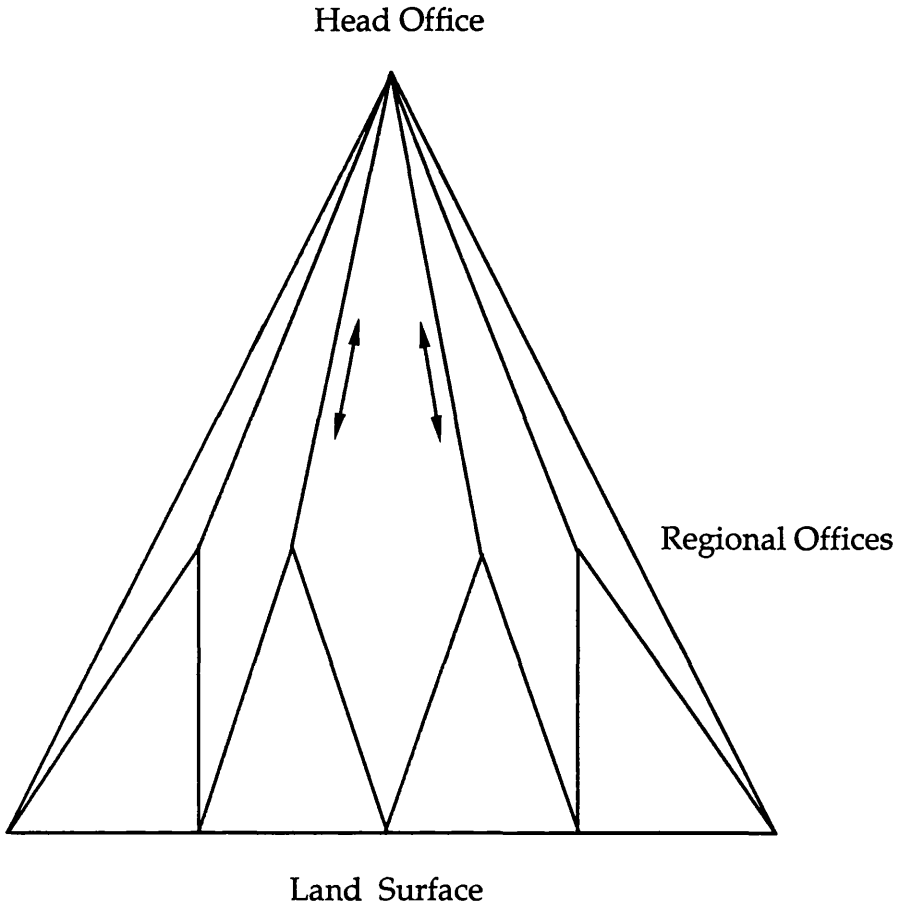

Figure 7.3 The Relationship between National Property Companies and their Regional Offices

area of the country. All of the companies contacted in the survey with regional offices had established them primarily as management offices but they occasionally identified potential sites.

7.13 Site Identification in Operation

The managing director of St Modwen Properties described an excellent example of site identification in operation. He argued that three approaches were used in towns which were perceived by property developers to be growing and consequently suitable for a variety of property developments. First, the local council's Estate Department is consulted to ascertain whether it owns or is aware of any suitable sites. Secondly, all the local commercial estate agents are consulted about possible development sites currently on the market. Thirdly, if no suitable site is identified a representative of the company is sent around the city to identify potential sites, most of which will not be for sale. The most common technique is to identify an industrial company which has grown organically so that its site consists of a:

> . . . a variety of ramshackle buildings, the worse the better (Interview, 7/9/87).

An example of the retailing of site information using the approach outlined above was described by a London based national developer-seller . The particular site under consideration was a large factory in Litchfield. A local estate agent based in Litchfield was a member of the same golf club as the owner of the factory. The estate agent knew that the industrialist owned two factories which were suffering from the effects of the last recession . The estate agent suggested to the industrialist that he should sell one of the factory sites and rationalize production at a single site. This would convert fixed capital currently tied up in a decayed factory into working capital which could be invested in new equipment and in upgrading the remaining factory. The estate agent sold the site to a regionally based property development company obtaining a commission on the transaction which in relative terms was extremely large

in relation to normal commission charges on the sale of private houses. The regional property developer realized that the site was suitable for a retail warehouse and sold it to Sainsburys.

According to the managing director of St Modwen Properties the small property developer and the enterprising estate agent walk around towns with their eyes open looking for a firm that is currently not represented in the area and

> . . . for anything that stands out like a sore thumb. Potential redevelopment sites may currently have activities on them which are non-compliant with the area. Maybe there is a 5 per cent profit obtainable from a well marketed site advertized in the *Estates Gazette* It is the 'quiet' sites obtained from local agents which possess the most potential profit. It is the local developers and estate agents who are the most important people in the development industry. They are the industry at its root level (Interview, 7/9/87).

This quote highlights the roll that a variety of small scale local capitals, not necessarily directly involved in the property development process, play in the identification of sites for centralized property companies. Nationally based development companies have access to the financial markets and institutions but it is the local actor, the person in the street with their ears to the ground who possess and partially controls the property development industries greatest resource, knowledge.

7.14 Summary

The central argument of this chapter is that site identification is the *prerequisite* to all property development. It represents the initial link between the property company, which usually exhibits a highly centralized organizational structure, and individual sites. The identification of the actors involved in the process of site

identification and the theoretical formulation of their role provides the missing element in the work that has already been undertaken into the actions of the property development industry. It has been assumed by many researchers that property developers have a direct, one to one relationship, with the land surface. The identification of the general development filters in Chapter five and the discussion of development intermediaries in this chapter reveals that this is not the case. The identification of the site identification process and the formulation of a model provides a new insight into the workings of the property development industry in regional centres. All centrally located property companies and financial institutions are part of a closely meshed web of contacts which includes development intermediaries. Some of these contacts will be informal and infrequent while some will be fairly permanent and provide a constant flow of information. No one site identification source is used in preference to any other. Property developer-sellers cannot survive without constantly finding and developing new sites for sale onto a property investor or tenant. Similarly, the pressure for property investors to identify new and potentially profitable investment properties demands that site identification, and the formulation of novel development concepts, for example MEPCs London Wall venture examined in Section 5.7, will be constant features of the current and future operation of the property development industry.

The next stage in the property development process is the assessment of the potential viability of the sites and development proposals obtained from development intermediaries. Any one property company can only develop a small proportion of the potential development sites identified via the site identification process. The development viability assessment process identifies those schemes which fit in with the particular management style and economic profile of a specific property company. The next chapter examines the variables that property development companies employ in the assessment of a particular project's viability. Viability may not necessarily imply profitability as the property development industry rests on an inherently speculative foundation.

CHAPTER EIGHT

Development Viability and the Space-Economy

> What starts us along the road, gut feeling, crystal ball gazing. It is all these things wrapped into one. I suppose our motivation is profit generation. We say to ourselves we want to make a profit today, next year and in 1988. How are we going to generate that profit. What sort of level of profit do we need. We come back and say what sort of property development is going to generate those levels of profit and from that you almost work back and say what we realize today is that any decision I take from here on there is no way that a development can be completed until 1988. 1987 is spoken for, we are too late, that is the problem it is a relatively long cycle (Interview, International Developer-Investor , 2/9/86).

Introduction

Property developers cannot consider all possible development schemes and consequently, as Chapter five argued, information is filtered via a variety of processes which restrict the types of sites, locations and properties that are considered suitable for development. From many potential sites the property developer has to choose those thought to possess the greatest development potential and the greatest profitability. The assessment of a potential project's viability, as the quotation suggests, is partly an art, or a matter of judgment, and partly a science. Some of the variables which are important in the development decision are measurable, for example current rental levels, while others can only be predicted without any degree of certainty, for example future demand and rental levels. The variables that are perceived to be important will differ depending on the type of property development company. Those that seek short term development profit will look for projects which

meet the requirements of the financial institutions and other long-term property investors. Conversely, property development companies which hold land and property as long-term financial investments are concerned with the security of their assets; their future growth potential maybe without direct reference to the building specifications and yields required by the financial institutions :

> If I was a trader [developer-seller] I would be looking for the thing that was most attractive to the funds at the moment, but I am not a trader [a developer-seller]. We are trying to produce a sort of percentage of shopping, a percentage of industrials and of offices, a portfolio balance (Interview, International Developer-Investor, 22/7/1987) **(1)**.

A developer-seller is constantly searching for development opportunities which meet the investment criteria of the financial institutions, while developer-investors set their own specifications. In most cases the types of property developed and held as long-term investments by developer-investors will be similar to those of the financial institutions. Developer-investors have the significant advantage over developer-sellers in that they are creating built-space to keep as a long-term investment asset whereas the profitability of developer-sellers depends on the rapid sale of buildings; in theoretical terms, the rapid circulation of their capital.

Many property companies operate in the United Kingdom by assessing the development viability of a series of potential sites. It should be remembered that the property development industry operates internationally, but affects the built environment of all cities. Decisions regarding the future shape of the built environment of a particular area are usually made elsewhere, often by individuals who have never visited or lived there, based on comparisons with other locations and investments. The longstanding consequences of physical alterations to the built environment, however,

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(1) Quotations from taped interviews have not be altered, adjusted or paraphrased to meet the more stringent criteria of written as against spoken English.

will be experienced directly by the people living and working in the areas where the development occurs. The cumulative outcome of these separate decision making processes creates and modifies the United Kingdom's built environment and space-economy. An area's development viability has a direct manifestation on the land surface which can be assessed in order to identify those areas, regions, cities or places which are perceived by property developers and investors to be profitable development locations. A profitable development location is one which possesses strong tenant demand.

It is important that the overall effects of the property development process are examined and understood as this provides the context for the analysis of the property markets of specific cities undertaken in the next chapter. Unfortunately, the type of data required for such an analysis is seldom available and tends to be highly generalized and abstract, e.g. raw percentages. Before considering the spatial extent of the investment portfolios of property companies and financial institutions, an analysis of the overall distribution of commercial office floorspace in England must be undertaken to determine whether or not the portfolios of financial institutions and property companies exhibit particular spatial biases.

8.1 Assessing a Potential Development's Viability

a) Introduction

> The difference between a viable scheme and a non-viable scheme is a headache (Interview, Regional Developer-Investor, 18/8/1986).

As soon as a potential development site is identified the property development company must decide whether or not to undertake the project. Potential schemes originate from:

> . . . [our] regional offices, agents, architects, any sort of professional, even contractors sort of saying ' Here's an opportunity do you want to get involved ?' (Interview, International Developer-Investor, 2/9/1986),

but only a limited number are identified as suitable for further consideration. The existing property portfolio of the property investment company, the types of property currently favoured by the investment (financial institutions) and user (tenant) markets indicates those schemes which are deemed to be suitable for further consideration. The development decision is of central importance since a city's current and future built environment is the outcome of a succession of development decisions, while it is the stage and scenery on which all social interaction in cities occurs.

Initially the property developer must decide which projects to undertake and which to reject, it is often :

> . . . a question of sitting here in our Ivory Tower assimilating information that's coming in and if something has a feeling it might be useful to us then you go and carry out more detailed market research (Interview, International Developer-Investor, 2/9/1989).

Detailed market research is based on the examination of the property market's historic statistics : rental levels, supply, demand, historic take-up rates and historic supply trends. They are assessed to determine the market's past, present and likely future levels of activity. Of all the factors involved in the development decision demand is the most difficult to assess; profitable property development, measured in the short or long-term, rests on the existence of an adequate demand. Many property companies consider the underlying demand for space as the main factor in the development decision, but this is a complex variable as it is affected by regional economic trends and by specific locational variables. An optimistic view of future demand trends may produce a building which remains vacant or one which experiences a slow growth in its

rental income and associated capital value. Land prices are known, construction prices can be set by tender, capital costs can be determined within measurable limits, current and future supply levels can be determined, but future demand can only be extrapolated using past trends :

> . . . demand is the most difficult to assess. It is **intuition** on the demand side of the equation Demand will not come from the town itself, it is likely to be a movement. We keep in touch with occupiers and potential occupiers. If we keep in touch with our tenants, accountants and other professionals, we can get the **feel** when there is a niche in the market, for example replacing space which is obsolete (Interview, International Developer-Investor, 2/8/1986, my emphasis).

The key words in this statement are 'intuition' and 'feel', variables which are impossible to quantify. The development decision rests on each property development company's perception of the importance of a series of distinct but related variables. Partly it is a product of careful analysis and partly an act based on "gut feeling, crystal ball gazing" and flair (Interview, International Developer-Investor, 2/9/86). There is a danger that any attempt to explain development decisions will simplify and rationalize a very *complex*, *dynamic* and *holistic* process. 'Intuition' and a 'feel' for a particular project are founded on experience and often on an unconscious, implicit understanding of the current condition and a feel for the future trends of a particular property market.

Demand for commercial floorspace is closely related to popular tenant and investment locations. A prime location will possess very strong tenant demand which will result in strong investment demand from long-term property investors. A prime location will possess, however, very high land prices, making it difficult for property developers to made an adequate development profit. Consequently, a good location in terms of tenant demand and the overall condition of the property market will be an expensive development location, but a safe investment one. The relationship between investment, development risk and demand is aptly illustrated in the following

comment by a director of a regionally based developer-seller property company :

> There is no doubt that if you are active in the M25 corridor, in certain areas it is commercially hyperactive, then your risk is minimized because demand is clearly there. The only thing that does is it means you have to pay an arm and a leg for land values. I would maintain land values are overheated. I think the thing is to get the balance between a fairly predictable, good, solid demand market and one where the land values are low. For me to go somewhere where risk is minimized, because of the demand, I know jolly well that it will be very hard to make my financial appraisal work, because the land prices they require are so hot there is not enough [profit] left at the end (Interview, Regional Developer-Seller, 18/8/1986).

The balance is between a high risk, low tenant demand location with cheap easily obtainable sites and those areas which are popular tenant locations, but have high land prices. Predictable demand levels implies reduced risk which ultimately must be paid for with higher land values, lower investment yields and limited development profits.

In many cases property developers, when questioned about the appraisal of a scheme's viability, argued that it was based either on expertise or on the three "L s", location, location and location :

> It comes down to specification every time, assuming you have got your location right, because location is absolutely sacrosanct. You should not be doing it unless the location is right (Interview, Regional Developer-Investors, 18/8/1986).

There was a tendency for many respondents to the postal questionnaire's open ended questions to resort to such "clever", "smart" answers to complex questions, which subsumed many different and diverse variables under one label. The three "L s"

answer, as Chapter four demonstrated, includes many of the variables which determine the profitability and hence viability of a proposed scheme. It is suggested, however, that although profitability may be the primary rationale for all projects, many other variables influence and possibly determine the types and locations of projects which specific property companies perceive to be viable development propositions. Not all potentially profitable schemes, identified by an individual company, are necessarily undertaken, for, as one property development company argued:

> If we looked scientifically at all these things we would end up doing nothing. Accountants are the greatest people for advising you not to do anything. All the statistical graphs are reasons why you should not do something. Fund managers tend to approach things on the basis that there is a good reason why we should not do this. What we have to find are reasons why we should do something, and it is that **positive approach** that one has got to develop (Interview, Regional Developer-Investor, 18/8/1986, my emphasis).

Ultimately, a scheme is undertaken on the grounds that the particular property company has a high degree of confidence and certainty in the project. One company indicated that:

> . . . it is the degree of **confidence** you have in a particular scheme you're looking at. The only other thing it has to be judged as to what the market wants. It comes down to product, you have to be sure whatever you are looking at there is a purchaser for it. It is no good building 40,000 sq. ft of offices if you generally think that what the market wants is six 3,000 sq. ft. units (Interview, Regional Developer-Seller, 7/9/1987, my emphasis).

Part of this "confidence" is derived from experience, as well as an implicit feeling that

the project will be successful and that rental levels will grow as anticipated. This feeling may be attributed partly to the property developer's "reading" of the variables associated with the development decision and partly from knowledge of similar successful projects in similar locations and under similar market conditions. Confidence in a particular site or development concept encourages the property developer to adjust the economics of the project:

> If the figures don't stand up than you make them stand up. If you did the figures with the wrong feel you wouldn't get the right answer . . . An optimistic view about rent, a pessimistic view about building costs could produce a potentially profitable outcome. Where, if you were pessimistic about both, it could wipe out everything (Interview, International Developer-Investor 2/8/ 1986).

'Making the figures stand up' by manipulating the type of development or its size will only be undertaken where the property developer 'feels' that the project is worthwhile or 'useful'. A property developer's judgments affects and influences the manner in which the more rational elements in the development decision are interpreted and acted upon. Judgment affects, influences, alters and manipulates rational economic appraisals.

Confidence partly depends on the views a property development company has formed of a particular location based on experience of operating in the locality. It depends, too, on the developers' assessment of the present and future condition of the property market. Part of this assessment depends on the perceived profitability, security and liquidity of the proposed project and location. Short term profitability, in the form of a quick development profit, may not necessarily imply security for the long-term investor. An inexpensive or 'cheap' quiet site may be identified and a building constructed, but it may be impossible to let the scheme or sell to a property investor. An area may become unattractive to tenants and consequently to investors causing its physical environment to gradually deteriorate due to limited fixed capital investment.

The security of an investment is closely linked to its profitability and liquidity. A prime site with a good quality building will always find a buyer whereas a prime building in a poor or secondary location may be impossible to sell or even let. Property developers and investors prefer to operate in established development locations as these areas have been proved to be secure investment locations by other property development and investment companies. Property developments in these locations are surrounded by the "right type" of building and physical environment:

> The position of the site is of prime importance, either its relationship with the existing town centre, or its relationship to road networks and major conurbations. The location should either have an existing proven growth record, or be of such a size that it would create its own market (Postal Questionnaire, Regional Developer-Seller, August, 1987).

Even more importantly the financial institutions and tenants must be aware that these are the prime areas and buildings for their activities. Property developers and investors will usually only undertake developments in areas which have no proven track record when government incentives are available or when the project is already let and sold before construction commences. Locations which have proved to be either unprofitable or insecure will not attract many new developments until such time as the property development industry's perception of these areas alters.

Any analysis of the development decision must be founded on an understanding of the economics of property development and investment As discussed in Chapter Four, development viability implies profitability, while profitability implies the completion of a successful and worth while project whose completed capital value is greater than its actual cost.Conceptually, however, profitability is not a single variable but a combination of location, rental levels, demand and supply, building costs, site values, the conditions of the local and national economy (Figure 8.1). Any analysis of a project's viability must try to evaluate all the variables subsumed by the concept

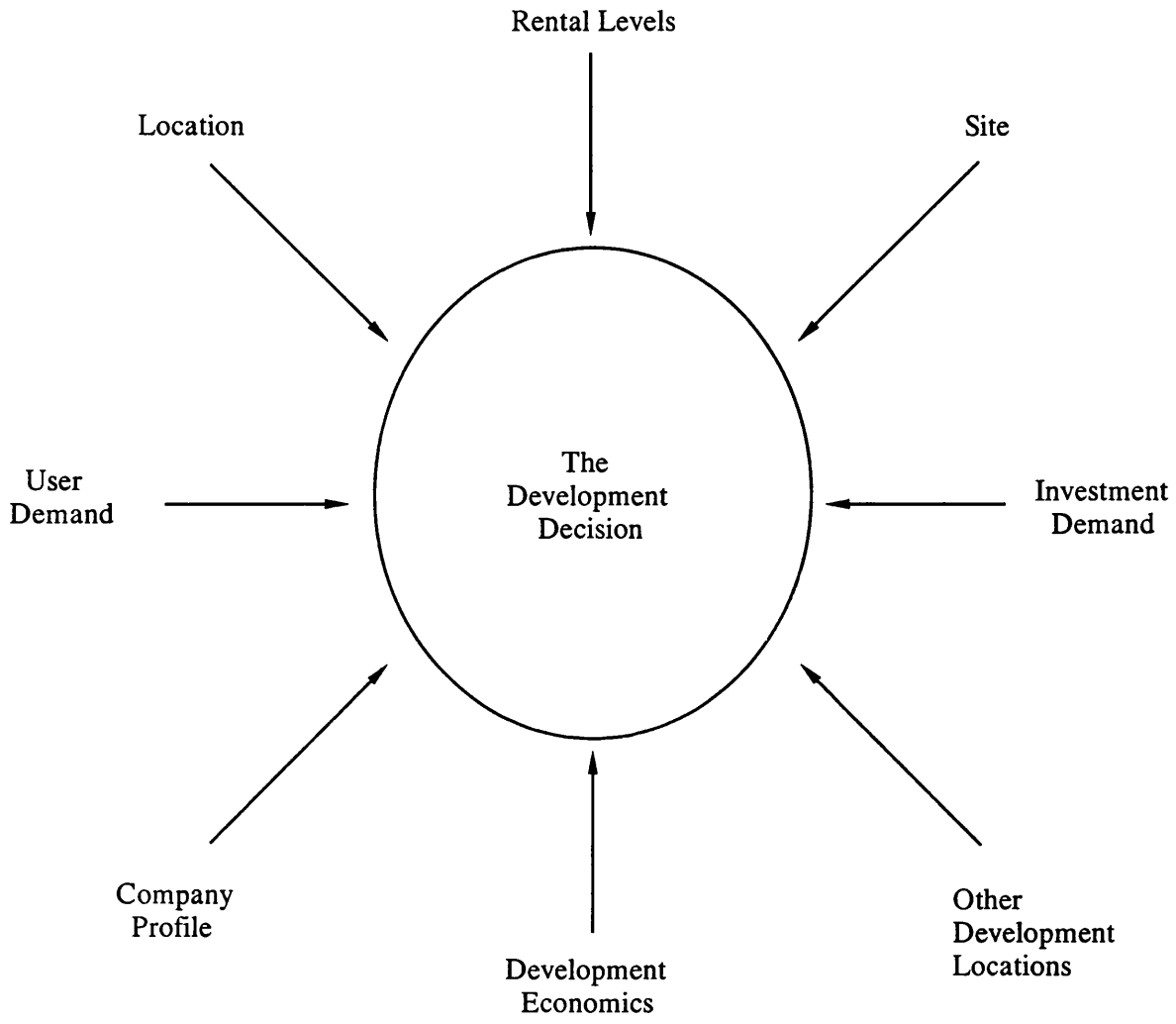

Figure 8.1 Variables involved in the Development Decision

of profitability. Every property development company, however, will have a slightly different conception of the concept of profitability. It must be emphasised that the viability of a particular development project does not rest solely on economic criteria. What should be considered is which variables are *perceived* by property developers to be of central importance in the assessment of a potential project's viability. Effectively, this is an attempt to identify and ascertain the importance of the various elements that lie behind the statement that the "profitability" and hence "viability" of a scheme rests on the three "L s".

b) The postal questionnaire's ranked data

The complexity of the variables involved in the assessment of a project's viability makes them difficult if not impossible to quantify. Each individual scheme is assessed on slightly different criteria, as every site, location and building is unique. It can also be argued that every property company will attribute different weightings to the various components of the development decision. Nevertheless, a general understanding of this process is possible. Information obtained during interviews with property development companies was supplemented by responses to the postal questionnaire. Together these provide a ranking of variables involved in the development decision. However, because of the complexity of this process it was never thought that a single question would provide an adequate ranking of these variables. In response to the question "How important are the following factors in assessing an office development's viability ?" two companies commented that they could not rank the variables listed because :

a) I do not believe grading would be helpful - all of the above points contribute towards the decision to undertake projects in certain areas.

b) [The development decision is] the result of considering all factors without rank, and making a decision to invest based on viability

Source : Postal Questionnaire, August 1987.

Both companies considered all variables to be of equal weight in the final decision ; ranking them would establish an artificial order on the various components of the development decision. There is no real reason, however, to assume that some property companies do not perceive some variables to be more important than others. A further problem arises from the fact that a number of these categories, e.g. location, are all embracing and therefore not mutually exclusive which accounts for the fact that the first ranking is dominated by the variable "location within the United Kingdom". To resolve a number of these perceived problems the postal questionnaire contained open ended questions dealing with the location and viability of potential projects. The responses to these questions provide valuable qualitative information.

1) The First Ranking

To provide a framework for this analysis the ranked data from the postal questionnaire were examined (Table 8.1). Within the first ranking the preferred order of the variables was 'location in the United Kingdom', 'yield' , followed by 'current rental levels' and the 'existing stock of property in the area'. The first of these was perceived to be the most important (45 per cent of this rank) as location directly influences rental levels and consequently determines profitability. The second variable, that of yield, highlights the importance of profitability to the financial institutions in determining the viability of a particular scheme. According to one developer-seller the financial institutions are :

> . . . absolutely critical to our thinking because at the end of the day to make a profit you need to sell something, and to sell something you need a buyer, and the buyers in the property industry for 95 per cent are financial institutions and investors, there are owner occupiers around but they are very much in the minority (Interview, Regional Developer-Seller, 7/8/87).

Table 8.1 Factors important in Assessing a Potential Developments Viability

	Preference Ranking									
	1		2		3		4		5	
		%		%		%		%		%
Existing Portfolio.	1	1	2	3	3	4	2	3	1	1
Location Relative to Property Companies Office.	1	1	4	6	1	1	0	0	5	7
Size.	1	1	8	12	11	16	14	20	9	13
Location in the UK.	31	45	3	4	12	17	5	7	4	6
Existing stock of property in the area.	7	10	11	16	10	15	6	9	10	15
Current rental levels.	7	10	15	22	8	12	17	25	5	7
Previous Experience in the area.	1	1	5	7	4	6	3	4	7	10
Yields	12	17	13	18	13	18	7	10	9	13
Missing Cases	8	12	8	12	7	10	15	22	19	28

Source : Postal Questionnaire, August, 1987

If a property development is to be successful its yield must meet those currently available in other investment areas. Priorities will vary since developer-sellers seeking short term profits must have a readily marketable product whereas developer-investors seeking long-term financial gains do not have to respond immediately to the requirements set by the financial institutions. Rental levels were ranked third and were felt to be as important as the existing stock of property in the area which has a direct influence on current and future rental levels.

2) An Example

The relationships between the existing stock of property in an area, rental levels and yields are exemplified in an examination of a proposed development by *Wilson (Connolly) Properties* in Northampton in 1986. Between 1983 to 1986 this Northampton based company had not undertaken any property development in its

home town, however, it owned a site suitable for an industrial development. Prior to 1983 Northampton had an over supply of industrial floorspace causing rental levels to fall in real terms, in fact by 1986 rental levels were so low in comparison to other development costs that Wilson Connolly reported a negative site value despite the fact that during this period land prices for suitable industrial sites were between £80,000 to £100,000 pounds an acre. In August 1986, Wilson (Connolly) Properties' development director decided that Northampton would shortly experience a shortage of available industrial floorspace as no new buildings were being constructed and tenant demand was increasing. He reasoned that the supply/demand equilibrium in Northampton's industrial property market would eventually lead to a shortage of space resulting in a substantial increase in rental levels. Acting on this assessment the company undertook a project appraisal of their existing site on the basis of a predicted rise in rents from £2 per sq. ft. to £3 per sq. ft over the next year. This showed that the proposed development would be profitable. According to the company :

> . . . the scheme is there as soon as the figures click [rents rise], the figures click now if I believe that rental line can be achieved. However, if I showed this scheme to a fund today they would laugh me out of court (Interview,Wilson (Connolly) Properties, 18/8/86).

It decided to undertake the development on the grounds that such an increase in rental levels would occur making the building an attractive investment for a financial institution. This decision rested on the confidence that the property developer had in his own assessment of Northampton's industrial property market. The development appraisal was undertaken on the basis of a yield . . .

> . . . which I believe is right and will remain static, because the yield I have adopted is sufficiently attractive to a fund to almost make it a cert. The scheme has been judged against a gilt. If you give a fund a property that is judged against a gilt as an initial return that is very attractive and they also have rent

> reviews. So I am looking at a piece of paper that shows me an attractive profit sufficient to generate a development all of which is totally and utterly dependent on that predicted rental line (Interview 18/6/1986).

This example illustrates the inherently speculative nature of the development decision which may lead to high profits if the development is completed when tenant demand is at a peak, however, an over optimistic assessment can result in financial losses.

3) The Second Ranking

In the second ranking 'rental levels', 'yields' and the 'stock of property in the area' are judged to be important variables in the development decision. 'Location in the United Kingdom' only accounts for 4 per cent of this rank with 'size ' and 'location relative to the property companies office' occupying intermediate positions. 'Size' is a measure of risk as larger schemes tie up greater quantities of working capital while 'location relative to a property companies office' is a management consideration. For example, Wilson (Connolly) Properties prefers not to operate further than two and a half driving hours from Northampton (Interview) **(1)**. The one company which ranked 'existing portfolio' as its main assessment factor and listed 'size' as its second has investment risk as a high priority and does not want its investment portfolio to become concentrated in either a particular location or type of property. Two major financial institutions ranked 'size' as the second most important variable in the development decision, presumably, because they are attempting to spread investment risk through the medium of a balanced property investment or development portfolio.

An indication of the influence that a developer-investor's, or investor-developer's, existing property portfolio has on property development and investment decisions is demonstrated in the following quotation from the most recent annual

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(1) This variable was highlighted in the discussion of filters in Chapter 5, Section 5.6.

report of *The Church Commissioners for England* :

> The buoyant market for commercial property in 1988 also enables further rationalisation of the portfolio to take place. Until recently it has been the policy to reduce investment in the office sector in favour of the retail, but with retail representing just under half of the commercial portfolio the Commissioners felt the time is ripe for further investment in the office sector (*Report and Accounts*, 1988, p.281).

Consequently, investment and development decisions are made with reference to the existing portfolio:

> . . . as far as offices are concerned because we are so highly invested in offices at the moment we have not been seeking offices to actively invest in (Interview, International Investor-Developer, 6/8/1987)

The fact that this variable was not found to be important (Table 8.1) can be accounted for by the flexibility required to manage a large investment portfolio successfully. To exclude a particular property type from current development, and investment, decisions because the company feels it is over exposed to that particular sector is to miss potentially profitable, and occasionally excessively, profitable opportunities:

> . . . unless there seems to be an overriding reason why we should not go into it, one should never be totally inflexible, what ever the percentage levels you set. You miss opportunities (Interview, International Investor-Developer, 6/8/1987).

The mention of percentage levels refers to the practice that many long term property

investors have of setting limits to the proportion of their capital they will tie-up in retail, office and industrial buildings. This policy attempts to reduce risk by spreading capital between as many different types of property and location as possible. In this situation the existing property investment or development portfolio determines the amount of investment, and related degree of risk, that will be made in any particular location or property type.

The 'size' of a development is a measure of the risk and level of exposure to a particular scheme, area or property type as well as being a management consideration. As a measure of risk size is an obvious variable, but as a management consideration it is not so obvious and must be considered further. Time is a valuable commodity which has an economic cost; wasted time in the assessment of a development or investment decision entails a cost to the company, in man hours and in profitability (**1**). At the level of the assessment of the viability of an individual scheme management time must be related to the returns anticipated from the project. To explain this we can turn to a number of the comments made on the postal questionnaire. One company argued that schemes are assessed on the basis of :

1) Business profile (risk rewards matched into existing portfolio)
2) Management time required for returns anticipated
   (Postal Questionnaire, National Developer-Seller, August 1987).

Development viability for this particular company is determined by direct reference to its existing property portfolio and the relationship between risk and anticipated rewards as well as the amount of management time spent on the project. The same management skills and time are required for all sizes of development, but the anticipated returns may be vastly different. According to the director of M.E.P.C responsible for the assessment of development viability :

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1) This topic was examined under the label 'decision opportunity costs' in Chapter 5.

> In terms of scale we have adopted a criteria now whereby because of the input that goes into these schemes, it is very intense, and frankly if you are doing 4,000 sq.ft. of offices or 40,000 sq.ft, the input is the same. Frankly with the small number of people here we are looking to generate fairly big profits. It might sound rather flippant, but it is as easy to add an nought on the end of the sums, the same skills the same expertise, the same management is involved, same time, it is a factor of the level of activity we want to generate. We are tending to think bigger rather than smaller now for that very reason and as a company we are able to cope with it in financial terms (Interview, International Developer-Investor, 2/9/1986).

This highlights the importance of 'size' as a management variable as well as one which affects the anticipated profitability of a development project. It also illustrates the point made in Chapter five regarding the continuing profitability and growth of large development-investment company's fixed capital investments. Very large investor- developers must undertake large development projects if they are going to continue to produce visible growth in their annual company reports.

c) The postal questionnaire's open ended questions

In answer to an open ended question concerned with development viability one international developer-seller provided a ranking of the variables his company perceives to be the most important in assessing development viability :

1) Profitability
2) Risk
3) Prestige
3) Size of project & scale of development
4) Practicability and likely time costs and implications for the company

Source : Postal Questionnaire, International Developer-Investor, August, 1987

Of prime importance is the risk/reward ratio; profitability comes first, but this is not a very helpful answer as profit is the product of a variety of factors. The third variable 'prestige' is difficult to explain; prestigious buildings are expensive to develop as they are usually large and in prime locations. The importance placed on this factor by this particular developer-seller may be explained by the fact that the company has only been listed on the London Stock Exchange since 1987. This company may see the development of prestigious buildings as the best way to establish and create a reputation amongst the financial institutions as a reliable and safe property development company. The fourth factor is one that has already been considered, size of profit versus the scale of the development, larger developments carry higher risks which must be compensated for by larger profits. Finally time as both a management constraint and a real cost must not be ignored by the company when undertaking assessments of development viability.

Comments made in response to the postal questionnaire's open ended questions are used to contrast the approaches of developer-sellers and investor-developers. The confidential nature of these comments means that individual companies cannot be identified, but they have been classified according to the scheme outlined in Chapter 6. On the subject of development viability the following statements were made:

1) <u>National Developer-Seller</u>
   Location, demand from tenants and institutions, and viability, return on cost of not less than 20% required.

2) <u>National Investor-Developer</u>
   The outlook for the economy as a whole, the demand for property in the locality in question, the design for the proposed scheme, the outlook generally for buildings, costs, interest rates, rents etc.

Source : Postal Questionnaire, August 1987

The developer-seller places emphasis on a short term profit of not less than 20 per cent coupled with a location which has sufficient demand from tenants and property investors. Developments with anticipated profits of less than 20 per cent will be disregarded implying that many locations with low rental levels will be ignored. Conversely, the investor-developer is more concerned with the future performance of the national and local economy, especially as it affects the present and future security of property investments. The mention of the design and specifications of individual buildings indicates the need to do everything possible to avoid building and locational obsolescence.

With respect to development profitability two *developer-sellers* commented that the most important variables in determining the viability of a proposed scheme were :

1) National Developer-Seller
   Consumer demand, critical levels that support profitable development and the ability to sell completed developments profitability.

2) National Developer-Seller
   The over-riding factor is that on completion the open market valuation should be substantially in excess of total cost. This implies that the end product will be of a type and with a tenant acceptable to the investment market.

Source : Postal Questionnaire, August 1987.

A 'critical level' or threshold of consumer demand is one that sustains rental levels encouraging property development to occur. By a 'critical level' the property company is referring to a property market in which there is a fine balance between the supply and demand for floorspace. A property market with low tenant demand will have

rental levels that are too low to support current development costs and consequently will not generate the yields required by the financial institutions. In a property market with a balance between demand and supply, in other words the property company's 'critical level', rental levels will rise encouraging property development companies to construct new buildings.

Developer-sellers along with manufacturers of, say, electrical goods ,survive and grow by selling their products 'substantially in excess of total cost'. Short term financial rewards determine what is built and where it is built. Alterations to the built environment based on short term profits may satisfy current tenant demand but must be perceived as long-term secure investment assets by the financial institutions. Nevertheless, short term profits and long term investments do not necessarily go together. The developer-seller's short term development profits must be balanced against the financial institution's requirement for a long term investment asset. Developer-sellers to survive in today's highly competitive and unstable commercial property markets must produce high quality, secure investment properties. The era of the 1950s and 1960s when developer-sellers were able to develop, let and sell cheaply constructed and designed buildings is over; the age of the 'cheap and nasty' 1960s concrete box has has given way to an eclectic post-modernist architectural style or is characterized by a return to the security of the neoclassical idiom.

To identify differences between the requirements of long-term property investors and the motives of developer-sellers seeking short term development profit companies were asked to indicate the variables they felt were important in determining the viability of a proposed development.

1) <u>International Developer-Seller</u>

   Viability is the key to the type of scheme undertaken, capitalization rate and appetite of investors for proposed schemes, demand for product, other competitive schemes

2) International Investor-Developer

Medium/long term rental and capital growth potential i.e. the schemes ability to appeal to occupiers. This will concern location, communications, quality of design and specification and the likely competition from other developments.

Source : Postal Questionnaire, August, 1987

Capitalization rates mentioned by the first company are a direct reference to the yields required by the property investor in comparison to those available from other investment mediums. The second company, a long term property investor, is not concerned with short term profits but with medium and long term economic trends. Consequently, property development can be undertaken during troughs in a property development cycle. The scheme's ability to appeal to occupiers and the examination of other similar 'rival' buildings are variables which determine the lettability and rental level which a specific building and location demands. Growth potential rests on a steady demand for the product, the type of product, its specifications and design. These factors influence and partly determine a property development's present, and future, earnings curve. A poorly designed building will experience rapid obsolescence leading to a swift downturn in its earnings curve whereas a well designed building will undergo a more gradual decline. Competition from other buildings may result in the saturation of the property market or even to over supply which will cause rental levels to fall either relatively or absolutely. It is essential that property developers be aware of what is being built in order that new buildings can be targeted at a particular niche in the market. It is quite possible that a property market may suffer from an excess of commercial office floorspace but at the same time experience a shortage of a certain types of office space; e.g. small freehold units or very high quality hi-tech, intelligent buildings.

The property developer of the 1980s no longer believes that the success of property development depends totally on the three 'L s. Location is important but so is the timing of the development as well as its specifications and the quality of the design:

> Timing is of greater importance than location provided you select buildings which will attract occupational demand (Postal Questionnaire, International Investor-Developer, August, 1987).

This type of comment is typical of long term property investors who are more interested in long term rental and capital growth than a quick development profit. As far as quality is concerned in highly competitive development locations tenants will choose to lease the buildings with the better finishes, specifications and those which are perceived to be the most prestigious obtainable within the limitations of their budget :

> . . . the only thing you can rely on is believing the development you have will be the pick of the bunch, because even in the worst of markets there is still going to be an occupier around. But if the occupiers has got 10 office blocks to choose from, or ten industrial buildings he is going to be as hard nosed as anything. What you want to be sure of is that yours is the top of the pack. It all comes down to specification every time (Interview, Regional Developer-Investor, 18/8/ 1986).

It is risky to construct a building with specifications which are substantially better than all other building in a locality since potential tenants will be deterred by the higher rental levels required to made such a building economically viable.Consequently, if it is to be successful the development must be in the right location, be built at the right time, be of the right quality and especially let at the right rental..

d) Summary

The property development decision is central to the study of the urban environment, as all social relationships including those concerned with production,

circulation and reproduction, occur in and around the mise en scene of the built environment. Decisions to construct built-space are, given the nature of the human mental process, partly founded on 'intuition' and partly on a 'rational', 'scientific', economic approach. It is impossible for the property developer to rescind a development decision once construction has commenced, without incurring substantial financial penalties, as well as creating a blight on the cityscape in the form of partially constructed buildings. The development decision is generally made in a limited time period, if incorrect the property company will be left with a vacant, or partly let under-performing asset with associated opportunity costs on the capital tied up in the building. The right decision, made at the right time may produce an immensely valuable and profitable asset. No matter what happens in the near or distant future as soon as the directors of the property company :

> . . . have pressed the button to do something [a development] the process starts. Once I have pressed the button to build my office building, and let the contract, then it's running. The consequences of stopping it half way through are so horrendous, so horrendous you can't contemplate it and by which time you have probably committed yourself anyway to a fund, or you have effectively committed yourself so far down the line you can't change it. You hit the button and that's it, they call it shit or bust, literally you are in there right from the neck up (Interview, Regional Developer-Seller, 18/8/1986).

Unfortunately, many property developers "press the button" at the same, or nearly similar time, producing conditions which frequently lead to an oversupply of commercial floorspace, in other words, a slump in the property development cycle.

8.2 The Globalisation of the Property Development Industry

The increasing internationalization of the world economy enables and demands that many financial institutions, property development companies and

industries operate globally. For the financial institutions a wide geographical spread of their investment portfolios reduces their exposure to risk while enabling property development companies to switch their activities between countries at different stages of the property development cycle. An analysis of the postal questionnaire revealed that just under 28% of the sample engaged in development activity overseas, 52.6% of developer-investors and 21% of investor-developers (Table 8.3). The primary function of developer- investors is the generation of long term profits through the development and retention of offices, shops, warehouses and industrial buildings. Consequently, a wide geographical spread of their investment assets reduces risk and allows them to operate in a variety of different types, and conditions of, property market. A large developer-investor with an investment property portfolio concentrated in one country will experience a decline in real, and probably absolute, terms if and when the property market enters a period of over supply. The proportion of a British developer-investor's property portfolio held overseas is, not surprisingly, usually relatively low in comparison to investments in the United Kingdom's property markets:

> The company is strong enough to undertake all round projects identified abroad, generally however we would not expect our overseas portfolio to exceed 25% of gross property assets (Postal Questionnaire, International Developer-Investor, August 1987).

The need to balance the relative expectations of returns from any one overseas investment against currency fluctuations and political risk accounts for the low level of investment in the property markets of politically unstable countries and the concentration of property investment in the Australian, American, Canadian, and European property markets (Table 8.2, as well as the discussion in Section 8.5).

The responses to the postal questionnaire indicated that a small proportion of investor-developers invest in overseas property markets. Nevertheless many

Table 8.2 The Location of the Property Investment Portfolio of Brixton Estates plc

	£000	(%)
United Kingdom	327,000	79
France	3,000	1
Belgium	29,000	7
Germany	26,000	6
Australia	20,000	5
USA	9,000	2
Total	414,000	

Source: Brixton Estate plc (1987) *Report and Accounts* (London).

investor-developers possess overseas property investments, but evidently many do not actively engage in direct property development in foreign countries (Table 8.2, Table 8.3). Instead they play a 'passive' investment role in overseas property markets, providing capital and purchasing completed property developments. This 'passive' role is explained by, first the secondary nature of property development and investment to the primary activity of the financial institutions, financial services, and secondly, by their lack of expertise and management organizations in other countries. Financial institutions are conservative investors preferring low risk, relatively secure investments. Indirect investment by the acquisition of completed developments produced by locally based developer-sellers is considerably safer in comparison to engaging directly in a foreign, unknown and complex property market. Management considerations and the conservative approach to property development are aptly illustrated by the following comment :

> National Investor-Developer
>
> We do not develop outside the UK preferring to concentrate on markets we know well. We also have limited man power resources available and cannot be everywhere.

Source: Postal Questionnaire, August, 1989.

The proportion of of an investor-developer's portfolio held overseas is determined by its Board of Directors. The factors which influence the geographical spread of their investment portfolios are; the returns available, future growth expectations, exchange control regulations and foreign exchange rates. The significance of foreign exchange rates was explained by one investor-developer in the following manner :

> In the main [our overseas activities] were before 1979, mainly joint-ventures in which we got our fingers burnt to a degree. The £/Mark ratio worked in our favour so we came out of it looking quite good but in fact it was not a very happy experience (Interview, 8/6/1989).

A favourable exchange rate between the pound and another currency may subsidize an unprofitable development, while a poor exchange rate will reduce the viability and profitability of the development project.

It is difficult to explain why so few developer-sellers operate globally (Table 8.3). This type of development organization relies on short term development profit generated from the existence of and participation in active property markets. For these companies to survive they must develop buildings and sell them to the financial institutions. The demand from the financial institutions for investment properties fluctuates according to the stages of the property development cycle. During a downturn in the cycle demand declines, while during an upturn it increases. Consequently, it was anticipated that a high proportion of developer-sellers would operate internationally enabling them to switch their activities between different property markets. There are at least two possible explanations for this disparity. First, the sample may have underestimated international property development companies. This would appear to be unlikely as large property developer-sellers are highly visible participants in the property development process. Secondly, only a small proportion of developer-sellers have the management resources, expertise, experience and capital resources required to undertake developments in foreign property markets. Most

Table 8.3 International Property Development Companies

	International Developers	%	National Developers	%
Developer-Investor	10	14.5	10	14.5
Developer-Seller	2	2.9	11	16.0
Investor-Developer	4	5.8	12	17.4
Builder-Developer	0		5	7.2
Multiple	3	4.3	12	17.4
Total	19	27.5	50	72.5

Source: Postal Questionnaire, August 1987

Table 8.4 International Property Development Companies : A reworking of Table 6.7

	International Developers	%	National Developers	%
Developer-Investor	7	10.1	13	18.8
Developer-Seller	1	1.5	12	17.4
Investor-Developer	2	3.0	14	20.3
Builder-Developer	0		5	7.2
Multiple	3	4.3	12	17.4
Total	13	18.9	56	81.1

Source: Postal Questionnaire, August 1987

developer-sellers in the sample operate nationally preferring :

> . . . not to work outside of the UK, the locals have too many advantages (Postal Questionnaire, *Local Developer-Seller*, August 1987).

As anticipated, given the spatial fixity of industrial capital, no builder-developer operated globally.

A problem arises when Table 8.3 is compared with a restructured version of Table 6.7 (Table 8.4). This reveals an inconsistency in that responses to the open ended question on overseas property development exaggerate the number of companies operating internationally which is not borne out by the answers to the question on the location of development activities (Table 8.3). This disparity can, in part, be explained by the two styles of question. Table 8.3 is based on whether property development companies have ever operated overseas, while Table 8.4 displays an analysis of the perceptions that individual property developers have of the spatial extent of their activities. While many property development companies will occasionally undertake development overseas they would not go as far as to classify themselves as international property development or investment companies. This analysis is verified by the following comments:

1) <u>Regional Developer-Investor</u>
   Most investment property is UK based to help management and due to knowledge of UK property market.

2) <u>Regional Developer-Investor</u>
   It would be rare for us to consider such a development unless there was an overriding reason i.e. excessive profitability; even so we would not undertake such a scheme if it involved foreign exchange risks.

   Source: Postal Questionnaire, August 1987.

The major difficulty with development overseas is the identification of suitable sites and investment properties and with the management of a development project or long term investment property in a strange and often very different property market. The question is 'How can British property developers or investors learn to operate in such property markets and political systems ?'. Three possible strategies are available to the property developer or investor determined to engage in overseas development activity. First, they can seek the advice of British international estate agencies or contact, and seek the advice, of locally based commercial estate agencies. One investor-developer held over £100 million of property in North America managed and controlled by:

> . . . a bit of an extended chain. There are local agents, there are also major agents in New York who are actively involved. The [management] chain is a bit lengthy (Interview, 6/8/ 1987).

Secondly, British property developers and investors can establish a management and development organization in a number of overseas property markets. This lengthy and expensive process can be circumvented by establishing links with locally based development intermediaries. Thirdly, British property developers or investors can enter overseas property markets by establishing development partnerships with local property companies. The advantages of this arrangement are obvious as locally based development companies are operating in their home property market. Development risk is shared between the two companies, while the risk to the British company is considerably reduced in comparison to that associated with direct participation in a foreign property market. British companies are relying on the :

> . . . expertise of overseas operators, we prefer to joint-venture with local partners, however, these relationships take time to build up (Postal Questionnaire, International Developer-Investor / Seller, August, 1987).

The same process operates in reverse when foreign-based property developers and investors wish to enter the United Kingdom's property market. For example, during 1989 a number of Japanese companies entered the United Kingdom's property market by establishing joint development companies with a number of British based developer- sellers. Of especial interest is the relationship between the *Nissho Iwai Corporation*, a Japanese trading corporation, and *Imry Merchant Developers* . The result has been the establishment of *Hiroo Holdings*, a company owned equally by both partners; financial capital will come from Japan while development expertise will be provided by the British partner. A similar joint venture is that between one of Japan's largest construction companies, *The Kajima Corporation*, and *Stanhope Properties plc.*

8.3 Time and the assessment of Development Viability

A related aspect of the assessment of a development project's viability is the time taken to make the actual development decision. The length of the period between the initial identification of the site and the decision to undertake the project varies depending on the complexity of the scheme; its size, its location, the type of property company and the nature of the available information. Information gathered during interviews with property companies suggests that financial institutions are slower in assessing schemes than are companies specializing in property development and investment. This is accounted for by the fact that a financial institution's primary function is insurance, assurance and pension schemes and not property development. However, some 44 per cent of investor-developers indicated that the development decision was made in days rather than weeks. Not surprisingly, given the highly competitive nature of the industry, just under half of all development decisions are made within days, in a quarter of the cases the process took weeks and for just over 10% the decision came only after long and careful consideration (Table 8.5). Such a long time may indicate that the company already owns the site and is waiting until the condition of the property market improves before beginning construction. It could of course reflect the need for intensive negotiations with representatives of planning departments. A long period of informal negotiations has normally already occurred before a major development proposal is submitted for planning approval.

Table 8.5 Timing and the assessment of Development Viability

	Days	Weeks	Months	No. Answer	*Total*
Developer-Investor	7	9	2	2	20
Developer-Seller	5	5	1	2	13
Investor-Developer	7	5	1	3	16
Builder-Developer	1	0	3	0	4
Multiple	12	2	1	0	15
Total	32	21	8	7	68

Source : Postal Questionnaire, August, 1987.

In obtaining prime sites the speed of the response is often the most important element. One property developer argued that enterprising estate agents expect property developers to make a quick decision about potential sites submitted to them for consideration. An estate agent will submit the same site to at least six property companies and consequently :

> It is the speed of response, speed of reaction, not only speed; what is very important is whereby I can demonstrate that we as a company will perform to the agent. Because an agent wants to be sure that he goes to a client that will perform, and by perform I mean that I will get up off my backside and go and see the site, that I will tell him quickly yes or no, he doesn't mind either, and if it is no tell him why it is no (Interview, Regional Developer-Investor, 18,8,1986).

It is perhaps revealing that major alterations to the physical environment of the city are taken within days and often with little reference to non-economic criteria. In many

cases competition for development sites is so intense that little time is available for the consideration of all relevant variables.

8.4 A Model of the Development Decision Making Process

A model or framework of the development decision making process, Figure 8.2, places the preceding analysis in the context of the models already formulated in this thesis. The reservation must be made that the assessment of development viability is not necessarily the linear process portrayed in this diagram. The development decision rests on the interpretation of and playing off against each other of a variety of variables. This is a *dialectical* and *semi-holistic* approach rather than one which is purely linear. Nevertheless, part of this decision making process can be conceptualized in a linear framework as language is incapable of dealing with complex processes in any other form. Many property developers impose a loose framework on their decision making process, partly this is implicit and partly an explicit management technique. Depending on the size, and organizational style, of the property company every potential development proposal must undergo the same type of analysis often leading to the production of a large, detailed and highly confidential report. The problem for the analysis and modelling of this process is that every development decision rests on a *sui generis* combination of factors each being ascribed a different weighting in every assessment. The development decision is the result of a process of give and take between these variables until the property developer is confident that the probability of failure is within acceptable limits.

The model of the development decision making process links together the model of the structure of the property development process (Section 4.9) and that of the model of the site identification process (Section 7.13). This model begins with financial institutions and developer-investors, both long term property investors, who decide on the types of property in which they are currently interested. This decision is made with reference to the present and predicted future yields obtainable from other possible investment areas. The developer-seller is aware of the types of properties, locations and building specifications currently in fashion with property investors.

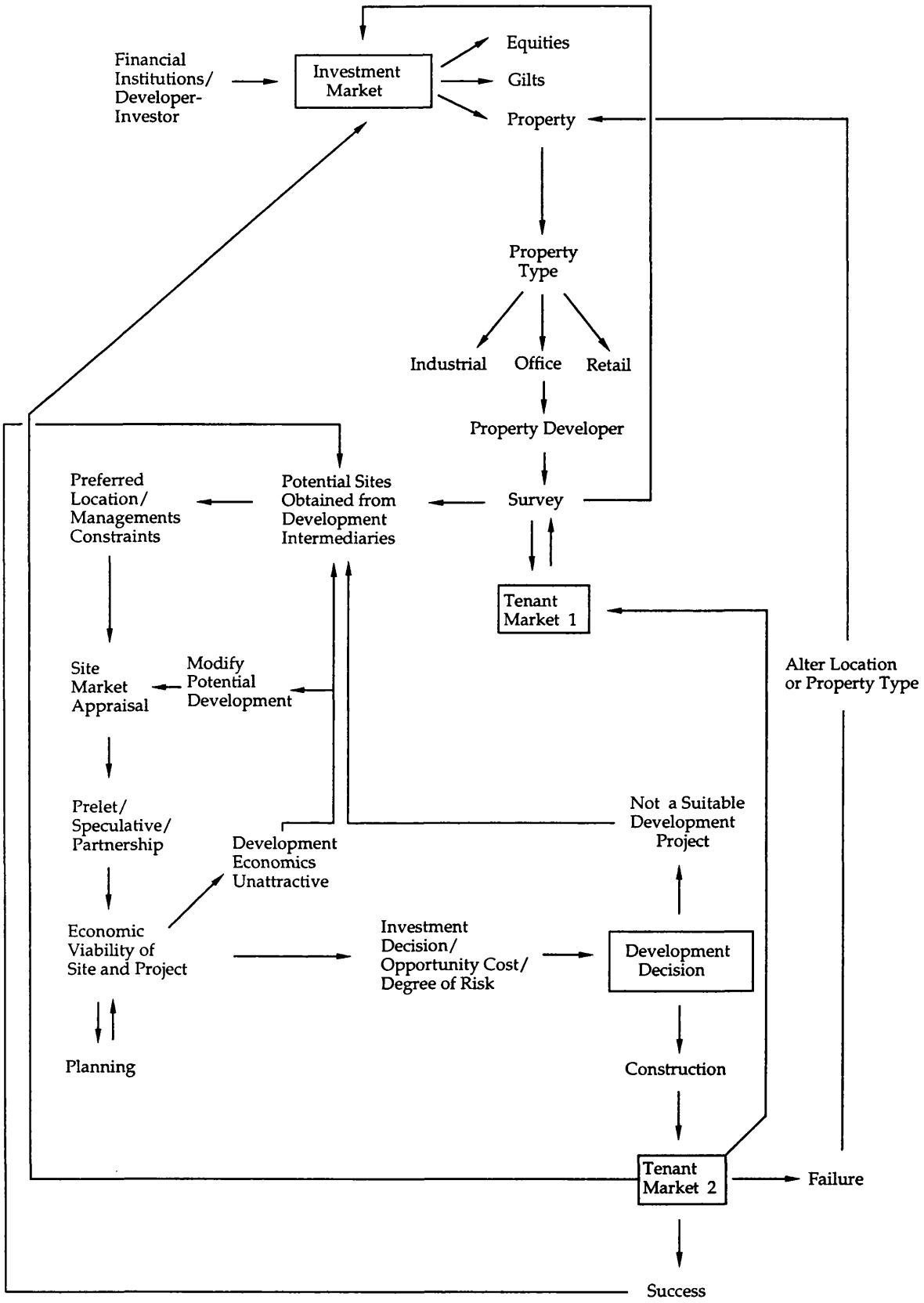

Figure 8.2 The Development Decision Making Process

In the model the various types of property development company identified in Chapter 5 are subsumed under the general title of property developer. The developer-seller, or property development arm of a developer-investor or investor-developer, surveys and analyzes the user market (Tenant Market 1) and investment market for commercial floorspace, trying to identify the types of property currently in demand. The model of the site identification process examined in the last chapter fits into the model at this point as the property development company must *survey* the property market to obtain information about a variety of potential development sites. Many of these schemes are ignored, as they do not fulfil the property developer's or investor's locational or management requirements. A development appraisal based on the condition of the user market, the site and proposed development design are undertaken. At the stage of the 'Economic Viability of Site and Project', the scheme may be rejected as the property developer may not have enough confidence in the *site* and condition of the *user market.* Reduced exposure to risk is often achieved by preletting the scheme to a tenant and selling it to a property investor or user before construction commences or by entering into a development partnership with one or more of the following types of organization : the construction company, another property developer, a financial institution, local authority, and the eventual owner of the completed building. The ability to *prelet* a scheme or develop it in partnership with another organization may sufficiently reduce the risk associated with a particular project to make it an attractive development proposition.

The *economic viability* of the proposed development is considered a key element in any project appraisal. This is often undertaken with the aid of specially designed computer packages which contain details of the returns and yields acceptable to the property company and permits key economic variables and the development's characteristics to be altered in order to manipulate the proposed project's development economics. When the development economics of a proposed scheme are unattractive the property company has two options: 1) to discard the proposal and look for alternative sites, or 2) modify the existing proposed development concept, either by increasing its size or the quality of its floorspace, to enhance and increase the

completed building's annual rental income and anticipated profitability. The economic viability of the proposed development is partly determined by the property developer's interaction with the local land use planning machinery which influences the size, height, type of floorspace and the overall finish of the building; all of which affect the potential profitability of the proposed project.

These factors are implicitly, or explicitly, assigned weightings to determine the anticipated profitability and *degree of risk* of the proposed project. The final *development decision* is based on an assessment of the anticipated rewards against predicted risk in relation to returns available from alternative investment areas and development projects. If the development decision is negative and the scheme is judged to be unsuitable the property development company will consider the viability of alternative sites and locations. A positive decision leads to the articulation of landed, financial and industrial capital by the property developer (a topic examined in Chapter 2, Section 2.5).

The resulting building alters the existing structure of the property market, satisfying some tenant demand and changing the physical structure of part of the built-environment. The altered *tenant market 2* feeds back into *tenant market 1* as the building becomes part of the built-environment whose existence must be taken into consideration before any additional developments are undertaken in the locality. The completion of a profitable development scheme, one that is fully let and either retained as a long term investment or sold to a property investor, encourages the property development company to repeat the process probably in the same location and with similar types of schemes. Development failure, reflected in a partially let or even vacant building, will usually result in the property development company considering alternative types of development and locations. The axiom of the development decision making process is that success encourages repetition while failure leads to the avoidance of specific localities and building types.

It must be emphasized that this model distorts the development decision making process as it attempts to portray an essentially holistic semi-rational process in

a linear rational format. However, the development decision is better described as semi-rational since the effects of the perceptions, feelings and intuitions of individual property developers on this process cannot be fully explained let alone quantified. The advantages of a model of this process are that it provides a context and framework for the analysis of the variables important in determining the viability of proposed developments.

8.5 The Property Development Process and the Space-Economy

Before considering the property development industry in specific cities the spatial distribution of the property investment portfolios of investor-developers and developer-investors must be examined. The data available on the spatial location of property investment portfolios are very sparse due to the highly competitive nature of the property development industry and the lack of reliable published statistics. This makes it impossible to construct sensible maps. Most property investors do not release information about their investment portfolios, while those that do simply provide percentages or rounded figures. Capital values must be treated cautiously as similar buildings will have different capital values depending on their location as :

> . . . every development, every location will have its own value (Interview, Investor-developer, 6/8/87).

In this analysis the investment portfolios of a number of different property companies are considered to determine whether an identifiable pattern of property ownership exists. Location is one of the key variables in assessing the viability of any property development project since demand/supply relationships at the local level determines rental levels. According to one of the property fund managers interviewed:

> Location is important, very important. I think it tends to be understated or neglected at times the market is euphoric, and hence some of the disasters we have been left with. We will not invest anywhere. We have a more cautious approach

> especially when looking at the southern half of Britain for industrials. But anything that is north of Birmingham, for example suburban offices, we feel, in many areas, the growth prospects are not good, but in others parts, like Edinburgh, it is beginning to look good (Interview, International Investor-Developer, 6/8/87).

During a development boom or in an euphoric property market competition for sites is intense and many property companies will consider secondary and even tertiary sites. This was the situation in the early 1970s when many property companies expanded into high risk locations like Leicester, as the next chapter highlights.

In prime development locations, for example the City of London, users and consequently property developers and investors will rent and construct buildings with relatively little concern for the building's micro-location (see Introduction to Chapter 5). Micro-location refers to the location of a particular site within a city whereas macro-location is concerned with location within a much larger area, for example the United Kingdom. This section examines macro-locational patterns as it is impossible at this scale of analysis to undertake a study of the micro-location of specific developments. Outside prime areas property developers prefer sites which are within established office areas with proven track records which can be measured and extrapolated into the future with some degree of certainty. Location is a very difficult concept as it has many definitions. This section is divided into four parts :

a) An Analysis of Commercial Office Floorspace by Region
b) The Perceptions of the Banking Sector of the United Kingdom's Property Market
c) The Location of Property Investment Companys' Investment Portfolio
d) The Location of the Financial Institutions' Investment Portfolios.

a) A regional analysis of commercial office floorspace

Despite numerous Government efforts in the 1960s and early 1970s to encourage office users to decentralize from London and the South East, these areas still dominate the United Kingdom's commercial office market (Table 8.6). Over the period 1967 to 1985 commercial office floorspace increased in Greater London by 72% and by 164% in the rest of the South East compared with the national average of 95% (Table 8.7). This suggests that the decentralization of office activities was occurring but only within the South East region.

Floorspace comparisons between the periods 1967-85, 1967-74 and 1980-85 reveal that since 1967 the Other South East and the South West have experienced the greatest additions to their stock of commercial office floorspace

Table 8.6 Commercial Office Floorspace (million sq. m) at 1 April 1967, 1974, 1980 and 1985

Region	1967	(%)	1974	(%)	1980	(%)	1985	(%)
Northern	1.124	4.4	1.458	4.1	1.699	3.9	1.882	3.8
Yorkshire & Humberside	1.839	7.2	2.461	7.0	3.025	7.0	3.420	6.9
North West	3.660	14.4	5.267	15.1	5.299	12.3	5.824	11.8
East Midlands	1.031	4.0	1.560	4.4	2.059	4.7	2.340	4.7
West Midlands	1.876	7.3	2.508	7.1	3.361	7.8	3.833	7.7
East Anglia	0.566	2.2	0.817	2.3	1.191	2.7	1.433	2.8
South East :	13.954	55.0	18.766	53.8	23.500	54.5	27.165	54.9
Greater London	10.581	41.7	13.498	38.6	16.378	38.0	18.252	36.9
Other South East	3.372	13.2	5.258	15.0	7.122	16.5	8.913	18.0
South West	1.309	5.1	2.043	5.8	2.933	6.8	3.526	7.1
Total	25.359		34.880		43.070		49.427	

Source : Department of the Environment *Commercial and Industrial Floorspace Statistics*, 1974 - 1985 (H.M.S.O, London).

Table 8.7 Increase in Commercial Office Floorspace 1967-1985
(1967 = base year)

	1967-85		1967-74		1980-85	
	Million sq. m.	Net increase (%)	Million sq. m	Net increase (%)	Million sq. m	Net increase (%)
Northern	0.758	67	0.334	30	0.183	1.6
Yorkshire & Humberside	1.581	86	0.622	34	0.395	2.1
North West	2.164	59	1.607	44	0.525	1.4
East Midlands	1.309	126	0.529	51	0.281	2.7
West Midlands	1.957	104	0.631	34	0.472	2.5
East Anglia	0.867	153	0.250	44	0.242	43.0
South East	13.211	95	4.812	34	3.665	26.0
Greater London	7.671	72	2.917	28	1.874	17.7
Other South East	5.541	164	1.885	56	1.791	53.0
South West	2.217	169	0.733	56	0.593	45.0
England	24.068	95	9.518	38	6.357	25.0

Source : D.O.E. *Commercial and Industrial Floorspace Statistics* (H.M.S.O).

(Table 8.7). In 1967 the North West and the Other South East possessed similar amounts of office floorspace, however, by 1985 the South East had 52 per cent more than the North West (Table 8.6). Although the East Midlands had the third greatest regional increase in floorspace over the period 1967 to 1988, growth was the greatest between 1967 and 1974 when the stock of office floorspace increased by 51%, at a rate 13% greater than the national average. The slow growth rate recorded for Greater London suggests that competition for development sites and the dispersal of office activities within the South East was effecting development activity.

During the period 1980 to 1985 the Other South East had the largest net increase followed by the South West and East Anglia whereas the Northern region experienced comparatively little development activity and the East Midlands had a net increase of only 2.7%, 22.3% below the national average. The South East, excluding

Table 8.8 Central Government Offices by Region, 1974 and 1979

	1974		1979	
	Million sq. m	(%)	Million sq. m	(%)
Northern	0.3	5.8	0.4	7.5
Yorkshire & Humberside	0.3	5.8	0.3	5.6
North West	0.6	11.5	0.6	11.3
East Midlands	0.2	3.8	0.2	3.8
West Midlands	0.3	5.8	0.3	5.6
East Anglia	0.1	1.9	0.1	1.9
South East	3.0	57.7	3.0	56.6
Greater London	2.3	43.6	2.2	41.5
Other South East	0.8	15.2	0.7	13.2
South West	0.4	7.7	0.4	7.5
England	5.2		5.3	

Source : D.O.E *Commercial and Industrial Floorspace Statistics* (H.M.S.O).

London experienced the greatest relative increase (+4.8%) followed by the South West (+2%) and the East Midlands (+0.7%) (Table 8.6). Overall during this period, however, the regional share of commercial office floorspace did not alter with the South East retaining its dominant position with a shift from Greater London to other parts of the South East. The regional spread of Government offices echoes the pattern of commercial floorspace (Table 8.8), dominated by the South East region which possesses over half of all government office floorspace, mostly located in Greater London. No other region, in either 1974 or 1979, accounted for more than 11.5 per cent of government office floorspace.

b) The Perception of the Banking Sector of the United Kingdom's Property Market

The perceptions of the property market held by the United Kingdom's banking sector, both British banks and subsidiaries of foreign banks, play a pivotal role in the property development process as it provides the short-term funding, usually from

Table 8.9 An Analysis of the Banking Sectors Perceptions of the United Kingdom's Commercial Property Market

Preference Ranking

Sectors	**% First**	**% Second**
Offices	59	14
Shops	22	41
Industrial	-	1
Warehouse	-	7
Residential	19	14
Hotel	-	7

Regions	**% First**	**% Second**	**% Third**
London	71	21	4
South East	25	63	-
Midlands	-	-	30
South West	-	4	26
North/Yorkshire	-	4	13
Wales	-	4	4
Scotland	4	4	22

Source : Debenham Tewson & Chinnocks, 1987.

three to seven years, for many property development projects. Consequently this sector's perceptions of the risks attached to particular types of building and location influences the development programmes of many small property companies which are unable to obtain finance from other sources such as the equity market or financial institutions. A viable development scheme may be thwarted by the failure to secure short term working capital. The banking sector assesses the quality of the potential borrower before considering actual schemes, in fact the quality of the borrower may be more important than the scheme. The Banking sector prefers to lend to publicly listed companies with existing collateral and an established reputation. Small private property companies will only obtain loan capital if they have a proven track record of profitable projects.

In 1987 *Debenham Tewson and Chinnocks* , a firm of international property advisors and estate agents, undertook a survey of banks operating in the United Kingdom which highlights the dominant position of the office markets of London and the South East (Table 8.9). Banks lending development capital to property companies favour projects located in London and the South East, all other parts of the United Kingdom are of secondary importance. Subsidiaries of foreign banks prefer schemes located in the City of London as they are perceived to be good investment risks. The lack of interest in the South West is surprising in the light of this region's impressive period of growth.

Banks prefer to lend capital for office and retail developments because these two sectors are particularly favoured by property investors. Offices, especially those in London, are perceived to carry the least risk given the level of tenant demand. Prime retail projects are more widely dispersed throughout the United Kingdom which deters many centrally located British and foreign banks from lending in this sector. Industrial property is the least favoured form of property as it is perceived by the financial institutions to carry a extremely high risk as industrial building specifications are constantly changing in response to new production techniques.

c) The location of the investment portfolios of property investment companies

Property Investment companies, those that hold property as a long-term asset, are usually highly secretive about the nature of their investment portfolios. Two data sources can be used to determine the spatial extent of their holdings :

a) questionnaire survey
b) company reports and accounts.

Although very time consuming, questionnaire surveys do provide invaluable information. The postal questionnaire provides a ranking of how property companies perceive the United Kingdom's and some overseas property markets (Table 8.10).

Table 8.10 Property Companies Preferred Locations for Office Development - 1987

	Rank							
	1		2		3		4	
		%		%		%		%
City of London	26	38	8	12	4	6	2	3
Central London	13	19	24	35	10	14	2	3
South East	13	19	12	17	19	28	8	12
M25	8	12	13	19	16	23	14	20
West Midlands	1	1	0	0	0	0	1	1
East Anglia	2	3	0	0	1	1	3	4
Yorkshire/Humberside	1	1	0	0	0	0	0	0
North West	0	0	2	3	0	0	0	0
The North	0	0	1	1	0	0	0	0
U.S.A	0	0	2	3	0	0	3	4
Canada	0	0	0	0	0	0	1	1
Missing Cases	5	7	7	10	19	28	35	51

Source : Postal Questionnaire, August 1987.

Not surprisingly the City of London is the most favoured location followed by the South East and the M25 corridor with all other areas of the United Kingdom being regarded as of secondary or marginal importance. The U.S.A. and Canada are also considered to be of secondary importance as development locations. Despite the problems associated with all postal questionnaire surveys the data provided was corroborated by an analysis of the annual reports and accounts of a number of property companies, for example M.E.P.C plc (Table 8.11). This company's investment portfolio is overwhelmingly concentrated in the South East and Central London (70 % of capital value) with only 9.2 per cent of its portfolio located outside this area.

An analysis of this portfolio by location and the number of investments reveals that Central London contains 23 per cent of the portfolio while the rest of the South East has 46 per cent with only 25 per cent dispersed over the rest of the country (Table 8.11). The fact that Central London accounts for 48.4 per cent of the portfolio by capital value but only 23 per cent by the number of developments reflects the very

Table 8.11 An Analysis of M.E.P.Cs Investment Portfolio by Category and Location as at 30th September 1988

	Number of Investments	(%)	Offices £m	Shops £m	Industrial £m	Developments £m	Total £m	(%)
United Kingdom								
Central London	199	22.6	1,064.0	146.2	22.3	232.0	1,489.0	48.4
South East & S.E. London	400	45.4	239.5	239.1	177.6	31.1	687.6	22.3
Midlands & SW England	72	8.2	32.6	97.2	5.5	0.8	136.1	4.4
NW and NE England	148	17.0	41.3	96.0	6.4	4.0	147.7	4.8
Total	819		1,377	578	211	267	2,460	79.9
Overseas								
Australia	34	3.8	242.1	43.4	37.7	18.7	342.8	11.1
Europe	17	1.9	130.0	2.6	-	19.9	152.5	5.0
USA	10	1.1	89.4	18.4	-	14.2	123.4	4.0
Total	880		1,838.9	642.9	250.9	320.7	3,079.1	
Percentage of Portfolio			59.7	20.9	8.2	10.4		

Source : M.E.P.C plc (1988) *Report and Financial Statements*, (London) p.46.

Table 8.12 The Location of Lynton Property and Reversionary's plc Investment Portfolio, 1987

Location	£000	(%)
Central London	84,656	47
Greater London	29,600	16
South East	36,197	21
Provinces	19,655	11
USA	5,625	3
Europe	4,557	3
Total	180,290	

Source : Lynton Property and Reversionary plc, (1987) *Report and Accounts* , (London)

high capital values of buildings in this area. In contrast the North West and East have 17 per cent of developments, but these only account for 4.8 per cent of the portfolio's capital value: the respective figures for the Midlands and the South West are 4.8 per cent and 16.8 per cent. These areas have low rental levels and associated capital values but the returns on invested capital can be greater than those available in many prime locations. The investment portfolio of Lynton Property and Reversionary plc has a similar distribution (Table 8.12).

While most property companies provide no information concerning the breakdown of their property portfolio by size and location, MEPC, in its annual company report, examines the capital value of its portfolio by location and capital size bands (Table 8.13). In 1985 more than half of the buildings in the portfolio had a value in excess of £5 million and in 1988 this proportion had increased by 15.1 per cent. The proportion of developments in the portfolio in 1985 valued below £500,000 was 69.1 per cent, but by 1988 this had fallen by 19.1 per cent. This dramatic change either reflects the impact of inflation or the rationalization of the portfolio. If it is argued that inflation is the primary cause of this decrease an analysis of the first two capital bands in 1988 should exhibit very little alteration from the 1985 figures. In 1985, 88 per cent of the portfolio's developments were in the first two size bands, however, by 1988 this had dropped by 12 per cent. Evidently during this period MEPC was selling or redeveloping many of the smaller buildings in its portfolio probably because, as has been noted, the effort and time needed to develop and manage a small building is not very different from that expended on a large one.

In 1985 MEPCs United Kingdom investment properties were distributed over the four capital bands. In fact 29.8 per cent of this part of the portfolio was valued below £2.5 million, a figure which many long term property investors use as a investment cut off point; below this level the returns from buildings with relatively low capital values do little more than meet management costs. By 1988 only 14 per cent of the portfolio was valued below £2.5 million. Management problems and costs are

Table 8.13 An Analysis of M.E.P.C s Property Portfolio by Size and Location (% of value)

(a) 30 September 1985

£	No. of Investments		UK	Australia	EEC	U.S.A	Total	
		%	%	%	%	%	£m	%
0 - 500,000	665	69.1	10.9	1.7	3.3	0.10	114.7	7.9
500,001 - 2,500,000	182	18.9	18.6	8.5	9.4	0.90	211.1	14.6
2,500,001 - 5,000,000	54	5.6	17.3	12.7	2.9	-	196.1	13.6
Over 5,000,000	61	6.3	53.2	77.0	84.3	99.00	923.9	63.9
	962						1,445.8	

(b) 30 September 1988

£	No. of Investments		UK	Australia	Europe	U.S.A	Total	
		%	%	%	%	%	£m	%
0 - 500,000	443	50	4	0.3	-	-	93.7	3.0
500,001 - 2,500,000	234	26	10	4.0	3	2	273.5	8.9
2,500,001 - 5,000,000	76	9	9	8.0	12	4	279.4	9.1
Over 5,000,000	127	14	77	87.0	85	94	2,432.5	79.0
	880						3,079.1	

Source : M.E.P.C. *Company Reports and Accounts,* 1985 and 1988 (M.E.P.C, London).

even more important in overseas property development and investment which explains why over 85 per cent of MEPC's overseas property investments are in the highest capital band.

d) The Location of the Financial Institutions' Investment Portfolios

Financial institutions tend to be even more secretive than developer-investors concerning the exact nature of their property investment portfolios. Most provide little or no information in their annual reports about their property investments as they are not property development companies, but providers of a variety of financial services. A breakdown of the portfolios of a number of financial institutions is available from a private research organization which undertakes portfolio analysis for a variety of funds (Investment Property Databank, 1986). These reports are a rather dubious source of research material as the information presented in them has undergone a variety of, often unexplained, transformations. Table 8.14 provides an analysis of the spatial location of the property portfolio of sixty-seven funds managed by thirty-six institutions. Along with this information source an analysis of the annual reports of the National Coal Board's Staff Superannuation Scheme provides detailed information on the location of a particular fund's property portfolio (Table 8.15).

It is clear that London is the most important location for office and retail investments, however there is a problem in that the available data only provides a break down by capital value and not by number of buildings. A financial institution may hold more property outside of London and the South East in terms of size and number yet their combined capital values will be low in relation to the value of developments located in London and prime parts of the South East (Table 8.14). By comparison only 48.4 per cent of MEPC's portfolio is located in London (Table 8.11). Between 1980 and 1985 the proportion of the office portfolio concentrated in London and the South East has become even greater while that in Scotland, the North and the East and West Midlands has fallen. This movement may be the result of inflation or the rationalization of their investment portfolio during this period of depression in the United Kingdom's office market.

Table 8.14 The Location of the Property Portfolios of the Financial Institutions (% of capital value)

	Office		Retail		Industrial	
	1980	1985	1980	1985	1980	1985
Scotland	4.2	3.7	9.1	9.7	4.1	3.4
Wales	0.8	0.7	2.5	2.7	1.0	0.7
The North	4.0	3.4	14.7	14.8	7.8	7.3
E & W Midlands	2.9	2.1	15.4	14.5	10.9	7.0
East Anglia	0.4	0.5	2.9	4.3	5.3	3.9
South West	2.6	2.7	5.5	6.5	8.1	5.1
South East	10.1	11.8	23.8	26.9	31.5	41.1
London	75.0	75.1	26.1	20.6	31.2	31.4

Source: Investment Property Database, 1986.

The property portfolio of the National Coal Board Staff Superannuation Scheme (NCBSS) and the Mineworkers' Pension Scheme (MPS) exhibit a similar spatial distribution. Seventy-five per cent of the NCBSS office investments by capital value are located in London with 9 per cent in the rest of the South East. No other region accounts for more than 4 per cent of the fund's total office investments. The MPS portfolio has a similar distribution with 70 per cent of its office investments by capital value located in London and 11 per cent elsewhere in the South East. There are no NCBSS office investments located in the Midlands. Office property represents just over a quarter of the total value of the funds; the rest been invested in retail units, industrial buildings, equities, gilts and a number of esoteric investment areas, for example paintings. Interestingly, just under one quarter of both funds' capital is invested in the United States of America (USA). In fact the MPS has 24 per cent of its capital invested in the USA and only 16 per cent in Central London indicating the global nature of many financial institutions investment policies.

Table 8.15 The Location of Pension Funds Property Portfolios - 1986

	(a)				(b)			
	Offices		Regional Totals		Offices		Regional Totals	
London	£m	%	£m	%	£m	%	£m	%
Central	123	58	124	16	107	55	108	16
Outer	37	17	92	12	29	15	53	8
England								
North East	2	0.9	62	8	4	2	52	8
North West	3	1	22	3	4	2	25	4
Midlands	2	0.9	58	8	-	-	35	5
East Anglia	-	-	28	4	5	3	27	4
South East	18	9	113	15	22	11	96	15
South West	4	2	16	2	4	3	24	4
Scotland	9	4	35	5	3	1	26	4
Wales	4	2	30	4	3	1	30	5
Ireland								
Northern	2	0.9	3	0.4	4	2	5	0.8
Eire	7	3	7	0.9	7	4	8	1
Europe	-	-	8	1	-	-	8	1
US	-	-	161	21	-	-	154	24
Total	211		759		193		651	

(a) National Coal Board Staff Superannuation Scheme (1985/6) *Reports and Accounts*
(b) Mineworkers' Pension Scheme (1986) *Reports and Accounts*

The concentration of financial institutions' property investment portfolios has repercussions for the users (tenants) and developers of commercial floorspace. Property investors provide the market for completed buildings, but they are only interested in certain locations and types of property. The proceeding analysis of the investment portfolios of developer-investors and investor-developers reveals that office users outside of the South East may find difficulty in finding a suitable building as these locations are not perceived to be profitable development, and more importantly safe, investment areas.

8.6 Summary

This chapter provides a link between the analysis of the property development and site identification processes examined in Chapters 4, 6 and 7 and the examination of the property development industry in particular localities(Chapter 9). The analysis of the development decision-making process extends that of the site identification process by highlighting a number of the variables which property developers perceive to be important in assessing the development viability of a particular site and location. The site identification process provides the sites, but does not identify the variables which property developers use in deciding whether or not to undertake a development. The development decision is a complex, holistic and only semi-rational process relying partly on a scientific/economic basis, and partly on art and intuition. This accounts for a number of the difficulties experienced in attempting to understand this process, since every development decision is unique. The model or framework of this process provides a useful conceptual device for understanding the types of factors considered in any one development decision.

In the next chapter the discussion of the site identification process and the development decision will be examined with reference to developments in three cities: Leicester, Nottingham and Northampton. The brief analysis of the spatial location of commercial office floorspace and the investment portfolios of long term property investors included in this chapter provides the context for the proceeding analysis.

CHAPTER NINE

The Property Development Process in the East Midlands

A walk in the central area of Leicester today would give an impression that the city has undergone a recent bombardment by enemy action ... Rapid changes are taking place in the structure of the central area, affecting its scale and its sky-line - vacant shops, well-established firms closing down but also new firms moving in, the appearance of multi-storey parking garages and tower buildings. These changes are certainly not the signs of decline but of the vitality of Leicester. The scale of a "market town" is being transformed into that of a true "city".

The public is bewildered and critical about these changes. Elderly, ladies write rude letters to me : " Why do you hate Leicester ? Why are you destroying this once gracious city? "

(Smigielski, K., 1973, p.135).

Introduction

In the preceding chapters the property development process has been examined without direct reference to the experiences of any individual city. Instead the analysis has concentrated on the property development process and the operations of property companies, but has not considered its effects in specific locations. To demonstrate the validity of the analysis and models developed in previous chapters they must be related to the experiences of individual property markets. This chapter examines the supply of commercial office floorspace in Leicester since 1960, in

Northampton since its designation as an expanded town in 1968 and in Nottingham.

Relating models and theories to individual cases is sometimes very difficult. The problem according to Thrift is whether it is possible to "relate generalizations about social phenomena to the features of a particular place at a particular time and to the actions of individuals within that place" (p.165, Thrift, 1983, p.23). Models and generalizations enable us to understand the relationships between individual components of a system or process, yet they are unable to explain the effect of factors that are specific to particular locations and times. The case studies demonstrate some of the difficulties of researching the history of a city's property market or even the history of particular developments. Every city's property market is the result of numerous implicit and explicit decisions made by local government; local, regional, national and often international property development companies; financial institutions and local manufacturing and service companies. To identify, let alone understand, all of these decisions is an impossible task. The Leicester case study deconstructs the history of a property market over a substantial period of time, yet it was impossible to identify many of the specific variables which influenced the decisions of many individual property development companies. This is an obvious difficulty of this type of research, since many of the individuals and companies involved in these developments are either dead or no longer exist in the same form. Similarly, many property developers have forgotten some of the variables which influenced their past development decisions or rationalized many semi-rational or totally irrational, intuitive decisions. One of the important findings of the Leicester case study is that successful property development tends to encourage further involvement in a particular property market often leading to an oversupply of floorspace.

The property development process is an inherently spatial process because its completed commodities are fixed in relative space while being developed by a variety of different types of property company which operate at a variety of spatial scales. To simplify the analyses of the property markets of the three study areas property development companies will be classified as either local or non-local. Local development or investment capital, because it is local capital, can identify

development opportunities which non-local, national or international, capital would fail to identify or would ignore because of the three filters examined in Chapter 5.

The relationship between national and international property companies and specific development sites is one of the most spatial components of the property development process, but it is also the most difficult to investigate. Once a site is acquired by a property company, or a development is completed, the role of the development intermediary in the initial identification of the site is frequently forgotten. The records of property development companies and the memories of individual property developers tend to reveal nothing about the initial site identification process. Consequently research into the history of a particular property market often fails to identify the role of individual development intermediaries. Despite this problem, in many cases development intermediaries were identified as important agents in the property markets of the three study areas.

This chapter commences with a brief description of these towns to provide the context for the discussion of their office property markets. This is followed by an examination of Leicester's property development cycle since 1960 taking into consideration the attempts by central Government to encourage decentralization of office activity from London. This account provides the background for the analysis of a series of case studies of individual developments, development intermediaries and property companies which provide examples of a number of the concepts formulated in previous chapters.

9.1 The Study Areas

To place the three study areas in the context of the United Kingdom's space-economy their rental levels can be compared with those obtainable from similar properties in other cities. Using data for the year 1985 to 1986 obtained from Debenham Tewson and Chinnocks and Jones Lang Wootton, described in Chapter Three, it is apparent that during this period Leicester's office floorspace commanded the lowest rental levels in the United Kingdom, £2.00 per square foot (Table 9.1). In

Table 9.1 Office Rental Performance - March 1986

	Rent at March 1986	Annual Rental Change	Rental Change March 1985-March 1986
Basingstoke	11.00	12.6	6.3
Birmingham	8.50	11.4	13.3
Bournemouth	6.50	10.3	0.0
Bracknell	14.00	15.5	7.7
Brighton	9.00	14.0	12.5
Bristol	8.00	12.0	14.3
Bromley	9.50	12.4	0.0
Cambridge	8.50	10.9	6.3
Cardiff	6.75	9.8	12.5
Chelmsford	8.00	13.2	6.7
Crawley	10.50	17.1	10.5
Croydon	10.25	10.2	-8.9
Guildford	12.25	13.4	11.4
Hammersmith	13.50	13.8	8.0
Harrow	12.00	13.2	9.1
High Wycombe	11.25	14.9	2.3
Hounslow	14.00	12.3	0.0
Ipswich	6.00	11.0	0.0
Kingston upon Thames	10.00	12.8	0.0
Leeds	6.00	9.8	2.6
Leicester	2.00	N.A	0.0
Liverpool	6.00	9.8	9.1
Luton	7.75	13.0	6.9
Maidenhead	15.00	17.5	0.0
Maidstone	6.25	10.1	19.0
Manchester	7.50	11.3	7.1
Milton Keynes	9.50	11.7	0.0
Newcastle upon Tyne	4.75	9.7	0.0
Northampton	6.25	11.6	8.7
Norwich	3.50	11.1	0.0
Nottingham	5.00	11.6	0.0
Oxford	8.00	13.2	6.7
Peterborough	6.50	12.9	18.2
Plymouth	4.75	11.6	0.0
Reading	14.75	15.9	13.5
Richmond upon Thames	12.00	12.8	9.1
St Albans	12.00	14.5	20.0
Sheffield	5.50	9.2	4.8
Slough	16.00	16.4	0.0
Southampton	7.25	10.8	11.5
Staines	13.25	13.9	6.0
Sutton	8.50	12.5	0.0
Swindon	8.25	13.8	0.0

Source : Jones Lang Wootton (June 1986) *50 Centres : A Guide to Office and Industrial Trends in England and Wales* ; Debenham Tewson & Chinnocks (May 1985) *Office Rents and Rates* 1973-1985

Table 9.2 The Top 25 Provincial Office Centres - 1975

Ranking 1972	Ranking 1975		Office Floorspace (a) (million sq. ft)
1	1	Manchester	16.5
2	2	Liverpool	13.5
3	3	Birmingham	12.5
4	4	Glasgow	10.5
5	5	Edinburgh	8.5
6	6	Bristol	7.0
7	9	Croydon	6.0
8	8	Newcastle	6.25
9	7	Leeds	6.5
10	10	Cardiff	4.75
11	11	Nottingham	4.5
12	12	Norwich	4.25
13	13	Southampton	4.0
13	13	Sheffield	4.0
13	16	Bradford	3.5
16	15	Leicester	3.75
17	18	Kingston upon Hull	3.25
18	17	Reading	3.5
19	19	Northampton	3.0
20	20	Brighton	2.75
21	20	Wolverhampton	2.5
22	22	Bournemouth	2.5
23	23	Worcester	2.25
24	22	Plymouth	2.0
25	25	Dundee	2.0

(a) Gower Economic Publications Estimates

Source: Gower Economic Publications (1975) p.7

fact no rental increase occurred in Bradford, Leicester and Sheffield since 1982. In a study of office rents and rates in the United Kingdom Leicester was the only city whose office rates per square foot were actually higher than its rental levels, a difference in 1985/86 of twenty pence per square foot. In contrast to Leicester, Northampton's rental levels increased by 8.7 per cent between March 1985 and March 1986 to a level of £6.25 per square foot. Nottingham's office rental levels experienced no change over this period remaining at £5.00 per square foot. Over the

period 1969 to 1986 Northampton and Nottingham experienced the same annual increase in their rental income of 11.6 per cent (Table 9.1).

In 1975 a report which purported to identify and provide an account of the United Kingdom's top 100 commercial property centres attempted to identify and rank the top 25 provincial office centres by the amount of office floorspace they contained (Table 9.2). Not surprisingly Manchester, Liverpool and Birmingham hold the top three places. Nottingham appeared in the first half of the list at eleventh place, followed by Leicester at fifteenth place and Northampton at nineteenth. During the period 1972 to 1975 Nottingham and Northampton retained the same ranks while Leicester moved up one place indicating that it had experienced a substantial property boom.

These case studies were chosen in 1985 on the basis of this data and subsequent field research to identify three cities whose office property markets were at different stages of the property development cycle . Table 9.3 provides data on the population of the three towns while Table 9.4 and Table 9.5 provides details of their economic structure.

9.2 Leicester

Leicester, geographically in the centre of England situated about 100 miles from the East and West coasts, is Leicestershire's traditional market centre and county town. It is situated 98 miles from London and 39 miles from Birmingham, served by the M1 which passes within 5 miles of the city centre and a high speed rail service to London which takes approximately 90 minutes. An important point in the development of Leicester as an office centre is its claim to be " the first city of any consequence up the M1 from London" (Glover, 1981, p.359). This was an argument frequently deployed by the city and its development intermediaries to attract property developers and investors in the late 1960s and 1970s. Leicester is the commercial and industrial focus of the South East Midlands with an industrial base concerned predominantly with light industry, mainly engineering, textiles, clothing, traditional

Table 9.3 The Population of the Study Areas.

	1961	1971	1981
Leicester	288,065	284,208	280,324
Northampton	105,421	133,673	157,217
Nottingham	311,899	300,630	272,141

Source : Census 1961 - 1981.

Table 9.4 The Economic Structure of the Study Areas -1981

	Great Britain	Leicester	Northampton	Nottingham
		(% of employed residents)		
Agriculture	2.2	0.3	0.5	0.3
Energy & Water	3.1	2.0	1.4	5.7
Manufacturing	27.0	41.7	31.4	34.9
Construction	7.0	5.8	7.3	6.5
Distribution & Catering	19.2	19.0	21.8	19.6
Transport	6.5	4.6	5.9	5.3
Other Services	34.0	26.0	31.1	27.2

Source : *Key Statistics for Urban areas : The Midlands*
(H.M.S.O, 1981Census)

Table 9.5 Proportion of Working Population Employed in Service Activities

	1971	1981
Leicester	45.4	47.4
Nottingham	47.8	51.7
Northampton	52.3	59.8

Note : A service is defined as categories 21 to 25 of the census employment classification

Source : Census 1971 and 1981, Economic Activity Tables

hosiery and knitwear with just under half of the working population employed in service activities (Mounfield, 1972, p.375) (Table 9.4 & 9.5).

A number of Leicester's characteristics make it eminently suitable for a case study into the operation of the property development process. First, its location relative to London and Birmingham made it an attractive location for property developers who hoped that many office based activities would be forced to decentralize from London due to escalating rental levels in the 1960s. Secondly, it has been argued that Leicester is a free-standing city as:

> . . . the city and county of Leicester together constitute a classic case of the city region, a functional region composed of the dominant city performing central place functions for a wide hinterland (Hall, 1973, p.560).

If this is the case Leicester is the obvious location for regionally based office activities. Thirdly, Leicester experienced a major slump in its office market in 1974; a slump from which it has yet to recover. Fourthly, it is often claimed that " Leicester is the richest city in the United Kingdom, and the second richest city in Europe after Lille in France". A statement attributed by Smigielski to a study undertaken by the League of Nations in 1920 (Smigielski, 1973, p.138). In 1962, it was suggested that Leicester's reputation as one of the most prosperous cities in Britain could be partly attributed to it having a broadly based economy (Edwards, 1962, p.304). In fact, in the early 1970s Mr Edward Heath referred to Leicester as " Britain's most successful city" (House, 1982, p.77). Both of these claims are of course difficult, if not impossible to substantiate. Nevertheless a number of property developers interviewed gave them as some of the reasons for undertaking property development in Leicester between 1968 and 1974.

9.3 Northampton

Northampton, situated in the East Midlands 66 miles from London, 32 miles from Leicester and 57 miles from Nottingham, is a typical English town (Whitehand, 1984, p.5). The M1 passes within five miles of the town centre while the rail link to London takes approximately 70 minutes. It is an historic county town with administrative, commercial and industrial functions which was the centre of the boot and shoe industry in the middle of the nineteenth century. In 1968 Northampton was described as :

> . . . a quiet through still prosperous market and manufacturing town [with] some notable buildings, but many more townscape and architectural delights . . . perhaps rather down-at-heal (Aldous, 1975, p.50).

The redevelopment of Northampton's central area, associated with its designation as a new town, has destroyed many of these 'architectural delights' replacing them with blocks of concrete and cladded buildings (Plate 10 & 11). More than half of the town's working population is employed in service activities, a proportion that has substantially increased since its designation as an expanded new town (Table 9.5). On the 14th of February 1968 the town was designated as an expanded new town to cater for a predicted increase in the South East's population of 3.5 million by 1981 (Osborne, 1972, p.233). Northampton's population at the time of designation was 130,000 which was expected to increase to 230,000 by 1981 and possibly to 260,000 by 1991. It was expected that most of this growth would be caused by the inmigration of 70,000 people relocating predominantly from the Greater London area along with natural increase. By 1981 the population had reached only 157,217 because the increase in the South East's population had not occurred to the extent predicted in the 1960s.

9.4 Nottingham

Nottingham is the North-East Midlands major industrial and commercial centre situated 123 miles from London and 50 miles from Birmingham. The M1 passes close to the city providing a good north south communication link, the high speed rail service to London takes approximately 105 minutes while The East Midlands Airport is located 12 miles from the city. During the nineteenth and early part of the twentieth century the city was an important textile centre.The demise of this industry has left Nottingham with a substantial area of redundant factories and warehouses notably in the area known as the Lace Market (Map 6). The present economy of the city is split equally between service and manufacturing functions (Table 9.4). The manufacturing economy consists of a variety of light engineering, textiles and tobacco related industries. Despite the decline in the textile industry this sector still dominates the city's economy employing 22 per cent of the manufacturing work-force (Osborne, 1984, p.62). The largest individual employers are the Boots Company, John Player & Sons, T.I.Raleigh and Plessey Telecommunication Systems. Nottingham is a major office centre containing the regional offices of many national banking and financial institutions as well as accommodating county and local government administrations.

9.5 Provincial Office Development in Context

The analysis of the operation of the property development process in the three study areas must commence with a consideration of the relationship between London's office property market and that of its surrounding regional cities. This analysis will place the three case studies in a national context as well as explaining the choice of 1960 as the base year for the examination of Leicester's and Nottingham's property market (**1**). This section will consider three related topics : a) London's first post-war development boom; b) the establishment of the Location of Offices Bureau and c) the formation and effects of central government's office location policies.

(**1**) The Northampton case study's base year is 1968 when it was designated as an expanded New Town.

a) The decentralization of offices from London

The bases of Leicester's and Nottingham's 1960s property development boom are directly related to the after effects of the second world war since London's office space was decimated by the actions of the German air force. It has been estimated that through the actions of the Luftwaffe London lost 9.5 million square feet or 11 per cent of its total office floorspace while Manchester only lost 1 million square feet (Marriott, 1967, p.16). Between 1954 and 1962 more than 80 per cent of all office space which obtained planning permission was located in the South East (Taylor, 1962, p.1364). Until the late 1950s few property developers operated outside of London given the availability of bombed sites, the demand from tenants and the restrictions imposed by the government on the supply of building materials. Building licences were introduced during the second world war to control the size of developments and to restrict non-essential construction work. When the war finished the effects of these regulations increased rental levels as they interfered with the relationship between the supply and demand for office space. In November 1954 the wartime rationing of building resources and building licences were abolished leading to the reassertion of a free market. In London the peak years were 1954 and 1955 when 11 million square feet of office space obtained planning permission (Wright, 1967, p.210).

Due to the time lag between the planning and design of office buildings and their completion the effects of the relaxation of building controls were not visible until after 1955. It is only in the late 1950s that the large scale development of commercial office floorspace spread out from London and began to become a prominent feature of many provincial/regional cities. Before the second world war decentralized offices were an unusual phenomenon as most office activities located outside of London or in its suburbs served local markets and were rarely tied into the national and international economy. Consequently, decentralized offices servicing a national or international market are a post-second world war phenomenon. The decentralization of office activities from London can be explained by the following factors :

1. Competition for development sites in London forced land prices to increase rapidly causing a number of property developers and tenants to consider alternative locations.

2. The volume of office building and the increase in office jobs in the centre of London was beginning to concern central government, especially in relation to traffic congestion and land prices.

3. Building licences had restricted development leading to an accumulated demand for office space after the second world war.

4. The growth in the service sector after the war led to a continued, sustained demand for additional office floorspace (See Manners and Morris, 1986, chapter 2).

5. A number of companies were decentralizing from London trying to avoid the rapidly escalating cost of London's office space.

These factors contributed to the increasing importance of provincial cities as suitable locations for speculative office developments.

During the second world war a number of office users were forced to move out of London because of bomb damage or security reasons. When the war finished many decided to remain in their new locations preferring them to the congestion and expense of London. Towards the end of the war rental levels in London increased rapidly as building licences artificially restricted the supply of new office buildings. A number of companies decided to relocate to cheaper rental locations commissioning property companies to construct suitable buildings for owner occupation (Marriott, 1967, p.208). Very little is known about this early phase of office decentralization, before the establishment of the *Location of Office Bureau (LOB).* Nevertheless, it has been estimated that in the 1950s approximately 1000 jobs per annum decentralized from London (Rhodes & Kahn, 1971, p.14). Such developments if undertaken speculatively would entail large element of risk, however during this period decentralizing companies were only interested in reducing their annual rental charges and not in development profit or long term property investment. This initial stream of decentralized offices encouraged property developers to undertake speculative development in London's suburbs and in a number of provincial cities. At this time

demand for office space in many provincial cities was high given the back log that had developed since the war. While London in the early 1960s was experiencing a trough in its development cycle a number of provincial cities, like Leicester and Nottingham, were entering their first post-war development boom **(1)**.

During the 1950s London experienced a considerable growth in the number of office based activities operating in the city. Between 1951 and 1961 office employment in The City increased by 20 per cent with a corresponding increase in office floorspace. Coupled with the increasing amount of space required by each office worker, with the introduction of new technology and working practices, London experienced a massive increase in its total amount of office floorspace. Central Government became increasingly concerned with the rapid increase in the number of office based activities in London and the South East. The congestion of many of London's streets was a constant source of worry especially as the amount of office floorspace in many pasts of the central area had increased substantially. A growing body of opinion during the late 1950s and early 1960s demanded that central government established a locational policy to control and influence the location of office based activities.

Finally in 1963, the Conservative Government decided to tackle the increasing disquiet over the escalating concentration of office activities in Central London and the South East. The 1963 White Paper, *London - Employment: Housing: Land* , highlighted the problems London would experience in the provision of housing and the increasing pressures on the transport system with the continual increase in the city's office sector (Minister of Housing and Local Government, 1963). This White Paper led to the establishment, in April 1963 by the Minister of Housing and Local Government, of the *Location of Offices Bureau (LOB)* . Instead of imposing a series of financial sanctions on office users locating in Central London the LOB's function was to persuade and encourage office activities to examine and hopefully locate in

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(1) Northampton did not experience its first post-war office development boom until after its designation as an expanded New Town in 1968 (Section 9.8).

areas away from The City and London. It has been argued that LOB performed three important functions : 1) it increased the viability of many property markets for office activities throughout the United Kingdom; 2) it provided a centralized organization for research and publications on office locational problems and finally it offered:

> . . . if it is not too presumptuous a phrase - a co-ordinating intelligence for all the actors on the office location stage (Manners,1977, p.30).

The rational behind the establishment of the LOB was the imperfect nature of the office property market which tends to restrict tenants considering relocating their activities to a limited number of areas, often those they have already experienced. By supplying accurate information about other areas of the United Kingdom it was hoped that tenants would realize the advantages of a suburban or provincial city location. Coupled with this attempt to encourage the decentralization of private office users from London a policy to decentralize part of the Civil Service was adopted (Manners & Morris, 1986, Chapter 4). London has always possessed "a super-concentration of Civil Servants" which have occupied sites which could be used for private sector office activities while many Civil Service functions could be performed, in cheaper locations, away from the South East (Hammond, 1967, p.263). A dramatic alteration in the spatial concentration of Civil Service jobs in London would considerably reduce the state's annual rental payments while easing housing and travelling conditions in the area.

The LOB operated from its "centralized offices" in Chancery Lane from 1963 until its abolition by the Conservative Government in 1979 on the grounds that a free market economy should not be influenced by an agency established and funded by central Government. During the period of its operation the LOB provided information to many companies considering relocating either a part or all of their activities away from London while providing a data base on the movement of office activities within London and the rest of the United Kingdom. The LOB's success or failure can be measured by the number of office activities and jobs it encouraged to relocate from London. Encouraged in this context must be treated cautiously as it is

Table 9.6 The Decentralization of Offices from Central London
1963 - 31 March 1977

	No. of Moves	Jobs
South East (Excluding Greater London Area) (1)		
Bedfordshire	27	1,571
Berkshire	104	8,978
Buckinghamshire	72	3,805
Essex	95	8,071
Hampshire	85	10,536
Hertfordshire	127	6,427
Kent	111	7,169
Oxfordshire	33	808
Surrey	159	7,043
Sussex	91	6,065
Total	904	60,473
East Anglia	48	5,506
East Midlands	49	4,288
West Midlands	38	997
South West	89	11,648
Yorkshire & Humberside	27	5,417
North West	51	5,041
Northern	18	1,727
Wales	13	417
Scotland	18	546
Northern Ireland	2	21
Total	1,257	96,081

(1) Most of the office relocation to places outside the Greater London Area, included here, involve the movement of office jobs from Central London. A small proportion, however, involve movement from other parts of the Greater London Area.

Source : Location of Offices Bureau (1977) *Information* (LOB, London).

unlikely that the LOB was the prime mover in many company's decisions to relocate from London. From Table 9.6, which provides a breakdown of the locations to which LOB clients moved to between 1963 and 1977, it is apparent that decentralization from London was occurring over this period but not in the form or extent originally envisaged by the 1963 white paper. Seventy-two per cent of all office relocations and 63 per cent of all job relocations were within the South East (Table 9.6). Between 1963 to 1969 LOB recorded 790 office relocations, nearly half of these were in the Greater London area while 80 per cent were within a radius of 40 miles from Central London (Rhodes and Kahn, 1971, p.17). Firms were able to significantly reduce operating costs while remaining within the South East. Decentralization over longer distances produced only a further nominal reduction in their operation costs. Many companies preferred to pay slightly higher rents for the advantages of remaining close to London. Consequently, decentralization from London led to relocations over relatively short distances implying that London and the South East would continue to dominate the United Kingdom's office sector.

b) Office Development Permits

The most significant [labour] government statement on office location policy was made in the White Paper of November the 4th 1964 which Marriott suggests was the day which marked "the official close of the office boom ten years almost to the day after it had been unleashed" by the abolition of building licences (Marriott, 1967, p.213). This White Paper argued that :

> The Government's first action . . . is designed to check the continued growth of offices in South-East England, especially London, and thus to relieve congestion, and secure a better distribution of employment and a better use of resources (H.M. Government, 1964, p.2).

This paper noted that approximately one-third of the population of Great Britain lives in the South-East, while it has accounted for over half of the total increase in office employment since 1954. Between 1950 and 1964 office jobs had increased in Central

London by 200,000, while outstanding planning permissions for additional office space could lead to an additional quarter of a million office jobs. London's housing stock and transportation network would be unable to cope with such a growth in office employment, commuting distance would have to increase while the journey-to-work would become progressively difficult. The white paper attempted to curtail the future development of office floorspace in London by:

> . . . introducing a Bill under which, in stated areas, any new offices will require, in addition to the normal planning permission, Office Development Permits from the Board of Trade, for both new building and change of use. The Bill will provide for areas to be designated as the need arises (H. M. Government, 1964, p.2).

This bill was introduced by Mr George Brown, becoming known as the "Brown Ban", on the afternoon of the 4th of November 1964, effective from midnight of the same day. This policy came into effect nine months before it was ratified by Parliament in the *Control of Office and Industrial Development Act of 1965* .

Office Development Permits (ODPs) would be required for all office developments with gross floor areas in excess of 3,000 square feet; buildings could only be developed which had obtained planning permission and more importantly during this period an ODP. ODPs would be granted or withheld on the discretion of the Board of Trade whose function was to promote or restrict the growth of office floorspace in particular areas. Office Development Permits (ODPs) would be required for all new buildings in the area of the Greater London Council, even those already with planning permission, unless the building contract had been signed before midnight of the 5th of December 1964. Between the announcement of this bill and midnight property developers signed as many building contracts as possible to avoid the restrictions imposed by the white paper. Outside of Greater London, in the rest of the London Metropolitan area (the area roughly within 40 miles of Charing Cross), ODPs would be required for new office buildings or change of use to offices in all cases which had not obtained planning permission before the 5th of November.

Between 1964 and 1969 individual applications for ODPs were assessed on three criteria. First, the applicant had to demonstrate that the activity for which the ODP was required could not be undertaken outside of the controlled areas. An argument based on the economics of individual office activities had to be presented to demonstrate the necessity of locating in the South East. Of course, this criteria made it hard for property developers to construct speculative office floorspace since it is difficult, if not impossible, to demonstrate that this activity should be undertaken on economic grounds, other than the generation of development profit. Secondly, before a ODP was granted the Board had to be satisfied that no suitable alternative accommodation was already available in the area. Consideration was given to developments currently under construction, vacant buildings and those which had already obtained planning permission. Thirdly, the proposed building had to be shown to be "in the public interest", either by permitting the rationalization of a specific company's operations or by the creation of planning benefits (Rhodes & Kahn, 1971, p.72). After 1969, with the easing of office development controls, individual applications were assessed increasingly on the basis of the benefits derived by individual companies from the new building.

A number of important alterations were made to the Office and Industrial Development Act, 1965, which must be considered. Initially, the act was designed to encourage short distance relocations from London to surrounding districts, however, it rapidly became an instrument to divert spatially mobile jobs away from the South East to Great Britain's peripheral, 'problem' areas. The policy was dramatically altered, on the 14th of August 1965, when the area designated under the White Paper was enlarged to include the West Midlands conurbation. More importantly, in the context of the case studies, on July the 21st 1966 the South East and West Midland Economic planning Regions, and the East Anglia and East Midland Economic Planning Regions were also included. The exemption limit was raised outside the London Metropolitan area from 3,000 sq.ft. gross to 10,000 sq.ft.gross on the 27th of July 1967. During 1969, the area covered by this act was considerably reduced by an amendment made on the 25th of February which removed controls from the whole of the East Anglia

Table 9.7 Percentage of Total Demand Accounted for by Office Floorspace Relinquished for Demolition and Change of Use

Region	April 1966 to March 1967	April 1967 to March 1968	April 1968 to March 1969
	%	%	%
South-East Planning Region			
Central London	55	56	48
Rest of GLC area	48	35	24
Rest of London Metropolitan Region	14	25	20
Rest of South-East Planning Region	20	20	15
Average %	37	41	35
West Midland Planning Region	16	18	2
East Midland Planning Region	39	8	12
East Anglia Planning Region	23	18	42
Average %	26	15	9
Average %	35	36	31

Source: Annual Reports by the Board of Trade on the Control of Office and Industrial Development Act 1965, 1968 and 1969.

Economic Planning Region, together with a number of areas in the West Midlands (the countries of Shropshire and Herefordshire) and the East Midlands (Rutland and the parts of Lincolnshire which are within the East Midlands Economic Planning Region). At the same time the exemption limit in the Metropolitan Region, excluding Greater London, was increased from 3,000 sq.ft. gross to 10,000 sq.ft. gross. On the 16th of December 1970 controls were removed from the remaining areas of the East and West Midlands, while the exemption limit in Greater London was raised to 10,000 sq.ft. gross. During the 1970s ODPs were only required in the Greater London area, while the requirement for a named tenant was frequently dropped and speculative

office development was permitted. In 1979 with the onset of a new Conservative Government both the LOB and the system of ODPs were abolished. The situation reverted back to that existing in the 1950s and early 1960s with office development being controlled by the planning machinery of the local authorities.

The demand for office space and development sites in the controlled areas is obtainable from the annual reports of *The Board of Trade* into the operation of the *Control of Office and Industrial Development Act, 1965* . These reports contain an account of the number of office development permits granted, the number of refusals and the amount of floorspace involved. A substantial proportion of the gross area awarded ODP's represents the rebuilding and enlargement of existing buildings. The annual reports provide details of the floor areas relinquished for developments awarded ODPs, but do not show the area intended for demolition for those that failed to obtain one. Due to this omission the figures for gross floorspace will be used in this analysis. An analysis of the proportion demolitions accounted for of all schemes awarded ODPs between 1966 and 1969 reveals that over 50 per cent of the floorspace awarded ODPs in Central London is accounted for by the redevelopment of existing floorspace (Table 9.7). Outside of Central London and the area covered by the former Greater London Council (GLC) this proportion drops to around 20 to 25 per cent. In London economically or functionally obsolete floorspace was been demolished to be replaced by larger buildings with higher specification, while in the rest of the controlled areas office space was been developed for the first time to cater for either local demand or the requirements of offices decentralizing from London.

By adding the number and floor areas of developments awarded ODPs (Table 9.8) to those refused them (Table 9.9) it is possible to calculate the number and area of developments awarded ODPs as a percentage of total declared demand (Table 9.10). From this it is apparent that in Central London during the period when controls were rigorously enforced over 70 per cent of the declared demand for individual office developments and over 68 per cent of all floorspace obtained ODPs. In the East Midlands over 60 per cent of all developments and over 50 per cent of all

Table 9.8 Office Development Permits Awarded between 1966 and 1969

Region	April 1966 to March 1967		April 1967 to March 1968		April 1968 to March 1969	
	Number	Gross area (000 sq.ft)	Number	Gross area (000 sq.ft)	Number	Gross area (000 sq.ft)
South-East Planning Region						
Central London	69	1,567	91	3,101	137	6,964
Rest of GLC area	158	1,910	151	1,540	202	2,656
Rest of London Metropolitan Region	180	1,942	185	1,269	262	2,760
Rest of South-East Planning Region	74	398	40	970	32	838
Total	481	5,817	467	6,880	633	13,218
(%)	74	82	79	81	88	84
West Midland Planning Region	92	616	65	834	46	1,680
East Midland Planning Region	53	476	32	410	22	425
East Anglia Planning Region	21	188	26	359	15	344
Total	166	1,280	123	1,603	83	2,449
(%)	26	18	21	19	12	16
Total	647	7,097	590	8,483	716	15,667

Note: Includes office floorspace relinquished for demolition or change of use

Source: Annual Reports by the Board of Trade on the Control of Office and Industrial Development Act, 1968 and 1969.

floorspace obtained ODPs. Consequently, the *Control of Office and Industrial Development Act* restricted the supply of commercial office floorspace, but only to a limited extent. Office development, the replacement and enlargement of former buildings, was still permitted within Central London and the rest of the South East (Table 9.8 and 9.10). During the period 1968 and 1969, 81 per cent of all developments submitted for an ODP in the South East Planning Region were approved by the Board of Trade. The extension of controls to the West and East Midlands and

Table 9.9 Office Development Permit Refusals 1967 - 1969

Region	April 1966 to March 1967		April 1967 to March 1968		April 1968 to March 1969	
	Number	Gross area (000 sq.ft)	Number	Gross area (000 sq.ft)	Number	Gross area (000 sq.ft)
South-East Planning Region						
Central London	26	336	30	1,453	31	981
Rest of GLC area	45	2,148	60	838	67	1,664
Rest of London Metropolitan Region	47	632	66	1,054	40	1,342
Rest of South-East Planning Region	8	91	18	485	14	498
Total	126	3,207	174	3,830	152	4,485
(%)	75	85	87	83	92	89
West Midlands Planning Region	30	396	12	447	7	301
East Midland Planning Region	10	168	14	355	7	280
East Anglia Planning Region	1	5	Nil	Nil	Nil	Nil
Total	41	569	26	802	14	581
(%)	25	15	13	17	8	11
Total	167	3,776	200	4,632	166	5,066

Source: Annual Reports by the Board of Trade on the Control of Office and Industrial Development Act 1965, 1968 and 1969.

East Anglia is difficult to justify given the comparatively low levels of declared demand from property developers, for example in the East Anglia Planning Region between 1967 and 1968 no applications for ODPs were rejected (Table 9.9 and Table 9.10). According to the annual report by the Board of Trade for the year ending 1968 many property developers discussed their development proposals before formally applying for an ODP. Consequently, an undisclosed number of projects were either deferred or rejected before an application was made to the Board of Trade while many were modified to enable them to meet the requirements of the Government's office

Table 9.10 Percentage of Declared Demand for Offices Permitted in the Controlled Areas

	April 1966 to March 1967		April 1967 to March 1968		April 1968 to March 1969	
	Number	Gross area	Number	Gross area	Number	Gross area
Region						
South-East Planning Region						
Central London	73	82	75	68	81	88
Rest of GLC area	78	47	72	65	75	61
Rest of London Metropolitan Region	79	75	74	55	87	67
Rest of South-East Planning Region	90	81	69	67	70	63
Total %	79	65	73	64	81	75
West Midland Planning Region	75	61	84	65	87	85
East Midland Planning Region	84	74	70	54	76	60
East Anglia Planning Region	95	97	100	100	100	100
Total %	80	69	82	67	86	81
Total %	79	65	75	65	81	76

Source: Annual Reports by the Board of Trade on the Control of Office and Industrial Development Act 1965, 1968 and 1969.

location policy. This implies that Tables 9.8, 9.9 and 9.10 probably underestimate the total demand for office floorspace during this period.

An important measure of the effects of controls on the supply of office floorspace is obtained by an examination of the average size of developments granted and refused office development permits during the late 1960s (Table 9.11). The 1968 report of the Board of Trade argues that:

> . . . applicants have become more aware that the control is designed to put severe restraint on the creation of additional office space and therefore fewer of them now seek permits for what they may expect to be regarded as excessive amounts of space. To illustrate this in the London Metropolitan Region the average gross area of applications refused has fallen by one quarter (Board of Trade, 1968, p.4).

Despite this statement the average size of developments increased in all regions apart from the rest of the GLC area and the London Metropolitan Region. In the East Midlands Planning Region the size of developments granted or refused ODPs more than doubled over this period suggesting that property developers were increasingly constructing buildings to meet the requirements of offices decentralizing from London. The average size of developments granted ODPs in Central London more than doubled over this period demonstrating the nature of London's office market which consists of national and international companies which require large prestigious buildings located within The City. Government policy will never be able to alter the locational policies of these types of companies. In the rest of the GLC area and the rest of the London Metropolitan Region the average size of permitted and refused schemes decreased markedly while in the rest of the South-East Planning region developments quadrupled in size. The main effects of Government policy at this time was to redirect demand away from the areas around The City to other parts of the South-East (Table 9.6).

Before considering the office development cycle in Leicester and the direct consequences of the operation of government policy in a controlled area the overall effects of government office location policy must be considered. Office location policies, personified in the LOB and in ODPs, were designed to limit and divert the growth of office activity in London and later on throughout the South East Region. The planning and development of all buildings creates a time lag between the initial conception of the project and its eventual completion. The effectiveness of development controls were considerably reduced since they did not effect projects

Table 9.11 Average Size of Developments Granted and Refused ODPs

Region	April 1966 to March 1967		April 1967 to March 1968		April 1968 to March 1969	
	Permitted Gross area (000 sq.ft)	Refused Gross area (000 sq.ft)	Permitted Gross area (000 sq.ft)	Refused Gross area (000 sq.ft)	Permitted Gross area (000 sq.ft)	Refused Gross area (000 sq.ft)
South-East Planning Region						
Central London	22,710	12,923	34,077	48,433	50,832	31,645
Rest of GLC area	12,088	47,733	10,199	13,966	13,148	24,835
Rest of London Metropolitan Region	10,788	13,447	6,859	15,970	10,534	33,550
Rest of South-East Planning Region	5,378	11,375	24,250	26,944	26,187	35,571
Average Size	12,093	25,452	14,732	22,011	20,881	29,506
West Midland Planning Region	6,696	13,200	12,830	37,250	36,521	43,000
East Midland Planning Region	8,981	16,880	12,812	25,357	19,318	40,000
East Anglia Planning Region	8,952	5,000	13,807	Nil	22,933	Nil
Average Size	7,711	13,878	13,032	30,846	29,506	41,500
Average Size	10,969	22,610	14,378	23,160	21,881	30,518

Source : Annual Reports by the Board of Trade on the Control of Office and Industrial Development Act 1965, 1968 and 1969.

which had obtained planning permission and whose building contracts had been signed before they were introduced. Consequently, the effectiveness of ODPs would only be apparent after a period of two to three years, however, the relaxation of the policy in 1968/69 meant that its overall influence was considerably reduced. Evidently controls were relaxed between 1966 to 1969 as the number of individual applicants for ODPs increased by 11 per cent while the total amount of gross floorspace under consideration increased by over 120 per cent (Table 9.8). In the South East Region in

1966/67 65 per cent of declared demand for floorspace received ODPs, a proportion which had increased to 75 per cent by 1968/69 suggesting a relaxation in the application of government policy.

According to Marriott the "Brown Ban" was a paradoxical piece of Labour legislation which "did most developers a power of good" (Marriott, 1967, p.213). The expansion of office activity in the 1950s and early 1960s provided a steady stream of tenants for buildings constructed during London's first post-war property development boom. The volume of floorspace developed after the relaxation of building licences and the reduction in the growth of office activities in the early 1960s was leading to an oversupply of office space in London. It is at this time that ODPs were introduced, stabilising the property market, leading to a continued growth in rental levels and capital values. When the Brown Ban was introduced the average rental for a new office building was 50 shillings a square foot, by 1967 this had risen to 70 shillings (Marriott, 1967, p.214). ODPs were introduced during a down turn in London's office development cycle and relaxed at the beginning of the next upturn in the early 1970s. ODPs tended to reinforce the cyclical trend of London's property development cycle to the advantage of property developers and investors, but to the disadvantage of tenants (Barras, 1979a, p. 31). During periods of oversupply, for example in the early 1960s and middle 1970s, ODPs were rigorously enforced while during upturns in the property development cycle controls were relaxed and eventually abolished by the Conservative Government in 1979.

The development decision is made in an external environment of constraints and opportunities which are frequently spatially and temporally specific. Office development permits and LOB influenced the actions of property development companies for a limited period. Both of these government policies were not very effective, for example the Leicester case study demonstrates that many property developers were able to overcome some of the constraints imposed by ODPs by sub-dividing sites and constructing buildings below the 10,000 sq. ft. limit. Nevertheless despite these constraints property development companies continued to identify sites and develop buildings during the late 1960s.

9.6 Office Development in Leicester - 1960 to 1987

An examination of Leicester's property market provides an excellent insight into the operation of the property development process as it effects the built environment of a particular city. Prior to 1960, Leicester experienced very little post-war office development, buildings that were constructed were generally very small and constructed for owner occupation. The year 1960 provides the most suitable starting point for this analysis since it is only then that the effects of the post-war office boom began to be seen in many provincial cities. The time lag between the development decision and the completed building implies that developments completed in 1960 were planned either in 1957 or 1958 depending on the size of the scheme and the particular time lag involved.

This section will consider four related topics which illustrate many of the features of the property development industry discussed in previous chapters. First the structure of Leicester's property development cycles are examined to provide the context for the analysis of individual office developments. Secondly an analysis of the variables property developers considered to be important in assessing Leicester as a development location is undertaken. Thirdly, individual office developments are examined in relation to Leicester's development cycles as well as to the role of development intermediaries and local as against non-local capital in the property development process. Fourthly, the economics of an office development, constructed in Leicester, is examined to determine its profitability.

a) An overview of Leicester's office development cycle

A general description of the structure of Leicester's office development cycle will provide a useful overview of the city's property market. There are two way of identifying a property development cycle : by the amount of space developed or by the number of developments completed in each year. Since 1960 Leicester experienced two post-war office development booms (Figure 9.1 and 9.2). The first upturn in the city's property development cycle represents its first post-war boom

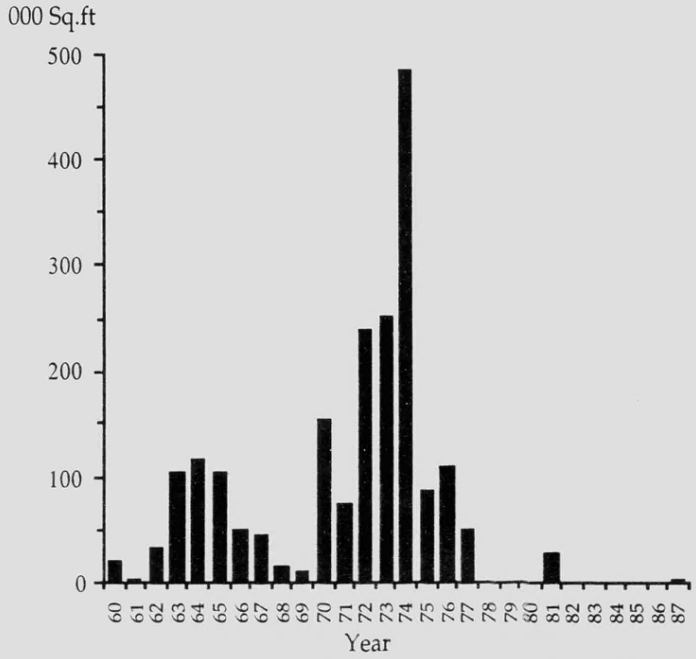

Figure 9.1 Leicester's Office Development Cycle, 1960-1987 (Completion rates).
Source : Personal survey

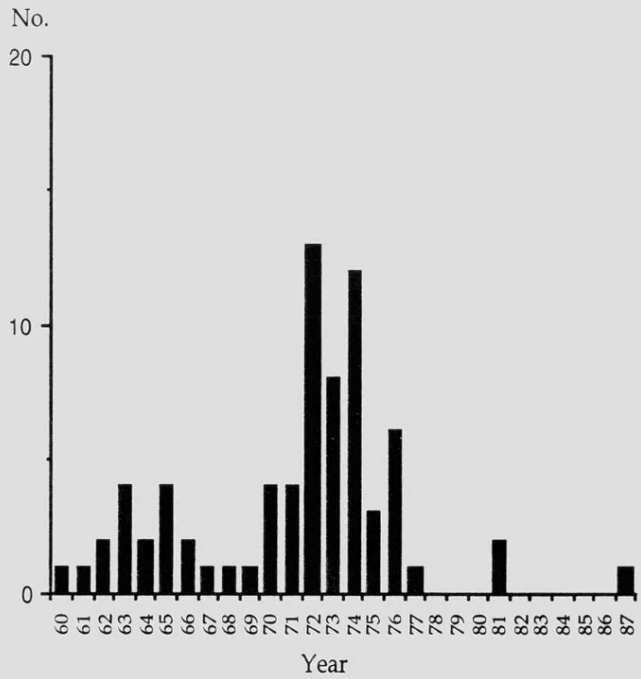

Figure 9.2 Leicester's Office Development Cycle, 1960-1987 (Number of completed developments).

beginning in 1962 and ending in 1967. During the peak years of this property boom, 1963 to 1965, 16 per cent of all office space constructed in Leicester since 1960 was completed (Table 9.12). The second property boom commenced in 1970 and petered out after 1974 with the onset of the business recession, coupled with the unprecedented rise in oil prices and the introduction of stringent credit controls.

Leicester's first post-war property boom is linked to the attempts by central government to encourage the decentralization of offices from London and the war time building controls examined in the previous section. The second boom is related to the "Barber Boom" of Edward Heath's Conservative Government of 1970 - 1974. Both Heath and Barber wanted to actively encourage and increase industrial investment by reducing bank lending controls. Many industrial companies were reluctant to enter into large scale borrowing encouraging many secondary or fringe banks to lend large amounts to property companies engaged in speculative property development. Too much money was chasing too few investment opportunities leading to a potential crisis since capital was been lent to finance increasingly risky projects. In 1972 the Bank of England suggested that banks curtailed their lending to property companies, but as most of the capital being lent to finance speculative property developments was been channelled through the secondary banking sector, which was not policed by either the Bank of England or the Department of Trade, bank loans to property companies continued.

During the early 1970s banks and many financial institutions invested either directly or indirectly in land or buildings as the high inflation rates of this period produced a general distrust of paper money. Property investment appeared to offer an alternative, safe, inflation proof investment area. Plender goes as far as suggesting that the second post-war property boom, which pecked in 1972 - 73, was :

> mainly the creation of bankers, for whom the existence of a hyper-active property market constituted an irresistible inducement to lazy lending practices (Plender, 1982, p.93).

Banks were willing to lend substantial amounts to property companies to finance speculative property developments on the basis that the future buildings would act as collateral. Future buildings can only be valued speculatively on the basis of the market's current performance and future predictions based on a series of highly subjective assumptions. Many of these loans were secured by highly optimistic valuations of proposed buildings which reflected the British practice of valuing buildings by reference to comparable transactions taking into consideration the building's location, potential scope for rental growth, and the structure of its lease. Many bankers placed too much confidence in over-optimistic valuations of many proposed speculative property developments. This disparity between the perceived and often "over-optimistic" value of many properties and their actual potential yield, in relation to their present and future rental income, was likely to lead to a crisis in the British financial system if there was a sudden loss of confidence in the market. Too much money had been invested in projects which entailed a very high element of risk due to their speculative nature. In December 1973 the Conservative Government finally reacting to pressures from Members of Parliament, concerned sections of the financial community, the public and the press decided to attempt to restrict the profits being made from property speculation. It was announced on the 17th of December that a tax on development profits and one on the first letting of newly completed buildings were to be introduced. Confidence rapidly evaporated in the property market causing a number of highly geared property companies to go into liquidation. These moves coincided with the onset of the recession caused by OPECs quadrupling of oil prices which further reduced the confidence many investors had in many sectors of the British economy.

Leicester's second post-war property boom must be understood in relation to the effects of the "Barber Boom" and the subsequent economic crisis of late 1973 and 1974. During the peak years of the "Barber Boom", 1972 and 1973, substantial sums of capital were seeking outlets in the property market. Property developers and financial institutions began to move away from the London property market seeking alternative cheaper development locations. The search for new development

locations adjacent to London depended on the identification of suitable development sites. The majority of property development companies were introduced to these alternative development locations by locally based development intermediaries. The initial contact a property development company has with a new property market is extremely important, because it will influence, and maybe determine, the company's future perceptions of the city as a suitable development location. Leicester was one of the most important new development locations identified by many London based property development companies in the 1960s. A Leicester estate agent, interviewed as part of this study, provided a fanciful account of the optimism that property developers had in Leicester's property market during this period. During 1972 and 1973 many property developers were arriving in Leicester from London by train and rushing around all the local estate agents urgently seeking potential development sites. The picture of herds of anxious property developers dashing all over Leicester attempting to identify sites may be somewhat fanciful, but it does demonstrate the over-heated nature of the United Kingdom's property market during this period. Leicester's location has not altered since 1973, in fact in terms of travel time it is nearer to London, but the picture of perspiring property developers anxiously searching for development sites is an image from the past which cannot be visualised today.

b) Leicester as a development location

Before examining these two property booms in greater detail an analysis of the variables that property developers considered to be important in assessing Leicester as a development location must be undertaken. Some of these variables will have been examined in Chapter Eight during the analysis of the development decision making process, while others will be unique to Leicester. There are two sources available for identifying property developer's reasons for choosing to develop in a particular location: first the publicity brochures released to let and sell completed buildings and, secondly, by interviewing the individuals involved in the actual assessment of the viability of a potential development. The second of these is dangerous, as individuals will always rationalize decisions which were made on the

basis of a series of events or variables many of which they will have forgotten or reinterpreted. Publicity brochures provide a adequate research tool as they list the factors which property companies considered to be important in selling the scheme to both tenants and investors during a specific period. In this context one of the most interesting publicity brochures is that for Thames Tower, a 14 storey office building of 105,000 sq.ft.completed in 1970, which was the largest office building to be built in Leicester between 1960 and 1974 (Plate 1, Map 2, Appendix 1). The developers of this building, Imry properties, a national developer-investor, even claimed in an advertisement in the Estates Gazette that it was :

> . . . the only office building of its size [105,000 sq.ft] currently available between London and Leeds (Oct. 11, 1969, p.171).

This development was planned towards the end of Leicester's first post-war property boom in 1965. Planning permission was applied for on the 17th of February 1966, and granted on the 10th of June with the building contract being signed in March 1966 with a Loughborough construction company, William Moss and Sons, before the extension of Office Development Controls into the East Midlands in July 1966.

Thames Tower was designed for office users which were being forced by Government policies to relocate away from London. The construction of the M1 and the proposed electrification of the Railway line to London encouraged a number of Leicester estate agents, and other types of development intermediary, to promote the city as the first suitable location for decentralizing companies along the M1. The year 1965 is one of the most important years in the history of Leicester's property market as the M1, the London-Yorkshire motorway, was opened as far as Lutterworth in 1964, but further construction was delayed due to an argument over its exact route through Charnwood Forest. This delay encouraged Leicester's estate agents, other types of development intermediary and national property developers to

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Plate 1 *Overleaf* : The front of Thames Tower's first publicity brochure, (Sales brochure, 1969).

CITY OF LEICESTER in the heart of the United Kingdom

Thames Tower
Burleys Way

a truly magnificent
new block of offices

consider Leicester as a prime location for the development of office buildings suitable for company's moving away from London's congestion and escalating office rents. The publicity brochure for Thames Tower highlighted six facts for prospective occupiers and investors to consider about Leicester as a possible location :

Consider These Facts About Leicester

1. Leicester has for a long time enjoyed the reputation of being the most prosperous city in Europe. This is mainly due to the presence of a variety of well established and stable industries.

2. The continual availability of work over many years has created a tradition of hard work and the city has a very industrious population.

3. Geographically Leicester is very well situated, being in the heart of the United Kingdom and served by every means of transport including -

   A. Excellent road services. The London-South Yorkshire Motorway passes the city.

   B. A very good rail service - London is only 90 minutes away by train.

   C. The East Midlands Airport is very close and the services of this airport are expanding each year.

4. The city is a pleasant clean city and is very go-ahead having many "first" including the first local radio station known as "Radio Leicester".

5. Good housing is available and is comparatively cheap compared to the southern countries. Many new housing estates, both public and private, are planned, Leicestershire is a pleasant place to live.

6. Because of the facts given above many well known national companies have chosen to make Leicester their headquarters and the purpose of the New Burley's Way scheme is to encourage this trend.

Source : Abstracted from the brochure advertising Thames Tower, Burley's Way in 1969.

This list portrays Leicester as a "prosperous" city quoting implicitly the study undertaken by the League of Nations in 1920, previously mentioned in this chapter. Notice that the building's advantages are related to its location relative to London as well as to the global market. The city's residential environment, its cheap housing and new 'modern', 'go-ahead' schemes are explicitly compared favourably to locations in the South East.

The sixth point provides the reason behind the development of a speculative office building twice the size of all preceding speculative developments undertaken in Leicester since 1960 (Appendix A). This building was designed, by a London based property development company, to provide suitable accommodation for the headquarters of a national company relocating its activities to Leicester. Thames Tower was not designed for locally based office users as its location away from the traditional office areas of the city, on Leicester's 'modern' underpass and ring road, demonstrates (Map 2). This location according to the property company provides the building with easy access to the approach roads of the newly constructed M1.

c) Leicester's Office Development Cycle

All property development cycles are a product of a combination of buildings constructed for owner occupation and speculative developments constructed by local and non-local property development companies. In comparison to a non-local property company a local property company may have different reasons for undertaking a speculative office development. The same is also true for buildings constructed for local and non-local owner occupiers. This division between local and non-local property companies follows the analysis of classifications of property development companies undertaken in Chapter 6 (Table 6.8, p.172 and Table 6.9, p.173). Because of the scale of this analysis property companies are only identified as local or non-local. To examine property companies in a specific market operating locally, regionally, nationally and internationally would produce a very complex and localised study.

The size of the analysis is only one of the reasons for limiting this analysis to two spatial scales. A more important constraint is the period of time that has elapsed between the actual development decisions and this study. Many of the individuals, development intermediaries, property development and investment companies responsible for the transformation of the built environment's of Leicester, Northampton and Nottingham are either dead or could not be identified as the companies they owned or worked for no longer exist in the same form. Many of the firms which operated in the three study areas from 1960 have been acquired by other companies or have gone into voluntary liquidation. In the case of a speculative property developer-seller records of former transactions are unlikely to be of interest to the new owners of the company. In many cases companies do not retain records of transactions that occurred during the 1960s and early 1970s as these are no longer considered to be pertinent to their current development and investment activities.

d) The first post-war property boom : 1962 - 1967

All property development cycles consist of many individual buildings developed by a variety of different organizations and individual property developers for a variety of different reasons, for example short term development profit or long term investment gain **(1)**. Every development decision effects all subsequent developments since what is built has a direct influence on what may be constructed in the future.To understand Leicester's office development cycle a detailed analysis of the office buildings developed during each of the city's two post-war property booms must be undertaken. This account will substantiate many aspects of the property development process considered in earlier chapters **(2)** .

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(1) This topic was covered in Chapter 8, section 8.1 c, p. 245-6.

(2) A comprehensive list of all office developments constructed in Leicester between 1960 and 1987 is provided in Appendix A. This list provides details of the size, location, property developers and investors of all office buildings mentioned in this chapter.

Leicester's first property boom, 1962 to 1967, was initiated by the completion of Midland House, a 6 storey speculative development of 25,212 sq. ft on Charles Street, and by the completion of the first stage of the new headquarters of East Midlands Gas on de Montfort Square (Appendix A, Map 1). This boom, which peaked in 1964, accounts for 16 per cent of all office floorspace constructed in Leicester since 1960. 33 per cent of all buildings constructed during this boom were for owner occupation, predominantly developed by and for Leicester based companies (Table 9.12, Table 9.13, Figures 9.1 and 9.3). National speculative property development companies were reluctant to develop or invest in office space outside of London. Two of these buildings, accounting for 7 per cent of all floorspace completed during this boom, were developed by East Midlands Gas as part of its new headquarters. The construction of the two phases of this development in 1962 and 1965 in an area of the city which was previously not a popular office location prompted a local estate agent to encourage Halsack Estates, a subsidiary of Town and City Properties, a national development-investment company, to develop Enkalon House, a speculative 5 storey office development of 39,145 sq. ft. on Regents road, on the site of two former houses close to the new headquarters of East Midlands Gas. This building accounts for 9 per cent of all space constructed during this boom. The local estate agent, acting as a development intermediary, identified the site as suitable for a speculative office development, because he considered that the development of a substantial office complex by East Midlands Gas would encourage other office activities to locate in this area. No local property development company was interested in developing the site, but the local estate agent contacted an old army acquaintance, Colonel Sack of Halsack estates, who decided to develope the site. This example illustrates the importance of a local development intermediary in linking a centralized, national, London based property development company with a site in a regional city.

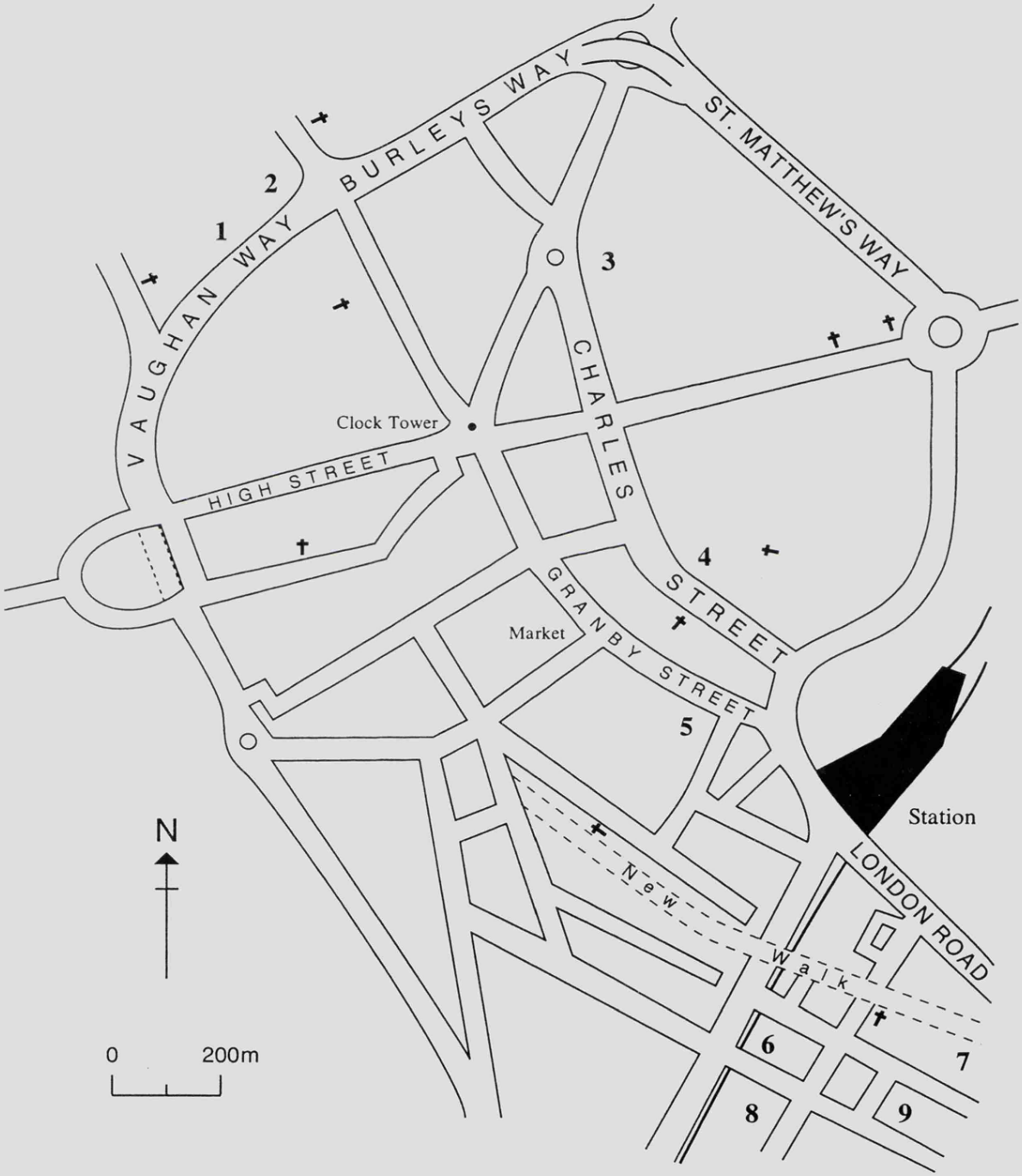
The three remaining office buildings constructed for owner occupation during this period were the first stage of the Leicester Building Society's headquarters in Oadby in 1964 which was the largest office development constructed in Leicester during the 1960s; a development by Commercial Union Assurance by its subsidiary

Table 9.12 Property Developers Operating in Leicester 1960-1987

Year	Leicester Developers			Other Developers		
	No. of dev.	User Market (sq. ft)	Speculative Market (sq.ft)	No. of dev.	User Market (sq.ft)	Speculative Market (sq.ft)
1960	1	19,000				
1961	1		3,000			
1962	1	7,396		1		25,212
1963	1	15,550		3		89,500
1964	1	73,000		1		43,600
1965	2	25,062	12,000	2	28,453	39,145
1966				2		48,950
1967				1		43,600
1968				1		15,104
1969	1		10,400			
1970	1		30,000 (1)	3		123,500
1971	1	9,000		3		65,543
1972	3	32,554	52,550	10		146,040
1973	1	19,186		7		230,883
1974	2	60,000	10,500	10	27,300	388,737
1975	1		14,940	2		72,684
1976	1		25,774	5		84,677
1977				1		51,000
1978						
1979						
1980						
1981	1		9,000	1	16,950	
1982						
1983						
1984						
1985						
1986						
1987	1	3,571				
Total	20	264,269	168,164	53	72,703	1476,175

1) This is a refurbishment rather than a new building.

Map 1: Offices constructed during Leicester's first development cycle



1 101 Vaughan Way
2 Insurance House
3 Epic House
4 Midland House
5 Beaumont House
6 Enkalon House
7 Arlen House
8 East Midland Gas
9 West Walk House

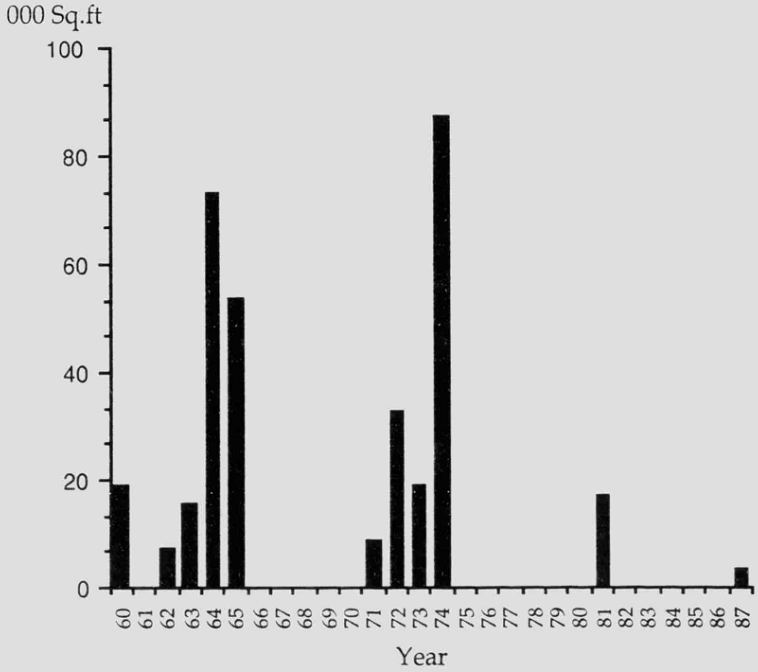


Figure 9.3 Office Developments in Leicester Constructed for Owner Occupation

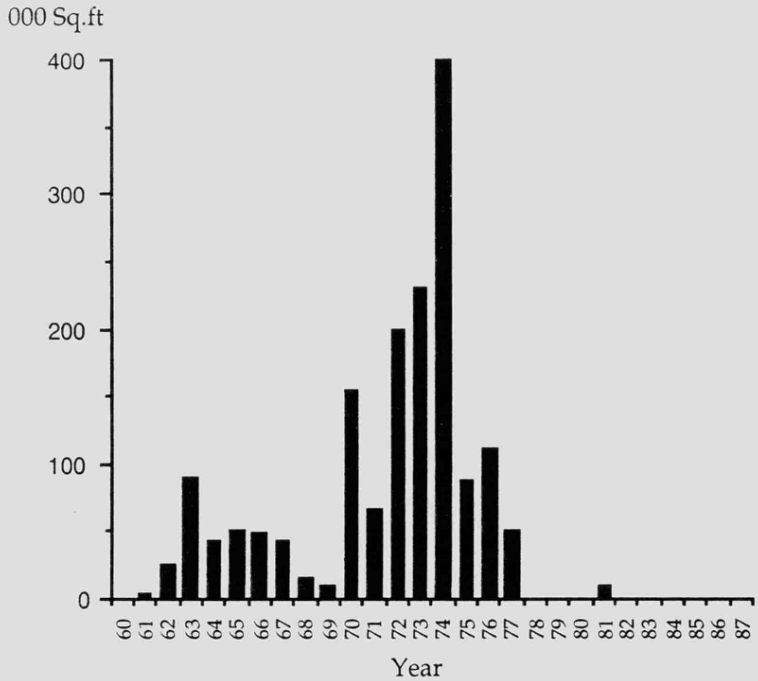


Figure 9.4 Speculative Office Developments Constructed in Leicester, 1960-1987

Table 9.13 The Nature of Development Activity During Leicester's Two Property Booms (sq.ft.)

	Leicester Developers		Other Developers	
	Owner Occupation	Speculative	Owner Occupation	Speculative
First Boom	121,000 27%	12,000 3%	28,453 6%	290,000 64%
Second Boom	120,740 8%	133,764 9%	27,300 2%	1163,064 81%
1960-87	264,269 13%	168,164 8%	72,703 4%	1476,175 75%

property development company, Commercial Union Properties, in 1965 and finally a specially designed building for an advertising agency, West Walk House,constructed in 1963, which included a private theatre, photographic studio and merchandising test shops where products could be examined in realistic surroundings.

Of the ten speculative office buildings constructed during this period, only one was developed by a Leicester property company, Arlen Properties, a local developer-seller. This building was planned after the local property company and its advisors, a Leicester firm of estate agents, acting as a development intermediary, had observed the successful completion between 1962 and 1963 of a series of buildings constructed by a number of London based property development companies. In this case the activities of non-local capital encouraged local capital to become involved in the development of an office building. The Leicester estate agent noticed that a large house was on the market on New Walk, in an area which was rapidly becoming an established office location within the city. The owners of this building had not applied for planning permission to change its use from residential to commercial; an alteration which would considerably increase its value. The site was too small for the

size of developments favoured by national property development companies, but large enough for a small local property company. The estate agent, acting as a development intermediary, contacted a local property company suggesting that it purchase the site and apply for planning permission to demolish the house and construct a new, modern office building. Arlen Properties developed Arlen House, a 12,000 sq. ft. three storey office building, the estate agent let it and eventually sold it to the Norwich Union (Map 1). This example illustrates the role that the local estate agent or development intermediary can play as a site identifier and mediator between landed capital, commercial capital and financial capital **(1)**.

Speculative office buildings in Leicester developed by non-local property companies can be divided into two types : those located on the 1960s inner ring road and those located in and around the city centre (Maps 1 & 2). The largest speculative office building constructed in Leicester between 1960 and 1969 was Epic House, completed early in 1963 on the edge of the city's Central Business District. This 35,000 sq.ft. ten storey building, constructed on the former site of the Leicestershire Horse Repository, was developed by the London based property company *Estates Property Investment Company Plc*, generally known as EPIC (a national development-investment-seller) **(2)**. The development was planned in February 1959 when the site was sold by a Leicester firm of estate agents. According to EPIC's records Epic House was :

> . . . undertaken on the basis that the cost of the site was justified largely by retail development at ground level (Personal Communication, 2/9/1987).

A development planned as early as 1959, primarily as a retail scheme, but with office

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(1) This is examined in detail in Chapter 7, section 7.5 (p.189-209).

(2) Many property companies which operated nationally in the 1960s and 1970s now operate internationally.

space as an additional bonus, appeared to be a favourable proposition given the limited amount of new, modern office space available in Leicester during this period. This example illustrates the complexity of the development decision making process, because the initial development economics of Epic house were balanced between the retail and office parts of the scheme. The office part of the development would not have been considered without the retail component which initially attracted EPIC to the site.

The development of office space along Leicester's inner ring road provides an interesting example of a non- or semi-rational decision making process (see Chapter 5, section 5.3, p. 128-130). The history of these developments is very complex and begins with one of the most significant buildings constructed in Leicester during the first post-war property boom which was originally planned and developed as a mixture of industrial/warehouse and office space for Chemstrand Ltd, a subsidiary of two American multinationals, Monsanto Company of St. Louis and American Celanese. At this time this company was the world's second largest producer of synthetic fibres and had decided in 1964 to sell nylon and spandex yarns for the first time in the United Kingdom and Continental markets. This decision led to the recruitment of additional staff which required office space, laboratories, development facilities and warehouse accommodation. The company decided to centralize its European operations in Leicester since its was the centre of the United Kingdom's knitting industry which was then the largest market for these types of synthetic fibres. In 1964 the company took a 21 year lease on Du Pont House, 101 Vaughan Way, now called Camtec House (Map 1; Plate 2). Du Pont House is a 43,000 sq.ft. three storey rectangular block with a tower block on the third, fourth and fifth levels, the upper floors providing offices while the first and second were designed as a laboratory and air-conditioned computer room. The rental for this building in 1964 was £36,900 per annum for 43,600 sq.ft of net lettable space, or just over £0.84 a square foot. Chemstrand never centralized its activities in Leicester deciding late in 1966 to relocate its staff, development departments and computers to Brussels selling its leasehold interest in Du Pont House.

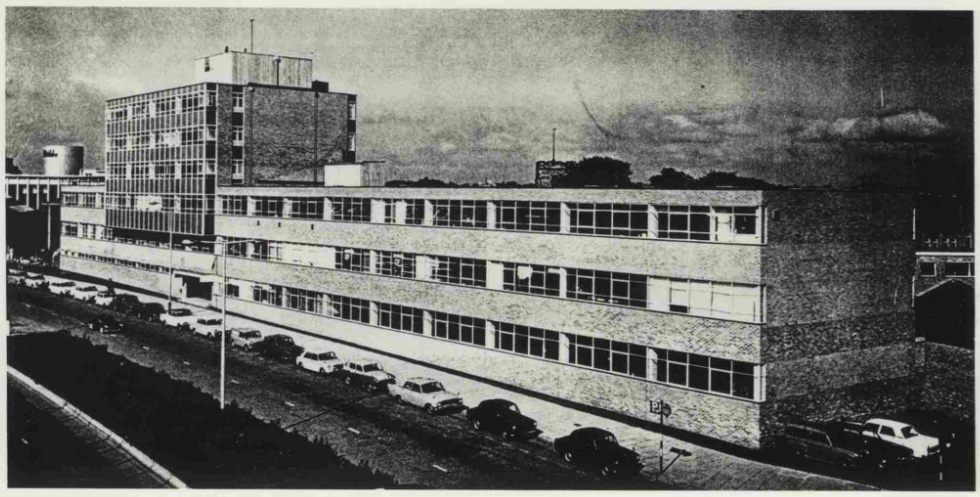


Plate 2 : 101 Vaughan Way, Leicester
(Undated sales brochure).

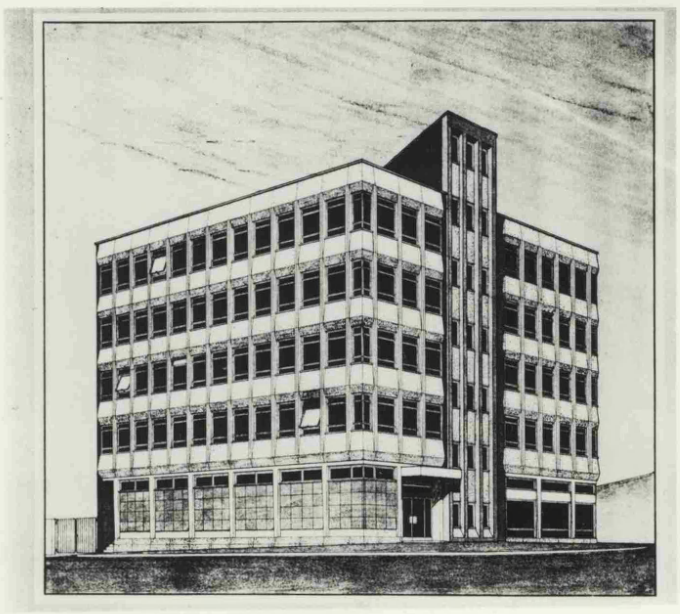


Plate 3 : A.E.U.W. Building and Belvoir House,
Vaughan Way, Leicester
(Undated sales brochure).

This building's importance lies in the fact that it was the first commercial property constructed on Leicester's new inner city ring road of Vaughan Way and Burleys Way. This road was planned in Leicester's 1952 Development Plan and partially constructed in the early 1960s. Construction of a major road on the outskirts of Leicester's central area entailed the compulsory purchase of land and buildings which Leicester City Council undertook during the late 1950s. The construction of the northern section of this road, the Southgates Underpass, St Nicholas Circle, Burleys Way and St Matthews Way, left the City Council with a number of large cleared sites suitable for either local authority housing schemes or commercial developments (Map 1). Plans by the City Planning Department to release surplus land for local authority housing fell through as land acquisition costs did not economically justify residential development.

Number 101 Vaughan Way was developed speculatively on land acquired by the city council for the construction of the central ring road and leased for 99 years to a national property development company. Originally sites adjacent to the ring road were considered suitable only for industrial activities since it was thought that office users would be reluctant to locate away from the traditional office areas of the city around The Cathedral and along New Walk. Traditionally, Leicester's service sector required small floor areas and buildings, a demand which could be accommodated by the conversion of Georgian and Victorian buildings in the central area of the city. A move by small locally based service activities away from the central area of the city to buildings located along the new ring road was considered by many property developers, and estate agents to be very unlikely. The development of Du Pont House, the subsequent disposal by Chemstead of its leasehold interest and its conversion to office use set a precedent for national property development companies to construct office buildings along the new ring road designed not for local service activities, but for office users relocating away from London. All the speculative office buildings constructed along the ring road were developed by national and international property development companies. Local development companies could not afford to develop large office buildings, or were reluctant to invest capital in a location which was not an established office area of the city.

The second commercial office building to be constructed along the inner ring road was originally called Belvoir House, then Staplegreen House and is currently known as Insurance House (Map 1). This 43,000 sq.ft four storey building, developed by the London based property developer Star (GB) Holdings, a national developer-investor, was planned during 1964 and completed in 1967 when it was let to Hogg Robinson who transferred part of their operations from London to Leicester. Leicester was chosen because of its relative location to London. Hogg Robinson transferred its filing department to Leicester, but retained its London headquarters. Given the high cost of office space in London it was very expensive for Hogg Robinson to store files many of which were consulted infrequently. The relocation of some of the company's support services to cheaper rental locations seemed to be an easy way to reduce overall operation costs. The headquarters in London still required immediate access to the company's files. Leicester was chosen as a location as files stored at Insurance House could be transferred to London via the railway link on the same day that they were requested by the head office.

Insurance House was developed on a council owned site with a lease of 125 years at a ground rent of £2,810 per annum. In contrast to London the property company was able to acquire a large, homogeneous site quickly and relatively cheaply. According to a representative of Star (GB) employed by this company from 1965 until its takeover by MEPC in 1985 :

> Leicester at this time was seen to be an expanding town and would need additional office space. A lot of publicity was going around, Leicester had the highest income per capita of any town in the UK. Local agents were friendly, a good relationship was established with them as well as with the city council. Leicester's office developments at this time were seen to be attractive in terms of cost. Contacts and trust in the local agents grew from our first contact with them. Our first development [Insurance House] was successful so we decided to try another one. In the first instance

> when we were planning Insurance House we had to rely on comparable rentals obtained from the local agents which we used in our assessment of the scheme (Interview, 16/9/1986).

This statement underlines many of the points raised in Chapter 7 in relation to the role of the development intermediary in the process of site identification. Local estate agents provided information about potential development sites and encouraged Star to consider Leicester as a profitable development location. Nevertheless, it was impossible to identify Star's initial contact with the Leicester property market. According to this company's former property manager, Star (GB) began to develop property in London after the second world war, however, it discovered that competition from other property developers and the effects of ODPs were increasing the cost of sites and the difficulties of obtaining them. At this time :

> . . . there was a move from all the developers into the provinces. Star went to the Midlands and the South as they thought that the Midlands had a future as an office location. Star only had a London office and a number of people managing their property in the Midlands as the company has to keep in touch with its developments in order to know what is going on (Interview, 16/9/1986).

During the 1960s Star was actively searching for development sites outside the South East, but near enough to be attractive to companies decentralizing from London and requiring continued proximity to The City. The initial introduction may have been through the building's eventual architect who was supposed to have established a good rapport with the City Council over a number of schemes he had designed in the past. This architect would have been aware of the sites owned by the City Council and may have introduced Star (GB) to the site on the grounds that he would be retained as architect. Star's second speculative undertaking in Leicester, Beaumont House, Granby Street, is also located on a site owned by the City Council (Map 1). Planning Permission for this five storey, 15,104 sq. ft., building was obtained just before the

extension of ODP controls into the East Midlands in 1966. By this time, Star had let Insurance House to Hogg Robinson and the success of this scheme led the company to assume that Leicester was a profitable development location and suitable for additional developments.

Star's subsequent decision making process was influenced by its previous development experience in Leicester. This variable was not emphasized by the respondents to the postal questionnaire who discounted it as an important influence on their development decision making process (Table 8.1, p.237). In most cases development success tends to encourage a property company to undertake further developments in the same location and of the same type. 'Previous development experience' is an important influence on the development decision making process because the property company will be operating within that city and will have frequent contacts with development intermediaries and sites in the locality.

e) The second post-war property boom 1970 - 1976

In contrast to Leicester's first post-war property boom the city's second boom predominantly consisted of speculative property developments constructed by London based property development companies (Table 9.13, Figures 9.3 & 9.4, p.315). Development intermediaries played as very important role during this boom in linking national property companies with potential development sites in Leicester. The second post-war property boom commenced in 1970 with the completion of Thames Tower, Burleys Way and Redmire House, Southgate Underpass on sites adjacent to the central ring road (Plate 1; Maps 2 & 3). Thames Tower, was planned towards the end of the first post-war property boom before the introduction of ODPs into the East Midlands, but problems with its construction delayed its completion. An analysis of this building's development economics will be undertaken below. Redmire House, a 10,000 sq.ft. five storey building, located on a council owned site was planned during the period ODPs were required in the East Midlands Planning Region.

Map 2: Offices constructed during Leicester's second development cycle

1 Thames Tower
2 A.E.U.W. Building
3 Belvoir House
4 Abbey House
5 Martin House and Peacock House
6 The New Walk Centre
7 Provincial House
8 Wellington House
9 Albion House
10 Heart of Oak House

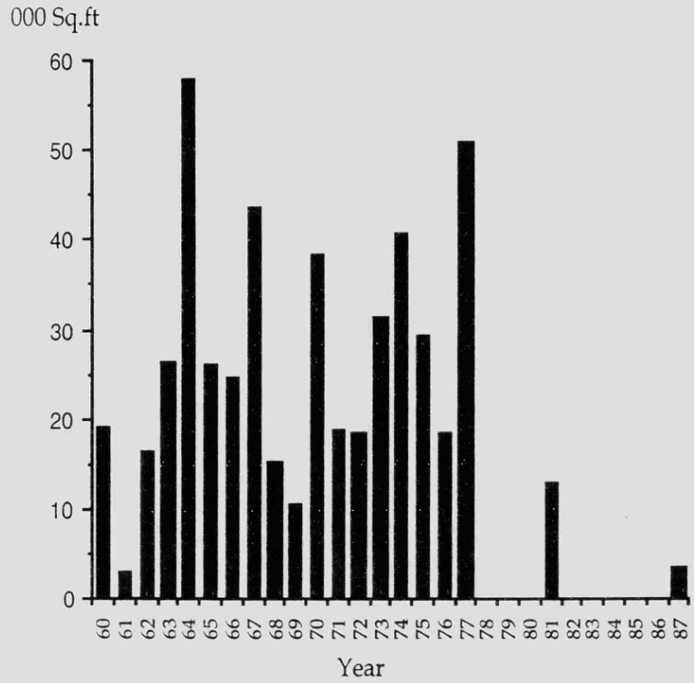


Figure 9.5 The Average Size of Office Developments in Leicester, 1960-1987

ODPs restricted the size of office developments planned between July 1967 and December 1970 to 10,000 sq. ft. or under (Figure 9.5). This accounts for the ten buildings completed in Leicester between 1970 and 1972 below this size restriction. During the period ODPs operated in Leicester virtually one selling price existed for development sites, regardless of size, as no office building over 10,000 sq.ft could be erected on a site. A dedicated property developer could avoid having to apply for an ODP by sub-dividing a large site into two parts and constructing two separate buildings usually to the same design. 20,000 sq. ft. of office space could be constructed without an office development permit. This illustrates the reformulation of the managerialist thesis that was undertaken in chapter 2 (section 2.3, p.37). The development decision making process is partially determined by the relationship between the structure of the property and land markets, the financial system, local and national government policies, and the actions of individual developers and property companies. Individuals and companies can only act within the constraints imposed by the existing structure of society. Consequently, managers manage and developers develop, but only with implicit and often explicit reference to the overall structure of the economy and society.

Two developments, both on council owned freeholds, were planned during 1968 and 1969 to deliberately avoid the necessity of obtaining an ODP. The Associated Union of Engineering Workers (AUEW) decided to develop an office building in Leicester in the late 1960s. To obtain a site they contacted a local estate agent (a development intermediary) who identified a council owned site, on the new ring road, suitable for a 20,000 sq. ft., four storey office building (Plate 3; Map 2). It was decided to split this site into two parts, one part being retained by the AUEW, while the other was acquired by the *Surplus Land Development Company*, a subsidiary of Star (GB) Ltd. Once again this was a relatively inexpensive project as the site of Belvoir House, Star's part of the development, was obtained for a period of 134 years at a ground rent of £950 per annum with no rent reviews. Both buildings were designed by the same architect appearing to the casual observer to be a single office development. Star's involvement in this transaction is not surprising as it had successfully completed Insurance House, which is situated near Belvoir house, in 1967 and Beaumont House, Granby Street, in 1968. Star had acquired expertise, experience and contacts in the Leicester property market and was actively searching for additional development sites in the city.

The second development to avoid an ODP was Martin House and Peacock House, two symmetrical three storey office buildings, adjacent to each other on Vaughan Way, constructed by Arrowthorn Properties, a national developer-investor, and financed by the Co-Operative Insurance Society of Manchester (Plate 4; Map 3). These buildings, both just under the 10,000 sq. ft ODP exemption limit, were completed in 1972 on council owned sites with 99 year leases. Neither of these buildings has ever been completely let indicating the locational disadvantages of office buildings located on the central ring road as well as the poor specifications of many of these buildings which are now considered to be obsolete, and suitable only for demolition.

Leicester City Council has influenced Leicester's office development cycle by its activities in assembling substantial tracts of land for prestigious public

Plate 4 : Martin House and Peacock House,
Vaughan Way, Leicester
(Undated sales brochure).

Plate 5 : Albion House (left) and St Johns House (right),
Albion House, Leicester.

construction projects. Besides the land acquired for the inner ring road the City Council spent a considerable time in the 1960s planning a new Civic Centre which was never constructed. Large scale site assembly for this project was undertaken in the 1960s causing intensive, but localized planning blight. The proposal in the late 1950s to centralize the City Council's activities in one building led to the acquisition of a number of sites along New Walk. It was intended that the existing buildings should be demolished and replaced by a series of linked buildings large enough to accommodate all the City Council's departments and staff. The City Council's activities resulted in severe planning blight, especially along New Walk, as the construction of the new civic centre was constantly postponed due to problems involved in financing the proposed quarter of a million square feet of office space required to accommodate all of the City Council's activities (Map 2). The Georgian buildings along New Walk acquired by the City Council were neglected and allowed to fall into a condition of considerable dilapidation. New Walk, a pedestrian walkway laid out in 1785, degenerated into Leicester's red light district and became an embarrassment to the City Council and a source of anger to the local population.

In 1967 the City Planning Department, led by its chief planner Konrad Smigielski, designed a scheme for the conservation and redevelopment of New Walk. This plan prompted the City Council to spend £20,000 on environmental improvements in the area. Its road surface was improved, trees planted, seats installed and the area landscaped. Private owners of buildings located along the New Walk were encouraged to rehabilitate their buildings. In 1969 the Leicester Mercury, Leicester's local paper, published an article on the than condition of the New Walk. This noted that many of the private property owners in the area had followed the advice of the City Planning Department by improving their buildings, but

> . . . the chicken wire is still there, the ugly slabs of unwanted concrete are still lying around and where the paint is peeling, the windows cracked and buildings almost falling apart, there you will find the owners are Leicester Corporation (Leicester Mercury, 3/1/1969, p.31).

In February 1969 the grandiose plans for a massive Civic Centre were modified resulting in the release of two large sites along New Walk for private property development. One of these was acquired in two stages by Regian Properties Ltd, a national developer-investor, who demolished the existing buildings and constructed a modern two storey office building (stage 1, 20-30 New Walk, = 9,000 sq.ft. and stage 2, 40 New Walk, = 39,000 sq.ft) (Map 3). The other site was leased by Town and City Properties, a national-developer/seller, in 1971 on which they constructed Provincial House, a 29,600 sq. ft. two storey office building (Map 2). Originally it was planned to construct a new building behind the Georgian facade of the existing building, however, on investigation it was discovered that this was be so decayed that it was demolished and replaced by a neo-georgian building.

The site of Provincial House was identified by a local estate agent (development intermediary) who introduced Town and City Properties to its 1965 development, Enkalon House on Regents Road (Map 1). In the late 1960s this agent noticed that Leicester was perceived by many property companies to be a good office location. The construction of the M1 and the increasing cost of office space in London were considered to be positive incentives for office users to relocate from London to Leicester. Before this period this estate agent was not actively involved in the commercial property development process, but in the late 1960s :

> The developers came down and approached us [the local estate agents] and we keyed in on the band wagon and identified sites for developers. We knew the patch and they didn't (Interview, Estate Agent, 22/8/1986).

Halsack, a subsidiary of Town and City Properties, the property company which developed Enkalon House in 1965 was introduced to Leicester by a firm of quantity surveyors, Wood and Weir, who knew this Leicester estate agent. The estate agent knew one of the partners in the Leicester firm of Architects, Edwards, Branson and Edwards, who designed Enkalon House. The estate agent, the quantity surveyor and

the architect formed a development team to identify suitable sites for office developments in Leicester. The site was identified by the estate agent, the architect designed the building and the quantity surveyor estimated its construction cost. The three than examined the project's development economics and attempted to persuade a property developer to undertake the development project retaining each of them in their respective roles. According to the estate agent his job was:

> to decide where to build or not to build. Enkalon House was seen as a good area to build in because East Midlands Gas were building their Head Quarters. London Agents when they come down to the cities like Leicester usually come to the local estate agents to see what they think of the sites they have seen or have on the local agents books (Interview, Estate Agent 22/8/1986).

This team fulfilled the function of a sophisticated local development intermediary linking London based national property developers with potential development sites in Leicester. The team through its quantity surveyor introduced Town and City Properties to the site of Enkalon House, which was originally occupied by two large houses. Town and City properties developed this site and prompted by this scheme's success had enough confidence in the Leicester based team to undertake the development of three further sites identified by them: Provincial House, New Walk; Princess House, Princess Road and St Andrews House, Princess Road (Appendix A, Map 2, Map 4).

The role of local development intermediaries in Leicester's office development cycles is very complex. Before the commencement of Leicester's second office development boom estate agents were initially contacted by national property companies seeking alternative 'cheap' development sites outside the overheated and expensive London property market. These early enquiries encouraged local development intermediaries to become site and development aware. Sites were identified locally and retailed around as many suitable property companies as possible.

Table 9.14 The Ownership of the Regian Property Development Company, 1974.

	Parent Company	Subsidiary
1)	Co-operative Wholesale Society Ltd, Manchester. (a)	Co-operative Insurance Society Ltd, Manchester. (a)
2)	Co-operative Insurance Society Ltd, Manchester.	Property Investment and Finance Ltd, London.
3)	Property Investment and Finance Ltd, London.	Property Investment and Finance, (Developments) Ltd, London.
4)	Property Investment and Finance (Development) Ltd, London.	Regian (Property Investment and Finance) Ltd

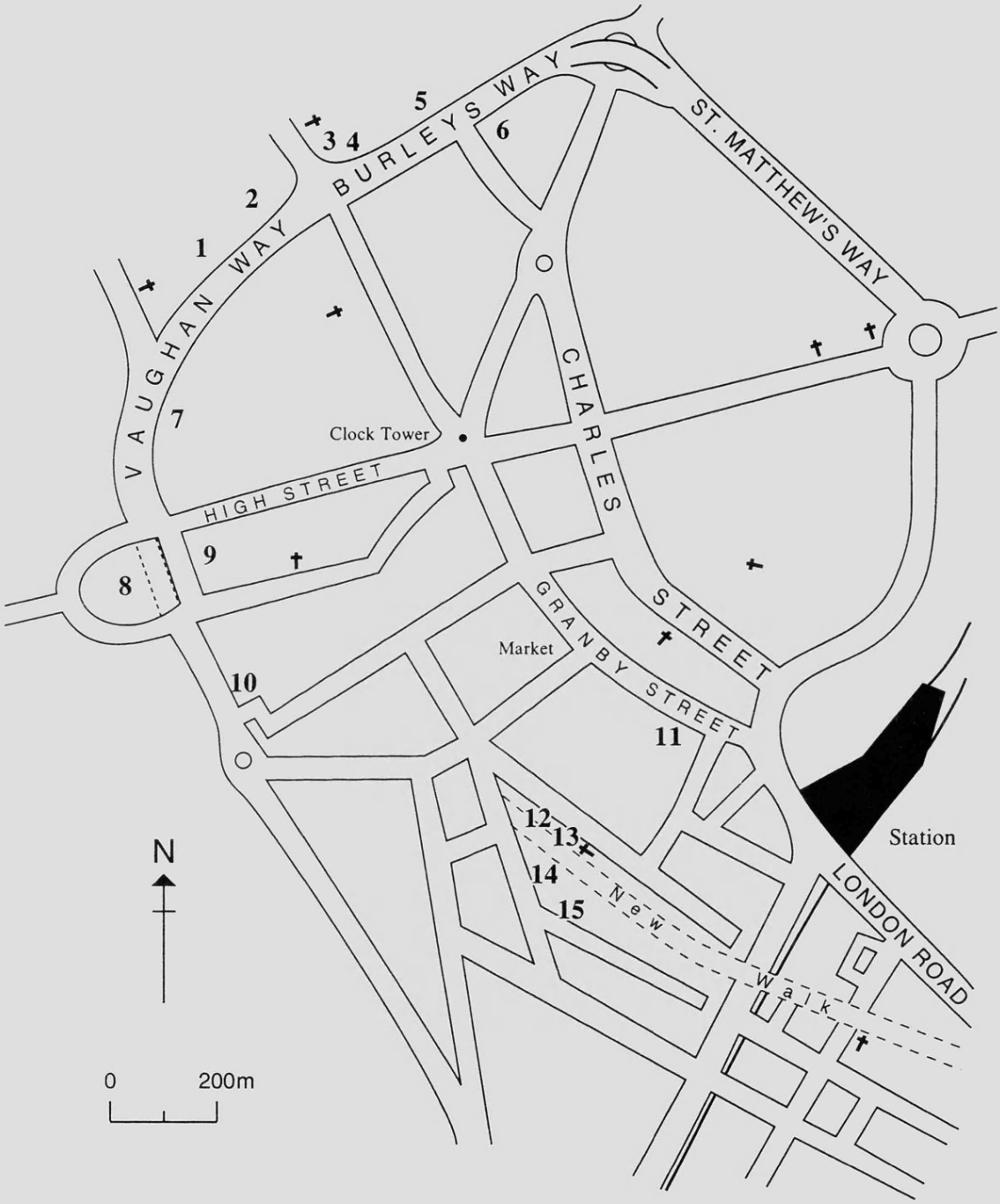
(a) This company is registered under the Industrial and Provident Societies Acts, and is conducted for the benefit of the policy holders rather than the shareholders, who are entitled only to a modest fixed rate of dividend

Sources : *Who Owns Whom*, vol. 4 (1974),
The Stock Exchange Year Book (1974).

Very quickly each local estate agent, architect, quantity surveyor and other types of development intermediary established a relatively stable relationship with a least one national property development company.

The Co-operative Insurance Society of Manchester owns five buildings in Leicester , accounting for 5 per cent of all office space constructed during the second post-war property boom (69,586 sq.ft), all situated on sites owned by Leicester City Council (Map 3, Appendix C). During the first property boom 102,304 sq.ft. of office space was developed on Council owned freeholds, accounting for 23 per cent of all office space constructed. (Appendix C). During the second boom, 216,326 sq. ft. of office space was developed on sites owned by Leicester City Council accounting for 15 per cent of all office space constructed (Map 3). Surprisingly, 32 per cent of this floorspace was developed by Regian (Property Investment and Finance) Ltd, a subsidiary of the Co-operative Wholesale Society Ltd of Manchester (Table 9.14). This company used to own ten per cent of the issued share capital of Harry

Map 3: Office development in Leicester on Council owned freehold



1 101 Vaughan Way
2 Insurance House
3 A. E. U. W. Building
4 Belvoir House
5 Pegasus House
6 Abbey House
7 Martin House and Peacock House
8 Imperial House
9 Parmen House
10 Redmine House
11 Beaumont House
12 20-30 New Walk
13 40 New Walk
14 Provincial House
15 14-15 Princess Road

Hyams' Oldham Estate Company before selling it to MEPC. Marriott describes this society as : " a particularly canny investor in property, but this is a paradoxical link between an extreme manifestation of capitalism and an arm of the workers' movement" (1967, p.132).

This company's involvement with Leicester commenced with the successful completion of Redmire House, 61 Millstone Lane, a five storey 10,000 sq.ft. office development designed to be exempt from ODP controls (Map 3). On completion Redmire House was let to the accountants Price Waterhouse leading Regian Properties to assume that Leicester was a relatively safe and profitable investment location. Land acquisition by Leicester City Council for the construction of the central ring road and the assembly of sites along New Walk for the proposed Civic Centre provided a number of property developers with a series of large homogeneous, relatively inexpensive building sites. Of the 318,630 sq. ft. of office space constructed on council owned freeholds, only 9,000 sq. ft. was developed by a Leicester based company and this was partially for owner occupation by the A.E.U.W (Plate 3, Map 3). All the other sites were developed by nationally based development companies. By assembling these sites Leicester City Council effectively reduced the property developers exposure to development risks, because it had undertaken the time consuming and expensive process of land assembly **(1)**.

The proposed development of a 250,000 sq.ft. Civic office complex by Leicester City Council commenced in 1970 with the planning of Albion House, a five storey 60,000 sq. ft. office building along Albion Street, to accommodate the department of social services (Plate 5, Map 2). The grandiose plans for a 250,000 sq. ft. office development by the City Council were abandoned because the council was unable to fund a scheme of this size. Albion House was completed in 1974 and occupied by the council until 1976 when it centralized its operations into the speculatively developed New Walk Centre, 214,000 sq. ft. (Plate 6, Map 2). Albion House was very expensive to construct because it was designed to high specifications

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(1) Land assembly was examined in detail in Section 7.4, p.186 and Section 7.5, p.205.

to cater for future alterations in the organization of individual council departments, as well as to make the building accessible to the disabled and elderly. After it was vacated by the City Council it remained unoccupied for three years until it was bought for £1.4 million by the Post Office for owner occupation.

The largest office development ever constructed in Leicester is The New Walk Centre, a scheme consisting of a 14 storey building of 127,293 sq. ft.and an 9 storey building of 83,833 sq. ft. (Plate 6, Map 2). These buildings were speculatively developed by the Land and House Property Corporation, a national developer-investor/seller, funded partly by The British Steel Corporation Pension Fund. It was developed on a 1.65 acre site situated at the city end of The New Walk, along King Street, a site previously occupied by the headquarters and warehouses of Wolsey Ltd, a textile company. In 1961 this company decided to construct a prototype warehouse in Leicester to accommodate all its warehouse operations in the same building. Part of the company's complex on King Street became redundant as the new warehouse was completed. Wolsey Ltd decided to vacate the site, obtain planning permission for its redevelopment for 140,000 sq. ft of offices, some shops and a hotel and sell the site to a property development company. Landed capital, in the form of Wolsey Ltd, was attempting to acquire some of commercial capital's development profit from the proposed redevelopment of their factory site. The site came on to the market in 1967, during the period when ODPs were in operation in the East Midlands. Eventually, in February 1971 the Land and House Property Corporation became interested in the Wolsey site, purchasing it and applying for an alteration of its existing planning permission to increase the amount of office space to 250,000 sq. ft., with an estimated development cost of approximately £2,600,000 (1). Construction work commenced in 1972, with the building been completed by January 1975. The development consists of two independent office blocks, shaped like two bananas separated by a pedestrian concourse with a basement car park for approximately 150

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(1) Some evidence suggests that Land and House were introduced to this site by a Nottingham firm of estate agents with whom they had a established a long term development relationship.

Plate 6 : The New Walk Centre, New Walk, Leicester
(Undated sales brochure).

Plate 7 : Proposed development of Wyvern House,
London Road, Leicester (never constructed)
(Undated sales brochure).

cars. The over supply of office space in Leicester in 1975 meant that it was unlikely that a development the size as The New Walk Centre would attract a tenant. In June 1975 the City Council bought this development for an estimated £5.22 million or £24.36 per sq. ft.. According to a number of property developers and estate agents the building cost around £12 per sq. ft to construct. The New Walk Centre's initial rental level was set by Land and House at £2 per sq. ft or £428.252 a year with regular rent reviews. The purchase of the development by the City Council was a sensible decision as the interest on the capital used to acquire the building would not be substantially greater than the annual rental payments needed to lease the development from the property developer. An additional reason for occupying and acquiring the ownership of this building was that it removed a sizable amount of vacant office floorspace from an office market that had a vacancy rate of 18 per cent.

The relaxation of ODPs in December 1970 encouraged a number of non-local property developers to undertake the development of a couple of large office buildings. Many of these were far larger than the average size of buildings previously constructed in Leicester (Table 9.15, Figure 9.5, p.325). Wellington House, Wellington Street, a five storey 53,500 sq. ft.office development by Tarmac on the former site of the Leicester Mercury's headquarters, Leicester's local newspaper, was planned as soon as Leicester was removed from the area controlled by ODPs (Map 2). This building was completed in 1973 and sold in February 1974 for £1.1 million to the Abbeyview Property Company. Similarly, planning permission for the demolition of a number of dwelling houses and commercial buildings for the construction of Heart of Oaks House, Princess Road, (32,664 sq.ft.) was applied for on April the 9th 1971 and granted on September the 7th with the building been completed in 1972 (Map 2). Office development permits restricted the size of buildings constructed during the period 1966 to 1970 causing a number of small buildings to be completed during the initial upturn in Leicester's property development cycle. After December 1970 property developers increased the size of their developments to cater for the projected demand for larger buildings which companies decentralizing from London would require. Table 9.15 and Figure 9.5 provides an analysis of the average size of office buildings undertaken in Leicester from 1960. This data must be used

Table 9.15 Commercial Office Floorspace Developed in Leicester 1960-1987

Year	No. of dev.	Amount Sq.ft.	Average Size (sq.ft).	
1960	1	19,000	19,000	
1961	1	3,000	3,000	
1962	2	32,608	16,304	
1963	4	105,000	26,250	
1964	2	116,600	58,000	
1965	4	104,660	26,165	
1966	2	48,950	24,475	
1967	1	43,600	43,600	
1968	1	15,104	15,104	
1969	1	10,400	10,400	
1970	4	153,500	38,375	(16,166 a)
1971	4	74,543	18,635	
1972	13	239,144	18,395	
1973	8	250,069	31,258	
1974	12	486,537	40,544	(24,776 b)
1975	3	87,624	29,208	
1976	6	110,451	18,408	
1977	1	51,000	51,000	
1978				
1979				
1980				
1981	2	25,950	12,975	
1982				
1983				
1984				
1985				
1986				
1987	1	3,571	3,571	
Total	73	1981,311	27,141	

a) Recalculated without Thames Tower, Vaughan Way (105,000 sq.ft).
b) Recalculated without The New Walk Centre (214,000 sq. ft).

carefully, first because in seven years of Leicester's property development cycle only one building was constructed and secondly a very large building distorts the average size of developments in any one year, e.g. The New Walk Centre and Thames Tower (Map 2). During the course of Leicester's two property booms the average size of office buildings increased during upturns and decreased during downturns in the property development cycle. This coincides with the findings of other studies on the effects of the property development cycle on the size of office developments (Catalano and Barras, 1980) **(1)** . Developments undertaken during a boom tend to be consistently larger than those undertaken during a slump since during a slump property developers and investors want to restrict their exposure in a under-performing market.

During the period Leicester's property market was within the jurisdiction of ODPs the average size of buildings fell from an average of 20,000 sq. ft. in 1965 and 1966 to between 10,000 and 15,000 sq.ft. (Figure 9.5, p.325). At the peak of the second boom's cycle the average size was between 24,000 to 30,000 sq. ft.. Overall ODPs operated in Leicester during the period of a downturn in the city's first post-war property boom. By 1966 this office development boom was over. It is debatable whether any buildings over the 10,000 sq.ft. ODP exemption limit would have been constructed in Leicester during this period.

f) The downturn of the second post-war property boom

Two years after the removal of ODPs from the East Midlands Planning Region Leicester's property market was experiencing a substantial property boom (Table 9.15). By the end of 1972, just under one million square feet of office space had been constructed in Leicester since 1960, just over half a million square feet was under construction, while three developments totalling just under a quarter of a million square feet had obtained outline planning permission. At the same time Leicester had 747,473 sq. ft. of vacant office space (Table 9.16), Appendix D). In 1969, 9 per cent

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(1) This topic was considered in Chapter 4, section 4.6 b, p.104-106.

Table 9.16 Summary of Leicester's Office Market, 30/11/ 1972

Developments Under Construction	sq.ft
New Walk Centre, King Street/Welford Road	250,000
Lee Circle	100,000
University Road	20,000
St. Nicholas Circle Phase 2	150,000
	520,000
Developments with Planning Consents	
Wyvern House, London Road	100,000
East Street, London Road	80,000
Colmore Depot, Charles Street	50,000
	230,000
Summary	
Vacant Office Space	747,473
Under Construction	520,000
Planned	230,000
Total	1,497,473

Note : Appendix D provides a detailed breakdown of vacant office space in Leicester

Source : Interviews with estate agents

of the city's office space was vacant, but by 1974 this had risen to 21 per cent while in 1977 a study noted that 25 per cent of all office space in the city was vacant and more importantly 40 per cent of office buildings constructed since 1960 were empty (Strachan, 1977, p.31). As early as 1972, however, Leicester's property market was already displaying symptoms of a potential massive and actual oversupply of office space, especially concentrated in the developments along the inner ring road (Table 9.17, and Table 9.18). Nevertheless, the situation worsened in 1973 and 1974 as developments planned during 1971 and early in 1972 were completed. The number of developments planned in 1973 and 1974 decreased as well as the size of proposed office buildings. By 1977 the amount of vacant office space on the market had completely destroyed the balance between the supply and demand for office space

Table 9.17 Office Floorspace in Central Leicester

Year	Total Office Floorspace	Total Occupied	Total Vacant	% Vacant
1939	1540,000	1380,000	160,000	11
1949	1680,000	1660,000	20,000	1
1961	3140,000	-	-	-
1969	4110,000	3750,000	360,000	9
1973	4990,000	4350,000	640,000	13
1974	5460,000	4330,000	1130,000	21
1975	5660,000	4610,000	1050,000	18
1977	-	-	1190,000	-
1978	-	-	860,000	-

Source : Leicester City Council, Central Leicester District Plan, *Report of Survey*, Oct. 1978.

in the city causing rental levels to fall in real terms. Property developers and investors labelled Leicester as a development black spot.

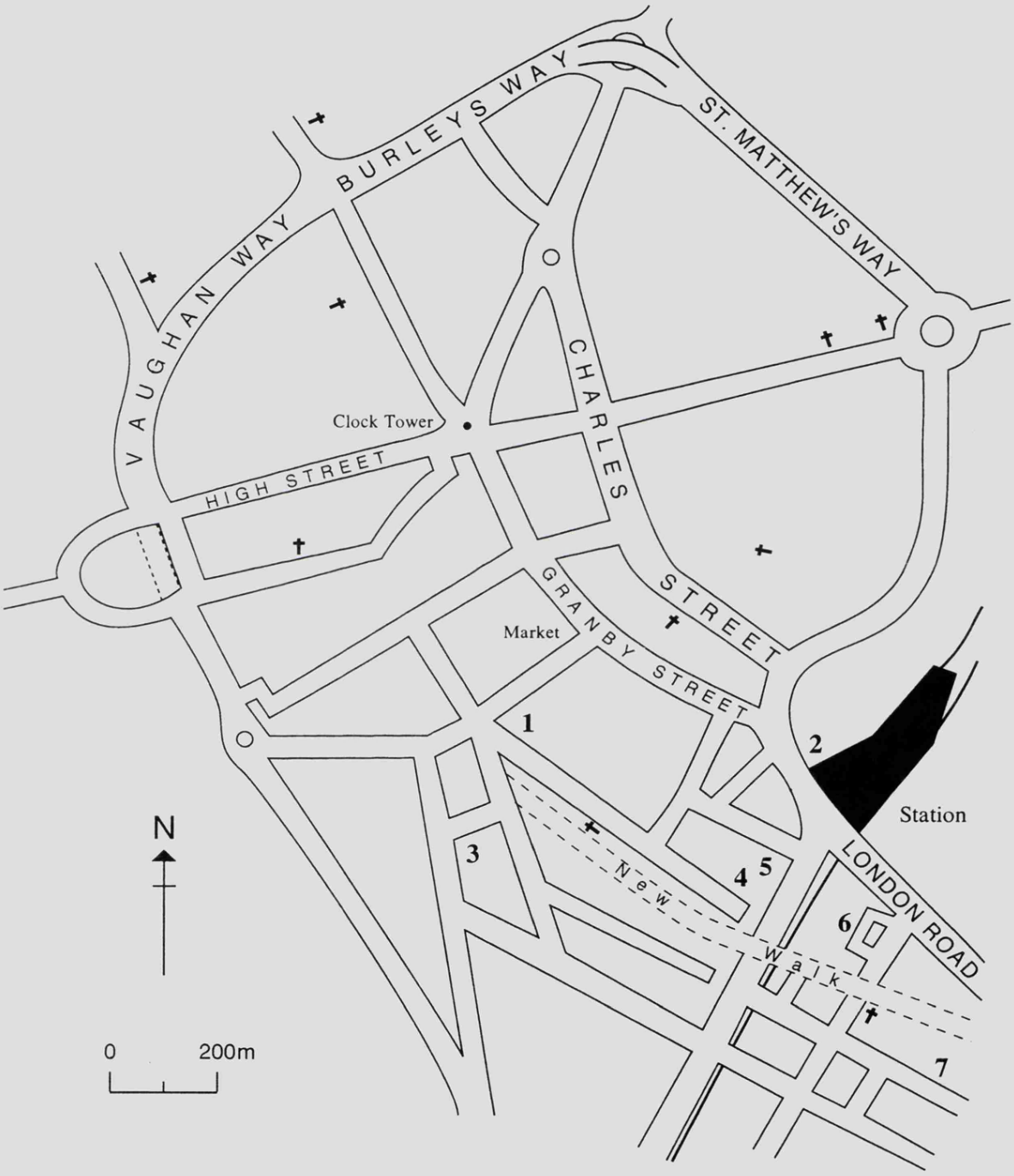
The slump in Leicester's property market left the city with a substantial number of vacant office buildings which have gradually become obsolete. Many are unlettable given their floor layouts, design specifications and amount of car parking. A property market with a massive oversupply of floorspace prompts property developers and investors to shelve developments which are being planned and to modify development proposals which are too far advanced to be halted, or in which too much capital has been invested. In extreme cases construction may be halted leaving the city with a number of partially completed buildings. For example, in Leicester one property development company, Fawnbridge Ltd of Bedford, went into liquidation leaving Fawnbridge House, Welford Road, a five storey 17,730 sq. ft. office building partially completed. This development was forward funded by Excess Insurance who had to complete the building renaming it Marlborough House (Map 4). The largest office development planned in Leicester was reduced from its planned net lettable area of 248,500 sq. ft. to 51,000 sq. ft.. This development is situated on a 1.25 acre site at the junction of East Street with London Road opposite the main line

British Rail station (Plate 5 (p.327), Map 4). The site was formerly occupied by the Leicester Pure Ice Company Ltd who applied for outline planning permission to construct an office building on the 18th of August 1972. This was granted on the 23th of October 1972 and the leasehold of the site was put out to tender on March 30th 1973. The Leicester Pure Ice Company (landed capital) retained the site's freehold but decided to lease it to a private property development company. The leasehold was acquired by Rutland Investment Ltd (commercial capital), a London based property development company which submitted detailed plans to Leicester City Planning Department on the 4th of June 1973. The design of the building consisted of a series of brown octagonal towers faced in brick and varying in height. The development was forward funded by Provident Mutual Life Assurance (financial capital) who agreed to finance and purchase the completed development. Unfortunately, during the course of the building's construction the property company went into voluntary liquidation leaving Provident with a partially completed development. Provident, on the advice of a local estate agent (development intermediary), reduced the scheme's overall size by 79 per cent and increased the size if its car parking facilities. The completed development, St. Johns House, is one of Leicester's most successful property developments as its high specifications and its location near the railway station and New Walk have made it attractive to tenants.

A number of buildings were planned towards the end of Leicester's second post-war property boom which were never constructed. Wyvern House, London Road, a proposed eleven storey air conditioned office building of 85,409 sq. ft., by Central and District Properties Ltd, obtained outline planning permission in 1972 and was scheduled for completion in 1975 (Plate 7 (p.335), Map 4). The condition of Leicester's property market in 1973 discouraged the property development company from undertaking this development project. The site was sold at a substantial loss to Leicester's Housing Association for the construction of sheltered accommodation.

The collapse of Leicester's property market in 1974 coincided with the end of the "Barber Boom" of the 1970-1974 Heath government. The oversupply of office space in Leicester was apparent as early as 1972 when 747,473 sq.ft. of its post 1960 office space was vacant (Table 9.16, Appendix D). In addition in 1972

Map 4: Office developments constructed or planned in Leicester since 1977



1 Phonex House
2 Wyvern House (never built)
3 Marlborough House
4 St. Johns House
5 Site of new office development (1989-91)
6 De Mentfort Mews
7 St. Andrews House

635,000 sq. ft. of office space was under construction while 920,000 sq.ft. had been granted planning permission (Table 9.18). By the end of 1972 a number of property developers, as well as the City Council, were becoming increasingly concerned with the current and potential over supply of office space in the city. The anticipated decentralization of offices from London to Leicester had not occurred. The increasing number of empty office buildings located along Leicester's inner ring road prompted the City Council in May 1973 to place a moratorium on all new office buildings over 15,000 sq. ft.. Developments over this size limit would only obtain planning permission if they were replacing existing obsolete buildings or where they secured the complete development of prominent sites with commercial and/or residential use and where the buildings were pre-let. This policy was too late to ameliorate the increasing imbalance between the supply and demand for office space in Leicester. The continued and increasing over supply of vacant office buildings in the city encouraged the City Council in January 1976 to change this policy so that :

> There should be a general presumption against permitting the development of speculative offices (Leicester City Council, 1978, p.51).

The policy is an example of local government's attempts to solve a problem by the introduction of measures which might have curtailed the supply of office space if they had been introduced at an earlier period. It was anticipated that this policy would eventually lead to a decrease in the proportion of vacant office buildings on the Leicester market. If successful this policy would ultimately produce a shortage of office space in the city leading to escalating rental levels and prompting property developers to initiate a number of new developments.

Coupled with this policy, in 1975 the City Council, in conjunction with the Chamber of Commerce and Local estate agents, established the *Leicester Promotion Campaign.* This aimed to encourage the expansion of Leicester's existing industrial and commercial base by attracting investment and industrial and office based activities to the city. Initially the campaign was partially funded by a number of private property companies who owned vacant office buildings located along the inner ring road

Table 9.18 The Location of Offices Bureau Questionnaires 1964-1975

a) Developments completed since January 1962 and still vacant

	Leicester (Sq.ft)	Northampton (Sq.ft)
1963	8,200	6,624
1964	65,000	17,600
1965	63,995	N.A
1972	765,000	N.A
1973	N.A	40,000
1975	N.A	50,000

b) Under Construction

1963	128,300	15,838
1964	17,000	38,275
1965	N.A	25,500
1967	216,000	N.A
1972	635,000	N.A
1973	N.A	483,000
1975	N.A	400,000

c) Developments with Planning Permission

1963	23,700	108,050
1964	150,000	139,841
1965	160,399	72,000
1967	399,000	286,000
1973	N.A	326,000
1972	920,000	N.A
1975	N.A	Approx. 1 m.sq.ft

Note : In 1967 Northampton Development Corporation allocated land for 570,000 sq.ft of office space.

Source The LOB Archive, The Department of Geography, University College London.

(Interview, Leicester Promotion Campaign, 21/7/1986). The local authority, through the medium of the Leicester Promotion Campaign, was assisting private property companies to let their speculative office developments. The campaign focused primarily on vacant office space as many of these office developments were constructed on council owned freeholds. These sites had been released to private development companies with ground rents based on the building's overall rack rent. Consequently vacant buildings situated on council owned sites considerably reduced the City Council's income from its freehold sites. The Promotion Campaign performs many functions usually undertaken by estate agents since it provides a list of available vacant office buildings and a site seeking service. The major difference is that these services are free as the Leicester Promotion Campaign is an attempt to promote the city rather than specific office buildings.

Between the collapse of Leicester's property market in 1973/1974 and 1988 only one private speculative office development was constructed in the city. Buildings already under construction were completed during the collapse. Despite Leicester's over supply of office floorspace demand for specific types of office accommodation is very high. There is a shortage of small modern office units, between 600 to 1000 sq. ft. designed for owner occupation by small local service activities. The De Montfort Mews scheme, behind De Montford Street just off New Walk, was developed by a Leicester based property company to satisfy some of this demand (Plate 8, Map 4). This local property development company was able to identify this development opportunity because it possessed local knowledge of Leicester's property market (Chapter 7, p.201-202). During a period when Leicester was ignored by national and international property companies as a development and investment location this local company was able to identify a small, but profitable, development opportunity in the market. The local property company was able to speculatively develop De Montfort Mews since it was designed to be owner occupied by small Leicester based service activities requiring a particular type of office space rather than property for investment purposes. This development was completed in 1981 and consists of 9 units each of 1000 sq. ft. designed to cater for local service activities. This development illustrates the advantage local capital has over national capital.

Plate 8 : De Montford Mews, off De Montford Street, Leicester.

Plate 9 : Abbey House, Burleys Way, Leicester.

Leicester still has a surplus of 1960s and early 1970s office buildings many of which are now obsolete. These buildings are on the market at very low rentals which effectively reduces the overall rental levels of all office buildings in the city (Plate 9). Most of the vacant office accommodation is unsuitable for current offices activities as it was designed to very low specifications without provision for duets for computer and communication cables and adequate car parking facilities. For example, Midland House, Charles Street, a four story office building of 25,212 sq. ft., completed in 1962, located near the edge of Leicester's central shopping district, was sold to Coventry Churches Housing Association in 1987 for conversion into housing units as the building was unsuitable for office activities (Map 1). Due to the low rental level of office space in Leicester the previous owner of this building, Town and City Properties, could not redevelop this site or refurbish the existing building. Selling this building for conversion to housing was one of the few ways of removing a worthless piece of commercial property from Town and City Property's property portfolio. Retaining a vacant building in their portfolio entails some management and maintenance costs which are removed by the transfer of this obsolete building to the housing association. Unfortunately, most of Leicester's vacant office space is unsuitable for conversion as its specifications and location make it impossible to convert cheaply into low cost housing units.

The history of Leicester's office property market from 1969 to 1976 provides a excellent illustration of a typical property development cycle (Chapter 4, p.102). The massive oversupply of office space was caused by too many property developers and development intermediaries operating relatively independently of each other. Development intermediaries encouraged property developers to acquire sites and construct buildings, while property developers thought that office activities would eventually decentralize from London to Leicester. Property developers misjudged Leicester's future office user market encouraging them to consider the city as a potentially profitable long term development location. Optimism and the encouragement of local development intermediaries caused property developers to over estimate future demand trends. In Chapter 8 it was argued that underlying demand for space is one of the main factors in the development decision making process and that an over "optimistic view of future demand trends may produce a

building which remains vacant" (p.228-229). The confidence property developers had in Leicester as a development location affected their perceptions and appraisals of the more rational elements in the development decision making process. In this case "judgment affected, influenced, altered and manipulated rational economic appraisals" (p. 232). This over optimistic appraisal of Leicester as an office location demonstrates the subjective or non-economic variables in the development decision making process (Chapter 5, section 5.3, p.128).

9.7 The Economics of Office Development in Leicester (1)

One of the property developers who operated in Leicester during the city's second post-war property boom stated that to his knowledge:

> No one ever made any money out of property development in Leicester (Interview, 5/2/88).

This type of journalistic generalisation must be examined to ascertain whether it is even a partially correct analysis of the development economics of Leicester's office property market. Evidently a number of property companies made enough development profit from their initial involvement in Leicester's property market to encourage them to undertake a series of office buildings in the city. Of course, those buildings which have never been completely let, for example Abbey House, Burleys Way (Plate 9 Map 2), Martin House and Peacock House, Vaughan Way (Plate 4, Map 3) have been development disasters. Nevertheless, the developers of The New Walk Centre made an estimated profit of £2.5 million. An office building in the right location, constructed to high specifications and completed at an appropriate time in a city's property development cycle will be let eventually and sold at a profit. Conversely, office buildings in the wrong location, e.g. Leicester's inner ring road,

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(1) This section extends the discussion in Chapter 4, section 4.7 (p.106-112), on the economics of individual developments.

constructed to poor design specifications will be difficult to let and sell especially during a slump in the property market. Many of Leicester's "cheap and nasty" 1960s and early 1970s office buildings satisfy the criteria for an unsuccessful office development.

The problems associated with investigating the development economics of Leicester's property market are obvious since it is difficult to obtain reliable information concerning the economics of specific development projects and the returns to the four capital articulated in the process of property development. It is possible, however, to examine the economics of Thames Tower, a 14 storey office building, containing 105,000 sq. ft. of net lettable floorspace (Plate 1, Map 2). Every potential office development project is assessed using a number of predictions about the current and future performance of a particular property market's rental levels and capital values. When considering the development economics of a specific development it is useful to compare the property developer's anticipated potential returns with the development's actual returns. Thames Tower's site cost £70,000 (return to landed capital) since it is situated along the inner ring road away from Leicester's traditional central business district (**1**). Construction costs (industrial capital) amounted to £650,000 or 83.3 per cent of the building's total estimated cost (Table 9.19). An estimated figure of £30,000 is included in the analysis to account for the cost of borrowed capital which was obtained from the Midland bank by a mortgage dated the 8th of March 1968. In addition, another estimated figure of £30,000 is included to cover planning costs, architects fees, estate agents fees and other miscellaneous costs. This brings the total development cost of Thames Tower to £780,000. On the 13th of October 1970 the developers of Thames Tower, Imry Property Holdings Ltd, signed a trust deed for £1000,000 Debenture Stock, from the Norwich Union Life Insurance Society (financial capital), secured by Thames Tower. This suggests that a development cost of £780,000 is a realistic estimate.

Thames Tower was completed in 1970, but has never been completely

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(**1**) It was not possible to identify landed, industrial or financial capital's profit margins.

Table 9.19 Development Economics of Thames Tower, Burley Way, Leicester,

Area : 105,000 sq. ft. Completed : 1970

			(%)	
Development Costs :	Landed Capital :	£70,000	8.9	
	Construction Costs :	£650,000	83.3	
	Financial Capital :	£30,000	3.8	(estimate)
	Other Costs :	£30,000	3.8	(estimate)
	Total =	£780,000		

Development Value :

By 1975 only 17,000 sq. ft of this building had been let at £1.25 per sq. ft.

Rental Income : 17,000 x £1.25 = £21.250 p.a

Development Value = Rental Income x $\frac{100}{\text{Yield (\%)}}$

Therefore :

1) a) £425,000 = £21,250 x $\frac{100}{5\%}$

b) £212,500 = £21,250 x $\frac{100}{10\%}$

But total estimated development costs = £780,000

2) If the Development had been completely let at £1.25 per sq.ft the project would have been very profitable

a) £2,659,000 = £131,250 x $\frac{100}{5\%}$

This gives a profit of £2,625,000 - £780,000 = £1,875,000 or 336 %

b) £1,312,500 = £131,250 x $\frac{100}{10\%}$

This gives a profit of £1,312,500 - £780,000 = £532,000 or 168 %

occupied. By 1975 only 17,000 sq. ft.was occupied at a rental of £1.25 per sq. ft. or £21,250 per annum. When this figure is entered into the development economics equation examined in Chapter Four it is apparent that Thames Tower was not a successful development project. If a yield of 5 per cent is assumed to be an acceptable rate of return on capital employed than the development in 1975 was only worth £425,000, a figure substantially lower than the building's estimated cost. Thames Tower would have been a successful scheme if it had been completely let at £1.25 per.sq.ft. or an annual income of £131,250. In this case the value of the completed building would have been £2,625,000 or 3.3 times its actual cost. Leicester was *perceived* by many property developers to be a relatively profitable development location, land prices were low in comparison to London, large sites were available and the city was considered to be a suitable location for offices decentralizing from London. All these factors made Leicester appear to be an ideal development location as long as the *predicted* demand for office space materialized (1). Without this predicted demand, composed largely of national companies relocating their activities from the South East to Leicester, development constructed in Leicester would be difficult to let and sell as investments. A vacant office building in a property market suffering from a massive over supply of vacant office space is essentially worthless. No tenants want to occupy it and consequently no property investors want to acquire the building as a long term investment .

9. 8 Office Development in Northampton

In contrast to Leicester during the 1960s Northampton did not experience a substantial office development boom, consequently Northampton's property market will be examined from its designation, on the 14th of February 1968, as an expanded New Town. With the onset of the "Barber Boom" and the advantages of its designation as an expanded New Town Northampton's office property market boomed between 1971 and 1976 (Table 9.20, Figure 9.6 and Figure 9.7). Like Leicester it was adversely affected by the 1973-74 property crash, but unlike Leicester its property

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(1) This topic was covered in Chapter 8 during the discussion of the development decision making process (p. 227-232).

market recovered in the 1980s (1). The designation of Northampton as an expanded New Town altered the structure of its property market from that of a small market town to a regional centre. Designation encouraged regional and national property developers to undertake speculative office developments for companies which might be attracted to the town by the anticipated growth in its population and associated services. Before designation Northampton was a quiet manufacturing town; since designation it has been described as a "sobering but instructive example" of a "medium-sized town brutally assaulted by redevelopment" (Aldous, 1975, p.52).

During the 1960s new speculative office buildings in Northampton were usually small, infill developments constructed by local construction companies and small property companies to provide space for local companies, frequently for owner occupation (Chapter 4, p.91). Consequently, during the 1960s regional, national and international property company's development filters operated to remove Northampton from the list of potential development locations (Chapter 5, p.122). The Norwich Union Insurance Group developed an eight storey office building in 1966, part of which it occupies (Map 5). This is Northampton's largest 1960s office development which dominates Northampton's traditional market place. Norwich Union House maybe a large building in comparison to the traditional buildings in Northampton's market square, but it is a small speculative office scheme. This building contains 8,629 sq. ft., of which 2,749 sq. ft is occupied by a retail outlet (Spoils Kitchen Reject Shops Ltd), while 46 per cent of the building's office space is occupied by the Norwich Union. This development was primarily prompted by the Norwich Union's requirement for office space for its Northampton regional office (Personal Communication, 17/7/1987). The Norwich Union was one of the first Insurance Companies to realize the value of long term property investment. To couple its own space requirements with some speculative office and retail space reduces the overall cost of its own offices as well as providing a long term secure investment.

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(1) Appendix B contains a list of office developments constructed in Northampton since its designation as an expanded New Town. This analysis will not be as detailed as the Leicester case study since many aspects of the property development process have already been illustrated in the preceding example.

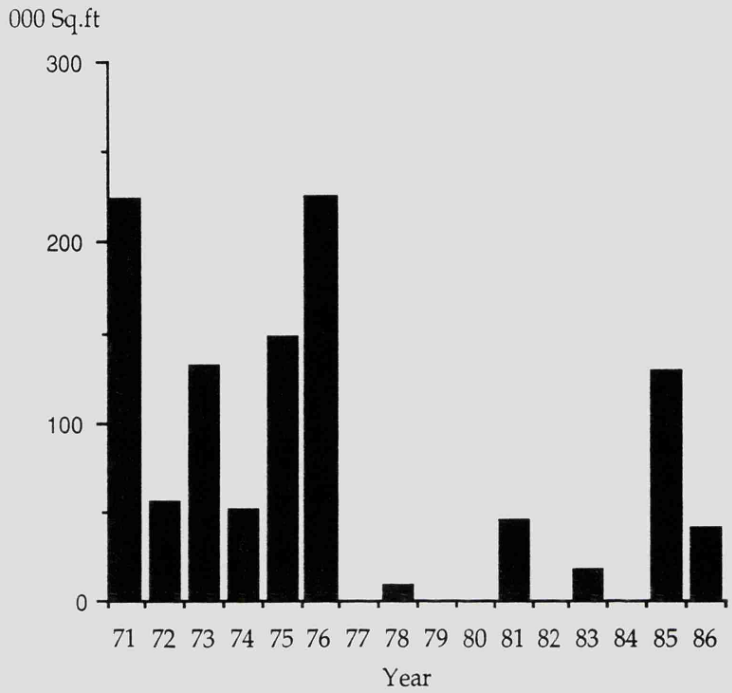


Figure 9.6 Northampton's Office Development Cycle, 1971-1986
(Completion rate)

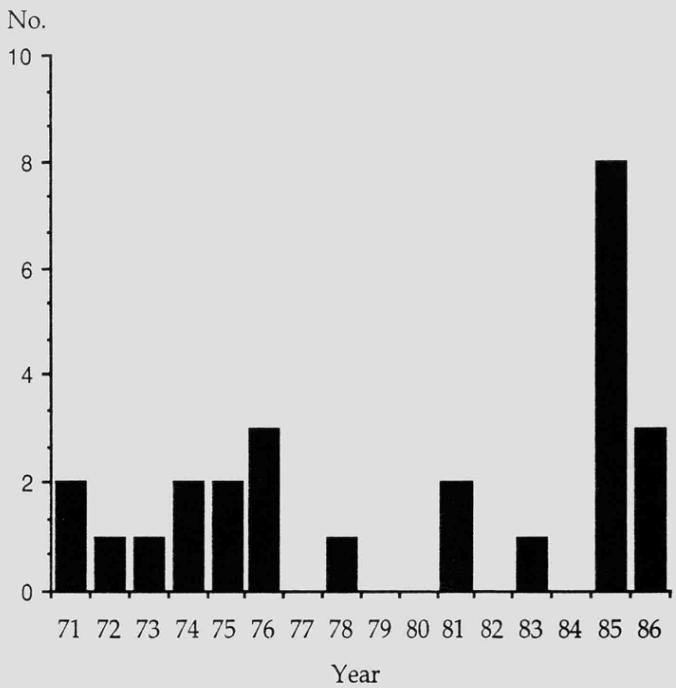
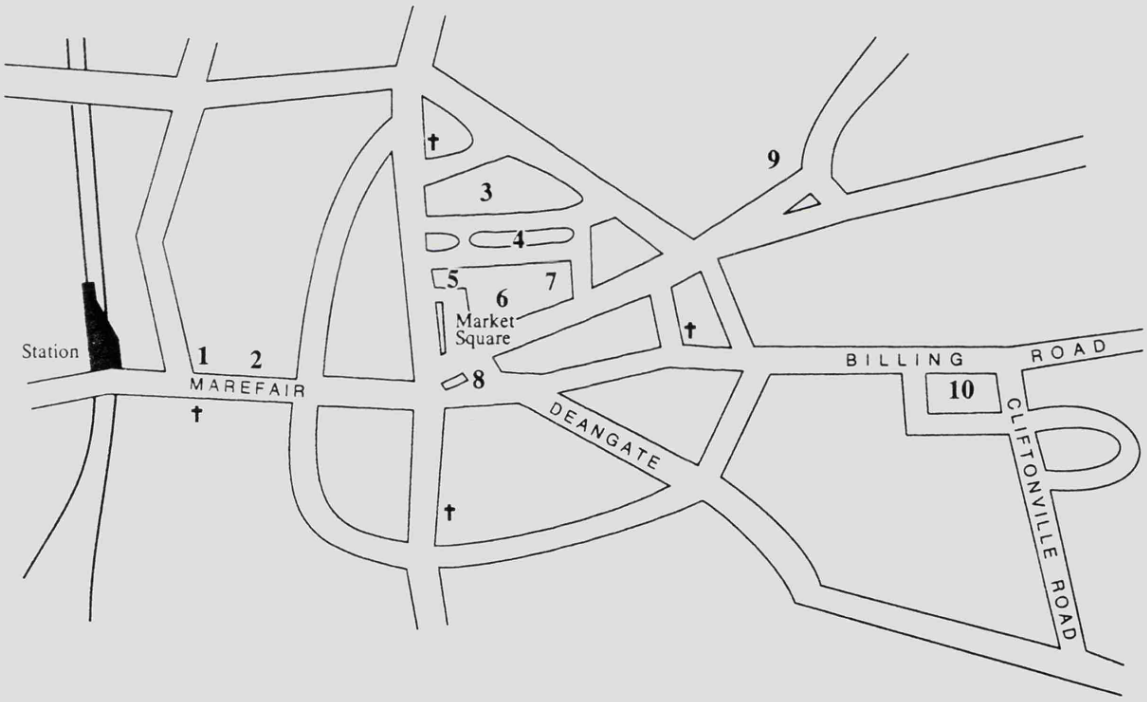


Figure 9.7 Northampton's Office Development Cycle, 1971-1986
(Number of completed developments)

Map 5: Office developments constructed in Northampton since 1966



1 Castle House
2 Barclaycard House
3 Campbell Square Development
4 Greyfriars Bus Station
5 7-8 The Parade
6 Grosvenor Shopping Centre
7 Northampton House
8 Norwich Union House
9 Notre Dame Mews
10 Elgin House

When Northampton was designated as an expanded New Town City Wall Properties Ltd (commercial capital) acquired a four acre site on Marefair (Map 5). This company considered that Northampton's newly acquired expanded New Town status would encourage its development as a large regional and national office centre. Designation as an expanded New Town encouraged some national development companies to consider Northampton as a possible development location given the predicted increase in its population and service activities. Consequently, government policy altered the *perceptions* these property companies had of Northampton as a development location (1). City Wall Properties briefed the architects Richard Seifert and Partners to design a 200,000 sq.ft. office complex, suitable for the headquarters of a large national or international company (Plate 10, Map 5). This development has been criticized by the local civic society and by many architectural critics. Four years after its completion it was described as :

> . . . the great slab-cake of a Barclaycard headquarters. Such a building, whatever its merits might be as a free-standing piece of architecture, has nothing to do with the traditional townscape of central Northampton or the quality and scale of this street in particular. If towns are conceded to have a character, then the Barclaycard building is one of the nastiest pieces of character assassination I have come across (Aldous, 1975, p.53).

During its development this speculative office complex, costing an estimated £2.5 million, was supposed to be the largest project of its type in the United Kingdom.

It is difficult to understand why City Wall Properties undertook the development of such a large speculative office complex in an untested, unproven office market. The property company, however, was incredibly lucky because Barclaycard, which was established in Northampton in 1966, was looking for additional office space

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(1) This illustrates the importance of perception and judgment in the development decision making process (Chapter 8, p.227-235).

(see Chapter 2, section 2.1d, p.29). In 1971 this company leased the complete development, sub-letting part of the complex to a variety of local companies. In 1987 City Wall Properties sold Barclaycard House along with 11 other properties to the Sun Alliance Insurance Group (financial capital) for £28 million. Barclaycard House is Northampton's largest office development accounting for 17 per cent of all office space developed in Northampton since 1971 (Table 9.20, Appendix B). It is a very successful development since it was let to a blue chip tenant before construction was completed. It is anticipated by Barclaycard that when its lease terminates in 2006 the company will vacate the complex as it is becoming increasingly obsolete for the company's present space and technological requirements (Interview, Barclaycard, 20/8/1986). The current rental level of £4 per sq. ft., instead of £6 per sq. ft., reflects this level of obsolescence since the building, designed in the late 1960s, is not suited to the increasing use of information technology (Table 9.20). The construction of this complex reflects the influence of government policy on the actions of a particular property development company and effects on a specific town. Without Northampton's designation as an expanded New Town Barclaycard House would not have been speculatively developed, instead Barclaycard would have had three options 1) to develop their own office complex in Northampton, 2) engage a property developer to construct a building for owner occupation or 3) move to an alternative location.

The second largest office development to be constructed in Northampton since 1960 is Northampton House (Map 5). This 13 storey, 132,000 sq.ft, office building was planned early in 1970 on a site identified by Wilson and Partners, a local Northampton estate agent (development intermediary), and completed in 1973. The building is situated near the city centre and the 1976 bus station and is currently occupied by Northamptonshire County Council. This development was a joint venture between the property company Frincon Holdings (commercial capital) and the Life Assurance company Friends Provident (financial capital) at a estimated cost of approximately £1.7 million. This building is another example of the effect of designation on an expanded town as well as demonstrating the identification of a site by a local development intermediary and its subsequent disposal to a national property development company (Chapter 7).

Neither of these office developments would have been planned or constructed in Northampton prior to its designation as an expanded New Town. The average size of developments constructed during Northampton's first post-war development boom is considerably greater than buildings constructed during the 1980s (Table 9.20, Figure 9.8). The first boom's office buildings were designed to cater for companies decentralising from London as well as for the administration function of the newly established development corporation. The slump in Northampton's office market during the late 1970s, and the history of slow lettings of large office buildings, constructed during the early 1970s, discouraged property developers from constructing large office buildings during the 1980s.

By 1972 despite its designation as an expanded New Town there had been no substantial investment in speculative office buildings in Northampton (Figure 9.6, Figure 9.7, Appendix B). The 1972 *100 Centre Guide to Commercial Property* notes that the lack of office development in Northampton is :

> . . . surprising considering the good public and private transport networks and the relatively short distances involved to London and the West Midlands . . . The designation of the town as a growth point should also encourage investment in this sector in the medium term (Gower Economic Publications, 1972, p.386 - 387).

The successful completion and letting of Barclaycard House and Northampton House encouraged a number of national property companies to undertake speculative developments in Northampton (Appendix B). In comparison to Leicester, however, very few office developments were constructed during this period, in fact only eleven office buildings were completed between 1971 and 1976 (Figure 9.2, Figure 9.7, Table 9.20, Appendix B). This period can be taken as Northampton's first post-war office development cycle (Figure 9.6 and Figure 9.7). This cycle terminates with the completion in May 1976 of the Greyfriars Bus station, developed by Northampton's Development Corporation. This is a peculiar office development of 158,000 sq. ft. situated over Northampton's main bus station. It consists of a single level car park

above the bus station followed by three levels of office space arranged around two central courtyards (Plate 11, Map 5). Access to the office accommodation is via a tower which contains lifts and a stair case separated from the main building by a road and linked to the offices by an enclosed walkway. This interesting arrangement did not encourage tenants to occupy this building. Greyfriars was an attempt by Northampton Development Corporation to combine transportation infrastructure with a commercial function which would subsidize and partially pay for the bus station. A substantial area of office accommodation located over the city's bus station was considered by the Development Corporation to be attractive to tenants given its close proximity to a public car park and major transportation node. A commercial property developer would not have developed office accommodation over a council bus station as very few senior managers will travel to work by bus. Most companies leasing this amount of space will require a prestigious building situated either in pleasant surroundings or in an established office area. Greyfriars was not constructed in Northampton's traditional office area while the office accommodation suffers from a large negative externality, the bus station. The office space was put on the market at an asking rent of £600,000 per annum or £3.82 per sq.ft.. Given the position of this office space the development corporation were unable to let this building.

Like Leicester, Northampton's property market was effected by the collapse of the "Barber Boom". No new office buildings were planned in Northampton until 1978 when the W.H.Smiths' pension fund paid £750,000 to the Copartnership Property Group to forward fund its 9,000 sq.ft shop and office development at 7-8 The Parade, Market Square (Map 5). It was acquired by W.H. Smiths for owner occupation of the retail part of this development. Forward funding considerably reduced the risk associated with the development of property in what was *perceived* by most institutions as a depressed property market. Northampton's property market acquired this reputation as it appeared to possess a high proportion of vacant office buildings. Most of this vacant office space was located over Greyfriars Bus Station which accounts for 15 per cent of all office space developed in Northampton between 1971 and 1986. Any institution or property investor undertaking a general survey of development locations in the United Kingdom would ignore Northampton on the grounds that it had plenty of vacant modern office floorspace.

Plate 10 : Barclaycard House, Mare Fair, Northampton.

Plate 11 : Greyfriars House, Greyfriars, Northampton.

Table 9.20 Commercial Office Floorspace Developed in Northampton 1971- 1986

Year	No. of dev.	Amount (sq.ft.)	Average Size (sq.ft.)	Average Rental £.p.s.f
1971	2	224,400	112,200	
1972	1	55,000	55,000	1.50
1973	1	132,000	132,000	1.50
1974	2	51,300	25,650	
1975	2	148,479	74,239	
1976	3	225,600	75,200	
1977				1.82
1978	1	9,000	9,000	
1979				3.40
1980				3.45
1981	2	45,500	22,750	
1982				5.00
1983	1	17,150	17,150	5.50
1984				5.50
1985	8	128,984	16,123	5.75
1986	3	40,900	13,633	6.25

These institutions would not know that most of this space was in a badly planned office/bus station/public car park complex which the development corporation were unable to let.

In January 1981 the Development Corporation was approached by a subsidiary of the American company Lummus Crest Ltd which designs and constructs petrochemical and chemical plants in the United Kingdom and Europe. This company employed 900 people in their United Kingdom headquarters at Fetter Lane, EC4, London. Expansion plans and the cost of leasing 95,000 sq.ft. of prime office space in London encouraged Lummus to consider relocating their activities to Northampton. Lummus spent six months negotiating with the Development Corporation over the possible leasing of Greyfriars House. Eventually, the Development Corporation leased the building to Lummus with a three-year, rent free period followed by an initial rent of £500,000 per annum, or £3.16 per sq.ft.. The rent-free period was to cover £3 million of modifications to the building which Lummus would have to undertake before the building was suitable for occupation. The initial rent was £0.29 below the level for prime office space in Northampton in 1981 and £2.34 below the 1985 level when the rent-free period terminated (Table 9.20). The inmigration of

Lummus' 900 employees had a dramatic effect on Northampton's residential property market causing a rapid escalation in house prices. The decentralization of Lummus to Northampton was one of the largest relocations of a commercial company within the United Kingdom. The troubled history of Greyfriars House does not end with its occupation by Lummus. In 1985 Lummus experienced a number of problems associated with its interest in the North Sea forcing it to sub-lease 52,000 sq. ft. of Greyfriars House to Barclaycard.

In a review of New Towns constructed in the United Kingdom in the twentieth century Osborn and Whittick note that :

> Much of [Northampton's] town centre is being redeveloped to meet the needs of a larger population. Forming a focal point in the heart of the town are the new Grosvenor Shopping Centre and the Greyfriars bus station. There is a direct pedestrian link between the two which sits astride a five acre site . . . It provides 300,000 sq.ft. air-conditioned shopping area and a 1000 space car park. Also completed in Northampton's commercial centre are new offices which include Barclaycard House, Greyfriars House over the bus station, and Belgrave House forming part of the Grosvenor Centre (Osborn & Whittick, 1977, p.260).

Belgrave House is a 7 storey office building containing 90,000 sq .ft. of prime office space developed as part of the large scale comprehensive redevelopment of most of the north side of Northampton's Market Square by a partnership between Grosvenor Estate Commercial, Northampton Borough Council and the Post Office Staff Superannuation fund (Map 5). This development of a shopping precinct, car park and offices involved the demolition of two of the most important, distinguished and conspicuous buildings in Northampton's Market Square, The Peacock Hotel (1676) and the Emporium Arcade with its brick clock tower and Art Nouveau tiled facade (1901). The Department of the Environment was sent a petition signed by 20,000 local people protesting against the demolition of the Emporium Arcade, but it argued that the building was not of sufficient architectural quality to retain as part of the new

development. Nevertheless, Pevsner notes that the arcade's grand archway decorated with Doulton tiles, leading to "and engagingly off-centre octagonal space with a glass dome . . . could have been rehabilitated as a shopping precinct leading to the bus station" (Pevsner, 1973, p.329). Instead both of these buildings were demolished to be replaced by "a sadly nondescript block with shops" (Pevsner, 1973, p.328). Belgrave House was designed as part of a comprehensive redevelopment package rather than as a single office building. This building's development economics are difficult to calculate as they are part of a very complex development scheme. Belgrave House was completed in 1975, but its first letting was not until 1977 when the Health and Safety Executive leased 15,000 sq. ft. on the 5th floor. The history of the lettings of Belgrave House illustrates the condition of the office users' market in Northampton between 1975 and 1984. In the late 1970s British Leyland was criticized for leasing expensive offices in The City of London, a criticism which encouraged British Leyland's Pension Fund to decentralize part of its office based activities. In January 1979 British Leyland leased 10,000 sq.ft. of the 6th floor of Belgrave House at a rental of £3,45 per sq. ft.. In October 1980 Barclaycard leased 50,000 sq. ft. of this building leaving 14,600 sq.ft. still vacant. Eventually, in 1985 Barclaycard leased this space at £4.50 per sq. ft..

In the late 1970s only two office developments were planned and completed. Notre Dame Mews, off Abington Street, developed by Penwise Properties and Castle House, Black Lion Hill. Notre Dame Mews contains 15,500 sq.ft. divided into eleven separate units (Plate 12, Map 5). This is a similar development to De Montfort Mews Leicester which is not surprising since it was developed by the same company (see p. 345, compare plate 12 with plate 8). Both of these schemes were designed for small local companies seeking modern premises either to lease or for owner occupation. The developer of these two schemes, The Penman Group, is a regional property company based in Leicester. This type of company is able to identify niches in local markets which would not be attractive development propositions to larger companies seeking greater profits from substantial development projects. This illustrates the importance of space in the classification of property development companies (Chapter 6). Small, local or regional property development companies can identify development projects which are ignored by national and international

Plate 12 : Notre Dame Mews, off Abington Street, Northampton.

Plate 13 : Castle House, Mare Fair, Northampton.

development organizations because of their size in relationship to management time and profitability (1). The successful letting of these units at £4.50 per sq. ft. was the first indication that Northampton's office market might be recovering from its 1976 slump.

Castle House, Marefair is a two storey building containing 30,000 sq. ft. of modern office accommodation situated on a site adjacent to Barclaycard House (Plate 13, Map 5). The history of this building's site is complex because the property company which developed Castle House in 1981 acquired part of the site as early as 1972. It was acquired in anticipation of Northampton's future role as a possible location for office based activities decentralizing from London. During the late 1970s Centros Properties, a national-developer-investor, extended the site by purchasing three houses and persuading the local authority to sell them a row of houses adjoining their site. According to the Managing Director of Centros Properties the initial site was identified by a small Northampton estate agent (development intermediary) who introduced it to Eadon Lockwood & Riddle, a large firm of estate agents based in Sheffield, which had established a long term relationship with Centros Properties. Consequently, this site was identified by the property company via a transfer of information from a local development intermediary to a regional development intermediary (Chapter 7, p. 191-193).

Planning permission for the development of Castle House was obtained in 1979, however, before construction commenced Centros approached Barclaycard to ascertain whether it was interested in pre-letting the development. Barclaycard was very interested in the development given its proximity to Barclaycard House, but did not reveal this fact to the property company. Nevertheless, everyone associated with the development thought that Barclaycard would eventually lease the building. Centros constructed this £2 million development in conjunction with the Sun Alliance Group, the owner of Barclaycard House. This suggests that the Sun Alliance group

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(1) Management time and decision opportunity costs were examined in Chapter 5, p.130, and Chapter 8, p.241-242.

considered that Barclaycard would eventually lease the development. The freehold of the completed development is owned by the Sun Alliance while a head leasehold interest was retained by Centros Properties. As anticipated by the property development company once the building was completed Barclaycard leased it from Centros Properties for a period of 25 years.

These two buildings, completed in Northampton between 1978 and 1981 were special low risk developments. Notre Dame Mews is a small scale development of individual units designed either for owner occupation or leasing. Its size and the market at which it was targeted makes it a comparatively safe investment. Castle House was a relatively safe development project, because both its developer and investor thought that the completed building would be leased by Barclaycard. During a downturn in an office development cycle speculative office buildings are only undertaken in established office areas or where the developer has managed to pre-let the building (Chapter 4, p.104-106).

The third speculative office development undertaken in Northampton since the completion of Greyfriars House was Elgin House, Cliftonville (Plate 14, Map 5). Billing Road and Cliftonville is a suburb, one mile south of Northampton's market square, developed in the middle of the nineteenth century for Northampton's middle classes. Its consists of large detached Victorian houses with substantial gardens (Plate 15). The first office development in this area was completed by Copartnership Property Developers in 1976. In the early 1970s this company acquired Beaumont House, a large Italianate mansion with a tower and a large garden. Beaumont House was refurbished to provide 3,600 sq. ft. of office space, while a four storey 28,700 sq.ft office building was constructed in the garden. Both of these buildings were let to the Secretary of State for Social Services to accommodate the offices of Northampton's Health Authority. The collapse of Northampton's office market in 1976 prevented further developments from occurring in this suburb.

The development of the Cliftonville/Billings road suburb as Northampton's new office area was to be expected given the availability of substantial Victorian houses set in large gardens. The area is very close to the town centre as well as to

Plate 14 : Elgin House, Billing Road, Northampton.

Plate 15 : Victorian House converted to offices,
Billing Road, Northampton.

junction 15 of the M1 motorway. Elgin House was the first speculative office development to be constructed in this area after the completion of Beaumont House in 1976. Like Beaumont House, Elgin House was constructed on the site of the kitchen garden of Redlands, a listed Victorian mansion. The developer of this property Wilson (Connolly) Properties is a Northampton based national house building company with a small regional property development and investment subsidiary. This company identified Redlands in 1976 as a property which possessed future development potential. This locally based regional property development company was able to identify Redlands as a potential development site because it possessed detailed local knowledge. Local knowledge allows local property companies to develop where national and international property companies would fear to tread. A local property development company possess a number of the same characteristics as a local development intermediary (Chapter 7, p.201-202).

The completion and letting of Beaumont House suggested that this suburb might be suitable for conversion from residential to office use. Wilson (Connolly) Properties acquired this site letting the existing building on a five year lease to a local company. When this lease expired the company undertook a development appraisal of the site with a firm of local estate agents (development intermediary). The property company decided to refurbish Redlands to provide 4,050 sq. ft. of modern office accommodation in a period setting as well as constructing a 3 storey office building of 13,100 sq.ft.. The estate agent contacted the Provident Mutual Managed Funds Ltd and persuaded them to forward fund this development. Both Wilson (Connolly) Properties and the Provident Mutual decided to undertake this development as no new office developments were either planned or under construction in Northampton. The local estate agent considered that Northampton would experience a shortage of modern office accommodation causing rental levels to escalate rapidly. Elgin House was constructed and let to a local firm of accountants which moved its offices out of Northampton's city centre.

The success of Elgin House encouraged a number of national property developers to develop office buildings in Northampton. Many of these were introduced to Northampton and to Cliftonville by Wilson & Partners, the firm of estate agents

used by Wilson (Connolly) Properties Ltd in the appraisal of the Elgin House project. In 1983 four office buildings located in Cliftonville were planned by a number of national and regional property companies (Appendix B). A local property development company, Wilson (Connolly) Properties, initiated this development boom by demonstrating that the Cliftonville suburb was a profitable development location and that a number of local companies were willing to transfer their operations from Northampton's city centre to surrounding suburbs. Local capital led the way for national and international capital by demonstrating that the risks associated with the development of offices in Cliftonville were at an acceptable level **(1)**.

A series of four buildings designed in 1984-5 to accommodate either small local companies or the regional headquarters of a national or international company illustrate the astuteness of The Penman Group, a regional property company based in Leicester (the developer of Notre Dame Mews and De Montford Mews). This company acquired a large site to the north of Greyfriars, the Grosvenor Shopping Centre and the Market Square located in Campbell Square, Newlands and Victoria Street (Map 5). The active condition of Northampton's property market encouraged this company to plan the construction of 82,390 sq.ft. of office space in two Neo-Georgian Buildings. This is a relatively high risk development as the site is adjacent to Greyfriars House with its associated letting history. The Penman Group designed four separate buildings, two of 12,200 sq.ft., one of 33,590 sq.ft. and one of 24,400 sq.ft.. If required the two buildings of 12,000 sq. ft. could be let as one unit while the remaining two building could be let to provide a building of 57,990 sq. ft.. The smaller buildings are designed for local or regional offices users while the facility to provide a 24,000 sq.ft.and a 57,990 sq. ft. office building is an attempt by The Penman Group to attract a large regional or small national company top these buildings. Campbell Square illustrates an attempt by a small regional property company to reduce its risk exposure by developing flexible office buildings.

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(1) This illustrates the importance of space in the classification of property development companies (Chapter 6).

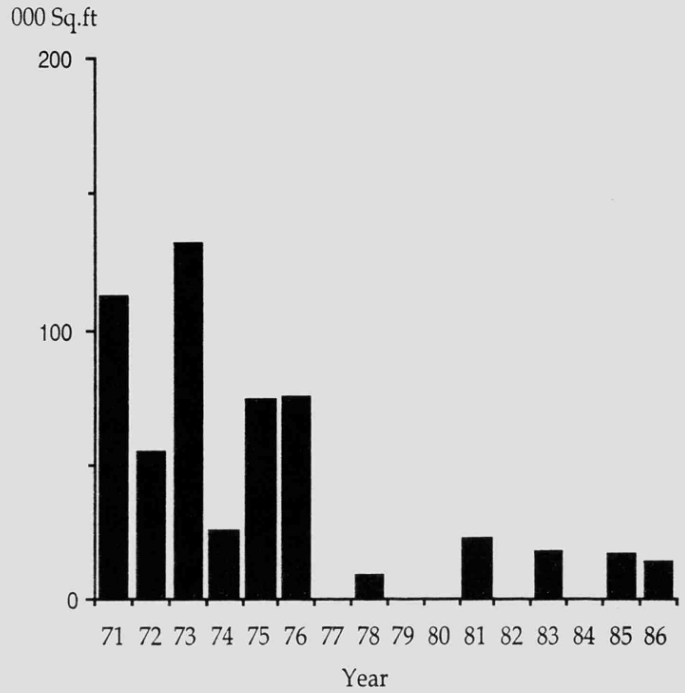

Figure 9.8 The Average Size of Northampton's Office Developments

The office buildings constructed in Cliftonville are very small averaging around 15,801 sq. ft. indicating that they are designed for local and regional companies (Figure 9.8, Table 9.20, Appendix B). Many of these buildings were sold to institutional investors at yields of between 5.5% and 6%, reflecting the increased institutional confidence in Northampton's office market. Northampton's 1980s development boom is associated with the demand by local and regional companies for modern office space. A number of companies moved from Victorian office space located over shops in the city centre to the Cliftonville suburb. Office buildings constructed during this development boom supplied local companies and not national and international companies locating to Northampton. Unfortunately, Northampton suffers from the close proximity of Milton Keynes which attracts most of the offices of the larger national and international companies.

This case study highlights the role of local and regional property development companies in regional property markets. A small local property company does not have access to substantial capital resources, but it does possess detailed local knowledge which permits it to identify small development sites which are ignored by larger

national and international property development companies. In many respects small local property companies have many of the advantages of local development intermediaries.

9.9 Office Development in Nottingham

The final case study examines a number of features of Nottingham's office property market which were not present in either the Leicester or Northampton case study. Since 1960 over 2 million square feet of office floorspace was constructed in Nottingham. Like Leicester, Nottingham experienced a property boom in the early 1960s and another in the early 1970s. Unlike Leicester, however, Nottingham has not suffered from a long term over supply of office space. During the 1980s the vacancy rate for post-war office buildings has fluctuated around 6 to 7 per cent. This vacancy rate is low enough to attract new property development to the city and high enough to provide accommodation for companies moving within or into the city centre. Like all cities Nottingham has a substantial amount of pre-war office floorspace much of which is obsolete, unlettable and vacant. In July 1985 18 per cent of this floorspace was vacant, 69 per cent of which was not currently on the market either for sale or to let (Table 9.21).

The rental structure of Nottingham's office market does not encourage property developers to construct new buildings. Rental levels remained at £5 per sq. ft. over the period 1982 to 1985. In real terms rental levels fell during this period yet the vacancy rate fluctuated around 7 per cent suggesting that much of this space was obsolete and unlettable. Future tenant demand for office accommodation could only be met by the construction of new buildings. In 1986 the rental level for office space in Nottingham was still £5 per sq. ft which was not high enough to encourage new office developments. In 1987, a property developer stated that his company had agreed a lease with a company which required 20,000 sq. ft. of modern office space in Nottingham at a rental level of £7 per sq. ft.. Even at this rental the property developer could not economically undertake a new office development as its yield would be unacceptable to institutional property investors (Interview, 29/7/1987, International Developer-Seller). Without a substantial rise in rental levels the development of new

Table 9.21 Nottingham's Central Area Office Floorspace (sq.metres)

	Aug. '80	April '81	April '82	April '83	April '84	April '85
Post War						
Occupied as offices	174,314	175,021	173,186	174,649	175,867	174,803
Occupied in other use	16,509	16,938	17,593	18,067	17,397	17,968
Vacant (advertised)	11,055	12,842	12,564	8,206	7,560	4,880
Vacant (not advertised)	3,970	1,047	1,633	6,880	7,050	10,933
Total Vacant	15,025	13,889	14,197	15,086	14,610	15,813
Total Floorspace (office use/vacant)	189,339	188,910	187,383	189,735	190,506	190,616
Total Floorspace	205,848	205,848	204,976	207,802	207,903	208,584
Vacancy Rate	7.3%	6.7%	6.9%	7.3%	7.0%	7.6%
Pre-War						
Occupied	184,601	183,212	187,809	197,781	191,537	195,485
Vacant(advertised)	26,845	27,125	23,908	16,293	21,089	13,214
Vacant (not advertised)	12,992	15,038	15,491	28,059	35,023	29,740
Total Vacant	39,837	42,163	39,399	44,352	56,112	42,954
Total Floorspace	224,438	225,375	227,208	242,133	247,649	238,443
Vacancy Rate	17.7%	18.7%	17.3%	18.3%	22.7%	18.0%
All Offices						
Total Occupied	375,424	375,171	378,588	390,497	384,830	388,260
Total Vacant	54,862	56,052	53,596	59,438	70,722	58,767
Total Floorspace	430,286	431,233	432,184	449,935	455,552	447,027
Vacancy Rate	12.7%	13.0%	12.4%	13.2%	15.5%	13.1%
Offices Under Construction	104	104	1,116	Nil	3,200	7,995
Outstanding Permissions	31,820	41,740	56,628	42,730	35,057	10,928

Note : The method of allocating offices to 'advertised' and 'non-advertised' categories was altered for the 1983 survey but the total vacant figures are still comparable

Source : Report of the City Planning Officer Planning Committee, 12th December, 1985

office buildings in Nottingham would not be economically feasible.

Nottingham is a regional office centre with a fairly strong user demand for small office units of up to 5,000 sq. ft., suitable to accommodate the regional headquarters of medium and large national and multi-national companies. Given Nottingham's office rental level this demand can only be met by the refurbishment of old industrial premises, the refurbishment of vacant and obsolete office buildings or the construction of new office developments encouraged and aided by either local authority or central government grants. During the period of data collection for this study, 1985 to 1987, Nottingham experienced a minor office development boom. As rental levels in the city were not high enough to support the construction of new office buildings this boom consisted of the refurbishment and conversion of derelict industrial and warehouse premises.

A related problem in relation to Nottingham's office market is the number of substantial buildings completed and let around 1965 on twenty-one year leases. Many of these were constructed along Maid Marion Way, Nottingham's inner ring road, for example Newdigate House a 10 storey, 35,000 sq.ft, building, completed in 1966 (Map 6). As these leases terminate property companies and property investors are being left with obsolete post-war office buildings which require a substantial and expensive refurbishment. Many of these buildings will not be refurbished without financial assistance from either the local authority or central government. There is a real danger that cities like Nottingham could be left with a series of large 1960s obsolete and vacant office buildings which cannot be economically refurbished **(1)**.

In one instance, City House on Maid Marion Way, a vacant 1960s eight storey, 20,000 sq.ft, office building was leased from its developers and owners, Town and City Properties, by Nottingham City Council in association with Plessey Communications (Map 6). Together they spent one million pounds on refurbishing the

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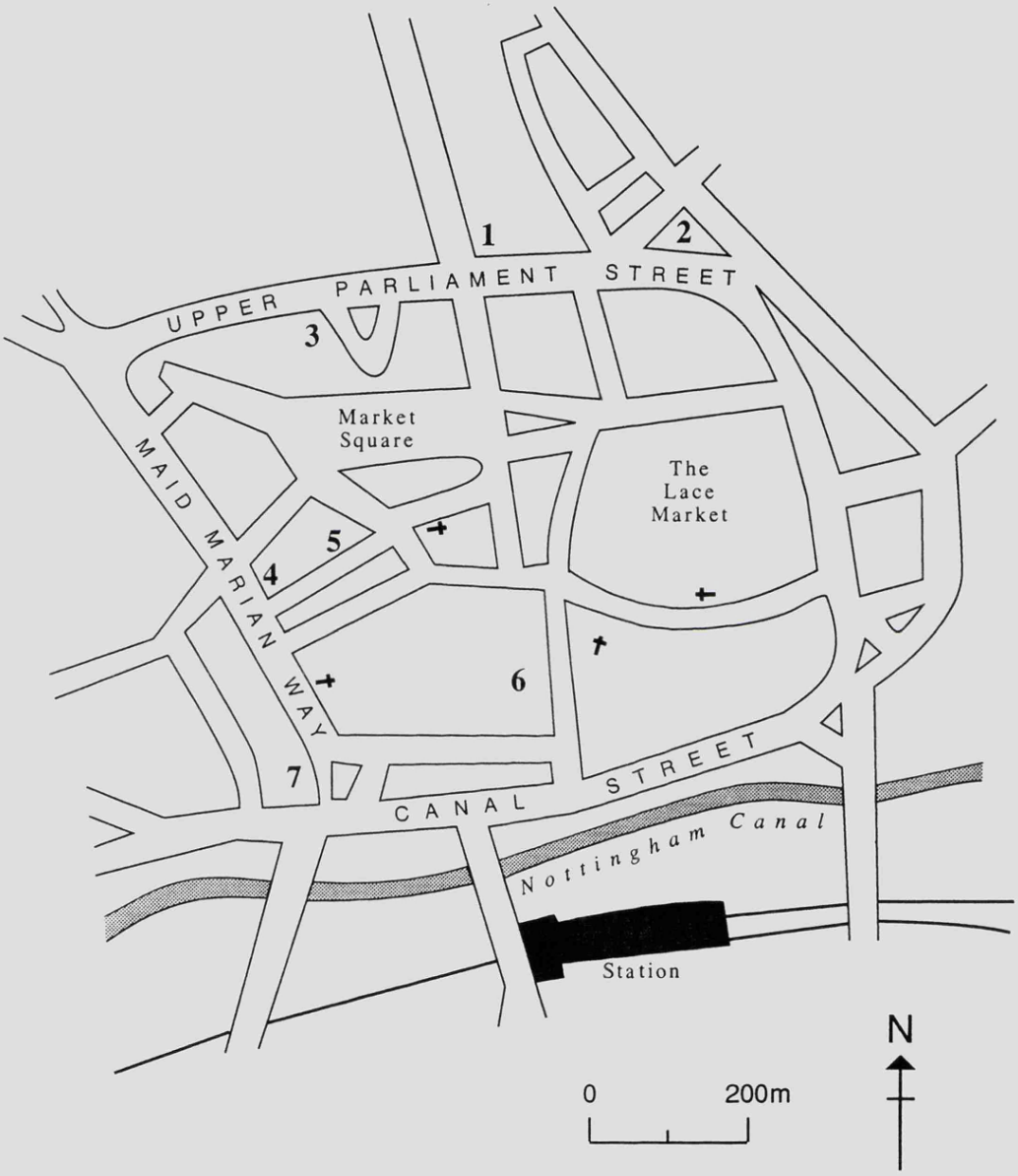
(1) Obsolescence was examined in Chapter 4, p. 87.

building with Plessey installing a range of modern sophisticated office machines. The establishment of the Advanced Business Centre at City House enables small firms to obtain access to a wide range of business services which they usually could not afford. City House is divided into 50 office suites ranging in size from units suitable for one person to those suitable for ten. Tenants have a monthly licence enabling them to either expand or liquidate their organization extremely quickly. This scheme has transformed a vacant obsolete office building to the advantage of the property investor and a number of small companies based in Nottingham. Nottingham City Council also gains as it has prevented a large office building from remaining vacant and provided a useful service for small scale office users. This solution to the problem of obsolete 1960s office blocks can only ameliorate the problems of a comparatively limited number of buildings.

Regional property markets with comparatively low rental levels do not encourage national and international property developers to engage in speculative office and industrial developments. Vacant sites, obsolete or derelict buildings may become a prominent feature of the townscape of many regional cities. Nottingham City Council has actively encouraged private property developers to undertake the redevelopment of prominent vacant sites or derelict buildings. One of the best examples of the relationship between the City Council and a private property developers is in relation to the redevelopment of the former Queen Street Post Office (Plate 16, Map 6). This building was acquired on the 18th of August 1953 by Norfolk Place Properties (Nottingham), a company owned by Mr. Harry John Hyams the developer of London's Centre Point (Marriott, 1967, Chapter 8 and p. 322). Hyams acquired this building, at the age of 25, at the beginning of his career as a successful property developer. Most of his activities during this period were in London, connected with the Oldham Estate Company. Norfolk Place Properties (Nottingham), in comparison to Oldham Estates, is a very minor property development/investment company. The history of Hyams' involvement with Nottingham's former head post office demonstrates the relationship between a regional property market and that of London. Given this properties relatively low capital value Hyams was not interested in the development or refurbishment of this site. There were too many profitable deals to be completed in London. On the 25th of March 1963 Norfolk Place Properties

Map 6: Selected office developments constructed in Nottingham



1 Victoria Shopping Centre
2 King Edward Court
3 Queen Street Post Office
4 City House
5 Hounds Gate Development
6 Broadmarch Shopping Centre
7 Newdigate House

Plate 16 : Queen Street Post Office, Queen Street, Nottingham.

Plate 17 : King Edwards Court, Phase 1, King Edwards Street, Nottingham.

mortgaged the building with the Westminster Bank. By 1982 this Victorian building, with a listed facade, had become severely dilapidated. The listed facade is of considerable architectural interest while its position just off Nottingham's market square prompted the City Council to attempt to persuade Hyams to refurbish the building. Given this building's size and the current and predicted rental level for office space in Nottingham Hyams was not interested in refurbishing the property either on economic terms or in order to preserve the fabric of listed building. This is an example of a development filter in operation. The size and location of the Queen Street building did not encourage Norfolk Place Properties to consider its redevelopment as either a profitable or feasible development project (Chapter 5). In 1982 Nottingham City Council contacted Hyams and his estate agent attempting to encourage him to refurbish this building.

This action by Nottingham City Council must be placed in the context of the Conservative Government's policy towards inner city regeneration. This has consistently stressed the importance of partnerships between the public and private sectors. In April 1982 the Conservative Government introduced a new form of finance to encourage and promote the physical and economic regeneration of inner city areas. The *Urban Development Grant* scheme (UDG) provides finance for the assistance of predominantly private sector funded projects which would not occur without subsidy (Matson and Whitney 1985a, 1985b). The grant is paid directly by the local authority which receives 75 per cent of the subsidy from the Department of the Environment. As most of the grant comes directly from the Department of the Environment rather than from local government it is advisable for local authorities to utilize this scheme extensively. When the scheme was announced Nottingham City Council's Estates Department were requested by the City Council to identify and suggest possible sites or projects which would be suitable candidates for an Urban Development Grant award (Mallinson and Gilbert, 1983). Property developers known to be interested in specific sites were approached as well as the owners of a number of Nottingham's problem, derelict and vacant buildings. To obtain a UDG the property developer must demonstrate that the scheme would not be economically viable without support from either central or local government.

Nottingham City Council, along with Hymas' estate agent, put together an application for a UDG for the redevelopment of the Queen Street Post Office, retaining its existing listed facade. This proposal stated that the retention of the listed facade would only be economically viable with an UDG of £750,000. Norfolk Place Properties was awarded this amount without the imposition of a claw-back agreement. Normally a UDG is awarded with a claw-back agreement which permits the public sector to participate in any excess profits which the private sector partner might make if the development is sold or leased at a level far greater than anticipated in the initial application for a UDG.

In 1983 Norfolk Place Properties (Nottingham) began to demolish the building behind the listed facade planning to replace obsolete, vacant Victorian space with 36,400 sq. ft. of modern office floorspace, 33 car parking spaces and 3 shops. The redevelopment of this building resulted in its reclassification by the city council from "vacant pre-war" to "offices under construction". This reduced the vacancy rate of pre-war offices buildings from 22.7 per cent to 18 per cent. In 1982 the building was valued in Norfolk Place Properties accounts at £138,246. According to these accounts the redevelopment of the building cost £3,090,000 without taking into consideration the UDG which reduced the total development cost to Norfolk Place Properties to £2,340,000, a reduction of 24 per cent of the total redevelopment cost of this listed building.

Nottingham City Council have used UDGs to encourage the development of a number of council owned freehold sites. The most important of these is the former site of Nottingham's Victorian House of Correction on King Edward Street (Plate 17, Map 6). The City Council had attempted to sell this site to a private property developer for a considerable period of time. Eventually, St. Modwen Properties plc were persuaded by the City Council to acquire this site and develop it for office accommodation with the assistance of an Urban Development Grant which covered 25 per cent of development costs. Between 1985 and 1988 St Modwen Properties constructed an office development in three phases. The first phase of 16,000 sq. ft. was let to Bass, the second phase of 17,000 sq. ft.was prelet to the Property Services Agency for occupation by the Crown Prosecutor's Office while the third phase consists

of 12,000 sq. ft. consists of six freehold "front door" offices. Phases 1 and 2 have been retained by St. Modwen as long term investments while Phase three was designed for owner occupation by small local service activities. According to the *Report of Nottingham's City Planning Officer* :

> The greatest demand at present is for small offices up to 5000 sq.ft. to serve as regional headquarters for medium and large national and multi-national companies. The development of King Edward Court is aimed at this market (Unpublished City Council Report 26th November, 1985).

The development economics of The King Edwards Court development are very simple. To construct one square foot of office space in Nottingham in 1986 cost £85, consequently it may be estimated that phases 1 and 2 (33,000 sq. ft.) of this development cost approximately £2,805,000. Both buildings were let at £5 per sq.ft. giving a total rental income of £165,000 per annum. The actual capital value of this development calculated on the basis of a yield of 8 per cent is £2,062,500. This means that the development is not economically viable as its development cost is £742,500 greater than its estimated capital value. A UDG of 25 per cent makes up this difference making the development project viable, if not immensely profitable (Chapter 4, p.93-102).

These two examples illustrate the role that the Local State can play in the property development process. By encouraging and assisting private sector capital to develop specific sites and buildings the city council is subsidizing and aiding the process of property development. The city council gains as its is preventing or reducing the number of derelict sites and vacant buildings and ensuring that there is an adequate supply of modern office floorspace in the city. User demand for small office suites exists in Nottingham, but the structure of the city's property market does not actively encourage property developers to construct new buildings. Property developers gain as they are able to redevelop buildings which they may have owned for a considerable period of time, but have been unable to develop economically. The example of the Queen Street Post Office illustrates the way in which an astute City Council can

encourage a major property developer to redevelop a building which may have been forgotten about given their involvement in the national and international property markets. The example of King Edward Court provides an interesting account of a City Council providing a development subsidy to encourage the development, by a private sector company, of land currently owned by the local authority. If used correctly UDGs can be used to provide a carrot to encourage private national and even international development companies to undertake otherwise unprofitable developments in cities in which there is a small, continuous, but strong demand for office accommodation which is currently not been met on the grounds of development economics rather than a complete absence of user demand.

The final case study from Nottingham's property market examines the conversion and refurbishment of derelict and vacant industrial or warehouse buildings. In situations where rental levels are too low to justify a new development the refurbishment of redundant industrial buildings may be economically feasible. In Nottingham a number of local small scale property developers are buying warehouses in Nottingham's Lace Market, an area of substantial Victorian warehouses and factories (Map 6). According to the Managing Director of Bendigo Properties, a small property development company based in Nottingham, refurbishments are common in Nottingham primarily because of cost. It costs Bendigo Properties £55 per sq. ft. to construct a new building while it costs between £35 and £40 per sq. ft. to refurbish a Victorian building to institutional standards (Interview (9/9/1986). One of the best examples of a refurbished building in Nottingham is Bendigo Property's 1985 refurbishment at 30-34 Hounds Gate (Plate 18, Map 6). This building used to be occupied by William Dixon & Co Nottingham Ltd, a local clothing manufacturer. Bendigo Properties is a very small regional property company consisting of its owner/ managing director and secretary. The managing director identified this building, which had been on the market for a considerable period of time, as a suitable development opportunity. The speculative redevelopment of the Hounds Gate building was a big gamble for a very small property company (Plate 19). Nottingham's property market was not very active, rental levels were low and institutional investors were not interested in the yields obtainable from new or refurbished offices in the city. The primary reason for undertaking this scheme was the expectation that a number of the

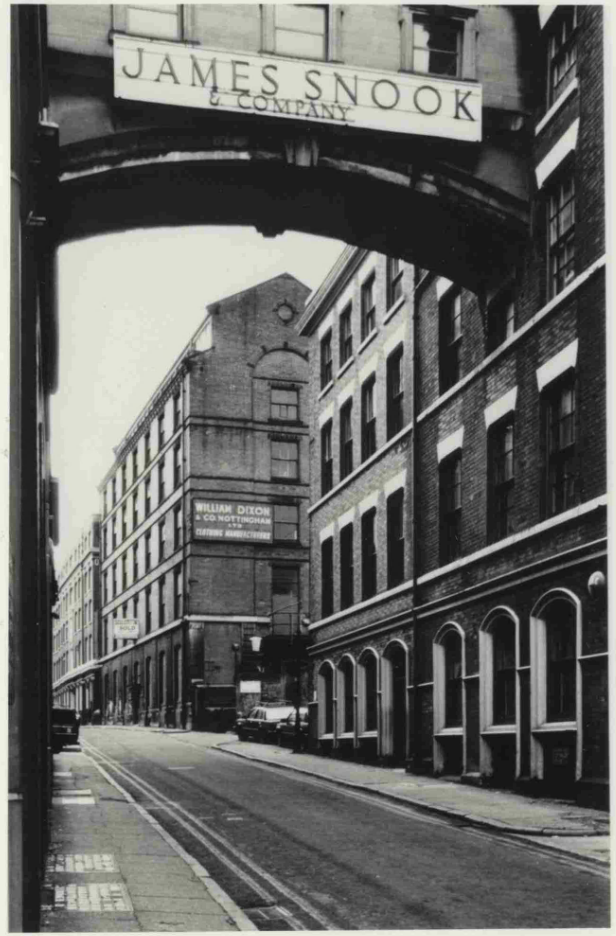


Plate 18 : The Hounds Gate development before refurbishment, Nottingham.

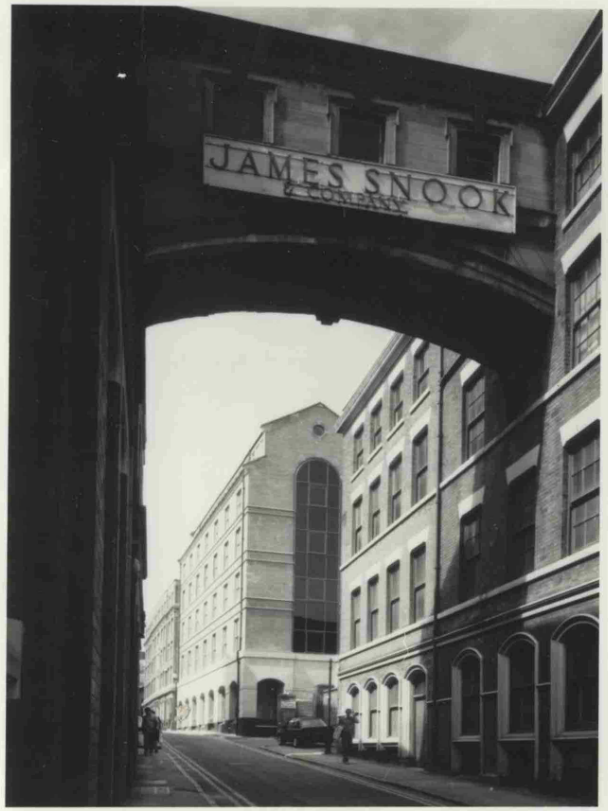


Plate 19 : The Hounds Gate development after refurbishment, Nottingham.

21 leases for buildings constructed in the early 1960s were coming up for renewal. Bendigo Properties considered that many of these buildings were obsolete which would force many tenants to consider moving to new accommodation.

The existing industrial building (in this landed capital) cost £110,000 for 55,000 sq. ft. of derelict factory space suitable for conversion into 35,000 sq. ft. of modern office floorspace designed to the specifications of institutional property investors. The overall refurbishment cost amounted to £1,500,000, while the building was let to Commercial Union Assurance at £4.50 per square foot, resulting in an annual income of £165,000. The managing director of Bendigo stated that he required at least an 18 per cent return on a property investment or at least 4-5 per cent above bank interest rates to cover fluctuations. Bank rates are important to a small company as most of its developments will be funded by a traditional bank mortgage :

> . . . if I can buy a building to refurbish or a site to new build and the cost of the borrowed capital is less than the return in rental I can go ahead with the project (Interview, 9/9/1986).

Using a yield of 18 per cent the capital value of this building is only £875,000. At this yield the development is economic suicide. Bendigo calculated the viability of the project on the basis of a yield of 10 per cent in the expectation that rental levels in Nottingham would rise before the building's first rent review. A yield of 10 per cent values the completed building at £1,575,000. This figure implies that the development is economically viable for Bendigo Properties as long as it has access to a source of development finance at or around this level. Given this yield the completed building is not a suitable institutional property investment. This did not concern Bendigo Properties as the financial institutions were not investing in regional office buildings at this time while a modest demand for prime office floorspace existed in Nottingham. The possibility of letting Hounds Gate to a blue chip tenant encouraged Bendigo Properties to develop the building as a long term property investment. Bendigo Properties provided 50 per cent of this building's development cost, the remainder was borrowed from one of the large financial institutions. The Hounds Gate development is used as collateral to acquire short term borrowed capital to fund the site acquisition

costs and construction costs of the company's retail development schemes which are not retained as long term property investments. Initially the Hounds Gate development appears to be an uneconomic development proposition, but if Bendigo Property's long term expectations about Nottingham's future rental levels are correct the building will be sold at a large profit to an institutional property investor, probably its existing tenant. Bendigo's development decision was based on the confidence the property developer had in his own assessment of Nottingham's office property market. Consequently, judgment, and art are very important elements in the development decision making process (Chapter 8, p. 237-238).It is interesting to consider this building's financial situation if Nottingham's office rents rise to £6.50 per sq. ft.. In 1987 this was the level commonly considered by many property developers to be the lowest at which property development was feasible, if not immensely profitable. The building's annual rental income becomes £227,500, while at a yield of 10 per cent its capital value rises to £2,275,000 or at a yield of 14 percent to £1,625,000.

The Hounds Gate refurbishment provides modern, high specification office floorspace in a building which would otherwise have remained vacant. Bendigo's conversion of this nineteenth-century, brick built, four storey warehouse provides an attractive marriage of an obsolete industrial building with a modern service activity (Plate 19). Without local property developers undertaking refurbishments and small scale infill developments many of Britain's provincial cities would suffer from a severe shortage of modern office floorspace. The conversion of warehouses and industrial buildings to office accommodation is time consuming and a high risk development option. During conversion many unknown defects in the original building may be identified which undermine the property company's initial development appraisal. National and international property companies prefer to avoid small scale refurbishments as they are time consuming in relation to the financial returns available from the completed development (1). A small development, like Hounds Gate, would not be economically justified in relation to the management time required to undertake the project. Bendigo undertook this project as is not interested in selling the completed

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(1) Management time and the development decision making process was examined in Chapter 8, p. 241-242.

building immediately to a financial institution. Nevertheless, as soon as office rents in Nottingham reach a level which provides an adequate yield the building will probably be sold. The motive for undertaking the project was to acquire a substantial prestigious building which would be used as collateral to fund the company's future development programme (1).

Nottingham's office users require modern office space, but the structure of its property market makes it difficult for property developers to make an adequate return on development capital. Nottingham City Council's Chief Valuer stated that despite the demand for modern office floorspace:

> . . . it is impossible to get financial institutions to invest in offices and industrial units in Nottingham because of the nature of the returns available (Interview, 4/9/1986).

To encourage office development in Nottingham the City Council has actively promoted the UDG scheme and the refurbishment of many Victorian Buildings around the edge of the City Centre and in the Lace Market. In the examples of King Edward Court and the Queens Street Post Office the development of these sites would not have occurred, at this time, without the direct intervention of Nottingham City Council. Hounds Gate demonstrates the importance of small local property development companies in regional property markets which are, in comparison to other more active property markets and other investment mediums, not economically viable development propositions. Often where national and international property companies fear to develop small local companies will undertake small development projects, either for sale to a small scale non-institutional property investor or as a personal long term investment. The economics of regional property market like Nottingham permit small property companies with limited financial resources to develop prestigious buildings relatively inexpensively.

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(1) Prestige was ranked by one of the respondents to the postal questionnaire as an important variables in the development decision making process (Chapter 8, p. 242-243.

9.10 Summary

Property development is a very complex, dynamic and individualistic process. An understanding of the social relationships, performed by the actors involved in the development industry, results in a sophisticated, but simplistic understanding of the actual property development process. Abstract models enable us to understand the relationships between individual components of a system or process, yet they are unable to explain the effects of local factors specific to particular locations and times. Property development is a far more complex process on the ground than it can ever be on paper. The accounts of Leicester's and Northampton's property development cycles and of individual developments in Nottingham portrays the property development industry in some of its complexity. No property markets can be completely comprehended without a detailed analysis of its position in relation to regional and national property markets. The Leicester case study illustrate this point, without an awareness of the effects of Office Development Permits and the activities of the Location of Offices Bureau many features of Leicester's property market can not be understood. Property development companies may operate in isolation from other property development companies, but they all must operate within the limitations and constraints imposed by the existing property market, by local and national Government and by the activities of other property development companies.

The distinction between local, regional, national and international property development and investment companies is central to the analysis of the past and future development history of most regional property markets. The case studies illustrate the differences between developments undertaken by local and national property development companies. National property companies develop large office buildings usually targeted at regional and national office users. These developments are only undertaken during development booms and more importantly when the yields obtainable match those required by the financial institutions. Local or regional property companies, for example The Penman Group, Leicester or Bendigo Properties, Nottingham, are able to identify niches in the property market which have either not been identified by larger companies or are unprofitable development propositions for development companies serving the requirements of a variety of aspatial, or spatially

mobile, "property capitals", rather than the local user market. For the larger property company, investment criteria nearly always comes before the requirements of the user market. User demand for particular types of office space exists in many regional cities, but this will not be satisfied by national and international properties companies given the present structure of the United Kingdom's property development industry.

The future of many regional city's property markets, especially those with low office rental levels, lies with small local property development companies or in subsidized development projects. Government subsidy, in the case of Nottingham in the form of Urban Development Grants, can transform a totally unprofitable potential development scheme to one that is economically viable, if not immensely profitable. The future of new office development in Leicester lies in subsidy until its office rents rise to a level which will encourage speculative office developments. This is illustrated by the fact that two new prelet office buildings are currently being constructed in Leicester with the aid of a central government grant. Both of these developments are prelet suggesting that a demand for office space exists in Leicester, a demand which currently cannot be satisfied by unsubsidized private capital given the structure of Leicester's property market. This type of subsidy bridges the rent gap that exists between Leicester's current asking rent for prime, modern office space and the rental required for profitable property development. Without subsidy medium to large size office developments would not occur. Many regional cities are caught between user demand for particular types of office space, for example small units designed for owner occupation, and an absence of investment demand. Most long term national and international property investors ignore many regional city's property markets as more profitable and safer investment properties and opportunities exist elsewhere. Modern office developments in these cities will be increasingly undertaken by a variety of local and regional capitals which are spatially restricted as far as property investment is concerned.

CHAPTER TEN

Conclusion

Structure, Agency and the Space-Economy

> The significance and value of practical, local, agent-centred knowledge has been progressively eroded and ridiculed over the years as societies have become more centralized, "rational" and technocratic (Mercer, 1984, p.194).

This final chapter draws together the key conclusions of earlier chapters and goes on to suggest a number of questions which further geographic research into the property development industry needs to address.

10.1 The property development process and built-space

Cities are a product of economic, political and social processes operating at a particular time. The built form of the city develops to accommodate the current economic and social order. Nevertheless, no city bears the mark of only one form of economic and social structure because, overtime, different types of economic activity and social organization have existed and each has left legacies of buildings and transportation infrastructure. Successive rounds of capital investment in an area establish 'layers of activity' which produce distinctive social, political and cultural legacies. A local area consists of a combination of 'layers of activity' which represent the role it has played in the national and international economic system (Massey, 1984, p.117). Cities are also local areas which consist of a built form usually created over many centuries. As the structure of economic activity and the forms of social organization alter the built forms and structures of the city are gradually transformed. The legacy of former rounds of capital investment effects the future development of the city, because what already exists influences the nature of the land and property

markets (Chapter 2, p.53-57; p.237).

All economic and social activities require the production of built-space in the form of either sites or buildings for particular functions. *Space, especially built-space, is produced by a manufacturing process which is in no way dissimilar to the production of any other commodity under a capitalist mode of production* . The built environment of the city, its offices, factories, warehouses and houses are the *mise en scene* for most economic and social process which operate in urban areas. Despite the central role played by the producers of built-space in the creation of the built environment of the city, the property development process has largely been ignored by urban geographers. Instead the focus of research activity has centred on the users of buildings rather than on the producers. Occupier demand is an essential element in the production of built-space, but it is only one component in the complex decisions which lie behind construction of all buildings (Chapter 8, especially p.225-248).

Many geographical models implicitly assume that the supply of buildings automatically responds to demand, e.g Alonso's theory of the urban land market, Weber's theory of industrial location, and office location studies. Such theories, however, fail to consider the activities of the individuals, companies and institutions which mediate between occupier demand and the supply of buildings. These theories assume that manufacturing and service activities completely control their locational decisions. Nevertheless, to paraphrase John Donne's well known line, no individual firm is an island entire unto itself, as each is constrained by its external environment. Individual decisions made by the occupiers, developers and investors of commercial floorspace can only be made within the constraints of the existing system. Consequently

> The traditional habit of analysing industrial location separately from economic conditions must be dropped. Since location decisions (whether they involve moves or decisions to locate further capital *in situ*) presuppose investment decisions (or disinvestment decisions), and since the determinants of these lie in the economy outside the firm, the latter cannot be ignored Sayer, 1982, p. 78).

This implies that there is no such thing as an unconstrained locational decision. The decisions of individual firms are influenced by the present structure of the economy, the current condition of the manufacturing or service sector, competition, the condition of the land and property markets and the operation of the financial markets. All of these, of course, are outside the direct control of individual firms (p.37-41). Supply does not automatically react to demand, instead a series of intermediaries mediate between the user and investment markets. In many respects the investment market and the economics of development are more important in determining the supply of commercial floorspace than occupier demand. Consequently, understanding of the ways in which the built environment is produced as well as consumed, either by the user or investment markets, is essential for the study of all processes that operate in cities (Chapter 1, p.10-13; Chapter 4 and Chapter 9, passim).

This thesis has examined a number of features of the relationship between the supply of commercial office floorspace and occupier demand. The emphasis has been on the producers of office buildings, property development and investment companies, rather than on occupier demand. The production of commercial floorspace depends on the relationship between occupier demand, investment demand and the perceptions and motivations of individuals and companies involved in the creation of built-space, in other words, those involved in the property development process. Occupier demand should not be ignored because without it the end product of the property development process is essentially worthless. The relationship between occupier demand and the producers of built-space is not a simple one (Chapter 5, p.345; Chapter 9). A one to one relationship between the demand for and supply of office floorspace does not exist, if it did all occupier demand for particular types of floorspace would be satisfied. This does not occur since the construction of built-space depends on the actions of a series of agents which mediate between the demand and supply of commercial floorspace with reference to the economics of development and returns from property as a long term investment medium. This produces the property development processes' primary contradiction which is that occupier demand for particular types of floorspace may exist, but not at a level to encourage the development of built-space. Occupier demand, by itself, is not sufficient to encourage the development of commercial floorspace. Sufficient occupier demand must exist as

well as rents which are high enough to make development economically feasible. *Ultimately, what is built, and where it is built, depends on more than just occupier demand, but on the operations of the United Kingdom's investment market* (Chapter 4, p.112-120 and Chapter 8, p.244-267).

It was demonstrated in Chapter 6 that the property development industry provides the link between the economic system and the land surface. Property developers and investors respond to occupier demand producing commercial floorspace which serves both user and investment markets. Land, development sites and prime building locations are scarce, finite resources which are allocated to uses via the actions of the land, property and investment markets. The development industry mediates between these markets identifying and developing sites according to the motivations of the development and investment markets as well as accommodating the requirements of the user market. This relationship implies that the actors involved in the property development industry partially manage the creation of the built environment of the city. Property developers are partial managers since they must operate within the constraints of the existing economic, property, planning and financial systems (Chapter 2, p.32). Consequently they are not, and cannot be, conceptualized as autonomous, independent actors. Property investors impose a series of constraints on the activities of property development companies which influence the type and specifications of speculative buildings. Nevertheless, property investors are equally as constrained since they must operate within the existing structure of the financial market and to the imperatives of profitability. In other words the decisions of individual property development companies are influenced by the economic and financial structures which are external to their own activities. Managers manage while developers develop with direct, but often implicit reference to societal and economic structures beyond their control. The effects of ODPs on the Leicester property market during the late 1960s and early 1970s illustrates an external constraint on the actions of individual property developers and property development companies (Chapter 9, p.302).

The identification and analysis of the structure of the property development process and its relationship to the actions of individual property development

companies must be a central component of all investigations into the development process (Chapter 2, p.46-50). *All property development companies must operate within the constraints imposed by the existing structure of the land market, financial market, property market and of the property development process.* These structures, however, must alter as the economy and society changes.

10.2 Spatial and non-spatial social processes

The property development process must be conceptualized as one of the premier spatial processes, in fact it may be the only truly spatial process. Social geography is essentially concerned with social relations and processes relating them to particular places and spatial relationships and patterns. Most social processes per se are essentially non-spatial in that space only effects them contingently. For example, deprived inner city areas exist not because they are located in the inner city, but because of the operation of the economy. Social processes have spatial outcomes rather than spatial processes having social outcomes, the social and economic systems operate over space rather than vice versa. Space is an influence, but not the controlling variable, nevertheless, there is no such thing as a purely non-spatial social process since all social actions occur in space, neither are there no purely spatial processes (Massey, 1984, p. 51-54). *Despite claims that no purely spatial processes exist it can be argued that the property development process is a spatial process and maybe the most spatial of social processes since it links non-spatial economic and social relationships and processes with the actual land surface.* In this process space, especially relational or relative space, is the most important primary input.

While being an essentially spatial process the property development industry is also part of the wider economic system. Consequently, the property development process services the demands of the economic system for commercial floorspace, while also functioning to appropriate surplus value generated in the productive areas of the economy. The foundations of the property development industry are necessarily spatial, but ultimately its operations can only be understood by explicit reference to the national and increasingly international financial system. This implies that a truly spatial process is largely controlled and influenced by the activities of financial

investors rather than by the requirements and needs of the occupiers of land and buildings.

The recognition that the property development process is one of the few social process which has space as one of its primary inputs suggests that it must play a central role in the study of the built environment of the city. Space is a very complex concept which must be examined in greater detail, consequently space or the spatial, must not be conceptualized as an homogeneous entity since it consists of many different layers nested one within each other. What happens in a city, region or even a country is only partially attributable to processes operating within each of these types of area. The smaller the scale the greater dependence the area will have on external forces, for example, Leicester is part of the economy of the East Midlands which is part of the economy of England which is part of the European economy which is part of the international economy. Decisions made in Leicester are influenced by all these spatial scales because large movements of capital tend to be controlled nationally and internationally rather than locally. *To examine the property development process without explicit reference to its spatial qualities is to deny the importance of space as a primary element in the formation, continuous recreation and manipulation of the built form of the capitalist city* (Chapter 6, p.165-174).

Despite the central role space plays in the property development process previous studies of the property development industry have failed to include it as an important element in their theoretical framework, e.g the CALUS study (1979) and McNamara's work on Edinburgh (1983). Yet the manner in which property companies are organized determines their relationship with the space-economy. An internationally organized property company is not as spatially constrained as a local company. Previous classifications have ignored differences in the scale of development company's operations, with international property companies frequently grouped under the same heading as small local companies. This ignores differences in the outlook and motivations of large publicly listed property companies in comparison to small local ones, for example international property companies are able to switch their development activities between regions and even countries while local property companies can only switch between property sectors. *The classification of development*

interests formulated in this thesis highlights these types of differences, for example, between local and national property development companies. The use of a modified version of this classification in the analysis of the property markets of Leicester, Northampton and Nottingham enables differences in the operation of local and national property companies to be identified (Chapter 6 and Chapter 9). Local companies possess local knowledge and can, in consequence, identify development sites and projects which larger nationally organized companies would deem to be unprofitable development projects. Local companies are able to identify niches in their home markets which larger, more centralized companies would ignore. *Ultimately, every property market, and consequently the built environment of every city is the result of decisions made by many types of property company which possess a variety of different motivations for undertaking the development of a site and building* (Chapter 8, passim). These reasons range from the demands placed on a publicly listed property company by its shareholders to the requirements of small local property companies for prestigious buildings to use as collateral for long term capital borrowings.

10.3 Social Relationships

The property development process consists of a structured set of social relationships between four types of capital : commercial, landed, financial, and industrial capital. The process is social as it involves relationships between individuals or groups of individuals, companies and firms which have evolved over time and are continually altering as the economy changes. Alterations in the structure of the relationships between the four capitals generally involves an increasing dominance of one as it attempts to acquire a larger proportion of development profit. During the 1960s and 1970s it was unusual for construction companies (industrial capital) to develop speculative floorspace, however to acquire a greater proportion of development profit many construction companies during the 1980s established development companies. Every commercial development involves the articulation of the four capitals, but in every case the nature of the articulation will be slightly different. At the most banal level the agents involved in the development will be different, more importantly the size and proportion of development profit acquired by each of the capitals will be different. Each development must be different because the

property development industry's final product, the completed building, is unique in relative space since only one building can be constructed on an individual site. The theoretical identification of these capitals provides a framework for research into the present and future structure of the property development industry. The main advantages and disadvantages of theoretical frameworks is that they enable as well as constrain research activity. A theoretical or conceptual framework tends to guide research activity towards a particular set of questions or hypothesis. Without such a framework reality becomes too complex, with such a framework it may appear too simple.

One of the primary tenets of this thesis is that the conceptualization of the property development industry as a process which involves the movement of development profit between four distinct types of capital has encouraged academic analysts to concentrate on these capitals rather than on the relationships and intermediate agents that exist between them (Chapter 2, p.46-50). A one to one relationship between commercial capital and landed capital or between commercial capital and financial capital often does not exist. *A series of development intermediaries mediate between these capitals, often increasing the spatial extent and frequency of their interaction* (Chapter 7, passim). The key geographical relationship in the property development process is that between the property developer (commercial capital) and the land owner (landed capital). This relationship is the prerequisite to all development. *Development companies cannot consider all alternative development sites, consequently a series of implicit and sometime explicit development filters exist which limit their search strategies* (Chapter 5, passim). Nevertheless, the identification of a series of information filtering screens reveals nothing about the site identification process, they simply provide an understanding of the factors which restrict development companies search areas.The site identification process provides the central link between often centralized property companies and development sites. Filters restrict the search process while the site identification process and the actions of development intermediaries enable property companies to interact profitability with the land surface. *The identification and analysis of the actions of development intermediaries provide useful insights into the relationship between national and international property companies and local or regional property markets.* An individual property company cannot consider or

even identify all possible potential development sites, consequently development intermediaries, while not receiving a direct share in development profit, lubricate the relationship between the land surface and the property development company.

10.4 The Case Studies

> Case studies never "prove" anything; their purpose is to illustrate generalization which are established otherwise (Eckstein, 1960, p.15).

The examination of the property development industry in particular localities demonstrates that the development process is a complex, holistic and only semi- rational process relying partly on science and economics, and partly on art and intuition. The case studies reveal some of the difficulties of researching the history of a city's property market or even the history of an individual development. Every city's built environment is a product of a process of incremental decision making made by, for example, local government; local, regional, national and often international property development companies; financial institutions and local manufacturing and service companies. To identify all of the actors involved in the development of office space in the three study areas proved to be an impossible task. Names and development companies could be identified, but frequently the individuals involved in particular development decisions were either dead or no longer working for the same company. The complexity of the development decision making process made it impossible to identify, let alone understand, many of the specific variables which influenced the decisions of many individual property development companies.

Nevertheless, despite these difficulties the three case studies provide examples of the concepts formulated in previous chapters. The Leicester case study provides a detailed account of the city's property development cycles since 1960 explaining, where possible, the variables that were important in particular development decisions. A detailed literature search did not reveal any similar case studies of other regional property markets. In all of the case studies the role of local development intermediaries in linking national, and often international, property companies with

local development sites was identified as an important variable in the property development process. *It must be emphasized that the primary social relationship in the network of land and property capitals is that between commercial capital (the property developer) and landed capital.* Development intermediaries play a important role in the relationship between national property companies and the United Kingdom's space-economy.

The case studies illustrate the importance of space in the property development process. Important differences were identified between developments undertaken by local and national property development companies. Local or regional property companies are able to identify niches in property markets which have either not been identified by larger companies or are unprofitable development propositions for national or international property development companies. Many national and international property developers and investors ignore regional city's property markets preferring to concentrate their activities in large cities, for example London. In some regional cities user demand for particular types of office space exists which is not been satisfied by national or international property developers or investors because of low levels of development profitability. Consequently, the future of many regional city's property markets, especially those with low rents, lies with small local property development companies or in subsidized development projects.

10.5 Further Research

It has been argued in this study that the built environment is a commodity which is produced as well as consumed. This statement is based on the conclusion of Malone's unpublished Ph.D thesis on office development in Dublin in which he argues that an analytical framework must be developed :

> . . . which allows that, within a capitalist economy, the urban structure is not constituted simply in order to house the advancement of capital but is also shaped by capital advanced in its formation (Malone,1985a, p.233).

In other words the built environment is created to house, for example,office, industrial and retail activities as well as being influenced by companies and institutions that develop and invest in property. This study has highlighted some of the features of the property development process which partially controls, modifies, creates and recreates the built environment and urban structure. Further research must be undertaken to extend our understanding of the property and land development processes which must concentrate on the relationships between the four land and development capitals and with the United Kingdom's and international space-economy. Four related issues connected with the development of built-space must be investigated. First a database of all local and regional property development and investment companies needs to be compiled and used as the sampling frame for a detailed study of the motivations of and relationships between these companies and the United Kingdom's space-economy. This type of study would verify and extend the models developed in this thesis. Secondly an examination of the role of international capital in local, regional and national property markets must be undertaken to identify the effects of the increasing concentration of investment and development capital in the United Kingdom as well as internationally. Thirdly an analysis of the relationship between local, regional and national occupier demand for commercial floorspace and its supply in local and regional property markets would clarify the relationship between the demand and supply of built-space. Fourthly the relationship between the structure of the property development industry and the activities of individual property developers and companies must be examined in greater detail. This would have to consider the changes in the types of capital flowing into the built environment and alterations in the types of capitals available to finance long term property investments. Research into these topics would considerably increase geographers' understanding of the processes that create the built environment as well as of the individuals and companies involved in this process.

It is vital given the pivotal role the property development process plays in the creation of built-space and urban structure that its study becomes a more central component of urban geography because without this the built environment is reduced to little more than a passive back drop to social and economic processes.

APPENDIX A

Schedule of Office Developments in Leicester, 1960-1987

DATE	LOCATION	SIZE (net sq.ft)	DEVELOPER	INVESTOR
1960	Horsefair House,Horsefair Street.	19,000	Leicester Building Society	Leicester Building Society
1961	London Road. Leicester	3,000	Wheatcroft,	?
1962	East Midlands Gas De Montfort Street.	7,396	East Midlands Gas	East Midlands Gas
	Midland House, Charles Street.	25,212	London County & Midland Trust	Town and City Properties
1963	Belgrave House, Belgrave Gate.	10,500	M.E.P.C	J & B Retirement Trust.(Leic
	West Walk House, West Walk.	15,500	Gee Advertising, originally for owner occupation	Sold to Owner Occupiers, funded by Insurance Co. of Austral Asia.
	Epic House, Charles Street.	35,000	English Property Investment Corporation	Fara Estates (Leicester)
	Leicester House, Lee Circle.	44,000	National Car Parks	Manchester Oddfellows Society
1964	Du Pont House, (Camtec House), Vaughan Way.	43,600	Chowns	Camtec Electronics

DATE	LOCATION	SIZE (net sq.ft)	DEVELOPER	INVESTOR
1964	Leicester House, Oadby.	73,000	Leicester Building Society	Leicester Building Society
1965	Arlen House	12,000	Arlen Properties Ltd (Leic.)	Norwich Union
	East Midlands Gas, De Montfort Street.	25,062	East Midlands Gas	East Midlands Gas
	Commercial Union, 84/86 Charles St.	28,453	Commercial Union Properties Ltd.	Commercial Union Properties Ltd.
	Enkalon House, Regents Road.	39,145	Halsack Estates, a subsidary of Town and City Properties	Town and City Properties
1966	2-12 Checketts Road	3,950	Star (GB) Holdings	Star (GB) Holdings
	Abbey House, 44 Abbey Street, Tax Office. Ltd.	45,000	Chown Investments	Standard Life
1967	Insurance House, Vaughan Way.	43,600	Star (GB) Holdings	Hogg Robinson bought of Star in 1980 for own occupation
1968	Beaumont House, Granby Street.	15,104	Star (GB) Holdings	Star (GB) Holdings
1969	140 London Road	10,400	?	Page & Moy
1970	New House,New Walk.	8,500	Brightstone Estates Ltd.	N.F.U

DATE	LOCATION	SIZE (net sq.ft)	DEVELOPER	INVESTOR
1970	Redmire House, Southgate Underpass.	10,000	Regian Properties Ltd Manchester	Co-operative Insurance Society Manchester
	The Crescent, King Street. (Refurbished Terrace)	30,000	E.A.Poulton, Leic. builder	E.A.Poulton/ William & Glyns Bank
	Thames Tower, Burleys Way	105,000	Imry Properties	Alpengreen Ltd
1971	A.E.U.W, Vaughan Way.	9,000	A.E.U.W	A.E.U.W
	Belvoir House, Vaughan Way.	13,943	Star (GB) Holdings	Hebron Medlocks Pension Fund
	Provincial House, New Walk.	29,600	Town and City Properties	Town and City Properties
1972	Crescent House Crescent Street.	2,550	Vic Bonfield, Leicester Estate Agent	Vic Bonfield, Leicester Estate Agent
	N.C.P , East Street.	7,875	National Car Parks	National Car Parks
	Chetwynd House, De Montfort St.	8,000	Hermitage Estates, Poole	Hermitage Estates, Poole
	40 New Walk.	9,000	Regian Properties Ltd	Co-Operative Insurance Co.
	Aquis House, Belgrave Gate.	9,100	Aquis Estates	Aquis Estates
	Martin House, Vaughan Way.	9,850	Regian Properties Ltd	Co-Operative Insurance Co.

DATE	LOCATION	SIZE (net sq.ft)	DEVELOPER	INVESTOR
1972	Peacock House, Vaughan Way.	9,736	Regian Properties Ltd	Co-Operative Insurance Co.
	Parman House, 70 St Nicholas Circle	10,300	Parmen Developments Ltd.	?
	34-36 Millstone Lane.	20,875	Hammerson	C.A.A Superannuation fund
	Heart of Oaks House,Princess Road.	30,000	Heart of Oaks Insurance Company	Heart of Oaks Insurance Company
	Abbey House, Burleys Way.	30,304	Marwin Securities	R.P.V Investments, Guernsey
	Legal and General House, 20-30 New Walk	39,000	Regian Properties Ltd	Co-Operative Insurance Co.
	60 Charles Street.	50,000	Mervest Ltd Leicester.	South Banks Estates Ltd. (Leic.)
1973	Carlton House, Regents Road.	11,290	M.E.P.C	M.E.P.C
	Springfield House,The Parade Oadby.	12,500	Brightstone Estates	Brightstone Estates
	136/138 London Road. (Page & Moy)	19,186	Page & Moy	Page & Moy
	Horsefair House, Horsefair Street.	23,000	St.Martins Property Corporation	St.Martins Property Corporation
	Pegasus House, Burleys Way.	31,593	Star (GB) Holdings	Hogg Robinson

DATE	LOCATION	SIZE (net sq.ft)	DEVELOPER	INVESTOR
1973	Haymarket House, The Haymarket.	34,000	Taylor Woodrow Property	Taylor Woodow Property
	Wellington House, Wellington Street.	53,500	Tarmac Central Developments Ltd.	Abbeyview Property Co., financed by Phoenix Assurance
	James House, Welford Road.	65,000	Law Land	Law Land
1974	Arlen House, Regents Road. Leicester	10,500	Arden Properties,	Tower Property Bonds
	Tyman House, Regents Road.	10,850	Brightstone Estates	Brightstone Estates
	Princess House, Princess Road.	11,455	Halsack Estates, a subsiduary of Town and City Properties	Town and City Properties
	Imperial House, New Walk.	13,000	Development Participations Ltd.	Sun Life Insurance
	Readson House, Regents Road.	14,320	Provincial Property Developments	(Atlas Express) now owned by Readson
	Lyn House, The Parade, Oadby.	19,800	Brightstone Estates	Brightstone Estates
	Sovereign House,12/29 Princess Road West.	20,912	Town and City Properties	Leicester City Council

DATE	LOCATION	SIZE (net sq.ft)	DEVELOPER	INVESTOR
1974	Humberstone House, Humberstone Gate.	27,300	Scottish Life	Scottish Life
	Kimberley House, Vaughan Way.	35,900	International Consolidated Inc.	Sherlot and Tutor Estates which merged with MEPC during this development
	Bosworth House, Vaughan Way.	48,500	M.E.P.C	Scottish Widows
	Albion House, Albion Street.	60,000	Leicester City Council	Post Office
	New Walk Centre, New Walk.	214,000	Land and House & The British Steel Corporation Pension Fund	Leicester City Council
1975	Leicester Market Centre.	14,940	Leicester City Council	Leicester City Council
	Phonex House, Welford Road.	16,684	Land and House	Leicester City Council
1976	Bankfield House, New Walk.	14,672	Bankfield Developments	Scottish Life Assurance
	Marlborough House, Marlborough Street.	17,730	Fawnbridge Ltd who went into liquadation leaving the funder Excess Insurance with partially complete building	Excess Insurance

DATE	LOCATION	SIZE (net sq.ft)	DEVELOPER	INVESTOR
1976	St Andrews House, Princess Road.	24,090	Town & City Construction, subsidiary of Town & City Properties Ltd	Norwich Union Insurance
	Phonex House, New Walk	25,774	The Penman Group (Leic)	Leicester City Council
1977	St Johns House, East Street.	51,000	Provident Mutual Life Assurance	Provident Mutual Life Assurance
1981	De Montfort Mews, (9 units of 1,000 sq.ft)	9,000	The Penman Group	Glenstone Properties Ltd
	General Buildings 5 Granville Road.	15,000	General Accident	General Accident for own use
1987	East Midlands Gas, Regents Roads	3,571	East Midlands Gas	East Midlands Gas

APPENDIX B

Schedule of Office Developments in Northampton, 1970-1987

DATE	LOCATION	SIZE (net sq.ft)	DEVELOPER	INVESTOR
1971	Bacal House, Stage 1, Hill Close	24,400	Bacal Developments	
	Barclaycard House, Marefair	200,000	City Wall Properties	Sun Alliance
1972	St Katherines, Horsemarket	55,000	Frincon Holdings	Scottish Life Assurance
1973	Northampton House, Wellington Street	132,000	Frincon Holdings & Friends Provident	Friends Provident
1974	Sun Alliance House, Derngate	29,000	Sun Alliance	Sun Alliance
	Bacal House, Stage 2, Hill Close	22,300	Bacal Developments	
1975	Riverside House, Bedford Road	58,479	Land & House	Land & House
	Belgrave House, Market Square	90,000	Grosvenor Estates Commercial, Post Office Superannuation Fund and Northampton City Council	
1976	Beaumont House, Billing Road	28,700	Copartnership Property Developments	Alliance Assurance
	Northgate House, Sheep Street	38,900	Wilson (Connelly)	Wilson (Connelly)
	Grey Friars House, Grey Friars	158,000	Northampton Development Corporation	

DATE	LOCATION	SIZE (net sq.ft)	DEVELOPER	INVESTOR
1978	The Parade, Market Square	9,000	Co-partnerhip Properties	W.H.Smith Pension Fund
1981	Notre Dame Mews, off Abington Street	15,500	The Penman Group	The Penman Group
	Castle House, Black Lion Hill	30,000	Centros Properties with Sun Alliance	Sun Alliance
1983	Elgin House, Billing Road	17,150	Wilson (Connolly)	Provident Mutual
1985	Acquila House St Giles Terrace	17,800	Northwest Holst	Northwest Holst
	John Clare House, The Avenue, Cliftonville	5,785	Wallis Commercial Developments/ Gifford Securities	Gifford Securities
	St Edmunds House, St Edmunds Road	7,059	Erostin	Erostin
	Spencer House, Cliftonville	18,220	Henry Boot Ltd, Spencer House Properties	Spencer House Properties
	Princess House, Cliftonville	21,000	J.S. Bloor Commercial Developments	A Scottish Pension Fund
	Frances House, Lower Mounts	27,200	Penwise Properties	Penwise Properties
	Monarch House	13,700	J.S.Bloor Commercial Developments	A Scottish Pension Fund

DATE	LOCATION	SIZE (net sq.ft)	DEVELOPER	INVESTOR
1986	Windsor House, Billing Road	8,250	Blue Boar Property Investment Co. Ltd	Blue Boar Property Investment Co. Ltd
	Warwick House, Billing Road	8,250	Blue Boar	Blue Boar
1986	Campbell Square A, Church Lane	24,400	The Penman Group	The Penman Group

APPENDIX C

Office Developments in Leicester on Council Owned Freeholds

LOCATION	AREA (Yards)	PERIOD (Years)	LEASEHOLDER	DATE
Du Pont House, 101 Vaughan Way. (43,600 sq.ft).	3,280	99	Chown Investments	29/9/64
84 Vaughan Way	1,350	99	Elsworth Ltd	25/12/65
Beaumont House, 135/141 Granby Street. (15,104 sq.ft).		125	Star (GB) Investments Ltd	24/6/68
38 Princess Rd. 3/Museum Sq		99	Buxhall Properties Ltd.	29/9/68
Holiday Inn, St Nicholas Circle.		99	Holiday Inn	6/10/69
Redmire House, 61 Millstone Lane.		99	Co-operative Insurance ltd	29/9/70
Provincial House, 37 New Walk. (29,600).		99	Prudential	25/3/71
AEUW, 71 Vaughan Way/ Highcross Street. (9,000 sq.ft).	260	99	A.E.U.W	24/6/71
Belvoir House, 7a Vaughan Way. (13,943).	394	134	Surplus Land Development Co.	24/6/71
Imperial House, St Nicholas Circle. (22,000 sq.ft).		99	Imperial Tobacco Pension Fund	20/12/71

LOCATION	AREA (Yards)	PERIOD (Years)	LEASEHOLDER	DATE
20-30 New Walk. (31,000 sq.ft).	2,760	99	Co-operative Insurance ltd	25/3/72
Martin House, Vaughan Way. (9,850 sq.ft).	498	99	Co-operative Insurance Co.	25/3/72
Peacock House, Vaughan Way. (9,736 sq.ft).	496	99	Co-operative Insurance Co.	24/6/72
Parmen House, 70 St Nicholas Circle. (10,300 sq.ft).	460	95	Parman Developments Ltd	26/6/72
40 New Walk. (9,000 sq.ft.)	900	99	Co-operative Insurance ltd	29/9/72
14-15 Princess Road.	660	99	Prudential	24/6/73
Abbey Street.	1,340	99	Guardian Royal	24/6/73
20 Millstone Lane.	480	60	W.R.V.S	1/12/74
Former Picture House Granby St.	836	125	Royal London Mutual Insurance	19/9/80
Pegasus House, Burleys Way.	-	125	Hogg Robinson	10/11/80
Insurance House, Vaughan Way.	-	125	Hogg Robinson	26/12/80

APPENDIX D

Office Space Available in Leicester, 30/11/1972

LOCATION	VACANT SPACE (Sq.Ft.)
A.E.F. Building, Vaughan Way	5,562
A.E.U.W, Vaughan Way	6,192
Abbey House, Abbey Street	30,400
Aquis House, Belgrave Gate	9,375
123 Belgrave Gate	1,500
Belvoir House, Vaughan Way	13,943
Calais Hill/ East Street	7,900
60 Charles Street	49,317
84/86 Charles Street	2,045
142 Charles Street	8,630
215 Charles Street	3,600
Du Pont House (Camtec), Vaughan Way	11,665
Epic House, Charles Street	8,650
14 Friar Lane	5,000
Friar Lane	12,265
47 Gallowtree Gate	1,640
30/32 Granby Street	8,700
48 Granby Street	3,707
122/124 Granby Street	7,500
125 Granby Street	5,070
90 Highcross Street	9,690
Horsefair House, Horsefair Street	19,000
1/3 Humberstone Gate	5,000
3 Humberstone Gate	5,000
66a Humberstone Gate	7,000

LOCATION	VACANT SPACE (Sq.Ft.)
Leicester House, Lee Circle	14,420
33-37 London Road	4,000
140 London Road	5,240
Magnum Centre, Rutland Street	110,000
Martin House, Vaughan Way	8,000
26/30 Millstone lane	8,610
38 Millstone Lane	2,678
Peacock House, Vaughan Way	9,700
Pegasus House, Burleys Way	31,593
Regent Road	11,290
Rutland Street/Charles Street	28,098
39 Rutland Street/ Colton Street	36,000
Tarmac House, Albion Street	8,790
Thames Tower, Burleys Way	70,900
Welford Road	83,359
Wellington House, Wellington Street	56,000
Wharf Street	10,444
Total	747,473

Source: Interviews with Estate Agents, 1985 & 1986

APPENDIX E

List of Company Records obtained from the Companies Registration Office, Company House, City Road, London

Property Company	Reference Number
Bendigo Properties Ltd	1428246
J.S.Bloor Commercial Properties Ltd	1063297
Burley Way, Leicester, Investments Ltd	1063297
Chown Developments Ltd	601565
Halsack Estates Ltd	728129
Interland Estates Ltd	963346
International Consolidated Ltd	999318
Linkmell Developments Ltd	1593135
New Walk Properties Ltd	1720313
Norfolk Place Properties (Nottingham) Ltd	520751
Parking Management Ltd	802817
Penman Builders Ltd	598504
Penman Construction Ltd	1468227
Penwise Properties Ltd	708033
Regian Properties Ltd	1025132
Town and City Properties Ltd	528028
Viking Property Group Ltd	964687
William Moss Property Ltd	1013765
Wilson (Connolly) Properties Ltd	714892

APPENDIX F

Estate Agents Questionnaire

QUESTIONNAIRE Ref.Q1/??

OFFICE DEVELOPMENT IN THE MIDLANDS : - Leicester
Northampton
Nottingham

LOCATION _____

LETTABLE AREA a) Office Space (Sq.ft.) _____

b) Retail Space (Sq.ft.) _____

NUMBER OF PARKING SPACES _____

DATE CONSTRUCTION COMPLETED _____

or

PROPOSED DATE CONSTRUCTION COMPLETED _____

DEVELOPER(S) _____

INVESTOR(S) _____

Note : If forward funded show the financial institution as owner

or

OWNER-OCCUPIER _____

GROUND LANDLORD (where applicable) _____

WHAT PROPORTION OF THIS DEVELOPMENT IF ANY WAS PRELET _____

LETTING AGENT(S) _____

NAME OF RESPONDENT _____ POSITION HELD _____

FIRM _____ DATE _____

ADDITIONAL INFORMATION

APPENDIX G

Property Companies Interview Schedule

Topic 1 Development Activity

i.) What factors are considered significant in 'reading' the development cycle ?

- how is the commencement of new development cycle perceived ?
- how is the spatial field of operation determined (location of activity in the United Kingdom and overseas)

ii.) The nature of development activity

- what types of development are undertaken ? (size, type, specifications, markets)
- what types of factors are considered in assessing a scheme's viability ?
- to what extent does 'switching' activity take place between the major development types (office, industrial, retail and in some cases residential)

iii.) The role of the developer in the development process

- land assembly (cost, time, problems)
- the sources and timing of development financing
- construction (arrangement, contracts, timing)
- long term financing and institutional investor

iv.) The identification of development sites

- What actors are involved in this process ?
- local as against national/international estate agencies
- linkages between property companies
- the process of site identification (in regional cities, in London, international)

Topic 2 Risk Avoidance

i.) The development cycle and its effects upon the risk of new undertakings
ii.) How the location of developments influences risk
iii) How the size of developments influences risk

Topic 3 The Role of Planning

i.) The Problems encountered in planning procedures
ii.) New Town status and the development process.
iii.) The role of Urban Development Grants
iv.) Whether 'environmental ' and 'community benefit' considerations are necessarily contradictory to the imperatives of profitability

Topic 4 The Future of the Property Development Industry

i.) What changes might be foreseen in the system of relations between the main actors in the development process ?
- between landed interests, property developers, construction firms, investment institutions and local authorities
- the likelihood of growing use of joint ventures / development partnerships

ii.) The future of 1960s office buildings in low rental office markets.

Additional Information/Questions

APPENDIX H

Postal Questionnaire sent to Property Companies

QUESTIONNAIRE Ref.Prop.87/ ???

OFFICE DEVELOPMENT IN THE UNITED KINGDOM

Note: For the purpose of this study, an office development is defined as a unit of 2000 sq.ft. and over, which is distinct from any industrial or warehouse provision.

1) Name of Company .....

2) Name of Respondent .....

3) Position of Respondent .....

4) Definition of Company (Tick relevant section)

a. Developer/investor _____ b. Developer/seller _____

c. Investor/developer _____ d. Builder/developer _____

e. Other (please specify) _____

5) Area of Operation (Tick relevant section and specify area i.e town,county etc)

Area

a. Local _____

b. Regional _____

c. National _____

d. International _____

6) Does your company favour a particular type of property either for development or investment? (Tick)

a. Office ____ b. Retail ____
c. Industrial ____ d. Warehouse ____
e. Other specify ____

7) What factors are considered important in assessing the viability of a development project ?

_____
_____
_____
_____
_____
_____
_____
_____

8) Is there a favoured size of office development ? (Tick)

	Sq.Feet	
a.	0 - 10,000	.....
b.	10,000 - 20,000	.....
c.	20,000 - 40,000	.....
d.	40,000 - 80,000	.....
e.	80,000 - 120,000	.....
f.	120,000 +	.....

9) Does your company favour a particular geographical location for office developments ? (Rank in order of importance i.e 1,2,3)

a. City of London	____	i. Yorkshire/ Humberside	____
b. Central London	____		
c. South East	____	j. The North	____
d. M 25	____	k. Wales	____
e. East Midlands	____	l. USA	____
f. West Midlands	____	m. Australia	____
g. East Anglia	____	n. Canada	____
h. North West	____	o. other please specify	

_____

_____

10) What factors influence the location of office developments undertaken by your company ?

_____

_____

11) To what extent do enterprise zones influence the location of office development activity ?

_____

_____

12) How many times has your company used a UDG specifically for the following types of development ?

	Number
Industrial	____
Office	____
Residential	____
Retail	____
Warehouse	____

13) How are potential office development schemes first identified ?

Rank in order of importance

a. Information supplied by local estate agents situated provincial cities. _____

b. Information supplied by national estate agents situated in London. _____

c. Site assemblers _____

d. Newspapers,property journals _____

e. Other developers _____

f. Other - please specify

_____

_____

14) How important are the following factors in assessing an office developments viability ? (Rank in order of importance with 1 = most important)

a. Existing portfolio ____

b. Location relative to your office ____

c. Size of the development ____

d. Location in the United Kingdom ____

e. Existing stock of property in the area ____

f. Current rental levels ____

g. Previous experience of development in the area ____

h. Yields ____

i. Other specify

_____

_____

15) How long does it take to complete an office development from the initial process of site identification ?

_____ (Years)

16) How long does it take to access the viability of a potential office development?

_____ (Months, Weeks, Days - cross out where appropriate)

17) What factors determine the proportion of developments which are undertaken outside of the U.K.?

_____

_____

18) ANSWER ONLY IF YOU HOLD PROPERTIES FOR INVESTMENT

What factors determine the proportion of investment properties which are held outside the United Kingdom?

_____

_____

_____

_____

19) How does your company finance its development programme ?

a) Forward funding _____
b) Internal funding _____
c) Stock Market _____
d) Debentures _____
e) Bank loans _____
f) Other Specify _____

20 If your company has more then one office address could you please list their locations and their functions ? (E.g. management of properties held for investment, development decisions etc.)

THANK YOU FOR COMPLETING THIS QUESTIONNAIRE,
PLEASE RETURN IT IN THE ENCLOSED STAMPED ADDRESSED ENVELOPE TO

JOHN BRYSON,
THE DEPARTMENT OF GEOGRAPHY,
THE UNIVERSITY,
UNIVERSITY ROAD
LEICESTER,
LE1 7RH

APPENDIX I

Property Development Companies Interviewed

Amec Properties Ltd, London
Aquis Estates, London
Bendigo Properties, Nottingham
J.S.Bloor Ltd, Tamworth
Brightstone Estates, London
The British Land Co. plc, London
Burtons plc (Property Division), London
Centrovincial Estates Ltd, London
Chesterfield Properties, London
Cin Properties Ltd, London
Co Partnership Property Group Ltd, London
English Estates, Doncaster
Estates Property Investment Company plc, Surrey
Hammerson Group, London
Hardaker Estates Ltd, London
Imry Properties plc, London
Jones Lang Wootton, London
Land Securities plc, London
Law Land plc, London
Markheath Securities plc, London
MEPC plc, Birmingham
MEPC plc, London
Regian, Properties, Birmingham
St. Modwen Properties plc, Birmingham
Scottish Metropolitan Property plc, Strathclyde
Slough Estates plc, Slough
Star Holdings, London

Town and City Properties plc, London

Unilever Ltd (Property department), London

Viking Property Group Ltd, Derby

Waterglade, London

William Moss, Loughborough

Wilson (Connolly) Properties Ltd, Northampton

Woolworth Properties (Investment & Development), London

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