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Best Practice from Urban Renewal in the EU**

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Socially Responsible Investment (SRI), Responsible Property Investment (RPI) and Urban Regeneration in the UK and Europe: Partnership Models and Social Impact Assessment

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This paper is one of a series of working papers which forms part of a wider research programme (2006-2009) funded by a grant from the European Investment Bank as part of the EIBURS programme. The research is examining how the 'social dimension' of urban renewal projects must be considered alongside economic and environmental dimensions within a Triple Bottom Line Approach (incorporating the economic, social and environmental dimensions) to sustainability. For further information see the website at: http://www.brookes.ac.uk/schools/be/oisd/sustainable_communities/index.html or contact the programme director, Professor Tim Dixon (tdixon@brookes.ac.uk). For further information on EIBURS see: <http://www.eib.org/about/partners/universities/index.htm>

Socially Responsible Investment (SRI), Responsible Property Investment (RPI) and Urban Regeneration in the UK and Europe: Partnership Models and Social Impact Assessment

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Abstract: This discussion paper examines the evolution of the concepts of Socially Responsible Investment (SRI) (or Responsible Investment (RI)) and Responsible Property Investment (RPI) and compares their meanings with Corporate Social Responsibility (CSR) (or Corporate Responsibility (CR)) and Corporate Governance (CG) within the context of the wider sustainability agenda. The increasing emphasis of financial institutions and private sector real estate developers to focus on urban regeneration projects in the UK and Europe is examined in the context of (1) the growth of public and private partnership arrangements (PPPs), one of a range of joint venture and partnership vehicles which have emerged, and (2) real estate asset allocation by financial institutions as part of a diversified investment portfolio. The development of these PPP arrangements is discussed, in terms of models emerging in the UK and Europe which have been developed to underpin urban regeneration partnerships. The problems and issues surrounding the measurement of social impacts arising from institutional investment, bank lending and property-based projects (including urban regeneration) are discussed in the context of SRI and RPI. Relevant experience from the USA is also reviewed in this respect. The paper concludes by drawing out the lessons learned from 'best practice' measurement within CSR/SRI/RPI and within real estate-based projects (including regeneration), drawing on PPP-based vehicles in terms of delivery and social impact assessment in the UK and Europe, highlighting the need for further research in the field, and developing a conceptual model for this work.

1.0 Introduction

The growth of 'socially responsible investment' (SRI) (or 'responsible investment' (RI)) has paralleled a similar elevation in the importance of 'corporate social responsibility' (CSR) or 'corporate responsibility' (CR) in corporate business agendas, including those of the real estate or property sectors. SRI's rise has been partly driven by legislation, but also a growing recognition of the business case for such investment, and in the UK, 'core' and 'broad' SRI totalled 21 billion euros in 2005 (Eurosif, 2006).

SRI's increase in importance for financial institutions should be seen in the context of trends towards diversification of investment portfolios by them, including the diversification role of real estate¹, and the emergence of the concept of responsible property investment (or RPI)² (Rapson et al , 2007). Historically, prime real estate has tended to dominate as a sub-category of real estate in the majority of investors' portfolios, but increasingly the performance of urban regeneration real estate markets is being closely examined by investors. Previous research has shown that there is immense potential in urban regeneration areas, which often coincide with inner city locations (Porter, 1995), and in the UK, recent real estate performance measures have also highlighted the sound financial returns that can be made through engagement in urban regeneration.

As a result, combined with the clear benefits for CR and sustainability (often focusing on brownfield developments) offered by these locations, there has also been a real interest in understanding how private sector finance can best be attracted into investing in urban regeneration locations. This has spawned increased attention on how private public partnership vehicles can be developed to attract private institutions and bank finance (IPF, 2006), and a number of delivery mechanisms and models have been developed.

However, this has also meant that institutions have come under closer scrutiny to measure and evaluate the impacts of their investments in such locations. In some ways these concerns mirror the debates over the Equator Principles in relation to banks and their engagement with the sustainable development agenda. Although a variety of tools have been developed to assess impacts in terms of the environmental, economic and social of real estate projects (including regeneration) at a company, community and building/site level these measures tend to be relatively underdeveloped in relation to the social dimension (Therivel, 2004, Colantonio, 2007). In many respects it appears as if the 'S' word (i.e. social) has dropped out of the vocabulary of corporate business (Kinder, 2005). This paper seeks to explore the reasons for these deficiencies setting the problem in the context of partnerships and regeneration vehicles in the UK and Europe.

The first part of the paper (*Part 1- SRI and urban regeneration*) therefore seeks to examine the emergence of the concept of SRI, linking (but also contrasting) this with other related concepts such as CSR/CR, RPI and corporate governance. In doing this, the paper draws on previous research and theory and attempts to build on this work by also analysing the drivers and barriers for these concepts. The paper then examines the role of financial institutions (as key stakeholders in SRI) in the real estate market, and the concept of RPI in more detail, before examining how and why institutions are also now engaging more with 'underserved' markets.

¹ The term is used interchangeably with 'property' throughout the paper.

² Also referred to as Socially Responsible Property Investment (SRPI).

The second part of the paper (*Part 2- Partnerships and impact assessment*) looks at the role of Public Private Partnerships (PPPs) as a vehicle for increased engagement in SRI and urban regeneration, and the reasons for this. The paper goes on to discuss how tools and techniques can help or hinder in the assessment of the key impacts in terms of the environmental, economic and social of real estate projects (including regeneration) at a company, community and building/site level.

Finally (*Part 3 - Best practice examples and conclusions*) the paper reviews some examples of 'best practice' from the UK real estate sector in terms of RPI and CR, before providing conclusions and an assessment of the questions raised for further research.

In doing this the paper draws on examples and literature primarily from the UK and Europe, but also from the USA.

PART 1: SRI and Urban Regeneration

2.0 SRI: A question of definition

2.1 Defining SRI

Socially responsible investment (SRI) has become a well-established term in the realm of institutional equities investment portfolios, and increasingly investors have looked to realise the opportunities in alternative assets such as property (Rapson et al, 2007). According to recent Eurosif research, 'core' SRI under management reached 105 billion euros and 'broad' SRI reached 1.033 trillion euros in Dec 2005 (Eurosif, 2006). Similarly in the UK, core and broad SRI totalled 21 billion euros in the same year (Eurosif, 2006).

Alternative definitions of SRI have been offered as the concept has evolved. For example, the Social Investment Forum in the USA define SRI fairly broadly as (SIF, 2006):

'An investment process that considers the social and environmental consequences of investments, both positive and negative, within the context of rigorous financial analysis.'

Eurosif (2006: 1) use a more specific definition:

'SRI combines investors' financial objectives with their concerns about social, environmental and ethical issues.'

Also, in this paper we treat the terms SRI and responsible investment (RI) interchangeably³. However, Kinder (2005) suggests that SRI has evolved into 'responsible investment' (RI) with the omission of 'social' signalling the emergence of a new perspective. This is founded on the following definition of RI by the World Economic Forum (2005:7):

'Responsible investing is most commonly understood to mean investing in a manner that takes into account the impact of investments on wider society and the natural environment, both today and in the future.'

³ However, in Section 8.0 we draw comparisons between the terms in providing conclusions to the paper.

For Kinder (2005) the change in emphasis (a focus on ‘process’, ‘vagueness of terminology’ and the omission of the word, ‘social’) marks the entry into SRI of a group of institutional investors who do not have a mission-related commitment to social or environmental causes and who are uncomfortable with the responsibility for moral judgments which decisions on non-financial criteria imply. This perhaps reflects the thinking of authors such as Vogel (2005) and Esty and Winston (2006) who suggest that whilst the social dimension to investment and to business is important, the business case for taking up the ‘social’ agenda continues to be much harder to establish than the environmental and economic agendas.

Roberts et al’s (2007) analysis of a wide array of literature from HR, marketing, communications, management and business ethics suggests SRI exhibits particular characteristics which include (Table 1):

- Activities concerned with investment, portfolio construction or the application of capital;
- A focus on financial decision-making processes that are a part of a prudent investment management approach; and
- Combining social, environmental and ethical (SEE) goals in decision-making (i.e. setting objectives, selection, retention and realisation of investments).

Table 1 SRI : Key themes (adapted Roberts et al, 2007)

Key Themes	Reference
Investment, portfolio construction or application of capital	Sparkes, 2002; Social Funds.com, 2006; SIO, 2006;
Includes all the financial decision-making processes that are a part of a prudent investment management approach	SIO, 2006; EIRIS, 2006;
Combining social, environmental and ethical (SEE) goals in investment decision-making (setting objectives, selection, retention and realisation of investments)	Sparkes, 2002; Mansley, 2000; EIRIS, 2006; Eurosif, 2006; Social Funds.com, 2006; SIO, 2006; UKSIF, 2006;
Combining corporate governance goals in investment decision-making (setting objectives, selection, retention and realisation of investments)	Eurosif, 2006

SRI should also therefore be distinguished from the related but distinct concepts of corporate governance (CG) and corporate social responsibility (CSR). For example, CG is, for Roberts et al (2007), about the pursuance of the objectives of the corporation through the systems and processes involved in running and building value in a firm or organisation so it concerns such issues as:

- The pursuance of the objectives of the corporation, specifically encouraging companies to create value (through entrepreneurship, innovation, development and exploration) and provide accountability and control systems commensurate with the risks involved;

- The responsiveness to the rights and wishes of shareholders and stakeholders (including top management, owners and others interested in the affairs of the company, including creditors, debt financiers, analysts, auditors and corporate regulators);
- Principal participants are the shareholders, management and the board of directors. Other participants include regulators, employees, suppliers, partners, customers, constituents (for elected bodies) and wider stakeholder groups.

CSR on the other hand is characterised by:

- Activities concerned with business operations;
- Going beyond legal requirements and duty to shareholders;
- Being voluntary in nature;
- Meeting responsibilities to internal and external stakeholders;
- Integration of social and environmental concerns into business operations;
- Optimising positive effects and minimising negative effects of the company's actions.

Roberts et al (2007) therefore conclude:

'From this examination of the key themes in the literature, the distinction between CSR, SRI and CG is clear. CG involves the pursuance of the objectives of the corporation through the systems and processes involved in running and building value in a firm or organisation. CSR involves the incorporation of social, environmental and governance (to internal and external stakeholders) into these systems and processes. Finally SRI involves the combination of social, environmental, governance and financial goals in the application of capital i.e. the actual investment process.'

In this sense SRI can be defined as the investment of capital in order to achieve an acceptable return while applying pre-determined criteria, methods or techniques which can drive, support or promote SEE issues chosen either by the person placing the investment, or a third party investment manager.

The distinction with CSR is also alluded to by The European Social Investment Forum (Eurosif), which suggests that CSR is concerned with addressing corporate practice, as opposed to SRI which addresses financial investment practice (Eurosif, 2004). McNamara (2005) expands this by stating that CSR is concerned with *'how the company conducts itself in the community and the environments it touches'* whereas SRI is about *'the manner in which an investor applies its capital.'*

Taking the concept of SRI still further 'core' SRI consists of ethical exclusions as well as different types of positive screens (for example, 'best in class'), but also when these strategies are performed simultaneously. Broad SRI consists of 'core' SRI plus simple extensions such as norms-based screening, plus engagement and integration (Eurosif, 2006).

2.2 Drivers for SRI

The SRI market in the UK has been driven by several factors over the past decade (Justpensions, 2007 and Eurosif, 2006) which include the following.

- **Legislation:** The amendment to the 1995 Pensions Act (SRI Disclosure Regulation) which came into force in July 2000 required *'that trustees of occupational pension funds disclose in their Statement of Investment Principles (SIPs) the extent (if at all) to which social, environmental and ethical (SEE) considerations are taken into account in their investment strategies'*. The Trustee Act 2000, which came into force in February 2001, has also encouraged trustees to act as SRI champions to ensure their fiduciary responsibilities are in line with the charities' aims and purpose. Similar disclosure operations operate in Belgium, Germany, France and Sweden and although this and the UK legislation does not oblige pension fund trustees to adopt SRI principles it increases transparency on the issue (European Commission, 2004a)
- **Importance of large insurance companies:** a number of large insurance companies to engage based on SRI criteria across all their equity funds has also had a major impact on the rapid growth of UK SRI assets. Friends Provident, through Friends, Ivory & Sime (now ISIS), was the first to adopt a SRI overlay, branded Reo - Responsible Engagement Overlay. The Co-operative Insurance Society (CIS), AMP NPI/Hendersons and Aviva/Morley, quickly followed.
- **Business case now recognised:** there has been growing recognition of the business case for CSR and SRI in the context of long term institutional investment. Business drivers are themselves reinforcing this process with carbon emissions quotas and carbon trading now part of the international environment. A report by Deloitte (2003) suggested that the importance of the influence of pressure groups (including NGOs) is perceived as decreasing by fund managers, but in contrast the importance of client demand and the potential for out-performance of companies with sound environmental credentials is increasing.
- **Sustainable development (SD) agenda:** building on Brundtland's (1987) definition of SD Elkington (1994; 1997) developed what is often referred to as the 'Triple Bottom Line' approach to sustainable development, which attempts to rationalise development that promotes economic growth, but maintains social inclusion and minimises environmental impact. This carries strong resonance with businesses seeking to highlight their SRI and CR credentials.
- **Myners review and shareholder activism:** following the Myners review (HM Treasury, 2004) of institutional investment in the UK in 2001 the government stated its intention to legislate on shareholder activism, and the Institutional Shareholders Committee has responded by drawing up a new statement of principles.
- **Rise of Corporate Governance (CG) issues:** The Financial Services Authority's Combined Code on CG requires all quoted companies in the UK stock market to identify, evaluate and manage the risks significant to its business activities and to include a section on managing risk, and in 2002 the Association of British Insurers issued new guidelines to improve company disclosure on corporate governance and CSR issues.

Table 2 A categorisation of SRI approaches (adapted from Kinder, 2005)

Approach	Descriptors	Social/Governance Screen-Purpose	Criteria of Success	Primary Investor types	Usual Vehicles/Means
<i>Values-based</i>	Mission-based First generation Sustainable	Consistency with own values Social change	Return adjusted for risk tolerance Triple bottom line	Individuals Faith/social causes	Mutual funds Separately-managed accounts Indirect engagement
<i>Value-seeking</i>	Second generation Sustainable	Spot investment prospects Corporate change	Market return	Foundations/endowments Fund managers Pensions	Separately managed accounts Pooled vehicles Direct/indirect engagement
<i>Value-enhancing</i>	Shareholder activist Engagement	Identify under-performing companies Corporate change	Market return	Public pensions	Direct engagement

The move towards SRI has in many ways therefore been driven by shareholder value concerns (European Commission, 2004a). More recently leadership initiatives by asset owners and asset managers have also driven change through exemplar investment programmes and best practice guides. Examples include (Eurosif, 2006):

- Enhanced Analytics Initiative⁴; and,
- Institutional Investors group on Climate Change⁵.

The drive towards SRI has also seen subtle shift in emphasis from 'values-based SRI' in the 1980s and early 1990s to 'value-seeking SRI' in the late 1990s to 'value-enhancing SRI' in the present (Kinder, 2005). Nonetheless, examples of all three variants are present today and exhibit particular characteristics (Table 2).

2.3 Size of market in the EU

There are two types of SRI markets linked to two different types of SRI actor (European Commission, 2004a):

- 'Consumer or retail' SRI, which refers to individuals' investments (e.g. personal pensions) which have been made according to personal preference; and,
- 'Institutional' SRI, which refers to investments made within an SRI framework by institutions, pension funds, foundations, banks and asset management and insurance companies.

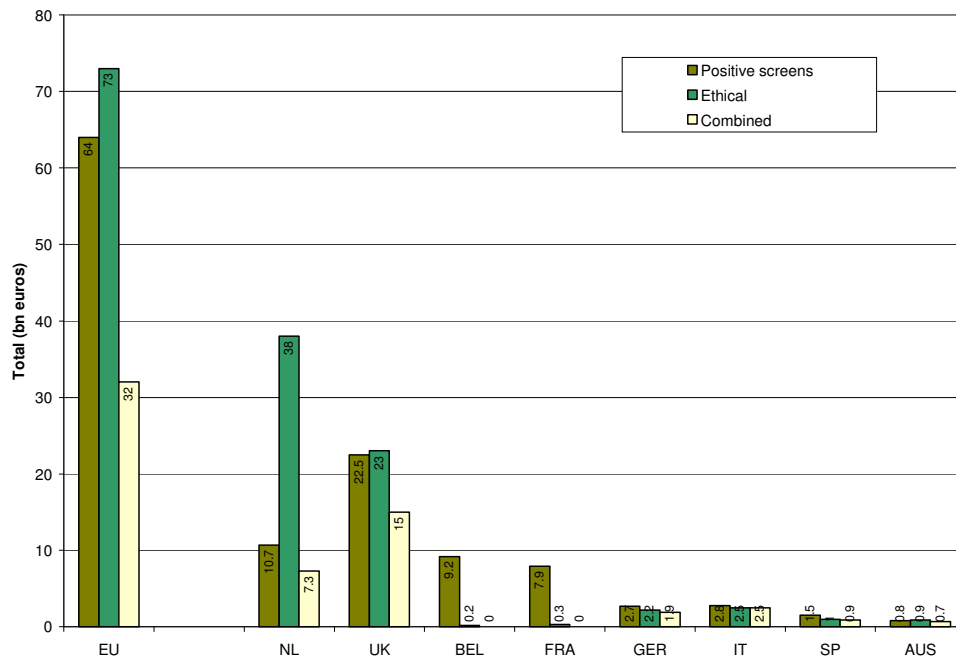
Generally institutional investors use 'screening' or 'shareholder engagement' to pursue these ideals. In the USA, and increasingly in the UK, this has also been joined by an increasing emphasis on 'community investment', where underserved markets are provided with improved access to capital. Such SRI ideals stem from a long history, stretching back centuries through Jewish, Christian and Islamic faiths (Social Investment Forum, 2006). Rapson et al (2007) suggest that the first ethical unit trusts were introduced in the late-1970s (US) and mid-1980s (UK) based on similar principles of exclusion (known as negative screening), which later grew to include the scrutiny of companies on their performance in areas such as the environment and human rights. Sparkes (2002) explains how the term 'Ethical Investment' grew to be replaced by 'SRI', and suggests the reasoning behind the shift as the association of ethics with personal values, along with possible contradictions generated by the use of the term ethical in relation to the profit-maximising activity of the financial services industry.

The growth of SRI (see section 2.1) has been primarily driven through institutional investment with some 94% of all SRI investment coming from this source with the balance as retail investments (Eurosif, 2006). In terms of size of market, 'core' SRI is highest in the Netherlands with the UK in second position (Figure 1).

⁴ See <http://www.mercerhr.com/referencecontent.jhtml?idContent=1167975>

⁵ See <http://www.iigcc.org/>

Figure 1 Core SRI by EU country (Dec 2005) (source: adapted from Eurosif, 2006)



‘Core’ SRI within markets across Europe are influenced by a number of factors, including the history of the particular market and the activism of early investors. Similarly, ‘broad’ SRI shows variations in size with Netherlands and UK as market leaders.

SRI has evolved from an equity selection concept and equities continue to predominate. However Eurosif (2006) suggest that there is continued diversification in asset allocation, where bonds are making progress, as well as a foray towards newer asset classes such as structured products or real estate. The diversification also points to a growing trend for innovation in SRI strategies; combining screens with engagement and/or integration are increasingly used as investors further refine their SRI approaches to fit the interests and needs of their customers.

The trend towards real estate is an interesting development because this mirrors the importance of real estate in institutional asset holdings in a more general sense. The next section explores these trends, the key characteristics of real estate, and real estate’s role in the institutional portfolio.

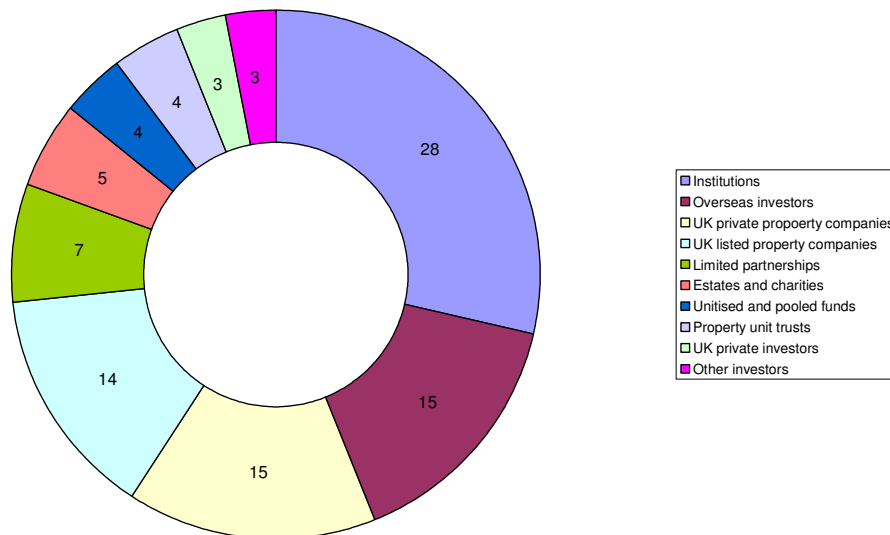
3.0 Investment opportunities and asset allocation

3.1 Real estate and investment diversification

In 2005 the total value of UK commercial real estate stock was approximately £762bn, compared with residential property value of £3400 bn and an equities market of £1,781bn (IPF, 2007). About half of this commercial property is investment property, with the remainder owner-occupied.

The dominant primary investors in UK property are the investing institutions (i.e. life and general insurance funds and pension funds) which accounted for 28% of the total estimated value in 2005 (Figure 2). These institutional investors also have large indirect holdings through unitised and pooled funds, property unit trusts and limited partnerships, taking their overall total to 40%. Other key players include quoted property companies, private companies, overseas investors and limited partnerships (including other indirect vehicles such as unit trusts). Developers also play a key role in assembling sites, organising construction and related phases of development and finding the finance; similarly many investors are also developers, either on their own account, or through joint ventures.

Figure 2 Primary investors in UK commercial real estate investment (adapted from IPF, 2007)



Despite its importance, research by IPF (2006) suggests that property has seen a gradual decline from a peak of 19% in 1974 to only 7% of the value of an average pension fund in the UK in 2004. However, in 2004-2005 there was a revival of interest in the sector as property outperformed other assets, which led to a shortage of investment grade products and an increased interest in urban regeneration opportunities. Property generally has proved popular for investing institutions because of its low correlation with equities and bonds, which can reduce overall portfolio risk (IPF, 2006). Property returns are also less volatile than other asset classes because property is valuation rather than market-priced based, leading to a smoothing effect in returns (UBS, 2005).

Similar patterns have emerged across Europe (Table 3) where work by Hoesli and Lekander (2005) suggests that the increased flow into property has resulted from the development of new investment vehicles, the growing integration of economic regions and the development of investment benchmarks. Nonetheless, the same authors argue that in relation to its attractiveness, research shows that on average across Europe property remains relatively low in its weighting in institutional portfolios (see, for example, Ennis and Burik, 1991 and Ziobrowski and Ziobrowski, 1997).

Table 3 Real estate allocations and market sizes of institutional investors in Europe (adapted from Hoesli and Lekander, 2005)

Country	Allocation to property (2002): %	Pension fund property portfolio capitalization Euros (bn)
Italy	20.3	35.2
Finland	14.8	4.8
Switzerland	13	21.8
Norway	11.0	3.4
Ireland	7.7	3.0
Germany	6.3	20.4
Netherlands	4.8	22.6
Portugal	4.7	0.5
Belgium	4.5	4.2
Sweden	4.0	7.5
France	3.5	10.1
Denmark	3.3	4.7
UK	3.3	45.9
Spain	2.3	3.5
Austria	1.0	0.1
Europe	5.3	187.6

3.2 The trend towards responsible property investment (RPI)

The quest for diversification has undoubtedly also led to institutions allocating funding to SRI-based investments. This has also led to the development of the concept of 'responsible property investment' (RPI) or 'socially responsible property investment' (SRPI)⁶. Pivo and MacNamara (2005) for example defined RPI as:

'Maximising the positive effects and minimising the negative effects of property ownership, management and development on society and the natural environment in a way that is consistent with investor goals and fiduciary responsibility.'

This definition has been made more precise through the work of UNEPFI (2007) which suggests RPI:

'... is an approach to property investing that recognizes environmental and social considerations along with more

⁶ Kinder (2005) provides a valuable deconstruction of the term SRI. For example the term "socially" can imply (a) the individual's concerns and aspirations and society's must be given equal weight in investment decision-making, or (b) society's interests take precedence over the individual's. For Kinder both of these implications deeply disturb non-SRI adherents, and the semantic connection between "socially" and "socialism" magnifies the upset.

conventional financial objectives. It goes beyond minimum legal requirements, to improving the environmental or social performance of property, through strategies such as urban revitalization, or the conservation of natural resources.'

In this sense RPI can be implemented throughout the property lifecycle, through the following examples (UNEPFI, 2007):

- Developing or acquiring properties designed with environmentally and socially positive attributes (e.g., low-income housing or green buildings).
- Refurbishing properties to improve their performance (e.g., energy efficiency or disability upgrades).
- Managing properties in beneficial ways (e.g., fair labour practices for service workers or using environmentally friendly cleaning products).
- Demolishing properties in a conscientious manner (e.g., reusing recovered materials on-site for new development).

This has also recently led to the development of 'Principles for Responsible Investment (PRI) (UNEP, 2007)⁷.

This view of 'responsibility' is predicated on the fact that the built environment is a major contributor to carbon emissions and pollutants (WWF and Insight Investment, 2005; RICS, 2007) but also that the social and economic impacts of property investment strategies need to be considered (Pivo, 2005)⁸. There is therefore a strong link between RPI and the concept of sustainable development (Pivo and McNamara, 2005; Rapson et al, 2007)

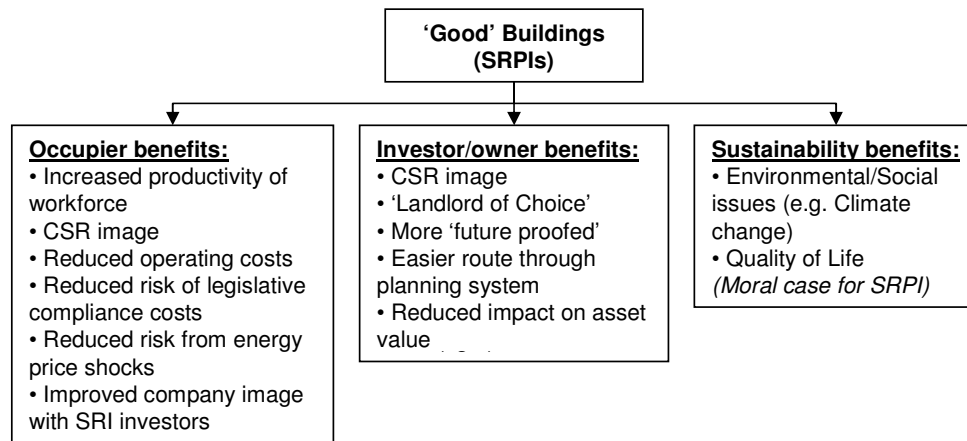
Although examples of RPI are growing, there is still an apparent reluctance to apply SRI approaches directly to commercial property investment portfolios and this is often linked to investment managers' concerns over their fiduciary responsibilities (Rapson et al, 2007). Most investors believe that it will lead to increased costs which are not immediately translated into higher asset values, thereby diluting investment returns (Pivo and McNamara, 2005).

However, proponents of RPI argue that by considering the potential impacts over a longer term, ignoring sustainability issues begins to contradict fiduciary responsibility (Pivo and McNamara, 2005). Figure 3 shows the main benefits associated with 'good' (in sustainability terms) buildings. Although the wider sustainability benefits to society are well understood and form the basis for the moral case for more sustainable buildings, it is the benefits to occupiers and investors which make the economic case a stronger one. For example, it is thought that as occupiers become aware of these benefits, their attitudes toward 'bad' buildings are likely to change, leading to their avoidance. This could result in increased letting voids and reduced asset values for these properties, while those with better sustainability profiles enjoy higher demand and increased returns (see McNamara, 2005 and et al, 2007b).

⁷ Other private sector institutions have also developed RPI principles (see section 7.0 for examples).

⁸ See other papers and work by Pivo at: <http://www.u.arizona.edu/~gpivo/>

Figure 3 Possible benefits associated with socially responsible buildings (adapted from Rapson et al, 2007)



Given the emphasis on sustainability within the RPI process it comes of little surprise that a strong market in urban regeneration areas in the UK has developed which seek to attract institutional investment. Such sites and the property development and investment benefits associated with them can offer characteristics that might appeal to SRI funds or institutions seeking to diversify into RPI. IPF (2006) suggest that such projects may offer:

- Investments based on commercial and ethical criteria;
- Cross asset opportunity;
- Diversification benefits; and,
- Regeneration as a clear focus.

The next section of the paper therefore traces the intellectual roots of investing in such 'underserved market areas', and the financial benefits that can accrue to institutions by investing and developing in such locations.

4.0 A focus for RPI?: the private sector and urban regeneration

4.1 Urban regeneration: the role of institutional investors and banks

A variety of definitions of the term 'regeneration' exist depending on particular perspectives (IPF, 2006). Adair et al (1998) provides a useful definition which received acceptance during the mid to late 1990s in the UK:

'The process of reversing economic, social and physical decay in our towns and cities where it reaches that stage when market forces alone will not suffice.'

However, as regeneration is dynamic IPF (2006) suggest that a more appropriate definition for the 21st century would concern raising value, creating sustainable communities and developing more innovative ways of attracting private investment. In this respect the BURA definition (Burwood, 2006) may be more appropriate:

'Regeneration is comprehensive and integrated action which leads to the resolution of urban problems and which seeks to bring about a

lasting improvement in the economic, physical, social and environmental condition of an area that has been subject to change'.

Regeneration consists of three distinct phases (Table 4) in areas characterised by:

- Location in inner city areas;
- Secondary nature of sites;
- Adverse impacts from neighbouring land uses;
- Associated social and environmental problems; and
- Perceived low return and high risk.

Therefore each phase of the regeneration process has distinct characteristics within the overall risk-return profile: remediation/infrastructure is characterised by high risk/high return (often exacerbated by contamination problems) through to investment, with low risk/low return.

Private capital (or equity) has often been deterred from investing in regeneration because of (DCLG, 2007):

- Perception of risk and poor returns;
- High transaction costs; and,
- Perceived long term time frames of the public sector.

Other barriers include complexity and cost of clean-up/remediation; fragmented land ownership and a slow planning system (APUDG, 2007a).

However, in recent years financial institutions have become more interested in investing in regeneration areas because of evidence of higher returns, the potential for SRI and for other related reasons (see Section 4.2 below). This has also led to the development of a range of property investment vehicles (see Section 5.0)

It is also clear that commercial banks have become important players in the capital market for urban finance (Figure 4) (IPF, 2006 and DCLG, 2007). For example, Abbey National, HBOS and Barclays have all lent to urban regeneration projects in the UK. IPF (2006) suggest that the weight of money from banks is for investment (about 70%) with the balance for development (30%). Essentially banks who act as venture capital providers are looking to obtain a capital gain in the short-term with the average deal length being 3 years with an outer limit of 10 years. Evidence from IPF (2006) suggests that banks have become involved in a range of regeneration products including:

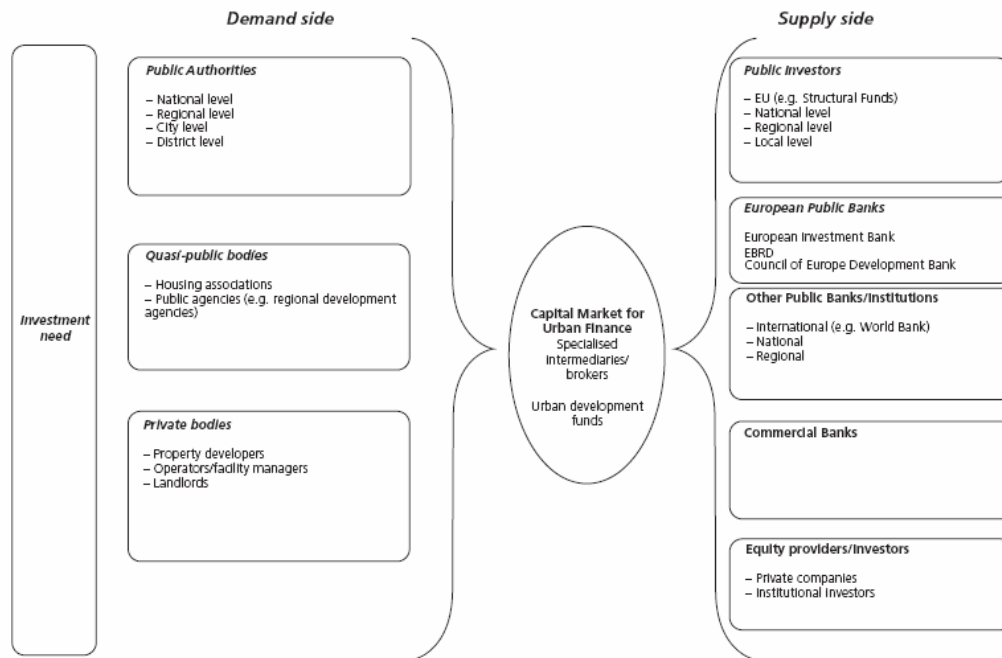
- Opportunity funds to target infrastructure investments;
- Equity-based positions in property development; and,
- Joint ventures with banks taking an equity stake and partnering with local authorities.

Ultimately banks are more likely to lend where there are returns which are linked with capital growth, perhaps from mixed use developments, for example.

Table 4 Characteristics of the three phases of regeneration (adapted from IPF, 2006)

Regeneration phase	Main activity	Characteristics	Institutional involvement	Funding options
Remediation/infrastructure	Site assembly Site remediation Infrastructure provision	High cost High risk Potential for high return	Certain institutional activity through bond issues	Higher yielding or protected bonds Indirect property investment Private equity Bank finance
Development	Construction of property asset Letting property to tenants	Debt-financed High risk (notably in the early stages) Potentially high return Lack of income stream Uncertain capital values	Bank-lending dominant Limited institutional involvement	Direct property investment Indirect/direct property investment Private equity Bank finance Bonds
Investment	Sale of occupied property asset in the investment market	Secure revenue streams Capital value growth Lower risk Returns above bonds Diversification benefits	Main entry point for many institutions Under-weight in regeneration property	Quoted equity Indirect/direct property investment (including REITs) Private equity

Figure 4 A model for urban finance (adapted from DCLG, 2007)



The increase in the role of bank finance in regeneration is also partly as a result of the good credit ratings of local authorities (and related to this increased borrowing powers provided by central government), but also because the overall level of urban finance grants is set to decline, because the EU Structural Funds allocation is due to fall in the next few years by 40% (DCLG, 2007). As a result, the European Investment bank (EIB) has become a medium-sized player in the urban lending market in the UK (DCLG, 2007). Since 2001, for example, the EIB has lent 4bn euros to 21 projects in the UK and is seen to offer key advantages:

- Competitive interest rates;
- Not a profit maximiser lender;
- Commitment to supporting projects with a social element;
- Provision of technical support with loans; and
- Willingness to lend on complex long-term projects.

Both financial institutions such as pension funds and insurance companies) and banks therefore play a major role in financing the urban regeneration process in the UK. In the case of institutional involvement this growth has been driven by a number of factors which are now discussed.

4.2 The drivers for institutional involvement in regeneration

There is a perception amongst many commentators that the need for urban investment is greater than ever if cities are to become more 'investable' and 'investment-ready' (Clark, 2007). In the EU15 there has been a gradual decline of public investment from about 5% of GDP in the 1970s to 2% today, for example (DCLG, 2007). Therefore private finance is critical to city and regional development because (Clark, 2007) it:

- Provides capital in a fast and effective manner;
- Can help rebuild local investment markets and avoid disinvestment;
- Creates greater commercial and professional discipline within city development policies and initiatives;
- Attracts wider interest from other commercial players and can raise confidence in a city;
- Can help develop a sustainable finance strategy in city development initiatives and help unlock public finance for alternative use; and,
- Repositions beneficial city development as 'investment' rather than 'expenditure' in a modern economy.

The main drivers for the increased institutional involvement in urban regeneration projects are now discussed. These include:

- The development of a literature which highlights the importance of underserved markets, capital gaps and the role of financial institutions in achieving targeted returns in such markets.
- The growing trends towards SRI in the context of CSR and sustainability agendas.
- The increased evidence of strong financial returns from urban regeneration.
- Underinvestment in infrastructure and regeneration by the public sector.
- The availability of new investment and partnership vehicles
- The role of mixed communities as 'social engines'

4.2.1 Underserved markets, capital gaps and institutions

The intellectual arguments for investment in underserved markets, or inner city areas, in the UK have their roots in the USA (Dixon, 2005). The decline of the manufacturing sector in the UK and the long-term trend towards a service sector economy has also led policy makers in the UK to champion the importance of retailing as a potential creator of jobs, and economic vitality, not only nationally, but more locally in local regeneration projects, especially in disadvantaged, inner city areas. The intellectual roots for this lie with the work of Michael Porter (1995) and his close relationship with the Initiative for the Competitive Inner City (ICIC) in the USA in 1994. Porter's work suggested that, despite the disadvantages of crime, poverty and capital shortages, inner city⁹ areas retain four strategic advantages:

- Location;
- Untapped local market demand;
- Clustering;
- Human resources.

The latent demand, and in particular retail demand, of inner cities was also the subject of a separate, and ongoing, research programme at ICIC. A survey by Boston Consulting Group (BCG) & ICIC (1998) found, for example, that US inner cities have some \$85bn of retail spending power (or 7% of US retail spending), of which some

⁹ Inner Cities are defined by ICIC (www.innercity100.org) as core urban areas that currently have higher unemployment and poverty rates and lower median income levels than the surrounding Metropolitan Statistical Area (MSA).

\$21bn is unmet locally by inner city retailers. Indeed, retail demand per inner city square mile is often 2–6 times greater than each metro square mile, and inner city shoppers are surprisingly well connected to the Internet, although they are half as likely to have online access as the general US population. Policy themes in the UK have therefore been developed around such initiatives as City Growth Strategies, Inner City 100 and Underserved Markets (Dixon, 2005).

Similarly in the USA, Manley, Hebb and Jackson (2005) see the work of Porter as part of a general literature which highlights ‘capital gaps’ in such locations, and where pension funds and life funds can provide opportunities in ‘Economically Targeted Investments (ETIs) such as urban regeneration projects, such as the CalPERS model (See Hagerman et al., 2007 and Hebb and Wojcik, 2005)¹⁰, and in the UK such arguments must also be seen in the context of the trend towards area-based regeneration initiatives in regeneration which attempt to strike a balance between ‘people-based’ and ‘place-based’ projects (ODPM, 2003).

4.2.2 Trends towards SRI in the context of CSR and sustainability

As we saw in Section 2.0 above, there is a strong and increasing emphasis on SRI amongst investing institutions, driven by a range of related factors such as legislation and the business case alongside the growth in the sustainability and CSR agendas. These factors also provide implicit drivers for urban regeneration as a focus for SRI and RPI, in terms of direct or indirect property investment. Frequently real estate investors are now targeting brownfield sites in such areas because they provide paybacks in terms of return but also the opportunity to highlight sustainability credentials (Dixon, 2006; 2007)

4.2.3 Evidence of strong financial returns from urban regeneration

Until recently it was not possible to determine the investment performance of regeneration property in any detailed shape or form nationally. However, research by Adair et al (2003) developed a regeneration index based on properties within UK regeneration areas (i.e. subject to some form of intervention) in eight major cities. The research showed that over a 22 year period from 1980, but more specifically from the mid-1990s, that investment returns from regeneration property (12.8% annualised return) exceeded the Investment Property Databank (IPD) UK benchmark (10.2%), with similar trends existing on a sector basis. In the same way, the risk per unit of return was lower for regeneration areas (0.69) compared with the UK all property index (0.88), so that regeneration investment provided both a higher return and a higher risk adjusted return.

This research was paralleled by the development of the IPD regeneration Index which is now in its fifth year of operation, and shows that over the last five years (2002-2007) that the index has outperformed the IPD All Property Index in each of those years (IPD, 2007) (Table 5). The index is based on a sample of 581 standing investment properties in regeneration areas with a total capital value of £7.5bn, using some 20 Urban Regeneration Company areas in the UK typically fringe central core urban areas.

¹⁰ See <http://urban.ouce.ox.ac.uk/>

Table 5 UK regeneration property performance (adapted from IPD, 2007)

	2006		10 year (annualised)	
	<i>Regeneration areas</i>	<i>All UK</i>	<i>Regeneration areas</i>	<i>All UK</i>
Total return	16.2	18.1	13.7	13.6
Income return	5.0	4.9	6.5	6.5
Capital growth	10.7	12.6	6.8	6.6
Rental value growth	2.7	4.2	3.5	3.7
Yield shift	-9.5	-8.6	-4.3	-4.0
Yield impact	10.5	9.4	4.5	4.2
Residual	-2.8	-1.4	-1.4	-1.5

As a result, investing in regeneration areas within key sectors (including commercial and residential property) is no longer a 'niche sector', but is now considered 'mainstream' (IPD, 2007)

4.2.4 Underinvestment in infrastructure and regeneration by the public sector

In a more negative sense, the private sector has been courted because of well-documented deficiencies in governance structures, financial fragmentation in funding streams, weak strategy and lack of capacity and skills (All Party Urban Development Group, 2007b, Dixon, 2007). Partnerships which can cut through these problems, bring the private sector into regeneration and create value over the long term are therefore seen as advantageous.

4.2.5 Availability of new investment and partnership vehicles

Demand and supply side restrictions have frequently led to the lack of appropriate finance for urban regeneration. However, building on such initiatives as the Igloo Fund, developed by Morley (see section 7.0), several innovative methods of financing have also been developed to stimulate private sector involvement including (DCLG, 2007). The involvement of the private sector has also been encouraged by new ways of thinking within government as to how to deal with the public sector's asset base in the UK (Sorrell and Hothi, 2007), Reviews such as the Lyons (2004) report and Gershon (2004) report, for example, have supported the government's view that it needs to devolve £30bn of assets in public ownership by 2030. There is now therefore a complex array of investment vehicles for urban regeneration which form part of a wider 'Public-Private Partnership (PPP) concept. Examples include (IPF, 2006; DCLG, 2007; Sorrell and Hothi, 2007):

- Limited partnerships and unit trust models (classified through their legal status); and,
- Outsourcing and joint venture models (classified through their asset management status).

Examples of these structures are discussed in more detail in the next section of this paper.

4.2.6 The role of mixed communities as 'social engines'

In a recent review of UK experience in regeneration Anne Power and John Haughton (2007) argue that mixed communities have become the 'holy grail' of urban policy. For Power and Haughton (2007: 194) a mixed community:

'...houses people from different incomes and varied ages, different tenures, ethnic and cultural backgrounds, providing within walking distance a mix of activities, spaces and services, close to a public transport hub. It always implies at least moderate density; otherwise a mixed community of varied services, tenures and types of people cannot work. It may not mean the top elite living next door to the very poor-such utopias rarely if ever, exist- but it does mean a range of different people.'

In this sense a mixed community implies mixed uses and services and mixed tenure (Power, 2007), building on the key UK policy concept of 'sustainable communities' (see Appendix 1), perhaps even in some circumstances carrying connotations of 'social engineering', and has been promoted as a way of increasing institutional involvement in regeneration (Savills, 2005). Despite this, accusations of 'gated communities' are frequently attached to regeneration projects (Minton, 2002) and barriers often mitigate against their success, either through polarisation issues or existing problems of neighbourhood decline (Power, 2007 and Dixon, 2007). Previous work, for example, which focused on brownfield regeneration in the Thames Gateway and Greater Manchester (Dixon, 2007), has pointed to the difficulties of creating new communities on derelict sites without appropriate infrastructure and the different issues associated with integrating new communities with existing communities (see also NAO, 2007). These problems and issues are also relevant to consider, for example, in the context of the regeneration of the Lea Valley for the London Olympics in 2012.

PART 2 Partnerships and Impact Assessment

5.0 PPPs and urban regeneration

5.1 The emergence of PPPs in the UK and Europe

The development of PPPs in urban regeneration is one facet of the drive towards sustainable financing for cities and city-regions (Clark, 2007). Indeed the OECD LEED programme suggests ten principles for sustainable finance for cities (Box 1) which are intended to offer a means to promote long term investment in cities to achieve improved value for all stakeholders. PPPs are just one of a number of alternative financing mechanisms for securing private sector input into urban renewal and infrastructure development (others include supplementary business rates, tax increment financing and road pricing) (Webber and Marshall, 2007; Clark, 2007).

Box 1 OECD LEED principles of sustainable finance for cities (adapted from Clark, 2007)

- i. Smart finance for smart localities and cities: promoting the fiscal relationships with higher tiers of Government right.*
- ii. Promote active private sector leadership in local investment.*
- iii. Metropolitan finance for metropolitan amenities: sharing costs and benefits between cities and their neighbours.*
- iv. Capturing and sharing the financial and fiscal benefits of growth locally.*
- v. Flexibility in public funding to enable private co-investment in local development.*
- vi. A new approach to the management of public assets locally to achieve financial leverage.*
- vii. Fostering financial innovation in public and private sectors locally.*
- viii. Long term market building in local economies by the private sector.*
- ix. Focus on the quality of the local financial propositions not on the supply of finance.*
- x. Build capable specialist local financial intermediaries.*

Throughout Europe there has been a growing interest of the role of PPPs in urban regeneration therefore (see Trache and Green, 2001; European Commission, 2003; 2004b, Ball and Maginn, 2005; and Trache and Green, 2006 and Urbact, 2006). Trache and Green (2006:11) provide a general definition of a PPP as:

'...(existing) when the public sector (federal, state, local or agencies) joins with the private sector or service providers, to attain a shared goal.'

For Trache and Green (2006) each partnership is unique but they share common characteristics such as:

- Bringing together public/private sector partners;
- Working together toward shared goals or objectives;
- Contributing time, money, expertise, and other resources; and,
- Sharing decision-making and management responsibilities.

Trache and Green (2006) also highlight key characteristics of PPPs in urban regeneration (Table 6).

Table 6 Key elements of urban regeneration PPPs (adapted Trache and Green, 2006)

- ✓ *Interactive mechanisms that bring together, coordinate and enhance the potential of the public and private sectors in the context of public policies.*
- ✓ *Formal (or informal) association of public and private partners (public authorities and partners coming from economic and / or social sector) who have common objectives and join their forces to try to achieve them.*
- ✓ *Partnership contract stating what the various partners have to do within a given context.*
- ✓ *A single legal entity having a stake for both public and private sectors*
- ✓ *Imply the involvement of the private sector in fields of intervention that are usually undertaken by the public sector, by creating tools of conciliation between both sectors.*
- ✓ *Result in a mutual added value and a sharing of the tasks. Each partner shall get the task, which he can solve best and most effectively.*
- ✓ *Renewal programs based on common public (local government, local people or public interest) and private interest.*
 - *To use the knowledge in the private sector*
 - *To use each others power position*
 - *To commit every partner*
 - *To create a force outside the government which triggers certain activity*

Van Boxmeer and Van Beckhoven (2005: 3) adopt a more specific definition of a PPP (in relation to their study of Spanish and Dutch housing markets) as¹¹:

'An institutionalised form of co-operation between government and one or more private partners in a project with common interests via a distribution of decision rights, costs and risks. A PPP is characterised by common responsibility; the final result for every individual partner strongly depends on the action of the other partners involved in the project.'

Previous literature highlighted in Van Boxmeer and Van Beckhoven (2005) suggest that there are four potential benefits resulting from the concept of a partnership (in generic terms):

- Synergy: where there is additional benefit gained from working together (either through increased profit or new resources (resource synergy), or through innovative solutions (policy synergy));
- Transformation: the challenging of the aims and operating cultures of the respective parties
- Budget enlargement: opportunity for further funding from other parties
- Capacity enlargement: the potential to spread responsibilities between parties.

In relation to urban regeneration, the benefits of PPPs¹² include (Urbact, 2006):

- Finance and access to additional finance through private sector often in a 'funding pool'.

¹¹ This builds on the definition in CPB, 2001.

¹² In the UK the term Property Regeneration Partnership (PRP) has also been used to characterise vehicles which operate in an urban regeneration context (see Yardley, 2007).

- Helping organisations learn and innovate in both the public and private sectors.
- Providing the opportunity to minimise the partners' individual limitations through joint working and joint action.
- Bringing 'know-how' to a project through the use of the private sector.

In the UK, an added advantage of PPPs in regeneration is that profitable and unprofitable investment projects can be bundled together to create better scale to development and more certainty, so that investors are more prepared to take a higher risk in the early stages of development (Mills and Atherton, 2005). The variety of models that have been developed is therefore extensive.

5.2 Development of PPP structures in the UK

The UK continues to be the most highly developed global PPP market (Global Legal Group, 2007). Generally in the UK the structure of a PPP aims to match public-sector funding and surplus/development assets with private sector funding and expertise (Mills and Atherton, 2005). In order to attract private investment the public sector offers cash or assets, with the private sector investor offering cash in the partnership as an equity stake or through raising debt against the land and other assets.

In the UK the main types of PPP structure in relation to urban regeneration are as follows:

- Limited partnerships and unit trust models (classified through their legal status); and,
- Outsourcing and joint venture models (classified through their asset management status).

Proposals for other more sophisticated models have also included Real Estate Investment Trusts (REITs) which benefit from tax transparency (IPF, 2006).

5.2.1 Limited partnership

IPF (2006) suggest that typical co-investment models include both the English limited partnership and unit trust models. The former is typically structured with a single general partner and one or more limited partners. The general partner is responsible for the management of the business of the partnership and its assets (although it is common for certain duties to be delegated or contracted to advisers such as development and asset managers). A general partner has unlimited liability for the debts and obligations of the partnership and so is often a special purpose vehicle to protect against this exposure. The limited partners are prevented from being involved in management of the partnership business but benefit from having limited liability status so that their financial exposure is limited to the amount that they invest in the partnership. In a typical regeneration partnership the limited partners would be institutional and other investors providing the equity finance for the project. One or more companies that are associates of one or more of the limited partners will usually own the general partner. In limited partnerships the institutional investor provides equity funding and so can secure a foothold in large scale. With recent changes in tax (Stamp Duty Land Tax) the market for such vehicles, however, is in decline.

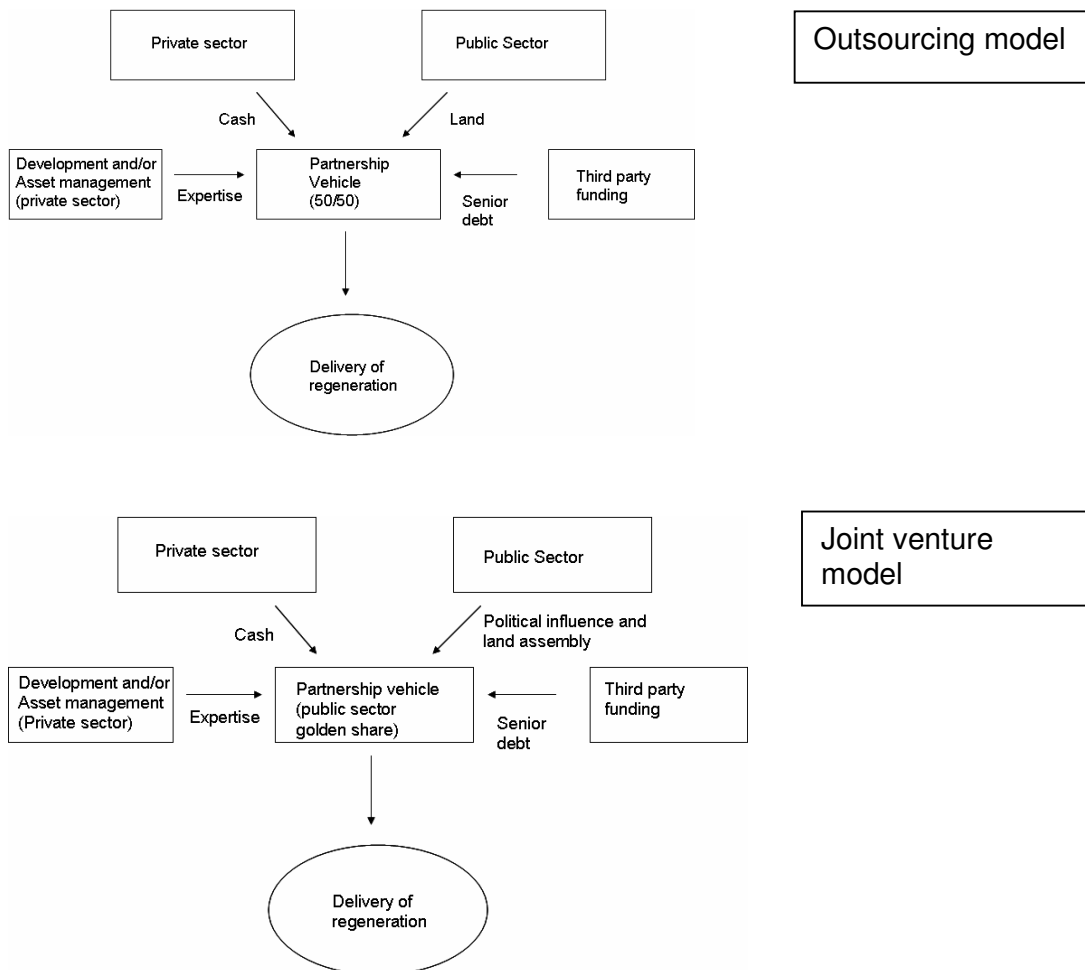
5.2.2 Unit Trusts

This is an arrangement where the assets of the trust are held by the trustee for the benefit of the unit-holders or investors. The funding of a regeneration project through a unit trust is similar to the arrangements in a limited partnership structure. Institutional investors subscribe for units in the trust in exchange for cash. The cash is then combined with bank debt to fund the project. Once income producing, the income passes through to the investors, with capital proceeds being returned on a sale of the asset (IPF, 2006). In the UK both unit trusts and limited partnerships may be combined within a single regeneration structure.

5.2.3 Outsourcing and joint venture models.

Sorrell and Hothi (2007) highlight two alternative models of partnering (Figure 5). In what they refer to as the 'outsourcing' model the public sector contributes assets and the private sector cash which are both then used to provide medium term funding. The public sector receives deferred consideration for transferring its assets and this is payable by the partnership vehicle on an agreed basis over the lifetime of the project. In this model the arrangement is "50/50 deadlocked" which gives shared control over the assets.

Figure 5 Alternative partnership models (adapted Sorrell and Hothi, 2007)



In contrast, the joint venture model may mean the private sector already owns the land and will grant the vehicle rights over the land and provide the required infrastructure and remediation work (i.e. creating 'development platforms'). The public sector may also own land in this model but can also bring compulsory purchase powers to the partnership. In return the private sector brings its expertise to completing the project, in which case the public sector monitors progress against the agreed business plan.

5.2.4 Recent developments

More recently still the European Commission (EC) and the European Investment Bank (EIB) have announced the development of the JESSICA initiative in the EU, in cooperation with the Council of Europe Development Bank (CEB). JESSICA¹³ is the Joint European Support for Sustainable Investment in City Areas, which aims to promote sustainable investment, growth and jobs in Europe's urban areas. This initiative will offer the managing authorities of Structural Funds programmes the possibility to take advantage of outside expertise and to have greater access to loan capital for the purpose of promoting urban development, including loans for social housing where this is appropriate. Managing authorities (such as the Regional Development Agencies in England) wishing to participate under the JESSICA framework, would contribute resources from the programme, while the EIB, other international financial institutions, private banks and investors would contribute additional loan or equity capital as appropriate.

Since projects will not be supported through grants, programme contributions to urban development funds will be 'revolving' and help to enhance the sustainability of the investment effort. The programme contributions will be used to finance loans provided by the urban development funds to the final beneficiaries, backed by guarantee schemes established by the funds and the participating banks themselves. No State guarantee for these loans is involved, hence they would not aggravate public finance and debt (EC, 2007).

The aim of JESSICA is to allow European funding to be used by "managing authorities" to "leverage substantial amounts of investment into [urban] areas in need of social cohesion and to speed up their transformation". The idea is that these funds will be invested in a particular delivery vehicle, such as an urban regeneration corporation, with a specific urban renewal programme. This public funding will at least be matched by private equity from the EIB, CEB and other banks (MacDonald, 2007). There are also close parallels with the Igloo model of regeneration in the UK (see section 7.0 below).

6.0 Evaluating the impacts of SRI through urban regeneration: tools and techniques

Given the growth of institutional investment in SRI, RPI and urban regeneration, the synergy with the sustainability and CSR agendas also becomes evident. If institutions are to prove their credentials in these arenas they need robust and consistent metrics systems to measure the economic, environmental and social impacts of their investments, and fully engage with communities. For example, Frankental (2001) suggests that issues of SRI can only have real substance if they are reinforced by

¹³ See http://ec.europa.eu/regional_policy/funds/2007/jjj/jessica_en.htm

changes in company law relating to governance, are rewarded by financial markets, related to the goals of social sustainability, its implementation is benchmarked and audited, if it is open to public scrutiny, if the compliance mechanisms are in place, and if it is embedded across the organisation horizontally and vertically. It is frequently the 'social dimension', however, that is the most problematic and controversial in terms of measurement (see also Roberts et al, 2007). This section therefore explores this issue and the tools and techniques that have been developed in relation to SRI, banking and property.

6.1 Institutional investment, bank lending and the social dimension

Developing metrics systems to assess the impacts of investment in property (and regeneration) -based projects has not been straightforward. As McNamara and Pivo (2005) suggest there is no set of broadly accepted metrics for evaluating the 'commitment of real estate investors to principles of RPI', often arising from the different metrics that are required for different countries and different properties. In related research in the USA, Hagerman et al (2007) suggest (in terms of pension fund investment in urban revitalization) that the investment returns from community-based investing should include financial, social and environmental outcomes. Financial returns, for example, can easily be measured through risk-adjusted internal rates of return and in investment multiples, assessed against bond indices and property indices. Indeed Pivo (2005) suggests that social investing does not appear to require concessions in financial performance, and this view is supported in relation to real estate investment in regeneration areas in the UK (IPD, 2007). However, Hagerman et al also suggest (2007:62):

'On the social impacts there is no universally accepted industry yardstick to date for testing how well an investment vehicle performs on its targeted social returns.'

It is therefore the social dimension to investing (and indeed to sustainability) that still lacks a cutting edge in the institutional investment sector. This is probably true of the banking sector also, despite the development of the Equator Principles¹⁴ for lending. These principles were launched on June 4th, 2003 by ten private financial institutions (ABN AMRO Bank, N.V., Barclays plc, Citigroup, Inc., Crédit Lyonnais (now Calyon), Credit Suisse First Boston, HVB Group, Rabobank Group, The Royal Bank of Scotland, WestLB AG, and Westpac Banking Corporation) and provide a set of voluntary guidelines for managing the social and environmental issues related to the financing of projects. For the first time, banks that were otherwise in competition with each other presented a united approach in attempting to mitigate environmental and social risks associated with financing projects (Banktrack, 2006). On 6 July 2006, Equator Principles Financial Institutions (EPFIs) announced the launch of the revised Equator Principles, EP2, as a new common set of best practices to manage social and environmental risks related to project financing (Box 2).

¹⁴ See <http://www.equator-principles.com/>

Box 2 Equator principles (adapted from EPFI, 2006)

- ✓ *EPFIs will only provide loans to projects which conform to the following principles:*
- ✓ *Review and categorisation of projects*
- ✓ *Social and environmental assessment*
- ✓ *Adherence to applicable social and environmental standards*
- ✓ *Action plan and management system required*
- ✓ *Consultation and disclosure procedures to be followed*
- ✓ *Grievance mechanism available*
- ✓ *Independent review possible*
- ✓ *Linking covenants to compliance*
- ✓ *Independent monitoring and reporting to be carried out*
- ✓ *Regular reporting required*

























Similarly, as an original signee of the Equator Principles, the EIB places a strong focus on the environmental and social aspects of lending. The EIB's environmental and social safeguard policies are based on the EU approach to environmental sustainability, and the principles, practices and standards derived from these policies are highlighted in the Declaration on the European Principles for the Environment (EPE), agreed to by the EIB and four other European multilateral financing institutions in May 2006 (EIB website, 2007).

Nonetheless there is criticism from some quarters that banks have not fully engaged with the principles, and it has also been suggested that measuring the outcomes from EPs in a coherent and transparent way is problematic; that accountability was lacking especially in relation to developing countries; and that limited or no disclosure in reporting EP outcomes is still the norm (Banktrack, 2005).

6.2 Towards improved metrics: examples from community investment and real estate

Despite these issues, outside the banking sector, there has been some developmental work in relation to metrics systems which attempt to incorporate a triple bottom line approach in relation to property (Pivo and McNamara, 2005) (examples include work by the SAM group, Environmental Protection Agency, and Upstream's Third Dimension programme). In a more generic sense there have also been advances in methodology in relation to assessing social impact in community investment projects in the USA through the work of Clark et al (2004) and the Community Development Venture Alliance (CDVCA) (2005). For example, Clark et al (2004) list a number of techniques to measure social impact (Table 6).

Table 6 Assessing Social Impact: key methods (adapted from Clark et al, 2004)

Method	Process	Impact	Monetization	Non-profit	For-profit
<i>Theories of change</i>					
<i>Balanced scorecard</i>					
<i>Acumen scorecard</i>					
<i>Social Return Scorecard</i>					
<i>AtKinsson Compass Assessment for investors</i>					
<i>Ongoing Assessment of Social Impacts</i>					
<i>Social return on Investment</i>					
<i>Benefit-Cost Analysis</i>					
<i>Poverty and Social Impact Analysis</i>					

There have been a range of tools developed to assist built environment professionals in measuring and assessing sustainability, which include a social dimension, and the number of such tools is immense. Recent research for EPSRC (BRE, 2004) has found some 600 tools that measured or evaluated the social, environmental and economic dimensions of sustainability. In urban regeneration practice many of these, and related tools, have a potential for usage within the use and management of rural and natural resources, as well as across the whole lifecycle of buildings from construction and development through owner occupation and post occupancy-monitoring.

Many of these tools assess or measure sustainability of the property-based projects, and have been developed to determine whether capacity exists for further development, or whether a development is sustainable, or whether progress is being made towards sustainable development. 'Indicators' are also an important part of the range of the tools available and relate mainly to parameters that can be measured to show trends or sudden changes in a particular condition. It is also important to distinguish between tools that are used for 'measurement' (identifying variables measuring sustainable development, and collecting relevant data), and those that are used for 'assessment' (involving evaluation of performance against criteria), as well

as those tools which can be used to effect a move towards sustainable development by changing practice and procedures ¹⁵.

For Therivel (2004), however, few of these tools are holistic and integrative, or address the multi-dimensional nature of sustainability. Also environmental and economic tools tended to predominate with less emphasis on the social dimension, and as she points out (2004:53):

'There is less consensus about the dimensions of social issues than about environmental and economic ones. For instance some tools discuss norms and values, dimensions of equity, and social interactions, whilst others are limited to demographic issues. Specific tools exist for social impacts, intragenerational (within this generation) equity and public participation – all components of sustainable development. However, intergenerational (between generations) equity - constraints and thresholds that should be achieved to ensure that future generations enjoy a good quality of life – is covered much less well'.

This view was supported by recent research for RICS¹⁶ (2007) which highlighted key deficiencies in assessing social sustainability in many of the tools used in the built environment. The key tools used and the gap in the social sustainability dimension are shown in Table 7.

In summary therefore, although there are a variety of tools which have emerged to measure sustainability, and therefore the impacts of SRI-based projects or projects which are based on loan finance, the social dimension continues to provide problems in measurement. Despite this, there have been a number of examples of what might be referred to as RPI-based projects, which seek to highlight their sustainability credentials in relation to urban regeneration. The next section of the paper explores the emergence of these 'partnership-based' urban regeneration vehicles in the UK and Europe, and attempts to draw out some lessons on sustainability (and social impact) metrics (based on a desktop-based study which also incorporated a grey literature review (including an internet trawl), before providing conclusions.

¹⁵ The key references here which cover both UK and overseas are

- BRE (2004) Assessment of Sustainability Tools, BRE, Glasgow
- Therivel, R. (2004) Sustainable Urban Environment-Metrics, Models and Toolkits- Analysis of Sustainability/social tools, Levett-Therivel, Oxford.

These were part of the main output from the ongoing EPSRC SUE-MOT programme with a website at: www.sue-mot.org.uk. The SUE MoT project is part of the EPSRC's Sustainable Urban Environment research programme. SUE MoT is seeking to develop the concept of sustainability tools and to research their use in order to provide a more sustainable framework for urban development.

¹⁶ See project website at: http://www.brookes.ac.uk/schools/be/oisd/sustainability_audit/

Table 7 Main sustainability tools in property in UK and Europe: ‘Mind the gap’ (adapted from RICS, 2007)

Key :  Present  Absent

Tool/technique	Checklist, Toolkit/Other	Property	Environmental	Social	Economic	Description
BRE Sustainability Checklist for Developments	Checklist/toolkit	Commercial And Residential				This Checklist provides practical tools and indicators to measure the sustainability of developments (both buildings and infrastructure) at site or estate level.
BRE Green Guide to Specification	Specification Guide	Commercial Residential and Public				The Green Guide to Specification is an easy-to-use publication, providing guidance for specifiers, designers and their clients on the relative environmental impacts of over 250 elemental specifications including roofs, walls, and floors
BRE Office Scorer	Rating system	Commercial				The tool compares major or complete refurbishment with complete redevelopment, and redevelopment within an existing facade.
BREEAM	Rating system	Commercial and public				BREEAM stands for the Building Research Establishment Environmental Assessment Method. BREEAM is a method for assessing the environmental quality of buildings. It considers design issues that affect the global environment, local environment and the health and well being of building occupants.
Ecohomes	Rating system	Residential and public				EcoHomes is the homes version of BREEAM. It provides a comprehensive rating for new, converted or renovated homes, and covers both houses and apartments.
Envest 2	Software tool/toolkit	All				Envest 2 is a software tool that simplifies the otherwise very complex process of designing buildings with low environmental impact and whole life costs.
Environmental Impact Assessment (IAIA)	Set of techniques	All				International Association for Impact Assessment is a forum for advancing innovation, development and communication of best practice in impact assessment.
SEEDA Sustainability Checklist	Checklist/Toolkit	All				This Checklist is designed to be used by those involved in planning or building sizeable developments from estates to urban villages and regeneration projects.
Strategic Environmental Assessment	Set of techniques	All				A website with a variety of tools and useful links for SEA.

PART 3 Best practice examples and conclusions

7.0 Best practice examples: RPI and CR

Work by Rapson et al (2007) showed the relative paucity of RPI-based practice amongst the top ten investment management practices in the UK. Although SRI statements and principles were clearly stated the RPI (or SRPI) activities were much more 'patchy' (Table 8).

Table 8 Examples of possible RPI activities (adapted from Rapson et al, 2007)

<i>Examples of Possible SRPI Activities Undertaken</i>	<i>Milestone</i>
<ul style="list-style-type: none"> ■ External audits of environmental management systems and/or aspects of sustainability performance (e.g. ISO 14001, Carbon Trust, Urbed) ■ Participant in externally managed benchmarking activity (e.g. 'PEG' by Upstream) 	Independent Auditing/Benchmarking
<ul style="list-style-type: none"> ■ Statement containing: recognition of impacts on environment; objectives; planned/ongoing actions 	Environmental Management Policy
<ul style="list-style-type: none"> ■ Systems in place to monitor and improve investment property performance in at least one of: energy/water consumption; waste production/recycling; emissions to air/land/water 	Energy/Water/Waste/ Emissions Monitoring
<ul style="list-style-type: none"> ■ Discussion of above areas (related to tenant activity) with the aim of improving tenants' performance 	Engagement with Tenants
<ul style="list-style-type: none"> ■ Use of environmental assessment criteria or tools (e.g. EIA, BREEAM) for new purchases, new developments, or refurbishments 	Environmental Assessment
<ul style="list-style-type: none"> ■ Statement explicitly mentioning SRPI, or that links SRI and property, or that discusses property activities under the heading of SRI. 	SRPI Policy
<ul style="list-style-type: none"> ■ Publication of environmental and/or sustainability performance of investment properties at least annually 	Environmental Reporting
<ul style="list-style-type: none"> ■ Specification of low environmental impact/non-hazardous materials in new developments ■ Specifying energy efficiency/waste management criteria ■ Aiming for flexibility in building use 	Environmental Design
<ul style="list-style-type: none"> ■ Sourcing of electricity supplies for all/some investment properties from 'green' energy suppliers 	Use of Renewable Electricity
<ul style="list-style-type: none"> ■ Work undertaken to improve communities in the vicinity of some investment properties (e.g. eradicating vandalism, nature conservation) 	Improving Surrounding Area
<ul style="list-style-type: none"> ■ A retail/institutional property investment fund with explicit SRPI objectives/characteristics 	SRPI Fund

This links with the findings of McNamara (2005) who suggested that most of the RPI actions taken to date have tended to link to the building itself (rather than the tenant) and have been conceptually linked to 'engagement' (as opposed to screening). What is also noticeable about the RPI activities is the lack of focus on the 'social dimension'. This is also evident when the reports relating to corporate responsibility and sustainable development of leading institutions and developers and housebuilders are also examined. As Table 9 shows references to RPI are few and far between and in relation to CR, the majority of companies use fairly similar criteria

in relation to the social dimension¹⁷. These include such descriptors as ‘community engagement’ and ‘stakeholder dialogue’, or volunteering in the community. Some housebuilders have developed KPIs based around affordability or section 106 agreements and several financial institutions have wedded themselves to the concept of mainstreaming RPI within their investment portfolios (for example Prudential and Hermes).

By and large, however, it is striking that the social dimension appears to be the most poorly developed concept within CR/SRI at an organisational level and, wedded to this, at an individual site/project level, particularly as most organisations seem to adhere to the BREEAM system of rating in the UK which focuses on the environmental impacts of buildings (see Colantonio, 2007).

We have to turn to specially developed financial vehicles for investment to see more radical and robust ways of dealing with the social dimension of property-based projects (including regeneration). Examples include the Igloo and Blueprint partnerships and English Cities Fund.

Igloo is an urban regeneration fund established by what is now Aviva (formerly Norwich Union/Morley) to invest in the physical regeneration of the UK’s towns and cities¹⁸. The fund is committed to a policy of SRI, which will deliver long-term social, economic and environmental benefits whilst achieving acceptable financial returns. Igloo develops mixed-use schemes in partnership with the public and community sectors.

Projects must be on the edge of the top 20 cities in the UK, and well designed. Igloo currently has 23 projects across its direct development and partnership portfolios with a completed development value of £2.5bn creating 8,500 homes and 10,000 jobs on around 250 acres of brownfield land. It continues to market for further equity and is actively assessing new development opportunities in edge of city-core locations within the UK’s Top 20 centres (URBED, 2007). Its joint ventures include Blueprint (EMDA and English Partnerships) and Isis (British Waterways and AMEC). The aim of the SRI policy is to screen and assess urban regeneration schemes for their SRI characteristics. URBED assesses the performance of Igloo scheme against 16 policies under three SRI themes:

- Regeneration – Investing in the regeneration of the social, physical and economic fabric of urban neighbourhoods;
- Environmental Sustainability – Investing in urban development and patterns of resource use that are more environmentally sustainable;
- Urban Design – Investing in an urban renaissance through the design of buildings and public realm that are distinctive, vibrant and urban in character.

For example, the ‘regeneration’ score, which partly maps onto the ‘social’ dimension is based on key metrics which assess the contribution of the project to social capital, the local economy and neighbourhood cohesion in both the scheme itself and in relation to SRI policy (Igloo, 2005) (Table 10).

¹⁷ The ‘best practice’ cases were sourced from a variety of grey literature sources including reports from World Wildlife Fund, Upstream and the Internet. Banks were not included and the sample was derived from investing institutions, developers and housebuilders, as major actors in regeneration.

¹⁸ See <http://www.igloo.uk.net/>

Table 9 Preliminary scoping of UK 'best practice' exemplars: CSR/CR and RPI principles (annual reports and accounts)

Type	Website	CSR/CR	RPI	Social dimension	Comments
<i>Institutional</i>					
British Land	http://www.britishland.com/	CR	Not evident	Mainly 'community' based (i.e. manage relations with communities to achieve social and business benefits). Main KPI is % of managed properties where British Land 'actively engages with the community'.	'Problems in identifying suitable socio-economic data at single project level have led to wider discussions with Government officials on the need for further research on economic indicators using data from a wide range of projects'.
Hermes	http://www.hermes.co.uk/	CR	Report available (RPI)	Community matrix' developed with Upstream	Hermes Principles for RPI developed (see http://www.hermes.co.uk/real_estate/real_estate_rpi_challenges.htm), relating to compliance; good practice; strategy and management systems.
Land Securities	http://www.landsecurities.com	CR	Not evident	Community based targets as part of 28 KPIs. New developments to fulfil BREEAM assessments 'very good' or 3-Star rating of the Code For Sustainable Homes.	Community-based targets include: <ul style="list-style-type: none"> • Promotion and communication of employee volunteering through The Land Securities Foundation, focusing on four key themes: education, employability, local enterprise and personal interest. • Provide through the Land Securities Capital Commitment Fund a total sum of £150,000 in small grants to local community and voluntary groups in Southwark and Westminster, specifically targeting projects with a focus on children, youth and education. • Undertake research across the shopping centre portfolio to identify potential opportunities for Land Securities to contribute to local educational initiatives, and introduce an Action Plan for at least three shopping centres by April 2007.

Prudential	http://www.prupim.com	CR	Report available (RPI)	'We will pro-actively seek to create and support community investment programmes that will bring about healthy communities around the properties we manage.'	<ul style="list-style-type: none"> • Establish a community link programme at two retail development sites. 'Improver portfolio' of property is founded on the premise that working towards environmental sustainability will prove more lettable and saleable and as a result could perform better than no-sustainable buildings in the coming years. Donations/ volunteering and s106 contributions seen as KPIs for 'community/social' engagement.
SEGRO	http://www.segro.com/segro	CR	Not evident	'To remain actively engaged in the communities in which we operate, and contribute to community vitality through employees time as well as financial contributions'	Other social impacts include health and safety, accessibility and security plus customer well-being
Other developers/housebuilders					
Berkeley Group	http://www.berkeleygroup.co.uk/	Sustainability report	n/a	'Listening, understanding and responding to the needs of local people is essential in securing community support for development proposals and ensuring that we can deliver	KPIs for 'community' comprise charitable donations and customer satisfaction levels. Sustainability report also refers to local economy and employment creation; community investment, housing choice and quality and well-being.

				sustainable communities'.	
Crest Nicholson	http://www.crestnicholson.com/	CR	n/a	'Community building', 'stakeholder engagement' and 'social responsibility' seen as important. Draws on existing rankings of company in WWF and BiTC indices	'The Group is seeking to achieve partnership in community regeneration and the provision of housing to a broad section of society... to help promote local employment by forming partnerships with voluntary groups to help train the unemployed'. KPIs include amount of social housing and turnover in relation to total homes sold.
TaylorWimpey	http://www.taylorwimpey.com/home	CR	n/a	No CR report as yet (see company website) but a focus on 'community engagement' and 'creating value' for society	Company is 'committed' to: <ul style="list-style-type: none"> ▪ Being a responsible corporate citizen and serving the community by providing products and services efficiently and profitably, and by providing employment opportunities; ▪ Contributing to the economic well-being and social development of the communities where we conduct our business; ▪ Safeguarding and enhancing local environments within the communities in which we operate; ▪ Encouraging our people to participate in community and civic affairs. KPIs include s106 payments and affordable housing built.

Table 10 SRI Theme I: regeneration (Igloo) (adapted Igloo, 2005)

Development Process

SRI Policies	Checklist	Supporting Information	
		Developer	External
1.1 Location and Connectivity Schemes should be located in priority areas for urban regeneration, with good connectivity to the rest of the urban fabric.	<ul style="list-style-type: none"> Areas formal regeneration status Accessibility, proximity and permeability 	<ul style="list-style-type: none"> Site plans Consultant studies Design Concept 	<ul style="list-style-type: none"> UDP Local Authority URC / RDA Central Government
1.2 Contextual Analysis Schemes should be grounded in a thorough process of contextual analysis to inform the engagement process and develop the scheme concept.	<ul style="list-style-type: none"> Analysis of local context Role in informing the development process and scheme concept 	<ul style="list-style-type: none"> Interview Site plans Consultant studies Design Concept 	<ul style="list-style-type: none"> UDP Local Authority URC / RDA Stakeholder groups
1.3 Stakeholder Engagement Developers should manage, resource and record a meaningful and ongoing process of stakeholder engagement which, depending on the context, will balance partnership working and consultation.	<ul style="list-style-type: none"> Planning and resourcing Consultation process Recording and documentation Partnership working and structures Community and stakeholder satisfaction 	<ul style="list-style-type: none"> Interview Consultation reports Design concept / statement 	<ul style="list-style-type: none"> Local Authority Local Strategic Partnership Stakeholder Groups

Scheme Concept

SRI Policies	Checklist	Supporting Information	
		Developer	External
1.4 Neighbourhoods and Liveability Schemes should create attractive and liveable urban neighbourhoods by ensuring there are a range of basic amenities and services, a choice of housing, and a well maintained public realm.	<ul style="list-style-type: none"> Amenities and services Housing choice and access Local environmental quality Safety and security Neighbourhood management structures 	<ul style="list-style-type: none"> Design Concept/ Statement Section 106 Agreements Contextual analysis Consultation reports Partnerships and structures 	<ul style="list-style-type: none"> Local Strategic Partnership Public service agreements
1.5 Community and Stewardship Schemes should create neighbourhoods that contribute to rebuilding the social fabric of our towns and cities through combining careful integration with measures to actively foster community cohesion and long-term stewardship.	<ul style="list-style-type: none"> Social interaction and diversity Community development Long-term community stewardship Community-led decision-making 	<ul style="list-style-type: none"> Design Concept/ Statement Section 106 Agreements Contextual analysis Consultation reports Partnerships and structures 	<ul style="list-style-type: none"> Local Authority Local Strategic Partnership Stakeholder Groups
1.6 Economic Diversity and Independence Schemes should support independent economic activities and enterprises, with measures taken to nurture an independent business culture that supports entrepreneurship, creativity and co-operation.	<ul style="list-style-type: none"> Characterising demand Adaptability, affordability and mix of units Lettings policy and pre-lets Engagement with stakeholders Entrepreneurship and creativity Access to employment Procurement of goods and services 	<ul style="list-style-type: none"> Design Concept and/or Statement Demand Assessment Lettings Policy Management Proposals Section 106 Agreements Labour Agreements 	<ul style="list-style-type: none"> Stakeholder Groups Managing Agents Local Authority / URC / RDA

The Blueprint partnership¹⁹, promoted by English Partnerships also closely follows the Igloo principles. Blueprint is a Property Regeneration Partnership set up to deliver new solutions for physical regeneration in the East Midlands. The Partnership comprises East Midlands Development Agency (EMDA) (25%), English Partnerships (25%) and Morley Fund Management's Igloo Regeneration Fund (50%). Investment, ownership, risk and profit are shared equally between public and private sector. The Blueprint's remit is to generate social, economic and environmental benefits within a commercial framework by stimulating and delivering sustainable and well designed development. Its focus is the East Midlands' six Priority Urban Areas. The blueprint's overall goal is to facilitate, through regenerative property development, the delivery of East Midlands Development Association and English Partnerships' core objectives (creation of a flourishing region and sustainable communities) whilst generating an acceptable return to investing parties (English Partnerships, 2007).

¹⁹ See <http://www.englishpartnerships.co.uk/blueprint.htm>

8.0 Conclusions

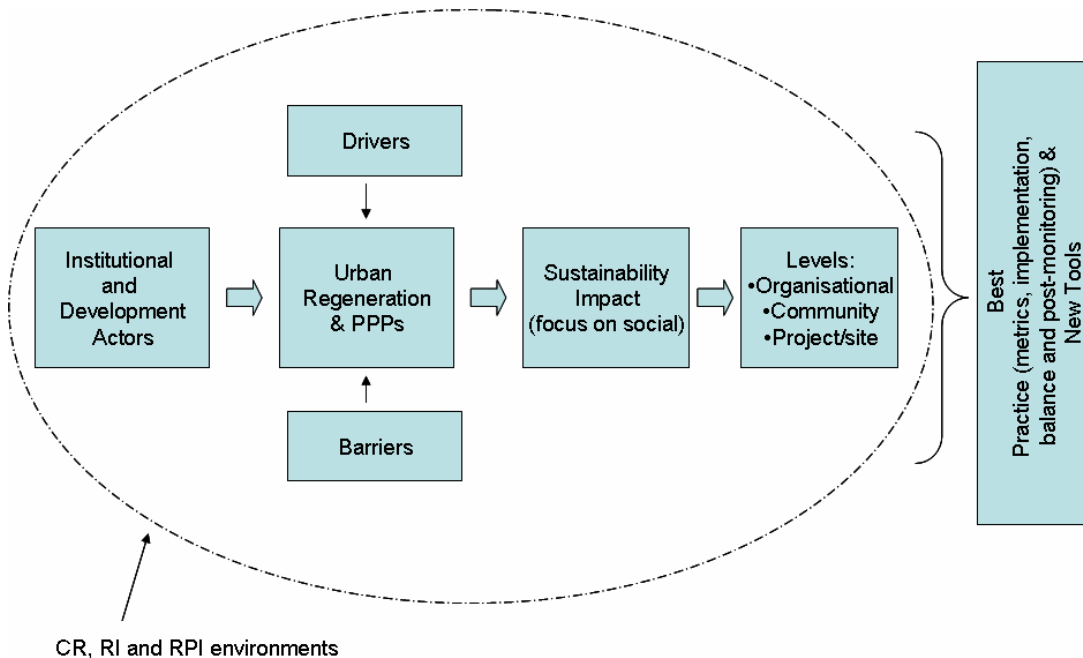
It is clear that the growth of socially responsible investment (SRI) has paralleled a similar rise in the importance of corporate social responsibility (CSR) or 'corporate responsibility' (CR) in the agendas of business, including the real estate or property sector. SRI's rise has been partly driven by legislation but also the importance of insurance company investment, a growing sustainability agenda and corporate governance issues. Moreover, CSR and SRI were initially born as 'voluntary initiatives' as oppose to 'command and control' approaches.

The key themes emerging from this paper are:

- SRI's increase in importance for financial institutions should be seen in the context of trends towards diversification of investment portfolios by them, including the important role of real estate, and the emergence of the concept of responsible property investment (or RPI) (Rapson et al , 2007).
- There has also been a real interest in understanding how private sector finance can best be attracted into investing in urban regeneration locations. This has spawned increased attention on how private public partnership (PPP) vehicles can be developed to attract private institutions and bank finance (IPF, 2006), and a range of delivery mechanisms and models have been developed.
- Institutions have come under closer scrutiny to measure and evaluate the impacts of their investments in such locations. Although a variety of tools have been developed to assess impacts in terms of the environmental, economic and social dimensions of real estate projects (including regeneration) at a company, community and building/site level these measures tend to be relatively underdeveloped in relation to the social dimension (Therivel, 2004, Colantonio, 2007).

The relationship between these themes can therefore be conceptualised as in Figure 6.

Figure 6 Initial conceptual framework for research



This shows how the important it is to understand both the context of urban regeneration and PPPs if we are to understand how institutional and development actors are engaging with the social sustainability agenda.

Related to these themes is the fact that the ‘S’ word appears to have dropped out of the vocabulary of many businesses. Terminology has shifted away from the ‘social’ towards a more generic descriptor (Table 11), perhaps reflecting the ‘political’ connotations of the term (Kinder, 2005); a recognition that responsibility is wider than a ‘social’ one; or that social sustainability is perhaps the most difficult dimension to measure.

Table 11 Measuring social impacts: changing terminology

<i>‘Then’</i>	<i>‘Now’/‘Future’</i>
Corporate Social Responsibility (CSR)	Corporate Responsibility (CR)
Socially Responsible Investment (SRI)	Responsible Investment (RI)
Socially Responsible Property Investment (SRPI)	Responsible Property Investment (RPI)

This difficulty in measurement is carried forward to the systems used in assessing the social dimension at both a company level and at a project level. A preliminary examination of ‘best practice’ from investing institutions and developers/house builders revealed:

- A lack of RPI principles (with exceptions such as Igloo).
- Weak social dimension in CR statements, commonly couched in terms of ‘community engagement’ and ‘stakeholder dialogue’, or volunteering in the community. Housebuilders focus on similar statements but also use affordable housing built as a key measure.
- In comparison the environmental and economic dimensions of CR were much more clearly elucidated.

At a project level, a similar picture emerges, with the social dimension essentially lacking any truly effective and robust measures in the most popular tools that appear to be utilised (RICS, 2007).

However, this sample of best practice is clearly limited. Further research is needed to address the following questions:

- Implementation - to what extent and in what ways is social sustainability incorporated within urban renewal projects within the EU? What is the optimum balance between commercial and residential development (or in residential projects, tenure and income mix) in order to provide the widest social benefits?
- Best practice techniques - how can we learn from the way in which social sustainability has been incorporated in projects? How do lenders, investors and developers approach social sustainability for urban renewal projects? What are the lessons that can be learned from PPP arrangements?
- New tools - can improved tools be developed to assess social sustainability and also enhance its consideration in decision processes and project / programme outcomes? Can these tools also be used in projects based within transition (new member) states? How do the new tools fit the existing institutional and planning frameworks and what are the implications for investment lending?

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Appendix 1 The UK Sustainable Communities Plan

Cowan (2005, p. 386) suggests the term, 'sustainable community' originated in the USA in the 1990s as part of the new urbanism movement, *'being defined as widely - and usually as vaguely - as its components 'sustainable' and 'communities'*. The concept has also been defined by US new urbanists as *'a viable human environment within a protected ecology'* (quoted in Cowan, 2005, p.386).

In the UK the term 'sustainable communities' came into increasing use during the 1990s, based around Local Agenda 21. But this found a firmer policy focus with the announcement in February 2003 of the UK government's 'Sustainable Communities Plan' (SCP). The government defined the term in its strategy document for sustainable communities for England (ODPM, 2003, p.1):

'Sustainable communities are places where people want to live and work, now and in the future. They meet the diverse needs of existing and future residents, are sensitive to their environment, and contribute to a high quality of life. They are safe and inclusive, well planned, built and run, and offer equality of opportunity and good services for all'.

The strategy was set out in the *'Sustainable Communities: Building for the Future'* document (ODPM, 2003), which sought to tackle housing shortages in the greater South East, renew housing and land markets in low-demand areas of Northern England (i.e. the nine Pathfinder Renewal projects), and protect more rural areas from increasing development pressures. Key areas of growth in the plan are seen as Milton Keynes, Cambridge–Stansted and Ashford, with substantial regeneration of the Thames Gateway also planned. The SCP is planned to deliver sustainable growth through the provision of 200,000 extra homes by 2016 in the growth areas over and above the numbers set out in the Regional Planning Guidance. The Barker review on Housing (Barker, 2003: 2004) also suggested that between 70,000 and 120,000 homes would be needed each year.

The government has subsequently also formulated the key constituents of sustainable communities as being (ODPM, 2005a; HM Government, 2005):

- Active, inclusive and safe;
- Well run;
- Environmentally sensitive;
- Well designed and built;
- Well connected;
- Thriving;
- Well served; and,
- Fair for everyone.

The SCP has also been strongly linked nationally with the Government's *Strategic Framework on Sustainable Development* (HM Government, 2005) and planning policy guidance, *PPS1- Delivering Sustainable Development* (ODPM, 2005b). PPS1, for example, stresses the importance of community engagement and participation in building and developing sustainable communities, as part of the social pillar in what is effectively a 'triple bottom line approach' to sustainability²⁰ (Dixon et al, 2006).

²⁰ This is underpinned by a focus on community engagement through Local Strategic Partnerships. LSPs are designed to deliver improved services/quality of life and key to this is ensuring local engagement models by which local people are enfranchised to make local decisions and set priorities.