

Financing Property Development: The changing issues facing the public and private sector in the UK

Philip CLARKE, Louise ELLISON and William RODNEY, United Kingdom

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ABSTRACT

Property development has traditionally been used as both a catalyst and a direct tool in promoting economic development within the major developed economies. This has led to substantial property development projects being financed and managed by the public sector, particularly in locations characterised by economic deprivation and decline. This public sector role has variously been identified as having distorted and supported the property markets and the economy on both a local and national scale. However, it has inevitably contributed significantly to fixed capital formation internationally.

A more cautious approach is now taken to public sector spending in the UK in particular, which has led to substantial reductions in the public sector funding of property development. There has been a simultaneous drive to shift the burden of responsibility for the financing of major public sector development projects to the private sector. This was initially driven indirectly, through the deregulation of capital markets but recently a more direct policy approach has been promoted through the Private Finance Initiative and the Public Private Partnership Programme. Further impetus may be given by emerging policy shifts by Life Funds and Government incentives.

This paper proposes to examine the implications of these policy shifts from the perspective of the private investment institutions and the property development market. An overview of the major policy initiatives is followed by an exploration of the changes triggered in the property development sector and an examination of the opportunities they provide for private sector investment. Particular reference is made to the changing institutional arrangements of the investment markets. This allows conclusions to be drawn that begin to develop a typology identifying the characteristics of public sector projects likely to attract private sector finance. These have clear international implications given the global imperative within property investment following the increased mobility of capital funds.

CONTACT

Philip Clark, BSc, MA, ARICS
Morley Fund Management Limited
Lime Street
London EC3M 7JE
ENGLAND
Tel. + 44 20 020 7809 6873 and + 44 20 020 7558 0400
E-mail: CLARKPJ@NORWICH-UNION.CO.UK

Louise Ellison, BSc (Hons), Mphil, ARICS
Department of Property Resource Management
University of Portsmouth
Portland Building
Portsmouth PO1 3AH
ENGLAND
Tel. + 44 23 9284 2914
Fax: + 44 23 92842913
Louise.Ellison@port.ac.uk

William Rodney, Dip LA, MSc, FRICS
City University Business School
Northampton Square
London EC1V 0HB
ENGLAND
Tel. + 44 20 7040 8213
Fax: + 44 20 7040 5972
E-mail: W.Rodney@city.ac.uk

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