

KEY DETERMINANTS OF CONSTRAINTS IN URBAN REGENERATION: PRIVATE INVESTORS PERSPECTIVE

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ABSTRACT

Urban regeneration is a comprehensive solution to the challenges created by the urbanization itself towards regenerate a city into a sustainable lifestyle concept and resilience (Robert and Skyes, 2000; IOER,2005). It is a solution used to synergize the cities decline into a livable, vibrant and sustainable lifestyle of the city. Hence, with the growth of population in the large cities in Malaysia that has increased rapidly, cities might not be able to achieve sustainability and instead created social issues, high criminal and unemployment rate, poor urban services, cities deteriorate etc. Studies in other countries showed that urban regeneration is a very viable and feasible investment; however the scenario in Malaysia shows otherwise. The objective of this paper is to investigate the key determinants that constraints the private investors to venture into this investment. The method used is an exploratory with primary data collection through instruments of questionnaire survey. The findings revealed that key determinants of constraints are risks in pre development stage, cost of demolishing and relocation, and land issues in a multiple ownership. Thus, urban regeneration is a tool used to achieve sustainability, however, opportunities need to be explored and challenges overcome to ensure successful development that is beneficial and achieve minimum standard of living quality.

Keywords: Constraints, Urban Regeneration, Private Investors, Property Developers

1. Introduction

Urban regeneration is an integrated approach used to revive the blighted areas into sustainable livable cities without compromise the natural environment (Yau and Chan, 2008). The emergence of urban regeneration since 1990s was due to the industrial experiences of cities in the UK and Europe. It contributes a varied opportunities in developing a sustainable country consist of activate the economic function, revive the social function and promote the environmental quality for the blighted areas (Couch, Fraser and Percy, 2003); regenerate a return into city, rejuvenate the city and embellish the quality of environment (Galdinin, 2005); able to unleash the pressure of land supply (Yau and Chan, 2008); act as pull factors for investment, job and business opportunities (Goksin and Muderrisoglu, 2005) and create an attractive urban area (Forward Planning Group, 2001). Over the years, it has been accepted as a key driver for economic diversification, stimulates opportunities in property investment and the sustainable urban greening of the country.

The investment value injected in the urban regeneration has tremendously increased, for instances in UK, stated £8.3 billion in 2009 to £11.6 billion at end of 2012 (Planning in Association with Regeneration and Renewal, 2013); Africa reveal RM 55 million in 2013 to RM125 million in 2015 (Cox, Viruly, Bertoldi, 2015); and the Oklahoma City, USA resulted significant growth from \$942 million in 2003 and \$1.2 billion in 2005 (Warner and Long, 2009).

Countries such as UK, Canada, Hong Kong and USA have been involved and recognized worldwide to venture into this investment over two decades ago. It is now leverages into countries such as Africa and Malaysia that consist a small participation from private investor as well as developer. As at now, there are only four cities actively initiated urban regeneration project such as Kuala Lumpur, Georgetown, Melaka and Johor Bahru (Nilai Harta, 2015). Although it provides lucrative real estate opportunities however private investors seem reluctant to venture into this. This paper is aim to investigate the key determinants that constraints the private investors to venture into this investment.

2. Background of the Study

Urbanization is a global issue due to the expansion of cities as well as industrialization and migration. Cities that cannot uphold urbanization process may result into disrepair, deterioration and functionality decline or also known as urban decay. Hence, the challenges in urban decay includes crime, higher rate of unemployment, poor quality urban services, and social issues could be arises. Urban regeneration is an approach used to overcome these issues. There are many opportunities waiting to be explored from these challenges and to ensure successful development that is beneficial and achieve standard of living quality would require investors/developers that be able to see the full potential of this investment.

The growth of urbanization in Malaysia increase from less than 50% in 1990 to more than 70% in 2010 and expected to grow more than 75% by year 2020 (The Edge, 2014). This has become a crucial issue as the population for the large cities is expected to grow from 30.1 million in 2015 to 38.6 million in 2040 with an increase of 28% (Malaysia Statistic Department, 2015). Consequently, it leads urban decay to the cities. Urban regeneration is to overcome the challenges created by urban regeneration itself and tackle all these problems. Thus, it is requires for injected into blighted areas to revitalize the cities towards a sustainable smart growth concept. It is also enablers to become a sustainable and strategic country by year 2020.

Countries such as Hong Kong, UK, and Canada recognized as lucrative investment and development. Concerning on opportunities and challenges provided an investigation on the key determinants that constraints the private investors to venture into this investment need to explore.

3. Determinants of Constraints in Urban Regeneration

Investment covers a wider spectrum of risk and uncertainty. Investment in urban regeneration is considered as using higher capital and very risky by private investor. The reason behind this perception is because of urban regeneration consists a wide range of development market involved comprehensive and complex tasks, high risks and costs particularly in the development. However this type of investment are highly anticipated in other countries because of the strong support from

government and local participation as well as strategic partnership approach implementation. The determinants of constraints in urban regeneration investment has been identified risk in pre development stage (Adair et.al, 2005), risk in development stage (ERM Economics, 2002), risk in post development stage (Epley et.al, 2002), poor location (McGreal et.al, 2006), low return (Adair et.al, 1998), low demand (Amin et.al, 2000), institutional arrangements (McGreal et.al, 2000), conflicts (Adair et.al, 1998), cost of land acquisition and construction (Adams et.al, 1998), cost of demolishing and relocation (Rothernberg, 1969), cost of existing communities (Whipple, 1971), destroy social network (Jacob, 1961) and multiple ownerships (Whipple, 1971).

3.1 Risks in Pre Development Stage

Urban regeneration is a comprehensive development approach that involves some level of risk in development. Risks are referred as uncertainty base on the knowledge and information availability (Hargitay and Yu, 1993). It is often associated with the probability of income. Risks identified in the pre development stage of urban regeneration include planning site, high cost of market survey and detail feasibility studies, misperceived returns, development period and tenure of finance, information costs, shortage material, delay in government approval and lack of information (Adair, et.al, 2005; Epley, et.al, 2002; Adair, et al; 1998). A research by Adair et.al (1998) and McNamara (1993) explained that planning site assembly, delay in government approval and shortage of material will affect the risk involve in urban regeneration due to a longer duration taken and the interest of finances charged. It is consequently affects the high cost of investments. The risks will be added more for investment in urban regeneration caused of lack in information and transparency (Adair, et.al; 1998, McNmara, 1993). These uncertainty market conditions resulted private investor cautious to venture into this investment.

3.2 Risks in Development Stage

Another determinant of constraints in urban regeneration by private investor is due to risk in development stage. Risks involve in development stage include cost of development, contamination and stigma, unexpected conditions, market fluctuation, risk aversion from investors and financial constraints (ERM Economics, 2002; Epley, et al; 2002). Basically, risk in development stage is unexpected due to market and political factors as well as policy review of government.

3.3 Risks in Post Development Stage

Private investor such as developer often faces risk in post development stage. It includes risks on low property demand after project completed, changes of tenant before lease out, low in yield and rent and vacant unit due to high transaction cost (Epley et al, 2002). Private investor mostly worries because it will affect on their financial performance and profit and loss account. As an investor, high property transaction is a positive hint to them. However, too high value in property transaction also will resulted a vacant unit because of issues on affordability is no longer on that area.

3.4 Location

Location is a crucial factor in any property investment. These reflect the appreciation value for their investment. Private investor knows that location of urban regeneration is mostly from blighted areas and economics dysfunctions. Therefore, it will take a longer period of time for regeneration happens and of course involved the greater of risk throughout its process (McGreal et al, 2004). It is also due to market fluctuation. Previous studies by McGreal et al (2006) stated that regeneration location is also known as lack of information and transparency. It had been proved in UK; most property transaction is less market evidence and few transactions (Sysms, 1997). A report by ERM Economics (2002) also found that in UK, regeneration location is identified as lack of information, low demand

and misperceived return. All these caused private investor feeling cautious to venture into this investment.

3.5 Return

Return elements also became the determinants of constraints on private investor to venture into this investment. It is often relates with location and economic factors. Regeneration location is determined as poor in return due to blighted areas, illiquidity, high management costs, huge capital invested and lack of property data and transaction (Adair, et al, 1998). Private investor knows that urban regeneration project requires a very huge of capital investment due to high management cost and land values as well as construction costs is extremely high (Adair et al, 1994). Therefore, it will affect on profit matters in development and private investor feel reluctant to venture into this investment.

3.6 Demand

Another determinant of constraints on private investor to venture into this investment is due to risk on low demand. Basically, low in demand due to factors its location and condition (DETR, 2000). Low demand in regeneration location also because of its areas has been accepted as market failure and economic decline by private investor (Amin et al, 2000). Market failure will happen when exist a low demand market and lack of information too (Adair et al, 2005). A study by Ball et al (1998) also stated regeneration location is a low level in market efficiency. This will lead private investor unmotivated to venture into this investment.

3.7 Institutional Arrangements

An institutional arrangement such as good coordination is elements that need emphasize in the every organization to ensure urban regeneration is successful. Good coordination will reflect urban regeneration performance. In these matters, public sectors interventions such as federal government and local authority have to play role effectively for stimulate the market. Strong support, for example, Grant, subsidies scheme, tax relief as well as infrastructure provision could be provided to encourage private investors for investment in urban regeneration (Adair et al, 1998). Coordination on decision-making process is also importance in institutional arrangement due to urban regeneration is a long process. A research by McGreal et al (2000) stated that decision-making process is main consideration for risk reduction rather than initiatives provided by government. Sheung Wan, China is an example of poor coordination among government department and insufficient funding for land resumption referred to urban regeneration (Ng, 2003).

3.8 Conflicts

Conflicts such as bureaucracy and distrust the government sector as well prolong procedure for incentives application is drivers for private investors reluctant to venture into this investment (Adair et al, 1998). Local authority as policy makers requires resolving conflicts at all levels society is due to urban regeneration is a comprehensive tasks. Another conflict that drives private investors reluctant into this investment is because of compensation matters and non-people centered policy (Ng et al, 2001; Kam et al, 2004).

3.9 Cost of Land Acquisition and Construction

Another determinant on constraints of private investor to venture into this investment is on cost matters. Private investor knows investment in urban regeneration is involved a higher cost in acquire of land and construction. It is because subject on the agreed price of landowner and duration of

project. Besides that, preliminary site work such as acquisition of land, demolishing and clearance of land will take a long period of time to process (Adams et al, 1998, Whipple, 1971). Thus, private investor has to bear financing charge as well.

3.10 Cost of demolishing and Relocation

Urban regeneration location, which needs a redevelopment treatment, has to take into account on cost of demolishing and relocation of communities. It needs to demolish existing building and business. Consequently, it will compute into cost analysis and result on loss income to owner through the regeneration process. Besides that, issues such as homelessness and unemployment also resulted from this process (Rothenberg, 1969; Thomas, 1977; Whipple, 1971). All these are challenges to private investor as it involves a lot of cost and need to face with communities. Thus, private investor feels cautious to venture into this investment. For instances, The Tamansari project involves demolishing and relocation. Partial of communities agreed to relocate whilst others not agreed with conditions give them flats near city center with written guarantee.

3.11 Cost of Existing Communities

Another determinant of constraints on private investor to venture urban regeneration investment is due to bring in high cost to existing communities. For instance, communities facing with high in property value and tax. Basically, it shows a very good signs to private investor as property value increases. However, the extremely high property values provide a significant impact in terms of increase in property tax and resulted community is no longer afford to live that area. A study by Whipple (1971) stated property tax in South Melbourne before regeneration was \$1,744 per annum while it was rising to \$16,770 per annum after regeneration. Whereas, communities in St Ebbe's in England no longer afford to live in regeneration location.

3.12 Destroy Social Network

Urban regeneration need to view in a holistic approach and benefit to communities. Since urban regeneration often involve a demolishing works, thus sometimes it will destroy social network (Jacob, 1961). It is creating an urban decay rather than remedy. For example, Plaza Rakyat bus and abandoned Nas Pavillion upmarket condominium is cases that created the decay of surrounding area.

3.13 Multiple Ownerships

Multiple ownerships also identified as determinant of constraints in investment of urban regeneration (Whipple, 1971). Kampung Baru in Kuala Lumpur is an example reveals the multiple ownerships issues. For example, one case about 200 owners for part an acre lot size. This is difficult task to private investor and government in dealing with them. It because each of them to be one of the most essential by virtue of size, location and etc.

Table 1 below presents lists of determinant of constraints in urban regeneration from various literatures.

Table 1: Lists Determinants of Constraints in Urban Regeneration

Determinants of constraints in Urban Regeneration	Elements of Determinants	Jacob	Rothenberg	Whipple	Thomas	McNamara	Sysms	Adams et al	Adair et al	DETR	Amin et al	McGreal et al	Ng et al	Epley et al	ERM Economics	Ng	Kam et al	McGreal et al	Adair et al	McGreal et al
		1961	1969	1971	1977	1993	1997	1998	1998	2000	2000	2000	2001	2002	2002	2003	2004	2004	2005	2006
Risks in Pre Development Stage	Planning Site								x					x						x
	Cost of market survey and feasibility studies								x					x						x
	Misperceived Returns								x					x	x					x
	Development Period and Tenure Finance								x					x						x
	Shortage Material								x					x						x
	Delay Government Approval								x					x						x
	Lacking information					x			x					x	x					x
Risks in Development Stage	Development Cost													x	x					
	Contamination and Stigma													x	x					
	Unexpected Conditions													x	x					
	Market Fluctuations													x	x					
	Risk Aversion													x	x					
	Financial Constraints													x	x					
Risks in Post Development Stage	Low Demand													x	x					
	Changes of Tenant													x						
	Lower yield, rent, vacant unit													x						
	Lack of Information					x			x						x					x
	Lack of market evidence						x													x
	Lack of Transaction						x		x											x
Location	Blighted Areas																	x		
	Economic Dysfunction																	x		
	Lack of Information						x								x					x
	Lack of Transparency														x					x
Low Return	Blighted Areas								x											
	Illiquidity								x											
	High Management Costs								x											
	Huge Capital Invested								x											
	Lack of Property Transaction								x											
Low Demand	Poor Location and Conditions									x										
	Areas of Economic Decline										x									
	Areas of Market Failure										x									
Institutional Arrangements	Coordination											x				x				
	Decision Making Process											x				x				

Conflicts	Bureaucracy									x									
	Long Procedure									x									
	Compensation matters												x						
	Non-people centered policy																x		
Cost of land acquisition and construction	Preliminary Site Work			x						x									
	Financing Charge			x						x									
Cost of demolishing and Relocation	Homelessness and Unemployed		x		x		x												
Cost of Existing Communities	Increase Property Values				x														
	Increase tax				x														
Destroy Social Network	Demolishing Works	x																	
	Created Urban Decay	x																	
Multiple Ownerships	Land Issues among too many owners				x														

Table 1 summarizes the determinants of constraints from various literatures. Overall, based on this matrix it shows that risks involved in pre development stage has been highlighted many times in the literature, follows by lack of information and risks in the development stage. It should be noted that this type of investment involve clearing of the existing site thus this would incorporate other risk that can be associated with the pre development stage such as tenure of development and misperceived return as well. Secondly information in regards of the location influence the outcome of the investment as details from this information can be capitalizes towards the investment. In addition, risk in the development stage would require a good project manager to be able to successfully manage the project and mitigate the risk. The issue here is that if constraints can be identified at an early stage then solution associated with it can be established and developed to ensure the success of the investment.

4. Research Methodology

The focus of this study is towards the thirteen (13) determinants of constraints in urban regeneration investment that influences the private investor namely risk in pre development stage, risk in development stage, risk in post development stage, location, low return, low demand, institutional arrangements, conflicts, cost of land acquisition and construction, cost of demolishing and relocation, cost of existing communities, destroy social network and multiple ownerships. Area of study is in Klang Valley due to the variety of diversification of investment in land and building and renowned developers. The respondents are 21 top listed property developers/investor. Feedback received is from 11 respondents or 52%. Data collections through primary data, which involve close ended questionnaire and administration of data using SPSS software.

5. Finding and Discussion

According to Table 2, it is found that risks involved in pre development stage and higher cost in destruction and demolishing existing building is the key determinants of constraints in urban regeneration from private investors' perspective. Various literatures also have shown the same result about the risks particularly in pre development stage as key determinants of constraints in urban regeneration. Another key determinant is issues on multiple ownerships of land. This because urban regeneration is integrated developments involved various stakeholders such as government, community, agency, investor and etc. Therefore, it wills a longer process to complete and involved a lot of procedure and dealing matters with community. All this is all about costs and compensation to pay. Figure 1 presents top three (3) key determinations of constraints in urban regeneration by ranking.

Table 2: The Mean Score Determinants of Constraints: Private Investors Perspective

Determinants of Constrains	Private Investors Mean Score
Low Demand	3.182
Risks in Post Development Stage	3.273
Low Return	3.364
Conflicts	3.455
Risks in Development Stage	3.455
Location	3.545
Cost in Land Acquisition and Construction	3.545
Cost of Existing Community	3.545
Institutional Arrangements	3.636
Destroy Social Network	3.727
Multiple Ownership	3.909
Risks in Pre Development Stage	4.091
Cost of Demolishing and Relocation	4.091

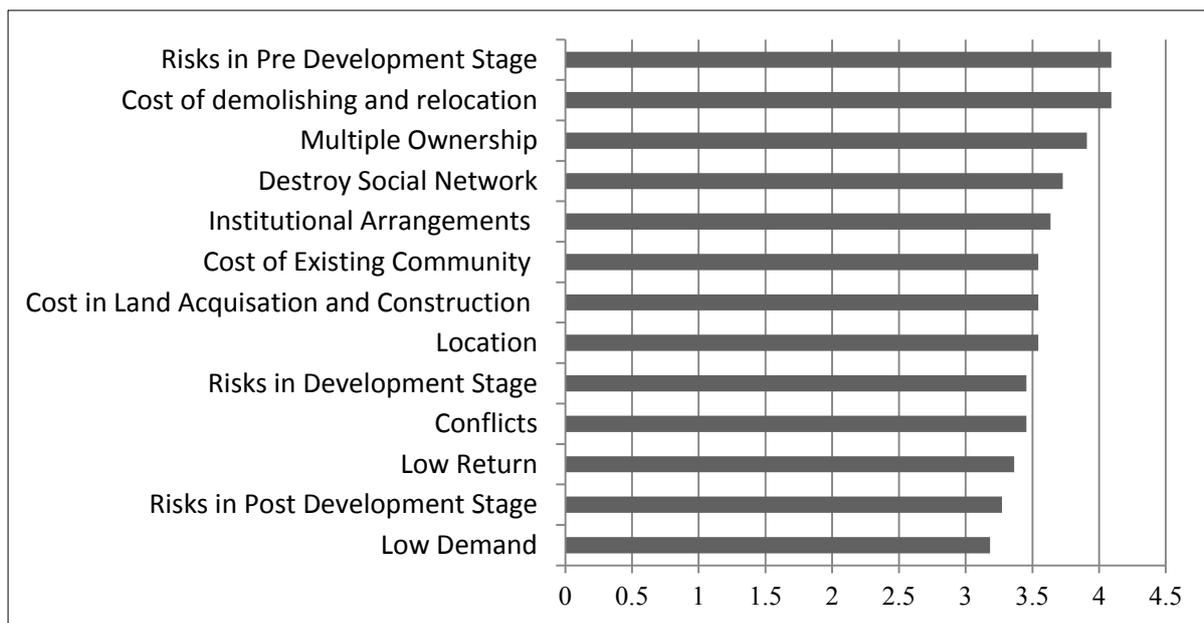


Figure 1: Top Three Key Determinants of Constraints in Urban Regeneration: Private Investors Perspective (by ranking)

6. Conclusion and Future Recommendation

Private investor is a key stakeholder for urban regeneration and act as prominent roles to realize Malaysia's mission towards a sustainable country in year 2020. It is importance for the whole nation in achieving a sustainable and resilience, safe as well as livable city in tandem with competitiveness country. Therefore, urban regeneration is a tools used to achieve that. Other countries shown urban regeneration is successful investment and provides a lot of benefits and opportunities as any other investment. Despite the challenges exists, it does not mean to ignore the opportunities given. The federal government, local authority and private investors have to set up a round table to come out with solution on challenges in urban regeneration for boost the motivation of private investor as well. It needs a lot of incentive and strategies to stimulate urban regeneration.

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