

**PLANNING, PLACE-MAKING AND PROPERTY MARKETS
IN INNER LONDON:
THE ACTIVE MANAGEMENT OF
CLUSTERS OF OWNERSHIP**

By

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This thesis is submitted in support of the Ph.D. Degree

I, Patricia Maria Pacheco Canelas confirm that the work presented in this thesis is my own. Where information has been derived from other sources, I confirm that this has been indicated in the thesis.

ABSTRACT

In inner London many real estate companies own and actively manage clusters of ownership—spatially concentrated property portfolios. The literature has framed this feature of the London property market as the revival of the *estate model* of development. That is, on the one hand, it is argued that the well-known London's Old estates are evolving from hands-off family businesses into professionally actively managed portfolios. On the other hand, it is argued that there are emerging clusters of ownership similarly actively managed. However, little is known yet about why property owners choose to cluster their portfolios, challenging risk diversification theories, what their active management comprises and in what institutional context they operate.

Using an institutional account, this research examines clusters of ownership exploring their investment and management strategies and how the institutional environment affects these strategies. Methodologically, this research follows a multiple case study design and combines quantitative and qualitative methods, with predominantly qualitative methods. Quantitative data sources include the annual reports of property companies, which were analysed using descriptive statistics. Qualitative methods include semi-structured interviews with cluster owners and other stakeholders, which were analysed using content analysis.

Research findings suggest that property owners derive a threefold advantage from clustering and actively managing their property portfolio. First, they gain an edge over the market including new acquisitions by their detailed local knowledge and concentrated ownerships. Second, they deploy an instrumentalised form of place-making in their neighbourhood by curating the mix of uses and tenant mix, their placement, and the space in-between the buildings. Third, they can occupy some of the empty governance space left by a budget-strapped planning system. These private interest-led forceful practices, coupled with a receding planning system, present new challenges to urban governance power dynamics.

ACKNOWLEDGMENTS

I would like to thank my interviewees who so generously sat down with me, at times beyond the initially requested hour, sharing their views on the topic. Some of them took the extra time to walk me around the neighbourhoods in question, going in great detail over historical events and contemporary conditions, not always under ideal weather conditions. Literally, this research would have not been possible without you.

Special thanks must be given to my colleagues at the BSP. Our academic exchanges and social gatherings made these years at the BSP a great experience. In order of appearance like in the films, Rodrigo Cardoso, Diego Mejuto, Daniel Madav, Alexandra Gomes, Juliana Martins, Amparo Tarazona, Gualtiero Bonvino, Tingting Lu, Brian Garcia, Tatiana Souza, Sonia Freire-Trigo, Hooman Foroughmand, Elisabeta Elie, Ed Jones, Jorge Terreros and Stefania Fiorentino, you rock my world. I would also like to show my gratitude to my other 'colleagues', the amazing BSP staff, from whom I have learnt so much. Hui Teh, Catalina Turcu, Jo Williams, Mathew Carmona, John Tomaney, Mike Raco, Peter Rees, Michael Hebbert, it has been a great pleasure to work with you. A special thanks is due to Pat McAllister who helped immensely during my sessional lecturership position at the University of Reading. Also thank you to Nikos Karadimitriou and Cláudio De Magalhães who guided me through this journey.

It goes without saying that without the support of my family this journey would have been virtually impossible. A special thanks is due to my parents for all their love and care. My dear Gonçalo, rest in peace. Special thanks to my dear friends who inspire me and with whom I share the pleasures of a good laugh. Carlos, your companionship is a great privilege. I am also very grateful to Idalina Baptista who listened to my rambles on my research topic so many times. Your comments were always sharp and your generosity is inspiring. You are remarkable.

As an 'institutionalist' I would like to conclude by thanking the BSP, this set of formal and informal rules, partly shaped and reshaped by us here. The BSP gave me this amazing opportunity to do my Ph.D. while taking Teaching Assistant and Research Assistant roles. For reasons to do with my personality and the financial challenges a Ph.D. normally represents, this Ph.D. would not have been possible, or enjoyable as it was, without the combination of my own research with these other academic activities. What a ride!

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ABBREVIATIONS

AS	Advice Service
Capco	Capital and Counties PLC
CAZ	Central Activities Zone
CG	Covent Garden
CGCA	Covent Garden Community Association
CGAT	Covent Garden Area Trust
CK	Chelsea and Knightsbridge
GLC	Greater London Council
HAA	Housing Action Area
LPA	Local Planning Authority
LIPA	Linked Planning Applications
PA	Portfolio Approach
PDR	Permitted Development Rights
POPS	Privately Owned Public Space
PPAs	Planning Performance Agreements
PRCs	Public Realm Credits
PSR	Private Sector Rental
RBKC	Royal Borough of Kensington and Chelsea
REIT	Real Estate Investment Trust
SD	Seven Dials
S.106	Section 106 Agreements
TFL	Transport for London
UCO	Use Classes Order
WPA	Westminster Property Association

PART ONE: THE FRAMEWORK

CHAPTER 1 . CLUSTERS OF OWNERSHIP IN LONDON

1.1 INTRODUCTION

Research into land and property ownership, and into the behaviour of property owners has proliferated in the UK since the 1970s (Adams and Tiesdell 2013; Lizieri, Reinert, and Baum 2011; Dixon 2009; Adams 2001; Kivell 1993; Goodchild and Munton 1985; Massey and Catalano 1978). This body of literature argues that land and property ownership confer economic and social power (e.g. Dixon 2009; Adams 2001; Massey and Catalano 1978). It maintains that, for instance, original land ownership patterns explain some of today's urban layouts, that timings of land sales affect what sort of architecture is built, and that ownership brings wealth, status and power (Kivell 1993). Many authors have thus argued that understanding patterns of land and property ownership and the behaviour of property owners is critical to understanding the process of urbanisation (Adams and Tiesdell 2013; Dixon 2009; Massey and Catalano 1978).

In the case of London, some scholars have claimed that large landowners have commanded the fortunes of its urbanisation at least since the 1600s (e.g. Jenkins 1975; Olsen 1964). Particularly, they have argued that London's Old estates were at the forefront of this process. These large landowners embarked on the process of urbanising their rural land estates. The multi-layered system of land ownership, including the leasehold and freehold interests, was critical in this process (Summerson 2003; Olsen 1964). These landowners would sell a ground leasehold interest on their estates to developers, normally up to 99 years, while retaining the freehold interest. After the ground leasehold expired, the land and buildings meanwhile built on site by the developers would return to the landowners, the owners of the freehold, that is the highest land interest. Some authors have therefore argued that the development of London was driven by the interests of the private sector in this venture regime between large landowners and entrepreneurial developers (Jenkins 1975; Olsen 1964).

Generalist and property specific media outlets have noted that the London property market is experiencing a renewed interest in the *estate model of development*, that is, a long-term and large-scale ownership approach to the development of city space (Allen 2016; Foxley and Roberts 2015; Spittles 2013; Hammond 2013; Farrell 2012). These sources have suggested that, on the one hand, the management of London's Old estates evolved from a hands-off, ground rent-collecting, family business to a professionalised active management style (e.g. Allen 2016; Hammond 2013). On the other hand, they have identified several newly formed estates in London, London's *Newer* estates, and estates formed by aggregations of buildings, equally actively managed. These sources maintain that this renewed interest in the *estate model of development* comes with a hands-on, professionalised and long-term management strategy (e.g. NLA 2013; Spittles 2013).

Despite the literature acknowledging that land and property ownership confers a degree of power, exactly what this means for actively managed spatially concentrated property portfolios is still not well understood. Olsen (1964) argued that the landowners of London's Old estates, due to their extensive ownerships and their autonomy, behaved almost as a political body ruling every aspect of their estates over which the state chose not to intervene. Other authors have noted that because of the characteristics of property markets, particularly its heterogeneity 'a natural entry barrier exists which implies that concentrated ownership always confers *potential* market power on the large landowners' (Markusen and Scheffman 1978, 525). However, except for a few recent reports on the topic of London's landed estates, (McWilliam 2015; Davis and Uffer 2013; NLA 2013) the literature on this topic is still scarce and quite outdated, (e.g. Goodchild and Munton 1985; Massey and Catalano 1978; Olsen 1964) in the sense that it fails to account for this claimed renewed interest in the estate model of development.

Old estates have stayed in the hands of the same family until today and have been referred to as London's Great Estates. Other landed estates include the Crown estate, the Church estate and those belonging to livery companies, that is, associations of tradesmen (e.g. the Mercers' Company). Collectively, these estates can be referred to as London's Traditional Estates. Farrell (2012) argued that their landowners would have a long-term view on their development plans, as they behaved as stewards of these lands in perpetuity. Olsen (1964) maintained that this model of land development allowed for coherent planning.

In contrast, London's Newer estates and estates formed by aggregation emerged in the early 1980s and were developed by property companies typically in one of two ways. Some comprised land-assembling processes, which usually included site clearance and the building up of the estate from a blank slate – what the NLA (2013) refers to as London's Newer estates (e.g. Broadgate and the Canary Wharf estates). Others comprised continuous acquisitions of standing property in one district – what the NLA (2013) identifies as estates by aggregation (e.g. Shaftesbury in Seven Dials). In some cases, London's Newer estates developed through the reassembling of the land and property, once part of a London's Old estate, which had been gradually subdivided and sold (e.g. Capital and Counties in Covent Garden).

Generalist and property industry media outlets and research institutions suggest that, regardless of London's clusters of ownership distinct origins, today, London's Old estates, Newer estates and the estates formed by aggregation, are being managed in similar ways (Allen 2016; Dare Hall 2013; Hammond 2013; NLA 2013; Spittles 2013). Some authors have argued that in clusters of ownership the whole estate can be masterplanned following a careful selection of the mix of uses (e.g. Spittles 2013). This includes fostering land uses such as upscale shops or cafés with outside seating areas that attract people and keep them in the area. Other authors have maintained that the management of clusters of ownership is following, in many ways, the principles used in shopping centre management, including the careful selection of the mix of retailers

so that each one adds to the value of the whole (Hammond 2013). Additionally, there have been many accounts of the increasing recognition by estate owners of the value of improving and managing the space that lies in-between buildings (McWilliam 2015; Parsley 2015; Dare Hall 2013; NLA 2013; Economist 2012).

Together, these sources suggest that the active management of clusters of ownership opens up new management possibilities beyond those which the holders of a single or few buildings in one area could embrace. They highlight how spatially concentrated ownerships allow landowners to add value to their portfolio through a particular style of active management (e.g. Allen 2016; Hammond 2013; NLA 2013). These sources have noted that this approach includes managing the mix of uses, users and the space in-between buildings. While landowners seem to perceive the value of this strategy, to put it in practice they have to work in close connection with planners at the local planning authorities (LPAs) and with other local stakeholders (Davis and Uffer 2013; BBC 2008).

In this regard, it is not irrelevant that in the past few years, LPAs have been facing increasing budget cuts (Harris 2015). These budget cuts impose changes on planners' behaviour (Local Government Association 2014). For example, media outlets have noted the emerging financial arrangements between the property industry and LPAs in order for the latter to cope with budget cuts (Allen and Pickard 2014; Evening Standard 2013). LPAs' current strained budgets seem to create an institutional environment where there is greater willingness to accept the growing involvement of the private sector in activities traditionally associated with the role of the public sector, such as the provision and management of the public space. This represents a change in the institutional environment that enables some of the activities involved in the active management of clusters of ownership. As noted in the literature, property developers and investors seem to be growing more aware of the positive impacts that the space in-between buildings can have on their assets (De Magalhães 2012).

1.3 PROBLEMATISATION

Despite the historic importance of the estate model of development in London's urbanisation process and the claimed renewed interest in this model by the property industry, this topic has so far received limited attention from scholars. Existing accounts focus mainly on London's Old estates. Within these accounts, some authors have explored who owns what (Sutherland 1988; Massey and Catalano 1978; Jenkins 1975; Perrott 1968). Others have focused on the historical conditions under which these estates were originally developed and their particular urban design features (Summerson 2003; Olsen 1964). Massey and Catalano, (1978) in their seminal piece on land ownership, compared London's Old estates with other forms of land ownership, for example, what the authors called *financial ownership*—which could be perceived as today's London's Newer estates or estates formed by aggregation. This literature is however mostly outdated. Its historical relevance is patent, yet it fails to explain the renewed interest in the estate model of development and, moreover, what their active management comprises today.

A number of reasons thus make clusters of ownership a topic in need of further research. First, the literature suggests that there is a behavioural change in the property industry (Dare Hall 2013; Hammond 2013; NLA 2013; Spittles 2013). These sources have given accounts of London's Old estates changing management style, from passive to active management, and noted the emergence of London's Newer estates and estates formed by aggregation similarly actively managed. This behavioural change could be explained through the lens of property development and investment theory as property industry actors' profit maximising strategies. In this literature, it has been asserted that the property industry perceives space, first and foremost, as a place for profit creation (Charney 2001). The literature also argues that actively managed property portfolios can outperform the market (e.g. Baum and Farrelly 2009; Hoesli and MacGregor 2000). However, within this body of literature, it is also argued that location and/or sector diversification are key risk management practices (e.g. Eichholtz et al. 1995). Yet, clusters of ownership, spatially

concentrated portfolios, have in some cases more than 80% of their assets in one single property sector (Creasey 2015). This seems to suggest a deviant behaviour from cluster owners that needs to be further explored.

Institutional accounts of the property market offer some insights useful to understand the behaviour of cluster owners (e.g. Henneberry and Parris 2013; Coiacetto 2001; Keogh and D'Arcy 1999; Evans 1995). For example, Evans (1995) discussed some of the inefficiencies of property market and how, in this context, property actors with more knowledge can capture higher returns. Additionally, Keogh and D'Arcy (1999) have argued that rather than exploring whether the property market is efficient, it is worth exploring for whom the property market is efficient. In this regard, it seems relevant to consider Henneberry and Parris' (2013) concept of the *embedded developer*. According to the authors, property developers are more apt to 'identify and mobilise new schemes', when having great knowledge of their relevant local property market and strong social networks with other players (Henneberry and Parris 2013, 244). Other authors suggest accounting for transaction costs as a way to further understand the behaviour of different property market players (e.g. Buitelaar 2004; Alexander 2001). Overall, these accounts reflect an understanding of the property market as a social construct and thus suggest that the behaviour of property market players should be explored in the context of institutions, that is, the formal and informal rules and norms that guide the players' decisions.

The second reason to explore clusters of ownership could be articulated as follows. The property investment literature maintains that managing property portfolios has different features from managing individual assets (Hoesli and MacGregor 2000). This literature discusses different management levels, styles and their respective activities. At the portfolio level, the literature suggests that active management can be exercised through a *top-down* style, (location and stock selection) or a *stock-level* style (change of uses, lease management, refinancing) (Table 1, on page 56). However, the active management of clusters of ownership seems to

open up management possibilities beyond these two traditional levels, including managing the mix of uses and managing the public space, which this literature does not help to explain.

Accounts of London's clusters of ownership refer to their management as similar to shopping centre management. Indeed, the literature on shopping centre management seems to explain some of the activities involved in the active management of clusters of ownership (e.g. Yuo and Lizieri 2013; Peca 2009; Eppli and Benjamin 1994). This includes finding an ideal mix of retailers, attracting footfall and creating the conditions for enhancing consumer dwell time and consumer spending. However, unlike stand-alone shopping centres, the active management of clusters of ownership can happen amidst the consolidated fabric of the city, within its pre-existing uses and users, communities, and in many cases within the strict rules of Conservation Areas, which constrains development and refurbishment activities. This is particularly relevant in the cases of London's Old estates and the estates formed by aggregation. Moreover, and again, unlike most shopping centres, clusters of ownership generally include more than just retail, combining, for instance, retail with offices and residential units. Existing accounts have also suggested that cluster owners are involved with the provision and management of the space in-between their buildings (e.g. Economist 2012; Farrell 2012). Therefore, the literature on shopping centre management can only take us so far.

Considering the involvement of cluster owners in the provision and management of the space in-between their buildings, in order to understand the active management of clusters of ownership, it is thus useful to draw from the literature on public space design and governance. This literature offers some insights into the growing involvement of the private sector in the provision and management of the public space (e.g. Schmidt, Nemeth, and Botsford 2011; De Magalhães and Carmona 2006). Additionally, the literature on place-making also offers some insights to explore the active management of clusters of ownership. Place-making has been presented as an answer for inner-city regeneration, (e.g.

Friedmann 2010; Jacobs 1962) and the mobilisation of this concept by property developers is now apparent (e.g. Adams and Tiesdell 2013).

Finally, a third reason to explore clusters of ownership is the following. It is broadly accepted that the private sector is today the main driver of property development and investment in most places (Henneberry and Parris 2013; Henneberry and Rowley 2002; Coiacetto 2000). It is also accepted that these actors have to operate in constant interaction with the regulatory environment (e.g. Healey 1998b). However, there is an emerging body of literature exploring the impacts of planning deregulation in the power dynamics between the key players involved in the development process (e.g. Muldoon-Smith and Greenhalgh 2016; Clifford and Tewdwr-Jones 2013; Peck 2012). Media outlets have also suggested that there is an increasing number of financial arrangements between LPAs and the property industry (Allen and Pickard 2014). Cluster owners have strong networks with key local stakeholders, which include, the literature seems to suggest, emerging financial arrangements with LPAs, for example, for the management of the public space (e.g. Davis and Uffer 2013; BBC 2008). Exploring the behaviour of cluster owners contributes to the growing debate about the power dynamics between key stakeholders involved in contemporary development processes.

This research argues thus that to explore *the players' strategies* it is necessary to explore *the rules of the game* (North 1990), as these are recursively interlinked. The players' strategies are here perceived as the activities comprising the active management of clusters of ownership, and the rules of the game as the institutions that might enable and/or constrain these activities. Underlying this distinction is the assumption that when modelling the behaviour of property market actors, as Keogh and D'Arcy (1999) suggested, it is relevant to consider that what is financially or technologically feasible (the players' strategies) also needs to be legally and culturally permissible (rules of the game).

In summary, it has been established in the literature that, first, property ownership gives property owners a level of control over the built environment. Second, that property owners actively manage their assets in order to sustain or increase their value and, third, that the local institutional environment influences the behaviour of developers. However, it is still unclear what this means in the case of property owners with spatially concentrated property portfolios in the current context of budget strapped LPAs. Moreover, the number of clusters of ownership in London (Figure 1) and, as the literature suggests, the great level of control over the relevant environment cluster owners have, indicate that cluster owners are a powerful player in the inner London property market, and one that contributes to shaping the direction of inner London redevelopment. Ultimately, cluster owners are property industry players whose behaviour and powers are still underexplored.

1.4 PRELIMINARY CONCEPTUAL FRAMEWORK

Before introducing the research questions, this section offers a preliminary definition of some key terms. *Clusters of ownership* are here defined as privately owned, spatially concentrated property portfolios in an identifiable urban area (a neighbourhood or a street). This definition could be argued to be somewhat similar to the term *estate*, as in *landed estate*. However, the term *estate* is used in the literature to refer to a variety of scales and forms of land interests, ranging from a large estate held in single ownership over a long period, (see e.g. Farrell 2012; Thorncroft 1965; Olsen 1964) to ‘any interest in landed property giving rise to a measure of control’ (Thorncroft 1965, 3). For example, the estate management literature considers that ‘an estate may be physically divided into a great number of parcels, as in the case of a chain of multiple stores ...’ (Thorncroft 1965, 5). This suggests that the term *estate* is used in the literature to refer to distinct scales and forms of land and property interests. Therefore, this research uses the term *clusters of ownership* to specifically refer to spatially concentrated urban landed estates.

Regarding management, the literature suggests that 'estate management ... is the dynamic process of calculating, planning, and controlling the use of land and the resources connecting with it, in the light of a central strategy' (Thorncroft 1965, 22). The literature also notes that "management" embraces both "direction" or the overall control of policy, and "supervision" which details its implementation' (Thorncroft 1965, 3). This conveys a comprehensive definition of estate management. Nevertheless, as a research participant maintained, (Interview 16) within the property industry, the term *estate management* is still associated with the old hands-off management style once used in London's Old estates. Therefore, the term estate management is not used in this research to refer to the contemporary practices involved in the management of clusters of ownership.

Alternatively, the term *active management*, used in the property investment literature, seems to convey a more hands-on term and it is the term this research adopts. In this body of literature, the term active management is used to refer to a group of activities employed to sustain or increase the value of real estate assets (IPD and Goshawk 2014; Füss, Richt, and Thomas 2012; International Property Forum 2007; Kaiser 2005; Hoesli and MacGregor 2000). This literature distinguishes between two styles of active management at the portfolio level, that is, top-down and stock-level, which encompass respectively, what could be referred to as *investment strategy* and *management strategy* (Table 1 on page 56). The term *active management* is then used in this research project to encapsulate the investment and management activities aiming to sustain or increase the real estate value in clusters of ownership.

The property development literature discusses in some detail the roles of different property industry actors, such as the role of landowners, developers and investors (e.g. Adams and Tiesdell 2013; Adams 2001; Coiacetto 2001). Within these broad categories of property industry actors, subcategories emerge, such as the *developer/investor*, (Adams and Tiesdell 2013) and the *eye of the street builder-developer* (Coiacetto 2001). This will be discussed in detail later in this research. For now, to

refer to senior management figures responsible for the active management of clusters of ownership, this research uses the term *cluster owner*.

With regard to the companies that own clusters of ownership, their legal structure might vary, as this research will later illustrate, and includes Property Companies, Real Estate Investment Trusts and family Trusts operating as quasi-real estate companies (the latter is common amongst London's Old estates). Thus, to refer collectively to these different legal structure companies, this research uses the umbrella term *real estate companies*.

1.5 RESEARCH QUESTIONS

The research questions that motivated this research project are the following:

Why do real estate companies cluster their assets, and how and why do they actively manage them?

Following from these question, the research outlined three dimensions to explore. Each of these dimensions was further articulated in the form of a research sub-question. The first dimension focused on the investment strategy of cluster owners, what the literature has referred to as top-down active management (Fuerst, 2009). This included exploring the practices, resources and narratives behind cluster owners' acquisition and letting strategies in the context of the property market inefficiency. Within this dimension, the research sought to answer the following question,

1. Do actively managed clusters of ownership have an edge over the market as a result of the degree of a monopoly power cluster owners have over their location submarket namely, in terms of new acquisitions and new lettings?

The second dimension explored the management practices of cluster owners, what the literature has referred to as stock-level active management (Fuerst, 2009). This involved exploring the asset management strategies, including changes of uses, changes of tenants, retrofitting, and new developments, but also investment in the public space. Within this dimension, the research sought to answer the following question,

2. Does the active management of clusters of ownership enable an instrumentalised form of place-making resulting from the great level of control over the built environment and, to a certain extent, over the social and economic environment cluster owners have in their location submarket?

Finally, the third dimension explored how the investment and management strategies of cluster owners, what could be called the 'players' strategies', were played out in the context of the 'rules of the game' (North 1990). In this research the term *rules of the game* is used to refer to the regulatory environment, that is, planning policy, and more broadly, to the institutional environment. The latter is used in this research to refer to the set of formal and informal rules and norms that condition the behaviour of, and the interactions between, the different players involved in the active management of clusters of ownership. Within this dimension, the research sought to answer the following question,

3. Is the active management of clusters of ownership in London happening in a path dependent, malleable and enabling local institutional environment, characterised by a receding planning system, increasingly reliant on financing by the property industry, and a general consensus narrative between key local stakeholders on what city centres should look and feel like?

These are the three interconnected dimensions and research sub-questions this research explores. These three dimensions could be alternatively referred to as a *market dimension*, a *place-making dimension* and a *planning dimension*.

1.6 THEORETICAL BACKGROUND

This section summarises the theoretical framework designed to explore clusters of ownership in London. Three interdependent levels structure the theoretical framework used in this research. The first entails the background philosophical approach, the second the formal theory to assist with description and generalisation and the third the substantive theory (Glaser and Strauss 1965). Introducing these three levels, this section focuses on the philosophical approach and on the formal theory. A detailed account of the substantive theory is offered in Chapter 2.

This research follows a realist philosophical approach regarding its stance on the nature of the object of analysis (ontology) and on how knowledge is produced (epistemology) (e.g. Sayer 1992). As Sayer (1992) asserted, particular philosophies exist and can be better understood in the context of a variety of alternative stances. Following Sayer's argument, this research conceptualises *realism* as a middle ground between the *post-positivist* and the *social constructivist* paradigms. That is, 'that the world exists independently of our knowledge of it' but also that 'our knowledge of that world is theory-laden' (Sayer 1992, 5). Guy and Henneberry articulated what this philosophical approach might mean in the context of urban studies and noted,

Urban development is a complex process which entails the orchestration of finance, materials, labour and expertise by many actors within the wider, social, economic and political environment. The physical building is the tip of an iceberg with much that is hidden beneath the surface Researchers, in seeking to uncover and to understand these causative processes, make use of theory and related research methods and techniques to guide their work (Guy and Henneberry 2002b, 5).

Moving one level down from the philosophical stance to the formal theory level, this research follows an institutional approach drawing on political science, economic geography and institutional economics, (e.g. Campbell 2010; Martin 2003; North 1990) and more specifically on institutional accounts of property development and planning (e.g. Henneberry and Parris 2013; Adams, Dunse, and White 2005; Buitelaar 2004; Guy and

Henneberry 2002a; Alexander 2001; Guy and Henneberry 2000; Ball 1998; Healey 1992a). As Guy and Henneberry argued,

the point of methodological departure for institutional analyses (often allied to realist approaches) is the rejection of positivist theories which reify, idealise and isolate economic structures and individual behaviours (Guy and Henneberry 2000, 2400).

Moreover, according to the same authors, an institutional analysis can be perceived as 'a perspective which views the economic and the social as two interrelated aspects of the wider process of urban change in which structure and action are recursively linked' (Guy and Henneberry 2000, 2405).

Furthermore, Healey, in a seminal paper where she discusses what an institutional analysis in urban studies should look like, suggested a four-stage model,

... (i) a description of the events which constitute the process, and the agencies which undertake them, (ii) identification of the roles played in the process and the power relations between them, (iii) an assessment of the strategies and interests which shape these roles, and the way these are shaped by resources, rules and ideas, and (iv) the relation between these resources, rules and ideas and the wider society (Healey 1992a, 33).

Additionally, Adams, Dunse, and White, (2005, 38) suggested that the 'institutional features of the land and property markets that deserve particular examination' are:

- 'the formal rules within which transactions occur, which may be directly or indirectly determined by the process of governance'
- 'the ... informal conventions or the "unwritten rules of the game" that may also be affected by policy decisions'
- 'the network of relationships between market operators or agents and the extent to which policy induces the development of trust ...'

Together, the work of these institutionalists informs this research.

The final level of this theoretical framework is the substantive theory. At this level, first, this research combines property market theory including transaction cost theory to explore the investment strategy and some elements of the financial performance of clusters of ownership. Second, it combines insights from the literature on shopping centre, estate management, place-making, as well as insights from the literature on public space design and management to explore what the management of clusters of ownership entails. Finally, it combines theories about institutions with property development and planning theory to explore the recursively interlinked active management of clusters of ownership and their local institutional environments.

1.7 OBJECTIVES AND INITIAL CONSIDERATIONS ON METHODS

This research project has three key objectives. The first objective is to explore the investment strategy of clusters of ownership in London. The second is to explore their management strategy. The third is to explore how the institutional environment impacts their active management. These objectives feed into the aim of this research to contribute with an empirically based account to the literature on property development and investment. More specifically, this research aims to add to the debates about the behaviour of property industry actors, property ownership and power, and the power dynamics involved in inner-city urban governance.

The literature notes that research into property ownership in the UK has been hindered by the lack of data, such as deficiencies in record keeping in the England and Wales Land Registries (e.g. Dixon 2009; Massey and Catalano 1978). Thus, to reach an informed picture on land and property ownership, for instance, Dixon (2009) suggested the use of bottom up approaches, particularly relying on several other published data sources. Indeed, most of the research on land and property ownership in the UK uses diverse sources ranging from real estate databases to public and family historical archives complemented by interviews with property actors (e.g. Lizieri, Reinert, and Baum 2011; Marriott 1989; Massey and Catalano 1978; Olsen 1964).

As Chapter 3 will discuss in detail, this thesis uses an inductive and bottom up approach to identify and explore clusters of ownership in London. Moreover, it follows a multiple case study, mixed qualitative and quantitative methods approach with a dominant status of qualitative methods to explore the research object. The reason for collecting both qualitative and quantitative data was to bring a greater insight into the subject than what would otherwise be obtained by using either type of data separately. Additionally, combined qualitative and quantitative data sources allow for inter-sources and inter-methods data validation.

The inductive approach this research follows meant that data and theory were constantly compared 'iterating toward a theory which closely fits the data' (Eisenhardt 1989, 541). As Eisenhardt argued, 'a close fit is important to building good theory because it takes advantage of the new insights possible from the data and yields an empirically valid theory' (1989, 541). This means that in this research, as in any inductive research there is a degree of overlap in the process of data collection and analysis (Eisenhardt 1989).

Qualitative data sources included semi-structured interviews with cluster owners, their consultants and other key local stakeholders (local authority planners, local ward councillors and community representatives). Additionally, they included other relevant texts from the real estate companies that own clusters of ownership in London such as their annual and interim reports, and press releases. Other qualitative data sources included relevant general and property industry specific media outlets, newsletters and meeting minutes from community associations and policy documents. Content analysis, conventional and directed approaches (Hsieh and Shannon 2005) were used to analyse these data. Quantitative data sources included the annual and interim reports of the real estate companies that owned clusters of ownership in London. Descriptive statistics were used to analyse the growth of the clusters and their comprising sectors in terms of floor plate area, number of buildings and units, capital and gross income value.

1.8 STRUCTURE OF THE THESIS

This thesis is structured in three parts.

Part ONE - Framework

Chapter 1, Introduction, the current chapter, provided an account of the research background. It contextualised this research project on clusters of ownership in London in the claimed renewed interest in the *estate model* of development. It suggested that this renewed interest in the *estate model* of development comes with added layers of management and control, partially facilitated by a receding planning system. With this setting in place, the chapter defined the key research concepts, introduced the research questions, the theoretical background, research objectives and initial methodological considerations. It concludes with this section detailing the structure of the chapters of this thesis.

Chapter 2 starts by reviewing the literature on London's landed estates. This section exposes how this body of research, while having historical value, is now mostly outdated. Next, it gives a brief account of the theoretical literature on models of the development process. This section, while offering a concise discussion on some of the amply used models of the development process, aims to contextualise the institutional approach followed by this research, an approach that expands, rather than rejects, some of the key assumptions present in neoclassical economic accounts of the development process. Following this background section, the chapter firstly, reviews the literature on property markets, property development and investment, particularly the institutional accounts that consider property rights, transaction costs and the behaviour of property market actors. Secondly, the chapter reviews the literature on shopping centre design and management and, acknowledging its limitations to the study of clusters of ownership, it draws on the literature on inner city regeneration, namely, the literature on place-making, property ownership and power as well as the literature on public space. Finally, it reviews the

literature on institutions, most relevant for property development and planning.

Chapter 3, An Operational Framework, details the research design and methodology. It starts by explaining the reasons behind a multiple case study, mixed qualitative and quantitative methods approach. It also explains the order and emphasis given to the different methods. Next, it details the selection process of the three case studies this research focuses on:

- Capital and Counties' Covent Garden cluster (Capco's CG cluster)
- Shaftesbury's Seven Dials cluster (Shaftesbury's SD cluster)
- Cadogan's Chelsea & Knightsbridge cluster (Cadogan's CK cluster).

Finally, the chapter explains the methodology used for data collection and analysis, and discusses data limitations and their implications.

Part TWO – Data Collection and Analysis

This part comprises the core of the empirical work of this research. It consists of three chapters, each one focusing on one of the three case studies—**Chapter 4**, on the case of Capco's CG cluster, **Chapter 5**, the case of Shaftesbury's SD cluster, and **Chapter 6**, the case of Cadogan's CK cluster. These three chapters follow an identical structure. That is, after a brief introduction, the background section of each chapter gives an account of the urbanisation process of the area under analysis, focusing on the key events that help to explain its current urban form, land uses, users and the emergence of some of its key local stakeholders.

The core of each of these chapters is structured in three sections, and it is organised as follows. The first section explores the investment strategy behind the cluster of ownership. This could be alternatively called an account of their top-down, active management activities (Table 1 on page 56). It includes the strategy regarding location and stock section,

transaction timings for acquisitions and sales, the resulting portfolio composition, some elements of their letting strategy, financial performance profile and target. This section draws heavily on the interviews with cluster owners, the descriptions available on their annual reports and other corporate information. It also draws on the quantitative data used to explore the clusters and their comprising sectors.

The second section explores the management activities the active management of clusters of ownership entail. This could be alternatively called an account of their stock-level, active management activities (Table 1). This includes the activities of changing uses, tenants, lease terms, retrofitting, new developments and investment in the public space. This section draws on the interviews with the various research participants and from the range of qualitative sources used in the research.

The third section explores how the active management of clusters of ownership is played out in the context of their local institutional environments. That is, it explores the links between the *players' strategies* and the *rules of the game*. The interests and resources of the planning system, particularly as embodied by the LPAs, and of other local powerful stakeholders define the *rules of the game*. This section equally draws on the interviews with the research participants and on a range of qualitative sources. Finally, the chapters conclude with a detailed summary of findings.

Part THREE – Discussion of Results and Conclusions

Chapter 7, Discussion of Results, debates the research findings presented in Chapters 4, 5 and 6 in the light of the theories presented in Chapter 2. Structured around the three dimensions and sub-questions explored in this research, firstly, the chapter argues that with clusters of ownership, property owners have an edge over the market in terms of new acquisitions and new lettings. Secondly, by illustrating what place-making might mean with concentrated ownerships, it argues that cluster owners, by having a great level of control over their relevant environment, deploy

an instrumentalised form of place-making. Finally, it argues that clusters of ownership combine path dependency with path creation and that clusters of ownership in London are happening in malleable and enabling local institutional environments.

Chapter 8, concludes this research project by revisiting the research questions. This chapter is organised as follows. Section 8.2 summarises the key findings of this research. Section 8.3 discusses some of the implications of these findings broadening up the debate. For example, it discusses some of the potential implications of the mobilisation of the term *place-making* by property developers to the place-making literature. It also discusses some of the practical implications of cluster owners' place-making strategies to inner London urban governance, namely the lessening of any type of affordable space, be it residential, offices or retail. Section 8.4 offers some suggestions for further research and finally, section 8.5 concludes by restating the three key arguments underpinning this research.

CHAPTER 2 . A THEORETICAL FRAMEWORK

2.1 INTRODUCTION

This chapter brings together the theoretical framework used in this research developed through a wide-ranging literature review and theoretical reflections. The structure of this chapter is as follows. Section 2.2, Background, notes that despite the historical value of the literature on London's landed estates, this literature is outdated as it fails to account for the renewed interest in the estate model of development in London. The Background section, also explores the literature on models of the development process. This is used to contextualise the institutional approach followed in this research, emphasising the explanatory power of institutions such as property ownership, transaction costs and actors' behaviour.

Section 2.3, An Institutional Angle on the Property Market, offers a framework to explore the investment strategy in place in clusters of ownership. It highlights some of the potential advantages property owners can derive from holding concentrated ownerships by tapping into the debates on the characteristics of the property market, the behaviour of property industry actors and active management styles. Section 2.4, The Built Environment, Social and Economic Activity, offers a framework to explore the asset management possibilities opened up by clusters of ownership bringing together insights from the literature on inner-city regeneration, namely, the literature on place-making, and on property ownership and control. This section also draws on the literature on shopping centre design and management, as well as the literature on public space, as these bodies of research help to understand what the active management of clusters of ownership comprises. Finally, Section 2.5, The Regulatory Environment, offers a framework to explore the relation between the strategy of cluster owners and the institutional environment. It combines insights from the literature on institutions and institutional change, planning and property development.

2.2 BACKGROUND

2.2.1 London's landed estates and their urbanisation process

It is possible to distil three key lines of enquiry within the literature focusing on London's landed estates (e.g. Summerson 2003; Marriott 1989; Massey and Catalano 1978; Jenkins 1975; Perrott 1968; Olsen 1964). Firstly, this literature focuses on the circumstances underlying the establishment and development of London's Old estates. Secondly, it focuses on the forces for and against the integrity of the estates over the centuries. Thirdly, there is a focus on how landowners deployed architecture, urban design and land uses to serve their interests. These accounts, mostly of historical nature, trace the origins of these estates and more importantly, describe some of the practices the management of landed estates involved in the past. This is useful to ground the discussion on what their current management practices comprise.

The literature traces the foundation of London's landed estates to the process that started with the breakup of the religious estates. In the early sixteenth century, the lands outside the City of London, mainly rural and belonging mostly to religious institutions, were acquired by purchase or expropriation by Henry VIII. These estates were then given, leased or sold, mostly to aristocrats, either to compensate individuals for services to the court or to obtain funds. By the 1600s the freehold of most of these estates was in private hands (Olsen 1964) and these estates could not be sold or sublet except under Act of Parliament (Summerson 2003; Massey and Catalano 1978). These accounts further explain the urbanisation of London's landed estates as a result of London's 1666 great fire, the successive outburst of plague and population growth, which resulted in London's expansion to the west in the open fields, between the original walled City and Westminster, where these once rural lands of the London estates were. These estates thus gradually started to urbanise during the seventeenth and eighteenth centuries in a process that shifted their use from, what Farrell (2012, 88) called, agriculture to 'urbiculture'.

In what concerns the forces for and against the integrity of these estates over the centuries, the literature emphasises the separation of the freehold and the leasehold interests as the main driver for the integrity of London's landed estates. Olsen, for instance, observed that the separation of interests, '... enabled the freeholder of a big estate to retain control over the use and maintenance of his property while it was on a lease, and to engage in schemes of redevelopment and rehabilitation once the leases expired' (Olsen 1964, viii). Moreover, the author added,

instead of selling their freehold interest or building on their property themselves, they ordinarily dispose of it on long building leases, of up to ninety-nine years. The leaseholders erected the buildings according to the terms of their agreements and leases. When the leases expired, the land and the houses on it reverted to the ground landlord (Olsen 1964, 8).

As McKellar (1999) noted, this system allowed the freeholder to increase their income from their estate without committing capital. The separation of the freehold and the leasehold interests is thus perceived as critical for the integrity of the estates (McKellar 1999; Olsen 1964). As this research will show later, however, currently, estate owners are trying to subsume the leasehold interest by having the freehold interest and a simple occupational lease. This increases their level of control over the built environment and over tenant choice. This shows a discontinuity with the management approaches followed in the past.

Regarding the forces against the integrity of London's landed estates, the literature identified the enforcement of the 1967 Leasehold Reform Act as a critical force (Sutherland 1988; Massey and Catalano 1978). The 1967 Leasehold Reform Act gave residential leaseholders, under certain circumstances, the right to acquire the freehold of their property (Sutherland 1988). Therefore, many of London's estates, most of them predominately residential at the time, were forced to sell properties (Massey and Catalano 1978).

It is worth noting that if the 1967 Leasehold Reform Act has worked against the estates integrity, as the literature suggests, the subsequent

1993 Leasehold Reform Act, paradoxically, has been associated with the professionalisation of the management of these estates (Hammond 2013). With cash in their hands resulting from compulsory sales, many of these estate managers reinvested in the areas with which they were familiar, their estates, by buying non-residential property to avoid exposure to residential enfranchisement. It has been argued that these new acquisitions in property sectors that the estate managers were less familiar with, mainly offices and retail, pushed these family-run businesses toward professionalisation (Hammond 2013). Findings from this research confirm this point.

This body of literature also notes that in London's landed estates, choices regarding architecture, urban design and property uses, would serve the interests of their landowners. For instance, Sutherland, (1988) maintained that their landowners aimed for high architectural design standards. Through strict leasehold agreements, these landlords controlled the quality of the buildings being developed on their land. London's estates were generally managed with a long-term view, which the freehold/leasehold system allowed, as their freeholders perceived these estates as an income stream for current and future generations. Therefore, their landowners had a great interest in the quality of the built environment (Sutherland 1988). A great concern over the quality of architecture is still noticeable today in the active management of clusters of ownership.

Regarding urban design, Olsen, (1964) for instance, argued that in London's landed estates, normally, a great deal of space was devoted to garden squares and wide roads. The freeholder determined the estate's construction density. Having a long-term interest in the estates, these landowners could afford not to build to the highest density. Giving up buildable land would see a return in the form of more valuable properties on the estate (Olsen 1964). For example, the estates' traditional square gardens, generally fenced off and for the use of residents only, made their residential units more valuable (Longstaffe-Gowa 2012). This concern over the quality of the public space is also greatly visible today.

In many cases bearing the name of their families these estates were to be a reason of pride for the families that owned them. This would have an impact on property uses. As Olsen noted, 'no landlord would feel the same pride in an estate of working-class tenements as in one whose residents stood higher on the social ladder' (1964, 20). Olsen further argued that rents and rent revisions would have a strong correlation with their residents' status and that commercial uses were not so welcomed by these landowners. Despite the general perception that retail could bring higher rents, landowners would feel greater pride and be inclined to rent their property to gentlemen rather than to tradesmen (Olsen 1964). In clusters of ownership today, retail uses are more common.

These historical accounts thus suggest that the freehold/leasehold property rights system was critical in the maintenance of the integrity of these estates over the centuries, whereas the Leasehold Reform Acts were a key challenge. These sources also emphasise that these landowners had a great degree of control over their estates, particularly over quality of the built environment, property uses and tenants. It is nevertheless noteworthy that more up-to-date accounts, namely from property industry media outlets, portray the landowners of London's landed estates in the past as mostly hands-off and simply ground rent collectors, in sharp contrast with a hands-on management style found today (e.g. Hammond 2013). This suggests that the contemporary practices involved in the active management of clusters of ownership make the management style used in the past look passive.

In order to develop a theoretical framework to explore what the active management of clusters of ownership comprises today, this chapter reviews the literature on contemporary practices of the property industry drawing from property development and investment literature. The next section gives a brief account of some key models of the development process to contextualise the level of formal theory (Glaser and Strauss 1965) adopted in this research.

2.2.2 The institutional turn in urban studies

In the 1990s and early 2000s, property research saw a prolific period in terms of the systematisation and critique of different models of the development process (e.g. Guy and Henneberry 2002a; Guy and Henneberry 2002b; Guy and Henneberry 2000; Ball 1998; Healey 1992a; Gore and Nicholson 1991; Healey 1991; Healey and Barrett 1990). These models sought to systematise different ways of understanding urban development. There are several different models, for example, equilibrium, structure, event-sequence, agency and institutional models, and it is commonly accepted that specific models emphasise certain aspects while leaving others aside (Adams and Tiesdell 2013). Thus, every model is an incomplete account of the development process (Gore and Nicholson 1991). These models of the development process moreover, can be perceived as falling into one of three broad schools of thought: neoclassical economics, Marxism and institutionalism (Guy and Henneberry 2002b; Guy and Henneberry 2000).

Neoclassical economic accounts focus on the market mechanisms that coordinate the price and allocation of the scarce resource that land is. These models share many of the assumptions of mainstream economics such as the rational and profit maximising actor and Adam Smith's *invisible hand* adjusting demand and supply through price. Overall, these models propose an understanding of the development process where land-use is determined by competitive bidding. Many authors criticise these models on the grounds of their strong focus on the economic processes (e.g. Adams, Dunse, and White 2005; Adams 2001; Guy and Henneberry 2000; Haila 1991). Haila, (1991) for instance, illustrates this point arguing that Alonso's location models, amongst others, bypass property ownership and other institutional or natural conditions of land focusing only on the bidding process and on price formation mechanisms. Some authors have suggested that these models should be strengthened through the acknowledgment of the property market imperfections and of players' behaviour (Adams 2001).

Marxist accounts of the urban development process, despite marked diversity, tend to focus on the structural conditions under which development occurs and more specifically, on the structural conditions underlying an uneven distribution of resources (e.g. Smith 1996; Lefebvre 1991; Harvey 1989). In contrast with neoclassical economics demand-supply competitive and equilibrium models, Marxist structural models explore how markets are structured by the power relations between labour, capital and land (Healey 1991). Critics of these models point out that Marxist analysis are difficult to apply to empirical studies due to the broad nature of its theoretical framework (e.g. Gore and Nicholson 1991; Healey 1991). While some authors see Marxism somewhat close to neoclassical models, in the sense of its focus on the economic, (Guy and Henneberry 2000) others see it closer to institutional accounts in the sense that Marxism acknowledges some of the special attributes of land and property that make it different from capital (Haila 1991).

The need for a third and alternative framework, some authors have noted, derives from the insufficient accounting of the role of institutions both in neoclassical economics and Marxist approaches (Guy and Henneberry 2000). Healey, (1992) arguably triggered the *institutional turn* in urban studies (Guy and Henneberry 2002a; Guy and Henneberry 2000; Ball 1998). Broadly, the institutional turn expresses the recognition of the importance of addressing the economic and the social together in an iterative analysis linking events, agency and structure (Henneberry and Parris 2013; Martin 2003; Guy and Henneberry 2000). Institutionalism in urban studies can thus be defined as a perspective that sees the 'economic and the social as two interrelated aspects of the wider process of urban change' (Guy and Henneberry 2000, 2405). Despite marked differences between institutional approaches across the social sciences, this body of research shares the view that institutions matter (Adams, Dunse, and White 2005; Martin 2003; Williamson 2000; North 1990).

The theoretical framework developed in this research draws on, to a certain extent, neoclassical accounts. For example, this research draws on property development and investment theory which, particularly the latter,

rely on neoclassical economic assumptions (e.g. Baum 2009; Baum and Farrelly 2009; Hoesli and MacGregor 2000). It is nevertheless from institutional accounts that this research draws more heavily, namely, from theories about the property market inefficiency, transaction costs, and actors' motivations (e.g. Henneberry and Parris 2013; Coiacetto 2001; Keogh and D'Arcy 1999; Evans 1995). Key insights from these bodies of theory are interweaved over the next three sections and comprise the level of substantive theory (Glaser and Strauss 1965) used in this research.

2.3 AN INSTITUTIONAL ANGLE ON THE PROPERTY MARKET

2.3.1 Property market characteristics

The institutional literature on property markets tends to assume its imperfect or inefficient nature (e.g. Adams, Dunse, and White 2005; Evans 1995; Keogh and D'Arcy 1999). Contrasting with neo-classical assumptions of perfect or efficient markets, an institutional angle stresses that property markets are, at least, less efficient than other investment markets. The assessment of market efficiency can be based on the efficient market hypothesis originally developed by Fama (1970). The statistical tests applied are conventionally divided in three forms: weak-form, semi-strong and strong-form efficiency (for a summary of these standard economic tests see, for instance, Keogh and D'Arcy 1999; Evans 1995). The results obtained for property markets are generally less conclusive than those for other asset markets (Keogh and D'Arcy 1999; Evans 1995). For example, regarding the housing market, Case and Shiller (1989) have concluded that a definitive assertion of the housing market's efficiency is hardly attainable (Evans 1995). For non-residential property, the few existing studies show conflicting results (Keogh and D'Arcy 1999). Therefore, some authors have argued that there are good reasons to consider property markets as inefficient (Keogh and D'Arcy 1999; Evans 1995).

The nature of property markets, that is, their characteristics or idiosyncrasies, is presented in the literature as the reason for their

inefficiency. Amongst some of the well-known property market characteristics are their heterogeneity, (in part resulting from) their fixity, complex legal nature, the lack of full information and their high transaction costs (e.g. Ball 2006; Evans 1995). With regard to their heterogeneity, different from most markets, in property markets no two assets are exactly alike. Normally, no two properties are sufficiently similar that they can be regarded as exact replacements. Differences in sizes, finishes, maintenance conditions and the necessary different locations these properties occupy make them distinct. Furthermore, differently from other markets, assets in property market are immovable. Moreover, in property markets, information is not costless or readily available and transactions involve high transaction costs, both information and enforcement costs (partly resulting from their complex legal nature) (Buitelaar 2004; Alexander 2001; Evans 1995). Together, these characteristics make property markets less efficient than alternative markets.

Challenging the property market efficient hypothesis suggests exploring what the implications of property market inefficiencies are to property market processes (Evans 1995). For instance, Keogh and D'Arcy have suggested that '... the institutional approach allows the possibility that "property market process" may be efficient for some market participants but not for others' (1999, 2401). From here follows the need to explore who the property market participants are, understanding their psychology, their interests and resources, including their knowledge of the market and of other market players. As Evans suggested, 'with good information ... excess profits can more easily be made in the property market (1995, 28).

Neoclassical interpretations maintain that under market conditions supply and demand forces determine prices (Adams 2001). This claim relies on the assumption that there are enough buyers and sellers that no market participant can alone fix market prices (Evans 1995). However, in an inefficient market, property prices may not be determined by the market. As Coiacetto pointed out 'degrees of monopoly can be created by market segmentation (into submarkets) and product differentiation' (2006, 426).

As the author maintains, 'the local nature of development confers a degree of monopoly power on firms' (2006, 426).

An institutional angle on property markets thus offers three critical insights for exploring the active management of clusters of ownership. First, an institutional angle suggests that the property market can be more efficient for some players than for others (Keogh and D'Arcy 1999). Second, it suggests that with knowledge excess returns can be made (Evans 1995). Third, it notes that a degree of monopoly power can be created (Coiacetto 2006). Considering that cluster owners have a great degree of control over the built environment in their estates and that the property market is inefficient, suggests that cluster owners may have a degree of monopoly control over their location submarkets. The literature on property rights and transaction costs reviewed next, helps to further explore this point. This literature argues, for instance, that property ownership creates the incentive for property owners to manage their assets efficiently (e.g. Demsetz 1967). Critical for this research project, this literature maintains that with concentrated land and property ownerships, property owners enhance their level of control over the built environment (Alexander 2001). It also suggests that players with greater market knowledge can reduce their transaction costs (e.g. Keogh and D'Arcy 1999).

2.3.2 Property rights and transaction costs

Property rights are one of the fundamental institutions in capitalist economies. Property right theorists have defined property rights as a *bundle of rights*, contrasting with the Roman law understanding of property rights as the right to the thing itself (Alchian and Demsetz 1973; Demsetz 1967). According to Alchian and Demsetz, 'what are owned are socially recognised rights of action' (1973, 17). Similarly, Demsetz (1967) suggested that what an owner of property rights holds is the accord of fellowmen to act in a certain way. Moreover, Demsetz claimed that clear property rights and private ownership increase efficiency on the basis that 'concentration of benefits and costs on owners creates the incentives to utilize resources more efficiently' (Demsetz 1967, 356). The concept of

externality sits at the centre of the argument for strong property rights. Demsetz suggested that 'property rights developed to internalize externalities when the gains of internalization become larger than the cost of internalization' (1967, 350).

Alchian and Demsetz (1973) have also emphasised, there are costs involved in the transaction of rights. This follows from Coase's seminal contribution on this topic. Coase, detailing some of the costly transactions involved in any transaction, maintained that,

in order to carry out a market transaction it is necessary to discover who it is that one wishes to deal with, to inform people that one wishes to deal and on what terms, to conduct negotiations leading up to a bargain, to draw up the contract, to undertake the inspection needed to make sure that the terms of the contract are being observed, and so on (Coase 1960, 423).

In other words, transaction costs include the costs of collecting the information that leads to the deal (information costs) and the cost of writing down the deal and enforcing it (institutional costs) (Buitelaar 2004).

Buitelaar, (2004) argued that applying a transaction cost analysis to the development process requires differentiating transaction costs from production costs. As the author detailed,

A neo-classical market is assumed to function frictionless and smoothly. ... This leads to a situation where there are only production costs (or transformation costs as North calls them) and no transaction costs. So, if we want to carry out a transaction-cost analysis of the development process, we must ask the question: would the costs that we find also be incurred in a neo-classical development process? If the answer is 'yes', those are production costs, if the answer is 'no' they are transaction costs (Buitelaar 2004, 2544).

Moreover, the author maintained that despite the term *transaction* suggesting that only transaction costs are involved, often the literature used the concept more broadly. Buitelaar (2004) argued that a company incorporating an activity as a way to reduce transaction costs, making internal the costs of coordinating the activity incorporated, was normally considered a transaction cost. The distinction between transaction costs

and production costs and considering the costs of incorporated activities, offers a framework for a transaction cost analysis of active management of clusters of ownership.

Three critical insights for this research project stand out from the literature on property rights and transaction costs. Alexander argued that land owners 'assembling large tracts ... enhance their control over their relevant environment' (2001, 3). Additionally, Markusen and Scheffman have said that '... ownership always confers *potential* market power on the large landowners' (1978, 525). These insights into concentrated ownership, added control over the built environment and potential market power, can additionally be linked to Adams, Dunse and White's insight when the authors stated that, 'although institutions are designed to reduce ... uncertainties of human interaction, they also reflect prevalent power and influence' (2005, 43). From here follows that property ownership, as other institutions, may contribute to

... reducing transaction costs only for those groups who are most powerful in the market or most successful in lobbying policy makers in their favour (Adams, Dunse, and White 2005, 43).

These are critical insights to understand the behaviour of cluster owners as discussed later in this research.

Adams, Dunse and White's point further substantiates the argument exposed before on the importance of accounting for the psychology and resources of the different players involved in property market transactions in order to better understand development processes. In this regard, property development and property investment literature follow distinct approaches. The property development literature tends to focus on the nuances of different players' behaviour suggesting categorisations of different types of developers. On the other hand, the investment literature, with greater influence of neo-classical economics, glosses over psychological factors focusing instead on what could be called resources, but framing it as investment management levels, styles and activities.

These bodies of literature combined offer some insights to better understand clusters of ownership and are reviewed next.

2.3.3 The behaviour of property industry players

Despite a vast body of literature exploring the role of key actors in the development process, some authors have claimed that property actors are still mostly treated as an homogeneous group and moreover, that still relatively little is known about the different property industry agents' interests and strategies (Henneberry and Parris 2013; Gallimore, Hansz, and Gray 2000; Healey 1998b). These debates offer some insights into the behaviour of cluster owners, by showing the different motivations of different types of property industry actors. These different motivations impact their levels of attachment to location, choice of short- or long-term investment strategies, commitment to design quality and importance attributed to local knowledge. What surfaces from this literature is the diversity in behaviour even within key categories, for instance, within the landowners, (Adams 2001; Goodchild and Munton 1985) developers and investors (Adams and Tiesdell 2013; Charney 2001; Coiacetto 2001; McNamara 1983). This behavioural diversity seems so great that, as Coiacetto argued, a comprehensive typology of actors and their behaviour might not be achievable 'given the variety of contexts and types and because new types are likely to emerge' (2001, 55).

Accounts of the behaviour of property industry actors reflect the segregated way property markets can be conceptualised. Despite being recognised as interdependent, property markets and their players are traditionally discussed around submarkets. That is, it is not uncommon to find property market research with a focus either on land markets, development, or investment markets, and the same applies to the behaviour of players. Arguably, few studies fully bridge over these traditional market divides (e.g. Adams and Tiesdell 2013; Roulac et al. 2006). Another way the literature segregates property markets is by property sectors. Literature accounts of the development process usually focus on, for example, residential property, (e.g. Karadimitriou 2013;

Karadimitriou 2005; Ball 2003), offices (e.g. Charney 2003; De Magalhães 2002; De Magalhães 1999) or retail (e.g. Pashigian and Gould 1998; Eppli and Benjamin 1994). One of the reasons for this segregation might be that, as Beauregard suggested, different property sectors have 'different micro-logics' (2005, 2431). Most of these studies moreover, come with some sort of geographical submarket focus, making justice to the property industry maxim *location, location, location*.

This segregation of property markets into submarkets expressed in the literature seems to reflect industry practices. That is, property market players tend to operate in some sort of specialisation, either by market, property sector, or location (Henneberry and Parris 2013; Charney 2007; Beauregard 2005; Coiacetto 2001). It is nevertheless worth noticing that, as Adams and Tiesdell (2013) have argued, the trend towards inner city redevelopment has blurred the traditional divide between residential and commercial property developers. The authors nonetheless, maintained that 'genuine and experienced mixed-use developers still remain relatively rare in the UK, making genuine mixed-use development hard to achieve' (2013, 146). Regarding investors, the authors noted that in the UK, the investment market has traditionally preferred single-use commercial buildings (e.g. offices or retail) to mixed-use buildings and residential property, perpetuating some of these traditional property market divides (Adams and Tiesdell 2013).

The extent of this literature addressing the behaviour of property market players is such that it requires a very selective account of it. Dealing with London's clusters of ownership, one unavoidable reference is Massey and Catalano's (1978) seminal work on land and power. Here the authors explored three different categories of landowners and their relation with land and the production process concluding that each category had their own set of interests and operational mechanisms, and that therefore, no single landed interest group could be found. The three categories explored were, *former landed property* (including London's landed aristocracy, landed gentry, the Crown and the Church estates), *financial landownership* (insurance companies, pension funds and property companies) and

industrial landownership (owners-farmers and other non-agriculture industries). Particularly relevant for this research are some of Massey and Catalano's insights into the behaviour of the landowners within the categories of *former landed property* and *financial ownership*.

Massey and Catalano (1978) stated that the aristocratic landlords, part of *former landed property* category, were mostly developers for the upper and middle classes. This still seems to be the case in the active management of clusters of ownership. The authors also emphasised that, different from property companies, aristocratic landlords, having inherited their land, had a relation with the 'specific tracts of land with which they have a historical and/or social connection' (Massey and Catalano 1978, 79). Their long-term interest on their assets together with this other than financial relation, meant that short-term financial returns were not their priority. Alternatively, the authors argued, for property companies, 'the sole motive for ownership is the appropriation of rent' (Massey and Catalano 1978, 129). The authors nevertheless noted that property companies with a long-term strategy could overlook initial yields if they had an expectation of future rent and capital appreciation. A long-term interest and overlooking of initial yields seem to be a feature of the active management of clusters of ownership today, both in the case of clusters of ownership owned by inheritance and clusters acquired by property companies, as this research will later illustrate.

Amongst the many categorisations of property industry actors, Adams (2001) suggested a distinction between active and passive landowners. According to the author, active landowners are those who either make their land available for others to develop, develop the land themselves or develop their land in a joint venture. Conversely, passive landowners are those who neither develop nor take any initiatives to trigger development on their land. It was nevertheless under the term *developer* that many subtypes of property industry actors emerge (e.g. Adams and Tiesdell 2013; Coiacetto 2001). Adams and Tiesdell's (2013) four-type classification differentiated between *pure-dealers*, *developers/dealers* or *trader-developers*, *investor/developers* and *developer/investors*. According

to the authors, *pure-dealers* have a short-term interest in property and continuously buy and sell property without undertaking development. The value added comes from assembling land for development, obtaining planning permission or restructuring a lease. The *trader-developers* find and buy land for development, commission the design, reach planning permission, coordinate the development and on completion sell the site. The *investor/developers* are institutional investors, normally insurance companies and investment funds, which from time to time engage in development themselves. The authors suggest that these three types have 'a transient interest in place-making' (Adams and Tiesdell 2013, 147).

The fourth type, the *developer/investors* have the distinctive feature of having an interest in place-making. According to the authors, this type characteristically retains and manages finished developments, therefore having an interest in the place and consequently in place-making. The authors considered that this type includes most well-established property companies and Real Estate Investment Trusts (REITs). Cluster owners seem very aligned with this type. It is worth noting the authors' point on the expected performance of this type in property market downturns. As the authors stated,

The strength and reliability of investment income, protected even in a recession by long-term leases, shields developers/investors from the full force of a development downturn ... (Adams and Tiesdell 2013, 150).

This is a useful insight to explore the performance of clusters of ownership in London.

Alternatively, Coiacetto (2001) offered a six-type categorisation of developers. This includes *passive local property owning developers*, '*means to a mission*' *developers*, *specialised client developers*, *showpiece developers*, *value adding opportunity developers* and finally, *eye on the street builder-developers*. In brief, *passive local property owning developers* seem equivalent to Adams' (2001) passive landowners and the '*means to a mission*' *developers* are only transiently involved with development, mostly as a means to an end, such as providing a

community infrastructure. These two types therefore, showed a marginal or temporary involvement with the industry. The *specialised client developers* and the *showpiece developers* worked respectively for a particular client or developing landmarks and together with the *value adding opportunity developers* showed a short-term interest in the site and limited commitment with the local community. Finally, for its resemblance with cluster owners, it is worth expanding on the *eye on the street builder-developers*. This type operated locally and

rather than produce buildings for exchange, they tended to rent them to ensure cashflow. Decisions were based on long and detailed observation of events and changes at the extremely local level. They studied what was happening in as little as just one or two streets (Coiacetto 2001, 53–54).

Cluster owners also operate locally, retain buildings and show a great degree of local knowledge, as this research will show in detail later. This suggests that cluster owners could be perceived as *developer/investors* or *eye on the street builder-developers*.

2.3.4 Active management

When developing a theoretical framework to explore clusters of ownership, it is useful to draw some insights from estate management, real estate management and property investment literature. This literature, exploring the links between management levels, styles and activities, offers a framework to explore how clusters of ownership are managed. Three distinct management levels stand out from this literature, estate-level, property-level and portfolio-level (Table 1).

The estate management literature, prolific between the 1960s and the 1980s, suggests that rural and urban estates, privately and publicly owned estates, share basic management requirements (Denman and Prodano 1972; Thorncroft 1965). Thorncroft, for instance, argued that ‘whatever the physical, legal or economic structure, the policy objectives, or the organisation, the functions of management ... remain the same’ (1965, 367). Underlying the argument of management similarity between different

types of estates seems to be an understanding of the role of estate management as *securing the optimum return* (Banfield 2005; Stapleton 1981; Ratcliffe 1978; Thorncroft 1965). This literature acknowledges that optimum return may go beyond financial return to include, for instance, social status and political power (see e.g. Thorncroft 1965, 3). Nevertheless, some authors have argued that the estate management literature, largely, focused on the economic and legal aspects of property, and that, only marginally, it referred to any social or behavioural aspects that could bring a more nuanced view of actors, their interests and management styles (Arnison 1988; Peters 1972).

Despite this *one management style fits all* approach, this literature acknowledges that urban estates present broader management problems compared with rural estates (e.g. Ratcliffe 1978; Thorncroft 1965). For example, Thorncroft argues that urban estates tend to be more fragmented and, moreover, that concentration brings management benefits. Thorncroft also argues that the value of urban estates tends to be higher and also more volatile and that urban estates require more capital investment which is the reason for 'the high debt loading and complicated credit structures of many urban estates' (1965, 33). Additionally, this literature also suggests that complexity in management may vary according to 'the nature of each individual estate' (Banfield 2005, 34).

Overall, in order to achieve the *optimum return* from an estate, (urban or rural, private or public) the literature suggests two management levels (Table 1). Firstly, there is the central strategy level, which includes the definition of the operational and investment objectives. At this level, estate management is defined as 'the dynamic process of calculating, planning, and controlling the use of land and the resources connecting with it, in the light of a central strategy' (Thorncroft 1965, 22). Secondly, there is estate management at the level of the individual property where the focus is on lease management. Lease terms, lease implementation and the possibility of timing the surrender of a group of leases at once so that an estate could be refreshed, stand out as key dimensions in estate management (see e.g. Ratcliffe 1978, 291; Thorncroft 1965, 141).

The real estate management literature draws heavily on the estate management literature. It is noteworthy that a new edition of Stapleton's (1981) *Estate Management Practice*, was renamed Stapleton's *Real Estate Management Practice* (emphasis added). According to its editor, this was to better reflect 'current market practice...' (Banfield 2005, xi). This suggests that despite changes in some industry specific terms, (real) estate management practices from the 80s remain relevant in 2005. Nevertheless, the real estate management literature does significantly add to the estate management literature, for instance, by discussing alternative management levels and management styles.

Focusing on property-level management, the real estate management literature suggests that, management styles can be divided into facility management and asset/property management. Facility management consists of the everyday tasks related with maintaining the normal functioning of a building for a certain use at a certain state of conservation (Peca 2009). Asset/property management involves finding and negotiating the properties to acquire, managing its financing and other strategic management aiming at optimising property returns such as reletting, refurbishing and redeveloping (Füss, Richt, and Thomas 2012; Peca 2009). Moreover, some authors have maintained that a good asset/property manager should also focus on public relations (Baum 2009; Peca 2009). This includes the relationship with tenants, local government and local communities.

Table 1. Estate-, Property- and Portfolio-level management styles and activities

Management level	Management style		Management activities
Estate-level	Central strategy		Operational and investment objectives
	Individual properties or leases		Contractual and statutory aspects of leasehold property
Property-level	Asset/Property Management		Change of uses, tenants, lease term management, refinancing, retrofitting, redeveloping and public relations
	Facility Management		Building maintenance
Portfolio-level	Active Management	Top-down	Location and stock section. Transaction timings for acquisitions and sales
		Stock-level	<i>Ibid</i> Asset/Property Management
	Passive Management		Index tracking

Source: Adapted from Fuerst (2009), Banfield (2005), Ratcliffe (1978) and Thorncroft (1965)

It has been argued that since the 1980s, a portfolio perspective started to emerge on what was previously perceived as simple aggregations of individual buildings (Baum 2009). Alongside came a shift in the emphasis on property-level to portfolio-level management (Baum 2009). Managing property portfolios has features different from managing individual assets (Hoesli and MacGregor 2000). The portfolio-level involves the definition of the investment strategy and setting the targeted portfolio performance. The real estate investment literature normally distinguishes between active and passive portfolio management (Hoesli and MacGregor, 2000). Passive portfolio management is generally taken to mean selecting the constitution of a portfolio mirroring the sectors and the locations composition of an existing index. Returns on these portfolios should be similar to the returns of the index.

Alternatively, active portfolio management can be exercised at the stock-level or top-down. At the stock level the active management of property portfolios include the different tasks previously identified under asset/property management (IPD and Goshawk 2014; Baum and Farrelly 2009; International Property Forum 2007; Kaiser 2005). As property depreciates, actively managing a portfolio at the stock-level enables portfolio managers to sustain or enhance the value of their portfolios (International Property Forum 2007). The top-down approach involves strategic combinations of geographic allocations (e.g. cities, regions or countries), sector allocations (e.g. residential, retail, offices) bearing in mind transaction timings (Baum and Farrelly 2009). Overall, actively managed portfolios are expected to outperform the market, despite the costs their active management involves (IPD and Goshawk 2014; Fuerst 2009).

Some authors have noted that the shift from property-level to portfolio-level management was accompanied by a growing use of formal or semi-formal research to support decisions (Barkham 2002). Top-down portfolio management decisions can be based on financial market theory, such as Modern Portfolio Theory (MPT) and its subsequent adaptations for real estate markets. These theories establish some key principles of portfolio risk diversification (Hoesli and MacGregor 2000). There are extensive debates on the use of these and derived theories for risk management in real estate (e.g. Lee and Devaney 2007; Blundell, Fairchild, and Goodchild 2005; Lee and Stevenson 2005; Byrne and Lee 2003; Lee 2001; Eichholtz et al. 1995). Central in this debate are the discussions on risk diversification possibilities in real estate portfolios, particularly around sectoral and locational (submarkets) diversification possibilities. Some authors have argued that sectoral diversification might be a more effective risk management strategy, (Eichholtz et al. 1995) particularly in volatile moments of the property cycle (Lee and Devaney 2007). It is nevertheless worth noticing Esposito's (2016) point, when the author argued that the high levels of correlation between assets during the 2008 global financial crisis, raises some questions on the usefulness of diversification, one of

the key tenets of MPT, particularly in volatile periods when risk management and diversification are mostly needed.

Within this literature it is also worth noting the debates around the different risk profiles of different real estate activities. In this regard, for example, the literature establishes that acquiring and managing existing properties, which is also referred to as standing property investment, is significantly less risk exposed than the development activity (Baum 2009). Moreover, within this literature, there are extensive debates on how to measure portfolio performance and on the difficulties of differentiating the factors underlying portfolio outperformance (e.g. Lee and Morri 2015; Morri and Lee 2013; Baum and Farrelly 2009; Kaiser 2005). Amongst a variety of portfolio performance modelling techniques, many data intensive, risk and returns emerge as central concepts for both theory and practice, with some authors arguing that in practice, the focus is greater on returns (Hoesli and MacGregor 2000).

One of the criticisms of these methods is that they leave out the institutional aspects that might enable or constrain portfolio managers' options (Adams, Dunse, and White 2005; Keogh and D'Arcy 1999). As Keogh and D'Arcy (1999) have argued, what is financially or technologically feasible might not be culturally or legally (institutionally) acceptable. The next sections review the literature on the institutional aspects that are likely to impact the options of portfolio managers, including cluster owners.

2.4 THE BUILT ENVIRONMENT, SOCIAL AND ECONOMIC ACTIVITY

2.4.1 Refashioning the inner-city

Ambrose argued that 'the built environment, despite its solid appearance, is dynamic rather than static' (1994, 5–6). The author further stated that 'whole inner city areas can be re-fashioned, physically and socially ...' over a relatively short period of time (Ambrose 1994, 6). These are useful insights to start exploring what the impacts of the active management of

clusters of ownership might be, suggesting that there might be physical and social impacts.

Moreover, it is broadly accepted in the literature that the built environment is deeply interconnected with economic activity (Barras 2009; Ball 2006; D'Arcy and Keogh 1999; Jacobs 1969). Ball, for instance, argued that 'buildings are useful only when plugged into some network of economic and social life at a specific geographic place' (2006, 12). However, there is some debate on the direction of the causal relationship between the built environment, and social and economic activity. For instance, Barras (2009) claimed that the whole existence of cities could be justified based on the economies of scale resulting from activities clustering together. In this account the built environment is presented as a response to the need for sheltering activities. Conversely, Jacobs (1969) argued that economic development was the result rather than the cause of cities. This ontological problem might not be possible to resolve. As D'Arcy and Keogh (1999) have suggested, a suitable built environment might be either the effect or the cause of economic activity. This debate highlights the level of entanglement between the physical, the social and the economic dimensions of the built environment. It thus suggests that when modelling the management of clusters of ownership, the links between these three dimensions should be expressed.

The early twenty-first century saw a great push towards fixing inner city urban blight through the physical regeneration of its built environment. Rogers (2005; 1999) set up the tone for what inner city regeneration in the UK should comprise. Amongst other recommendations, Rogers strongly advocated mixed-use redevelopment, to the point that some authors, such as Beauregard, (2005) argued that mixed-uses became the epitome of regeneration schemes designed to enliven the inner city. Planning and urban design organisations have also claimed that 'the mix of uses (whether within a building, a street or an area) can help to determine how well-used a place is, and what economic and social activities it will support' (DETR and CABE 2000, 31). Additionally, Beauregard, for instance, suggested that 'large mixed-use ... projects designed to enliven

downtowns rely on the functional interdependence of property sectors for their success' (2005, 2432). According to the author, functional interdependence between offices, retail, residential and entertainment uses, produce vibrant and attractive inner city environments. The premise of Beauregard's argument is that

... offices require workers; many of these workers desire to minimise their commute and thus to live near-by; and, the presence of workers attracts retailers and other service providers such as restaurateurs ... (2005, 2432).

This suggests that different property sectors in the same area can produce synergistic effects.

The trend towards mixed-use redevelopments had nevertheless started years before with the highly influential work of Jacobs (1962). Jacobs advocated mixed-uses as an alternative to modernist urban planning mono-functional zoning or segregated uses. The author argued that mixed-use, human scale neighbourhoods would provide for continuous human activity and residents' *eyes on the street* would make neighbourhoods safer. Jacobs' seminal work presented an alternative to the comprehensive redevelopment approach—the clearing up of entire neighbourhoods for new developments—for which, for instance, Robert Moses stood out as an advocate.

The literature on place-making draws greatly from this debate. For instance, Friedman, (2010, 154) following closely Jacobs' argument, proposed that 'place must be small, inhabited, and come to be cherished or valued by its resident population'. Moreover, the author argued that,

... the recovery of places, specifically the small spaces of the urban, can begin to release constructive energies of negative entropy, taking back what societal forces geared to maximizing profits and narrowly defined efficiencies have taken from us (Friedmann 2010, 152).

This suggests that there are tensions between development/investment activity and place-making.

It is noteworthy that the literature also uses the term place-making to express developers' interests and resources. For instance, as discussed before, Adams and Tiesdell (2013) have suggested that *developer/investors* have an interest in place-making mostly because this type of developer usually retains and manages finished developments and therefore, has an interest in the place. Consequently, this type of developer has a great interest in the design aspects of their schemes, the authors argued. The authors acknowledge that property developers have not always been keen on developing mixed-use schemes. One of the reasons for developers' distaste for mixed-use developments is that 'single use developments are generally easier to create and more readily understood by potential investors' (Adams and Tiesdell 2013, 22). Nevertheless, the authors have also argued that 'with the benefits of mixed-use now better understood, real estate developers are increasingly prepared to propose mixed-use neighbourhoods' (Adams and Tiesdell 2013, 24). This seems to be the case in clusters of ownership in inner London.

According to Adams and Tiesdell (2013) the benefits of mixed-uses include higher levels of activity. As the authors suggested,

Activity draws people to places. The more diverse or complex the activities on offer, the more people are likely to be attracted to a place ... doors and windows at street level create active frontages reinforcing urban vitality (2013, 15–16).

Moreover, the authors have made a case for mixed-uses based on safety stating,

The more enlivened places are by people, the safer they are likely to feel ... Occupied upper floors with windows overlooking the street can reinforce ground-floor activities with a stronger human presence (Adams and Tiesdell 2013, 16).

These points follow closely Jacobs' argument namely, the *eyes on the street* idea the author coined.

However, Jacobs' derived place-making understanding is arguably one in opposition to the interests of developers, in the name of the interests of

the local community (leaving aside the complex debates on definition of this latter term). Alternatively, the use of the term place-making associated with developers' interests is one with a focus on architecture and urban design aspects and the expected resulting real estate returns. This implies that the term place-making has been reworked in the literature in quite dramatic ways, possibly as a result of its instrumentalisation by the property industry. This suggests that property industry-led, place-making processes might compromise local community interests.

In the context of these arguably conflicting place-making approaches, it is thus important to recall the debates on property ownership and control in order to better understand some of the power dynamics at play in the process of inner city urban governance.

2.4.2 Property ownership and power

The literature argues that land and property ownership confers economic, social power and in some cases political power (Dixon 2009; Summerson 2003; Hoesli and MacGregor 2000; Kivell 1993; Sutherland 1988; Massey and Catalano 1978; Olsen 1964). The investment literature argues that property ownership enables owners to actively manage their assets in order to retain or enhance their value (IPD and Goshawk 2014; Füss, Richt, and Thomas 2012; International Property Forum 2007; Kaiser 2005; Hoesli and MacGregor 2000). The property development literature suggests that property ownership gives owners a great degree of power, for instance, in shaping urban outcomes. As some authors have noted, original land ownership patterns explain some of today's urban layouts and that timings of land sales affect what sort of architecture is built (Kivell 1993). Within the accounts from the literature on London's landed estates Summerson, (2003) for example, maintained that the private interest of this group of powerful landowners drove the expansion of the city. Similarly, Olsen noted that

the concentration of land ownership in the hands of a few families and corporate bodies has enabled them to exert an immense control over the fortunes of the metropolis (1964, 6).

Additionally, Olsen claimed that the landowners of London's Old estates behaved almost as a political body. That is,

a landowner was for most purposes sovereign over his estates. He had absolute authority in all those areas where the formal organs of government did not choose to interfere, and before the late nineteenth century those areas embraced most human activities (1964, 10).

Olsen noted the rising degree of power resulting from concentrated ownerships. The author maintained that a freeholder of an individual building could only aspire to change or adapt it, whereas a freeholder of a few contiguous plots of land could hope to have some influence on the character of an area, yet could hardly aim for anything that could be called planning. On the other hand, as the author pointed out, 'a large landowner could change the character of the neighbourhood itself' (Olsen 1964, 160). As Olsen stated,

The whole character – social, architectural, and economic – of a neighbourhood could be determined by the kind of street plan the landlord chose to impose, the kind of leases he chose to grant, and the kind of control he chose to exercise over his tenants. And when the original leases fell in, he was at liberty to start anew and create an entirely different kind of neighbourhood (1964, 8).

This specifies some of the levels of control enabled by concentrated property ownership.

2.4.3 Shopping centre culture

The active management of clusters of ownership today seems to have gained tones of shopping centre management as the quote below suggests.

The modern landed estates, especially those with large commercial property holdings, have adopted the corporate culture of shopping mall landlords, delicately sculpting the perfect mix of tenants, each one weighted for what it contributes to the overall value of the area (Hammond 2013).

It is noteworthy that the literature on UK's high streets decline has identified fragmented ownership as a key factor for an uncoordinated retail

strategy. These factors are then presented as an important reason (amongst others) for UK high streets decline (e.g. PBA 2014; PBA 2013; Portas 2011). This literature suggests that single ownership, together with shopping centre management techniques could be a strategy for the remediation of UK high streets (e.g. PBA 2014; PBA 2013). One report asserts,

Shopping centres and other out-of-town formats often have the advantage of single ownership. The landlord is able to create an identity for the centre, choose the retail mix, manage the centre so that it reinforces the brand, co-ordinate marketing and refresh the centre through regular reinvestment (Portas 2011, 19).

Similarly, cluster owners, being significant landowners at a single location, as this research details later, can deploy some of the strategies used in shopping centre design and management. Therefore, shopping centre literature offers some insights useful to add to the framework to explore the active management of clusters of ownership.

This literature posits that concentrations of retail units increase footfall and inter-store synergies. It also establishes that footfall and rent are positively correlated (Yuo and Lizieri 2013; Yuo et al. 2011; Peca 2009; Eppli and Benjamin 1994). However, as for instance, Peca noted, it is necessary to have ‘the right mix of tenants to achieve the overall synergism ...’ (2009, 96). Moreover, it has also been noted that, together with the right mix of tenants, consumer circulation maximises inter-store synergies and that the placement of the different retail units is key in influencing consumer circulation (Yuo and Lizieri 2013; Peca 2009).

This literature makes a critical distinction between anchor and non-anchor stores (Yuo and Lizieri 2013; Yuo et al. 2011; Peca 2009; Eppli and Benjamin 1994). This distinction is critical for the definition of the right mix of tenants and their placement in the centre. Anchor stores are retail units that attract purpose shopping. This includes well-known brands but also restaurants. Non-anchor stores include smaller shops where consumers engage in unplanned shopping. Anchor stores should be placed in less accessible areas, as customers will tend to go to find them. Non-anchor

stores should be placed in locations with higher footfall. The assumption is that walking from areas with good access to more secluded areas where anchor stores are located, people engage in unplanned shopping at the other retail units. This is what literature refers to as anchor to non-anchor stores synergies.

Shopping centre design and management literature highlights how its circulation space can enhance the attractiveness of a shopping centre and maximise inter-store spill overs (Yuo and Lizieri 2013). However, in clusters of ownership the circulation space is the space in-between buildings, generally public space, which suggests that cluster owners have limited control over it. Therefore, the literature on shopping centres can only take us so far. In order to further develop the framework, to explore what the active management of clusters of ownership comprises, the literature on public space design and management needs to be considered.

2.4.4 Public space and economic development

Since the 1990s a considerable body of literature has been published on public space and, at least, three lines of enquiry stand out from this growing body of literature. First, there is the literature that explores public space design quality (e.g. Carmona 2014; Adams and Tiesdell 2013; Gehl 2011; Carmona 2010b). Second, there is the literature focusing on exploring emerging governance arrangements for the provision and management of public space (e.g. Németh and Schmidt 2011; Schmidt, Németh, and Botsford 2011; Carmona 2010a; De Magalhães 2010; De Magalhães and Carmona 2006). A third line of enquiry critically assesses the trend towards the privatisation and commercialisation of the public space, which as this literature suggests results in overly scripted spaces that moreover, constrain individual liberties (e.g. Kärholm 2012; Zukin 2010; Minton 2006; Zukin 1996; Sorkin 1992). Despite the different focus of these studies, collectively, they indicate a greater involvement with public space by end-users, planners, the property industry and retailers.

As Németh and Schmidt (2011) have argued, public space has been increasingly mobilised for economic development purposes. According to the authors, public space attracts retail development and the quality of public space affects the value of adjacent properties. For instance, Adams and Tiesdell (2013) have noted that spaces that support walking through movement enhance urban life and this is critical for most retail, which survives on passers-by, consumers to be.

This literature further argues that property owners and retailers have increasingly realised the economic impact public space has on their businesses. For instance, De Magalhães noted that

For occupiers and owners of commercial property, engagement with public realm management can deliver gains in profitability and asset values as a result of a degree of control over the quality of the public realm of the locations in which they operate (2012, 144).

Property owners, or at least some, have been aware of the potential positive impacts of the public space on the value of their properties for some time now, as accounts from the property industry referring to the design and management practices in London's Old estates attest. London's Old estates owners have been credited for designing generous public spaces and keep investing in them as a way to increase the value of the properties they had for sale or to rent in their estates (McWilliam 2015).

What seems to be a more recent phenomenon though and, to a great extent, responsible for many developers bandwagon on investing in the public space is the gradual retreat of the public sector from the provision and management of the public space and a growing reliance on the private sector for this end (Németh and Schmidt 2011; Schmidt, Németh, and Botsford 2011; De Magalhães 2010). Budget strapped local planning authorities have been putting in place the incentives and governance mechanisms for the growing involvement of the private sector and, to some extent, for the replacement of the public sector in the provision and management of public space (Németh and Schmidt 2011).

Several authors have voiced their concern over this growing involvement of the private sector in the provision and management of the public space (e.g. Schmidt, Nemeth, and Botsford 2011; Minton 2006; Sorkin 1992). Some of the reasons presented for this concern are that

the increasing reliance on the private sector to provide publicly accessible spaces encourages the creation of increasingly busy, highly programmed 'festival' spaces (Sorkin, 1992) in which designers employ an array of techniques, tools and activities to manipulate and program use and behavior (Schmidt, Nemeth, and Botsford 2011, 279).

Moreover, many of these new public spaces provided by the private sector are actually private. These publicly accessible spaces have been referred to in the literature as Privately Owned Public Spaces (POPS) and authors have contended that, in many instances, the design and management of these spaces denote an active attempt '... to encourage a consumption-oriented audience' (Schmidt, Nemeth, and Botsford 2011, 272). It has also been argued that

As many higher-end chain retailers interpret the public space as an extension of the private, desiring a clean and familiar environment to attract customers, managers of filtered spaces encourage consumption by limiting access to non-consumers (for example, homeless persons, young people) while attracting potential customers through the use of amenities and other visual stimuli (Schmidt, Nemeth, and Botsford 2011, 280).

These accounts further support the point made previously in this thesis on the important links between the built environment, the social and the economic environment. They illustrate some of the ways in which the built environment can be mobilised by property owners, with significant impacts on the local economic and social environment, for the arguably sole purpose of sustaining or increasing real estate returns.

2.5 THE REGULATORY ENVIRONMENT

2.5.1 Organisations, institutions and institutional change

Property development is nevertheless, a regulated activity. Property market players therefore, operate in constant interaction with its regulatory environment (Healey 1998b). The planning literature stresses the role of planners and developers in the process of property development. This literature suggests that property market agents (including planners) change in response to either incentives or constraints in the institutional environment. For example, markets come up with new property concepts such as regional shopping centres and planning authorities need to choose how best to respond (Adams, Dunse, and White 2005). Similarly, policy changes create a set of obstacles and/or new opportunities that push markets to adapt (Karadimitriou 2013; Schmidt, Nemeth, and Botsford 2011; Karadimitriou 2005). Additionally, some authors have maintained that the property industry tends to turn to their advantage institutional changes in the planning system (Adams, Dunse, and White 2005). Examining the practices of the property industry requires then exploring, how the regulatory environment constrains or enables their practices and how malleable the regulatory environment is to be turned to advantage property industry's interests.

In North's theory of institutions, the author stressed the need to distinguish organisations from institutions. For North, organisations are the 'strategy of the players' and institutions the 'underlying rules' (1990, 5). However, according to North, (1990) institutional change happens in the interaction between organisations and institutions. That is, organisations, in the course of pursuing their objectives gradually change institutions. This suggests that, to a certain extent, the players' strategies and the rules of the game are recursively linked, particularly in the processes of institutional change.

It is useful to briefly address here some different accounts found in the institutional literature on drivers of change. A considerable amount of literature discusses some of the differences between old institutional economics (OIE) and new institutional economics (NIE) (e.g. Henneberry and Parris 2013; Adams, Dunse, and White 2005; Alston 1996; Rutherford 1996; Samuels 1995). For example, some authors have argued that OIE accounts see institutional change mostly driven by exogenous forces (for example by law) whereas, NIE accounts perceive institutional change as mostly driven by endogenous forces (agent driven) (Adams, Dunse, and White 2005). Some scholars have nevertheless suggested that these differences can be reconciled, at least partly, and moreover, that North, to a certain extent, bridges these two perspectives by combining elements of OIE and NIE theories (Alston 1996; Rutherford 1996). This seems to be illustrated, for instance, in North's (1990) views on institutional change. According to North, the agent of change is the individual entrepreneur responding to incentives found in the institutional environment.

Two critical concepts emerge from the institutional literature focusing on constraints for institutional change, *path dependency* and *path creation* (e.g. David 2007; Martin and Sunley 2006; Mahoney 2000; David 1994; North 1990). The concept of path dependency suggests first, that the past matters, as it affects the set of choices available today. Additionally, the concept also suggests that

once a development path is set on a particular course, the network externalities, the learning processes of organizations, and the historically derived subjective modelling of the issues reinforces the course (North 1990, 99).

In other words, as Martin and Sunley observe, path dependency is

the tendency for formal and informal institutions, social arrangements and cultural forms to be self-reproducing over time, in part through the very systems of socio-economic action they engender and serve to support and stabilize (Martin and Sunley 2006, 400).

The concept of *lock-in* is useful to clarify a dimension of path dependency, that is, the persistence of some institutions. The concept of lock-in has

been used, for example, to explore technology evolution and to explain the persistence of the QWERTY keyboard. According to David (2007; 1994) accidental historical events gave the QWERTY keyboard an initial market lead, which was then perpetuated by the incentive typists had to adopt the most widely used keyboard despite the existence of new more ergonomic keyboards. As some authors have noted, 'our choice of a keyboard, even today, is therefore a product of, and governed by, history, not by ergonomic or optimality considerations' (Martin and Sunley 2006, 400).

When the concept of path dependency is taken to conceptualise the built environment, it becomes apparent that initial conditions or decisions made in the past greatly matter today. For instance, many authors have noted that initial patterns on landownership and development deeply conditioned its future (Dixon 2009; Kivell 1993; Massey and Catalano 1978). Similarly, Conservation Areas and listing buildings, arguably, work as lock-ins to the built environment.

The second key concept that it is worth highlighting found in this body of literature is that of *path creation*. As Martin and Sunley have argued

given the nature of human agency, path dependence is never automatic but always contested and resisted, and new path creation is as important as path dependence (2006, 430).

Considering institutions and institutional change bounded by path dependency and path creation, suggests perceiving institutions as malleable resources (Campbell 2010). Moreover, as Campbell (2010) suggested, in processes of institutional change, strong players have the potential to forge the direction that is most convenient for them. As the author maintained, 'those who are most powerful get the institutions they want and are best able to change them to fit their purposes' (2010, 97). Therefore, this implies that institutions are more malleable for some players than for others and suggests investigating institutional change considering the power dynamics between different agents.

2.5.2 State-market dynamics

When exploring the behaviour of cluster owners, it is thus useful to differentiate between their strategies (the players' strategy) and the constraining and enabling aspects of the institutional environment (the rules of the game). As land and property development are regulated in the UK, any property developer embarking on developing a new scheme or altering an existing building needs to apply for planning permission to the LPA (with some exceptions, for instance, the exceptions included in Permitted Development Rights). LPAs, through their planning policies, development management, but also through their informal or tacit rules, set up some of the critical aspects of the institutional environment that bounds the strategies of developers and investors.

The UK planning system is also hierarchical and discretionary (Clifford and Tewdwr-Jones 2013; Booth 2003; Adams 2001). Its hierarchical nature, means that central government retains a great control and that strategies set up at the local level need to comply with national level policy. Furthermore, central government retains a great degree of control over LPAs' resources, particularly through its control over LPAs' funding (Clifford and Tewdwr-Jones 2013). Regarding its discretionary nature, contrasting with statutory systems, in a discretionary system, planning applications are judged on their own merits rather than assessed against their compliance to a pre-established land-use plan. It has been argued that in statutory systems the role played by planners at LPAs is mostly an administrative one, that is, checking planning applications' compliance with land-use plans and building codes, whilst in discretionary systems planners have a greater role to play (Booth 2003).

It is generally accepted that the property industry views state interference in the property market with some suspicion (Booth 2003; Adams 2001). As Adams argued,

The defence of private property is deeply entrenched in English law and culture. From this perspective planning represents a recent statutory interference in property rights (2001, 12–13).

The literature notes that law is not objective or neutral but instead it reflects the ideologies and philosophies of different periods (Adams, Dunse, and White 2005). However, there seems to be a persistent understanding of the planning system as inefficient and in constant need of reform (Clifford and Tewdwr-Jones 2013).

Neoliberal policy discourse and practice starting in the 1980s drove a relaxation of planning policy and the introduction of negotiating practices between the *regulator* and the *regulated* (Healey 1998b). Moreover, in Harvey's (1989) seminal paper the author argued that urban governance started growing more concerned with ways urban development could foster economic growth and that, in contrast with its managerial role of the previous decades, urban governance was assuming an entrepreneurial role. It is broadly accepted today that since then LPAs have been continuously shifting from a providing to an enabling role (e.g. Adams and Tiesdell 2013; Adams and Tiesdell 2010; Coiacetto 2000; Alexander 2001).

In the 1990s, since a significant part of the urban development process was being led by the private sector, Healey suggested that the role of the planning system should then be one of promoting and sustaining *institutional capacity*, which according to the author is 'the ability to mobilise material, informational and social resources to achieve policy objectives' (Healey 1998b, 212). According to Healey, (1998b) planners and more broadly urban policy, should tame market-led property development to achieve both urban capacity and urban quality. Already in this decade, public spending cuts started pushing LPAs to seek contributions from the private sector to help to support the provision and maintenance of amenities previously provided by the public sector (Healey 1998b).

Since the early 2000s several authors started to argue that local authority planners should be perceived, and perceive themselves, as market actors (Henneberry and Parris 2013; Adams and Tiesdell 2010; Alexander 2001). This was despite their marked difference from other property market actors, as planners were not seeking financial profit from the development

process (Goodchild and Munton 1985). It was noted that contemporary urban development requires a strong cooperation between planners and property industry actors (Adams and Tiesdell 2013; Adams and Tiesdell 2010; Alexander 2001; Coiacetto 2000; Healey 1998b). More specifically, for instance, Coiacetto maintained that,

In order to shape urban development, planners have to influence the actions of the players who actually build cities. This requires a solid understanding of the perspective, actions and strategies of those builders (2000, 353).

The interdependence of these two key actors in the development process, at least in the last decade, is so great that some authors have claimed that,

over time it becomes problematic to ascribe outcomes either to planning or to the market, since what happens in practice derives from rich and complex interactions between the two (Adams and Tiesdell 2013, 65).

Since the early 2010s, LPAs in the UK have been experiencing very significant budget cuts, to the extent that planning in an age of austerity seems to be the new planning paradigm. There are several accounts of what planning in an age of austerity might mean in the UK (Harris 2015; Local Government Association 2014; Clifford and Tewdwr-Jones 2013; Evening Standard 2013). The phenomenon is not UK specific though, and accounts can be found in the literature on what planning in an age of austerity might mean, for example, in continental Europe, (Tonkiss 2013) or in America (Peck 2012). For the UK, one of the implications seems to be LPAs becoming gradually more dependent on the private sector to finance some of their day-to-day activities. This can be illustrated by the emergence of different forms of contracts between LPAs and property developers involving financial arrangements. The media has picked on this and noted, for instance, that,

In a joint letter to George Osborne seen by the Financial Times, the leader of Westminster council, deputy London mayor and several prominent developers have asked for property companies to be able to pay higher application fees to subsidise council planning departments, in exchange for fast-track decisions (Allen and Pickard 2014).

Other media sources, remark that

eleven of the 62 planning officers [at Westminster City Council] remain in their jobs only because their wages are indirectly paid by developers under Planning Performance Agreements (Evening Standard 2013).

This highlights that planning in an age of austerity is pushing LPAs more into market relationships with the property industry. Cluster owners are no exception in this regard as this thesis will discuss at a later point.

2.5.3 Other players, embeddedness and institutional thickness

Nevertheless, as many authors have noted, the development process is not confined to the interaction between planners and developers/investors, but various actors play it out (Charney 2007; Guy and Henneberry 2000; Harvey 1989). Harvey, for instance, argued that 'the power to organise space derives from a whole complex of forces mobilised by diverse social agents' (1989, 6). Furthermore, the author maintained that urban development comes about through 'a broader coalition of forces within which urban government and administration have only a facilitative and coordinating role to play' (Harvey 1989, 6). With regard to how these coalitions of forces can shape up, various insights can be found in the communicative planning literature and in the property development literature focusing on how local development networks are formed.

The communicative planning literature focuses greatly on planners and on their coordinating role in property development. This literature offers an understanding of planning as committed to democratic values and beyond a narrow scientific realism (Healey 1997; Healey 1996; Healey 1992b). Here, planners show up as mediators of the different interests and perceptions of different stakeholders. This approach emphasises the advantaged position of planners to cultivate formal and informal networks and to develop relationships of trust and cooperation (Henneberry and Parris 2013). This literature also suggests that communicative planning is not only,

... a form of exchange or bargaining around pre-defined interests. It involves mutually reconstructing what constitute the interests of the various participants—a process of mutual learning through mutually searching to understand (Healey 1992b, 155).

This approach has also explored mechanisms for consensus building in negotiating processes as, for instance, through ‘encouraging openness and “transparency”, but without simplification’ (Healey 1992b, 156). Healey, (1998b) nevertheless, acknowledged that different stakeholders have their own agendas and use their resources to try to implement them. From here it follows that consensus building might, on the one hand, not always be achievable and, on the other hand, be biased towards the interests of stronger players.

Critics of the communicative planning approach have suggested that, amongst other limitations, this approach can be perceived as utopian and idealist, as it fails to consider the resources and power dynamics where planners and other participants are entangled (Henneberry and Parris 2013; Tewdwr-Jones and Allmendinger 1998). Nevertheless, these accounts acknowledge that ‘communicative planning has raised a set of serious issues about how common values can be forged and applied in a field of differences and power plays’ (Tewdwr-Jones and Allmendinger 1998, 1988).

The literature on property development offers some insights into how developers build up their networks and the importance of these networks (Henneberry and Parris 2013; Charney 2007; Adams, Dunse, and White 2005; Beauregard 2005; Charney 2003; Coiacetto 2000). Two key aspects stand out from this literature. First, it is argued that property submarkets come with their own institutional milieu. As Charney maintained, ‘development does not work in a vacuum, but it is positioned in highly specific environments, with their traits, rules and conditions’ (2007, 1188). Second, as a result of property market specific institutional spaces, developers benefit from *being there* (Charney 2007; Charney 2003). Charney (2007) argued that developing and maintaining relationships with other market actors, such as planners, other developers or tenants, is as

important for the developer as having the market fundamentals in place. To develop this local knowledge, many authors have noted that, to a greater or lesser extent, 'locally active developers are embedded within local institutional networks' (Henneberry and Parris 2013, 230).

It is through embeddedness that developers acquire local knowledge (Henneberry and Parris 2013; Charney 2007; Adams, Dunse, and White 2005; Beauregard 2005; Charney 2003; Coiacetto 2000). As Henneberry and Parris (2013) have argued, through developing local networks developers acquire *locational literacy*, that is, the local knowledge necessary to identify, consider and eventually achieve planning permission for their development schemes. Similarly, Beauregard (2005) claimed that place-based knowledge increases efficiency and reduces uncertainty. Moreover, as Charney maintained, development 'depends on first-hand and confidential knowledge, hence necessitates "being there"' (2007, 1188).

The literature has noted that interactions between actors range from formal to informal forms of cooperation or struggle, within the institutional limits and opportunities (Guy and Henneberry 2000). As, for instance, with regard to relationships between different developers Charney claimed that,

Developers with kindred interests can join forces to defend the territory against changes and intrusions from outsiders. Formal and long-standing coalitions here are rare; rather they are informal and made for ad hoc purposes (Charney 2007, 1186).

However, Henneberry and Parris have stressed that developing and maintaining these relationships is time consuming and costly. That is why, the authors argued, developers focus their activity on 'a limited number of physical/institutional spaces' (2013, 230).

Studying local development networks offers a way to assess the *institutional thickness* of a particular location—a measure of the level of cohesion and interdependency between different players operating in local development milieus (Henneberry and Parris 2013; Adams, Dunse, and White 2005; Amin and Thrift 1995). Amin and Thrift acknowledging that

'institutional thickness is not an easy concept to grasp' (1995, 101) have nevertheless, identified four aspects that should be present in any *thick institutional environment*. The first is the presence of multiple and different types of institutions. Second, is their interaction. Third, is the emergence of structures of domination and/or corporation resulting from institutional interaction. Fourth, is the mutual recognition by these different institutions. Moreover, Henneberry and Parris have maintained that the assessment of the institutional thickness of a locality can follow a flexible inductive approach through the empirical observation of the economic action 'embedded within and translated through local institutional spaces' (2013, 231). Furthermore, Amin and Thrift have claimed that in thick institutional environments 'the dividing line between firms and their environments is porous and consistently changes' (1995, 99). Similarly, Guy and Henneberry (2000) suggested that local development networks form and reform their institutional environment.

2.6 CONCLUSIONS

This chapter developed the theoretical framework used in this research to explore clusters of ownership in inner London. First, section 2.3, suggested a framework to explore the investment strategies in place in clusters of ownership, which could otherwise be called the top-down management strategy (Table 1 on page 56). Drawing on the property market inefficiency hypothesis, this section explored what a transaction cost analysis could entail. It also brought together some critical insights into some of the advantages property owners can derive from having concentrated property ownership. This literature forms the theoretical framework used to explore the *market dimension* of this research (see research questions and research dimensions on page 26 and 27).

Second, section 2.4, put forward a framework to explore the asset/property management strategies in clusters of ownership, which could also be called the stock-level management strategy (Table 1). It did so drawing on the debates about place-making, property ownership and control, shopping centre design and management as well on the debates

about public space design and management. This is the literature this research used to explore the *place-making dimension* explored in this research. Finally, section 2.5, suggested a framework to explore the nexus between the active management of clusters of ownership and the institutional environment. It suggests that, to a great extent, the *players' strategies* and the *rules of the game* are recursively linked. Thus, it puts forward a framework to explore how the strategies, interests and resources of cluster owners, planners and other key stakeholders, together shape the institutional environment. This is the literature used to address the third and last dimension explored in this research, that is, the *planning dimension*.

This chapter thus offered a threefold framework to explore clusters of ownership in London. This framework included firstly, an approach to explore the investment strategies of cluster owners secondly, their management strategies and thirdly, the nexus between their strategies and their local institutional environments. This framework is mirrored in the empirical chapters and in the discussion chapter of this research. The next chapter, completing Part I of this research, details the operational framework used for this research, namely the research design and methodology.

CHAPTER 3 . AN OPERATIONAL FRAMEWORK

3.1 INTRODUCTION

This chapter describes the research design and methodology used in this project. Following the theoretical framework detailed in the previous chapter, this chapter offers the operational framework used to explore clusters of ownership. This chapter thus details the combination of methods used to identify, classify and explore clusters of ownership in London and it is organised as follows. Section 3.2 details the reasoning behind this research project multiple case study approach. Section 3.3 describes the methodology used to identify and classify clusters of ownership, which preceded the selection of cases. Section 3.4 specifies the criteria used for the selection of cases. Section 3.5 discusses some of the implications of mixed methods approach (qualitative, quantitative) and explains why this research follows this approach. Section 3.6 and section 3.7 deal, respectively, with the qualitative and quantitative data, more specifically, detailing data sources, data collection and analysis methods, while discussing some of the research limitations and how these may impact the research results. Finally, section 3.8 draws this chapter to a conclusion.

3.2 A CASE STUDY APPROACH

The literature suggests that a case study approach should be followed when dealing with *why* or *how* questions (Yin 2009). This research asks *why* and *how* questions: **Why do real estate companies cluster their assets, and how and why do they actively manage them?** The nature of the research questions required an investigation into the motivations and practices of cluster owners and into the contexts underlying the events that led property owners to own and actively manage spatially concentrated property portfolios, for which a case study approach seemed to adequately respond.

This research explores clusters of ownership in London. Three reasons underlie the choice of London as the geographical focus of this research. First, London is well known for the abundance of clusters of ownership and therefore, offers various cases from which to choose. Second, the UK market is one of the most transparent and mature property markets (Jones Lang LaSalle 2012) therefore, data should be available. Third, extensive fieldwork could be conducted in London, as this was the place where the researcher was based.

The first operational step of this research was defining the sources from which to look for clusters of ownership. The sources selected were, the annual reports of Property Companies and Real Estate Investment Trusts (REITs) listed on the London Stock Exchange, and the academic literature. In the mandatory annual reports of listed real estate companies, it was possible to identify the companies that owned clusters of ownership. The British Property Federation website offered a list of all real estate companies listed on the London Stock Exchange (BPF 2013). Additionally, in the academic literature several sources listed some of London's landed estates (e.g. Farrell 2012; Massey and Catalano 1978).

At the end of 2013, New London Architecture (NLA) organised an exhibition and a publication on the topic of clusters of ownership – *Great Estates: How London's Landowners Shape the City* (NLA 2013). This publication used the *street knowledge* of the researchers involved in the project complemented with web searches for identifying clusters of ownership in London. NLA (2013) offers a comprehensive identification of cases with 57 clusters identified (see Appendix C: A Map of London estates). This publication gives a brief account of each of the clusters identified (one to two pages per cluster). To the researcher's best knowledge, this NLA project resulted in the first publication that mapped the contemporary landscape of clusters of ownership in London. NLA (2013) offers a good starting point for research on this topic, however, this source had not been published at the time this research was designed and initiated. Therefore, this research did not use NLA (2013) for the identification of cases.

Alternatively, this research explored the latest annual report, as of April 2013, and the websites of each of the 48 Property Companies and REITs listed on the London Stock Exchange. Additionally, it explored five landed estates, the ones listed in Massey and Catalano (1978), including their websites and annual reports when available. In total, this research explored 53 portfolios, 26 REITs, 22 property companies and five estates (see Appendix D: List of real estate companies).

A close reading of the CEO's letter, a traditional feature in the annual reports of real estate companies, offered a quick overview of the portfolio composition and core investment areas of these companies. Another traditional feature of the annual reports of real estate companies is a *segmental analysis*, where the portfolio is segmented by location and/or property sectors (e.g. retail, residential, offices). A close reading of these two sections was, normally, adequate to establish if the companies had parts, or the whole, of their portfolio spatially concentrated. Additionally, key-word search using words such as *estate*, *core areas* or *cluster*, also proved useful to identifying clusters of ownership and achieving more detailed information on the clusters. The detailed analysis of the latest annual report of each of the 53 companies showed that 15 had parts, or the whole, of their portfolio geographically concentrated (Table 2).

3.3 A TYPOLOGY OF CLUSTERS OF OWNERSHIP

The NLA (2013) research on clusters of ownership suggested a threefold category of clusters of ownership. That is, the original estates, the newer estates and the estates formed by aggregation of buildings. According to the NLA typology, the original estates included London's Old estates, such as the Cadogan or the Grosvenor estate, at times also referred to as London's Great estates, and other traditional landed estates, such as the Mercers' estate. The newer estates included the more recently developed estates, such as the Broadgate estate, King's Cross and Canary Wharf. The third and final type included the estates formed by aggregation of buildings, such as Shaftesbury in Seven Dials (see Appendix C: A Map of London estates).

There are some issues with this NLA typology worth discussing. This discussion highlights some of the challenges of developing a typology of clusters of ownership. First, it could be argued that the estates formed by aggregation are also London's newer estates, in the sense that they are not old estates but newly formed concentrated ownerships. This is indeed expressed in NLA's estates map legend where the estates formed by aggregation are subsumed under London's newer estates (see Appendix C: A Map of London estates). Additionally, there are at least two critical features setting apart NLA's newer estates from their other suggested two types of clusters. These two distinct features of London's newer estates suggest that the activities involved in their active management differ, to a great extent, from the more similar active management activities involved in London's original estates and the estates formed by aggregation as discussed next.

In marked difference with both London's original estates and the estates formed by the aggregation of standing property, in most cases, London's newer estates were formed by land assembling processes and involved a comprehensive redevelopment approach. From here it follows that, the active management of London's newer estates should involve a great degree of development, in contrast with London's original estates and the estates formed by aggregation of buildings. The latter categories take place in the consolidated city fabric, mostly within Conservation Areas and therefore, development activity is not a prevalent activity in their active management. Moreover, the processes of property fragmentation that some of London's original estates went through, including the selling of freeholds and of virtual freeholds, (leaseholds of hundreds of years) in more ways than not, make their active management similar to the active management of the estates formed by aggregation of buildings. That is, in the active management of London's original estates and the estates formed by aggregation seems more focused on buying freeholds and long leaseholds and managing the individual building that the estate comprises, than on engaging with development activity, as London's newer estates necessarily do.

Furthermore, in London's newer estates the public realm is mostly private and privately managed by their estate owners whereas, both in London's original estates and those formed by aggregation, the public realm is predominantly *de facto* public space. The literature suggests that there are different management possibilities for privately owned public spaces (POPS) and for *de facto* public spaces (De Magalhães 2012; De Magalhães 2010; De Magalhães and Carmona 2006; Sorkin 1992). The activities involved in the active management of London's newer estates seem significantly distinct from the arguably more similar active management activities involved in London's original estates and the estates formed by aggregation. Clusters of ownership could thus alternatively be categorised based on what their active management comprises. If so, we could have a twofold typology of clusters comprised of newly built estates and estates of standing property.

Moreover, an aspect that the NLA classification fails to capture is that of the sectoral composition of the clusters. For instance, the Broadgate estate comprises offices and retail whereas the King's Cross estate is a mixed-use cluster. The property sectors these clusters comprise are likely to affect what their active management activities include. Considering the research questions this research aims to answer, which involve exploring what the active management of clusters of ownership comprise as a way to understand why real estate companies choose to cluster, what the sectoral composition of the clusters are should then be reflected on the typology developed in this research.

Another aspect that the NLA typology fails to capture is that of the legal structure of the cluster owners. It has been argued in the literature that different property owners have different sets of interests and resources (Massey and Catalano 1978). Within the category of cluster owners, different types of real estate companies might display different interests and resources to the point where different motivations into holding clustered portfolios might surface. Therefore, the typology of clusters of ownership developed in this research considers the legal structure of their

holding real estate company (e.g. Property Companies, REITs, quasi-property companies, such as the Trusts managing London's Old estates).

The typology to classify clusters of ownership developed in this research and reflecting these considerations is as follows. First, the typology expresses if clusters are mostly newly built, (NB) or investment in standing property (SP). A classification as *NB cluster* implies that these clusters were formed greatly relying in development and that their public space is mostly Privately Owned Public Space (POPS). A classification as SP cluster, by contrast, means that these clusters comprise the agglomeration of existing buildings. SP clusters thus include what the NLA (2013) typology calls *estates formed by aggregation* and *London's original estates*.

Second, the typology used in this research reflects the sectoral composition of the clusters. In this regard, clusters can either be retail clusters (RET), when their property holdings are predominately retail; office clusters (OFF), if predominantly comprised of offices; residential clusters (RES), when predominantly comprised of residential property; any pair of the previous (e.g. RET/OFF clusters); or mixed-use clusters (MUC), when there were more than two prevailing sectors.

Third, regarding the legal structure of the real estate companies that owned clusters of ownership, this typology included REITs, Property Companies and quasi-property companies (the latter included the various governance arrangements found in the holding companies of London's Old estates). Table 2 shows this typology applied to 27 clusters of ownership owned by 15 different real estate companies found in the portfolios of the 53 real estate companies surveyed.

Table 2. Clusters of ownership in London

Status	Company	Cluster Location	Cluster Type
REIT	British Land	Broadgate (50% share)	NB OFF/RET
		Regent's Place	NB MUC
		Fitzrovia/Charlotte St	SP OFF/RET
	Derwent London	Victoria	SP OFF
		Islington/Camden	SP OFF
	Great Portland Estates	North of Oxford St	SP OFF/RET
		West End	SP OFF/RET
	Land Securities	Victoria	NB OFF/RET
	Shaftesbury	Seven Dials	SP MUC
		Carnaby Street	SP MUC
		China Town	SP MUC
		Soho	SP MUC
		Charlotte Street	SP MUC
Property Company	Capital and Counties	Covent Garden	SP MUC
		Earls Court & Olympia	NB MUC
	Development Securities	Paddington central	NB OFF/RET
	Minerva Property Holdings	The Croydon Estate	*
	Quintain Estates and Development	Wembley	*
		Greenwich	*
	St Modwen	New Covent Garden Market	**
Elephant & Castle		**	
Quasi-property company	Howard de Walden	Marylebone High Street	SP MUC
	Portman	Marylebone	SP MUC
	Cadogan	Sloane St and King's Road	SP MUC
	Grosvenor	Mayfair	SP MUC
		Belgravia	SP MUC
	Bedford	Bloomsbury	SP MUC

* No data available to determine the sectoral composition of the cluster

** At a preliminary stage of development therefore, limited data were available

Source: Author's elaboration drawing on data available in the annual reports and on the websites of the real estate companies

3.4 SELECTION OF CASES

Following the identification and classification of clusters of ownership in London illustrated on Table 2, this research focused on developing the criteria for the selection of cases for a multiple case study approach. Multiple cases offer an in-depth set of perspectives on the dynamics at stake in clusters of ownership and a path for a theoretical generalisation of results. In order to achieve a theoretical generalisation of results from different cases, the theoretical implications of the cases should support and reinforce each other. Therefore, the selection of cases followed an 'information-oriented selection' where 'cases are selected on the basis of expectations about their information content' as opposed to a random sample of cases (Flyvbjerg 2006, 230). Within an information-oriented selection, two additional criteria informed the selection of cases.

First, this research sought what could be called 'critical cases', that is, 'to achieve information that permits logical deductions of the type, "If this is (not) valid for this case, then it applies to all (no) cases"' (Flyvbjerg 2006, 230). This research thus focused on the type, Standing Property Mixed-Use Cluster (SP MUC). SP MUCs have been produced amidst institutionally constrained environments, that is, within pre-existing land-uses, leases, users, community associations and Conservation Areas. Hence, these were cases where cluster owners' active management possibilities and other forms of control derived from their concentrated ownerships could be somewhat curtailed. Therefore, the logical deduction suggested by Flyvberg could be applied to research findings, that is, *if this is valid for this case, then it applies to less institutionally constrained cases*. This research identified seven real estate companies holding a total of 12 SP MUCs in London. Table 3 lists these clusters, their location, capital value at the specified valuation date and the LPAs (local planning authorities) where these clusters sit.

Table 3. Standing property mixed-use clusters in London

Status	Company	Cluster location	Cluster value (£m)	Valuation Date	LPAs
REIT	Shaftesbury	Seven Dials	639.9	30/09/2012	Camden/ Westminster
		Carnaby St	603.3		Westminster
		China Town	420.5		Westminster
		Soho	109.7		Westminster
		Charlotte St	54.8		Westminster
Property Company	Capital and Counties	Covent Garden	952.0	31/12/2012	Westminster
Quasi-property company	Howard de Walden	Marylebone High St	1,450.0	01/03/2009	Westminster
	Portman	Marylebone	*	*	Westminster
	Cadogan	Sloane St and King's Rd	3,880.0	31/12/2012	Kensington & Chelsea
	Grosvenor	Mayfair	2,374.0	31/12/2012	Westminster
		Belgravia			Westminster
Bedford	Bloomsbury	*	*	Camden	

* Data not available

Source: Author's elaboration drawing on data available in the annual reports and on the websites of the real estate companies

Second, this information-oriented selection of cases sought 'maximum variation cases', that is, 'to obtain information about the significance of various circumstances for case process and outcome' (Flyvbjerg 2006, 230). The levels of variation sought were:

- Variation in the legal structure of the companies, as the literature has argued that legal structure may affect management approaches (e.g. Coiacetto 2001; Massey and Catalano 1978).
- Variation in LPAs, as the literature has argued that local institutional milieux affect development/investment practices (e.g. Henneberry and Parris 2013).

With these criteria in place the cases selected were:

- Capital and Counties in Covent Garden. Capital and Counties is a Property Company. Their cluster of ownership in Covent Garden falls under the jurisdiction of the LPA of Westminster City Council.
- Shaftesbury in Seven Dials. Shaftesbury is a REIT. Shaftesbury's Seven Dials cluster falls under the jurisdiction of the London Borough of Camden and Westminster City Council.
- Cadogan estate in Chelsea and Knightsbridge. The Cadogan estate is one of London's Old estates and their cluster of ownership falls under the jurisdiction of the Royal Borough of Kensington and Chelsea.

3.5 MIXED METHODS

In terms of data collection and analysis this research follows a mixed methods approach, which is an adequate way to address the research questions, as this section argues. Before doing so, first this section presents a brief account of the debates in the literature on mixed methods limitations (and ways to overcome them) and strengths (and ways to enhance them). Johnson, Onwuegbuzie, and Turner (2007) have suggested that mixed methods research,

... is the third methodological or research paradigm (along with qualitative and quantitative research). It recognizes the importance of traditional quantitative and qualitative research but also offers a powerful third paradigm choice that often will provide the most informative, complete, balanced, and useful research results (Johnson, Onwuegbuzie, and Turner 2007, 129).

Mixed methods research nevertheless, has been challenged on some grounds. For example, it has been argued that this research approach combines antagonistic ontological and epistemological stances, also referred to as the 'incompatibility thesis' (Johnson and Onwuegbuzie 2004, 14). Epistemological stances in qualitative research tend to lean toward some form of social constructivism, whereas in quantitative research

toward post-positivism. Therefore, purists on either side, engaging with the debates on ontology, epistemology and research design commitments, have argued against mixed methods on the grounds of the incompatibility thesis (Johnson and Onwuegbuzie 2004). Alternatively, mixed methods methodologists have contended that 'all research is interpretive' and that 'antagonism between paradigms is unproductive' (Johnson, Onwuegbuzie, and Turner 2007, 117). Mixed methods theorists suggest a realist approach, a philosophical middle ground standpoint between post-positivism and social constructivism, as a way to overcome the incompatibility thesis (Johnson and Onwuegbuzie 2004).

Moreover, as Yin (2006) argued, independently of what the combined methods are, mixed method research can be challenged on the grounds of the potential lack of integration between methods. More specifically, the author maintained that the 'typical split' between quantitative and qualitative methods happens when the qualitative methods address the 'process' and the quantitative methods the 'outcome' (2006, 41–42). Nevertheless, as Yin suggested, a study can be strengthened, and the benefits of using mixed methods enhanced, when quantitative and qualitative methods address both process and outcome. Similarly, as Johnson, Onwuegbuzie, and Turner (2007) have suggested, if mixed quantitative and qualitative research is used well, as in making use of 'complementary strengths and nonoverlapping weaknesses', it can overcome some of the limitations of only quantitative or only qualitative research (2007, 12). One of the complementary strengths of mixed method research the authors identified was the between- or across-methods triangulation. That is, through a mixed methods approach more than one method can be used as part of the data validation process or corroboration of results.

Johnson and Onwuegbuzie, (2004) furthermore, suggested that using a mixed methods approach requires clarifying the order and emphasis given to the different methods. Regarding order, the authors noted that different methods could be *concurrent* or *sequential*. In a concurrent design, methods are deployed at the same time. In a sequential design methods are used sequentially and different sequences are possible. Regarding emphasis, the authors proposed that the different methods could have an *equal status* or, alternatively, one of the methods could have a *dominant status* (Figure 2).

		Time Order Decision	
		Concurrent	Sequential
Paradigm Emphasis Decision	Equal Status	QUAL + QUAN	QUAL → QUAN QUAN → QUAL
	Dominant Status	QUAL + quan QUAN + qual	QUAL → quan qual → QUAN QUAN → qual quan → QUAL

Note. "qual" stands for qualitative, "quan" stands for quantitative, "+" stands for concurrent, "→" stands for sequential, capital letters denote high priority or weight, and lower case letters denote lower priority or weight.¹¹

Figure 2. Mixed methods design matrix

Source: Johnson and Onwuegbuzie (2004, 22)

The reason for collecting both qualitative and quantitative data in this research was twofold. First, combined qualitative and quantitative data sources bring a greater insight into the subject than would otherwise be obtained by using either type of data separately. Second, this approach enables inter-sources and inter-methods data validation. As for the research sequence and emphasis, this research adopted a concurrent design with a dominant status of qualitative methods. Figure 2 illustrates this option as, QUAL + quan. The concurrent design option emerged during the research process, which was initially designed as a sequential

design (quan → QUAL → quan). Collecting and analysing quantitative data had the twofold objective of complementing and validating the qualitative data. However, quantitative data limitations soon became apparent and could not be overcome (additional quantitative data requested from the real estate companies were not provided). Therefore, it became evident that there were no data available to develop the last element of the initially planned sequential design and that the first element had to be significantly reduced. Significant data limitations impeded the initially planned risk/return analysis, or a return analysis tried later. Instead the quantitative analysis was limited to a growth analysis on the clusters and their comprising sectors, which helps to corroborate and, at times, complement the qualitative data.

3.6 QUALITATIVE DATA

3.6.1 Interviews

The primary data source of this research was semi-structured interviews conducted with agents involved with, affected by, or knowledgeable about, the active management of clusters of ownership in London. In total, 62 potential participants were contacted and 40 were interviewed (see Appendix B: List of interviewees). The total number of interviews was determined by the theoretical saturation point (Lewis-Beck, Bryman, and Futing Liao 2004). The majority of the interviews took place between late 2013 and late 2015. Interviews lasted for about one hour and were conducted face-to-face except for three interviews, which were conducted over the phone as requested by the research participants (Interviews 3, 23 and 35). Three interviews were partially conducted while walking around the case study areas with the interviewees demonstrating some of their points with *in loco* examples (Interviews 5, 38 and 39).

Key interviewee categories were:

- Cluster owners, including directors of real estate companies owning the three clusters of ownership explored in this research and other cluster owners
- Planners at the LPAs and other civil servants (strategic and development control planners, and ward councillors)
- Consultants (planning, urban design, architecture and valuation and appraisal)
- Local community representatives (community and business associations, residents and tenants)
- Others including representatives of real estate professional associations, other local significant property owners, researchers, property industry reporters.

The identification process of potential participants for this research started with desk research, which included searches on websites, on the annual and interim reports and other corporate sources from real estate companies, and on general and property industry specific media outlets. For the category *cluster owners*, the contact details of senior management figures were mostly available on the websites of their companies or on other dispersed sources. When their contact details were not available, as in Shaftesbury's case, knowing the names of senior management figures, different email address combinations were tried with their names and the name of the company until the email went through.

Strategic planners, development planners and wards councillors were identified and their contacts retrieved from LPAs' directories. After identifying some of the clusters of ownership schemes that went through planning application, using the scheme address it was possible to identify the planning application process and from there to retrieve case officers'

names and contact information. Through planning applications, it was also possible to identify potential participants under the category *consultants*. Their contact details were normally available on the websites of their firms.

Web searches using the name of the case study area followed by the words *residents*, *community* or *society*, for example, helped identifying agents and their contacts for the category *local community representatives*. Research participants for the category including real estate professional associations, researchers and property industry reporters were identified in property industry media outlets and in the academic literature. Some of the participants were found through *snowballing*. That is, actual research participants suggested new potential research participants. For example, at the end of each interview, the researcher would ask the participant if there was someone they would suggest the researcher contacted in case they had not mentioned it yet. This method was particularly useful for identifying long-term retailers and some other significant local property owners. As mentioned before, there were 40 positive responses from the 62 potential interviewees contacted. This meant that this research failed to interview research participants for the categories of *other significant local property owners* and *property industry reporters*.

The interviews were mainly case specific yet non-case specific interviewees were also targeted including other cluster owners, planning consultants, valuers and researchers in the field, including NLA researchers and property industry reporters who had written significant pieces on the topic. Interviews with cluster owners for other than the case study clusters were particularly useful for the theoretical generalisation of the research results. Through their qualitative accounts there emerged a clearer picture of some of the differences and similarities between the behaviour of cluster owners, local institutional environments, and how the latter impacted the practices of cluster owners. Interviewing NLA researchers was also particularly useful as it allowed, for instance, a detailed discussion on the methods NLA (2013) had used to identify and develop a typology of clusters of ownership, aspects not detailed in their

publication. Finally, interviewing planning consultants and valuers allowed gathering insights into the practices involved in planning gain negotiations, valuation and appraisal.

Names and contact details of potential participants were registered on a spreadsheet, which sorted the potential participants by case study and category, and included the interview date when applicable (see Appendix B: List of interviewees). All potential research participants were first contacted by email. The invitation followed a template that briefly introduced the researcher and the research objectives, and invited the potential participant for an interview at a place and time of their convenience. Following a positive response, contacts were made to arrange the interviews. In some cases, potential participants forward the invitation email to someone they considered appropriate. In this case contacts would be made to arrange the interview with the suggested participants if their expected relevance for the research was confirmed through web searches. If the emails produced no response a week after the email was sent, a second email was sent, again following a template this time in the form of a *friendly reminder*. When this email also resulted in no response, if the research participant was considered critical, phone contacts were tried, otherwise no more contacts were attempted.

Interviews were conducted following a particular sequence. The first interviewees included planners, community representatives and consultants. Cluster owners were left for last. The reasoning behind this sequencing was to gather as much information as possible on the cases through the initial interviews before approaching the key agents involved in the active management of the clusters. This method supported the inductive approach followed in this research enabling the researcher to gain familiarity with data and to generate preliminary theory through the initial set of interviews before approaching key research participants. This allowed interviewing the key agents responsible for the active management of clusters of ownership with an empirically informed perspective. The interviews were also sequenced by case study with

Capco's CG cluster case first, for which there was more information available, and Shaftesbury's SD cluster and Cadogan's CK cluster last.

Interviews were recorded with signed consent from the interviewees and later transcribed. Interview transcripts were offered to the research participants. This research project was subjected to and approved by the UCL ethics committee. No major ethical issues were foreseen at the design stage of the research, nor did any emerge during the course of the research. The project did not deal with any perceived sensitive subjects, nor did the nature of the research topic require any special treatment of data excluding the anonymisation of participants and their expressed views. One minor ethical issue emerged and was resolved during the research, which involved the protection of the interests of interviewees. That is, some of the information provided by cluster owners, such as detailed ownership maps, was provided with the explicit arrangement that this material would be used for analysis purposes only and would not be published. This was, for instance, the case of Shaftesbury's SD cluster. For the protection of the interests of the participants in this research therefore, only a publicly available and less updated ownership footprint map of Shaftesbury's SD cluster was printed in this project.

3.6.2 Other data

Secondary data sources used in this research included the annual reports of real estate companies and other corporate information available, such as half-year reports, press releases and information available on their websites. These were key secondary data sources. Additional data sources included the websites of the various consultants involved in the design of schemes in the clusters of ownership, including planning, urban design and architecture consultants. Other data sources included the websites and other published material from community associations, including their newsletters, minute meetings and public events. The latter

included the annual Covent Garden Rent Ceremony,¹ the Covent Garden Area Trust September 2013 exhibition on the history of Covent Garden and an event by invitation in March 2015, organised by Capco as an homage to a retiring, long-term member of the Covent Garden Area Trust.

This research also used planning policy documents as a data source to explore the regulatory environment potentially impacting the active management of the clusters of ownership. There was a limited use of planning application processes though, due to the very large number of planning applications found for each of the case studies (e.g. more than 100 planning application submissions for one of the Cadogan schemes). Even major planning applications involved multiple individual applications, since in most cases, these major applications were actually made through what planners referred to as *linked planning applications* for various buildings. It soon became apparent that this was an overly time-consuming data source for the expected additional information it could provide.

Other secondary data sources included cluster owners' presentations at the NLA conference in October 2013, *Great Estates: How London Landowners Shape the City*. These presentations were recorded with the consent of the NLA organisers. Additional data sources included the IPD conference in May 2014, *The Asset Management Report: The effect of active management on returns*. Data sources also included general and property industry specific media outlets with relevant references to the topic. Finally, data sources included site visits, some accompanied by research participants. Together, these secondary data sources, on the one hand, complemented the primary data, particularly regarding key events and key stakeholders' interests and resources. On the other hand, these sources supported data triangulation or validation.

¹ This is an annual public event held in Covent Garden where the Covent Garden Area Trust pays the freeholders of Covent Garden protected lands the peppercorn rent of an apple and a posy of flowers for their head lease (a more detailed account of this unusual lease is presented in Capco's Covent Garden cluster chapter).

3.6.3 Analysis and data limitations

During the data collection stage, a fieldwork notebook was instrumental for the iterative process between data collection and analysis this research used. After each interview the researcher would write a series of interview notes in the fieldwork notebook. This proved to be a useful approach to first engage with the data. As the methodological literature acknowledges, iterative data analysis and data collection and field notes 'speed up analysis and reveal helpful adjustments to data collection' (Eisenhardt 1989, 533).

Interview transcripts and other qualitative text data gathered including fieldwork notes were analysed using content analysis. Hsieh and Shannon (2005) have defined content analysis as,

... a research method for the subjective interpretation of the content of text data through a systematic classification process of coding and identification of themes and patterns (Hsieh and Shannon 2005, 1278).

Moreover, the authors have suggested that a content analysis could follow three different approaches: Conventional, Directed and Summative. As the authors maintained,

In conventional content analysis, coding categories are derived directly from the text data. With a directed approach, analysis starts with a theory or relevant research findings as guidance for initial codes. A summative content analysis involves counting and comparisons, usually of keywords or content, followed by the interpretation of the underlying text (Hsieh and Shannon 2005, 1277).

This research combined conventional and directed content analysis approaches. It has been argued that directed content analysis has some limitations namely, a potentially biased perception of the phenomenon being explored (Hsieh and Shannon 2005). To overcome this limitation Hsieh and Shannon suggest the paired use of conventional and directed content analysis. The use of conventional content analysis is particularly relevant in inductive research, since this method allows unforeseen themes to emerge.

There were a few potential limitations with the qualitative data. First, there was an uneven number of interviews per case (see Appendix B: List of interviewees). The case of Capco's CG cluster was a particularly *thick institutional environment*, as argued in detail later in this research, with many key stakeholders who generally accepted invitations to participate in this research. Fewer potential participants accepted the invitation for the Cadogan's CK cluster case. For example, there was a particularly limited number of civil servants accepting to take part in this research from the Royal Borough of Kensington and Chelsea. This was in sharp contrast with the positive responses from planners and ward councillors from the Local Borough of Camden and Westminster City Council. Nevertheless, the total number of research participants per case study, in total and when combined with the other data sources used, allowed reaching a theoretical saturation point (Lewis-Beck, Bryman, and Futing Liao 2004).

Second, limitations with the qualitative data included the inaccessibility of lease contracts. As this research will show later, research participants made significant claims regarding lease terms, particularly regarding retail leases. However, these claims could be hardly verified as leases were not publicly available and cluster owners were unwilling to show them on the grounds of business confidentiality. Retail tenants were also unwilling to show their leases. Actually, one retail tenant claimed that the terms of their leases included nondisclosure clauses on certain aspects, as discussed later in this research (Interview 11).

Third, another limitation with the qualitative data might result from the limited number of local residents and retailers interviewed. This was the category of interviewees that was most difficult to reach. That is, approaching retailers proved unhelpful since most were shopkeepers with transient links to the place and thus limited knowledge of the cases. Some retailers with significant knowledge of the cases were found through snowballing but these were a limited number. This limitation might not be particularly relevant considering the focus of the research questions on cluster owners and their interests. However, these (limited number of) accounts by local residents and retailers, together with the accounts of

planners and consultants contributed to illustrating the local institutional environment where cluster owners operated. Therefore, one of the implications of this limitation might be a biased portrait of the institutional environment toward the interests and resources of key stakeholders, such as planners and the strongest community and business associations, to the detriment of other stakeholders such as tenants. It should be acknowledged that this research found a rather surprising alignment of interests between the local stakeholders interviewed, as will be discussed later in this research. This was an unexpected finding considering that the literature stresses the contested nature of the development process (e.g. Halbert, Henneberry, and Mouzakis 2014). Therefore, the apparently not so contested nature of these development/investment processes was somehow surprising. Again, this might be the result of the relatively limited number of views of other than key stakeholders this research project managed to capture.

3.7 QUANTITATIVE DATA

3.7.1 Annual and interim reports and presentations

Data collected from annual and interim reports, and presentations from the real estate companies that owned the three clusters of ownership included key nominal figures on the clusters and their comprising property sectors for floor plate area, number of buildings, number of units, gross income and capital value. The quantitative data allowed exploring how the clusters and their comprising sectors evolved from 2004 to 2012. Data collected also included any relevant data regarding the financial performance of these portfolios. This included data on gearing levels and retail benchmark analyses, the latter available for the cases of Capco's CG cluster and Shaftesbury's SD cluster in interim reports or presentations to shareholders made publicly available.

The companies holding the case studies either had their current and previous annual and interim reports available on their websites or older reports were requested by email (as in the case of Cadogan). The

quantitative information obtained from the annual reports was mostly available on the *financial statements* sections. In two of the three cases, the cluster was part of a larger portfolio. This was the case of Capco's CG cluster and Shaftesbury's SD cluster. In the case of Capco, their Covent Garden cluster represented about 50% of the company's whole portfolio at the time of the analysis. Quantitative data on this cluster were available desegregated from the rest of the portfolio under *segmental reporting* in the annual reports of the company. In the case of Shaftesbury, their SD cluster represented about 30% of the company's whole portfolio at the time of this analysis. Shaftesbury's SD cluster disaggregated data were available under the *portfolio analysis* sections of Shaftesbury's annual reports. Cadogan's CK cluster comprised the whole portfolio of the company thus data were more readily available.

3.7.2 Analysis and data limitations

The analysis of the quantitative data involved descriptive statistics to explore the growth (or decline) of the clusters and their comprising property sectors for floor plate area, number of buildings, number of units, capital value and gross income. The analysis was designed to cover a nine-year period, from 2004 to 2012. This nine-year period included four years before and after the 2008 property market downturn. This timeframe presented an opportunity to explore how cluster owners responded to the different stages of a property cycle in terms of their investment strategy.

This analysis used two measures of growth, total growth and annual average growth.² Total growth allowed exploring changes in the clusters and their comprising sectors, expressed as a percentage of any nominal change. Annual average growth allowed comparing the growth of the different clusters, since Capco's CG cluster whole portfolio growth analysis covers seven years (2006-2012) whereas Shaftesbury's SD cluster and Cadogan's CK cluster covers nine years (2004-2012). This difference in the period analysed resulted from the case of Capco's CG cluster starting

² Total growth = (ending value-beginning value)/ beginning value.

Annual average growth = (ending value-beginning value)/ beginning value/ # of years.

in 2006 only. Capco made their major acquisition in Covent Garden in 2006 only. Moreover, the analysis of the Capco's CG cluster sectoral composition also has a different end period from the other two clusters since data were not available on its comprising sectors for 2012, (nor 2011) but were for 2013. Therefore, the sectoral analysis of Capco's CG cluster covers the period from 2006 to 2013, different from the other two cases that cover the 2004 to 2012 period.

There were some additional limitations with the quantitative data for the Cadogan case study. Differently from the other case studies, for the case of Cadogan at the portfolio level there were no data regarding the number of buildings, number of units and floor plate area for any of the nine years explored. Data available included only the capital value and gross income of the portfolio. There were also limited data on the sectoral composition of this portfolio. For this case, data available on its sectoral composition covered two years, 2009 and 2011, and only for capital value, and no data were available, for instance, for income value, as there were for the other two case studies. Additionally, there were no data on retail benchmarking, as there were for the other case studies. These data limitations however, did not compromise exploring the three areas of enquiry defined in this research, but they did limit the number of instances for inter-methods data validation in the case of Cadogan's CK cluster.

3.8 CONCLUSIONS

This chapter detailed the operational framework underpinning this research project. It discussed in detail the methodology that led to the identification of 27 clusters of ownership in London (Table 2), and the rationale that informed the typology developed to classify them. Despite the new material published on this topic since the inception of this research, (e.g. NLA 2013) which, together with the results from this research project offer, arguably, a comprehensive identification of existing cases and typologies, the methodology used in this project, if using updated sources, (e.g. latest annual reports) offers a possible way to identify potential new cases and types.

This chapter explained the reasoning for the multiple-case approach followed in this research and its focus on standing property mixed-used clusters (SP MUCs). From the 12 SP MUCs this research identified (Table 3) three cases were selected for an in-depth analysis. The selection process followed a 'information-oriented selection', considering 'critical cases' and 'maximum variation cases' (Flyvbjerg 2006, 230). This chapter argued for a mixed methods approach for exploring clusters of ownership, as a means of achieving inter-methods and inter-sources data validation and data complementarity. It discussed some of the strengths and limitations of a mixed-methods approach. It also explained the reasons behind the prevalence of qualitative data sources and methods in this research project. Finally, this chapter detailed data sources, data gathering and analysis and data limitations, first, for the qualitative and, second, for the quantitative methods.

This chapter concludes Part One of this research project, which established the research framework to explore clusters of ownership in London. Part Two, next, introduces the empirical data over three chapters. Each chapter is dedicated to one of the three case studies: Chapter 4 explores the case of Capco's Covent Garden cluster, Chapter 5 the case of Shaftesbury's Seven Dials cluster and Chapter 6 the case of Cadogan's Chelsea and Knightsbridge cluster.

PART TWO: THE EMPIRICAL DATA

CHAPTER 4 . CAPCO'S COVENT GARDEN CLUSTER

4.1 INTRODUCTION

This chapter describes the case of Capco's Covent Garden cluster (Capco's CG cluster) between 2006, when Capco became the area's prevalent landowner, and 2015. Capco's CG cluster is used as a case study to explore the interests, resources and practices of a real estate company that concentrates a significant part of their assets in one location and actively manages them. This chapter is structured as follows. Section 4.2, Background, gives an historical overview of the urbanisation process of Covent Garden, one of London's Old estates, starting with Inigo Jones' seventeenth century *Italianised* masterplan and covering key events that conditioned Covent Garden's urban form, land uses and users up until 2006. It is a narrative of fragmentation and reconsolidation of ownership interweaved with processes of contested urban development and cycles of urban decline and rebirth. This account allows appreciating the surfacing of some of Covent Garden's key stakeholders today, namely the Covent Garden Area Trust and the Covent Garden Community Association, and starting to grasp how their roles, interests and resources affect the active management of Capco's CG cluster.

Section, 4.3, An Opportunity to Create an Estate, explores how Capco became the area's dominant landowner. It introduces Capco's CG cluster portfolio growth, its sectoral composition, its top-down active management activities and some aspects of its financial management and performance. Section 4.4, Ownership Dominance and Control, explores some of the key activities involved in its active management at the stock-level, including property use changes, tenant changes, new developments and the management of the space in-between buildings. Section 4.5, 'Hard-wired' place, explores how Capco's active management strategy is played out considering Westminster City Council's formal and informal policies and other stakeholders' interests, roles and resources. Section 4.6 concludes by summarising the key findings of this chapter.

4.2 BACKGROUND

4.2.1 Covent Garden urbanisation

Covent Garden is a neighbourhood in inner London on the north bank of River Thames, east of Westminster and south of Oxford Street (Figure 3).

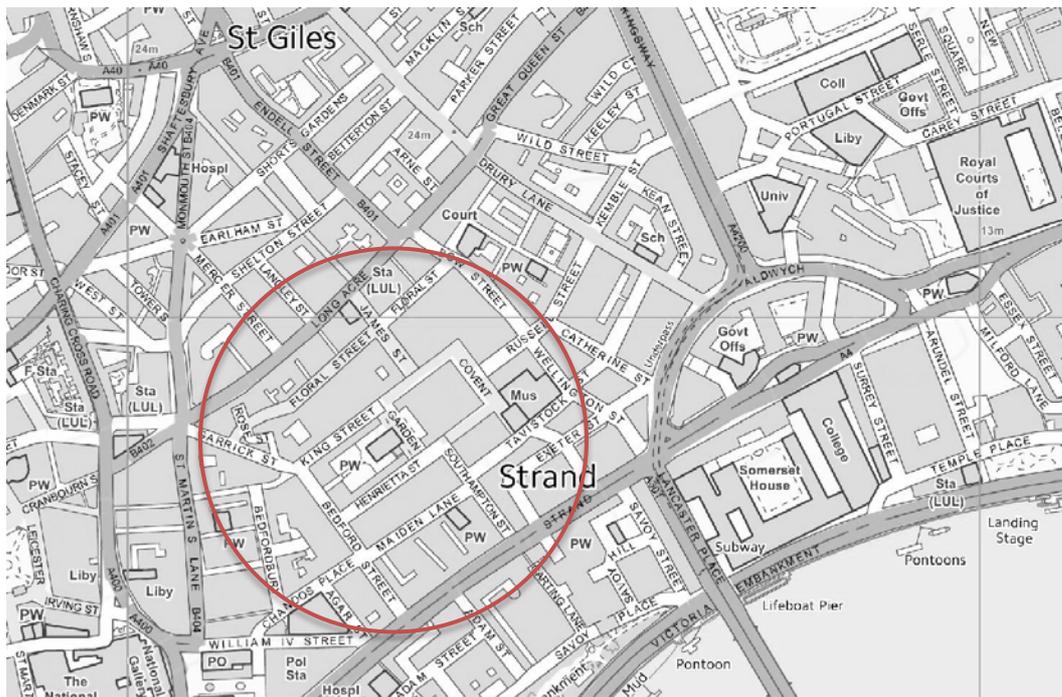


Figure 3. Covent Garden in London

Source: Digimap Ordnance Survey Service (2016)

In 1553 Covent Garden was acquired by the Russell family and in 1631 the fourth Earl of Bedford commissioned Inigo Jones to design the Piazza, the surrounding arcade houses and St. Paul's Church (Olsen 1964). Designed in the style of the French and Italian piazzas, the area became a desirable place for the court society to reside (Summerson 2003). At the same time, making use of Covent Garden's strategic location between the walled City and Westminster, food stalls started to congregate in the Piazza first informally and in 1750 in the purpose built market building. As the fruit and vegetable market grew, the fashionable residents moved out (Olsen 1964). The Covent Garden market was, until 1974, one of London's largest wholesale fruit and vegetable markets.

The Covent Garden estate stayed in the hands of the Russell family until 1918 when the Covent Garden Estate Company bought it. In 1962 the estate changed hands again this time to a Government backed company, the Covent Garden Market Authority (Hillman 1986). When the market moved out in 1974, the freeholds of the Covent Garden Market Authority passed to the Greater London Council (GLC) and the Department of Environment (CGAT 1997). Between 1975 and 1980 the GLC embarked on the renovation of the market building (Thorne 1980). With the backing of Donaldsons, the retail consultants, the GLC transformed the Covent Garden market into Britain's first speciality shopping centre with a design and governance structure to appeal to small, high-quality retailers (Hebbert and Edge 1994; Hillman 1986).

When in 1960s an Act passed for Covent Garden market to move eight-years later to Nine Elms, the GLC, Westminster City Council and the Local Borough of Camden formed a consortium to plan the comprehensive redevelopment of Covent Garden (CGAT 1997; Anson 1981).³ The plan envisioned a new modernist quarter virtually demolishing everything except the market building, St. Paul's Church and a few more buildings (Hillman 1986; Greater London Council, City of Westminster, and London Borough of Camden 1968). In July 1971, after a period of public consultation and negotiations with landowners and developers, the GLC approved the plan (Greater London Council and Covent Garden Joint Development Committee 1971). However, local residents opposed it and formed the Covent Garden Community Association (CGCA) to fight it (Anson 1981). In 1972 the Secretary of State for the Environment, rather unexpectedly, ordered the listing of about 250 buildings in Covent Garden making its comprehensive redevelopment unviable (Anson 1981, 257). Finally, in 1978 the consortium, this time working with the CGCA, approved the Covent Garden Action Plan (CGAT n.d.).

³ There is some confusion with dates within the literature. There are at least three Covent Garden Market Acts, 1961, 1966 and 1969. Anson (1981) attributes the relocation of the market to the 1961 act, whereas the Covent Garden Area Trust sources to the 1966 act.

The Covent Garden market was up and running in the hands of the GLC when the Local Government Act of 1985 commanded the abolition of the GLC. The London Residuary Body (LRB) was created to dismantle the GLC and to dispose of its properties. The GLC's Covent Garden portfolio comprised:

...130 shops and 120 other commercial properties – offices, light industrial and storage, two museums, auction rooms, a health centre and miscellaneous other uses. There were also 140 homes, the bulk of them municipally rented (Hebbert and Edge 1994, 78).

With the decision to abolish the GLC,

...the Covent Garden Area Trust was formed with a view to protect as much of ex-GLC property as possible [and] to enable the wise management policies enshrined in the Action Plan to be continued (CGAT n.d.).

The LRB follow the birth of this association closely, as the Covent Garden Area Trust looked like a promisor guarantor of the effective management of this special property, the Covent Garden market. Negotiations between the LRB and the Trust started in 1986 and amongst other matters the LRB had some concerns over the Trust's interests being too restrictive of the local community. The negotiations ended with adjustments made to the Trust statutes, which, presumably, would better represent London's broader interests. The Trust was re-launched in 1988

with nominees from Westminster City Council (2), the London Borough of Camden (2), Community Association (1), the Civic Trust (1), Camden Chamber of Commerce (1), Westminster Chamber of Commerce (1), the Theatres Trust (1) and 6 founder Trustees (Hebbert and Edge 1994, 80).

The arrangement was then to sell the freehold of the whole portfolio to a freeholder yet to grant a 150-year leasehold to the Trust of some properties later called the protected lands. The GLC was not willing to make any concessions on the leasehold arrangements for the protected lands, yet there were concerns that this would frighten investors and decrease the value of the bids. However, the LRB asked for £50m for the whole Covent Garden portfolio, and was offered £85.1m just for the core properties (the Covent Garden protected lands) by the Guardian

Assurances' subsidiary the Guardian Royal Exchange (Hebbert and Edge 1994, 80). The non-core property was sold in 26 parcels and realised over £17m (Hebbert and Edge 1994).

When in September 1988 the LRB sold the ex-GLC Covent Garden core-property freeholds to the Guardian Royal Exchange, the Trust was indeed granted 150-year leases on the protected lands—the Central Market; 25-31 James Street; 7, 9 and 10 Floral Street; Bedford Chambers; Cubbits Yard and the Museum Block. For their ground lease, the Trust pays the freeholders a peppercorn annual rent of a red apple and a posy of flowers. In turn, the properties freeholders pay a market-price ground rent to the Trust (CGAT n.d.). In the words of one of the Trust members,

They hold the freehold, they grant us a head lease and we rent it back to them. That is why we pay them the apple and the flowers and they pay us a large amount of money... .They pay us for ground rent on the properties and that is what pays our running costs throughout the year (Interview 1).

In 2000, the Guardian Royal Exchange sold its Covent Garden property to the Scottish Widows, an insurance company, which partnering up with another predominant freeholder in the area, Henderson Global, formed the Covent Garden Market Limited Partnership. In 2006 this combined property portfolio was sold to Liberty International, what is today Capital and Counties (CGAT 2016).

4.3 AN OPPORTUNITY TO CREATE AN ESTATE

In August 2006 Liberty International bought a substantial number of properties in Covent Garden (Liberty International 2007). Together with their prior ownerships, this acquisition made their total holdings in the area greater than 48,500m² (Liberty International 2007). Capital and Counties (Capco) was one of the two operating divisions within Liberty International, the one responsible for the Covent Garden estate. When demerging from Liberty International in May 2010, Capco kept the Covent Garden estate. Today Capco is a property company listed on both the London and Johannesburg Stock Exchanges (Capco 2011). In September 2012 Capco

had a £1.7 billion portfolio exclusively in central London concentrated mainly in two areas, 55% in Covent Garden and 42% in Earls Court and Olympia (3% dispersed in other investments) (Capco 2013). This chapter focuses on Capco's Covent Garden cluster (Capco's CG cluster).

4.3.1 Acquisitions and sales

Capco's late 2006 major acquisition in Covent Garden totalled about 30 buildings and included the Market Building, the London Transport Museum and the Jubilee Market.⁴ The media referred to this acquisition as '... one of the smartest property acquisitions of the recent decades' (Spittles 2013, 4). As a Capco director maintained 'it came up as an opportunity. There are very few opportunities to create these sorts of new estates ...' (Interview 24). Since their major acquisition in 2006 Capco continued to expand their portfolio in the area (Figure 4 and Table 4).

Figure 4 shows Capco's annual property acquisitions in Covent Garden from 2006 to 2012/2013 and their ownerships in the area prior to 2006. Capco's acquisition strategy in Covent Garden focuses on the streets that lead to the Covent Garden's Piazza. There were also acquisitions on the edge of the estate such as a block on Tavistock with Wellington Street. According to a Capco director, the company preferably acquires freeholds and long leaseholds but also short leaseholds (Interview 24).

The analysis of the portfolio of Capco's CG cluster shows that between 2006 and 2012 this cluster grew in terms of number of buildings, number of units, floor plate area, capital value and gross income (Table 4). For example, Capco's CG cluster almost doubled in terms of number of buildings, increasing from 35 in 2006 to 62 buildings in 2012.

⁴ As mentioned, between 2006 and 2010 the company that owned the Covent Garden cluster was Liberty International. Capco, nevertheless, was one of the two Liberty International operating divisions moreover, the one that managed their Covent Garden portfolio, and who kept it after demerging from Liberty International. Therefore, for simplicity, Covent Garden cluster is referred here as belonging to Capco since 2006.



Figure 4. Capco's CG cluster annual acquisitions

Source: Capco (2014c, 37)

Table 4. Capco's CG cluster growth

Year	Buildings (#)	Units (#)	FPA (m ²)	CV (£m)	GI (£m)
2006	35	219	48,588	489.3	22.2
2007	**	*	*	663.6	*
2008	**	*	*	590.3	*
2009	44	300	69,677	548.4	*
2010	45	*	70,049	640.0	26.8
2011	52	334	77,481	808.0	32.5
2012	62	380	83,427	952.0	37.9
TG	77%	74%	72%	95%	71%
AAG	13%	12%	12%	16%	12%

Note: FPA (Floor Plate Area), CV (Capital Value), GI (Gross Income), TG (Total Growth), AAG (Annual Average Growth)

*Data not available

** Data not available. However, considering that there were no acquisitions in 2008 and 2009 (Figure 4) the number of buildings in 2007 and 2008 should be the same as in 2009 (if there were no sales)

Source: Capco (2013; 2012a; 2011) and Liberty International (2010; 2009; 2008; 2007)

A Capco director claimed that Capco outbids every potential buyer in the area (Interview 24). Moreover, the director argued that in most cases properties do not even go on the market as Capco approaches potential sellers directly and that half of Capco's holdings in Covent Garden were

acquired through this approach. When local property owners did not want to sell, as was the case of the four buildings on the west side of St James Street that belong to Lothbury Property Trust, Capco continue to have their 'annual discussion' trying to persuade them to sell, and meanwhile tried working in partnership with them to develop a common strategy (Interview 24).

According to this director, Capco's acquisition strategy during the property market downturn was the following,

We held back with our capital expenditure at the time so we held back for about 12 months just because we were keeping an eye in terms of risk management, you know, we can't spend the way we were doing ... so we just had a pause for breath. But as soon as we came out of it, confidence returned and off we go again (Interview 24).

However, Figure 4 showed no acquisitions in 2008 and 2009 and one acquisition only in 2010, which suggests that Capco's holding back period was actually longer than the 12 months the director stated.⁵ Figure 4 showed that it was only in 2011 and 2012 that Capco went back to a more significant number of acquisitions in the area. Thus, the hold back period seems to have been at least twice as long as the director remembered and stated. The director's claim nevertheless, illustrates Capco's willingness to embrace new acquisitions and expand their CG cluster.

Capco did not sell any property in Covent Garden between 2006 and March 2012. Exceptional sales thereafter comprised residential units overlooking the Piazza only, where units were large and in high demand in the sales market (Interview 24). Capco preferred swaps to sales. A Capco director explained that with a recent property swap between one building on the edge of Capco's CG cluster for a building in the Piazza where retail leases were expiring, Capco managed to introduce new retailers in the building in the Piazza more in tune with their retail strategy.

⁵ Data not available on Capco's CG cluster floor plate area, number of buildings and number of units, for 2008 and 2009, which would allow further exploring this aspect.

Together this evidence suggests that Capco has consolidated their CG cluster since 2006, through new acquisitions, few sales and some property swaps. It also suggests that Capco might have an edge over the market regarding new acquisitions as a result of their local knowledge.

4.3.2 Sectoral composition

As Capco describes it, their CG cluster is comprised of five property sectors, those are, Retail, Restaurants, Market & Museum (M&M), Offices and Residential (Capco 2012a). Using a snapshot from 2006, 2010 and 2013, (years for which data were available and represent the beginning, middle, and the end of the period here analysed) it is possible to explore how Capco's CG cluster evolved in terms of its sectoral composition (for floor plate area, income and capital value).⁶

This analysis shows that all sectors grew in terms of floor plate area, gross income and capital value from 2006 to 2010 and to 2013 with two exceptions only, M&M shrank for floor plate area from 2010 to 2013 and offices shrank for capital value from 2006 to 2010. Weighting Capco's CG cluster different property sectors for floor plate area, capital and income value, showed that the sectoral composition of Capco's CG cluster was skewed towards the retail and restaurant sectors.

In terms of floor plate area, retail and offices were the largest sectors for the three years analysed, except for 2010 where M&M outgrew offices. All sectors grew for the years analysed, except for the M&M sector, which saw a floor plate area reduction from 2010 to 2013 (Figure 5).

⁶ Data not available on Capco's CG cluster sectoral composition for 2007, 2008, 2009, 2011 and 2012 (the latter the final year used in the portfolio growth analysis). Therefore, the cluster 2013 sectoral composition was used instead.

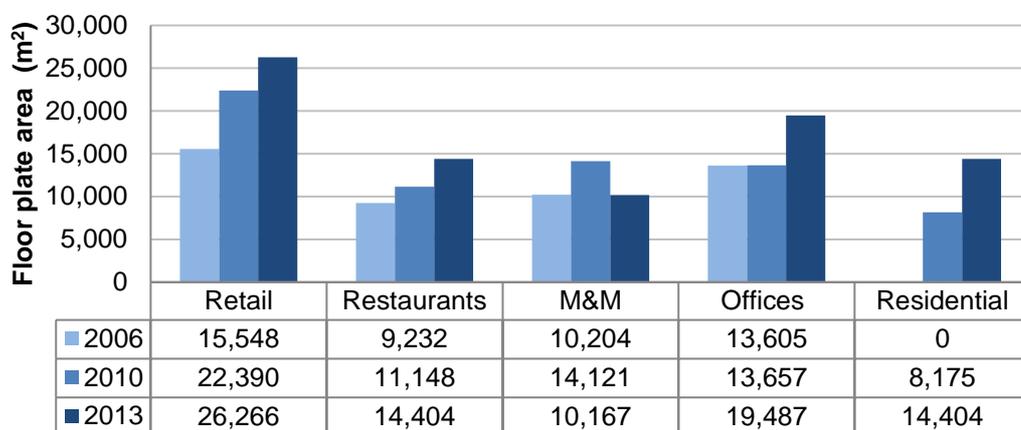


Figure 5. Capco's CG cluster floor plate area per sector

Source: Capco (2014c; 2011) and Liberty International (2007)

Regarding capital value, retail was the largest sector. In 2006 offices were the second largest sector yet restaurants surpassed offices in 2010 and 2013. All sectors grew for the years analysed, except for offices, which experienced a capital value decrease in 2010. The residential sector, which did not exist in 2006, was the fourth largest sector in 2013 surpassing M&M (Figure 6).

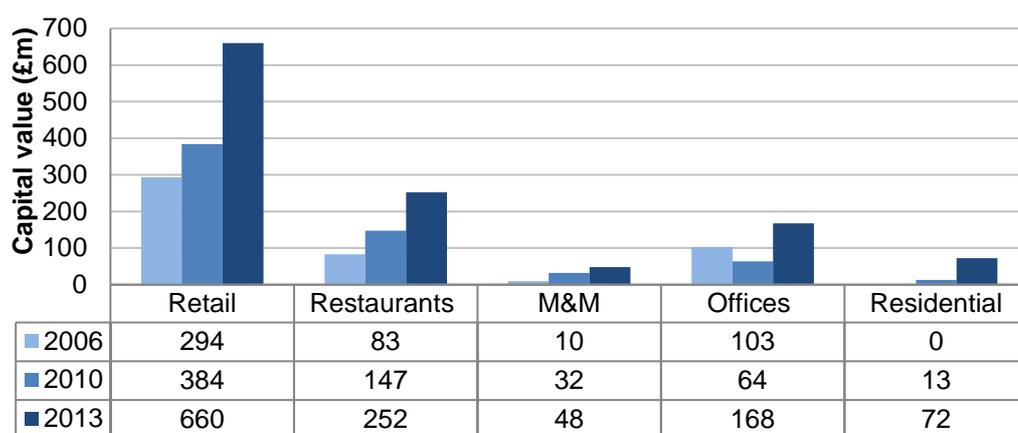


Figure 6. Capco's CG cluster capital value per sector

Source: *ibid*

In 2013 retail and restaurants were the most significant contributors to Capco's CG cluster gross income. Restaurants experienced a substantial increase in income from 2006 to 2013 and offices, the second largest sector in 2006, dropped to fourth position in 2013 (Figure 7).

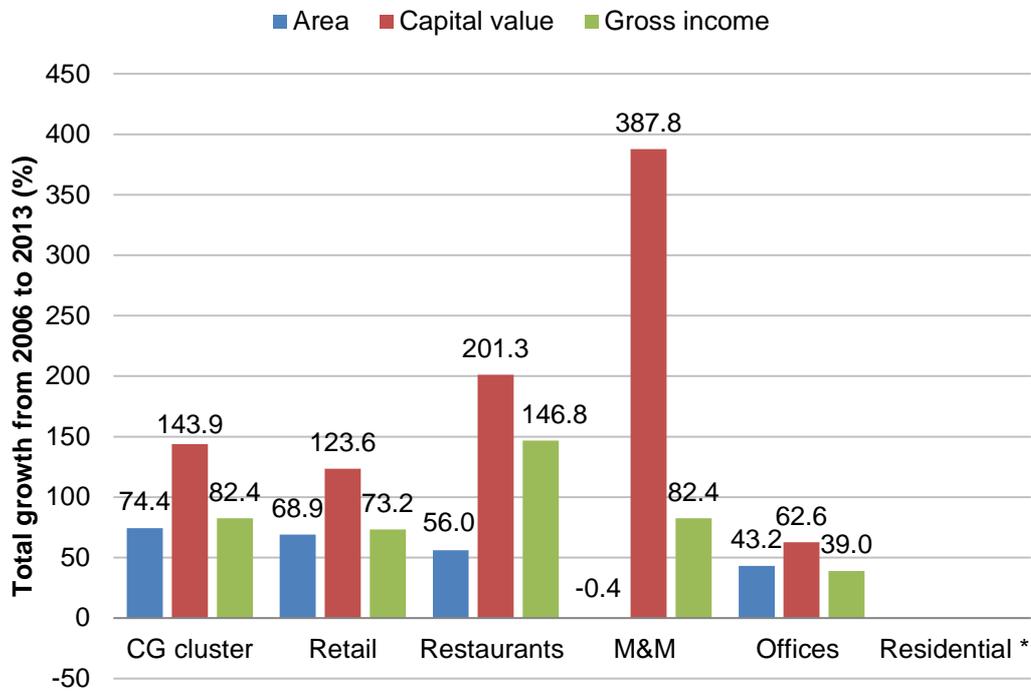


*Data not available for 2010

Figure 7. Capco's CG gross income per sector

Source: Capco (2014c; 2011) and Liberty International (2007)

Additionally, as Figure 8 shows, retail gross income and floor plate area growth were similar, which means that the retail sector as a whole maintained its income per area value. The capital value of retail, on the other hand, grew about twice as much as its floor plate area and gross income. In the restaurants sector, both income and capital value grew significantly above its floor plate area growth. This suggests that the restaurant sector improved both its income and capital value per area. M&M also saw an impressive performance improvement. With an area reduction of 0.4%, this sector experienced a 388% growth in capital value and 82% in gross income. Offices experienced a gross income growth inferior to floor plate area growth, which means that this sector reduced its gross income per floor plate area value. Restaurants and M&M are then the outperforming sectors of the portfolio for capital and income value growth between 2006 and 2013.



*No residential property in 2006

Figure 8. Capco's CG cluster and its sectors growth

Source: Capco (2014c) and Liberty International (2007)

Although all property sectors grew in term of floor plate area, except for M&M, (Figure 5) when weighted, all sectors shrank as the result of the introduction of the residential sector. M&M and offices shrank the most while retail and restaurants stayed close to constant (Figure 9).



Figure 9. Capco's CG cluster weighted floor plate area per sector

Source: Capco (2014c; 2011) and Liberty International (2007)

Weighting the capital value of Capco's CG cluster property sectors showed that retail was responsible for over 50% of this portfolio for 2006, 2010 and 2013. Restaurants and offices followed next, with the weighted capital value of restaurants surpassing that of offices in 2010 and 2013. Together retail and restaurants were responsible for over 75% of the capital value of Capco's CG cluster for the three years the data available allowed exploring (Figure 10).

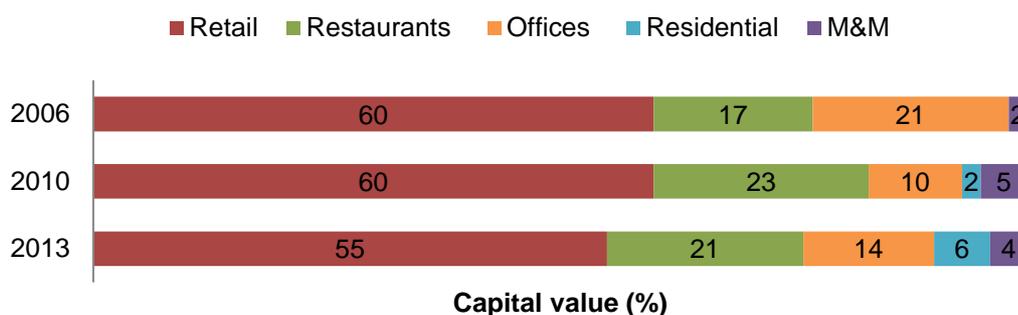


Figure 10. Capco's CG cluster weighted capital value per sector

Source: Capco (2014c; 2011) and Liberty International (2007)

Weighting the gross income shows that retail was the main source of income, accounting for 50% or over for the three years analysed. Restaurants and offices followed next, with income from restaurants surpassing income from offices in 2010 and 2013. The residential sector, non-existent in 2006, contributed with 1% in 2010 and 2% in 2013. M&M's contribution ranged from 3% to 5% (Figure 11).

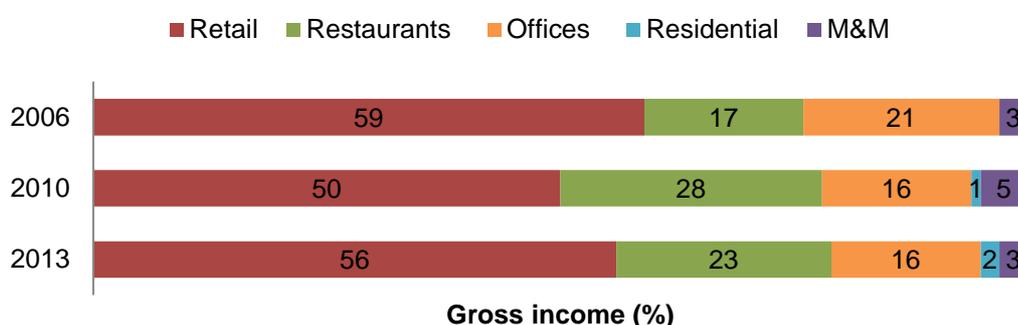


Figure 11. Capco's CG cluster weighted gross income per sector

Source: *ibid*

4.3.3 Financial performance traits and aims

A director from Liberty International, from when Capco was still one of its operating divisions, emphasised the importance of Capco's initial low debt to asset ratio for the company's subsequent success—about 20% at the time of the demerger from Liberty International. According to this director, this low debt to asset ratio gave Capco a head start (Interview 25). Currently, as a Capco director highlighted, with less than 30% gearing, the company retains a good position to continue to invest in their Covent Garden cluster (Interview 24).⁷

As the director defined it, Capco is a total returns driven company. As such, the director argued, 'we have to drive the highest income and the greatest capital return' (Interview 24). Capital return impacts on the company's gearing levels yet the director argued that 'capital growth is generated through rental grow, so we always have to grow our rents' (Interview 24). Moreover, the director added,

Because at the end of the day, the property business is funded through loans, mortgages, whatever that might be, pensions, stocks and we pay a dividend back to those who loan us the money. So we have to service that debt, so we need the income (Interview 24).

This suggests that Capco places a great emphasis on rental growth.

A long-term Covent Garden retailer seemed to confirm Capco's focus on rental growth when saying,

one of the things that Capco are always very keen to quote in their reports is their estimated rental value, and obviously that keeps going up and up and up, and they keep revising it ... that target has recently been reviewed and has gone up quite considerably because of the type of tenants they've managed to bring in – Dior, Chanel, Burberry, etc., etc., and the sort of rentals they've managed to get from those sort of companies and, obviously, that then sets a precedent ... (Interview 11).

⁷ This debt to asset ratio nevertheless, expresses Capco's whole portfolio and not just their Covent Garden cluster.

According to a Capco director, the active management activities that more greatly impacted the financial performance of their CG cluster were 'unquestionably the asset management activities which changed the leasing profile' (Interview 24). Moreover, the director detailed that,

... 75%, 80% of the value of the estate is in the retail and food and beverages, and that will continue to grow, and yes it is simply taking the time to replace them with a better tenant with a higher rent ... (Interview 24).

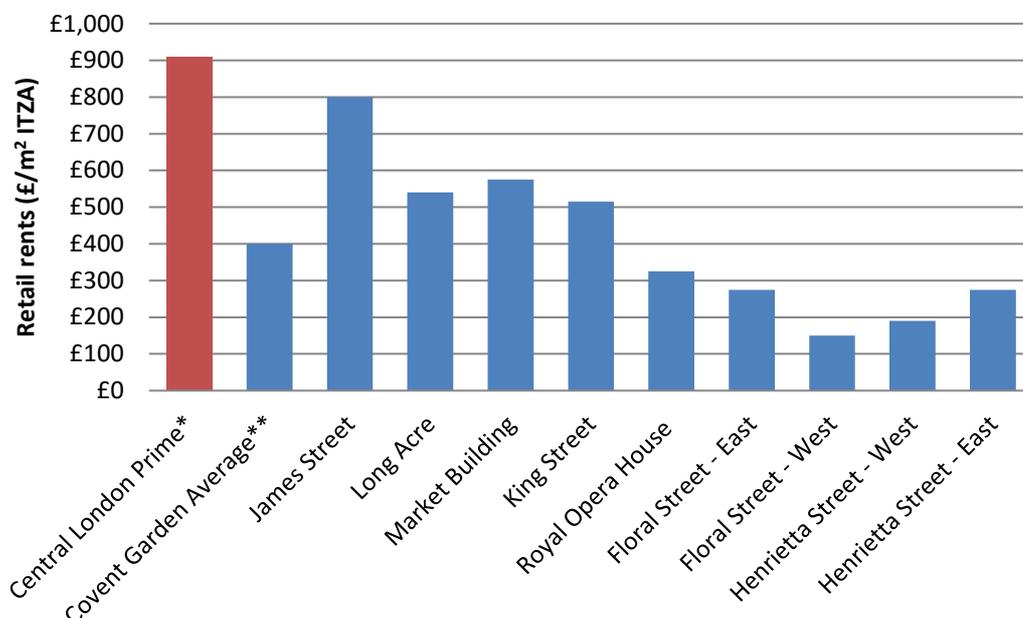
This suggests that replacing old tenants with others who can afford higher rents was one of the significant activities the active management of Capco's CG cluster involved.

A Capco/CBRE analysis benchmarks the retail segment of Capco's CG cluster showing the performance of each of the cluster's streets and the cluster's average against 'Central London Prime' (Figure 12). It is noteworthy that Capco chose 'Central London Prime' to benchmark its cluster and that this figure was used in a presentation to their shareholders. Figure 12 shows the underperformance of the cluster when compared with the benchmark. Considering Capco's target audience, the argument underlying this benchmarking seems to be, not one about the underperformance of the cluster, but one about its growth potential and growth target. Figure 12 captures Capco's aspiration for their CG cluster to compete with London's prime retail areas. This highlights what seems to be Capco's vision for their Covent Garden retail portfolio.

According to a senior planner at Westminster,

they generally raised up the tone and started to make Covent Garden, instead of something which appeals only to tourists, into something which will also appeal to Londoners and affluent Londoners (Interview 7).

A Capco director seems to have a more striking view on what Capco achieved when stating, 'since we purchased the estate in 2006 we transformed Covent Garden into London's world class retail district' (Yardley 2013). This might not be the case yet, as Figure 12 suggests, however, Capco's target seems well defined.



*Based on 30ft Zone A, includes Bond St, Oxford St and Regent St. **Covent Garden Average based on all retail units within Capco estate (Covent Garden based on 20ft Zone A) (Capco 2014d, 19)

Note: In dark purple the benchmark and in blue Capco's CG cluster

Figure 12. Capco's CG cluster retail rents benchmarked

Source: Adapted from Capco (2014d, 19)

Figure 12, also shows James Street as the only street performing near to the benchmark (Central London Prime). All other streets fall significantly below, with Floral Street West showing as the great underperformer. A Capco director gave an account of the performance of the individual streets of their CG cluster which was helpful to further understand this figure. The director said,

The thing about real estate is that each property is unique, each street is unique, and each street needs its own strategy, and some are stronger than others. Some need a little bit of help, some don't. James St doesn't need any help whatsoever; Floral St needs some (Interview 24).

Alternatively, the good performance of King Street can be explained as the result of, as a Capco director said '... been radically repositioned since we own it ...' (Interview 24). Capco states that their 'proactive active management' is responsible for King's Street 90% ITZA growth 'based on units under constant ownership since 2008' (Capco 2014d, 19). Moreover,

the director added that with a new development under construction in 2016, Capco expected to increase Floral Street's footfall and this would then contribute to increase the rent performance of the retail units on the street. The director further argued,

Historically, there have been the little guys in this street frequently going out of business because the footfall is so low. In the future when we have ... brilliant brands, the footfall will be radically different down here and those little guys will start paying a lot more than they do now (Interview 24).

However, those retail tenants or 'the little guys' as the director referred to them, if not able to pay 'a lot more than they do now' are then likely to be replaced by others who can.

Capco's retail benchmark is an ambitious goal though, considering what Covent Garden was when Capco became its dominant landowner in 2006. As a planner at Westminster City Council described it, the area was rundown and 'full of some pretty lousy pastry shops, cheap food ...' (Interview 7). The planner believed that Capco's aim for the area was indeed to push it up market. As the planner stated,

they have an idea that King Street in Covent Garden should be up there equivalent to Bond Street, or that it should be equivalent to Regent Street, so they are targeting that kind of top end retail and what they are trying to do is to avoid the bog standard brands, so they don't want Zara in King Street, they want Ralph Lauren or some American brands that perhaps haven't got exposure here at the moment, so lesser heard names in this country but big names from the States (Interview 7).

However, how achievable this goal might be is not consensual. As a long-term retail tenant posited,

Covent Garden is never, never, never and I've told people for 14 years that Covent Garden is never, never, gonna be, nor indeed would it want to be, another Bond Street (Interview 11).

Independently of what planners or retailers might think, according to a Capco director, 'Covent Garden has been about raising rental values through redefinition of the retail and the place-making' (Yardley 2013). As a senior management figure at Capco stated, their strategy 'is all about

district control and managing that district' (Interview 24). These notions of 'district control', 'redefinition of retail' and 'place-making', seem critical outcomes of clusters of ownership. The next section explores how this is achieved from the point of view of the developers' strategic management activities. How this is played out with the planning system and other stakeholders is explored after in section 4.5.

4.4 OWNERSHIP DOMINANCE AND CONTROL

4.4.1 Mix of uses and tenants

Since 2006, when Capco made their significant acquisition in Covent Garden, a key element of their management strategy has been to attract new retailers. As Capco describes it,

Capco, as Covent Garden's largest landlord and steward of one of capital's most eclectic and distinctive estates, has been investing in Covent Garden since 2006 attracting the best of shopping and dining to the area (Capco Press Release 2013).

The company claims that they have brought more than 60 new retailers since 2006 (Capco 2014a). The opening up of the Apple Store in 2010 was a milestone in Capco's active management of their CG cluster. Apple is what the literature refers to as an anchor store (e.g. Yuo and Lizieri 2013). As a Capco director claimed,

Apple kick started the repositioning of the district ... the coolest brand of the planet comes to the London's un-coolest retail destination as it was in those days, it doesn't apply any more (Interview 24).

The Apple Store in Covent Garden was the world's largest in 2010 (BBC 2010). Sitting at the prestigious address *No 1, The Piazza*, Apple Store rents the whole of Bedford Chambers Grade II listed building, with upper floors used for Apple offices. In order to progress with the deal with Apple, Capco 'had to buy out, in advance of the lease expire, all of the leases of the offices above in that building to be able to put an Apple store in place' (Interview 24). Apple letting was not a 'soft letting' though, (Interview 24)

that is, Apple paid a market rent, as there were other retailers competing for that space.

Several other 'landmark lettings', as Capco calls them, followed (Capco 2013, 8). Capco pursued attracting retailers' first location in Europe to Covent Garden as, for instance, the Balthazar restaurant and boulangerie that came to occupy part of the space released with the refurbishment of the London Transport Museum (the remaining released space became London Film Museum). This refurbishment and new lettings in Capco's CG cluster Museum and Markets (M&M) sector explains the reduction in the floor space area and the significant income growth the analysis of the portfolio showed (Figure 8). Capco also sought to attract new concepts. For instance, The Meatmarket is a new concept in the sense that Covent Garden is their first permanent location as before the Meatmarket was a street-food truck. Compared with other retailers, Capco's food retailers seem more spread across the spectrum than high-end only.

Capco's retail strategy follows a 'holistic approach' (Interview 24). This includes finding the right mix of retailers, or 'tenant engineering', as Capco refers to it, (Capco 2013, 26) and changing 'neutral users' and 'detractor users', (Interview 24) which, as a Capco director explained, are existing retail tenants that do not comply with Capco's tenant mix vision. Their retail strategy also included finding the *right* location for their new tenants in the cluster and moving existing tenants around within the cluster when necessary. Capco's placement strategy followed their retail-zoning map (Figure 13). As the retail map illustrates Capco's CG cluster has three key zones, Premium fashion, Luxury accessories and Food and dining.

Except for food and dining, other amenity shops, that is, more day-to-day shops, had no place in Capco's CG cluster. As a director argued,

... it's difficult because [amenity shops] can't afford to pay high rents and in most cases we need them to pay high rents, it's just unfortunately the nature of the business plan (Interview 24).

Planners confirmed Capco's high-end target for Covent Garden, to a great extent at the expense of local amenity shops, showing some concern about it (Interviews 7, 8 and 9). As the planner remarked, Capco 'haven't brought in many affordable shops, affordable offices, affordable retail, they are catering to the top end' (Interview 7).

Covent Garden Zoning plan



Figure 13. Capco's CG cluster retail zoning plan

Source: Capco (2014c, 34)

With regard to their retail leases, a Capco director stated that new leases mostly fell outside the Landlord and Tenant Act. This allowed Capco to have greater control over the units. The degree of control left to tenants depends on the terms of individual leases, and with leases outside the Landlord and Tenant Act, Capco could restrict their tenants' right to sell their leases to other retailers. This is an aspect of great importance to Capco's retail strategy as with leases outside the Landlord and Tenant Act, Capco controls who their future retail tenants might be. It is worth noting a tenant account of the terms of his renewed lease. According to the tenant,

people are now restricted in terms of, it's actually against their lease to be able to divulge to anybody else what rental they're paying. So, therefore, one's going for a rent review, in the past, one of the things I'd do is get information from other local tenants now, Capco have restricted that saying that you can't divulge what you're

paying, so it's very difficult to get hold of that sort of information (Interview 11).

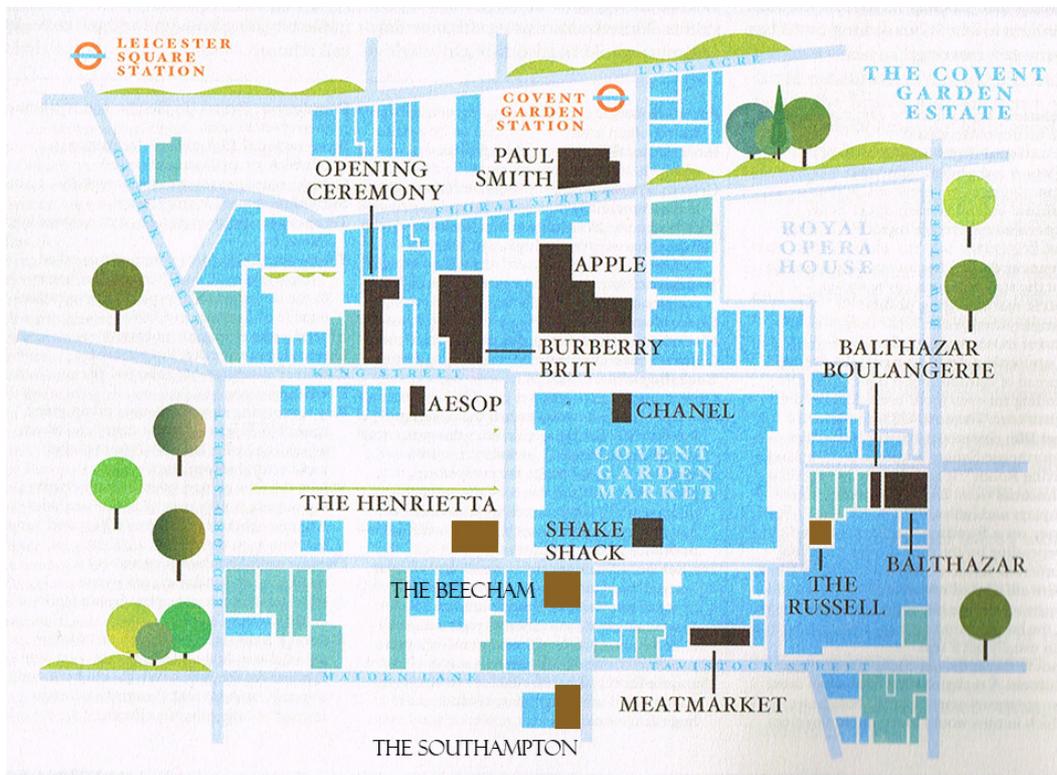
This illustrates the level of control Capco was aiming at having in their new retail leases.

With regard to office space as a Capco director explained '... part of your strategy since 2006 is to convert some poor quality offices into ultra-high quality residential' (Interview 24). Regarding existing tenants on those converted buildings the director stated that,

If the leases were coming to an end, yes we waited for the leases to expire, the tenants exiting the building. In certain buildings we had maybe half the building leases coming to an end and half were not, we then proactively go and take the guys out whose leases weren't expiring (Interview 24).

This suggests similar levels of tight control over retail and office leases. However, a Capco director suggested that it was the retail units, the ground level uses, that Capco cared about the most. The upper floor uses, according to the director, 'if it's offices or residential nobody really cares, to be honest with you, what the use is, we aren't particularly bothered each way' (Interview 24). Nevertheless, the Capco director suggested that Covent Garden is a mixed-use district and should be kept that way. This suggests that despite Capco's multiple office to residential conversions the company intended to, and had to, as this research shows later, keep some office space.

When Capco made their major acquisition in 2006, their estate had no residential property. Since 2012, Capco launched several offices to residential conversions in Covent Garden including The Henrietta, The Russell, The Beecham and The Southampton (Figure 14). Capco frequently referred to Covent Garden's seventeenth century residential aristocratic roots in what seemed to be a legitimating narrative for their strategy of introducing premium residential units in the square. A Capco director stated that they tended to sell the properties overlooking the Piazza and rent the properties outside the Piazza.



Note: Landmark lettings (in black) and office-to-residential conversions (in brown)

Figure 14. Capco's CG cluster landmark lettings and office to residential conversions

Source: Adapted from Monocle (2013, n.d.)

The Henrietta, launched in March 2012, was Capco's first office to residential conversion in Covent Garden. On the west side of the Covent Garden Square next to St. Paul's Church this luxury residential scheme in triple aspect faces the Piazza, Henrietta Street and St. Paul's Church. The upper floors of this five-story building were converted into three apartments and one duplex penthouse. The ground floor was kept as a retail unit. The Henrietta apartments have an area of just under 180m² (Capco 2012b). According to the Financial Times the Henrietta penthouse was sold in April 2012 for £6.2 million (Hammond 2012). In October 2012 contracts were exchanged for the sale of another flat in The Henrietta for over £4 million (Capco Press Release 2012).

In April 2013 Capco launched The Russell, its second office to residential conversion in Covent Garden. This corner building overlooks two of the area's landmarks, The Royal Opera House and the Central Market

building. The residential element of this building (the ground floor is a restaurant unit) comprises five units from which two are duplex penthouses. The areas of the residential units range from about 120m² to 245m². Prices per square metre were on average about £25,000 (Capco 2014c). In the autumn of 2014 Capco launched The Beecham and The Southampton. According to the media, Capco spent approximately £30 million on these two residential schemes (Lynch 2012). The Beecham comprises nine luxury apartments to rent or for sale. The Southampton has nine private sector rental apartments. The Southampton was originally designed to sell yet, as a Capco director stated, 'we kept it for rental as we realised the district did not have any high-end rental properties' (Interview 24). Capco's CG cluster other apartments for rent, for example on King Street, were in 2013 renting at £700 per square metre per annum (Capco 2014c). This illustrates the very high-end nature of Capco's residential development in Covent Garden.

4.4.2 New developments

Capco did not submit many major planning applications for Covent Garden from 2006 to 2015. As a Capco director remarked,

In Covent Garden, by its nature, you can't have major wholesale development. The one across the road [Kings Court] is the biggest one it has seen since the 1996 Royal Opera House development (Interview 24).

The Kings Court scheme, designed by Kohn Pedersen Fox Associates, (KPF) received planning consent in December 2013. As a Capco director pointed out, this and other Capco's developments in Covent Garden, such as their office to residential conversions, 'are not big developments in the big scheme of things' (Interview 24). Works on the Kings Court scheme began in July 2014 and Capco expected to complete it by 2017. Kings Court is a mixed-use scheme of approximately 8,400m², of which 1,900m² are newly built. The scheme includes new retail units, new residential units (45 apartments from which 31 are newly built) and a new courtyard. The public courtyard was planned to hold eight new shops and two new

restaurants with outside seating. A property industry media outlet claimed that this scheme will ‘... bring critical mass of new retail, dining and residential to Floral Street, and a new anchor tenant is expected to animate this for now back street’ (World Property Journal 2013).

4.4.3 The public realm

In 2007, Capco commissioned KPF to develop a masterplan for Covent Garden. According to a Capco director, their masterplan was still at an early stage of implementation (Interview 24). The masterplan was not publicly available. As described by an urban designer at KPF, it took these consultants two years to complete the masterplan, as it was a complex process because it involved a great number of stakeholders (Interview 3). According to the design consultant, their masterplan detailed a public realm strategy for in and around the Covent Garden Piazza (Interview 3). According to a Capco director the idea was to create ‘a sense of place’ and to do that it was necessary to create ‘a sense of arrival’ (Interview 24). This would be achieved ‘... by improving the quality of the streetscapes, the physical appearance, how clean it is and how well managed it is’ (Interview 24).

As the KPF designer described, the masterplan dealt with issues around legibility, streetscapes detail, pedestrianisation of streets and permeability. Issues of legibility involved considering new locations for trees to avoid blocking views on the historical Covent Garden Central Market building. Detailing streetscapes included repaving streets with higher quality materials (Interview 3). Part of this latter strategy had been implemented and can be seen on King Street, where York Stone paving replaced tarmac. According to a Capco director the masterplan proposed a similar treatment to the other four streets feeding into Covent Garden Piazza. The masterplan also comprised the pedestrianisation of King Street and after Capco’s negotiations with Westminster City Council a consultation period with other stakeholders was expected to follow later in 2015. Regarding permeability, according to research participants, the masterplan proposed some dramatic changes as carving new pedestrian routes through the

ground level of existing buildings, connecting streets disconnected before in order to increase footfall (Interviews 3 and 24).

One of the pedestrian routes the masterplan proposed was under construction in 2015 connecting King Street, Floral Street and Long Acre as part of Kings Court new mixed-use scheme (Figure 15). This new pedestrian route planned runs through what was before a private and enclosed courtyard between King Street and Floral Street. As a Capco director stated,

now we have created new permeability in the district and once we have finished, there will be new fantastic retail down here, which will be very visible from James Street with a fantastic new building looking in the street and this will give people a reason to come here, and that will change movement patterns (Interview 24).

A KPF consultant explained that improving Covent Garden connections to a busy street such as Long Acre would increase the footfall in Covent Garden and that was a fundamental element for Capco's CG cluster retail strategy (interview 3). It has been noted in the literature the importance of connectivity and footfall for the success of retail (e.g. Yuo and Lizieri 2013).

The data presented so far suggest that the management of Capco's CG cluster involves a set of activities performed in a particularly proactive manner. The literature has referred to this portfolio level management style as active management (Table 1 on page 56). Capco's strategy includes approaching potential sellers, outbidding competition, buying out tenants, and changing uses. However, the active management of Capco's CG cluster also includes public realm improvement and changing the area's morphology in order to increase its permeability and footfall. Therefore, this management style seems to go beyond asset or property management and enter the realm of place-making.



Figure 15. Capco's CG cluster new pedestrian route

Source: Publica (2016)

The case of Covent Garden illustrates what place-making in conditions of concentrated ownership can look like. Capco's active management of their CG cluster included a retail strategy for the neighbourhood, a strategy for its upper level units and the management of the public realm. Ultimately, this level of active management is achievable only when a company has close to 'total control over the neighbourhood', to which Capco aspires (Interview 24). Nevertheless, development is a regulated activity and moreover, Covent Garden is a thick institutional environment, as it is argued next, where various stakeholders have a say when it comes to alterations to the built environment. The next section thus explores how this thick institutional environment impacts on the active management of Capco's CG cluster.

4.5 'HARD-WIRED' PLACE

4.5.1 Key stakeholders, their interests, resources and relationships

Covent Garden is a 'hard wired place' as a local stakeholder argued (Interview 25). Covent Garden is a Conservation Area, with several listed buildings (Westminster City Council 2007b) and it is a place where long-standing organisations hold statutory powers over the built environment.

Westminster City Council (henceforth referred to as Westminster) and the Covent Garden Area Trust are two such organisations, whose roles, resources and interests impact the active management of Capco's CG cluster.

Westminster consulting with its advisory committee reviews the planning applications for Capco's CG cluster. As a ward councillor stated 'what [Capco] seek to do is not always necessarily approved in every single aspect of it, but generally it has been' (Interview 15). Moreover, a planner stated that 'what we found with Capco is that they are much more consensual, they are much more clever, ... they are much more collaborative' (Interview 7). Planners frequently compared Capco with Covent Garden's previous predominant landowner, the Scottish Widows, and Capco tended to look better in the picture. The Scottish Widows were defined, for instance, as 'simply there for the short term' and managing the estate at 'arm's length' (Interview 7) whereas Capco, *were always there*, illustrated, for instance, by having their offices on site as many local stakeholders emphasised.

The Covent Garden Area Trust is an organisation responsible for the preservation of the historical character of Covent Garden. Unusual in its legal structure, the Trust was granted 150 years ground leases on the protected lands in 1988 and therefore, has statutory powers over this group of properties.⁸ The Trust is also part of Westminster's advisory committee for Covent Garden. Moreover, in 1997, the Trust published the first Environmental Study of Central Covent Garden (see CGAT 1997) last updated in 2008 (see Atkins and Covent Garden Area Trust 2008). This study details several aspects of the built environment in Covent Garden and is used as material evidence to assess planning applications.

Regarding Covent Garden Conservation Area status, as a Covent Garden Area Trust trustee suggested,

⁸ Covent Garden's protected properties include the Central Market; 25-31 James Street; 7, 9 and 10 Floral Street; Bedford Chambers; Cubbits Yard and the Museum Block (CGAT n.d.).

It's a Conservation Area, which means we try to keep it as it is. Obviously we have to be flexible, like we did with the building where Apple is ... Fortunately Capco ... worked with us (Interview 1).

Despite general accounts of a good working relationship between the Trust and Capco, another Trustee, for instance, explained that sometimes conflicting perspectives with Capco's strategy arise. As the trustee posited, '... we might have a different view whether it's around design, which often is, or whether it's around materials, or if it's around appropriate usages' (Interview 25). The Trust has a preservationist role, yet the trustee noted that '... Capco are not museum keepers' and moreover, the trustee argued that '... in most instances the Trust has been supportive of Capco's planning applications' (Interview 25).

The Trust's relationship with Capco was also compared with the Trust relationship with Covent Garden's previous prevailing landowner. For example, the former Chairman of the Trust defined the relationship with the Scottish Widows as 'antagonistic' (Cooper 2015). On the other hand, the Trust relationship with Capco seemed far from antagonistic. According to a Westminster planner '[Capco] have secured places of influence within the Trust and so the difference between the Trust and them is less competitive' (Interview 7). Nevertheless, it is noteworthy that one of the Trustees suggested that '... it might be easier for them that we didn't exist and they just dealt with the local planning authority and other stakeholders as far as they would ...' (Interview 25).

Westminster, the Covent Garden Trust, Capco and other key stakeholders sit together at the *Area 1 Committee*. This committee has been in place for over a decade and it is described by many local stakeholders as the place where Covent Garden's stakeholders come together to discuss issues impacting the area—including the police, ward councillors, retailers, and Covent Garden Community Association. Put in place by Westminster and other stakeholders, currently the committee meetings are voluntarily chaired by the Chairman of the Covent Garden Area Trust and held at Capco's offices in Covent Garden. Various stakeholders defined the issues discussed at these meetings as mostly janitorial, but also as the place

where Capco disclosed and discussed their strategy for Covent Garden with other stakeholders. Stakeholders have stated that Capco tried to keep other local stakeholders informed of their strategy (Interviews 1, 10, 15, 25). Capco expresses an instrumentalised view of their role at these meetings by saying that

This approach of embedding the business within the Covent Garden community has been instrumental to the overall success of repositioning the estate and creating value for the business through generating support for planning initiatives and new concepts (Capco 2013, 43).

Capco, through their collaborative approach, as a planner defined it, (Interview 7) seems to find a degree of support from other stakeholders for their 'repositioning' of Covent Garden strategy.

Lastly, there is the Covent Garden Community Association (CGCA) formed in the 1970s when local residents came together opposing the comprehensive redevelopment plan proposed for Covent Garden at the time. The CGCA is part of Westminster's advisory team. In an annual report the community association states that 'our relationship with Capco Covent Garden ... has continued to thrive in the past year and we have been fully consulted by them on a number of matters, which is unprecedented' (CGCA 2009, 25). Some participants have argued that in Capco's early days in Covent Garden, they were not so successful in establishing a good working relationship with other stakeholders (Interview 1). Currently, however, most participants suggested having a good work relationship with Capco (Interviews 1, 7, 8, 9, 15, 25).

Ultimately, the active management of Capco's CG cluster seems to be embedded in this thick local institutional environment. A Capco director asserted 'I know everybody ...' (Interview 24). Part of Capco's embeddedness strategy is to have their offices on site. As a Capco senior manager said,

... this is one of the key things, one of the first decisions we have made and as a result, Capco is ... now part of the community. So I wander around the estate, the whole team wanders around the estate and everybody knows everybody else (Interview 24).

Various stakeholders confirmed Capco's frequent presence on site (Interviews 1, 7, 8, 9, 15 and 25). As one stakeholder stated, Capco has '... a man on the field walking the estate every day' (Interview 15). As the literature has noted, developers benefit from *being there*, developing strong local networks and embedding themselves within the local institutional environments (Henneberry and Parris 2013; Charney 2007; Charney 2003). The case of Capco's CG cluster suggests a forceful example of developers' embeddedness.

4.5.2 Changes of use and new developments

Capco has submitted numerous planning applications to Westminster for use changes for their CG cluster properties. Uses and use changes are regulated by 'The Town and Country Planning (Use Classes) Order 1987 (as amended) [which] puts uses of land and buildings into various categories known as "Use Classes"' (Planning Portal 2016). In principle, planning permission is needed for changes of use between different use classes. Planners at Westminster said that alongside Capco's many planning applications, (Interviews 7, 8 and 9) with Capco 'there are a lot of pre-applications, a lot of talking, a lot of quite rightly lobbying and discussion with councillors and ward members' (Interview 8). Capco's most sought changes of use had been from offices to residential and shops to bar/restaurants.

Westminster had been mostly supportive of Capco's offices to residential conversions in Covent Garden. According to a senior planner, Westminster always allowed this use change (Interview 7). However, the 2013 amendment to The Town and Country Planning (Use Classes) Order, which introduced greater flexibility in use changes, paradoxically, made Westminster, at first, less receptive and later redrawing their *a priori* support to office to residential conversions. The May 2013 amendment made offices to residential use changes part of Permitted Development Rights (PDRs). According to Planning Practice Guidance website, PDRs are

a national grant of planning permission, which allows certain building works and changes of use to be carried out without having to make a planning application (Planning Portal 2016).

In this context, offices to residential conversions, (use class B1 to use class C3) under certain conditions, would not require planning consent. However, a group of central London boroughs including Westminster applied to the Secretary of State for Article 4 Directions for exemption from offices to residential change of use PDRs (Planning Portal 2016). Westminster's designated Central Activities Zone (CAZ) became exempt in May 2013 (Planning Portal 2016) yet, as this exemption was for their CAZ area only, according to planners at Westminster, other areas of the borough saw a growing number of offices to residential conversions with the introduction of the 2013 amendment to The Town and Country Planning (Use Classes) Order (Interviews 6, 7 and 8).

Over concerns of losing too much office space, Westminster became less receptive to office to residential conversions in their CAZ exemption area, which includes Covent Garden. Westminster consulted property industry stakeholders including Capco on this possible policy change and as a chief planner involved in this consultation process described it, '... they were not glad to see that policy' (Interview 7). However, a Capco director seemed to dismiss the impact of this policy change in Capco's strategy when saying that their pipeline of office to residential conversions was reaching its end, not because of Westminster removing their *a priori* approval to office to residential conversions, but mainly because office rents were picking up. The director detailed,

... office rents are rising to such a degree that they are now equivalent to residential rents and the yield differential between the two is not sufficient to fund the capital expenditure required to convert, simply put, and generating enough profit to make it worth it (Interview 24).

Moreover, the director claimed that the other reason to halt offices to residential conversions was that Covent Garden was a mixed-uses district and should be kept that way. This seems to suggest that Westminster policy change would have not had a great impact on Capco's strategy

regarding offices to residential use changes. However, another comment from a Capco director suggests something slightly different. That is, the director argued that Capco would have more residential property in Covent Garden if they could, as the sector was doing very well particularly the private sector rental market. As Covent Garden did not have any residential property in the Piazza and only a limited number around it when Capco started buying property in the area, the more likely means of Capco adding residential units in Covent Garden would be by converting offices to residential uses. Thus, Westminster redrawing their *a priori* approval of offices to residential conversions does seem to constrain Capco's strategy.

A previous amendment to the Use Classes Order introduced a least contested change, one that seemed to serve the interests of planners and cluster owners. The March 2005 amendment to Use Classes Order introduced a new class order, that is, Drinking Establishments. Before this amendment, restaurants (A3) and drinking establishments (A4) were both classified as an A3 use. Research participants argued that there was a general perception in the statutory licensing and planning bodies that Covent Garden had enough drinking establishment licences (Interviews 1, 15 and 25). Westminster and the other statutory licensing bodies were therefore, cautious regarding issuing more licences for this use. The Covent Garden Community Association, for instance, had been very active lobbying the local authority to prevent more drinking establishment licences being granted (Interviews 1, 15 and 25). Moreover, planners said that property companies had a great interest and lobbied for the creation of these distinct licences. The rationale behind property companies' lobbying was that local authorities would be more receptive to new restaurants if restaurants could not be automatically converted into drinking establishments, and this was in fact what happened (Interviews 7 and 8).

Concerns around drinking establishments from the point of view of local authorities had to do with the potential disruptive behaviour that could result from drinking and the negative impact that could have on residents.

Assured that the new A3 licences could not be converted into drinking establishments, LPAs became more willing to grant this licence than they had been to grant the old A3 licence (Interview 15). A Capco director suggested that this policy change greatly helped the company's strategy of placing more restaurant uses in their CG cluster (Interview 24).

It is worth noticing that planners have argued for how beneficial it would be for planning to have greater control over retail use categories to guarantee, for instance, the protection of local amenity shops (Interview 7, 8, and 9). Both Capco and planners emphasised the importance of having control over the retail mix to create a place and a brand. Moreover, planners said that LPAs, differently from big landowners, had little to no control over such matters (Interview 7, 8, and 9). As said before, Capco was not interested in having lower-rent amenity shops in their CG cluster and this was something that concerned planners at Westminster.

Regarding Capco's new major redevelopment, the Kings Court scheme, the company used Planning Performance Agreements (PPAs). Formally introduced in the planning system in April 2008, PPAs are

a project management tool which the local planning authorities and applicants can use to agree timescales, actions and resources for handling particular applications (Planning Portal 2016).

There is no precise format for PPAs. According to the planning portal,

it is for the local planning authority and the applicant to discuss and agree a suitable process, format and content which is proportionate to the scale of the project and the complexity of the issues to be addressed (Planning Portal 2016).

A planner giving an account of how PPAs came about in Westminster said,

... because we had to make budget cuts. ... Westminster Property Association ... came to our help, because we said to them we have to make these budget cuts, if we make the budget cuts and we take 25% of staff out the service goes completely belly up, so can you help us out? So they said, "well, we can help you out. What we will do is, we will all agree amongst ourselves that we will pay a supplement to a planning application fee to cover the costs of keeping the service intact". We figure that out to be about £13,000 per major planning application. So when one of their members

made an application they paid an extra £13,000 and we sign a contract which says that by that point we go to committee, by that point we will have the legal agreement as well, by that point we issue the decision (Interview 7).

Similarly, a Capco director also linked the introduction of PPAs with local authorities' budget cuts and pointed out,

Westminster is short of funds, short of resources, they have got a massive job on their hands and budget cuts there's another £100 million to make between now in 2018 and they just made £100 million of cuts, so the money has to come from somewhere, so they are looking at alternative methods of funding and the PPA is one of those legal ways of doing it (Interview 24).

According to planners at Westminster, the fees from PPAs were being used to cover, at least partly, planners' salary (Interviews 8 and 9). However, a Capco director refuted this and said, '... it doesn't work that way, it goes into this big magical pot' (Interview 24).

Whether PPAs fees were being used to pay for the salary of planners or not, this situation seemed to be rather uncomfortable for the Capco director. As the director stated,

We don't actually pay for any planning officer time, because we don't think that's appropriate, because these guys have to get us planning consents and if we were paying them that would be a conflict (Interview 24).

Nevertheless, planners asserted that Westminster and Capco were jointly covering the salaries of planners. As a planner in this new type of contract maintained,

I'm still an employee of the council so it's not my job to make it happen for them, it's not my job to rush through their planning applications, it's not my job to put additional resources into making things happening for them. It's my job to be some sort of arbiter, I suppose, between what they want to do and what can really happen (Interview 9).

The discomfort expressed by the Capco director with this situation could be explained by the 'conflict' of interests planners on such contracts might experience, as the director himself framed it. Concerns over this new form

of LPAs financing have been voiced in media outlets. Some authors have expressed their apprehension over the lack of assurance that ‘developers are only paying for more efficient decision-making processes, and not permissions ...’ (Allen and Pickard 2014). This use of PPAs fees is prone to be challenged on the grounds of its legitimacy. This emerging form of funding of the planning system moreover could be argued to be a paradigmatic example of some of the tensions originating from planning in an age of austerity.

Along the lines of planning in an age of austerity and the, arguably, growing overreliance on the private sector for the provision of affordable housing, it is worth noting what Capco’s contributions in this regard were. As a result of the widespread small-scale nature of Capco’s interventions in Covent Garden, most of their schemes did not trigger affordable housing contributions. As in 2015 the Kings Court scheme had been the only exception. For this scheme however, Capco did not build affordable housing on site and chose instead to contribute to Westminster Affordable Housing Fund. A senior planner at Westminster said this was the council least preferred option though.⁹ Nevertheless, the planner explained some of the ambivalences of this option by saying,

For the money they give us you would get five units in Covent Garden, but you might get fifteen in another part of the city, but you are just creating potentially polarised neighbourhoods (Interview 9).

According to a planner at Westminster another way developers, including Capco, were sidestepping contributions to affordable housing was by building a portfolio of private rented residential units instead of selling these residential units. This way, Capco, as other companies, were less likely to have to contribute to affordable housing because, as the planner stated, ‘... if people propose private rented it makes it easier to make a valuation exercise that kind of shows that you cannot afford to provide any affordable housing’ (Interview 7). Seeing the private rented sector growing

⁹ The three options available at Westminster regarding affordable housing contributions were 1) build on site 2) build off-site 3) contribute to Westminster Affordable Housing Fund (Westminster City Council 2007a).

and the negative impact that this was having in contributions to affordable housing, the planner said that Westminster was telling developers,

“ok you can do that, but you must rent for 15 years. Only at the end of 15 years you can sell. And when you sell you give us the full amount you should have given to us in the first place” (Interview 7).

However, a ward councillor argued for some advantages derived from Capco and others providing private rented sector (PRS) instead of residential for sale. Even though, through PRS, developers were less likely to contribute to affordable housing, as the interviewee noted,

...the dilemma with premium residential is that if it is too large it gets bought by an investor who is relying on capital returns and therefore might not be concerned about occupancy, so will perhaps visit the property a few times a year but not being a regular resident and Capco are aware that this is a concern of ours... (Interview 15).

Therefore, Capco providing PRS gave the council greater assurance that these units were actually being used rather than bought for capital gains and, potentially, left empty. This concern, more broadly put, reflects the debate over the financialization of the housing markets in London—investment in residential properties mostly for capital gain rather than for use. Capco’s provision of PRS residential units has thus appreciated by Westminster, notwithstanding the council’s concern over the lack of affordable housing provision (together with other affordable uses) in Covent Garden. It is worth noting that a planner at Westminster also noted that when it came to the negotiation of how much Capco should contribute for their Affordable Housing Fund, as the planner remarked ‘they don’t quibble’ (Interview 7). This seems to illustrate, as least partially, what the planner meant when suggesting that Capco were ‘more consensual’ and ‘more collaborative’ than other Covent Garden prevailing landowners had been in the past (Interview 7).

4.5.3 Provision and management of the public realm

Capco's active management of their CG cluster was happening in a context different from before when Westminster was 'able to deploy resources to try to make streets more attractive that they might otherwise be. The budget for that has just disappeared' (Interview 25). This is another example of what planning in an age of austerity means. Westminster budget constraints affected, amongst other things, the council's capacity to invest in public realm improvements. Planners mentioned that with local authorities current and expected budget cuts and with no foreseen budget increases, private companies' contribution to the public realm would have to become greater and more regular.

Capco seem to have the financial resources and the interest to invest in the public space in Covent Garden. One of Capco directors stated that 'since we purchased the estate in 2006 we invested over £260 million in public realm' (Yardley 2013). The reason for Capco's investment in the public space was as the director noted, '...that it has helped with the retail repositioning ... and the enhancement of the residential values as well' (Yardley 2013). With many buildings concentrated in Covent Garden, for Capco, improving the quality of their buildings and of the public space in-between buildings seemed to go hand in hand with advancing their repositioning streets strategy.

Capco's contributions to the public realm in Covent Garden came in three ways: contributing to highway improvements, providing Privately Owned Public Space (POPS) and becoming involved with the management of *de facto* public spaces. As a Capco director described it, Capco's public realm strategy for their Covent Garden cluster has been 'a mixture of physical change and the management of that thereafter' (Interview 24).

With regard to the contribution to highway improvements, in May 2011 Westminster adopted a supplementary policy document, *Public Realm Credits – Operating a system in Westminster* (Westminster City Council 2011). A collective of developers represented by the Westminster Property

Association approached Westminster and the parties negotiated what could be called the *institutionalisation* of developers' additional contributions to public realm improvements. This policy was called Public Realm Credits (PRCs). The trigger for this new policy was, according to planners at Westminster, Capco and other developers spending more on public realm improvements than required by planning obligations. With the implementation of PRCs, Capco's upfront capital investment in the public realm could be *institutionalised* (and others in a similar situation in the borough). PRCs worked in the following way. Any property developer could invest in public realm improvements, previously agreed and approved by Westminster, and receive PRCs in return. These credits could then be used later to offset any planning obligations regarding highway contributions triggered by new developments in the borough. This illustrates a policy mechanism supporting developers with an interest in the public space.

From the point of view of Westminster, PRCs incentivised private capital investment into the public realm (Westminster City Council 2011). Planners have said that Westminster wanted their borough '... to look better' (Interview 8) particularly in the run-up to the 2012 London Olympic Games. The PRCs policy was planned to cease with the introduction of the Community Infrastructure Levy (CIL), which subsumes several contributions, including highway work contributions, in to one tax only.

A Capco director detailed the use of PRCs on King Street improvements and said,

we've spent, we did our guts and heart, we got a credit for it, and that allows us to credit off any obligation we would have for a S.106 agreement, planning agreement. Having said that, there are so few developments, that we get very few opportunities to offset it, I think all we offset until today was less than half of the Public Realm Credits we have got and now with CIL stopping that, it will come to a halt unfortunately, which is a shame but that is just the way it is (Interview 24).

Capco's additional contributions to the public realm included providing new Privately Owned Public Spaces (POPS) as, for instance, the courtyard of the Kings Court scheme.¹⁰ According to a Westminster chief planner,

'... Westminster encourages developers to manage their new spaces, so when they create a space rather than making a public space we encourage them to manage the space' (Interview 7).

POPS are nevertheless controversial within the council. Another planner at Westminster expressed a rather conflicting perspective when saying,

... for the cash strapped public sector it is obviously attractive for local authorities to say "you do it it's cheaper". But there's the moral argument about access. It's supposed to be public space to be cut through. It's supposed to be for people to go through not gated off (Interview 8).

One of the controversial issues with POPS is accessibility. For instance, the POPS on Kings Court will be closed at night. According to a Capco director, it had to be so to protect the residential uses above that overlook the courtyard. As the director stated '... we want to allow them to have a good night's sleep' (Interview 24). However, this can be perceived alternatively, as part of POPS's 'draconian' management style, as a planner referred to it (Interview 7). That is, as the planner detailed '... there's an issue if you can no longer smoke in the open space, if you can no longer eat unless you're eating food sold over there, you can't take pictures, all that sort of stuff will be a problem' (Interview 7). One way put forward by Westminster to deal with some of the controversial aspects of POPS and their management was contractualising the management rules of these spaces with the developers. As the planner maintained,

what we have started writing in to legal agreements is that they are to provide us with the management details, they are to give us the management operational statement to demonstrate that their level of management will be at the same degree of paternal stewardship that council will run, so it doesn't overstep the marking... (Interview 7).

¹⁰ Other POPS in Covent Garden include the Bedford Chambers arcade, the Royal Opera House arcade and the Central Market building. Even though generally perceived as public space, the Central Market building is actually a POPS as well as a narrow area around it, which can be noticed from a difference in the paving.

Alongside the provision of POPS, Capco was also gradually becoming more involved with the management of *de facto* public spaces. In their early days in Covent Garden, Capco paid Westminster to have additional cleaning in the area. More recently Capco was in charge of cleaning King Street and Floral Street. As a Capco director argued, 'we said to them "look, let's have a plan, let's work together, you concentrate until here, we concentrate over here, let's not cross over' (Interview 24). Regarding security, Capco initially paid Westminster for two additional council-uniform wardens. More recently Capco had introduced *The Covent Guardians*. According to a Capco director The Covent Guardians are,

...walking ambassadors, sort of concierge facilities for retailers and visitors, which are security teams retrained, caring I-pads, basically walking information booths, so they will have dual purpose (Interview 24).

According to the Capco director these wardens had been given enforcing powers they did not have before. Additionally, the director argued that negotiations between Capco and Westminster were ongoing, as Capco wanted to change the warden uniforms from council uniforms into 'more sophisticated uniforms' (Interview 24). Together, this illustrates Capco's growing involvement in the management of *de facto* public spaces.

Overall, this suggests Capco's growing involvement in the provision and management of the public space. Moreover, it also exemplifies some of the potential tensions resulting from the growing involvement of the private sector with the management and provision of public space previously identified in the literature (e.g. Zukin 2010; Minton 2006). It also illustrates some of the mechanisms LPAs were trying out attempting to minimise the potential 'draconian' (Interview 7) management style that could result from the private management of the public space.

4.6 SUMMARY OF FINDINGS AND CONCLUSIONS

Capco has been developing a cluster of ownership in Covent Garden since 2006. With the acquisition of various properties in 2006, Capco expanded their portfolio in Covent Garden from £47.8m to £489.3m. Between 2006 and 2012/13, Capco continuously acquired properties in Covent Garden, except in 2008 and 2009 (Figure 4). From 2006 to 2012 Capco's CG cluster grew, for example, for floor plate area from 48,588m² to 83,427m² (Table 4). Capco's CG cluster acquisition strategy focused on in-fill acquisitions yet also on expanding the edge of the estate. A Capco director claimed that they would outbid competitors if necessary yet, that most acquisitions were managed off-market as Capco approached potential sellers beforehand (Interview 24). This provides support to the literature arguing for the importance of *locational literacy* in property investment and development (Henneberry and Parris 2013). It also suggests that Capco can reduce the transaction costs involved in their new acquisitions, namely information costs.

Despite this spatially concentrated investment strategy Capco's CG cluster remained a diversified portfolio comprising retail, restaurants, M&M, offices and residential (Figure 5 to Figure 11). For example, the residential sector non-existent in 2006 represented 6% of the cluster's capital value in 2013, indicating further sectoral diversification. Nevertheless, the data suggested that over 75% of the cluster's capital and income value came from the retail and restaurant sectors for the time period analysed (Figure 10 and Figure 11). This indicates that Capco's CG cluster is, to a great extent, a concentrated portfolio, both spatially and sectorally, challenging some of the tenets of risk management theory (e.g. Lee and Stevenson 2005; Eichholtz et al. 1995).

In terms of Capco's financial performance aims and targets, the company places a great emphasis on their retail sector aiming to turn Covent Garden into a prime retail area. This aim was yet to be achieved (Figure 12). However, as argued in the literature, concentrated ownerships give owners a great control over the built environment (Alexander 2001; Olsen

1964). This great level of control over the built environment is likely to give Capco an edge over the market regarding attracting new retailers, as Capco can offer their tenants some assurance over the destiny of the neighbourhood. Moreover, the level of certainty Capco can offer to their potential tenants, might reduce Capco's transaction cost involved in finding and retaining their tenants.

Capco held in 2013 a high-end retail and more mixed restaurant portfolio (high-end and mid-market) on their ground level units of their CG cluster. This was achieved mostly through changes of use and tenant changes, and through one significant new development. In upper level units Capco had offices and residential uses, and had proceeded with many offices to residential conversions up until Westminster removed their *a priori* approval for this change of use. Kings Court mixed-use scheme was by 2015 Capco's CG cluster largest new development and comprised retail, offices and residential units. Together, this shows that Capco was embracing a range of activities that the literature refers to as active management (e.g. Füss, Richt, and Thomas 2012; Fuerst 2009). Capco's active management however, included activities that this body of literature does not tend to address, for instance, the provision and management of the public space.

Capco made some significant contributions to the public space in Covent Garden. This included the POPS in the Kings Court scheme, where a new route running through this POPS was argued to be a key urban design gesture to increase Covent Garden's footfall. The literature suggests that footfall and rent are positively correlated (e.g. Yuo and Lizieri 2013). Capco also became involved with the management of *de facto* public spaces, by being responsible for cleaning King Street and Floral Street as well as paying Westminster for *The Covent Guardians*, the brand name for the additional security guards for Covent Garden. This seems to be aligned with the literature that suggests that the public space has been increasingly mobilised for economic development purposes (e.g. Németh and Schmidt 2011).

Westminster City Council, the Covent Garden Area Trust, the Covent Garden Community Association and the Westminster Property Association, to a greater or lesser extent, constrained and enabled Capco's strategy for their Covent Garden cluster. Each of these key stakeholders had their own agenda and resources. However, the agendas of these different stakeholders and Capco's agenda appeared significantly intertwined and, in some cases, advanced together. This suggests that Covent Garden might be considered what the literature has referred to as a thick institutional environment (Amin and Thrift 1995). Moreover, Capco having their offices on site and holding the Area 1 meetings in their offices, for instance, seem to further advance the level of institutional thickness of the area.

Regarding changes of use, an important part of Capco's active management strategy, central government policy relaxation for offices to residential conversions under Permitted Development Rights, (PDRs) paradoxically, had a constraining effect on the active management of Capco's CG cluster. Westminster, to protect their office space, achieved exemption in their CAZ area and, more importantly, in terms of constraints to Capco's CG cluster active management, Westminster removed their *a priori* consent for this change of use. Capco halted their offices to residential conversions, yet suggesting that this policy change was not the main reason for their strategy change, but market conditions were (Interview 24). A senior planner at Westminster said, nevertheless, that developers were not happy to see this policy constraint (Interview 7).

Moreover, on changes of use, the introduction of a new use class for restaurants (A4) enabled Capco to more easily pursue their strategy of increasing the number of restaurant units in their cluster. This new licence category assured Westminster that these spaces could not be used as drinking establishments solely and therefore, Westminster became more willing to concede new restaurant licences. Property companies lobbied for the introduction of this new use class suggesting that, as the literature has noted, institutions are malleable and strong that players have the

potential to forge the direction of institutional change in convenient ways for their strategy (Campbell 2010).

Regarding new development, two aspects stand out with respect to the institutional environment. First, according to research participants, Westminster Property Association lobbied Westminster City Council to adopt Planning Performance Agreements (PPAs) and use the fees from this service to pay for the salary of planners (Interviews 7 and 24). This further supports the argument about strong players forging the direction of change that best suits them (Campbell 2010). This mechanism seems greatly enabling to the active management of Capco's CG cluster, as it gives Capco greater certainty in terms of planning application processing timing. At the same time, PPAs come with financial entanglements between the property industry and Westminster, which raise some concerns over the level of independence that Westminster planners can maintain when judging planning applications from the companies who pay part of their salaries (Geoghegan 2014). It also seems to suggest that planning in an age of austerity is pushing planners to behave ever more as market players.

Finally, the institutional arrangements between Westminster and Capco regarding the management and provision of the public space, gave Capco greater control over the public space in their CG cluster. Given the seemingly critical importance of the public space in the active management of the cluster, for instance, regarding how it impacts footfall, these institutional arrangements seemed greatly enabling to Capco's strategy. Considering that Westminster was keen on seeing public realm additions and improvements, this suggest a form of *institutional capacity* building, (Healey 1998a) nonetheless, one that suggests that the private sector is occupying governance space left empty by a receding planning system.

CHAPTER 5 . SHAFTESBURY'S SEVEN DIALS CLUSTER

5.1 INTRODUCTION

This chapter explores the case of Shaftesbury's Seven Dials cluster (Shaftesbury's SD cluster) focusing on the period between 2004 and 2015. Exploring Shaftesbury's SD cluster allows further exploration of the themes that emerged in the last chapter. The structure of this chapter, identical to the structure used in the last chapter, is as follows.

Section 5.2, Background, gives an historical overview of the urbanisation process of Seven Dials. The history of Seven Dials is intertwined with the history of Covent Garden. The contested planned redevelopment for the area of the 1970s, if realised, would have seen the bulldozing of Seven Dials. Nevertheless, Seven Dials has a history of its own worth telling, namely, the story behind its 1690s original plan, which Summerson refers to as 'that extraordinary freak of town planning' (2003, 29). This plan deeply conditioned how this neighbourhood was used in the past and is used today. Seven Dials more recent history shows the emergence of one of its key local stakeholders, the Seven Dials Trust. The Trust has an important role mediating changes to the local built environment, and works in close relationship with Shaftesbury and other local stakeholders, as the chapter discusses later.

Section 5.3, 'The New Kids on the Block', explores how and why Shaftesbury has been consolidating its ownership in Seven Dials since the 1990s. It also explores Shaftesbury's SD cluster growth, sectoral composition and some elements of its financial performance. Section 5.4, A Retail and Leisure Business, explores the asset management activities that the active management of Shaftesbury's SD cluster includes. Section 5.5, Thick Institutional Environment, explores how the active management of Shaftesbury's SD cluster has been played out in context of its local institutional environment. Section 5.6 gives a summary of the findings and concludes.

5.2 BACKGROUND

5.2.1 Seven Dials urbanisation

Seven Dials is a neighbourhood in inner London, on the north bank of the river Thames, bordered by Long Acre, Endell Street, Shaftesbury Avenue and Charing Cross Road (Figure 16).

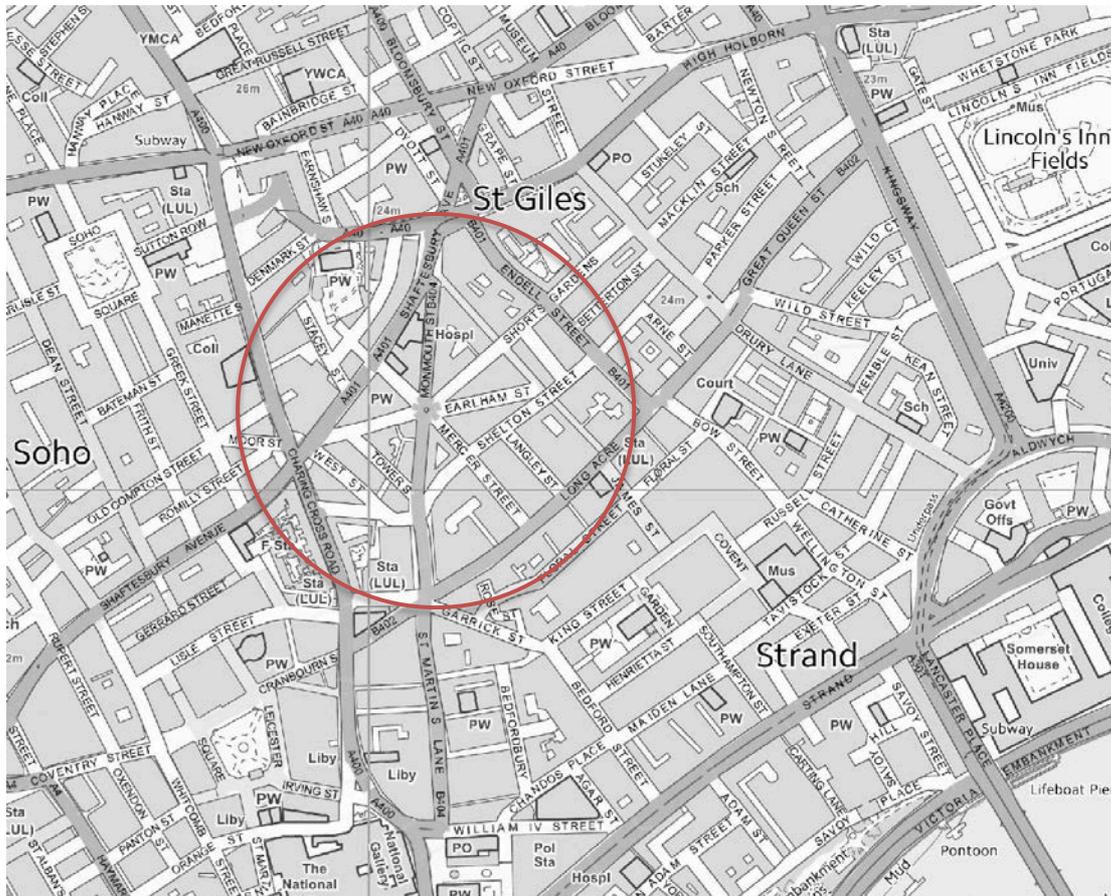


Figure 16. Seven Dials in London

Source: Digimap Ordnance Survey Service (2016)

The history of this neighbourhood can be traced back to 1690 when Thomas Neale received, as a reward for his services to the Crown, what is today Seven Dials and was then one of the few still undeveloped patches of land in central London. Just north of Covent Garden's area, which was by then consolidated, this site had belonged to St. Giles' Hospital and was one of many sites taken over by Henry VIII in 1537 following the English Reformation (Seven Dials Monument Charity 1998). In 1692, Neale

submitted a design proposal to Sir Christopher Wren, the Surveyor General. In the original design proposal, six streets converged to a central point marked by a sundial pillar and to a church directly to the south of the sundial pillar. Neale's vision for Seven Dials was of a high-end residential suburb. With the works on-going Neale decided to drop the church envisioned in the original plan and managed to squeeze in one more street.

The idea behind Seven Dials' star shape masterplan may have been to increase the length of the buildings' frontage (Summerson 2003) which, in turn, would result in higher rental income (BBC 2008). As the Trust maintains,

In a city where, since Inigo Jones designed the Piazza in Covent Garden, most developments had included a grand square, Neale's solution was imaginative and ingenious (Seven Dials Trust 1989).

Seven Dials was at first populated by the high society, gentlemen, tradesmen and aristocrats. However, Seven Dials' unique star shape masterplan was soon perceived as busy and confusing. As a result of the many incidents of mob violence registered in the area and partly of London's westward migration, Seven Dials gained the reputation of being a rough neighbourhood and saw its demographics change (Summerson 2003; Jenkins 1975). In 1730 James Joye, then the owner of the estate, sold the triangular sections of the estate individually, breaking up the freehold. With a fragmented ownership, Neale's original restrictive covenant would not be enforced and thereafter houses started being converted into shops, lodgings and factories. Neale's Baroque residential plan became mostly a commercial district (Seven Dials Monument Charity 1998). Seven Dials' proximity to the Covent Garden market, one of London's largest wholesale fruit and vegetable markets, meant that many of the buildings in the area were used by the market's ancillary businesses.

When in 1965 an Act passed to relocate the Covent Garden market in eight-years time, a consortium formed by the Great London Council

(GLC), the London Borough of Camden and the City of Westminster developed a comprehensive redevelopment plan for the market and surrounding area, including Seven Dials. This comprehensive redevelopment plan faced strong opposition from the community and the plan was eventually put aside when in 1972 the Secretary of State for the Environment listed about 250 buildings in the area making the plan unviable. In 1974 the market moved out leaving the area in disrepair as many of the market's ancillary businesses moved out too leaving many empty buildings behind.

In 1977 Seven Dials became a Conservation Area and from 1977 to 1984 it was declared a Housing Action Area (HAA), an area-based policy with the intention of raising the housing quality of the area (Seven Dials Trust 2014). Despite repair works through the HAA, a significant part of Seven Dials' existing buildings today still occupy the original 1690s plan while retaining some of the elements of late seventeenth and early eighteenth century interventions (Seven Dials Trust 2014). The leadership of the HAA comprised six businesses and six residents and was supported by a group of Camden officers (Seven Dials Monument Charity 1998). With the resuming of the HAA, Camden approached this group inviting them to further promote environmental improvements in the area. The group registered as the Seven Dials Monument Charity in 1984 and since 2003 was known as the Seven Dials Trust (Seven Dials Trust 2016).

The Trust has an important role in the area today. One of the Trust's initial achievements was the resurrection of the Seven Dials Sundial Pillar in 1989. The Seven Dials Sundial Pillar, from where the area acquired its name, had been erected at the centre of the scheme in 1694 but removed in 1773 by the Paving Commissioners who argued that the sundial pillar 'acted as a magnet attracting undesirables' (Seven Dials Monument Charity 1998, 6). The Trust was also responsible for coordinating the development of an environmental study for the area. The Seven Dials Renaissance Study was published in 1991 and revised in 1998 and Camden uses this study today as material evidence for planning applications for the area. Moreover, the Trust has managed to mobilise

prevalent local property owners into funding the Trust's strategy. For example, the Trust's first environmental plan for the area was fully sponsored by Kleinwort Benson Property Fund (KBPF), the property owners and developers of what is today the Thomas Neal centre.¹¹ However, this was not all, at the time as the Trust explains,

When the Study was published, KBPF, in an unprecedented move, voluntarily increased their S.52 Planning Agreement with Camden Council from £100,000 to £450,000 to implement the Study's recommendations in and around their holdings (Seven Dials Trust 2016).

The works involved repaving Earlham Street east and Short Gardens, the streets surrounding the Thomas Neal Centre, a KBPF scheme. As one of the trustees describes it,

I think we did persuade the Kleinwort Benson [KBPF] to spend an awful lot of money to their own benefit, which turned out really not to be the case because there was a property downturn then and so the equation didn't work out, quite disappointingly (Interview 37).

It was in the context of this early 1990s property downturn that Shaftesbury started buying properties in the area. Even though Seven Dials had been built originally under single land ownership, its ownership became fragmented over the years until Shaftesbury started to put it back together in the early 1990s. Shaftesbury, after more than 20 years investing in Seven Dials, is now the area's prevailing property owner.

5.3 'THE NEW KIDS ON THE BLOCK'

Shaftesbury was founded in 1986 by Peter Levy and his family and was listed on the London Stock Exchange in 1987. As Shaftesbury's Chief Executive Officer (CEO) suggested at the NLA conference,

Shaftesbury is a bit what I call, the new kids on the block really, we've been going for 27 years but, really, our focus on the West End certainly just came out in the last 20 years, where we have put together in your hearts a portfolio really in the heart of the West End (Bickell 2013).

¹¹ Current spelling of Thomas Neale's last name dropped the last 'e'.

In September 2012 Shaftesbury had a £1.8 billion portfolio exclusively in London’s West End. Shaftesbury describes its portfolio as a series of villages (Figure 17). As Shaftesbury’s CEO described it, ‘we do have concentrations of ownership like any other estate and we take a holistic view in the way we manage them’ (Bickell 2013).



Figure 17. Shaftesbury villages

Source: Shaftesbury (2012, 2)

Shaftesbury, in their annual reports, present their portfolio segregated into five districts: Carnaby, Soho, Chinatown, Charlotte Street and Covent Garden. The latter includes Seven Dials, St Martin’s Courtyard, the Coliseum and the Opera Quarter (the districts showing on Figure 17 framed in purple). Seven Dials and St Martin’s Courtyard are adjoining holdings (Figure 18). The Coliseum holdings are spread southwest of St Martin’s Courtyard.¹² The Opera Quarter, slightly detached from Shaftesbury remaining holdings in the area, is located west of the Covent Garden market.¹³ To distinguish what Shaftesbury refers to as their Covent Garden portfolio from Capco’s Covent Garden portfolio, this research refers to this group of Shaftesbury holdings as Shaftesbury’s Seven Dials

¹² About 10 buildings located around St. Martin’s Lane, Cranbourn Street and New Row (Shaftesbury 2016).

¹³ Comprised of about 30 restaurants (Shaftesbury 2016).

cluster. In September 2012, Shaftesbury holdings in Seven Dials comprised 35% of their property portfolio, their largest investment location, with a capital value of over £500 million (Shaftesbury 2012). This chapter focus on Shaftesbury's Seven Dials cluster (Shaftesbury's SD cluster).

5.3.1 Acquisitions and sales

Shaftesbury's acquisition strategy has been trifold. First, it has been driven by a geographic focus on the West End. Second, Shaftesbury has pursued acquisitions of un-modernised properties. Third, the company has targeted property for refurbishment rather than for wholesale redevelopment as they only infrequently embark on big redevelopment schemes (Interview 40). As Shaftesbury stated, 'our acquisition strategy continues to be focused both geographically and in the type of buildings which interest us' (Shaftesbury 2012, 6). Shaftesbury's property ownerships in Seven Dials, as in May 2015, are illustrated in Figure 18.

The data available on Shaftesbury's annual reports from 2004 to 2012, suggest that the company bought new property in Seven Dials every year (except for 2004). For example, in 2006 Shaftesbury acquired the site now called St Martin's Courtyard, which was later developed in a joint venture with the Mercers' Company. In 2007 the company claimed to have secured a small but strategic in-fill acquisition that completed Shaftesbury's ownership of the south side of Neal's Yard (Shaftesbury 2007).

According to Shaftesbury, investment opportunities in Seven Dials are infrequent. As the company notes, 'supply of suitable new investments are always limited in the sought-after central locations in which we choose to specialise' (Shaftesbury 2005, 9). As a Shaftesbury director described it, '... we joke about the things that cause people to sell and it's all those grim things, it's death, divorce, retirement, debt, ... that's the reality of it' (Interview 40). Moreover, the company suggests that when acquisition opportunities come up, there is great competition from others seeking to invest in the area (Shaftesbury 2012).



Note: Includes Seven Dials and St Martin's Courtyard holdings. Shaftesbury does not own most of the property in the grey colour code. The map does not include the Opera Quarter, nor the Coliseum holdings. The researcher accessed Shaftesbury's ownership map, yet Shaftesbury requested it not to be printed

Figure 18. Shaftesbury's SD cluster

Source: Adapted from Shaftesbury (2016)

A Shaftesbury director argued that the company was always looking for new deals, yet that they could carry on well for a couple of years without new acquisitions. Nevertheless, the director stressed that acquisitions broaden up '... opportunities to do the things that then you get the ripple effect, so it's new projects' (Interview 40). Furthermore, the director seemed to suggest that Shaftesbury had an edge over the market in terms of new acquisitions. According to the director,

... we are special purchasers, we ought to be able to pay a better price and, quite frankly, if I have to pay tomorrow's price for it, I'm not looking to make a quick return, I don't mind, it's the opportunity, so that's the key thing, it's reminding people who you are, we're

here, we've got the money when you need it, we'll do the deal and we're very straightforward (Interview 40).

This indicates that Shaftesbury's new acquisitions are quite reliant on their local knowledge, both knowing and being known by potential sellers. Together with the company readiness to pay higher than the market price, if necessary, this seems to give Shaftesbury an edge over the market in terms of new acquisitions.

A quantitative analysis of Shaftesbury's SD cluster shows that between 2004 and 2012 this cluster grew in terms of floor plate area, number of units, capital value and gross income (Table 5). For example, Shaftesbury's SD cluster had 221 units in 2004 and 366 in 2012, which represents a total growth of 66% and an annual average growth of 8%. In terms of capital value Shaftesbury's SD cluster grew continuously from 2004 to 2012 except for 2008 and 2009. Shaftesbury's SD cluster capital value grew from £240 million in 2004 to £508.5 million in 2012, which represents a total growth of 112% and an average annual growth of 14%. Shaftesbury's SD cluster annual gross income grew continuously from 2004 to 2012, from £14.1 million in 2004 to £23.2 million in 2012, which denotes a total growth of 65% and an average annual growth of 8%.

In Shaftesbury's annual reports the company expresses their anticipation of new acquisition opportunities deriving from the 2007-2008 financial crisis. Shaftesbury stated that 'we expect that current uncertainties will offer us opportunities for further strategic property purchases, which are scarce in more buoyant markets' (Shaftesbury 2008, 15). Moreover, Shaftesbury detailed,

Valuations have, inevitably, fallen as the international banking crisis has led to a repricing of assets. For a securely financed Group such as ours, this represents a fine opportunity to use our deep knowledge of the West End market to add to our portfolio (Shaftesbury 2008, 11).

Likewise, Shaftesbury argued that during the early 1990s property downturn, with 'local knowledge, and the support of our institutional shareholders and banks, we took advantage of market uncertainty from

1993 to buy properties ...' (Shaftesbury 2008, 15). Similarly, after the 2007-2008 global financial crisis, Shaftesbury went back to significant acquisitions in Seven Dials in 2010, expanding their portfolio in the area from around 40,000m² to 44,000m² (Table 5).

Table 5. Shaftesbury's SD cluster growth

Year	Buildings (#)	Units (#)	FPA (m²)	CV (£m)	GI (£m)
2004	*	221	39,948	240.0	14.1
2005	*	234	41,156	275.2	14.2
2006	*	326	41,992	345.4	15.0
2007	*	331	40,041	381.1	15.5
2008	*	350	39,855	331.2	17.5
2009	*	362	40,134	327.8	18.7
2010	*	400	44,222	420.7	20.6
2011	*	347	46,730	481.1	22.7
2012	*	366	45,151	508.5	23.2
TG	-	66%	13%	112%	65%
AAG	-	8%	2%	14%	8%

Note: FPA (Floor Plate Area), CV (Capital Value), GI (Gross Income) TG (Total Growth) AAG (Average Annual Growth)

*Data not available

Source: Shaftesbury (2012; 2011; 2010; 2009; 2008; 2007; 2006; 2005; 2004)

Regarding sales, Shaftesbury mentions disposal of office space back in 2002 (Shaftesbury 2002). In 2007, after the company changed into a REIT and the resulting elimination of tax liabilities on disposals, Shaftesbury mentions the disposal of 'certain investments which are no longer central to our core holdings and strategy and their potential for rental and capital growth does not meet our requirements' (Shaftesbury 2007, 17). Despite these sales, as a company director stated '... we're never gonna move off this map ...' (Interview 40). The director detailed,

... and if we [went off this map], you should sell your shares because we're not gonna go fiddling around over there, we don't know the market there, all I know is about what I walk around, maybe some other guy could do it better there because they've got that local knowledge. The word ... to describe us is 'forensic knowledge' it's that real detail and it's really getting under the skin (Interview 40).

This emphasises the importance of local knowledge in Shaftesbury's strategy. It also suggests that Shaftesbury expects to sustain and enlarge their SD cluster considering the director's remark on Shaftesbury being alright without acquisitions for a couple of years yet stressing the importance of 'new projects' and their ripple effect on other properties in the cluster. Shaftesbury's expansion of this portfolio is likely to require a threefold strategy including, retaining existing ownerships, making use of local knowledge to progress with new acquisitions and paying tomorrow's price in some deals.

5.3.2 Sectoral composition

Shaftesbury's SD cluster is comprised of four property sectors, Shops, Restaurants & Leisure (R&L), Offices and Residential (e.g. Shaftesbury 2012). However, a Shaftesbury director stated that 'the whole thing about investing, for us, in our portfolio, we're not really a property business, we're more of a retail and leisure business' (Interview 40). As the director detailed,

... most of the value of this area is derived from the ground floor use and, for us, we don't really mind upstairs. Okay, we own ... apartments ... and it's an important part of our portfolio, but it's not the main driver, it's really all about what's downstairs and then, by the way, what do we do upstairs, will it work better as offices, or residential? (Interview 40)

This suggests a degree of sectoral concentration in shops and R&L.

Using a snapshot from 2004, 2008 and 2012 (representing the beginning, middle, and the end of the period analysed), it is possible to explore how Shaftesbury's SD cluster evolved in terms of its sectoral composition (for floor plate area, income and capital value). The results seem to confirm the director's account, suggesting that retail (shops and R&L) was responsible for more than half of this portfolio's floor plate area and gross income (Figure 23 and Figure 24). This sectoral analysis also shows a significant growth in the residential sector, accompanied by a reduction in office space (Figure 19). This seems to suggest Shaftesbury's apparent

preference for residential uses, for the time period analysed, an aspect not fully conveyed by the director's account.

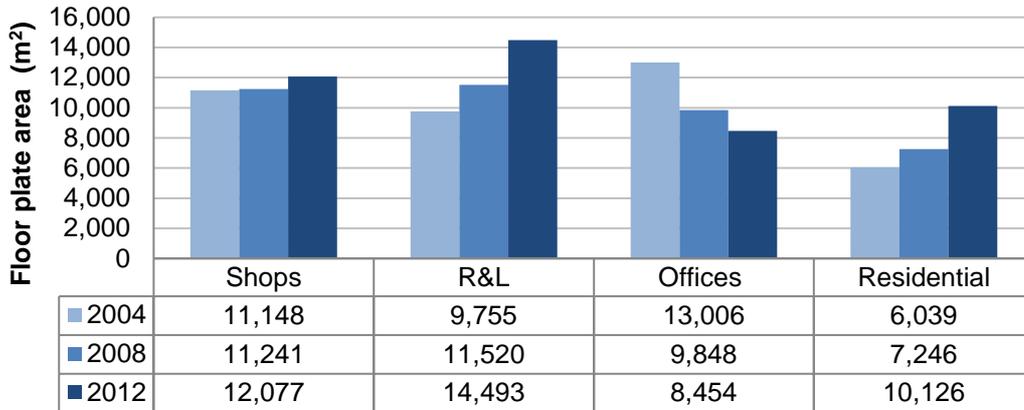
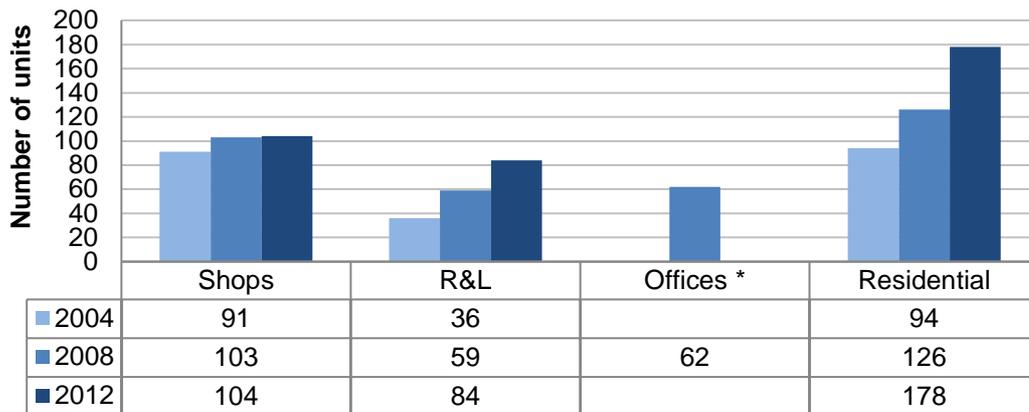


Figure 19. Shaftesbury's SD cluster floor plate area per sector

Source: Shaftesbury (2012; 2008; 2004)

In terms of number of units, comparing 2004 with 2012, shops grew from 91 to 104 units and R&L's units more than doubled from 36 to 84. Similarly, the number of units in the residential sector almost doubled from 94 to 178 (Figure 20).



*Data not available for 2004 and 2012

Figure 20. Shaftesbury's SD cluster number of units per sector

Source: *ibid*

Comparing gross income from 2004 with 2012 shows that shops grew from £6.8m to £8.4m and R&L from £3.5m to £7.7m. Offices grew from £2.8m to £3.2m. Residential saw the greatest gross income growth from

£1m to £3.9m. Gross income from shops showed a slight decrease from £8.8m in 2008 to £8.4m 2012 (Figure 21).

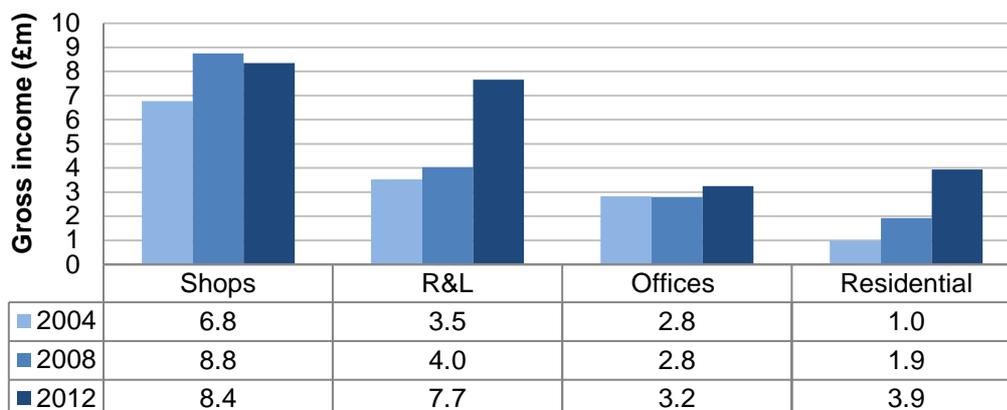


Figure 21. Shaftesbury's SD cluster gross income per sector

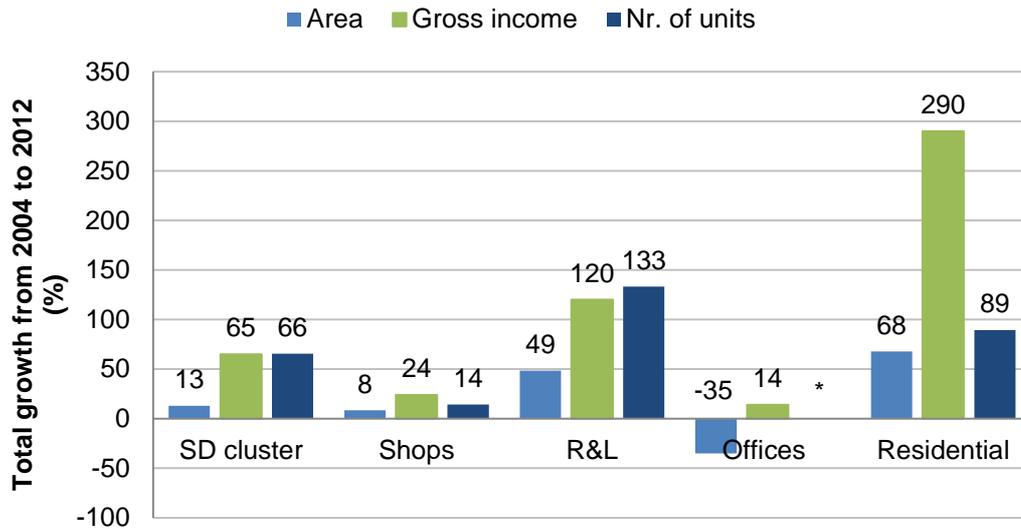
Source: Shaftesbury (2012; 2008; 2004)

This sectoral composition analysis shows that all sectors grew for all indicators explored except for offices, which showed an area reduction, (Figure 19) and shops, which showed a reduction in gross income from 2008 to 2012 (Figure 21).¹⁴ It also suggests that from all sectors, R&L and the residential sectors saw the greatest gross income growth.

Further exploring these aspects through comparing the growth of the different sectors between themselves and with the cluster overall growth, shows a few noteworthy aspects (Figure 22). First, it shows that shops changed the least and grew under the cluster's aggregated level for all three indicators. Second, conversely, R&L grew above the cluster's aggregated level in all three indicators. Third, it shows that offices were the only shrinking sector in terms of area, plummeting 35%. However, this significant floor plate area reduction was accompanied by a 14% increase for gross income, suggesting a financially efficient letting strategy. Fourth, the residential sector with a 290% increase for gross income was by far the largest growing sector under this indicator and way above the cluster's aggregated level of 65%. The residential sector also grew above the

¹⁴ Data not available to allow exploring the capital value growth at the sectoral level.

cluster's aggregated level in terms of floor plate area and number of units, with 68% and 89% growth respectively.



* Data not available for offices in terms of number of units

Figure 22. Shaftesbury's SD cluster and its sectors growth

Source: Shaftesbury (2012; 2004)

Largely, this sectoral analysis so far shows a couple of aspects worth highlighting. First, it shows that the R&L and the residential sectors grew the most for all indicators explored. Second, it shows that for the sectors the data allowed exploring and for the cluster at the aggregated level, the growth in number of units exceeded the growth in floor plate area. This suggests the presence of a strategy of subdividing a large or several units into smaller units. Furthermore, number of units' outgrowth of floor plate area was most visible in the R&L sector which showed a 133% growth in number of units compared with 49% growth in size.

Weighting the property sectors in Shaftesbury's SD cluster shows that in terms of floor plate area, R&L and residential grew whereas shops had a slight reduction, and offices a more significant reduction (Figure 23). In fact, offices experienced the greatest area reduction changing from being the largest sector to becoming the smallest sector in the cluster in terms of area. Even though in absolute terms for floor plate area all property

sectors grew except offices, (Figure 19) in relative terms R&L and the residential sectors were the only growing sectors (Figure 23).

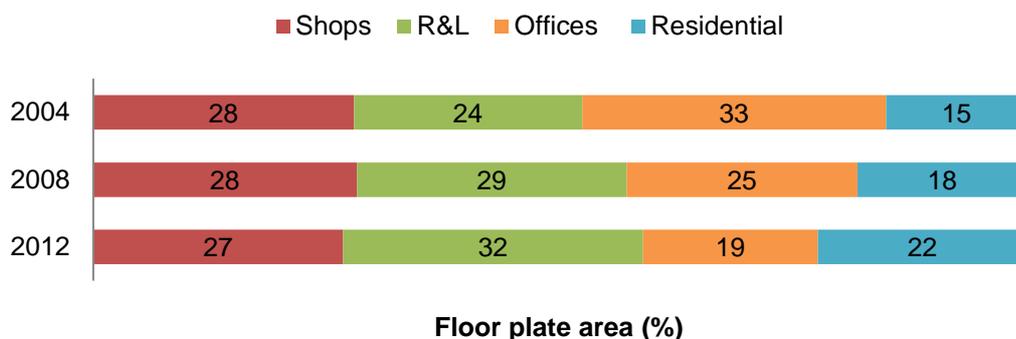


Figure 23. Shaftesbury's SD cluster weighted floor plate area per sector

Source: Shaftesbury (2012; 2008; 2004)

In terms of income, shops contribution to Shaftesbury's SD cluster decreased from 48% in 2004 to 36% in 2012. R&L increased from 25% in 2004 to 33% in 2012 remaining the second largest sector. Offices weight declined, while the residential sector grew. Whereas, in absolute terms, gross income from all sectors grew, except from shops that experienced a minor decrease from 2008 to 2012, (Figure 21) when weighted R&L and residential were the only growing sectors (Figure 24).

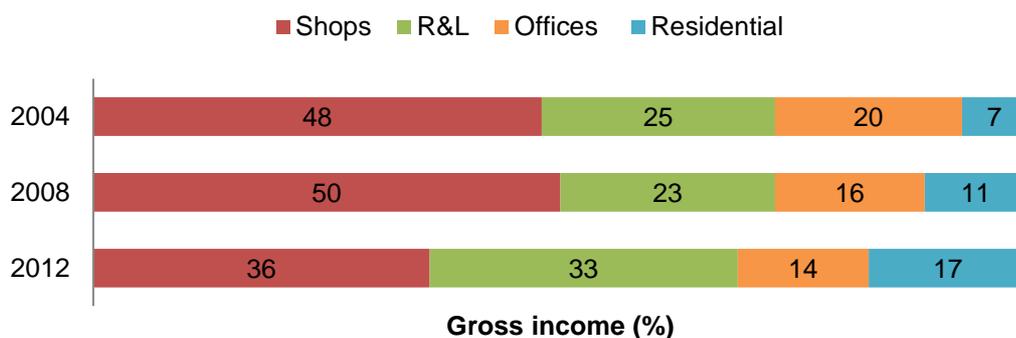


Figure 24. Shaftesbury's SD cluster weighted gross income per sector

Source: *ibid*

A Shaftesbury's SD cluster director asserted that Shaftesbury 'manages an exciting and very fast changing retail portfolio' (Interview 40). However,

for the time period analysed, the quantitative data show that from Shaftesbury's SD cluster retail portfolio, that is, shops and R&L, it was the R&L sector that saw the greatest growth in terms of floor plate area, gross income and number of units (Figure 22). What is more, considering the growth of the residential sector and the decrease of office floor plate area Shaftesbury's director account of the company's relative indifference for offices or residential uses on the upper floors seems rather questionable. Alternatively, the quantitative data seem to suggest a preference for residential uses for the time period analysed. This point is further investigated in section 5.4, when exploring the stock-level, active management activities involved in this reconfiguration of Shaftesbury's SD cluster portfolio.

In summary, together this section showed that between 2004 and 2012, Shaftesbury's SD cluster grew in terms of floor plate area, number of units, capital value and gross income (Table 5). Moreover, the analysis of its sectoral composition showed that in terms of floor plate area the cluster changed from being mostly comprised of offices into being mostly comprised of Restaurants and Leisure (R&L) (Figure 23). This analysis also suggested a financially effective management strategy for the office space considering that the sector's 35% floor plate area reduction was accompanied by a 14% growth in gross income (Figure 22). Shops kept relatively constant for the various indicators analysed for the period analysed (Figure 19 to Figure 21). In 2012, shops and R&L were the most significant sectors in this portfolio in terms of floor plate area and gross income (Figure 23 and Figure 24).¹⁵

5.3.3 Financial performance traits and aims

A Shaftesbury director argued that, particularly until the late 1980s, new acquisitions at Shaftesbury and other property companies were mostly deal driven with no particular focus beyond a 'good deal' (Interview 40).

¹⁵ Data not available to assess these sectors weight in terms of capital value.

However, these days Shaftesbury seems to have a much more detailed investment strategy. As the company states, Shaftesbury,

... invest in locations close to streets traditionally regarded as prime with the aim of assembling clusters of buildings or villages where we see opportunities to create rental growth (Shaftesbury 2004, 4).

Rental growth seems to be a key aspect in Shaftesbury's performance aims. As a director maintained,

... it's all about ... income, but then also, it's about growing your reversion as well and if you ... look very rough and ready ... over a five-year period, you convert your reversion, [so it's also] the it's grown again ... (Interview 40).

Moreover, the director further argued, 'we have a long term shareholder base, it's all about rental growth, growing dividends ...' (Interview 40). Shaftesbury can thus be defined as a long-term and income driven company.

Nonetheless, capital value growth seems equally important for the company as it affects Shaftesbury's gearing levels. As Shaftesbury posits 'with conservative gearing and secure and rising income, we are well placed to fund the continuing expansion of our portfolio' (Shaftesbury 2012, 6). In 2012 Shaftesbury gearing was 44.2% (Shaftesbury 2012). Therefore, both capital value and income value growth seem critical in Shaftesbury's assessment of their performance. As the director stated,

... the fundamentals of what we do is curating our portfolio to make sure more people want to come here, more people want to spend time here, spend money here. And then ultimately, if you get that right, the rents grow and the capital values grow and your shareholders are happy, so it's all about creating that right sort of environment and vibe (Interview 40).

This notion of 'curating' the portfolio, further explored later in this chapter, needs to be briefly addressed here, as it seems to help to clarify some aspects of Shaftesbury's performance aims. As a Seven Dials Trust trustee said, Shaftesbury has had a

... policy of renting to interesting tenants with the idea that it would attract more visitors if there is something worth going to see, rather

than shops that people have in their own high streets, and so as a result they accept lower rents than they would do, but as a result the value of the area has improved (Interview 37).

This suggests that Shaftesbury might have been willing to somehow compromise on their income return (from one or several of their units) for the sake of this *curatorial* process. The curatorial process seems to prioritise attracting 'interesting' retail tenants, over renting units to the highest bidder. Moreover, this curatorial process requires a long-term approach. As a director maintained,

For us, you don't want to suddenly see 20 per cent on your rents in a year because what does that do to everybody else in the street? Are they gonna be able to afford it? Whereas if there's a little bit at a time, a little bit at a time and you're marketing it and you're promoting it, and you're refreshing it, and you're bringing the people in, then everybody benefits (Interview 40).

If this curatorial process might take time to be reflected on rental income, its impact on the portfolio's capital value might be equally slow and moreover, hard to be fully expressed. On Shaftesbury's annual reports there is a recurrent remark on how Shaftesbury's valuers consider that the capital value of this portfolio may actually be higher than declared. As Shaftesbury stated,

DTZ, the valuers of our wholly owned portfolio, have again commented in their report on the concentration of a high proportion of our properties in adjacent or adjoining locations within our principal villages and the dominance of retail and restaurant uses. They advise that, as a consequence of these unusual factors, some prospective purchasers may consider that parts of the wholly owned portfolio, when combined, may have a greater value than that currently reflected in the valuation that we have adopted in our results (Shaftesbury 2012, 9).

This suggests that the value of the whole, or parts of Shaftesbury's cluster, may be greater than the sum of its parts. That is, the potential added value resulting from the spatial and sectoral composition of this portfolio is hard to be conveyed in terms of its overall capital value, when the portfolio is valued as a whole as the sum of the value of its individual units or buildings.

Regarding Shaftesbury's performance during the 2008 property downturn the company states,

in a difficult economic climate, the Group's capital value and total returns again significantly out-performed the wider property market (Shaftesbury 2008, 8).

It is noteworthy that inner London's resilience to property downturns, particularly the West End, was the reason presented by Shaftesbury for starting to develop their cluster of ownership in the West End back in the 90s. Shaftesbury states,

Our determination to confine ourselves to such a specific investment policy located in this tightly defined geographical area originated from our experiences during the recession in the early 1990s. At that time, we found that whilst there was little demand for property investments and capital values fell, tenant demand continued and rents remained stable ... (Shaftesbury 2008, 15).

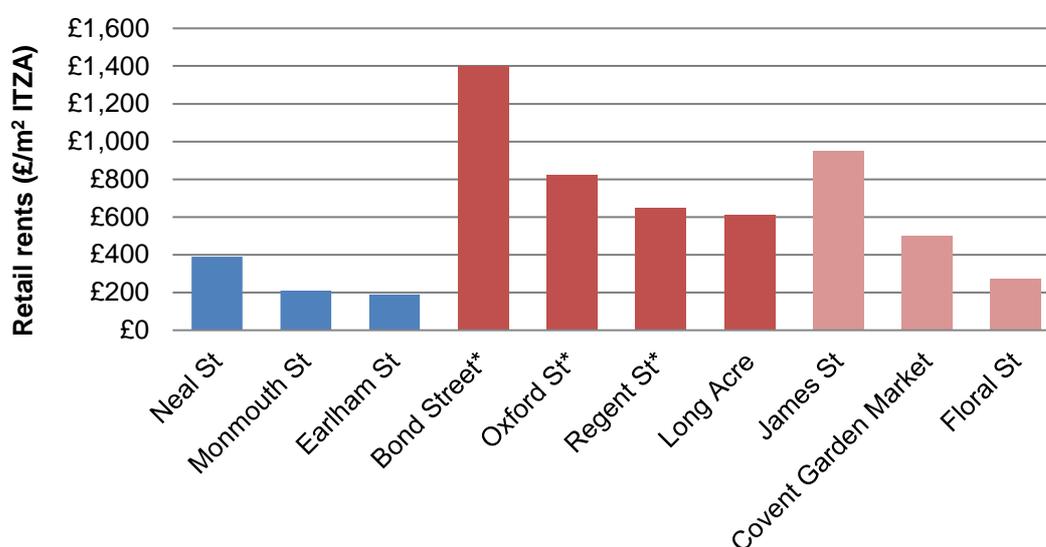
Moreover, a company director stated that during the early 1990s recession,

we lost a lot of shareholders' money, so we actually had to go back to our shareholders and say 'look, we've got a really good idea, there is something magical about this area, there is something amazingly resilient here, we've just gone through the harshest property recession anybody could remember and yet this location still performed, so will you back us to just concentrate around here?' (Interview 40)

The director seems to attribute the cluster's resilience to property market downturns partly to the area good transport network, its richness in cultural amenities and the visitors it attracts. As the director stated,

I'm talking about this being the economic sort of powerhouse, it's this amazing communications, it's not just all about overseas tourists, it's domestic visitors. If you think how many people live just outside London, [and can take a] train journey into the West End and actually ... If you got a map and you overlaid hotels, theatres and galleries, that tells what it's all about. It's the workers, but it's also that whole cultural site. ... you go to the theatre; I guarantee you will eat before or after. If you've got children, you will eat before and after (Interview 40).

Shaftesbury's SD cluster retail rents were nevertheless underperforming, considering Shaftesbury's own benchmark. Figure 25 shows Shaftesbury's SD cluster retail rents segregated by the cluster's three main streets (Neal Street, Monmouth Street and Earlham Street) and benchmarked against a set of other streets the company defines as prime zone A. Similar to the case of Capco's CG cluster, Shaftesbury with this diagram, seems to highlight their SD cluster rental growth potential by benchmarking it against London's prime retail areas. Shaftesbury benchmark includes Bond Street, Oxford Street and Regent Street, and also some of the streets Capco's CG cluster comprises.



*Based on 30ft zones. Shaftesbury Zone As are "net effective" sic (Shaftesbury 2015, 18)

Note: In blue streets in Shaftesbury's SD cluster; dark purple Prime A retail streets in London; light purple streets in Capco's CG cluster

Figure 25. Shaftesbury's SD cluster retail rents benchmarked

Source: Adapted from Shaftesbury (2015, 18)

The figure shows retail rents of some of the streets of Shaftesbury's SD cluster. The rents show below all benchmark streets except for Neal Street, which outperformed Floral Street (a street a Capco director considered in need of 'a little help'). Similar to Capco's CG cluster case, this suggests that Shaftesbury envisions their SD cluster potentially competing with London's Prime Zone A retail zones, yet still way below this benchmark. The next section explores the every-day management

practices involved in trying to achieve their financial performance aims. Particularly, it explores how Shaftesbury manages uses and users in their SD cluster through, for instance, changes of use and new developments, and the role of the public space in their curatorial process for this portfolio.

5.4 A RETAIL AND LEISURE BUSINESS

5.4.1 Mix of uses and tenants

Shaftesbury places a great emphasis on the management of their retail, restaurants and leisure (R&L) portfolio, the uses mostly on the ground level. Defining a retail vision and attracting the tenants necessary to support it, was key in the active management of their ground level units. Shaftesbury argued that they selected their retail, restaurant and leisure tenants to match what the company perceives to be the nature of Seven Dials. As Shaftesbury stated,

The broad mix of uses and unusual street pattern gives ... Seven Dials ... a unique bohemian atmosphere. Our strategy is to accentuate these characteristics through the careful choice of appropriate tenants (Shaftesbury 2002, 4).

A Shaftesbury director further detailed,

Everything we do here is mid-market, we are unashamedly mid-market, but what we do try and do is, whether it's on the food, whether it's on the retail, we tend to discriminate against multiples because we want the retail here to be different (Interview 40).

Similarly, a Shaftesbury's portfolio manager was quoted saying,

We don't want any mainstream brands. We want more kooky brands, something that offers the consumers a unique product that they are not going to get anywhere else. So the retail strategy is quite intense ... (BBC 2008).

Besides the criteria for the selection of individual retailers, Shaftesbury's retail strategy for their SD cluster seemed to put great emphasis on the mix of retailers. As a Shaftesbury director stated,

... our job as landowners, long-term landowners is place-making and bringing prosperity to our tenants. If they prosper, we prosper, and we do that by place-making, almost setting a stage for the tenants, coordinating promotion, an obsession about retail mix, getting interesting operators ... (Bickell 2013).

It is noteworthy the use of the term *place-making*, or what was before referred to by a different director as *curating* their portfolio to define their strategy (what Capco's directors called *repositioning* their streets). For achieving the 'right' mix of retailers, Shaftesbury 'increasingly ... includes changes of use from offices to shops, restaurants and other leisure use...' (Shaftesbury 2005, 13).

Regarding leases, a Shaftesbury director noted that their retail leases are very similar to shopping centre leases including having restrictions on the type of products that can be sold. The director detailed,

We have landlord pre-emption clauses, so if you take a lease from us and then you want to sell your lease, you have to offer it back to me, I do pay you the market value, but it means that when I've let you a nice shop ... you're not gonna go and sell it to GAP because we wouldn't want that, so it helps us maintain control (Interview 40).

Moreover, the director maintained that Shaftesbury was quite different from most landlords in terms of how they managed retail leases. As the director stated,

For a lot of less sophisticated, or less active investors, what do you want? You want a nice, long lease, you want a very secure covenant and you want to collect four cheques a year and you don't want to worry about it. We're the opposite, we want to keep that change, keep refreshing it and, by the way, every time you make a change, it's an opportunity to improve the rental tone because ... it's new evidence, new transactional evidence, so it's an opportunity to just keep moving it on (Interview 40).

Shaftesbury director's quote thus suggests that in Shaftesbury's investment strategy, tenant turnover is perceived as positive. This is unexpected, as the literature argues that long leases with strong covenant tenants help to explain real estate companies' resilience during property downturns (e.g. Adams and Tiesdell 2013). It is also noteworthy the director's remark associating targeting long leases with less sophisticated

or less active investors. This suggests that the director considers Shaftesbury to be an active investor and a sophisticated one (at least more than others). A senior planner at Camden seemed to share this perception when arguing that

Shaftesbury are an astute landlord, they own most of the estate, they want to improve the estate and improve their revenues and they very carefully monitor the shops, the footfall of people on the street ... they're having an annual survey, so they know the amount of footfall, they have an idea of people going in and out of shops, an idea on estimate spend ... (Interview 38).

Together these accounts suggest that Shaftesbury carefully and closely manages their retail portfolio and that, to certain extent, it does so in an unusual manner, as illustrated by their preference for high tenant turnover.

Regarding Shaftesbury's office portfolio, the company claimed that they tried to let their office space to businesses in some way related with the character of the area. The importance of office users to Shaftesbury's SD cluster can be clearly illustrated by a remark made by one of its directors. The director stated,

we do really like companies like Great Portland Estates and Derwent London because they create these big chunks of space and people work in them and then they come and all those workers come and shop in our shops and eat in our restaurants (Interview 40).

This quote suggests the interdependence, or potential synergetic relation, between office and retail sectors, as the literature has noted (Beauregard 2005). It also suggests that Shaftesbury, appreciating the benefits of office users to their cluster, might nevertheless, to a certain extent, rely on others to provide this use.

Indeed, Shaftesbury has pursued a strategy of converting offices to residential. As far back as 2002 Shaftesbury stated that 'we have continued our policy of further reducing the amount of offices, both through change of use and disposal' (Shaftesbury 2002, 2). In 2012 Shaftesbury continued 'introducing alternative uses for upper floors to replace smaller offices, which suffer from cyclical demand and obsolescence' (Shaftesbury

2012, 16). As a Shaftesbury director detailed, one of the reasons why Shaftesbury was not particularly keen on having offices was because of its '...fluctuations, that's the issue for offices, you don't get it in shops and restaurants, not in these locations, these are much more stable' (Interview 40). The analysis of Shaftesbury's SD cluster portfolio composition indeed showed that, when comparing 2004 with 2012, office space decreased and residential space grew (Figure 23).

The growth in Shaftesbury's SD cluster residential sector was actually mostly at the expense of offices floor plate area. The company states,

We have carried out a significant number of schemes to convert offices to residential accommodation in recent years. The floor areas of office and residential space are now almost equal in [Seven Dials] (Shaftesbury 2010, 23).

In 2012, two years after this statement, the residential floor area was already larger than offices (Figure 19). This suggests a clear strategy and trend toward replacing office space with residential space. Shaftesbury's SD clusters new residential space is a residential private rented sector portfolio. As the company notes, 'other than in special situations, we generally let rather than sell our apartments' (Shaftesbury 2011, 17).

5.4.2 New Developments

The St Martin's Courtyard was the only significant new development in Shaftesbury's SD cluster for the period covered in this analysis. The scheme was developed through the Longmartin Company, a joint venture between Shaftesbury and the Mercers' Company. Located immediately south of Seven Dials, St Martin's Courtyard takes up an island site of about 8,000m² with four street fronts—Long Acre, Mercers Street, Shelton Street and Upper St Martin's Lane. Shaftesbury acquired some of the existing buildings on the plot and the Mercers Company owned the remaining buildings. These companies combined their assets in a 50/50 joint venture.

MR Partnership Architects were the consultancy responsible for the new master plan. The Longmartin joint venture submitted several different planning applications for the different buildings on site rather than one major planning application. Existing buildings on site included a NCP garage, an old Turkish bath, a hotel, office blocks and some residential units. The scheme, phased between 2007 and 2011, involved new and refurbished buildings and comprises 23 retail units, five restaurants, approximately 6,400m² of office space, 34 flats and a new publicly accessible courtyard (Shaftesbury 2009). According to Shaftesbury, in November 2008 pre-lets or advanced negotiations for pre-lets were in place for more than half of the retail space (Shaftesbury 2008). All office space was pre-let before completion (Shaftesbury 2010).

In terms of the location of uses in this scheme, Shaftesbury's strategy was to move office entrances from Long Acre back into the courtyard. Long Acre is a high footfall street and therefore, an ideal place for retail as the literature posits. As a Shaftesbury director noted, 'with a shop, your rent is determined by how many people ultimately walk past your front door' (Interview 40). Moving office entrances into the courtyard thus freed up space along Long Acre for retail units. Different from other shops, however, restaurants are traditionally considered anchor stores, which is retail less sensitive to location. Therefore, the director said that restaurants were placed in the courtyard.

Footfall was a critical aspect to the success of St Martin's Courtyard, as more generally it seems to be to Shaftesbury's SD cluster overall strategy. Shaftesbury working with Sister London, a public relations (PR) Company, developed a PR strategy for St Martin's Courtyard. According to one of Shaftesbury's directors quoted in the PR company website,

[Sister London's] role is to drive more footfall and spend to our retail and leisure destinations and we are delighted with their work and have seen year on year increases (Sister London 2015).

In Shaftesbury's 2012 annual report, the company stated that 'footfall into the Courtyard is growing and, as visitor demographics evolve, we expect to instigate some changes to the initial retail mix' (Shaftesbury 2012, 27).

5.4.3 Public realm

There were two key contributions from Shaftesbury to Seven Dials public space for the time period analysed. First, there were contributions to the Monmouth Street renowned scheme and second, there was the creation of a new POPS in the St. Martin's Courtyard. Both schemes illustrate, on the one hand, Shaftesbury's concern with the quality of the public realm, as they perceive it as a critical element for driving footfall. On the other hand, the schemes illustrate the growing interest in the public realm by a broad range of stakeholders, namely LPAs and community organisations.

With regard to Shaftesbury involvement with Monmouth Street scheme, the company contributed with additional finance and design suggestions. The Seven Dials Trust initiated the process leading to the physical uplift of this street. According to trustees and planners at Camden, the Trust approached Camden requesting them to rethink the traffic system in Seven Dials. After negotiations with Camden and other statutory bodies, these stakeholders agreed on the need to make some changes to traffic in the area. This included traffic calming measures and widening sidewalks on Monmouth Street what was then a major road through Seven Dials. The budget for this project was negotiated between Camden and Transport for London (TFL) on the basis of the traditional used materials in London's streets, tarmac for roads and concrete slabs for sidewalks.

However, the Trust managed to secure additional funding from Shaftesbury to cover the costs of a higher profile design and finishes. The Seven Dials Partnership was formed for the delivery of this scheme involving the Seven Dials Trust, the TFL, Camden and Shaftesbury. According to Shaftesbury,

With our existing shops and offices substantially let, our principal project during the year has been to provide advice and finance for

the important initiative in Monmouth Street, to widen pavements, provide new street lighting and resurface the street to provide better pedestrian access (Shaftesbury 2005, 24).

Construction works took place between 2005 and 2006 comprising repaving the carriageway and the footways, replacing the carriageway's tarmac with multi-coloured York Stone cobbles, raising crossways and repaving footways. 'The total cost of the scheme was £720,000 which was covered by a number of S.106 planning gain funds which were matched by Shaftesbury PLC via a donation to the Trust' (Seven Dials Trust 2016). A planner from Camden involved in the scheme noted that Shaftesbury giving money through the Trust was a financial smart move from Shaftesbury. As the Trust is registered as a charity, Shaftesbury 'got money back from the government, so it was a tax efficient way for them to contribute to us' (Interview 38).

Completed in July 2006, Monmouth Street improvements became a reference project. In addition to two design awards—Camden Design award 2006 and RTPI/Transport Planning Network Design Award 2008—the scheme became

the standard template for the Covent Garden Area adopted by Westminster City Council in their 'Westminster Way' and used by Capco in King's Street and TFL in Shaftesbury Avenue (Seven Dials Trust 2014).

Moreover, as Lucy Musgrave the founder of *Publica*, a consultancy specialised in public realm design, was quoted saying 'developers constantly ask us to do something like Monmouth Street' (Economist 2012). The consultant described Monmouth Street post intervention as

... a brick-paved lane free of ugly street furniture, where welcoming seats outside attractive shops and cafés tempt people to hang around and offload their cash (Economist 2012).

Similarly, in the NLA publication, when reasoning about Shaftesbury's investment in the public realm it is argued that,

Like many other estates, the company has invested in the public realm to enhance the appeal of its villages, with pavements, street

lighting and other servicing, and events, press partnerships and shopping evenings to bring in new trade (NLA 2013, 98).

Developers' growing interest in the public space, was simply summarised by a local councillor who stated, 'obviously [this is] for their own interest because it increases the footfall ...' (Interview 19). Similarly, a planner at Camden stated that these street improvements 'provide more pedestrian space, so they can walk more easily, shop more easily, stop and browse ...' (Interview 38). The link between public space quality, footfall, consumer spend and rents, seems to be a key component in the commercial success of clusters of ownership (and other retail places).

Indeed, Shaftesbury positively correlates the completion of this street improvements project with additional demand for their shops, restaurants and also for their flats on Monmouth Street and adjacent streets, particularly Earlham Street (Shaftesbury 2006). This is so much so that, in 2010, a few years after the completion of Monmouth Street, Shaftesbury argued,

Following the success of the street improvements in Monmouth Street, we are currently discussing with Camden Council proposals for traffic management and repaving in Earlham Street west, an important pedestrian route between Soho and Seven Dials (Shaftesbury 2010, 23).

Shaftesbury second significant contribution to the public space in Seven Dials was the POPS at the St Martin's Courtyard development. The space was a significant addition to the area's public realm and again Shaftesbury expected it to further contribute to increase footfall. The POPS is located in the courtyard in the middle of the new scheme. The masterplanners for this scheme carved three new access routes to the courtyard, through demolishing some ground floor units of existing buildings and opening up what was before a gated garage access. Both the courtyard and its new pedestrian accesses are delimited by active street fronts mostly restaurants and shops and some office entrances.

This scheme, according to its designers and Shaftesbury, increased what they referred to the neighbourhood's permeability by creating new east-west and north-south pedestrian routes—running through the middle of the new courtyard and respectively connecting Upper St Martin's Lane with the Mercer Street and Long Acre to the courtyard. St Martin's Courtyard POPS is open 24 hours and Shaftesbury with a management office on site manages its cleaning and security. The additional permeability resulting from this scheme, together with the 'right' mix of retailers and with the public perception of the area as a clean and safe, presumably, drives footfall.

5.5 THICK INSTITUTIONAL ENVIRONMENT

5.5.1 Key stakeholders, their interests, resources and relationships

The London Borough of Camden, City of Westminster and the Seven Dials Trust are some organisations whose activities and resources significantly affect the active management of Shaftesbury's SD cluster. Shaftesbury's SD cluster falls under the Conservation Areas of Seven Dials and Covent Garden. Consulting with its advisory committee, the London Borough of Camden is responsible for reviewing Shaftesbury's planning applications in their borough (the properties north of Long Acre). With the expansion of Shaftesbury's SD cluster outside the boundaries of Seven Dials through the St Martin's Courtyard, the Coliseum and the Opera Quarter, Shaftesbury entered City of Westminster jurisdiction. These LPAs' forward planning also impact Shaftesbury's SD cluster. For example, Shaftesbury has commented on the positive impacts from the Long Acre street improvements on St Martin's Courtyard saying,

Comprehensive street improvements to Long Acre are close to completion. The creation of new pedestrian crossovers at St Martin's Cross, scheduled for completion in early in 2009, will greatly enhance pedestrian access from Leicester Square and its important transport links (Shaftesbury 2008, 20).

According to a Shaftesbury director the differences between Westminster and Camden were becoming blurred. Nevertheless, the director argued

that 'Westminster have a better understanding of commercial reality, they're probably less anti-development' (Interview 40) whereas,

... from Camden's point of view, we will always be the bad buys because we're the capitalists, we're money grabbing and we're the fat cat - they won't say it - but you can just sense that there's a bit of that, but that's fine, we deal with that (Interview 40).

Yet, if anything, according to this director, Westminster was becoming more like Camden, for example, with respect to their concern over protecting office space. This happened after the 2013 Amendment to the Use and Class Order, when office to residential conversions were included in use changes with Permitted Development Rights (PDRs). Westminster and Camden together with other boroughs applied and became exempt in their Central Activities Zone (CAZ). If Camden was protective of their employment space before, Westminster after the inclusion of offices to residential into PDRs became protective of their office uses in the CAZ area, the PDR exemption area in the borough thus, the only area where Westminster keeps greater control.

Regarding other local property owners alongside Shaftesbury, the Mercers' Company is a prevalent freeholder in the area. They work in partnership with Shaftesbury as the joint venture between the two companies for the St Martin's Courtyard scheme illustrates. Other significant local property owners include Capco in the adjacent Covent Garden neighbourhood. With regard to this local significant landowner Shaftesbury stated that,

We are working with other owners to strengthen Covent Garden's appeal as a renowned shopping and leisure destination. We welcome the changes being introduced in and around the Piazza in Covent Garden, which complement our nearby holdings (Shaftesbury 2011, 19).

This suggests that Shaftesbury has been working in partnership with other significant local property owners both formally, which the example of the joint venture with the Mercers illustrates, or more informally, as this account of their working relationship with Capco suggests.

With regard to community associations, The Seven Dials Trust is the most influential local community group in terms of how their activities impact the active management of Shaftesbury's SD cluster. Amongst other activities, the Trust was responsible for coordinating the development of an environmental study for Seven Dials Seven, the 'instrument for guiding development control decisions' (Seven Dials Monument Charity 1998). A Shaftesbury's past CEO is quoted on a Seven Dials Trust newsletter appraising this study saying that 'we have your Study here which has been our "Bible" since our first investments in Seven Dials over 18 years ago' (Seven Dials Trust 2014). This suggests some sort of reverence by Shaftesbury to the study of the Seven Dials Trust.

The Trust aims to work in collaboration with '... local authorities and freeholders on a holistic approach' (Seven Dials Trust 2014). They consider that 'getting proposals implemented depends upon the support of both the major freeholders and the local authorities ...' (Seven Dials Trust 2014). As one of the Trustees pointed out,

as part of our re-planning of the streets things, we found that Westminster and Camden were up for this partnership and obviously they had to approve it (Interview 37).

Moreover, the Trustee explained,

we discovered that there was this idea that if property owners contributed towards improvements in the area it was towards everyone benefit because it raised the profile of the area and as a result their properties became worth more (Interview 37).

This suggests that improving the built environment is a point of common interest for these different stakeholders, the local authorities, significant property owners and the community association. Ultimately, as the Trust's newsletter boldly states,

the Trust in partnership with Camden Council and Shaftesbury PLC has brought an entire neighbourhood back to life and the environmental improvements are based upon the coherent, detailed and holistic vision set out in the 'Seven Dials Renaissance Studies' (Seven Dials Trust 2014).

Collectively, this suggests that in Seven Dials these various stakeholders are aware of each other and that moreover, they work together to achieve what seems to be their similar agenda over the built environment. This seems to express a form of what Amin and Thrift (1995) called *institutional thickness*. These accounts also suggest that Shaftesbury has been embedding the company in this thick institutional environment. This can be illustrated by, for instance, Shaftesbury working in close proximity to some of the areas' key stakeholders—other significant property owners, the Seven Dials Trust and also with the LPAs—and for having their offices within walking distance of their SD cluster.

5.5.2 Changes of use and new developments

Shaftesbury's SD cluster is mostly comprised of small individual units which when put together showed a fairly comprehensive ownership. The nature of Shaftesbury's portfolio thus means that the company is usually not involved in large comprehensive redevelopment schemes. Alternatively, Shaftesbury submits many small planning applications. As a director stated,

... it'll be lots of little schemes, it'll be a change of use to residential, it'll be knocking one little shop into another shop to make a bigger shop, it'll be extending back into a rear service yard, putting a mansard roof on, moving a planning use to a better location ... (Interview 40).

Shaftesbury, together with other property owners, has been submitting many planning applications for changing uses from offices to residential. Camden has experienced a lot of development pressure for this use change and Camden planners expressed their concerns over the loss of employment space in the borough (Interviews 23 and 28). As a planner maintained, 'we are basically sort of losing all the key services and employment space over to housing' (Interview 23). A development management planner further clarified that uses in Camden compete and as the market has been geared toward high value housing, the borough is losing employment space. As the planner explained,

we do regard housing as the most important element of the plan, the preferred means of development in the borough, the trouble is because property prices are so high within the borough we are constantly competing with housing use over employment use (Interview 28).

Therefore, different from Westminster, Camden had never been particularly receptive to office to residential use changes.

A Shaftesbury's director explained how they managed to convince Camden into approving these changes of use in their SD cluster stating,

we have got consents here because some of these funny, little, old buildings, which probably were houses originally, they actually lend themselves to being converted back to residential use and we persuaded Camden (Interview 40).

Shaftesbury also claims that the company has adopted a responsible approach regarding their residential units by offering private sector rental rather than residential for sale. The director argued that,

if you let your flats, people live in them, so they live in them and they put something back into the community because they spend money here and they spend time here. If you sell flats in these locations, you probably have somebody who might be there a few weeks a year and it doesn't actually contribute anything ... (Interview 40).

However, as this director seems to claim, and the case of Capco's CG cluster presented before also suggested, if providing residential units to let rather than for sale inhibits the potential financialization of these assets, on the other hand, contributions to affordable housing are also inhibited. This is a challenge for planning. As a planner stated, Westminster was requesting the due contributions to affordable housing if these units were sold in less than 15 years from planning permission (Interview 7). This postponing of (potential) affordable housing contributions means nevertheless, that present contributions to affordable housing were more limited.

With regard to other use changes, Shaftesbury had also been submitting many applications to convert shops into restaurants. Again, this is aligned with the general development pressure that Camden and Westminster

have experienced in the boroughs for the past decade. Planners at Camden expressed their concerns over this use change when saying they worried about the loss of amenity shops (other than restaurants) and particularly about the nuisance that late night licences with alcohol licence might cause to residents (Interviews 23 and 28).

In this regard Shaftesbury, similarly to Capco, welcomed the 2005 amendment to the Use Classes Order, which introduced different licence categories for Drinking Establishments (A4) and Restaurants (A3). Having a distinct licence for restaurants made it easy for Shaftesbury to present their case to the LPAs for more restaurant licences. It was the LPAs' view that if alcohol was served with food only, as the A3 licence requires, nuisance behaviour disturbing to the community was less likely to occur. As Shaftesbury posited,

We hope that this change will enable us to make selective improvements and extensions to our restaurants more easily than has been the case in the past (Shaftesbury 2005, 16).

A Camden development management planner nevertheless emphasised that Seven Dials,

... is treated in Camden plan as a retail centre [where] we want ... to have a good, diverse shopping offer and not to be completely dominated by restaurants and cafes ... (Interview 28).

Therefore, even with distinct licences for restaurants and drinking establishments, Camden was still showing some reservation regarding approving new restaurant licences.

For Shaftesbury, a way to go around Camden's unwillingness to give new restaurants licences was to do use-swaps. According to a planner at Camden,

... what Shaftesbury tends to do is they sort of mix and match, so they will do swaps, so they come to an agreement with us that this café over here will actually swap location with the retail unit over there and vice-versa (Interview 28).

This suggests that there are potential advantages for cluster owners in terms of use changes, over others with a limited number of properties in the same borough. Additional to submitting individual planning applications for use changes, cluster owners could change uses by swapping them between their properties.

Shaftesbury also used dual use licences. A Shaftesbury's director explained,

We've done quite a lot of them, for dual use, offices or residential ... restaurant or shop and basically what it means is that the planning consent has a 10-year life and, during that 10-year period, you can use the property for whichever use you've got consent for. ... the idea with these dual uses, where's the market, what's the demand? You can change it (Interview 40).

Moreover, Shaftesbury used dual use licences to achieve use changes in other properties. As a Shaftesbury director explained,

... sometimes, you've got a dual use and you might actually be a bit clever and you think "actually, I'll take part of that dual use and I'll move it, or swap it" Again, if you've got clusters of properties, you can do that (Interview 40).

Shaftesbury therefore, split some of their dual uses to allocate one of those uses to a different unit in their cluster. Again, this suggests that cluster owners have higher chances to achieve use changes in their properties than others with single or a limited number of properties in the borough.

Furthermore, Camden planners pointed out a change in Camden's way of approaching planning applications when dealing with prevalent landowners, which also seems to bring advantages to landowners with a significant number of holdings in Camden. Planners referred to their new approach to groups of planning applications as Camden's Portfolio Approach (Interviews 35 and 38). Planners explained that when dealing with applicants with many properties and who submit many planning applications to Camden, planners instead of evaluating each planning

application on its own merits, were now looking at them as a group. As a strategic planner said,

What we have been talking to them about, and trying to see how we can recognise that they do own a number of assets across their portfolio and how we deal with that in a kind of strategic way rather than just looking at each individual planning application on its own (Interview 35).

The objective of Camden's Portfolio Approach, according to a strategic planner at Camden, is to potentially align private owners' interest with the interests of the LPA. The planner explained that the Portfolio Approach nevertheless required first, Camden to have a good idea of their applicants' portfolio and second, Camden to understand the applicants' strategy.

There are at least three important aspects worth noting regarding Camden's Portfolio Approach. First, in Camden changes of use are locked, to a certain extent, particularly in their CAZ area. With the Portfolio Approach however, Camden was more likely to allow use changes in the CAZ area because it can maintain the mix of uses, for example, approving linked planning applications requesting symmetric changes of use. Therefore, through the Portfolio Approach, Camden advances their own agenda—to maintain the mix of uses in the borough—while giving greater levels of flexibility to property owners with concentrated ownerships.

Second, the Portfolio Approach, as a planner explained, requires more contact hours between Camden and the property owners, as Camden needs to become familiar with property owners' portfolio and strategy. In this regard, it can be argued that, to a certain extent, the fewer the number of property owners, the easier it is for Camden to become acquainted with their interests and to bring them to the table to negotiate. Moreover, the fewer the number of players involved, the fewer the number of different views, interests and potential conflicting views to be resolved. It might then be easier for Camden to deal with a few large property owners than with many smaller property owners. However, planners at Camden stressed that in the case of a misalignment of interests between the LPA and large

property owners there would be a potential 'David and Goliath' situation considering the power significant landowners hold (Interview 35).

Third, Camden's Portfolio Approach seems to be LPA's response to the works of Shaftesbury and others with similar portfolios. The Portfolio Approach is mostly relevant when dealing with property owners who submit multiple planning applications for different sites. Overall, this change in the rules of the game seems favourable to property owners with multiple ownerships in Camden. In conditions of concentrated ownerships, property developers can link different applications shuffling uses around their portfolio. Therefore, property owners with large portfolios comprised of many units have an edge over the market compared with owners of one or few properties in the area.

Ultimately, as a result of Camden's Portfolio Approach, cluster owners are more likely to attain planning permission for use changes than others with single, limited or dispersed ownerships over different boroughs. Supporting the literature this seems to illustrate a link between property ownership and power (e.g. Dixon 2009; Kivell 1993). Moreover, this also seems to illustrate how power grows along with the extent of concentrated property ownerships (Olsen 1964).

5.5.3 Provision and management of the public realm

Despite various suggestions of Shaftesbury's interest in the quality of the public space as it impacts footfall, consumers' spend and rent, Shaftesbury's contributions to the public realm in Seven Dials seem to be less a result of the company's active management strategy and more a result of the current institutional context where Shaftesbury operates. This is an institutional context where local authorities expect and have policies requiring private companies to add public spaces when embarking on major redevelopments or new developments. As the case of Capco's CG cluster presented before showed, Westminster is supportive of POPS and

this case shows that Camden is no different.¹⁶ As a planning officer at Camden expressing his views on POPS said,

... we always try and promote open spaces and additional open spaces through major applications through our policies and we've got an Open Spaces and Amenity Policy which seeks open spaces. We feel that private open spaces can be beneficial for the residents otherwise we would not promote them...(Interview 23).

Moreover, as a senior planner at Camden argued, for the high profile areas of the borough such as Seven Dials,

the council just doesn't have money sitting around waiting for schemes like this, unless it's in an area that's deprived because that's what Camden focuses on (Interview 38).

Additionally, in Seven Dials, the Seven Dials Trust, a local community organisation, has been frequently involved in prompting public realm improvement schemes and in the past successfully relied on significant local property owners as a source of additional finance for such schemes.

Therefore, regarding Shaftesbury's contributions to public space, it could be argued that the company has assumed more a role of a *rule taker* than of a *rule maker*. For example, despite Shaftesbury's involvement in Monmouth Street improvements the leader of this process was the Seven Dials Trust, arguably the rule maker in this case, mobilising local stakeholders into a partnership. Additionally, Shaftesbury new POPS in the St Martin's Courtyard, independently of Shaftesbury's interest in providing this additional public space, comes in a context where most LPAs in London are requiring new POPS to go together with significant new redevelopments. Therefore, it could be argued that Shaftesbury in the case of their POPS also assumed the role of a rule taker more than a rule maker.

There are three points worth highlighting regarding provision and management of the public space in Seven Dials. First, this analysis suggests a common interest over the quality of the public space amongst

¹⁶ See, for instance, Camden's Open Spaces and Amenity Policy

Seven Dials key stakeholders. Second, it shows the growing participation of the prevalent property owner and of the local community association in the provision and management of the public space while the LPA seems to be taking the back seat. Third, it shows that recent changes to the public space in Seven Dials happened in what could be called a thick institutional environment, that is, an environment where different stakeholders and the processes that led to the provision and management of public space were deeply entangled.

5.6 SUMMARY OF FINDINGS AND CONCLUSIONS

Shaftesbury started to invest in the West End in the 1990s and the company has since, gradually, developed a concentrated portfolio in Seven Dials. The analysis showed that from 2004 to 2012 Shaftesbury's SD cluster grew, for example, for number of units from 221 to 366 (Table 5). It also showed that Shaftesbury's SD cluster acquisition strategy focused mostly on in-fill property however, also on expanding the cluster boundaries with acquisitions on the edge of the estate of a group of properties that led to the St Martin's Courtyard scheme. A Shaftesbury director asserted that the company was always actively seeking for new acquisitions. The director also said that acquisition opportunities were facilitated by Shaftesbury's local knowledge (Interview 40). This seems to support the literature that suggests that degrees of monopoly power can be created in locational submarkets (Coiacetto 2006).

Over the nine year period this analysis covered, the sectors displaying the largest growth were R&L and residential (Figure 22). Shaftesbury's SD cluster changed from mostly comprising offices to mostly comprising R&L in terms of floor plate area (Figure 23). The residential sector developed into a more prevalent sector in the cluster (Figure 24). Despite this spatially concentrated portfolio investment strategy, Shaftesbury's SD cluster remained, to a certain extent, a sectoral diversified portfolio, maintaining a mix of shops, R&L, offices and residential property (Figure 19 to Figure 24). However, a Shaftesbury director argued, and the quantitative data confirmed, that this portfolio was heavily focused on retail

(shops and R&L) (Interview 40 and Figure 24). Similarly to the case of Capco's CG cluster, Shaftesbury's SD cluster spatially and sectorially concentrated portfolio challenges some of the key tenements of risk diversification management (e.g. Lee and Stevenson 2005; Eichholtz et al. 1995). A countering effect to Shaftesbury's concentration risk exposure is the possibility of acting as *eye on the street builder-developers*, (Coiacetto 2001) greatly enhanced by their concentrated ownerships.

Shaftesbury seemed to envision their Seven Dials' retail units competing with London's prime retail areas (Figure 25). However, their benchmarking also showed the current gap between Seven Dials and some of London's prime retail areas. One of the reasons for this gap might be that Shaftesbury places more emphasis on attaining synergetic uses and retailers, as the shopping centre literature suggests, (e.g. Peca 2009) than on finding the highest bidder for their shops. Moreover, finding synergetic uses and users is likely to come with high transaction costs.

A Shaftesbury director argued that the resilience to the 1990s property downturn of their properties in the area was actually the reason why Shaftesbury started to develop a clustered portfolio in the area. The director further suggested that the company would not know how to invest in other than the West End area (Interview 40). This suggests that in Shaftesbury investment strategy there is an element of, what the literature as referred to as, *path dependency* (e.g. Martin and Sunley 2006), in the sense that their investment decisions in the 1990s condition their current investment decisions.

In terms of changes of uses, Shaftesbury sought to achieve a mix of mid-market retail and restaurants in their ground level units. In their upper level units, Shaftesbury held office and residential units yet had been reducing the former and expanding the latter. A Shaftesbury director referred to their active management of their portfolio as *place-making* (Interview 40), confirming the literature insight that long-term investors are interested in place-making (Adams and Tiesdell 2013). St Martin's Courtyard was Shaftesbury's only large new scheme in the area by 2015. It involved new-

build and refurbishments, and comprised retail, restaurants, offices and flats. This scheme was delivered and was owned in a joint venture partnership with the Mercers' Company, another significant local landowner. This suggests a long-standing partnership between two developers, something that the literature has identified as relatively unusual (Charney 2007).

Shaftesbury had a twofold contribution to the public realm in Seven Dials. First, Shaftesbury provided a new POPS in St Martin's Courtyard. This POPS contributed to improve the permeability of the area by creating new pedestrian links, while creating more opportunities for shop fronts. Second, Shaftesbury contributed to *de facto* public spaces by supporting part of the cost of Monmouth Street improvements led by a community association. This suggests that *institutional capacity* building (Healey 1998a) was not just in the hands of planners but distributed between various stakeholders. Moreover, Shaftesbury argued that these projects resulted in growing demand for their units, which offers support to the literature that argues that property developers and investors are growing more aware of the positive impacts that the space in-between buildings can have on their assets (e.g. De Magalhães 2012).

Camden, Westminster, the Seven Dials Trust and the Mercers' Company, were some of the players whose interests and resources somehow constrained yet mostly enabled the active management of Shaftesbury's SD cluster. For instance, the Seven Dials Trust worked to protect and enhance the built environment, arguably, Shaftesbury's SD cluster unique selling point. Together, the mutually recognised presence of these different stakeholders and their strong relationships suggests the existence of a thick institutional environment (Amin and Thrift 1995). Moreover, Shaftesbury seemed to advance this thick institutional environment by supporting the initiatives of local key stakeholders, which were aligned with Shaftesbury's own strategy. This was illustrated, for instance, by Shaftesbury's contribution for the implementation of the Seven Dials Trust environmental study and Shaftesbury's joint venture with the Mercers' Company.

Even when the institutional environment was constraining for the active management of Shaftesbury's SD cluster, the company seemed to find ways to overcome the constraints. For instance, despite Camden's constraining policies regarding offices to residential changes of use, Shaftesbury had managed to achieve Camden's approval for this use change by applying for offices to residential conversions to let rather than for sale. Regarding use changes from shops to restaurants, even though Camden had been more open to this use change than Westminster, still Camden was not always receptive. Shaftesbury was achieving these use changes through use-swaps and breaking down and shuffling dual uses. This suggests that property agents respond to incentives and constraints in the institutional environment (Adams, Dunse, and White 2005).

Additionally, recent changes in the institutional environment seemed to have been advantageous for Shaftesbury's active management strategy, such as Camden changing the way they were evaluating planning applications. Camden's portfolio approach involved more contact hours between planners and significant property owners than before. This was necessary if to try to align Camden's interests with the interests of prevailing property owners. This suggests a *thickening* of the institutional environment and moreover, an opportunity for Shaftesbury to further grow their locational literacy.

Similarly, the institutional arrangements between Shaftesbury, the Seven Dials Trust and Camden regarding the management and provision of the public space, seemed mostly supportive of Shaftesbury's agenda. The Seven Dials Trust had been an instrumental player in this regard, mobilising the LPA and Shaftesbury into partnerships for the delivery of public realm improvements. These public realm improvements seemed to simultaneously advance the agendas of Shaftesbury, Camden and the Trust. However, it is noteworthy that, differently from Capco, Shaftesbury showed a lesser dominant role regarding public realm improvements. The strong role the Trust assumed seems to partially explain Shaftesbury's cooperative yet less dominant role in this regard.

CHAPTER 6 . CADOGAN'S CHELSEA & KNIGHTSBRIDGE CLUSTER

6.1 INTRODUCTION

This chapter explores the case of Cadogan's Chelsea and Knightsbridge cluster (Cadogan's CK cluster) between 2004 and 2015. It explores why real estate companies choose to cluster their assets and actively manage them. More specifically, as the cases before, Cadogan's CK cluster is used as a case study to explore the interests, resources and practices of a real estate company that concentrates a significant part of their assets in one location and actively manages them. The structure of this chapter is as follows.

Section 6.2, Background, briefly tells the history of how the Cadogan family became the area's landlords and some of the key moments in the urbanisation process of this area. It illustrates that, differently from the cases before, Cadogan has been the prevailing landowner in the area of their CK cluster for centuries now. Section 6.3, From Passive to Active Managers, explores Cadogan's CK cluster acquisition strategy, portfolio growth, sectoral composition and some aspects of its financial performance. For this case there were some data limitations, which made the sectoral analysis of this portfolio more limited than in the cases presented before. Section 6.4, 'Poshening' of the area, details the asset management activities that the active management Cadogan's CK cluster comprises, including the management of its mix of uses and tenants, new developments and the provision and management of the public space. Section 6.5, Embedded Landlords, tries to disentangle how the institutional environment impacts the active management of this cluster of ownership. Section 6.6 gives a summary of the finding and concludes.

6.2 BACKGROUND

6.2.1 Chelsea and Knightsbridge urbanisation

Chelsea and Knightsbridge is a neighbourhood in inner London, on the north bank of river Thames, south of Hyde Park and west of Belgravia (Figure 26). Cadogan's relation to the place can be traced back to the 1700s. Sir Hans Sloane bought the Manor of Chelsea from Charles Cheyne which 'included 11 houses, 166 acres and a selection of tenements ...' (Brown 2012, 10). When in 1753 Sir Hans Sloane died, this estate was split between his two daughters, Elizabeth and Sarah Stanley (Brown 2012). In 1717, Charles Cadogan married Elizabeth, the younger daughter of Sir Hans Sloane, and in 1821, the whole Manor of Chelsea came into the ownership of the Cadogan family as they were the closest living relatives to the heirs of Elizabeth's sister, Sarah Stanley (Brown 2012).

The area experienced two surges of development. First, Henry Holland, an architect and property developer, was granted a lease by Charles Sloane on 100 acres of land and developed what would become Hans Town, the area between Knightsbridge and King's Road. Works started in 1777, and Sloane Street, Cadogan Place and Sloane Square were laid out. Buildings were typically two to three stories with basements and attics, moderate size terraced houses, targeting middle class tenants. The area became a fashionable residential area for about half a century, to the point that it became an inspiration for other *new towns* such as Camden Town and Kentish Town (Hans Town Conservation Area Proposals Statement 2000).

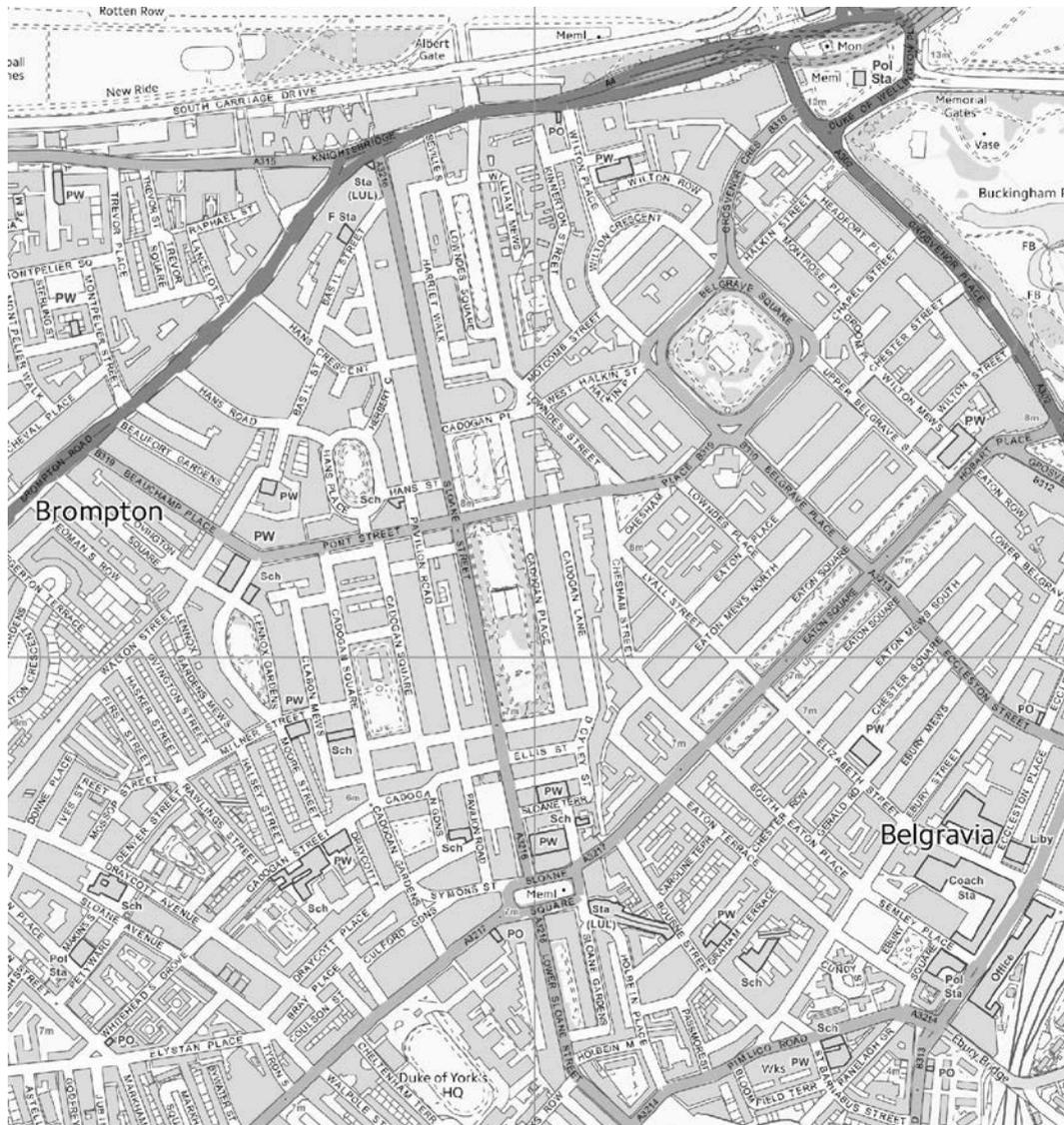


Figure 26. Chelsea and Knightsbridge in London

Source: Digimap Ordnance Survey Service (2016)

Its fashionable status worked as a magnet for retail, which laid the foundations for the later large retail units that the area came to see. For instance, Harrods, first a small grocery shop, was later transformed into a large department store. Others, such as Harvey Nichols, also established in the area. However, the area started to deteriorate in the 1830s with front gardens on Brompton Road taken over by shops and the residential units on other streets being subdivided. In the 1860s came road widening projects and Brompton Road became more attractive to retail than to residential uses (Cadogan 2016; Hans Town Conservation Area Proposals Statement 2000).

A second surge of development came during the time of the fifth Earl Cadogan (1840-1915). The poor state of repair of the area saw a comprehensive redevelopment style approach facilitated by the expiring of the original leasehold. Sloane Square station opened in 1868 and the area was being gradually assimilated by the growing city. Cadogan Hans Place Estate Company was responsible for this round of development, where many of the original Georgian terraces were replaced and newly built imposing red brick houses, mansion blocks and terraces. The area recovered its popularity, this time both for commercial and residential uses. Due to its densely developed urban form, in the twentieth century this area saw isolated redevelopment only, mainly on bombed sites (Cadogan 2016; Hans Town Conservation Area Proposals Statement 2000).

6.3 FROM PASSIVE TO ACTIVE MANAGERS

Cadogan Group Limited is the holding company for the UK property investment business of the Cadogan family. The family has had an investment property portfolio in Chelsea and Knightsbridge for over 300 years (Cadogan 2012). In 2012, Cadogan's Chelsea and Knightsbridge cluster (Cadogan's CK cluster) was over 93 acres, valued circa £3,800m and comprised a mix of residential property, retail (shops and restaurants), offices and other/leisure uses, such as the Cadogan Hall and the Saatchi Gallery (Cadogan 2013; Cadogan 2012). In terms of its geographical boundaries Cadogan's CK cluster,

...stretches northwards on Sloane Street as far as Knightsbridge and Harvey Nichols, southwards through Sloane Square and past Peter Jones to Lower Sloane Street and westwards, with several scattered holdings on King's Road as far as Beaufort Street. At the heart of the Estate is the Duke of York Square... (Cadogan 2012, 7).

Figure 27 shows Cadogan's CK cluster holdings as in December 2012.



Note: Cadogan's holdings highlighted yet no colour code key available

Figure 27. Cadogan's CK cluster

Source: Adapted from the Cadogan estate

According to a Cadogan director, the 1993 Leasehold Reform Housing and Urban Development Act was the main trigger for Cadogan's changing approach from passive rent collectors to active managers of their estate (Interview 39). The Leasehold Reform gave leaseholders of residential property or others with long leases the right to acquire the freehold. Therefore, the Cadogan family (and other residential freeholders) were forced to sell their residential freeholds to qualifying tenants. The Cadogan family, finding themselves with cash in their hands from these compulsory sales, decided to reinvest in the area. As a Cadogan director explained, this geographically focused strategy was an investment decision where the family sought to capitalise on their in-depth local knowledge (Interview 39).

6.3.1 Acquisitions and sales

Cadogan has a trifold acquisition strategy. First, focusing on consolidating their ownerships within the traditional boundaries of their estate, particularly consolidating their ownership on Sloane Street for which, as a company director stated, 'our ambition is to get full control' (Interview 39). Second, the company has focused on acquiring properties with residential and retail potential or actual use, yet also investing in offices and hotels. Third, Cadogan has sought to buy freeholds and leaseholds, including buying back long leases the family granted in the past. Regarding buying back long leases a Cadogan director noted that,

we pay out quite a lot of money, but what we then get is the direct relationship with the occupational tenant, so we get control of who's in the building and what they're doing in the building (Interview 39).

Moreover, the director detailed, '... you actually collapse that intermediate layer ... so you then end up with the freehold and a simple lease to the occupational tenant who pays you the rent ...' (Interview 39).

According to this director the market where Cadogan operates is very competitive. The director identified competition both from other local property owners and from other investors. One of the strategies the company used to instigate new acquisitions was to maintain 'friendly relationships with other local property owners' (Interview 39). As the director stated,

in an ideal situation, if they're getting to a time ... they think they want to sell, we would hope that they would come to us first and say 'we know you must be interested in buying, we are thinking of selling this.' And, ideally, we'd get a sort of very early opportunity to put in a good bid ... (Interview 39).

Regarding the costs involved in new acquisitions the director stated, '... we never really want to pay much above the market price ...' (Interview 39). Therefore, Cadogan would not spontaneously approach other property owners with an acquisition offer. As the director argued,

It's commercial suicide to go to the owner of these properties and say 'we're the Cadogans, we want to buy' because the price will go

high. So we never approach people, we wait, sometimes for many, many years, until they are at a time, or a situation, for whatever reason, they are interested in selling (Interview 39).

However, the director said that there were exceptions to this approach and that Cadogan would pay higher than the market price if needed as '...there are synergetic benefits to us of owning more contiguous property' (Interview 39). It is important to emphasise Cadogan's director reference to the synergetic benefits between their clustered properties, as this is a point also made by the other cluster owners (Interviews 16 and 40). It seems that the synergies between the different clustered properties (for instance, synergies between the different retail units and between different uses) are a key advantage of clustered portfolios. This aspect is discussed in detail in the next chapter.

The case of the Duke of York site acquisition from the Ministry of Defence (MoD) in 1999, illustrates the point of Cadogan's willingness to pay higher than the market price for the sake of synergies and a situation where Cadogan actually did approach potential sellers. According to a Cadogan director, Cadogan knew that the MoD was considering selling this site and Cadogan approached them and presented their case. Considering Cadogan's large ownership footprint in the area and that a strategic demolition of one of Cadogan's buildings would give greater access to the MoD site, Cadogan argued that if developed by them, the scheme would have greater viability than otherwise if developed by others. Therefore, Cadogan could justify paying more for the site than others potentially would (Interview 39). The site was offered to Cadogan as 'preferred purchasers' (Defence Estates 2000) and sold to the Cadogan estate without a competitive bid. The preferred purchasers status offered to Cadogan by the MoD was, according to the Commission for Architecture and the Built Environment, 'due to their long-term property interests in the area and perceived expertise in similar developments ...' (CABE 2011). A Cadogan director conceded, '... I suspect that if that transaction happened today, irrespectively of our arguments, they would feel the necessity to put it out to a full, competitive bid' (Interview 39).

Cadogan expected new acquisition opportunities resulting from the 2007-2008 global financial crisis. However, their expectations turned out to be flawed as few opportunities came in the market during that period (Cadogan 2011).

Cadogan's sales have been mostly compulsory sales of residential property, as the result of residential enfranchisement triggered by the Leasehold Reform Act. There had been other sales before, which the director lamented. For instance, the director pointed out,

when you look at Sloane Street, our freehold ownership is pretty solid, but these blocks here, that's Harrods, that's Harvey Nicholls, we once owned that block and the family sold it in the 1950s, unfortunately, but they did (Interview 39).

Nonetheless, Cadogan's most recent sales have been triggered by residential enfranchisement and according to one of their directors,

over the last 25 years, what we have been doing is taking money, all of the freeholds that we used to own around here, which have been sold through enfranchisement, we've taken the money that come from that and we've reinvested it by redeveloping, buying in head leases, buying in adjacent freeholds and strengthening our control of the key commercial bits of the estate ... (Interview 39).

This suggests that it is not despite, but partly due to, these residential compulsory sales, that Cadogan keeps investing in Chelsea and Knightsbridge. Overall, this seems to be a growing portfolio (Table 6).

A growth analysis of Cadogan's CK cluster shows that between 2004 and 2012 this cluster grew in terms of capital value and gross income (Table 6). In terms of capital value Cadogan's CK cluster grew from £1,851m to £3,875m. This represents a total growth of 109% and an average annual growth of 14%. In term of gross income, the cluster grew from £59.5m to £104.7m, representing a total growth of 76% and an average annual growth of 9%.

Table 6. Cadogan's CK cluster growth

Year	Buildings (#)	Units (#)	FPA (m ²)	CV (£m)	GI (£m)
2004	*	*	*	1,851.0	59.5
2005	*	*	*	2,232.4	63.2
2006	*	*	*	2,695.0	68.2
2007	*	*	*	2,990.3	72.3
2008	*	*	*	2,562.5	82.3
2009	*	*	*	2,736.1	88.5
2010	*	*	*	3,043.6	92.3
2011	*	*	*	3,455.1	99.2
2012	*	*	*	3,875.2	104.7
TG	N.A.	N.A.	N.A.	109%	76%
AAG	N.A.	N.A.	N.A.	14%	9%

Note: FPA (Floor Plate Area), CV (Capital Value), GI (Gross Income), TG (Total Growth), AAG (Average Annual Growth)

*Data not available

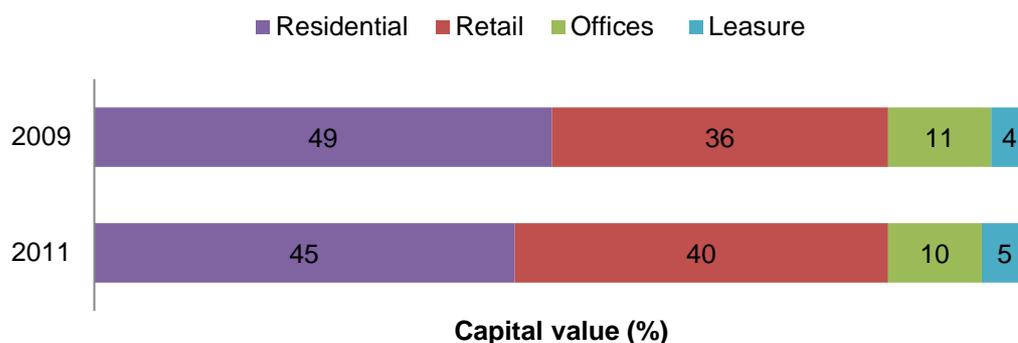
Source: Cadogan (2013; 2012; 2011; 2010; 2009; 2008; 2007; 2006; 2005)

6.3.2 Sectoral composition

The data available to explore any changes in the sectoral composition of this portfolio were more limited than for the other two case studies, nevertheless, a few points can be made. First, it is noteworthy that despite the residential enfranchisement, the weight of the residential sector in Cadogan's CK cluster was still high. In 2011, residential and retail were the largest sectors representing 45% and 40%, respectively, of the cluster's total capital value (Figure 28). There was however, a reduction in the weight of the residential segment of this portfolio and a growth of the retail element when comparing 2009 with 2011.¹⁷ The weight of offices and leisure/other in the whole portfolio did not vary much from 2009 to 2011, and in 2011 offices represented 10% and leisure/other 5% of the capital value of this portfolio (Figure 28).

¹⁷ Data not available for years other than 2009 and 2011.

This suggests that, on the one hand, Cadogan’s CK cluster was heavily weighted on two property sectors, the residential and the retail sector. On the other hand, it shows that from 2009 to 2011 the weight of the retail sector grew, which illustrates the Cadogan director’s point on the portfolio increasing its exposure to retail at the expense of the residential sector (Interview 39).



Note: Retail includes both shops and restaurants

Figure 28. Cadogan’s CK cluster weighted capital value per sector

Source: Cadogan (2012; 2010)

6.3.3 Financial performance traits and aims

Cadogan is a long-term family business with a legal structure of a Trust thus, as one of their directors stated, the company ‘does not have ... to perform on a six monthly or annual basis, overseen by analysts in the stock market and external shareholders ...’ (Interview 39). As Cadogan’s CEO suggested, Cadogan is a light organisational structure, which can be perceived as a triangle. On one point is the family, on the other point the non-executive Trustees, finally, there is the management team (Seaborn 2013).

Cadogan focuses both on short-term and long-term returns. As a Cadogan director described it, this meant the company had a focus on current and future rental value as well as on capital growth. Moreover, the director stated that,

... the shareholders—which is the family—have the same long-term perspective [that the Trustees and management team do] and the estate generates sufficient income now that they're not desperate to get income all the time ... (Interview 39).

Despite being a non-listed private equity company, Cadogan depends on the income stream from their properties to repay bank loans and other long-term borrowings. Cadogan's balance sheet gearing was from 2006 until 2013 around the 15% mark (Cadogan 2014; Cadogan 2011). In terms of the financial performance of the comprising sectors of Cadogan's CK cluster, retail seems to play a key role. In a Cadogan's annual report the company states, for example, that 'most of the growth in rental income came from the retail sector and to a lesser extent from the residential sector' (Cadogan 2014, 16).

Overall, the company claims that their

healthy overall performance reflects the continuing attractiveness of central London property, the resilience of the West End and the premium location offered by Chelsea and Knightsbridge (Cadogan 2012, 7).

Like the cases presented before, Cadogan seems to have to somehow compromised on rental income for the sake of their retail mix. As a director stated,

... we have to strike a balance all the time between maximising the rent and getting the right occupier and of course, what we try to do is both, we try to get the best rent and to get the best occupier, but there are times ... where we will sacrifice rent because we want certain types of occupiers and so on because it's for the benefit of the estate, as a whole (Interview 39).

The director made what seems to be a critical distinction between *estate management* and *property management*, helpful to clarify the strategy behind the active management of leases in clusters of ownership. The director stated,

we run the business in a fully commercial way, but ... we are estate managers not property managers and the estate comes first in terms of when we're making decisions about what tenant do we have and what use do we have (Interview 39).

In clusters of ownership, despite a great focus on rental growth, cluster owners might be willing to compromise on rental growth for the sake of what they perceive to be an ideal mix of uses, users and their placement in the cluster.

Regarding Cadogan's lease strategy the company typically rented

... outside the Landlord and Tenant Act of 1954, meaning there is no automatic right of renewal at the end of the term, which is usually 10 years. Instead of an upward-only review in the fifth year, rents are linked to the annual Retail Prices Index. This Seaborn hopes, removes some of the tensions between landlords and tenants ... (Shepherd 2009).

A Cadogan director further explain the rationale behind Retail Prices Index (RPI) linked rents, also provide the reason of conflict minimisation and moreover stated that,

we've been doing that now for 20 years and we're very used to it and I think the retailers, it suits them because their businesses tend to be linked to inflation, or RPI, so that makes good sense (Interview 39).

As for the cases before, Cadogan also places a great emphasis on the tightness of their retail rents.

typically, a lot of retailers have made money out of their leases because they can sublet, or assign the lease to another retailer for a capital payment. We don't let people do that, the lease has to come back to us if they don't want it, so they've got no value in the lease and we also have a lot of control over what people can do in their shop, so we can't let it to an upmarket menswear retailer and then discover that it's just become a cheap jean shop ... (Interview 39).

Besides, removing conflict according to the director this tight rental strategy is beneficial for retailers also because

if you've got a very upmarket business and you open in Sloane Street, you do not want to find that next door to you, I don't know, Superdrug, or some utterly inappropriate business has opened up next door to you because it destroys the value of your pitch, so retailers do come to trust that we will maintain the quality of the area (Interview 39).

Cluster owners' level of control and retailers trust on cluster owners, is likely to give cluster owners an edge over the market when it comes to new lettings. This is discussed in greater detail over the next chapter.

6.4 'POSHENING' OF THE AREA

6.4.1 Mix of uses and tenants

Finding the right mix of uses and retailers, as well as their placement in the cluster, seem key components in the active management of Cadogan's CK cluster. Changes of use and changes of tenants are instrumental in this regard. Cadogan maintained that 'new retail tenants have to be able to add to the desirability of the retail mix that makes the area more attractive to shoppers' (Cadogan 2011, 5). Moreover, a Cadogan director asserted,

our philosophy is really about control, so that we can curate the area, so we can take great care to select occupiers. We want to see that they complement what else is happening in the area, apart from being dynamic and interesting and the overall offer is the right thing (Seaborn 2013).

Regarding this notion of how different uses might complement each other, it is worth noting the point made by a company director on the importance of having the Saatchi Gallery as a tenant. The director argued that the gallery brought a million visitors to the area (Interview 39). As the literature has argued, and the case studies presented before support, high levels of footfall are critical for a successful retail environment.

Cadogan targeted high-end and upper- middle-end fashion retailers and argued that demand for their retail property had been strong, particular from international brands wanting to locate or expand their presence in London (Cadogan 2012). A Cadogan director was quoted saying that,

... you might have to lower your standards because the damage caused by empty shops can be greater than changing the character of the occupiers that you invite in (Shepherd 2009).

Cadogan acknowledges the importance of external factors to the good performance of their retail portfolio, particularly the success of London

and, more specifically, of Chelsea as tourist destinations (Cadogan 2013). It is nevertheless worth noting the point made by a different cluster owner on the flip side of having spatially concentrated portfolios. The director maintained,

You are also very politically exposed to, as an example in our case, London as a place of business, as a tourist and cultural and shopping destination, to issues of security and social cohesion (Interview 16).

This highlights some of the concentration risks involved in clusters of ownership, in this case, aspects that cluster owners have limited to no control over.

In contrast with this lack of control, there are aspects over which cluster owners can have a great level of control. For instance, Cadogan argued that alongside managing their retail mix, their concentrated portfolio allowed them to meet their tenants' changing needs by offering them alternative or additional space in the cluster, which enhanced their tenant retention (Cadogan 2012). Moreover, Cadogan's retail placement involved clustering tenants by consumer target markets. Sloane Street was dedicated to luxury fashion and the Duke of York Square to middle- to upper-end fashion (Interviews 29 and 31). Retail placement and the formation of these dedicated retail clusters are management opportunities opened up by clusters of ownership.

According to a community representative, the great level of control Cadogan had over the built environment was quite visible on Sloane Street. The community member maintained that,

if you look at what happened to Sloane Street in the last 30 years, it has gone from being sort of not a very interesting street into a high class fashion street. Now, you can only do that if you have effective control of the whole street. ... Sloane Street has transformed over the last 30 years (Interview 31).

Overall, through the active management of their cluster, according to a planner at the Royal Borough of Kensington and Chelsea, (RBKC) Cadogan 'get an extra control of the market, who rents spaces, what type of uses, and they can very much control the feel of the space ... ' (Interview 26).

Offices were a small part of Cadogan's CK portfolio as Figure 28 illustrated (page 200). Cadogan argued that despite the low demand levels in 2008 and 2009, nevertheless followed by a recovery in 2010, vacancy in this sector remained low (Cadogan 2011). Moreover, the company maintained that in 2011 smaller units were letting better, but larger units in less good locations were still hard to let (Cadogan 2012). As a Cadogan director stated,

In our role we resisted the temptation of converting those offices to residential, which is by far the higher value, because of the desire to have a mixed sustainable portfolio of properties that have texture and good character (Seaborn 2013).

Cadogan was actually building new office space in the area. For instance, in December 2011, Cadogan gained planning permission for a new scheme through the redevelopment of the Granville and Liscartan Houses at 127-135 Sloane Street. This is a new mixed-use scheme of approximately 12,500m² designed by Stiff + Trevillio comprising retail on the ground floor and five levels of office floor (Cadogan Press Release 2013a).

Many of Cadogan's office schemes have been developed behind retained façades. This was necessary because of the listed building status of many of the buildings in the area (Interviews 26 and 29). As a Cadogan consultant detailed,

you don't really notice the effects so much on the streetscape apart from the *poshening* of the area, so everything becomes shinier, but you're not quite aware why, but it's because behind all these retained façades that have been re-painted and cleaned. Behind them there are new modern office facilities ... (Interview 29).

This notion of the *poshening* of the area resonates with the literature that argues that, on the one hand, London's landed estates traditionally built to high quality design standards (Olsen 1964). On the other hand, that well established property companies (or for this matter quasi-property companies) tend to develop to the highest standards (Adams and Tiesdell 2013).

Cadogan's residential offer included houses, flats and serviced apartments. Leases were short to prevent new residential enfranchisement. In 2011 the company reported a small decrease in demand for the higher-end of their residential portfolio. Nevertheless, Cadogan argued that they still sought to upgrade the quality of their residential units and kept targeting the high-end market (Cadogan 2012). In 2012 demand for Cadogan's residential units was still experiencing some fluctuation and one of the strategies the company maintained to reduce vacancy levels was to increase the speed they renovated units between new lease contracts (Cadogan 2013).

Largely, for the uses in the upper levels, Cadogan preferred residential to office space, since residential uses were more valuable (Interview 39). Retail on the ground level and residential on the upper levels seemed to be Cadogan's preferred mix of uses in their buildings. A planner at the RBKC commenting on this combination of uses noted that 'better quality retail tends to then support higher rents on the residential, so you tend to see the two go together' (Interview 26). Moreover, the planner argued that Cadogan 'want to see quite respectable retail because that also helps them to retain residential values above' (Interview 26). This suggests a synergetic effect between the ground level and the upper level units.

A Cadogan director emphasised that at the core of Cadogan's strategy was securing the right retail mix. Therefore, uses on the upper level floors were less important than the uses on the ground level. Nevertheless, the director further argued that if Cadogan did not own the upper level properties, they would lose out on capturing the externalities that their active management of their ground level units creates (Interview 39).

6.4.2 New Developments

The Duke of York Square was Cadogan's major new development in Chelsea and Knightsbridge between 2004 and 2015. Cadogan bought this site from the MoD in 1998 after it obtained the preferred purchaser status. Located on the south side of King's Road, just off Sloane Square, this four hectares site was a former army barrack fenced off, and included several buildings amongst them the Duke of York Headquarters, a graded II* listed building.¹⁸ Cadogan's Duke of York Square is a mixed-use scheme including offices, retail, affordable housing, other residential, a school, a gallery and new public spaces. There are over 100 decisions on planning applications for the Duke of York Square scheme starting in June 1999 (RBKC 2016). Construction works were phased between 2000 and 2008 and the redevelopment included new-build, some of it behind retained façades, and changes of use.

Paul Davis and Partners (PDP) were the architects responsible for this scheme. As these consultants define it,

The development exemplifies the aims of 'Design for a Greater London', which was published by the Greater London Authority in 2001, creating a calmer, safer environment in an area well served by public transport ... (PDP 2015).

A community representative offered an alternative description of this development, saying that the 'Duke of York is mostly fashion shops, shoes and hand-bags, for those who are not quite rich enough to go to Sloane Street' (Interview 31). Other stakeholders also emphasise the commercial facet of the development describing the scheme as having a shopping centre feel to it (Interviews 26 and 29). This is unsurprising, considering that a Cadogan director states 'we're not very different from a big, modern shopping mall ... where they have a lot of control and manage the tenant mix with great effect' (Interview 39).

¹⁸ This classical building, originally built in the nineteenth century as a boarding school for the children of militaries, became in the twentieth century a military administrative centre.

The Duke of York Headquarters, the listed building on site, was the final stage of the redevelopment. Initially, Cadogan planned to convert this listed building into open-plan offices but a decline in office demand in 2002 pushed them to reconsider (Littlefield 2008). In 2005 Cadogan set a deal with the Saatchi Gallery which was leaving its previous venue at the London's County Hall (Littlefield 2008). This was an important deal, since the gallery attracts high levels of footfall to the area (Interviews 29 and 33). The process of refurbishing the building to accommodate the Saatchi Gallery required PDP, the site masterplanners and architects, to work closely with Allford Hall Monaghan Morris, the architects working for the Saatchi Gallery. It has been argued in architecture and design media outlets that Cadogan normally retains a great degree of control over what their tenants do on their properties, and therefore, that they '... will never allow a tenant the freedom to develop one of its buildings with their own architect' (Littlefield 2008, 117). This is linked to the great level of control over the quality of the built environment Cadogan wants to retain in their schemes. As a senior planner at the RBKC stated,

... the quality of what they build is really, really quite high, so we don't have to fight with them to get quality because they are not interested in a five, 10-year return, they are interested in having a building that is going to be there for 100 years (Interview 26).

Planning contributions from this scheme under S.106 agreements included affordable housing on site and the Cadogan Hall. A few blocks away from the Duke of York Square site, the Cadogan Hall building had first opened in 1907 as a New Science Church. In the late twentieth century the congregation moved out and sold the building to the owners of Harrods who obtained planning permission to convert it into a house. Nevertheless, the building remained unused. Cadogan purchased the building in 2000. PDP designed the refurbishment project and the Cadogan Hall opened in 2004 as the home to the Royal Philharmonic Orchestra (Cadogan Hall 2015). A community representative suggested that 'only a London estate could possible do that' and explained,

... they did that not because it is money making, very opposite, it doesn't make any money at all it loses money ... but they believed that it would enhance the area to do it ... (Interview 31).

According to a planner at the RBKC, this illustrated how much of a long-term player Cadogan is (Interview 26).

6.4.3 Public realm

Cadogan's significant contributions to the public realm in Chelsea and Knightsbridge were twofold for the time period analysed. First, Cadogan provided a new POPS in the Duke of York Square. Second, the company became involved with the design of *de facto* public spaces through their masterplan for Sloane Street in 2013. The Duke of York Square opened to the public a space that was private and enclosed before. This public space was designed by PDP together with the landscape architects, Elizabeth Banks Associates. According to PDP, with this scheme Cadogan created

... the first new public square in the West End of London for more than a century, ... and opens up a site inaccessible to the public for 200 years (PDP 2015).

This POPS works as an extension of the south footpath of King's Road. A café, public art, benches, trees, fountains and retail fronts populate this new square. Access to the Saatchi Gallery is through this square. Additionally, there are two other smaller public spaces around which an internal retail cluster is organised. These spaces, adjacent to the main square, are also connected to King's Road by two pedestrian passages, the first through a ground level passage carved through one of Cadogan's buildings and the second through a narrow open-air passage. Cadogan is responsible for the maintenance, security and events management in this 24 hours opened POPS (Interviews 26 and 39).

Regarding Cadogan's contribution to *de facto* public spaces, the company commissioned John McAslan architects who partnered up with Space Syntax, to develop an initial feasibility study and plan to develop 'a new vision for Sloane Street' (Cadogan Press Release 2013b). Space Syntax was responsible for the baseline audit and John McAslan for the streetscape design proposal. One of the consultants was cited saying that Cadogan's motivation to commission this project was to '... unlock the

potential of the high-profile but under-performing street' (Hopkirk 2015). As Cadogan stated,

We look forward to seeing JMP's [John McAslan and Partners] Masterplan and Vision document that will then form the basis of consultation with planners, local businesses and residents ... (Cadogan Press Release 2013b).

According to a consultant, the project brief was loose except that it clearly stated that the masterplan should not include Sloane Square (Interview 33).

The reason for excluding Sloane Square from their masterplan was that in 2007, two proposed schemes for Sloane Square found strong opposition from the local community, which after a period of public consultation, the RBKC had to put aside (Interview 33). The first scheme was proposed by the RBKC and designed by Stanton Williams architects. It envisioned a four-lane highway going through the middle of the square creating two public spaces on the sides. Backed by CABE, this scheme found strong opposition from local residents namely the 'Campaign group Save Sloane Square (SSS) also known as the Sloane Square Improvement Group ...' (Planning Resource 2007). This group contracted Atkins to design a second scheme, this time keeping the gyratory traffic system around the island square. Despite the initial support from the community, including the Chelsea Society, both schemes found community opposition and in July 2007 the RBKC decided to shelve them (RBKC 2007).

As a result of this contentious process for Sloane Square redesign, Cadogan did not want their masterplan to address that area. Their 2013 masterplan designed by John McAslan and Partners focused exclusively on Sloane Street. Space Syntax developed what the consultants called the baseline evidence-based audit. This involved placing Sloane Street on Space Syntax's model of London's network of streets and adding land-uses and façade surveys to assess expected pedestrian movement

against which to benchmark actual pedestrian movement.¹⁹ According to Space Syntax, their results confirmed their initial *educated guesses* about the site. That is, Sloane Street could be divided in three areas. First, the north part close to Knightsbridge tube station and Harrods, second, the residential middle section and third, the south part, the blocks closer to Sloane Square (Interview 33).

The consultant said that the interesting finding from their assessment was that, actually, contrary to what the landowners expected, the middle and south sections of Sloane Street were performing close to their possible best. The north section, the one the landowners thought was performing well, was actually underperforming. Considering this latter section's proximity to Knightsbridge tube station, Harrods and Brompton Road, the consultants argued that it was not attracting as many people as it could (Interview 33).

The consultants considered different options to increase the footfall on the whole of Sloane Street, yet some did not make it to the final project for noteworthy reasons. For instance, the designers explored increasing Sloane Street west-east permeability. However, Cadogan ownerships did not allow any strategic demolitions from which connections to any relevant streets could result in an increase in Sloane Street's footfall. This idea was therefore abandoned. Another idea that was discarded was the introduction of a shared space, an urban design feature that, reducing the separation between vehicles and pedestrians by levelling the surfaces, aims at making the space more generous and attractive to pedestrians. However, according to the consultants, Sloane Street, Sloane Square and King's Road form a busy traffic axis therefore, a shared space could result in undesirable traffic slowdown and jeopardise pedestrian safety, hence the idea was abandoned. Finally, the consultants also considered converting the Cadogan Place Gardens, a private and enclosed garden for the use of residents only, into a public space. The idea was rejected

¹⁹ The Space Syntax model is based on theories on spatial configurations and it is used to analyse the impact of spatial configurations on pedestrian movement (Interview 33).

because of expected opposition and its complex legal implications in terms of property rights (Interview 33).

The final proposal focused instead on designing street intersections, redesigning the profile of Sloane Street and introducing streetscape design features. With regard to street intersections, the idea was to make them more *legible*, or visible, by adding uses that might attract more pedestrians. This strategy was expected to be gradually implemented as leases expired, and would require changes of use from offices and residential to retail uses, the use more conducive to attracting pedestrian movement. Regarding the redesigning the profile of Sloane Street, the idea was to reduce the road width, while enlarging its sidewalks. Finally, streetscape design included new pavements, introducing sitting areas, new street lighting and green elements. According to the designers, different design elements would respond to Sloane Street's three different areas, defined in the baseline audit, yet with elements of integrative design giving the street a unified feel (Interview 33). At the end of 2015 the project was yet to be implemented and according to a planner at the RBKC, negotiations between Cadogan and the LPA were on-going (Interview 26).

6.5 EMBEDDED LANDLORDS

6.5.1 Key stakeholders, their interests, resources and relationships

Cadogan's CG cluster falls under the administrative boundaries of the RBKC and within the Conservation Areas of Hans Town, Sloane Square and the Royal Hospital. Consulting with its advisory committee, the RBKC constrains and enables Cadogan's strategy mostly through their development management role. Nevertheless, there were also examples where the RBKC's forward planning role impacted Cadogan's strategy. For example, the RBKC's failed plan for Sloane Square redesign influenced the way Cadogan defined the boundary of their masterplan for the area, leaving Sloane Square out of their masterplan.

As a Cadogan director noted, Cadogan, as other London's landed estates, existed before LPAs (Interview 39). Therefore, in some ways, as a planner at the RBKC suggested, Cadogan 'have more of a long-term stake in the community than perhaps a lot of people who are involved in local government' (Interview 26). Cadogan's relationship with the RBKC has not always been easy. As a Cadogan director described,

It's a difficult relationship, in some ways, because we try to be good occupiers, good tenants etc but they don't want to be seen to be in our pockets in any sense and they challenge us on everything But I think we have a very sensible, healthy relationship with them, basically. It's mutually beneficial for us to get on well ... (Interview 39).

Alternatively, illustrating how their relationship was, in some ways, a good relationship the director added,

... the borough has just made the current Lord Cadogan a Freeman of the Borough, which is the highest civic honour that they can confer on an individual (Interview 39).

Cadogan's relationship with the LPA seems to be particularly intense. According to a senior planner at the RBKC,

... they have regular meetings with us, so you always know what's coming up on their estate, they don't tend to have too many surprises, they work quite hard at making sure people know what's going on and they try to involve people. They don't always get it their own way of course, they had a refusal at a planning committee recently but they do work quite hard at getting people informed, they do try to take their view as much as they can (Interview 26).

Nevertheless, the planner emphasised that,

It's fascinating, people always think the planning system as quite strong ... but the planning system might want stuff but if the landowner doesn't want it, it doesn't happen ... they have much more power than we do in many ways, people forget that (Interview 26).

The expression used by the director, 'they don't want to be seen to be in our pockets' (Interview 39) together with the expression used by the RBKC planner when saying 'people always think the planning system as quite strong' (Interview 26) suggest that the power dynamics between these two

players include speculative perceptions of power and considerations of what (abstract) others might think. This illustrates the complexity of the power dynamics between these two key stakeholders.

Regarding other landowners, the Sloane Stanley Estates and the Knightsbridge Estate were perceived as the two other prevailing landlords in Chelsea, alongside with Cadogan (Interview 26 and 31). The Sloane Stanley Estates were established in 1717 and had in 2015 about five hectares of property in Chelsea, mainly residential and retail units clustered on King's Road and Fulham Road (Sloane Stanley 2016). The Knightsbridge Estate owns the blocks between Harrods and Harvey Nichols (Knightsbridge Estate 2016). Interestingly, according to a RBKC planner, these smaller estates have been trying to replicate Cadogan's management strategy yet, '... they have to start from scratch because they haven't got the relationships...' (Interview 26). This suggests the importance of having local networks, and moreover, that being a prevalent landowner in one area, is not in itself enough to have these networks, but that these have to be built up.

With respect to Cadogan's relationship with these other local landowners, a Cadogan director asserted that they were mostly competitive. However, there were also cases of collaborative relationships with other landowners illustrated, for example, by the future potential collaboration with a neighbouring estate, the Grosvenor estate. The Cadogan estate borders the Grosvenor estate to the west. Cadogan's projected public realm improvements for their estate included Pont Street, a street going east to Belgravia, where Grosvenor is the prevalent landowner. According to a Cadogan director, the two property owners were coordinating their plans for the physical uplift of Pont Street (Interview 39).

There are a significant number of community organisations in Chelsea and Knightsbridge. According to a community representative,

... virtually, every street has a residents' association and there are formations of conglomerations of residents' associations. A lot of powerful people live around here and therefore, residents'

associations tend to be quite strong and have forceful views that they are not ashamed to express... (Interview 31).

A planner at the RBKC supported this view saying that community associations in the area '... are very influential' (Interview 26). The influence of the local community associations may be illustrated through their successful opposition to the Sloane Square redesign project led by RBKC in 2007 and there are other examples. For instance, Cadogan 2015 planning application for a Cinema on King's Road failed to achieve planning permission, as planners and other stakeholders suggested, mostly because of the opposition led by the Chelsea Society (Interviews 26, 29 and 31). According to a member of the Chelsea Society 'Cadogan had gone back and are rethinking it and they are about to produce a new scheme for the area, taking on board some of the criticisms' (Interview 31).

The Chelsea Society is one of the oldest community associations in the area, one of the best established and most influential (Interview 26). Created in 1927, the Chelsea Society is an amenity society and the Earl Cadogan was the vice-president. As a member described it, the society's primary objective was to preserve and improve amenities in Chelsea and it had a membership of over 1000 people and a council of about 50 members. The council was made up of people with interests including art, architecture, town planning and history, who acted as a panel of experts contributing to the Chelsea Society's activities on matters of interest to Chelsea (Interview 31).

A member of the Chelsea Society argued that since Cadogan started embracing a more day-to-day management of their estate in the 1990s, the company had tried '... very hard to engage with residents' groups, with the society, all those things. They are much more closely involved I would say now in the community' (Interview 31). The community representative nevertheless stressed that,

There are some who will embrace what Cadogan has done, and there will be others that will think they are ripping Chelsea for their own personal gain ... (Interview 31).

Moreover, the community representative pointed out that the Cadogan family and their staff

... know a lot of people, and have got a lot of connections, people represented in the right groups and the head of the family has been, two of three of them, Mayors of Chelsea in the past and they have those kind of connections. But they also work very hard at it, they do a lot of work with people like the Chamber of Commerce and the Chelsea Society, they do some sponsoring of some community functions, they send representatives to these bodies and local trading bodies and all that kind of things ... (Interview 31).

Thus, despite Cadogan's competitive relationship with other local prevailing owners, some tensions with community associations and with the RBKC at times, illustrated by challenges to Cadogan's plans by both parties, collectively, these accounts suggest that Cadogan was embedded in the area and actively developing their local networks. For example, first, Cadogan's family members were represented in local organisations, such as the Chelsea Society. Second, the Earl of Cadogan had been awarded the title of Honorary Freeman of the borough by the RBKC. Third, they planned to collaborate with the Grosvenor's neighbouring estate.

As a result of Cadogan's embeddedness in the area and their strong local networks, as a planner at the RBKC argued,

... they get away with some things and people would say they get more trust than you get from a developer coming in buying a site, developing it and disappearing (Interview 26).

This seems to suggest that Cadogan's embeddedness in the area, by knowing and being known by other key players, is not simply a *path dependency*, that is, the result of the family being in the area for centuries. This path dependency seems to be reinforced by path creation, in the sense that Cadogan keeps developing lines of communication with other stakeholders.

Overall, the family seems to try to cultivate good relationships with other local stakeholders, as a statement by the company's CEO clearly states by saying,

... as a major property owner in the area I require that we act as good neighbours in the context of our commercial interests. This means taking care to develop thorough lines of communication with individuals and groups affected by our ownership and activities (Cadogan 2010, 5).

These accounts also suggest that Cadogan is generally recognised by other players as a strong local stakeholder. For example, when compared with other local prevailing landowners, the Cadogan estate was described as larger and, noticeably, as an inspiration for other landowners in terms of their estate management style (Interview 26). Furthermore, despite the power of the LPA and community associations to challenge some of Cadogan's plans, as a planner at the RBKC suggested, Cadogan are powerful players having a great level of control in shaping Chelsea and Knightsbridge's built environment (Interview 26).

6.5.2 Changes of use and new developments

Many of the planning applications submitted by Cadogan to the RBKC were for change of use. The RBKC has strong policies on protection of uses and therefore, Cadogan, to go around this policy constraint, used use-swaps. As a planner at the RBKC detailed,

... they can't just do change of use because we have got policies to protect them, so they have to do the kind of swapping of them all. They have done, over the last three years, I think probably over four or five occasions ... sometimes 10 sites all at once, they swap them all over. They do a lot of that, use-swap (Interview 26).

Further detailing this process, the planner stated,

... you've got an office here, houses over here, something else over there and they swap them all over at once, and all these planning permissions are linked through, particularly on S.106 agreements, ... so what they have been doing, really, is consolidating certain uses in certain types of buildings, so making them more lettable ... and consolidating the uses on the ground making the estate presumably more marketable (Interview 26).

A Cadogan director noted that use swaps were bureaucratic yet necessary and that Cadogan used use-swap mostly for their upper level units. Many of Cadogan's buildings had both offices and residential uses on the upper

level floors, above the retail units on the ground level. Cadogan's preferred distribution of uses in their buildings was retail on the ground floor and a single use on the upper levels, as a Cadogan director suggested, that resulted easier for facility management (Interview 39).

Another policy that became available in 2011, which facilitated Cadogan's changes of use and new development was the RBKC's Advice Service. Similar to Westminster's Planning Performance Agreements (PPAs), with the RBKC's Advice Service developers submitting a planning application, in exchange for an additional fee, sign a contract with the RBKC, which establishes the timings for the major milestones of the planning application process. While in Westminster PPAs were available for major planning applications only, in the RBKC the Advice Service was available for all planning applications, ranging from minor refurbishments to major developments. According to a planner at the RBKC,

... we will provide a bespoke service and we don't do it for a fixed fee, £26,000 Westminster charges, we don't do a fix fee, it's a negotiated fee based on service, but it's the same principle... (Interview 26).

Regarding how this fee was used, the planner drew a clear distinction between its use at the RBKC and Westminster's use of their PPAs' fees emphasising that,

What [developers] don't do is fund our officers. So what they are doing is reimbursing the council for the cost of its time and the costs of its overheads for that time, and it just generally goes into the department coffers. It doesn't fund the person who is advising them, which is a subtle distinction but quite an important one (Interview 26).

The planner seemed quite keen on clarifying this difference, possibly because of the legitimacy issue that Westminster's use of these fees might raise. According to the planner, the RBKC managed to secure about £1.4million a year through their Advice Service and this helped to balance the council's budget. Moreover, the planner claimed that,

...most of the developers and landowners that talk to us are quite happy to pay for it. They realise that it's not a guarantee, that they

are not buying their permission, ... but they need to have some certainty in the market ... this helps to reduce their risk, and actually, in the scheme of things that is the kind of money that they profit out of it, helps us covering our costs and in the scheme of things that kind of price is really, really small (Interview 26).

The RBKC Advice Service is one more example of a change in the institutional environment mostly enabling for the active management of clusters of ownership (as well as for other property developers).

6.5.3 Provision and management of the public realm

Cadogan, with almost 100% ownership on Sloane Street and a retail strategy for its ground level units, has been keen on improving its public space and providing additional public realm. Like other LPAs, the RBKC was struggling to find the budget for public realm improvements, particularly since 2010. As a community representative maintained 'someone has got to do it and the local authorities are not doing it. Not that they don't care, but they don't have the money' (Interview 31). A planner commenting on Cadogan's involvement with the public realm noted that,

... there is a whole range of public realm improvements some of which are required through the planning permission, some of which they are doing because they think it's a good thing to do. It would help them to get tenants... (Interview 26).

A Cadogan director remarked that Cadogan's additional contributions to the public realm were 'for our benefit obviously, we wouldn't do it if it wasn't for our benefit' (Interview 39).

Following Cadogan's commissioned masterplan for Sloane Street, the company intended to bear most of the costs of Sloane Street and adjacent streets public realm uplifting. Cadogan expected minimal financial contributions from the RBKC to this public realm project. However, despite Cadogan's interest in investing in the public realm, a former director stated that substantial contributions by the private sector to the public realm came with some challenges (Corbyn 2013). One of these challenges was

to demonstrate to shareholders the correlation between these investments and rental growth. As the former Cadogan director noted,

The challenge if you are an institution doing this sort of thing is that it is always impossible to say you put £1 million into the public realm improvements and then be able to demonstrate at that stage that this came to improve rents by x or capital values by y . So a great deal of what we had to do was to rely on gut feeling (Corbyn 2013).

The former director maintained that the fact that Cadogan was ultimately a family business, made the process of investing in the public realm easier than for other companies where there were more shareholders, and potentially, with a shorter-term commitment to the company.

Overall, the motivation of cluster owners for investing in the public space seems to be that they believe that a high quality public realm attracts footfall and high footfall increases retail sales and demand for retail units in the area, which being a limited resource at a particular location, ultimately, pushes rents up. However, infrequent transactions seem to make it hard to establish this causal relation, eventually making the case for private investment in the public realm one of 'gut feeling', as this former director referred to it. At least in the short term, it seems to be challenging for portfolio managers to find the evidence for a straightforward cause-effect between investment in the public realm and rental growth.

Moreover, in Cadogan's case where retail rent reviews were linked to the retail price index, the causal effect between investment in the public realm and rent upward movement is particularly challenging to draw. Nevertheless, a case can be made on the externalities from public realm improvement being captured in new lettings and in increased demand for the retail units therefore, lower vacancy levels in retail. Additionally, upper floor units are also likely to see rental growth resulting from public realm improvements.

Exploring this dimension of the active management of clusters of ownership, the great involvement with *de facto* public space, also highlights that urban change happens in a context where multiple players

interact and negotiate. For instance, the case of Cadogan's masterplan for Sloane Street, where the company left out an area that had seen strong community opposition to its redesign in 2007 illustrates this point. Despite the five-year gap between the two processes, Cadogan still chose not to include Sloane Square in their masterplan. This illustrates how power is not exclusively in the hands of large landowners but, to a certain extent, distributed between different stakeholders, or at least how other players might curtail the power of significant landowners.

6.6 SUMMARY OF FINDINGS AND CONCLUSIONS

In the 1990s the Cadogan family changed their estate management approach from a hands-off to a hands-on management style. This involved, for instance, starting to implement tighter leases and embracing development activity. This change happened when Cadogan became exposed to residential enfranchisement, particularly since the Leasehold Reform Act amendment of 1993 (Interview 39). Between 2004 and 2012, Cadogan further developed their cluster of ownership in Chelsea and Knightsbridge and during this time, Cadogan's CK cluster grew, for instance, in capital value from £1,851m to £3,875m (Table 6).

Cadogan's acquisition strategy focused on in-fill property, mostly on Sloane Street, yet also expanding their estate through the acquisition of the MoD site on the edge of the estate. Differently from Capco and Shaftesbury, a Cadogan director claimed not to approach potential sellers, as that would push property prices up (Interview 39). However, in the case of the MoD site, Cadogan did approach the MoD when learning that they were considering selling (Interview 39). Cadogan obtained a preferred purchaser status on this property, partly for being known and partly because of their other ownerships in the area (Interview 39 and CUBE 2011). This acquisition suggests that Cadogan's local knowledge and concentrated ownerships give Cadogan an edge over the market on new acquisitions. This supports insights from the literature into the importance of local knowledge in property development (Henneberry and Parris 2013) and on the possibility of degrees of monopoly being created in local

submarkets (Coiacetto 2006). It also suggests that in clusters of ownership, the transaction costs involved in new acquisitions, both information and institutional costs (Buitelaar 2004) can be reduced.

Cadogan's CK cluster was a sectorally diversified portfolio comprised of residential, retail, offices and leisure/other uses. Nevertheless, the data available showed that in 2009 and 2011, 85% of the capital value of Cadogan's CK cluster was concentrated in the residential and retail sectors (Figure 28). This indicates a high level of sectoral concentration alongside their spatial concentration. Cadogan's combinations of uses seem to be, nevertheless, what Beauregard (2005) called synergetic. Moreover, Cadogan behaviour as developer/investor seems to be embracing a form of place-making, as the literature has identified long-term investors might do (Adams and Tiesdell 2013).

Cadogan focused on high-end retail uses for their ground level units and residential uses for their upper level units, and argued they had been resisting converting offices to residential uses to maintain the mixed-use nature of the area. In terms of new developments, the Duke of York Square was Cadogan's most significant development for the period analysed. This scheme involved new-build and refurbishments, and comprises retail, restaurants, offices, affordable as well as market residential property and a gallery. The Saatchi Gallery was an important anchor tenant, as referred to in retail management literature, (e.g. Eppli and Benjamin 1994) as it attracted a high number of visitors, potential consumers to be. Overall, Cadogan showed a great level of control over the built environment in their estate, and to certain extent, over the social and economic environment, as their great control over tenant choice and terms of leases illustrated. This great level of control that results from concentrated ownerships has been identified in the literature, where, for instance, Olsen argued that estate owners had virtual total control over their estate in all aspects in which the state chose not to intervene.

Cadogan made two significant contributions to the public realm. The POPS in the Duke of York Square opened a previously walled site and increased the permeability of the area. The masterplan for Sloane Street was developed in 2013 and in 2015 was still to be implemented. The painstaking process for Cadogan to obtain permission to implement their masterplan for Sloane Street, illustrates that development happens in the interaction between many different stakeholders (Guy and Henneberry 2000). Moreover, Cadogan's commitment to invest in public realm improvements, as for the cases before, supports the literature that argues that developers are growing more aware, and more involved with public space provision and management (e.g. De Magalhães 2012).

It is well established in the literature that through embeddedness developers can acquire the local knowledge necessary to mobilise other players and the resources necessary to support their initiatives (e.g. Henneberry and Parris 2013). Cadogan seemed to be significantly embedded in their local institutional environment. Their relationship with the RBKC did not seem to have been always easy yet, the RBKC acknowledged Cadogan's efforts to develop a good relationship. With regard to other prevalent landowners, Cadogan seemed to have mostly a competitive relationship, yet there were instances of cooperative behaviour, as illustrated by their negotiations with the Grosvenor estate. Moreover, a representative of the Chelsea Society noted that since Cadogan assumed an active management approach to their estate in the 1990s, they had gone to great efforts in developing their networks with other local stakeholders.

The RBKC policies for protecting existing uses, to a certain extent, constrained Cadogan's changes of use strategy. However, Cadogan had been able to swap uses across their different units through linked planning applications. This seems to be an enabling feature of the institutional environment highly favourable for cluster owners. This also shows a level of path dependency, or lock-in (e.g. David 2007) in the way the RBKC manages their current land-uses. That is, decisions made in the past regarding the mix of uses in the borough condition their current decisions.

It also shows that institutions are malleable, in the sense suggested by Campbell (2010) when the author argued that powerful players are likely to find ways to bend rules in their favour.

Finally, regarding the provision and management of the public space, the RBKC seemed keen on seeing the growing involvement of cluster owners, as the RBKC claimed to have limited resources to fulfil this role. This suggests an instance of institutional capacity building (Healey 1998a) and also illustrates LPAs' continuously growing role as enablers, and receding role as providers (e.g. Adams and Tiesdell 2010).

PART THREE: DISCUSSION OF RESULTS AND CONCLUSIONS

CHAPTER 7 . DISCUSSION OF RESULTS

7.1 INTRODUCTION

This chapter discusses the results presented over the three preceding chapters in the light of the theories explored in Chapter 2. The chapter is structured around the three dimensions and research sub-questions advanced in Chapter 1 of this research project (page 26).

The first dimension is explored using theories about the property market, property development and investment, particularly transaction cost theory, introduced in Chapter 2, section 2.3, An Institutional Angle on the Property Market. This theoretical framework offers an explanation to why real estate companies choose to cluster their assets and actively managed them based on the edge over the market they gain resulting from their exceptional local market knowledge and degree of monopoly power over their location submarket.

The second dimension is explored combining insights from property development and investment theory, particularly drawing from the literature on place-making, property ownership and control, shopping centre design and management, as well as, from the literature on public space design and governance. This framework, introduced in Chapter 2, section 2.4, The Built Environment, Social and Economic Activity, supports a discussion on how cluster owners are embracing an instrumentalised form of place-making in order to curate a retail destination, and sustain and increase real estate returns.

Finally, the third dimension is explored combining insights from theories on institutions and planning theory introduced in Chapter 2, section 2.5, The Regulatory Environment. This framework highlights some of the enabling features of the institutional environment where the active management of clusters of ownership is taking place, namely a receding planning system growing more reliant on private sector initiative and finance, and aligned interests between key stakeholders.

7.2 EDGE OVER THE MARKET

7.2.1 Information and institutional costs

The literature broadly acknowledges that property markets have a degree of inefficiency resulting from their idiosyncrasy. Their heterogeneity, fixity, high transaction costs, including costly information, are some of the reasons presented in the literature to explain their degree of inefficiency (Keogh and D'Arcy 1999; Evans 1995). For example, some authors have noted that as a result of property market inefficiency, and particularly of its costly information, property actors with enhanced access to information could reduce their transaction costs (Adams, Dunse, and White 2005). Other authors, for instance Evans, (1995) argued that with great local knowledge, market players could extract excess profits. As this section illustrates, in the three clusters of ownership explored in this research, there seems to be evidence of transaction cost reductions, yet also some transaction cost increases and new costs derived from incorporating new activities.

In the three cases explored (Capco's CG cluster, Shaftesbury's SD cluster and Cadogan's CK cluster) the data suggested that detailed local knowledge gave cluster owners an edge over the market in new acquisitions. Cluster owners, both knowing and being known in the area, directly approached and expected to be approached by potential sellers. Cluster owners stated that some properties for sale in the clusters' area did not reach the sales market as, in many cases, deals were set up directly between cluster owners and sellers. Knowing whom the potential sellers might be, cluster owners approached them before properties went on the market. Cadogan's acquisition of the Duke of York Square illustrates this point, the cluster's largest expansion in the last decades. Additionally, cluster owners expected potential sellers to approach them directly without going to the market. This suggests that cluster owners, through local knowledge, reduced their information costs.

Alongside the cluster owners' knowledge of potential sellers, their local knowledge of the properties themselves was not unimportant. For instance, as a Shaftesbury director argued, owning units in buildings where units were being sold, worked to Shaftesbury's advantage over other potential buyers. Knowing the property beforehand and the state of upkeep of the building, enabled cluster owners to move more quickly and make an offer ahead of competitors. This again suggests that cluster owners through local knowledge reduced their information costs. Thus, information cost reductions in new acquisitions give cluster owners an edge over the market.

Adding to cluster owners' great knowledge of local players and assets, in clusters of ownership there is another edge over the market when it comes to new in-fill acquisitions, which results from the property market fixity. The evidence showed that cluster owners used strategic demolitions of some of their properties creating new access routes to sites with more limited accessibility otherwise. New access routes increased the financial viability of sites by enabling higher levels of footfall. Thus, through strategic demolitions, cluster owners could enhance the financial viability of certain sites in ways which others could not. Cluster owners, with greater potential financial viability over a new scheme than other prospective buyers, could then pay more for the site than others could and therefore, would outbid competition.

Managing open market new acquisitions in clusters of ownership seems to involve outbidding competition and making competition think they would be outbid. For example, a Shaftesbury director said he was willing to pay 'tomorrow's price' if necessary (Interview 40). Additionally, a Capco director maintained that it was well known in the industry that Capco was outbidding other potential buyers in Covent Garden. Cluster owners' readiness to pay higher than market prices can be explained by the edge over competition they derive from controlling their location submarket.

As a cluster owner stated, in clusters of ownership 'it is all about district control and managing that district' (Interview 24). Alexander (2001) argued that concentrated land ownership gives owners added control over the built environment and consequently reduces uncertainty. In clusters of ownership, new acquisitions together with retaining existing holdings, seem instrumental for the virtual total control over the neighbourhood. This could be argued to be a key reason for property owners to pursue a clustered portfolio strategy. Adding to the aforementioned advantages over new acquisitions, this control over the neighbourhood gives cluster owners, at least, an additional twofold edge over the market.

First, cluster owners are able to give retail tenants some certainty in terms of the destiny of the neighbourhood. Cluster owners have a great level of control over the built environment and, to a certain extent, over the social and economic environment, which others in conditions of dispersed ownership do not have. Cluster owners can reshape the trade environment by managing land-uses, tenant placement and having great control over the public space in their cluster. This control is likely to give cluster owners an edge over the market in attracting and retaining new retail tenants, which reduces the transaction costs involved in finding new retail tenants. Moreover, cluster owners can also accommodate their tenants' potential changing space needs within the cluster. This is likely to increase tenant retention and thus reduce the transaction costs involved in finding new tenants.

Second, clusters of ownership offer protection and compound returns on investment. As a cluster manager maintained, 'you do something good on one of your buildings and the benefits are compounded across ... it's that whole rental growth story, it's the comparable evidence, it's the ripple effect ...' (Interview 40). This suggests that each investment can be capitalised on the multiple properties the clusters comprise. Furthermore, it also suggests that cluster owners have a great level of control over the rental tone of the area. As a former cluster director argued, 'you're a price taker if you're a single owner, instead of a price maker if you're a big institution' (Interview 27).

Overall, concentrated ownerships result in an edge over the market, namely, in new acquisitions, attracting and retaining new tenants, and protecting and compounding returns on investments. This resonates with Coiacetto's (2006) point on the possibility of firms having a degree of monopoly power through controlling property submarkets. In conditions of concentrated ownerships, property owners, with a great level of control over uses, users, their placement and rental tone, seem to have a degree of monopoly power over their location submarket.

7.2.2 Long-term strategy and incorporating activities

It is nevertheless important to acknowledge that, to a great extent, the active management of clusters of ownership require first, a long-term investment strategy, second, paying high market prices for new acquisitions and third, incorporating new activities and their costs.

Cluster owners maintained that they were long-term investors. All three companies sustained, and others corroborated, that they were at these locations for the long-term. Two implications follow from here. First, a long-term strategy leads to a lesser focus on short-term returns. Nevertheless, all three companies claimed to be, in some ways, reliant both on income and capital value growth. Income stream was important to service debt and shareholders' dividends, whereas capital value was critical to define their gearing levels, a critical performance indicator to further access further debt necessary to advance their investment strategy. Second, their long-term strategy might, on the one hand, further explain their willingness to pay tomorrow's price in new acquisitions. On the other hand, their long-term strategy seems to lead them to pursue a rental strategy that is not looking for the highest bidder, but for the most adequate land-use and tenant for the sake of the mix. This might mean that there is still a long way before cluster owners reach the retail benchmarks (Figure 12 and Figure 25).

Additionally, despite cluster owners' edge over the market regarding new acquisitions, it seems that they were paying high market prices in new

acquisitions, and not only for the sake of outbidding competition as discussed before. Cluster owners were paying high market prices as a negative externality of their own strategy. The data suggested that investment in the clusters, both in its buildings and in the space in-between buildings, had a positive impact on the value of the properties in and around the clusters. That is, the active management of clusters of ownership creates externalities on properties in and around the cluster. If, on the one hand, cluster owners capture these (positive) externalities through the value uplift on the properties they own, on the other hand, this value uplift becomes a negative externality for cluster owners when they pursue new acquisitions. Thus, cluster owners are likely to have to pay a higher price for a property than they would otherwise if it was not for the active management of their cluster. However, this does not affect cluster owners' edge over the market. If property prices rise in the area as the result of the active management of clusters of ownership, they are likely to rise for all potential buyers.

Moreover, it is worth considering the concept of transaction costs in the broader sense as Buitelaar (2004) suggested, that is, to include incorporated costs. Investigating the active management of clusters of ownership in the light of incorporated costs emphasises that cluster owners increase their internal costs when embracing activities such as the provision and management of the public space. The management and provision of public space in clusters of ownership seems nevertheless, critical for supporting a successful retail environment. Similarly, merging the freehold and leasehold rights on retail property is another activity the active management of clusters of ownership involves which can be considered under incorporated activities.

It is worth expanding on this latter aspect, particularly because the literature has credited the separation of the freehold and leasehold rights as a key element in the development of London's Old estates (McKellar 1999; Olsen 1964). It is well documented that the landowners of London's Old estates, rather than developing their land, would generally sell their leasehold interest for leaseholders to develop it (McKellar 1999; Olsen

1964). In the active management of clusters of ownership today, however, holding freeholds or virtual freeholds (long leaseholds) is critical in supporting cluster owners' total control over the area strategy, this research suggests. If cluster owners have the freehold but not the leasehold interest, they lose control over the occupational tenants, as it is the leaseholder that has the direct relationship with the occupational tenant. Therefore, cluster owners aimed at having the freehold right and subsuming the leasehold right.

Moreover, the leasehold value depreciates, as it is a temporary right therefore of eroding value, whereas the value of the freehold, being a perpetual right on land, is expected to increase over time. Massey and Catalano (1978) have pointed out that owning the freehold right was particularly important for land and property owners who were dependent on debt, as debt is normally granted over an appreciating asset. The active management of clusters of ownership today is dependent on debt and therefore, holding the freehold interest is critical also in this regard.

This shows a clear difference between the management strategies used in the past and the strategies used today in the active management of clusters of ownership. Today, cluster owners seeking greater control over their assets and committing more capital to the cluster than in the past, aspired to having the freehold right on their properties subsuming leasehold rights. Therefore, the research findings seem to confirm the accounts of property industry media outlets which make a clear distinction between the traditional London's landed estates hands-off ground rent collectors and today's clusters of ownership hands-on management approaches (e.g. Hammond 2013).

So far, it has been argued that cluster owners have an edge over the market in new acquisitions, in attracting and retaining tenants and in compounding their investments. It has also been argued that this edge over the market requires a long-term strategy, being willing to pay high market price for new acquisition, and to incorporate new activities and their costs. However, as Demsetz (1967) maintained, companies

incorporate new costs or incorporate new activities, only when the costs of internalisation are predictably lower than the profits resulting from incorporating the new activities. Therefore, the balance between the edge over the market cluster owners derive and the long-term commitment and added costs their strategy requires, results in an attractive investment strategy, or at least, one that cluster owners perceive as such, which helps to explain why property owners pursue clusters of ownership.

Finally, it can be argued that clusters of ownership have a self-reinforcing edge over the market over time. That is, first, the active management of clusters of ownership includes their expansion through new acquisitions while retaining existing holdings. As the data showed, for the time period analysed, all three clusters grew for all indicators related to the clusters' scale for which the data available allowed exploring (floor plate area, number of buildings, number of units). Thus, cluster owners' local market knowledge theoretically grows alongside their ownership footprint. Cluster owners' growing knowledge of other players and properties, makes possible lower transaction costs on acquisitions and instances of unlocking value through strategic demolitions. Second, it can be argued that there is a self-reinforcing edge resulting from the active management of the retail environment. With a retail destination in place, the active management of clusters of ownership evolves from what could be called a *creating demand* stage, into a *managing demand* stage, the latter involving lower transaction costs. Third, the larger the cluster grows, the larger is the pool of buildings from which to capture the compounded effects on investments. This shows that cluster owners' degree of monopoly power over their location submarket is likely to grow over time.

7.2.3 Bridging traditional property market divides

The analysis of clusters of ownership moreover, suggests that the active management of clusters of ownership involved bridging some of the property market's traditional divides, namely commercial and residential markets, and developer and investor markets.

Regarding the commercial and the residential property submarkets, in the three cases, cluster owners were involved in mixed-use schemes, which included both residential and commercial property. The literature still regards as exceptional developers operating both in the residential and in the commercial sector (e.g. Adams and Tiesdell 2013). A possible explanation for the bringing of this divide in clusters of ownership can be found in the risk management literature. Cluster owners being committed to one particular location can use sector diversification as a risk dispersion strategy. In this regard it is interesting to revisit what a cluster owner said, as quoted in a property industry media outlet.

We are focused on a very small area and that has its advantages in that we can set the tone for the area, but the disadvantage, if you look at portfolio theory, is we're in a very small area and so we live and die by this area (Creasey 2015).

With a sectoral diversification strategy though, cluster owners become less exposed to the risk of one particular sector. However, in the three clusters of ownership explored there was a great deal of concentration in one or two sectors only. Capco seems to have maintained over 75% of the capital value of their CG cluster concentrated in retail and restaurants for the period analysed (considering the data available for 2006, 2010 and 2013). In the case of Shaftesbury's SD cluster, the data available suggested that over the period analysed about 50% of this cluster was concentrated in the retail, and restaurants and leisure (R&L) sectors, at least in terms of floor plate area (considering the data available for 2004, 2008 and 2012).²⁰ Cadogan seems to have maintained over 85% of the capital value of their CK cluster concentrated in the retail and residential sectors for the period analysed (considering the data available for 2009 and 2011). Overall, the three clusters showed, together with their spatial concentration, some degree of sectoral concentration and this seems to challenge some of the key tenets of risk diversification theory.

²⁰ Data were not available to explore the weighted capital value of Shaftesbury's SD cluster sectors. However, if Shaftesbury's SD cluster is similar to Capco's CG cluster in terms of the ratio of shop floor plate area and their capital value, this sectoral concentration figure would be similar to Capco's CG cluster, which is over the 70% mark.

The literature on estate management also notes that a spatially dispersed estate spreads concentration risks, yet noting that a spatial consolidated estate can be easier to manage. As Thorncroft argued,

Public or private, many large estates formulate objectives as to the future size and shape of their holdings. Often their aim is to consolidate the estate for the ease of management; occasionally, the objective is to create a dispersed estate, perhaps to fit the needs of the owner (such as a Store group) or to spread the risk of having too great investment in a small area (1965, 176).

However, it could be argued that the higher risks associated with clustering, to a certain extent, can be offset by clustering itself. For example, cluster owners' great level of control over their relevant environment offers a degree of protection on their investment. As a cluster owner stated, clusters owners are 'price makers' rather than 'price takers' (Interview 27). Their virtual total control over the area's rental units, places cluster owners close to a monopoly position where uses and users can be selected, placed and replaced to protect and grow cluster owners' investment returns and, quickly respond to market changing conditions if necessary. This extreme level of control over their local environment, that is, cluster owners' degree of monopoly power, greatly reduces their exposure to market uncertainty. Their risk of *living and dying by the area*, as a cluster manager referred to it, (Creasey 2015) is significantly offset in the sense that, to a great extent, cluster owners *make the area* where they operate.

An alternative explanation for cluster owners bridging the divide between residential and commercial property development yet displaying high levels of sectoral concentration, can be found within the place-making literature. As Adams and Tiesdell (2013) have noted, with some of the advantages of mixed-use development being gradually better understood, developers are progressively more willing to propose mixed-use neighbourhoods. One of the identified benefits of mixed-use schemes can be articulated through the concept of *functional interdependence* as proposed by Beauregard (2005). Beauregard argued that in mixed-use schemes different uses feed off from each other's users and therefore, can

create vibrant areas. Thus, in clusters of ownership, despite their relatively high levels of sectoral concentration, it seems that complementing retail with office and residential uses, contributes to higher levels of footfall, what could be called *internal* footfall. That is, the tenants from the upper level residential and offices units are footfall for the retail units on the ground level.

Regarding bridging the divide between the developer and the investor (sub)markets, the active management of these clusters of ownership greatly focused on changes of use, tenant changes and their placement, buying tenants out and writing new leases. Therefore, in many ways, cluster owners operated mostly in what is traditionally associated with the property investment market. Within their role as investors moreover, the range of activities cluster owners performed, bridge over facilities management, asset/property management and portfolio management (Table 1, on page 56). The active management of clusters of ownership comprised activities from these different and at times conflicting realms of management. Regarding their potential conflicting objectives, it is useful to recall Fuerst when the author argued that,

One of the more counterintuitive lessons derived from MPT is that portfolio managers when faced with an acquisition decision should be more concerned about the expected change in the aggregate risk-return profile of their portfolio rather than focusing on the individual characteristics of the properties (Fuerst 2009, 8).

This could well be the case in new acquisitions in clusters of ownership even though the accounts of cluster owners of their new acquisitions suggested that they were not particularly selective and tried to progress with all new potential acquisitions in the area of their cluster.

Nevertheless, this focus on the whole—the portfolio's aggregated level—seems to be patent in the active management of clusters of ownership. This was illustrated, for instance, by cluster owners' greater focus on the mix of retailers to the detriment, if necessary, of long leases and retailers less likely to default on rent payments. Here, it is worth recalling Adams and Tiesdell's (2013) point on how property companies and REITs' long

leases and strong covenant tenants could shield them in property market downturns. However, this focus on the mix rather than on the individual tenant seems to challenge this explanation.

Within their role as developers, for the time period analysed, all three clusters had, at least, one big new development scheme started. Capco expects to finish their King's Court scheme by 2017. Shaftesbury finished the St Martin's Courtyard in 2011 and Cadogan finished the Duke of York Square in 2008. These were mixed-use schemes, mostly comprising retail on the ground level, and offices and residential property on the upper levels, all combining elements of new-build, refurbishments and changes of use in existing buildings.

Operating in the development market seems to be an important aspect of the active management of clusters of ownership for four reasons. First, new developments delivered development profit, that is, profits higher than investment profits. Second, new developments created new, more fit for purpose rental units, which meant that higher rents could be charged. Combined with a ripple effect on other units, this resulted in a higher rental tone in the cluster. Third, new developments increased the cluster area's efficiency. That is, through new developments, cluster owners relocated uses, for example, moving entrances to upper level floors away from main streets, increasing the area for higher value letting space such as retail. Finally, through new developments cluster owners could deliver POPS (Privately Owned Public Spaces). In the three cases, POPS were used to increase the clusters permeability and their area of shop fronts.

This bridging role behaviour has been acknowledged in the literature through the recognition of hybrid forms of property industry actors beyond a simplistic segregation of roles into, for example, landowner, developer and investor. Cluster owners display behaviour patterns found dispersed within the existing categories of hybrid forms found in the literature. For instance, as mentioned before, following Adams and Tiesdell's (2013) categorisation, cluster owners fall under the category of mixed-use developers and moreover, of developer/investors. According to Adams and

Tiesdell, the latter comprises well-established companies, some now operating as REITs, and companies that tend to focus on 'prime property built to the highest-quality design and specification ...' (Adams and Tiesdell 2013, 150). This seems to be the case in clusters of ownership. As a senior level planner at Westminster has argued, Capco and Shaftesbury 'tend to use good people to make applications, they use good architects, good consultants' (Interview 7).

However, cluster owners did not conform to Adams and Tiesdell's (2013) developer/investors category in some ways. For instance, cluster owners did not restrict lettings to tenants less likely to default on rent. For cluster owners, with many small rental units rented to many different tenants, the default of one tenant did not comprise a significant risk. On the contrary, some cluster owners suggested that tenant turnover, particularly of retail tenants, was actually an opportunity for upward rent revisions (Interviews 24 and 40). Cluster owners seemed to perceive rent default risk as less damaging to their business, as the risk of losing footfall due to the lack of an adequate mix of innovative retailers.

Furthermore, cluster owners also fall under Coiacetto's (2001) *eye on the street builder-developers* type. According to the author this agent develops and keeps the buildings for rent, and bases their decisions on a long and thorough analysis of what happens at the very local level. Accounts by the cluster owners and other stakeholders suggested that cluster owners walked the streets of their clusters on a daily basis and were familiar with the performance of the individual streets and units that their clusters comprised. This suggests that their decisions were based on their extensive and detailed local knowledge, as Coiacetto suggested this type of developer does. However, cluster owners can be said to operate more as investors than as developers. Therefore, it could be more precise to categorise them as *eye on the street investors*.

Together, this supports Coiacetto's (2001) argument, that a comprehensive typology of developers (or investors) might not be achievable, both because of the range of existing individual behaviours,

and of the continuous surfacing of new behaviours. Cluster owners, hardly falling within a single category proposed in the literature, might require a category of their own (with potential subcategories). As this section has argued, cluster owners' behaviour presents a challenge for existing categorisations of property industry agents and also a challenge for the segregated way property markets and their actors are traditionally conceptualised. Therefore, to better understand the behaviour of cluster owners, it seems necessary to bridge over some of these traditional divides prevailing in the literature. A possible way of bridging over some of these divides is to conceptualise cluster owners in the light of place-making literature. This proposed angle is what the next section explores.

7.3 PLACE-MAKING WITH CONCENTRATED OWNERSHIPS

7.3.1 Dominance in ownership and control

In the property development and investment literature many authors have explored the links between property ownership and forms of control, both over the built environment and, to a certain extent, over the social, economic and political environment (e.g. Dixon 2009; Adams 2001; Hoesli and MacGregor 2000; Kivell 1993; Massey and Catalano 1978). For example, it has been noted that the decisions of property owners affect urban layouts, uses and the quality of what is built, and that property ownership gives owners wealth and power (e.g. Dixon 2009; Adams 2001; Hoesli and MacGregor 2000; Kivell 1993; Massey and Catalano 1978). Other authors have argued that property ownership gives investors the opportunity to actively manage their assets in order to increase or sustain their asset value (International Property Forum 2007; Hoesli and MacGregor 2000). In conditions of concentrated ownerships, the resulting added control over the built environment is significantly amplified, it is here argued. This has been previously claimed in the literature where, for instance, Olsen (1964) argued that London's Old estates behaved almost as a political body controlling every aspect over which government did not intervene.

In the three cases explored, the data suggested that cluster owners have a great degree of control over their location submarket. As a Capco director asserted 'dominance of ownership gives you control' (Interview 24). Similarly, a Cadogan director maintained, '...the thing that we have been focused on for the last 25 years is enhancing our control' (Interview 39). The importance of control, in the words of a cluster owner, is that 'control gives you the ability to make positive district change' (Interview 24). Similarly, another cluster owner said that in their cluster of ownership 'we can determine the physical appearance, the condition of the buildings, the nature of the tenants and every other aspect of what goes on' (Interview 39). This suggests that cluster owners' control over the built environment gives them a level of control over the social and economic environment in their location submarket.

Cluster owners' great control over their location submarket requires a critical number of concentrated ownerships. New acquisitions and retaining existing assets are therefore, fundamental in the active management of clusters of ownership. The number of units or buildings required to achieve 'district control' (Interview 24) was nevertheless, problematic to define. This difficulty was already expressed in the literature by Olsen (1964) who, when arguing that a large estate was one where it was possible to introduce some sort of coherent plan, failed to say what size that would be. Overall, research findings indicate that cluster owners aimed at having 100% ownership within their cluster. As a cluster owner maintained, they rarely sold any property as, 'it's all about district control and managing that district' (Interview 24). Concentrated ownerships enable virtual total control over the built environment, within the realm of limitations imposed by the institutional environment (discussed over section 7.4). The larger their ownership footprint, the more comprehensive their active management could be.

Cluster owners referred to the group of activities involved in the management of their clusters as curating their portfolio (Interview 40 and Seaborn 2013) or as an 'holistic approach to district management' (Interview 24) or as place-making (Interview 40, Yardley 2013; Bickell

2013). The critical activities underpinning the management of clusters of ownership include new acquisitions (while retaining existing assets), changes of use, new developments and public realm improvements. Activities also include finding the right mix of tenants and their ideal placement in the cluster, and increasing the clusters' footfall. Moreover, when modelling the active management of clusters of ownership, it is useful to conceptualise these portfolios in two interdependent spatial levels, that is, the ground level and the upper level. The active management of the ground floor level involves curating a retail environment, which includes mobilising the public space. The active management of the upper level includes managing uses that are synergetic with the ground level uses. Together, this results in a circular and self-reinforcing process where the capital invested flows back, partly, to service debt and shareholders' dividends and, partly, to be reinvested in the cluster.

Together, these activities that form the active management of clusters of ownership could also be called an instrumentalised form of place-making (Figure 29). As described next, this includes curating a retail environment, mobilising the public realm to attract high levels of footfall and curating the upper level units to produce synergistic effects with the ground level uses.

7.3.2 Curating a retail environment

In the three clusters of ownership the most visible 'district change' (Interview 24) was in the retail environment. Cluster owners placed a great emphasis on the active management of the ground level units in order to create their intended distinct retail environment. This involved creating the conditions for attracting both retailers and consumers. Revisiting what a Shaftesbury director stated,

... our job as landowners ... is place-making and bringing prosperity to our tenants. If they prosper, we prosper, and we do that by place-making, almost setting a stage for the tenants, coordinating promotion, an obsession about retail mix, getting interesting operators ... (Bickell 2013).

This process of curating a retail environment includes, first, increasing the number of retail units on the ground level, particularly on the cluster's streets with higher levels of footfall. Second, changing the retail tenant mix. Third, merging the freehold and leasehold rights and having leases outside the Landlord and Tenant Act, similar to shopping centre leases. Fourth, developing a retail zoning plan and placing retail tenants accordingly, that is, in strategic locations within this zoning in order to enhance inter-store spill overs. Finally, engaging with public space improvements. Together, this active management of the retail environment was expected to contribute to high levels of footfall, inter-store spill overs, high demand for retail units and low vacancy levels. In time, the cost of these activities would pay back both in terms of rent and capital value growth. In greater detail, increasing the number of retail units on the ground level included, new acquisitions, use changes, and redefining accesses to upper level units (either reducing their size or moving them to back streets). It also involved new developments, which opened up what were before enclosed courtyards creating more active street frontages in the cluster. Overall, the objective was to create more retail space in the streets with higher levels of footfall.

Regarding the active management activities involved in changing the tenant mix, cluster owners referred to a wide spectrum of activities the literature on asset management has previously identified. This included finding tenants, waiting for existing leases to expire and buying back leases. It is worth revisiting the terminology Capco used in this regard, as it shows their exceptionally forceful management style. Capco referred to finding their tenant mix as 'tenant engineering', (Capco 2013, 26). Moreover, Capco called the existing tenants that did not fit in their retail strategy as 'neutral users' and 'detractor users' (Interview 24). Capco was either waiting for these leases to expire or trying to buy them back. Furthermore, a Capco director gave a clear picture of who some of these 'neutral users' and 'detractor users' were when saying that there was no space for amenity shops in the area as they '... can't afford to pay high rents and in most cases we need them to pay high rents, it's just unfortunately the nature of the business plan' (Interview 24). Therefore, it

is clear that 'tenant engineering' meant, amongst other things, targeting high-end retailers who could pay high rents.

Notably, tenant retention was rather dismissed by Capco and Shaftesbury's directors, despite being considered as a critical activity in literature on asset management. These directors argued that new lets provided opportunities for rent (upward) revisions, which in turn provided new rental evidence for the whole cluster. Alternatively, Cadogan seemed keener on tenant retention. A company director argued that having a discernible degree of control over their retail environment, and the possibility of offering their tenants alternative locations within the cluster, was instrumental in this regard. Other cluster owners supported this argument of the importance of retaining tenants and how clusters of ownership offer additional opportunities for tenant retention, namely their control over the retail environment and their capacity to accommodate tenants' changing needs while keeping them in the area (Interview 16). Moreover, as mentioned before, the literature has credited the good performance of some property companies and REITs during property market downturns to tenant retention (Adams and Tiesdell 2013). Therefore, Capco and Shaftesbury's dismissive accounts in this regard were somehow surprising yet understandable in the light of tenant turnover as an opportunity for rent revision.

In the active management of clusters of ownership, a tight control over leases is instrumental in having a strong grip over the retail environment. Cluster owners sought to have strict leases in order to keep their ideal and constantly novel tenant mix and have some degree of control over the products their tenants could sell. It seems that in clusters of ownership, the paradigm of having long leases with strong covenant tenants has been replaced by having novelty tenants on shorter leases. Cluster owners were thus aiming to subsume the leasehold rights over their properties, holding the freehold and an occupational lease similar to shopping centre leases, as the cluster directors referred to it. This allowed cluster owners to have great control over who their retail tenants were and would be in the future, far greater than with leases under the Landlord and Tenant Act. Therefore,

with shopping centre style leases, cluster owners maintained great control over their retail leases.

The final strategy identified as critical for curating a retail destination in clusters of ownership was the placement of the different retail units. This aspect, overlooked by the literature on asset and portfolio management, is amply discussed in shopping centre design and management theory. In the case of the three clusters of ownership explored in this research, the placement of retailers mostly followed the principles posited in shopping centre design and management theory. Uses were clustered around categories such as restaurants, high-end or mid-market. For instance, in the case of Capco's CG cluster, restaurants, defined in the literature as anchor shops, were being placed in, or gradually moved to, the streets south of the Covent Garden market, further away from the area's main transport links from where a significant number of visitors arrive. In Shaftesbury's SD cluster, the interior of St Martin's Courtyard was reserved for restaurants, whereas the units facing the streets with a higher level of footfall were reserved for smaller, non-anchor type units. This suggests that, in both cases, there was a clear strategy of placing anchor shops away from higher footfall streets to incentivise *unplanned shopping* when visitors walked toward anchor shops.

However, differently from shopping centre design and management, the active management of clusters of ownership encounters some constraints imposed by the pre-existing built environment and its regulatory framework. Shopping centres standardised units and optimised internal circulation layouts are not fully applicable in clusters of ownership, where property ownerships are carved within the consolidated inner city fabric, within tight regulations of conservation areas. This presented some additional challenges for cluster owners in terms of unit placement. The placement of Apple store in Capco's CG cluster illustrates this point. According to shopping centre theory, the Apple store is an anchor store and therefore, ideally, should be placed in a secluded place to incentivise anchor to non-anchor store spill overs. However, this store was placed right in the Covent Garden Piazza, amongst other reasons, because

Capco in their CG cluster, differently from a shopping centre, did not have an acceptable alternative, an equivalent space in terms of floor plate area, in the back streets of their cluster.

Moreover, the literature on shopping centre management emphasises the importance of the design of the circulation space for the success of retail ventures. On the one hand, the quality of the circulation space is expected to affect the centre's footfall. The higher the quality of the circulation space the higher the levels of footfall expected. On the other hand, the way people circulate determines their exposure to different retailers. The greater the exposure to retailers the more likely it is for visitors to become consumers. Therefore, the theory posits that circulation space design greatly impacts rents. In clusters of ownership, the shopping centre equivalent to circulation space is the public space. It is then unsurprising that cluster owners put great emphasis on the provision and management of the public space.

7.3.3 Mobilising the public space

The data suggest that in clusters of ownership, the active management of the public space plays a critical role enhancing the carefully curated retail mix. Through public space investment, both through contributions to *de facto* public spaces and POPS, cluster owners aimed at an increase in the quantity, quality and permeability of the public space. Presumably, this contributes to higher footfall levels in the clusters, which in turn triggers rental growth. However, it is noteworthy that cluster owners maintained that it was hard to establish a clear cause-effect relation between public space improvements and upward rent revisions. As a cluster owner argued, public space investment was greatly driven by 'gut feeling' on its financial payback (Corbyn 2013).

In all three cases, cluster owners were involved, in one way or another, with the management of *de facto* public spaces. One example was Capco paying Westminster to have additional council wardens securing Covent Garden and being in charge of cleaning King's Street and Floral Street.

Capco had also commissioned a masterplan for the whole of Covent Garden. They also covered the costs of King's St improvements and claimed to be willing to pay to have similar street improvements on the other streets leading to Covent Garden Market building. In the case of Seven Dials, one local community group was the trigger and the driving force for the Monmouth Street improvements leading the process that brought together various stakeholders working in partnership. Shaftesbury was involved in this partnership and contributed to the redesigning of this *de facto* public space and its implementation costs. In the case of Cadogan, the company had commissioned a masterplan for Sloane Street. The masterplan was still to be implemented in 2015 yet Cadogan is prepared to finance it and cover its subsequent management costs.

Additionally, cluster owners had either provided or were in the process of providing additional public realm through POPS (Capco through the King's Court scheme, Shaftesbury through the St Martin's Courtyard and Cadogan through the Duke of York Square). As all three schemes were POPS, the companies were responsible for both the provision and management of these spaces. The three POPS had distinct spatial features yet, they all contributed to increase permeability in the clusters and the area of shop fronts. According to cluster owners and their consultants, increasing permeability was a key objective in their masterplans.

Permeability was defined as the level of connectivity of an area or street to its surroundings. The idea behind increasing permeability in the clusters was that better-connected places were likely to attract more people. Therefore, permeability drew more visitors to the area and moreover, induced visitors' circulation, which in turn increased inter-store spill overs. High footfall areas also attract retailers. A high level of retailer demand pushes rents up. Two strategies stood out when it came to increasing permeability in the clusters. First, the strategy of demolishing carefully selected units on the ground floor, connecting sites, otherwise more isolated, to streets or squares with high levels of footfall. Second, the strategy of changing what were once internal courtyards into POPS.

These two design strategies were often used together and also created additional shop fronts in these newly opened connection paths or courtyards.

Additionally, in all three clusters there was a great concern over how clean and safe the clusters were and were perceived to be. Cluster owners expected that along with permeability, cleanliness and safety would contribute to increase the area's desirability, positively impacting footfall. Overall, footfall increased demand for retail units in the cluster and reduced vacancy levels, which together pushed returns up.

7.3.4 Synergies with upper level units

Cluster owners were keen on acquiring the upper level units on their clusters, since the upper level units played a role in the active management of clusters of ownership. Owning the upper level units, cluster owners would capture what could be called the positive externalities derived from the uplifting of the ground level units and the public realm in the cluster. As Capco stated, 'by creating value at ground level through retail and dining, Capco's strategy is to extract further value from residential conversions on upper floors' (2014b). This shows that adding to the inter-store positive externalities derived from the carefully curated retail environment, there were also positive externalities between the retail units on the ground floor and the units above. The active management of the ground floor units and public realm in the clusters resulted also in upper floor units' rent and capital value growth.

However, for externalities to be created from the ground level to the upper level units, the relation between the different uses would have to be synergetic. This seems to be the case in these clusters of ownership. On the one hand, the residential and office uses on upper floors benefited from the proximity to a vibrant retail environment and moreover, one where the active management of buildings and of the space in-between buildings aimed at offering a particularly safe and clean environment. Alternatively, if upper floor units were dedicated, for instance, to store space, there would

be limited synergies between these different uses. On the other hand, the retail units on the ground level were likely to benefit from the presence of the users of the upper floor units in the sense that they could be additional footfall.

Figure 29 below illustrates how cluster owners deploy an instrumentalised form of place-making in their relevant submarkets by holding and expanding their sectorally diverse, spatially concentrated portfolios. Through their concentrated ownerships, cluster owners can curate a synergetic mix of uses and users (tenants), which includes their synergetic placement in their cluster, and investing in the public space increasing its quantity, quality and permeability. Together this supports high levels of footfall, which in turn enables inter-store spill overs, low vacancy rents and rent upward revisions. This instrumentalised form of place-making creates the conditions for rental and capital value growth, which can be used to service debt and, together with any infrequent sales, to further finance these growing concentrated property portfolios. This form of place-making is virtually unfeasible in the case of dispersed property portfolios, (e.g. curating the mix of use(r)s and their synergetic placement) and moreover, unlikely to be financially attractive (e.g. public space investment).

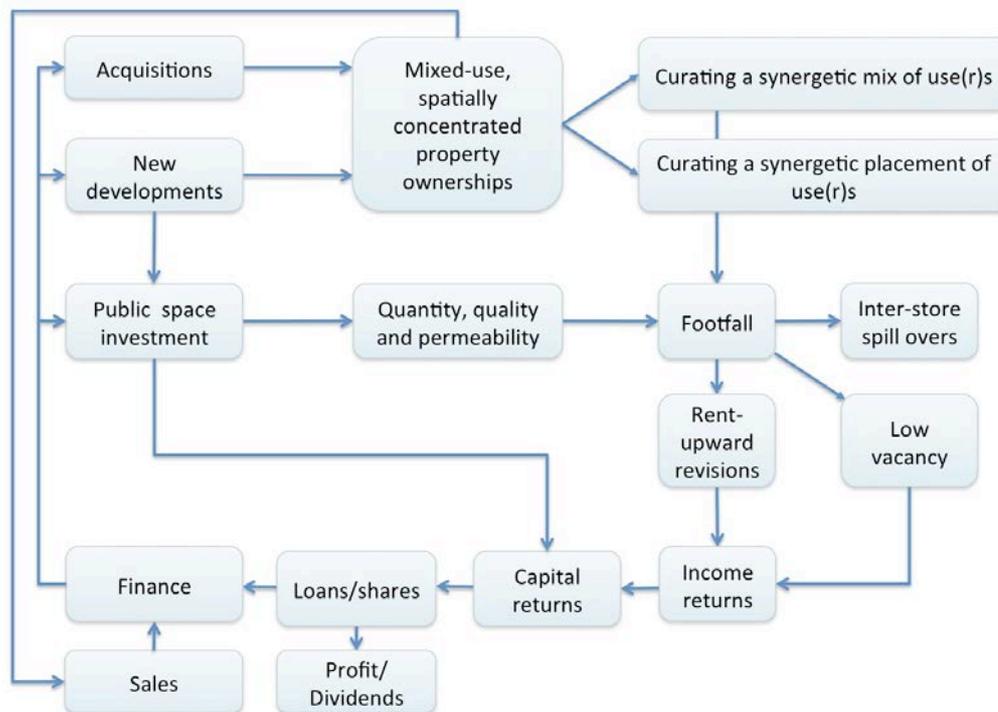


Figure 29. An instrumentalised form of place-making in SP MUCs

In greater detail, the active management of clusters of ownership can be described as follows. First, ownership of a critical mass of concentrated units enables great levels of control over the built environment, the economic and social environment in the clusters' area. Second, this control allows curating a retail strategy designed around inter-store spill overs. Third, in clusters of ownership the public realm is being mobilised to enhance the conditions for retail to prosper, particularly through creating the conditions for attracting footfall, consumer circulation and ultimately, consumer spending. Public realm investment seems particularly appealing to cluster owners also because this investment finds its returns through income and capital value growth on the multiple properties the cluster includes. Fourth, the externalities derived from the active management of the ground level units and public realm can be captured in rental and capital value growth in upper level units.

Overall, the active management of clusters of ownership through an instrumentalised form of place-making, aims at pushing up rents and capital value. According to local community representatives and planners interviewed, the active management of these clusters of ownership

included, in the case of Capco's CG cluster, 'catering to the top end' (Interview 7). In the case of Cadogan's CK cluster it included 'poshening of the area' (Interview 29). As a cluster owner maintained, the nature of their business plan required tenants to pay high rents (Interview 24). Therefore, if cluster owners successfully implement their strategy, they will consequently compromise affordable space in their neighbourhoods. It is unsurprising that property owners seek the highest returns from their assets. As discussed before, the literature has asserted that the property industry perceives space, first and foremost, as a place for profit creation (Charney 2001). Yet, considering the number of clusters of ownership in inner London, (Figure 1) and the theoretical and empirical insights suggesting that increasing returns underpins their active management strategy, this implies that this renewed interest in the *estate model of development* compromises affordability in a significant number of areas in inner London.

In order to implement their strategy, cluster owners have to deal with the institutional environment. This includes the regulatory environment but also the more broad rules of the game, namely the resources and interest of other stakeholders. For instance, the planning system might capture some of the development gain created in clusters of ownership, for instance, through planning obligations in the form of affordable housing. However, due to the small-scale nature of most of the interventions in clusters of ownership, this was generally not the case. It would also be expected that stakeholders, for instance, community associations, would oppose the strategies of cluster owners, for instance, by fighting the growing unaffordability in the area. However, research results suggest that community associations, and also property industry associations, were partly facilitators of the strategies pursued by cluster owners. These aspects are explored over the next section.

7.4 THE PATH TO AN ENABLING INSTITUTIONAL ENVIRONMENT

7.4.1 Path dependent yet malleable institutional environment

Clusters of ownership can be seen as an institution when institutions are perceived as ‘any form of constraint that is human being devised to shape human interaction’ (North 1990, 3). The literature on institutions stresses that, on the one hand, institutions are path dependent and that, on the other hand, institutions are malleable (Campbell 2010; Martin and Sunley 2006; North 1990). That is, past decisions are likely to affect the range of present options, including the way options are conceptualised yet, considering that the past is not deterministic, new pathways can also be created. The NIE literature, with its focus on institutional change driven by agency, suggests that institutions are more likely to change in the directions set up by the most powerful players (Campbell 2010; Adams, Dunse, and White 2005).

Research findings suggest that there are elements of path dependency and path creation in the formation and active management of the clusters of ownership explored. The formation of these three clusters of ownership can be explained by path dependencies yet, there were various instances of path creation in the processes their active management involved and, more broadly, in the institutional environment where their active management took place.

With regard to path dependencies, the three companies showed different trajectories leading to the formation of clusters of ownership. While Capco acquired a significant number of properties in one acquisition only, Shaftesbury gradually clustered their portfolio over 20 years, while Cadogan was their area’s prevailing landowner since the 1800s. Nevertheless, in some ways, all three cases showed elements of path dependency. For example, Capco benefited from the opportunity of buying a significant group of properties still in single ownership in one acquisition only. This shows that the materialisation of Capco’s CG cluster was facilitated by past circumstances—the existence of London’s landed

estates and more specifically, the partial subsistence of part of the original Covent Garden estate in the hands of one single landowner.

The case of Shaftesbury is useful to illustrate a more complex use of the term *path dependency*, one that suggests that players' past decisions influence, or set the trajectories for, their present decisions. In the case of Shaftesbury, the performance of one particular building in the West End was presented as the critical reason for the company's strategy of clustering their assets in the area (Interview 40). Moreover, a Shaftesbury director suggested that today, with their portfolio concentrated in one area only, London's West End, the company would find it hard to invest elsewhere. Revisiting what the director maintained,

if we [went off this map], you should sell your shares because we're not gonna go fiddling around over there, we don't know the market there, all I know is about what I walk around... (Interview 40).

This shows that once a development pathway is established, as North argued, 'the learning processes of organisations, and the historically derived subjective modelling of the issues reinforces the course' (1990, 99). This 'subjective modelling of the issues', that North mentioned, can be illustrated by the Shaftesbury director's point when arguing that their lack of knowledge of other location markets would compromise their success if they were to invest elsewhere. Yet, when the company originally started investing in the West End, arguably, they did not know that location market but that did not hinder their performance.

Moreover, Shaftesbury director's claim suggests that even if the conditions underlying their original decision to invest in the West End changed to adverse investment conditions, Shaftesbury was unlikely to change their strategy, for instance, by changing their portfolio to a different location known to be offering better returns. It should be acknowledged that the imperfect nature of the property market, particularly its illiquidity, would make a swift investment strategy change hard to achieve. The imperfect nature of markets is one of the reasons presented in the literature for slow institutional changes (North 1990). Yet, what Shaftesbury's director seems

to be stressing is the path dependency of the company regarding future decisions. Their local knowledge seems to work as a lock-in factor inhibiting Shaftesbury to change their strategy.

The case of Cadogan also displays elements of path dependency. For example, the historical links the family has with the area, determined their investment strategy when the company decided to keep investing in the area the capital released from the compulsory residential sales that followed the residential enfranchisement triggered by the Leasehold Reform Acts. Moreover, Cadogan's decisions in the past, particularly the decision of developing their estate in the first place, conditioned the trajectory of their investment decisions.

Also noteworthy are some elements of path dependency in the planning system. For example, the RBKC and Camden, by protecting their existing uses, apply a sort of lock-in to the build environment. The decisions these LPAs made in the past regarding building uses, under their current protective uses policy, constrain what the mix of uses in the boroughs can be today and in the future. Similarly, Conservation Areas and listed buildings lock-in the built environment.

If path dependency helps to explain the formation, perpetuation and some constraints on the active management of clusters of ownership, path creation also holds significant explanatory power for why property owners choose to cluster their assets. The literature on institutions and property development suggests that path creation, or institutional change, is likely to result from the actions of the most powerful players (e.g. Campbell 2010; Adams, Dunse, and White 2005). Cluster owners are powerful players and their actions led to path creation through changing uses, tenants, their placement and lease terms. Cluster owners' active management activities reshape human interaction.

It is nevertheless worth noting that this path creation was, in most cases, a negotiated path creation. That is, the cases showed that institutional change, namely changes to the built environment and urban policies,

came about through the interaction between local key stakeholders. This is something that the property development literature has previously identified. Many authors have maintained that the development process tends to happen through the interaction of different players and not just through the interaction between planners and developers (e.g. Henneberry and Parris 2013). Some authors have argued that planners have a coordinating role to play, mediating the interests of different players or a role in building institutional capacity, that is, the capacity of mobilising the necessary resources to deliver policy objectives (Healey 1998b). Alternatively, other authors have suggested that planners should be perceived as, and assume the role of, market actors (Henneberry and Parris 2013; Adams and Tiesdell 2010; Alexander 2001).

These cases of clusters of ownership in London showed that the role of coordinating different interests and building institutional capacity were not just in the hands of planners but distributed between various actors, namely cluster owners, community associations and a property industry association. Cluster owners mostly assumed a coordinating role through various processes that led to changes in the built environment and in the social and economic environment, particularly by curating the retail environment in their clusters. This curatorial process was negotiated with many stakeholders despite the marked coordinating role of cluster owners.

Local community groups and a property industry association played a part in coordinating the interests of different players and building institutional capacity. This can be illustrated, for instance, by the Seven Dials Trust developing the environmental study for Seven Dials, the study that comprehensively sets the criteria for interventions in the built environment in the area. The LPA uses this study to assess planning applications. This illustrates the strong coordinating role assumed by the Seven Dials Trust and the power of this organisation setting the trajectory for interventions in built environment in the area. Shaftesbury, as quoted in a Seven Dials Trust newsletter, claimed that this study was their 'Bible' (Seven Dials Trust 2014). The Seven Dials Trust also showed up as a key player mobilising local partnerships for the delivery of street improvements.

The Westminster Property Association also contributed towards building institutional capacity through their negotiations with Westminster Council that led to the implementation of the Public Realm Credits supplementary policy. Under this policy, developers could offset the credits they had gained when delivering any chosen public realm investment, when their new schemes triggered planning obligations in the form of public realm contributions. In turn, as a senior planner argued, Westminster Council started seeing more investment in the public realm by private developers, which helped them to fulfil their goal of improving the borough's public spaces in the run-up to the 2012 Olympics in London (Interview 8). This illustrates a form of institutional capacity building in the sense that the interests of different players were coordinated to deliver policy objectives.

Regarding planners at the three LPAs, their current role as enablers and market players, confirms the route the literature has identified as their gradual shift from providers to enablers, and from coordinators to market players (e.g. Adams and Tiesdell 2010; Alexander 2001). Central government cuts on LPAs' budgets have exacerbated this institutional change. To a great extent, budget cuts forced the LPAs to provide a new set of services, for example, Planning Performance Agreements and the Advice Service, which involved additional payments from the property developers in exchange for more contact hours with planners and contractualised timings for processing planning applications. Moreover, these new sources of income were streamed, for instance, to cover planners' salaries. This illustrates how LPAs services were being treated like any other market transaction – as a service for a fee.

This market style transaction raises some legitimacy questions. This has been expressed in the media where some authors have argued that there is a lack of assurance that through these arrangements 'developers are only paying for more efficient decision-making processes, and not permissions ...' (Allen and Pickard 2014). The apparent discomfort of a cluster owner with the situation seems to support this point. The cluster owner denied that their contributions were being used directly to pay the salaries of planners, as there could be a resulting conflict of interests. The

cluster owner instead suggested that their contributions were going to 'a magical pot' (Interview 24). However, it became apparent through interviews with planners, some of whose salaries were being covered by property developers, at least partly, that the arrangement was quite straightforward and there were no collective or magical pots (Interviews 7, 8 and 9).

Together, this suggests that the institutional environment is somehow path dependent yet malleable and that different stakeholders seem to have different degrees of power to set new pathways. As the literature notes, this suggests that property market agents (including planners) respond to incentives and constraints in the institutional environment (Adams, Dunse, and White 2005).

7.4.2 Embeddedness and institutional thickness

The multiple interactions and the great alignment of interests between different players, including cluster owners, LPAs and community representatives, partly result from cluster owners' embeddedness in their areas. Examples of the cluster owners' embeddedness included first, having their offices on site or in walking distance of their cluster and hosting meetings with other key stakeholders, such as Capco hosting the Area 1 meeting in their offices. This seems to facilitate cluster owners having '... a man on the field walking the estate every day' (Interview 15) and a 'forensic knowledge of the area' (Interview 40). Second, cluster owners' contributions to the initiatives of other stakeholders as, for instance, Shaftesbury contributing to the initiative led by the Seven Dials Trust for Monmouth Street improvements. Third, the data showed cluster owners' embeddedness through having formal and informal collaborative relationships with other local property owners. Examples include Shaftesbury's joint venture with the Mercers' Company, Capco informal alignment of strategies with Lothbury and Cadogan planned partnership for public realm improvements with the Grosvenor estate. Through embeddedness, cluster owners tried generating consensus around their initiatives.

It could be argued that LPAs too were embedding their activities within the property market. The same can be said about community associations who sought financing for their activities with prevailing landowners. This *multi-actor*, simultaneous embeddedness, resulted in intertwined interests, interdependencies between these different stakeholders, which can be explored through Amin and Thrift's (1995) concept of *institutional thickness*.

Inner London clusters of ownership show the defining elements of thick institutional environment. That is, clusters of ownership were produced in the presence of multiple institutions, which displayed mutual awareness and interacted in cooperation or domination. As for the presence of multiple institutions, the three clusters of ownership explored in this research seem to have been produced in what a research participant referred to as 'hard-wired' places (Interview 25). The three clusters fall into London's Central Activity Zone area, within Conservation Areas and include many listed buildings. This gives LPAs greater control over the built environment. Moreover, the three clusters sat in areas where community groups had a strong degree of power over the built environment, in some cases statutory power. Cluster owners had therefore, to negotiate the active management of their clusters through these institutions and with these organisations. Key stakeholders showed mutual awareness and their high levels of integration can be illustrated, for instance, by the Area 1 meetings, partnerships for implementing public realm improvements, development partnerships with other local developers, and increasing contractual arrangements between the LPAs and cluster owners. These interactions were mostly cooperative. Cluster owners showed nevertheless, a dominant role in reshaping the institutional environment.

This *institutional thickness* was something that cluster owners were conscious of, and keen on further advancing. It is useful to recall Cadogan's CEO on this point.

... as a major property owner in the area I require that we act as good neighbours in the context of our commercial interests. This

means taking care to develop thorough lines of communication with individuals and groups affected by our ownership and activities (Cadogan 2010, 5).

Amin and Thrift (1995) have maintained that institutional thickness advances local economic development. Advancing the institutional thickness of their areas, cluster owners thus advance local economic development from which they can then capture real estate financial value through income and capital growth. Moreover, this being the 'good neighbours' approach for the sake of their 'commercial interests' has been played out indeed through developing 'lines of communication', (Cadogan 2010, 5) such as the accounts of frequent meetings with other local stakeholders and an increasing number of contact hours with planners, as planners themselves suggested. It also seems to have been played out through advancing, at least partially, the agendas of other stakeholders. In this institutional thick environment, cluster owners playing a dominant role, pushed forward both their own agendas and those of other local key stakeholders.

The agendas of some key local stakeholders focused on maintaining and improving the built environment, both the buildings and the space in-between the buildings. This protectionist agenda over the built environment was, to a great extent, the *raison d'être* of some community groups. For example, the protection of the built environment was in the genesis of the Covent Garden Area Trust, the Seven Dials Trust and the Chelsea Society. For these local community associations, cluster owners' investment in the built environment, in some cases following the plans set up by these community groups themselves, advanced their own agendas. For the LPAs, cluster owners' willingness to allocate additional resources, for instance, in to the public realm meant that LPAs' scarce resources could be channelled into more deprived areas of their boroughs, while assuring that significant resources were being allocated to these neighbourhoods by cluster owners.

Moreover, cluster owners' additional payments to the LPAs, through Planning Performance Agreements and the Advice Service, also seemed

to advance the agendas of both players. From the point of view of cluster owners, through these contracts they achieved greater certainty, at least, in terms of planning application processing timings. From the point of view of LPAs, the additional financial resources captured through these contracts were, in some cases, vital to sustain the everyday functioning of the LPAs as, for instance, when channelled to paying the salaries of planners. Together, this shows a great level of alignment of interest between these key stakeholders.

Nevertheless, it is worth noting some of these players' perceptions on how power was distributed. Planners at the LPAs seemed to perceive cluster owners as more powerful players than the LPAs. For instance, as a Camden planner argued, there are potential 'David and Goliath' situations between cluster owners and LPAs if their interests were to become misaligned (Interview 35). Similarly, a RBKC planner referred to the mismatch between planners' real power and perceived power, illustrated by planners' powerlessness if faced with uncooperative landowners (Interview 26). On the other hand, cluster owners seemed to express a degree of indifference to the power of the planning system. For example, policy changes towards more protective land-uses and more restrictive land-use changes, for instance, regarding offices to residential changes of use in the CAZ area, were perceived, or at least conveyed, by cluster owners as having a limited impact on their strategy.

When asked about the reasons underlying changes to their active management strategy as, for instance, halting office to residential conversions, cluster owners tended to explain it based on reasons other than planning policy constraining effects. The reasons behind changes to their strategy were explained by their place-making strategy, or by property market demand-supply dynamics, despite evidence pointing otherwise at times. For instance, a Cadogan director mentioned protecting offices for the sake of keeping the mixed-use nature of their neighbourhood, (Interview 39) although, the LPA was not allowing that use change. Similarly, a Capco director justified stalling office to residential conversions based on office yields picking up, (Interview 24) although,

with the introduction of PDRs for office to residential, Westminster became reluctant to allow that type of change of use in the area they could control, as their CAZ area, where Capco's CG cluster sits.

Similarly, regarding PRCs, despite cluster owners considering unfortunate their withdrawal, they said that the nature of their business was not so reliant on new developments and therefore, that it would be unlikely that they would be able to offset their credits at any point in time (Interview 24). Together, this suggests that cluster owners saw LPAs, or chose to refer to them, as having a negligible impact on the dynamics underlying changes to their active management activities.

7.4.3 Enabling institutional environment

Research findings suggest that the active management of clusters of ownership happened in an enabling institutional environment. There are several examples of the enabling nature of the institutional environment where the active management of clusters of ownership was taking place. First, cluster owners' degree of monopoly control over the areas where their clusters sit, benefit from the long tradition of concentrated ownerships in the UK, namely the existence of London's landed estates. That is, the long history of London's landed estates seems to legitimise the existence and the active management of clusters of ownership. Moreover, as the case of Capco illustrated, clusters of ownership today benefited from a significant number of properties remaining in single ownership. This gave Capco a fast way into a cluster of ownership.

A second enabling feature of the institutional environment was the alignment of interests between different key stakeholders in regard to what could be called a protectionist agenda over the built environment. The Conservation Area status of these areas ensured that they were not subjected to comprehensive redevelopment schemes. Therefore, these areas held the distinctive character of the historical city fabric, with its narrow streets, alleyways and historical buildings including, globally recognised landmarks, such as the Covent Garden Market building and

the Seven Dials sundial. As one of the research participants argued, this was their 'unique selling point' (Interview 13). The distinctive character of these areas makes them a magnet for London's tourism and the consumer spending that tourism brings along.

Additionally, changes to the built environment triggered by cluster owners seem to have found great support from other local key stakeholders. For instance, in the case of Shaftesbury's SD cluster, changes to the built environment were actually guided by the community association-led environmental study for the area. Also, the alignment of interests, particularly, over the public realm was patent. For instance, Capco's public realm improvements in Covent Garden were welcomed by Westminster and by the CGAT, as was Capco's growing involvement with the maintenance of public space. Moreover, these aligned interests over the quality of the public space spread beyond the interests of local stakeholders and involved other property industry agents who, represented through the Westminster Property Association, achieved the Public Realm Credits supplementary policy (Interviews 7, 24 and 30). Furthermore, all three LPAs welcomed the new POPS cluster owners developed. POPS can be perceived as a means to increase shop front area and permeability, which in turn are critical elements in the curatorial process of their retail environment. Therefore, the quality of the buildings and the space in-between buildings in clusters of ownership, critical aspects of their active management, were aspects over which the interests of local key stakeholders seemed mostly aligned.

Nevertheless, it could be argued that the protectionist agenda over the built environment supported by local key stakeholders, could curtail some of the activities the active management of clusters of ownership comprise such as changes of use. However, cluster owners' concentrated ownerships allowed them to employ use-swaps and break down dual licenses. Therefore, cluster owners were likely to be able to progress with changes of use, (particularly more likely than other property owners with geographical dispersed property ownerships). With many units in one borough, cluster owners could, at least, change the placement of uses.

Another critical enabling factor seems to be that, if the LPAs had a degree of control over changes of use, they had no control over changes in tenants. The retail tenant mix was critical in the active management of clusters of ownership and something that cluster owners had virtual total control over. The built environment, to a certain extent, can be perceived as the movie set, it is the actors and the story that animates it. That is, the tenant mix and their placement play a critical role in the success of the retail environment, and this was an aspect that cluster owners greatly controlled.

Additionally, a series of new regulatory frameworks enabled, more than constrained, the active management of clusters of ownership. These include, Public Realm Credits, (PRCs) Planning Performance Agreements, (PPAs) Advice Service, (AS) the Portfolio Approach, (PA) and Linked Planning Applications (LIPA). PRCs, PPAs and the AS gave cluster owners more control over timings, the former over capital expenditure in the public space and the two latter over the timings of planning application processes. The PA and the LIPA facilitated cluster owners' use changes activity.

Moreover, LPAs' meagre budgets were contributing to the emptying of governance spaces, such as for the provision and management of the public space. This was a governance space that cluster owners seemed mostly keen to fill, considering the importance of public space to their strategy. This suggests an enabling institutional environment for the active management of clusters of ownership. Moreover, LPAs' reduced budgets could be argued to be a determining factor for the introduction of PPAs and AS, which could be perceived mostly as enabling features for the active management of clusters of ownership. What could be called austerity planning, thus worked as an enabling feature of the institutional environment for the active management of clusters of ownership.

If, to a great extent, the interests of local key stakeholders were aligned, others were not. For instance, regarding affordable space, cluster owners' contributions had been limited. Cluster owners' financial objectives of

income and capital growth were conflicting with affordability. Planners and consultants noted that cluster owners' strategies led to lack of amenity shops, limited to no affordable housing and lack of affordable work space on site (from the three clusters, only Cadogan had contributed with affordable housing on site). Overall, the active management of clusters of ownership led to the up-scaling of the areas. Therefore, it could be argued that the active management of clusters of ownership, ultimately, was not conducive to affordable space.

As a planner at Westminster noted,

One thing, I think, the estates haven't done, probably all of them in some respects, is that they haven't quite appreciated that, and ... I think that is becoming a bit of a moral argument, about who can afford to live in these parts of Westminster, what kind of society do you want going forward? (Interview 8)

It is nevertheless worth noticing that one of the cluster owners used the term affordability to define their retail rental strategy. As the director argued,

... part of the business model is to ensure affordability of rents and to allow those to grow, those rents have to be affordable. So, by having more people coming here, staying longer, and coming more frequently to shop and spend more money the businesses do better, it allows them to pay us rent (Interview 24).

This director also argued that as a result of their active management strategy, 'those little guys will start paying a lot more than they do' and added 'so, affordability of rents will start rising' (Interview 24). This shows two contrasting understandings of the term affordability. 'Affordability rising' for this cluster owner does not mean rents being cheaper, quite the opposite, affordability seems to express their rental ceiling considering high bidders. As the director maintained, 'if rents weren't affordable then people wouldn't pay, it's as simple as that' (Interview 24). On the other hand, for planners, affordability seems to mean rents that a broader group of users could potentially afford. Ultimately, planners worried about segregation as expressed by a planner when asking 'who can afford to live in these places' and the same could be said about businesses. Taking this

meaning of affordability, for the time period analysed, the three clusters of ownership seem to be contributing to a less affordable inner city.

This can be perceived nevertheless, as another dimension of an enabling institutional environment for the active management of clusters of ownership. Affordability, in the planners' sense of the word, can be achieved, for instance, through planning obligations in the form of contributions to affordable housing. However, these planning obligations are triggered only by schemes of a certain scale, schemes that cluster owners had only infrequently embarked on. Therefore, cluster owners, were infrequently required to provide affordable space. Even when their schemes triggered affordable housing contributions, LPAs offered the possibility of these contributions coming in the form of financial contributions to the LPAs affordable housing funds, as an alternative to the provision of affordable housing on-site. For instance, Capco used this option in the case of the King's Court redevelopment. This policy enabled cluster owners to assign more of their preferred uses on their cluster than they would otherwise if affordable housing had to be provided on site.

Together these examples illustrate some of the features of the enabling institutional environment where the active management of clusters of ownership in inner London was taking place. An enabling institutional environment is likely to be part of the explanation of why cluster owners pursue and maintain clusters of ownership in inner London.

7.5 SUMMARY OF FINDINGS AND CONCLUSIONS

This chapter, in section 7.2, argued that first, in conditions of concentrated ownerships, property owners have an edge over the market. This included lower transaction costs on new acquisitions, mostly derived from cluster owners' thorough local knowledge, both knowing and being known in the area, together with their potential power to increase the financial viability of certain sites through strategic demolitions. Moreover, it was argued that cluster owners were likely to have lower than market transaction costs on managing lettings, particularly retail lettings. That is, their great level of

control over their location submarket, resulting from their concentrated ownerships, vests cluster owners with some certainty over the future of these areas. This could be then conveyed to tenants, which could reduce cluster owners' transaction costs involved in finding and retaining tenants. An additional identified edge over the market clusters of ownership lead to is a compound effect on investments. Any investment cluster owners make in their cluster is likely to have a positive effect on their clustered properties.

The active management of clusters of ownership nevertheless, requires a long-term strategy, paying high market prices for new in-fill acquisitions and incorporating new activities and costs. For example, the active management of clusters of ownership creates externalities on the value of the properties in and around the cluster and therefore, cluster owners are likely to have to face increased costs on new acquisitions. Nevertheless, this does not affect cluster owners' edge over the market, as if property prices indeed rise, they rise for all potential buyers. Incorporating activities included investing in the public space and merging leasehold and freehold rights. All in all, the edge over the market countered by an increase in price in new acquisitions and incorporating new costs, nonetheless, results in attractive financial returns, otherwise, presumably, cluster owners would not do it.

In this section it was also argued that the active management of clusters of ownership bridges over some of the traditional property market divides namely, the residential and commercial property markets and the investor and the developer markets. It was suggested that this behaviour could be explained through the lens of the place-making literature more so than through the lens of the risk management literature. Therefore, this chapter proposed to conceptualise cluster owners as the *eye on the street investors*.

Section 7.3 of this chapter argued that in conditions of concentrated ownerships, property owners have a great degree of control over the built environment and over many aspects of the social and the economic

environment in their clusters of ownership. Curating a synergetic retail environment was a critical aspect of the active management of these clusters of ownership. Cluster owners sought to increase their retail space, and find and place their tenant mix in order to instigate inter-store spill overs. Cluster owners' increased involvement with public space provision and management was instrumental to this end. As enhanced public space is likely to attract more people to the area. A more permeable public realm keeps consumers circulating. Together, this makes inter-store spill overs more likely. In the long run, this is likely to result in rental and capital growth. This section also discussed the role of upper floor uses in the clusters of ownership. It noted that there are synergies between the lower and the upper level units and that cluster owners when owning the upper level units could capture the externalities resulting from their upgraded ground level.

Section 7.4 of this chapter argued first that clusters of ownership show elements of path dependency and path creation. Path dependency could be clearly illustrated with the case of Shaftesbury's SD cluster. Shaftesbury's current investment strategy was greatly conditioned by one event that happened 25 years ago, the resilience to the property market downturn of the 1990s of some of their properties in the West End. This event in the past set up the direction of Shaftesbury's investment strategy then and conditions their current investment strategy today. If path dependency helps to explain why property owners chose to cluster their assets, the concept of path creation also holds some explanatory power. In this regard, the chapter noted that cluster owners had a great degree of control over the location submarkets, which allowed them to create new pathways, through changes in the social, the economic and the built environment and their location submarkets and local institutional environments. These changes were, in most cases, nevertheless, negotiated with other local key stakeholders. There were instances of urban policy changes imposed by central government, such as the introduction of PDRs for office to residential conversions, or the introduction of the new use class order for restaurants. However, on many

occasions, policy change, or the final shape of a certain policy, resulted from interactions between key stakeholders (for instance, PDR, PPAs).

Two critical concepts then emerged to further explore these negotiated path creation processes, embeddedness and institutional thickness. This section discussed the instrumental role of cluster owners' embeddedness in their local areas in mobilising consensus around their initiatives. An aspect worth noticing is that these negotiated path creation processes, largely a result of the embeddedness of cluster owners, was the degree of overlap between the interests of local key stakeholders, for instance, regarding the quality of the built environment.

Finally, this section concluded by arguing that the institutional environment where the active management of these clusters of ownership was taking place was mostly an enabling one. Examples of its enabling nature included first, cluster owners' degree of monopoly power over their location submarket. Second, the aligned interests between key stakeholders over the quality of the built environment. Third, LPAs have virtually no control over choosing users and their policies regarding changes of use were particularly favourable for property owners with various properties in the same borough. Fourth, LPAs new governance arrangements, such as PPAs, AS, PA, LIPA, PRCs were greatly enabling for cluster owners' active management activities. Fifth, a receding public sector leaving gradually more open the governance space for the provision and management of the public space for cluster owners (and others) to occupy. Finally, the limited extent of LPAs' policies toward affordability allowed cluster owners' contributions to be few and far between.

CHAPTER 8 . CONCLUSIONS

8.1 INTRODUCTION

The objective of this research was to explore why some real estate companies have clustered portfolios, and how and why they actively manage them. This research explored the interests, resources and practices involved in the active management of clusters of ownership in inner London and some of the key features of their local institutional environments. Following a multiple case study approach, it explored clusters of ownership in the context of the consolidated urban fabric of inner London, namely in the Covent Garden, Seven Dials and Chelsea and Knightsbridge areas. This is a topical subject because clusters of ownership are an important feature of the London property market (see Figure 1) and the literature has argued that there is a renewed interest in this model of development (e.g. Allen 2016; Hammond 2013; NLA 2013; Farrell 2012). However, research on this topic is still limited (e.g. McWilliam 2015; NLA 2013).

More broadly, this research contributes to the debates about the inefficiencies of property markets, the behaviour of property market players, property ownership and power, and to the debates about the power dynamics between different key stakeholders involved in urban governance.

This chapter offers an answer to the research questions (see page 26) and is structured as follows. Section 8.2 offers a synthesis of the research findings. Section 8.3 discusses their implications both to theory and to practice. Section 8.4 raises some new paths for further research and exploration on the topic of clusters of ownership. Finally, section 8.5 concludes this thesis by offering a summary of the key arguments developed over the chapters.

8.2 KEY FINDINGS

In the three cases explored, Capco's CG cluster, Shaftesbury's SD cluster and Cadogan's CK cluster, cluster owners were engaged in the active management of their clusters of ownership. Capco and Shaftesbury, particularly the former, were broadly proactive in their active management approach. This was illustrated, for instance, by their particularly proactive strategies regarding new acquisitions, approaching potential sellers and acquiring properties before these went on the market, and changing their retail mix, which Capco referred to as 'tenant engineering' (Capco 2013, 26). Cadogan, on the other hand, was more *reactive*. For instance, the company justified starting actively managing their portfolio as a response to the leasehold reform. More research is necessary to explore the possible correlation between the clusters' different legal structures and potential differences in management styles.

Regarding why the real estate companies choose to cluster, (the whole or a significant part of their assets) the answers were, to a great extent, distinct for the three cases explored. As discussed in the previous chapter, the three companies showed significantly different trajectories leading to the formation of their clusters of ownership. Their trajectories showed elements of path-dependency. Similarly, this research expected to find significant differences between the cases regarding why and how they actively managed their clusters and the institutional environment where these clusters were taking place. The criteria used for the selection of cases suggested it, considering that it included selecting *maximum variation cases*, (see pages 86 and 87) namely, regarding real estate companies' legal structure and the clusters' development milieus, represented by their different LPAs. However, this was not the case, and the degree of similarity found between the cases regarding why and how cluster owners actively managed their clusters of ownership was notable. A significant factor for the similarity in results between cases might be that all cases explored are SP MUCs. Greater levels of variation between cases are likely to be found if varying the clusters' origin (NB versus SP)

and sectoral composition (for more on this point see page 281, Future research).

As the chapters before illustrated, one of their main strategies in the active management of clusters of ownership was consolidating ownerships through in-fill acquisitions and restricting sales. Some of their new acquisitions seemed to have been achieved off-market, that is, cluster owners seemed to make suitable offers on some of their new properties before these properties reached the sales market or others had the chance to make an offer. For instance, Capco claimed to approach potential sellers before properties went on the market. Shaftesbury argued that the company was always actively seeking new acquisitions and that partly because of their local knowledge of local property owners and assets, they could make an offer to sellers before competitors. Cadogan maintained that they did not approach potential sellers, as the company believed that this approach would push property prices up. However, in the case of the Duke of York site, Cadogan had approached the sellers and attained a preferred purchaser status on this property. This suggests that these companies had an edge over the market or, in other words, over other market players, namely in terms of transaction costs. This results from cluster owners' degree of monopoly power in their location submarkets.

In terms of the sectoral composition of the clusters, together with their location concentration, all three clusters showed high levels of concentration. Over 75% of Capco's CG cluster capital and income value originated from the retail and restaurant sectors for the time period analysed (Figure 10 and Figure 11). In the case of Shaftesbury's SD cluster, over 60% of its income value came from retail (shops and R&L) (Figure 24). In the case of Cadogan's CK cluster, 85% of its capital value was concentrated in the residential and retail sectors in 2009 and 2011 (Figure 28). This presents some challenges to the literature arguing for sectoral and spatial diversification as key portfolio management practices (e.g. Lee and Stevenson 2005; Eichholtz et al. 1995).

Regarding the financial profile and targets of these clusters of ownership, in terms of annual average growth, (AAG) Capco's CG cluster grew, for instance, 16% for capital value and 12% for gross income (Table 4). This was above Shaftesbury's SD cluster and Cadogan's CK cluster, which showed similar growth levels, 14% for capital value and 8% and 9% for gross income respectively (Table 5 and Table 6). Moreover, all cluster owners were greatly focusing on growing their retail segment rental income. However, their focus on the whole portfolio, at times to the detriment of the performance of their individual units, meant that cluster owners still had some way to go before reaching their targeted performance. Capco's CG cluster and Shaftesbury's SD cluster retail benchmarking illustrated their retail rental performance targets, and current gap (Figure 17 and Figure 32).

In the active management of the three clusters of ownership, the most sought after changes of use were offices to residential and shops to restaurants. With regard to the reasoning behind office to residential conversions, cluster owners argued that residential uses were in greater demand and that residential units had lower obsolescence costs. Shops to restaurants conversions were a key element of the thorough retail strategies. That is, by increasing the number of restaurants, cluster owners expected to increase footfall and consumer dwell time in the area, which in turn would have a positive impact on consumer spending.

Other activities in the thorough retail strategies of cluster owners included finding the right mix of retailers, their placement in the cluster, and having greater control over leases and lease terms. It is noteworthy that Capco and Shaftesbury welcomed tenant turnover, as they perceived it as an opportunity for upward rent revisions and consequently new evidence of the growing rental tone in their clusters. Alternatively, Cadogan seemed keener on tenant retention and argued that their concentrated ownerships and the resulting added control over the built environment, were instrumental in this regard. Essentially, cluster owners were engaged in curating a retail environment that maximised footfall, inter-store synergies and in the long run, rental growth.

The active management of the clusters also included new developments. Despite being in Conservation Areas, the active management of these clusters of ownership included at least one major new development during the period analysed. Through new developments, cluster owners increased their letting space area. This was achieved not through building higher buildings, because the conservation area status of the areas prevented it, but by redesigning accesses, changing the location of uses and other design features that increased the rental area of the clusters.

Cluster owners also embraced the active management of the space in-between buildings. Through privately owned public spaces (POPS) and contributions to *de facto* public spaces, cluster owners increased the quantity, quality and permeability of the public realm in their clusters. Attracting people to the area and keeping them moving through increased their exposure to retailers and the likelihood of money being spent in the shops. Cluster owners expected this to have a positive effect on demand for retail units and rent reviews. However, as cluster owners acknowledged, it was hard to establish a clear cause-effect relation between public realm improvements and upward rent revisions. Nevertheless, this strategy was pursued in all three clusters.

Overall, the active management of clusters of ownership seems to encourage certain activities (which are unfeasible as a whole or unlikely to have a great impact on dispersed property portfolios). The added control over the built environment cluster owners have, allows them to curate the mix of uses, the tenant mix, their placement in their cluster and investing in the public space in order to create the conditions for rental and capital value growth. Moreover, rental and capital growth were expected from the retail units but also from the upper level units. Cluster owners anticipated that a curated retail environment would also have a positive impact on the rent and capital value of the upper level units.

The regulatory environment regulating changes of use and new developments seemed mostly supportive of the active management strategies pursued by cluster owners, and definitely more supportive than

to owners with single or a limited number of properties in one borough. Camden's Portfolio Approach and the RBKC's Linked Planning Applications illustrated this point. Furthermore, with regard to new developments, Westminster and the RBKC, through Planning Performance Agreements and the Advice Service in exchange for a fee, gave cluster owners greater certainty in terms of timings of the planning application process.

The three cases showed similar results regarding the institutional environment involved in the provision and management of the public space. In the three cases the clusters contributed to new public spaces through POPS since all three LPAs had policies supporting the provision of public space by developers. Cluster owners were thus responsible for the cleaning, security and events management of the POPS. LPAs expected it to be so, as they asserted having limited resources for the management of the public space. In all three cases there was also evidence of involvement with the financing and/or the management of *de facto* public spaces. Capco and Cadogan commissioned masterplans for their clusters. While Capco was already involved in the management of *de facto* public spaces in their cluster, Cadogan was still in the process of consulting with the LPA and other stakeholders. In the case of Shaftesbury's SD cluster, improvements on some of the *de facto* public spaces were made in partnership with Seven Dials Trust, TFL and Camden.

Cluster owners were deeply embedded within their areas, advancing its local institutional thickness and operating within what could be perceived as a path dependent yet malleable and mostly enabling institutional environment. Two key features of the institutional environment stand out. First, there was a noticeable degree of consensus amongst the key stakeholders interviewed, namely over the importance of the public space and, more broadly, over the quality of the built environment. Second, there were financially strapped LPAs, seeking for entrepreneurial ways to fund their everyday activities and build institutional capacity. Cluster owners seemed to perceive embedding their business within their local

institutional environments as instrumental in finding support for their initiatives. Through embedding their business within the local institutional environments, in most cases assuming a coordinating role, cluster owners advanced the thickness of their local institutional environments.

Figure 30, below, summarises the key findings of this research drawing on the results for the three SP MUCs explored. In the centre of the diagram there are the four key reasons why property owners choose to actively manage their clustered assets discussed through this thesis. With actively managed spatially concentrated ownerships, property owners have 1) control over their relevant submarket with a degree of monopoly power 2) transaction costs reductions 3) protection and compound returns on investment and finally, they can 4) capture the extra value derived from synergies. These are key implications of the active management of clusters of ownership at the investment strategy level.

Around the centre of the diagram there are the key activities the active management of clusters of ownership comprises. Those are 1) infill-acquisitions 2) changes of uses, tenants and their placement, 3) public space investment, 4) strategic demolitions and 5) retrofits/new developments. Each of these activities can be performed independently, yet when performed together they maximise the compound and self-reinforcing edge over the market the active management of clusters of ownership enables. This includes growing local market knowledge alongside with its growing ownership footprint. It also includes growing the number of instances where value can be unlocked through strategic demolitions (for a more detailed discussion on the self-reinforcing edge over the market that results from the active management of clusters of ownership see page 234).

Accompanying each of the activities illustrated in Figure 30 are some of the theoretical insights used to explain the active management of clusters of ownership. These include cluster owners' behavior as *extreme* embedded developers, eye on the street investor-developers, who further

thicken the institutional environment where they operate, for instance, by occupying the space left empty by budget strapped LPAs.

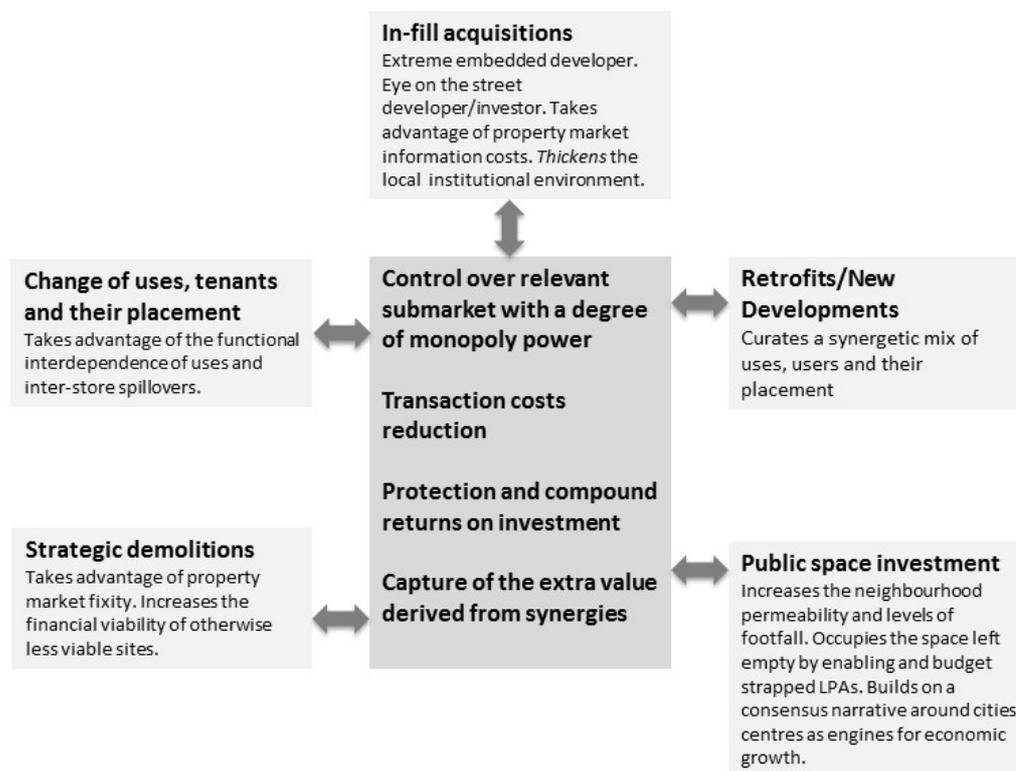


Figure 30. The active management of SP MUCs

8.3 IMPLICATIONS

There is nothing new in concluding that property markets have a degree of inefficiency, namely in terms of its costly information, and that therefore, market players with enhanced local knowledge can reduce their transaction costs (e.g. Keogh and D’Arcy 1999). What is less well understood is how property owners can benefit from other forms of property market inefficiency, namely from its fixity. The literature has acknowledged that through concentrated land and property ownership, property owners could enhance their control over their relevant locations (e.g. Coiacetto 2006; Alexander 2001; Olsen 1964). Yet, relatively little is known about how property players achieve concentrated ownerships and turn to their advantage the resulting added control over their relevant environment.

The cases of clusters of ownership illustrate, for example, that concentrated ownerships enable property owners to curate uses, users and their placement in the area, as well as carry out strategic demolitions that unlock the value of sites. Thus, there seems to be a wider range of possibilities for transaction cost reduction derived from property market inefficiencies, beyond the possibilities offered by local knowledge, which are yet to be fully understood. Therefore, by further combining the literature on property market inefficiencies and the literature on the behaviour of property market actors, new insights into transaction costs could be drawn.

It is nevertheless worth acknowledging the difficulties involved in exploring how property market inefficiencies might impact transaction costs. The property market idiosyncrasies present a challenge for assessing the positive correlation between property market inefficiency and the possibility of some actors lowering their transaction costs or creating excess returns. Business confidentiality, property heterogeneity, the reduced number of transactions and limited data on transactions, make an empirically grounded case for transaction cost reduction or excess returns derived from property market inefficiencies hard to establish. The intricacy the case studies illustrated, regarding transaction costs and incorporating new costs, demonstrates this point.

The data suggested that transaction cost reductions were somehow countered by the costs of new acquisitions with an added market value as a consequence of the active management of the clusters, (negative externalities for cluster owners) or the cases where cluster owners had to outbid competition. Moreover, the active management of clusters of ownership also included incorporating new costs, such as the costs involved in the active management of the public space. This balance between transaction cost reductions, and transaction cost increases as well as the added costs of incorporating new activities, could be argued to be an interesting business case for cluster owners. This argument however, still greatly relies on the assumption of the rational and profit

seeking player. That is, limitations with data mean that the argument put forward in this research is still greatly dependent on deductive reasoning.

It is also interesting to notice that the levels of concentration these real estate companies showed, both in terms of location and sectoral composition, sit uneasily in the face of risk diversification theories. A more detailed study of risk and risk management of these portfolios falls outside the scope of this research. This research focused instead on exploring the added control over the relevant environment these property owners derived from their concentrated ownerships. Nevertheless, it could be argued that some elements of the active management of these clusters of ownership resulted in risk diversification. For instance, cluster owners having multiple small tenants, were less exposed to tenant default risk. Additionally, operating both in the investment and the development markets, offered some diversification in terms of activities. At the heart of the active management of clusters of ownership though, this thesis argues, is the great level of control cluster owners can have over their relevant environment.

Despite the obvious differences in the way that these property owners acquired their clusters of ownership, as the previous chapters showed, in many ways, the active management of clusters of ownership, and their narratives and practices, were similar. Moreover, the interests of cluster owners with regard to the quality of the built environment, to a greater extent, were aligned with the interests of local key stakeholders. As acknowledged in the methodology chapter of this research, one of the research limitations was that it involved a limited number of interviewees in the category of local stakeholders, potentially biased towards the better known and more easily reachable. This might have some impact on this result. Nevertheless, the narratives and practices of cluster owners regarding the active management of their clusters of ownership, at large, seemed to reflect urban design-led theories on place-making (e.g. Carmona 2014; Adams and Tiesdell 2013; Gehl 2011; Carmona 2010b). They also resonated with narratives voiced by planners on the importance of vibrant city centres for attracting other than Londoners including

international crowds drawn to London by international events such as the 2012 London Olympics.

From here it follows that clusters of ownership are useful to illustrate what this broadly supported case for *place-making* might mean, when mobilised by developers. It is noteworthy the extent to which theories on shopping centre design and management helped to explain the active management of clusters of ownership. This indicates how these spaces are co-opting the strategies developed for purpose built consumption spaces, and being produced and managed, mostly, as places for consumption. Uses and their location were carefully 'curated' to 'reposition' streets and neighbourhoods to increase real estate returns.

Clusters of ownership thus expose that these place-making panacea narratives should be administered with greater attention to detail. Affordability and inclusivity are highly compromised in clusters of ownership, and very likely, more broadly, in any other form of place-making led by the private sector. Ultimately, this points out the commodification processes which significant parts of inner London are going through. This instrumentalisation of place-making narratives then asks firstly, for a more critical account from the literature on the multiple meanings this term might have and secondly, for a more cautious use of the term by planners and policy makers.

As critical theorists have argued, urban space should be more than just consumption space, perfectly curated for consumption purposes designed to drive consumers from purpose shopping into unplanned shopping (e.g. Kärrholm 2012; Zukin 2010; Minton 2006; Zukin 1996; Sorkin 1992). This literature has addressed some of the implications of the rising privatisation of the public space, and more generally of private sector interests in the provision and management of the built environment, to cities around the world. However, it has yet to fully acknowledge the implications of concentrated ownerships.

As the previous chapters illustrated, the local institutional environments where the active management of these clusters of ownership was happening showed similar key features. Firstly, these local institutional environments were characterised by a receding public planning system increasingly reliant on private sector financing. Secondly, by a renewed expectation on city centres as engines for economic growth. Thirdly, by the presence of a prevalent narrative, arguably, a narrow focus narrative, on what inner London should look and feel like. All in all, cluster owners took strongly held positions in the design and maintenance of the space in-between their buildings advantaged by a budget-constrained, yet growth-oriented planning system, and a consensual perception by local key stakeholders on what the public realm should look like. This placed them very close to their goal of 'district control', as a director called it (Interview 24). Considering that the ultimate goal of cluster owners was rent and capital value growth, this presents new challenges for inner London urban governance.

Finally, the research results suggest that LPAs are continuously moving away from their providing role towards an enabling role, as the literature has previously identified. The results also suggest that planners at the LPAs are behaving more and more like market players. Illustrating these points were the various examples of the policy mechanisms that, on the one hand, were designed to align the interests of developers and LPAs, including the Public Realm Credits, Planning Performance Agreements, the Portfolio Approach, Linked Planning Applications and the Advice Service. On the other hand, many of these emerging policy mechanisms involved, somehow ad hoc and complex financial arrangements between developers and the LPAs. These arrangements showed a great dependence of LPAs on the private sector namely, in terms of their interests and funding, to advance LPAs' own agendas. Finally, research results illustrated some of the practical implications of urban development led by a powerful private sector coupled with a receding planning system. That is, the private sector drive toward property sectors and tenants that can afford upward rent revisions, and no real alternative being offered by the public sector.

8.4 FUTURE RESEARCH

Future research on the topic of clusters of ownership could include some of the following topics. Firstly, it could explore other cases, including other typologies of clusters of ownership in inner London, in order to assess potential differences in the reasons that led property owners to cluster their assets and on their active management strategies. For example, it could explore what this research categorised as Newly Built cases, such as Regent's Place by British Land, or Earls Court and Olympia by Capco (see Table 2 on page 85). This would allow the interests, practices and resources involved in schemes more dependent on development and land assembly processes to be explored. The case of Earls Court and Olympia, involving two different LPAs, (RBKC and Hammersmith and Fulham London Borough Council) would also allow the examination of how differences in the regulatory environment might impact the active management of this cluster of ownership.

Secondly, further research could explore cases outside London, for instance, the Liverpool One scheme, developed by Grosvenor. This would allow the exploration of what the active management of clusters of ownership might look like in areas of likely lower demand when compared to London. Further research could also explore international cases such as the case of Eastbanc, a company currently developing a cluster of ownership in Principe Real, Lisbon, Portugal, (Eastbanc 2016) which is also renowned for their cluster of ownership in Georgetown, Washington DC, USA (Almeida 2013). Again, this would further our knowledge into the motivations, practices and the institutional environments behind an asset clustering strategy.

Thirdly, further research could explore the risk-return performance of clustered portfolios. More specifically, it could explore if there is evidence of clusters of ownership outperforming their local property markets. IPD indices could be used as a proxy for actively managed yet *dispersed* property at relevant locations. This research would nevertheless, require data on a number of cases to produce statistically relevant results, which

might be difficult to obtain, as it was for the cases explored in this research.

Fourthly, further research on this topic could take a finer grain angle and explore, for instance, which retail tenants are being replaced by the active management of clusters of ownership. This is a relevant aspect to further support a critique of the active management of clusters of ownership based on the displacement of amenity shops. The Land Registry, photographic archives, local resident accounts, and software such as Google Street View, could offer a way to explore this aspect.

Finally, further research could include comparative work contrasting alternative governance arrangements for inner-city management, such as Business Improvement Districts, (BIDs) with the active management of clusters of ownership. It would be interesting to compare differences in processes, objectives and results between these two forms of inner-city management.

8.5 CONCLUSIONS

This research offered a threefold explanation for why some real estate companies choose to cluster their assets and actively manage them. Firstly, it was argued that real estate companies clustered a significant part, or the whole, of their portfolios, because of the degree of monopoly power over their location submarket this strategy enabled. With a degree of monopoly power, cluster owners have an edge over the market, namely in terms of transaction cost reductions in new acquisitions and new lettings. With enhanced local knowledge, but also as a result of their other local ownerships, cluster owners were well positioned for off-market acquisitions, outbidding competition, and attracting and retaining tenants. The research nevertheless, showed that the active management of clusters of ownership also requires a long-term strategy, includes high transaction costs, and incorporating new activities and new costs. Overall, clusters of ownership enable an edge over the market, and this is a critical aspect in explaining why property owners cluster their assets.

Secondly, clusters of ownership enable a great level of control over their relevant environment. This allows cluster owners to embrace an instrumentalised form of place-making, a key part of this threefold explanation for why property owners cluster their assets. The active management of these clusters of ownership included new acquisitions, changes of use, tenant changes, tenant placement, new development and the provision and management of the space in-between buildings. This active management style, both top-down and stock-level, resulted in a form of place-making deployed to achieve higher levels of footfall, consumer dwell time and inter-store spill overs. This in turn was likely to result in growing demand for retail units and reduced vacancy rates in the clusters, supporting rental and capital value growth. Moreover, there were synergies between the active management of the retail environment (ground level units) and the upper level uses. The added control over the built environment, and to a certain extent, over the social and economic environment in their relevant locations, is thus a critical reason for property owners to pursue spatially concentrated property portfolios.

Finally, underpinning the active management of clusters of ownership, was a path dependent yet malleable and enabling local institutional environment. The path dependency nature of the institutional environment meant that the decisions made by property companies in the past locked the form of their investment decisions today on maintaining and expanding their spatial concentrated portfolios. The malleable and enabling nature of the institutional environment meant that cluster owners could take strong hold positions regarding many aspects of the built environment, the social and the economic environment, at their relevant locations. The implementation of their strategies was advantaged by a budget-constrained, yet growth-oriented planning system, and a consensual perception by key local stakeholders on what the public realm should look like. These defining features of the institutional environment greatly supported the agendas of cluster owners and therefore, help to explain why real estate companies pursue and retain actively managed clustered portfolios.

APPENDIX A: SAMPLE INTERVIEW SCHEDULE

For category cluster owner

Meet and greet and background/definitions

1. Can you tell me about your role in this company?
2. How long have you been working for this company?
3. How would you define this company?
4. How would you define your portfolio in _____ (Covent Garden/Seven Dials/Chelsea and Knightsbridge)?

Investment and management strategy and implications for the built environment

5. Why did your company choose to invest in this specific location?
6. What is the company strategy in terms of acquisitions and sales for this location?
7. What is the company strategy regarding your commercial portfolio in this location?
8. What is the company strategy regarding your residential property?
9. How does the company cater for these different sectors and user needs?
10. What is the company strategy for new developments?
11. What is the company strategy for the public space?
12. Overall, in your view, what are the advantages/disadvantages of holding a mixed-use concentrated portfolio?

Performance

13. What criteria does the company use to assess the success of your strategy for this site?
14. How is this portfolio performing in terms of that/those indicators?
15. How did the 2007-2008 financial crisis affect the performance of this portfolio?
16. How did the company deal with it?
17. In your view, which of your strategies have had a greater impact in terms of this portfolio's performance?

Institutional context

18. Which policies or policy changes have had a greater impact on your strategy and performance at this location?
19. Who would you identify as key stakeholders in this area?
20. How would you define your company's relationship with these stakeholders?
21. Are you aware of any particular conflicts or synergies between these stakeholders?

Other, thanking and closure

22. Is there any other aspect that I have not covered in this interview that you would suggest I consider?
23. Is there someone else you would suggest for me to talk to regarding the issues we have talked about?

For category planner

Meet and greet and background

1. Can you tell me more about your role at this institution?
2. How long have you been working for this institution?

Strategy and implications

3. How would you define _____ (Capco/Shafesbury/Cadogan) strategy for this location?
4. Can you name any schemes put forward by _____ in the past few years?
5. Are you aware of any refused planning applications from _____?
6. If yes, on what grounds?
7. How did this area evolved/changed in the past decade?
8. From these changes you identified, which ones, do you think, were triggered by _____?
9. How do these changes triggered by _____ affect other stakeholders?

Institutional context

10. In your view, which policies and/or policy changes have had a greater impact on _____ strategy or performance in this location?
11. How do you think the policies regarding office to residential conversions affect _____ strategy and why?
12. How do you think the policies regarding shops to restaurants conversions affect _____ strategy and why?
13. How do you think the policies regarding the provision and management of the public space affect _____ strategy and why?
14. How do you think the policies and views on the management of privately owned public space (POPS) affect _____ strategy and why?
15. How do you think policies and views on planning gain affect _____ strategy and why?
16. In your view, what are the implications (advantages/disadvantages) for your institution in dealing with one prevalent landowner for this site?
17. and for local residents and businesses?
18. and for other stakeholders?
19. Who would you say to be the key stakeholders in this area?
20. How would you define the relationship of your institution with these other stakeholders?
21. How do you think these other stakeholders perceive _____?
22. Are you aware of any particular conflicts or synergies between these stakeholders and _____?

Other, thanking and closure

23. Is there any other aspect that I have not covered in this interview that you would suggest I consider?
24. Is there someone else you would suggest for me to talk to regarding the issues we have talked about?

For category consultant

Meet and greet and background

1. Can you tell me more about the company you work for?
2. Can you tell me more about your role at the company?

Strategy and implications

3. What was the first job your company did for _____ (Capco/Shafesbury/Cadogan)?
4. Why do you think _____ chose your company for that job?
5. Can you tell me what the brief for this job was?
6. What was your vision for that site?
7. What was _____ strategy for the mix of uses for this project?
8. What was _____ strategy for the public realm around these buildings?
9. Did the scheme trigger planning contributions?
10. If so, of what type and how did _____ deal with them?
11. Did you do other projects for _____?
(If yes, same 4 to 10 questions)
12. Are you _____ principal architects/urban designers?
13. Do you know of any other consultants that work for _____?
14. Why do you think _____ concentrates their portfolio in this area?
15. What do you consider to be the advantages or disadvantages for them to have this spatially concentrated portfolio?
16. What do you think to be the impact of this spatially concentrated portfolio for the area?
17. What do you think to be the impact of this spatially concentrated portfolio for the area's other stakeholders?

Institutional context

18. In your opinion what have been the policies or policy changes that influence (negatively or positively) _____ strategy for this area?
19. (Probe on each policy). Why?
20. How would you define your company's working relationship with _____?
21. What is your impression on _____ working relation with the LPA?
22. How would you define the response of the LPA to _____ planning applications?
23. Who would you say the key stakeholders in this area to be?
24. How would you define your institution's relationship with these other stakeholders?
25. Are you aware of any particular conflicts or synergies between _____ and any other key stakeholders?

Other, thanking and closure

26. Is there any other aspect that I have not covered in this interview that you would suggest I consider?
27. Is there someone else you would suggest for me to talk to regarding the issues we have talked about?

APPENDIX B: LIST OF INTERVIEWEES

Capco's CG cluster case interviewees			
Interview Number	Interview category	Interviewee characteristics	Interview date
1	Community Rep.	CGAT member	04/07/2012
3	Consultant	Design consultant	27/09/2013
4*	Community Rep.	CGAT/Seven Dials Trust member	13/11/2013
5	Community Rep.	Local resident	29/01/2014
6	LPA	Westminster strategic planner	14/03/2014
7	LPA	Westminster development planner	21/03/2014
8	LPA	Westminster strategic planner	24/03/2014
9	LPA	Westminster case officer	24/03/2014
10	Community Rep.	Covent Garden Business Forum executive	26/03/2014
11	Community Rep.	Retail tenant	02/04/2014
12	Community Rep.	CGCA member	07/05/2014
14*	Consultant	Planning	02/06/2014
15	LPA	St. James Ward councillor	06/06/2014
22*	Valuation and Appraisal	Retail valuer	10/10/2014
24	Cluster owner	Capco director	13/03/2015
25	Cluster owner / Community Rep.	Liberty International director / CGAT member	18/03/2015
30*	Professional Association	Westminster Property Association executive	21/05/2015
32	Community Rep.	CGAT member	18/06/2015

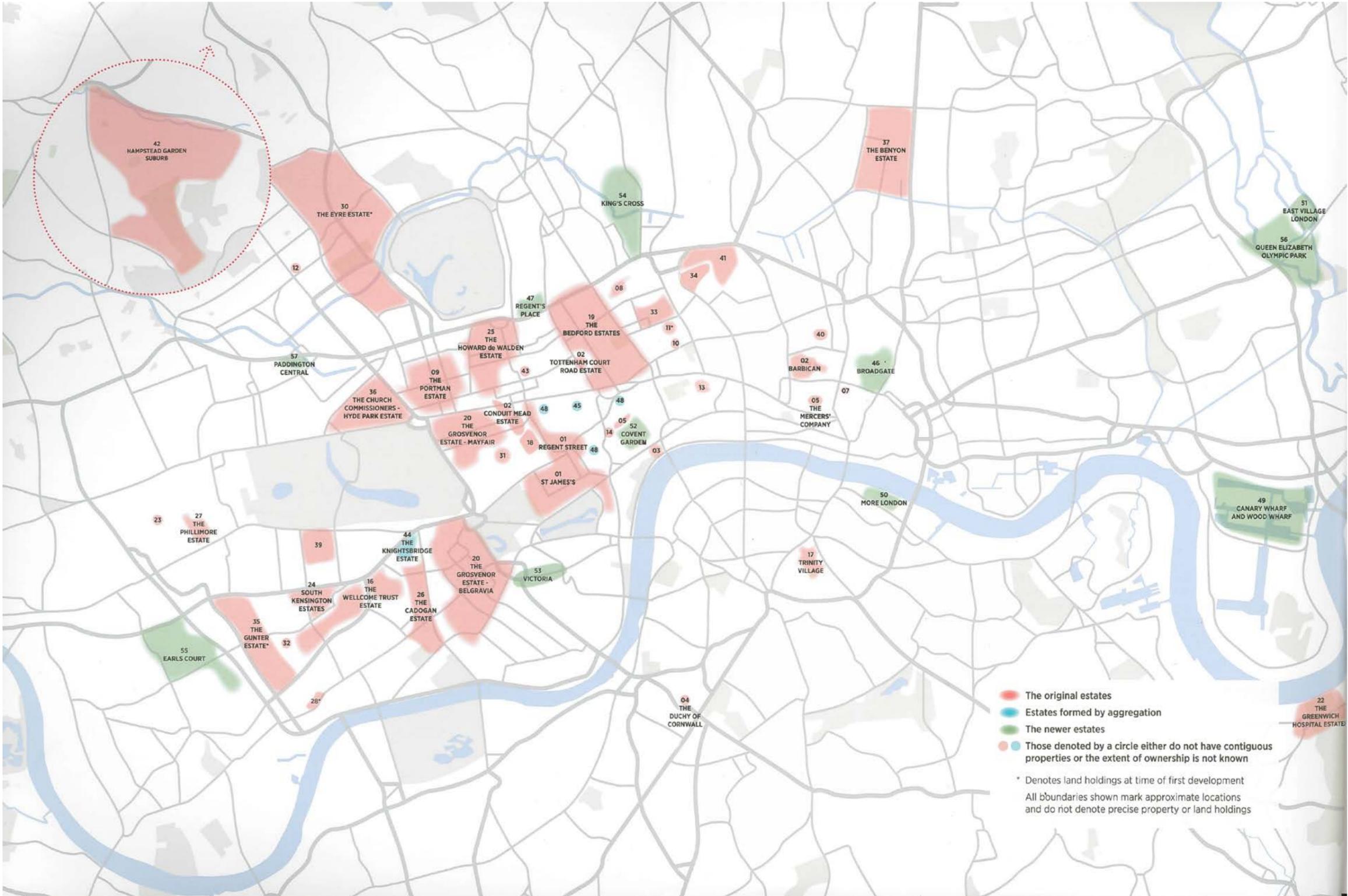
Shaftesbury's SD cluster case interviewees			
Interview number	Interviewees category	Interviewee characteristics	Interview date
4*	Community Rep.	CGAT/Seven Dials Trust member	13/11/2013
8*	LPA	Westminster strategic planner	24/03/2014
9*	LPA	Westminster case officer	24/03/2014
12	Community Rep.	CGCA member	07/05/2014
14*	Consultant	Planning	02/06/2014
19	LPA	Holborn and Covent Garden councillor	25/06/2014
22*	Valuation and Appraisal	Retail valuer	10/10/2014
23	LPA	Camden case officer	04/03/2015
28	LPA	Camden development management	06/05/2015
30*	Professional Association	Westminster Property Association executive	21/05/2015
34*	Researcher	Planning and urban design	24/06/2015
35	LPA	Camden strategic planner	26/06/2015
36	Consultant	Architecture and urban design	15/07/2015
37	Community Rep.	Seven Dials Trust member	16/07/2015
38	LPA	Camden strategic planner	14/09/2015
40	Cluster owner	Shaftesbury	22/09/2015

Cadogan's CK cluster case interviewees			
Interview number	Interviewees category	Interviewee characteristics	Interview date
13*	Researcher	NLA	01/06/2014
14*	Consultant	Planning	02/06/2014
18*	Researcher	NLA	19/06/2014
22*	Valuation and Appraisal	Retail valuer	10/10/2014
26	LPA	RBKC development management	17/04/2015
27*	Cluster owner	Grosvenor estate	20/04/2015
29	Consultant	Urban design and architecture	19/05/2015
31	Community Rep.	Chelsea Society	17/06/2015
33	Consultant	Urban design	19/06/2015
34*	Researcher	Planning and urban design	24/06/2015
39	Cluster owner	Cadogan estate	21/09/2015

Other (i.e. non-case specific)			
Interview number	Interviewees category	Interviewee characteristics	Interview date
2	Researcher	Cambridge Land Institute	17/09/2013
13*	Researcher	NLA	01/06/2014
14*	Consultant	Planning consultant	02/06/2014
16	Cluster owner	The Crown estate	09/06/2014
17	Cluster owner	The Bedford estate	11/06/2014
18*	Researcher	NLA	19/06/2014
20	Researcher	UCL	26/06/2014
21	Researcher	UCL	10/07/2014
22*	Valuation and Appraisal	Retail valuer	10/10/2014
27*	Cluster owner	Grosvenor estate	20/04/2015
34*	Consultant	Planning and urban design	24/06/2015

* Interviews directly involved in more than one case study

APPENDIX C: A MAP OF LONDON ESTATES



Source: NLA (2013, i)

The Estates

The original estates

- 01 The Crown Estate
- 02 The City of London Corporation
- 03 The Duchy of Lancaster
- 04 The Duchy of Cornwall
- 05 The Mercers' Company
- 06 The Eton College Estate
- 07 The Leathersellers' Company
- 08 The Skinners Company
- 09 The Portman Estate
- 10 The Harpur Trust (Bedford Charity)
- 11 The Rugby School Estate
- 12 The John Lyon Estate
- 13 The Coville Estate
- 14 The Marquess of Salisbury's Estate
- 15 The Dulwich Estate
- 16 The Wellcome Trust Estate (formerly The Smith Charity Estate)
- 17 Trinity Village (formerly The Newington (Trust) Estate)
- 18 The Pollen Estate
- 19 The Bedford Estate
- 20 The Grosvenor Estates
- 21 The Capper Mortimer Estate
- 22 The Greenwich Hospital Estates
- 23 The Ilchester Estates (Holland (Park) Estate)
- 24 South Kensington Estates
- 25 The Howard de Walden Estate
- 26 The Cadogan Estate
- 27 The Phillimore Estate
- 28 The Sloane Stanley Estate
- 29 The Lowndes Estate
- 30 The Eyre Estate
- 31 The Berkeley Square Estate
- 32 The Day Estate
- 33 The Foundling Hospital Estate
- 34 The Lloyd Baker Estate
- 35 The Gunter Estate
- 36 The Church Commissioners – Hyde Park Estate
- 37 The Benyon Estate (De Beauvoir)
- 38 The Maryon Wilson Estate
- 39 The Royal Commission for the Exhibition of 1851
- 40 Peabody – The White Cross Street Estate
- 41 The New River Estate
- 42 Hampstead Garden Suburb
- 43 The Langham Estate
- 44 The Knightsbridge Estate

The newer estates

45 Soho Estates

46 Broadgate (British Land & Blackstone)

47 Regent's Place (British Land)

48 Shaftesbury PLC – Chinatown, Carnaby and Seven Dials

49 Canary Wharf and Wood Wharf

50 More London

51 East Village London

52 Covent Garden (Capital & Counties Properties PLC)

53 Victoria (Land Securities)

54 King's Cross (King's Cross Central Limited Partnership)

55 Earls Court (Capital & Counties Properties PLC and partners)

56 Queen Elisabeth Olympic Park (London Legacy Development Corporation)

57 Paddington Central (British Land)

Source: NLA (2013, ii)

APPENDIX D: LIST OF REAL ESTATE COMPANIES

REITs	Property Companies
ApexHi property fund	Capital and Counties
Assura Group Limited	CLS Holdings
Big Yellow	Capital & Regional
British Land	Cardiff Property
Intu	DTZ Holdings
Derwent London	Development Securities
Glenstone Property Group	Fletcher King
Great Portland Estates	Grainger
Ground rents income fund	Helical
Hammerson	ING Global Real Estate Securities
Hansteen	J Smart &Co
Highcroft investments	London & Associated Properties
Land Securities	MWB Group Holdings
Local Shopping REIT	Minerva Property Holdings
London Metric Property	Panther Securities
McKay Securities	Quintain Estates and Development
Mucklow (aJ) group	Safeland
New River Retail	Safestore
Pineapple corporation	Savills
Primary Health Properties	St Modwen
Segro	Steward & Wight
Shaftesbury	Terrace Hill Group
Town Centre Securities	Unite Group
Warner Estate Holdings	London's Old estates
Workspace Group	Howard de Walden
-	Portman Estate
-	Cadogan
-	Grosvenor
-	Bedford

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