

IDENTIFICATION AND SYSTEMATIZATION OF REGENERATION INVESTMENT PROJECT MANAGEMENT DETERMINANTS

Anna Wojewnik-Filipkowska, PhD

Department of Investment and Real Estate

University of Gdansk

e-mail: wojewnik@wzr.ug.edu.pl

Abstract

The research subjects are regeneration investments, initiated and/or carried out by the public sector. Regeneration investments are an integral part of modern city management and the urban renewal process. This process should respect the changing needs of local communities and the individuals who constitute them. However, the main aim of regeneration investments is to restore former functions to degraded space or switch to new ones, respecting the principles of sustainable development.

The management of regeneration investments depends on many factors. These include the external and internal environment. The diversity of these factors may mean that the same factor is beneficial for one participant, and unfavourable for another. An understanding of their diverse strength and direction of impact is very important for stakeholders.

The study attempts to identify and systematize the determinants of investment management in the regeneration process, especially in the context of new challenges and socio-economic phenomena. The research thesis states that identification and systematization of regeneration investment management determinants is essential for making rational investment decisions. Hence, the study results may prove useful to decision-makers. The innovativeness of the study lies in approaching regeneration investments from the perspective of particular groups of stakeholders. Research methodology requires the application of a method of document analysis, a method of analysis and logical design.

Keywords: investment management, regeneration, urban renewal, decision making.

JEL Classification: O18.

Citation: Wojewnik-Filipkowska A., 2014, *Identification and systematization of regeneration investment projects management determinants*, Real Estate Management and Valuation, vol. 22, no. 1, pp. 25-31.

DOI: 10.2478/remav-2014-0003.

1. Introduction - grounds, aim, methods

In each city, understood as a definite space filled with various real estate of different functions, its users believe in certain values and make a variety of decisions. Many of these decisions are made by the public administration, but also by the inhabitants, institutions and companies engaged in business activities within the city. These decisions have a short- as well as long-term effect on the spatial, social and economic spheres. Hence, the issue of decision-making in investment management becomes crucial. Deciding, i.e., making a conscious choice, is not a single act of choice but rather a process occurring in a system of factors, referred to as a decision-making situation (DECYZJE... 1975). Moreover, these factors are diverse and tend to be dynamic, which in practice means that investment management is dependent on many factors.

Consequently, investment decisions must be preceded by an analysis of a number of conditions, including social, cultural, organizational, legal, institutional, spatial, financial, fiscal, and environmental ones. Rationality, i.e., the allocation of limited resources in a way that optimizes the

benefits derived from them, can only be ensured by recognising the essential conditions of decision-making. According to the theory of decision-making, procedural (methodological) rationality is involved in investment decisions. Since a rational decision is taken on the basis of the available information, it "merely" brings the entity closer to the subjectively best possible result. The principle of rationality means maximizing effects at an assumed level of expenditure, or minimizing expenditure at an assumed level of effects. However, the investment objective should not be equated only with economic efficiency (cost-effectiveness), but also involve ethical, ecological and social criteria.

The study attempts to identify and classify the determinants of regeneration investment management as compared to investment management. The author's experience, which stems from the observation of reality and the results of research on regeneration projects, indicates that the identification and systematization of determinants in regeneration investment management is necessary to make rational investment decisions, hence the usefulness of the study results for decision-makers. The innovativeness of the study lies in approaching regeneration investments from the perspective of particular groups of stakeholders. Research methodology requires the use of a method of document analysis, a method of analysis and logical design. The literature survey covers publications in the field of urban development and investment management.

2. Regeneration investments in urban development – characteristics, significance

Regeneration investments, initiated and/or carried out by the public sector, are a special type of investments in urban development. They are an integral part of modern city management and play a role in the urban renewal process. This process should respect the changing needs of local communities and the individuals who constitute them, with ensuring sustainable urban development being its main goal.

Regeneration is a complex transformation process characterized by a spatial, technical, social and economic nature. This process is carried out in degraded urban areas with the aim of restoring their previous functions, or switching to new ones, all the while respecting the principles of sustainable development (WOJEWNIAK-FILIPKOWSKA 2011B; BELNIAK 2009). Regeneration is also an action plan which is comprehensive, coordinated (WYTYCZNE ... 2011) and synergistic, that is one that jointly reinforces (BELNIAK 2009) operations in the scope of building and public space modernization, as well as economic and social development. This means that regeneration is a combination of technical activity, economic programs and pro-social actions.

Regeneration investments should not be equated with municipal (public) or infrastructural investments. All the enumerated types of investments are real investments, aimed at activating the socio-economic development of the city and increasing the attractiveness of the region. Direct expenditures on the above investments have a multiplier effect on the economy (STANKIEWICZ 1998; UWARUNKOWANIA... 2012) as they increase employment and income, stimulating the growth of demand. They are also instruments stimulating sustainable development because their implementation should help to improve the state of the environment and the inhabitants' quality of life (USTAWA... 1997). All the enumerated investment categories are also related to external benefits and costs, in material and non-material dimensions (KUCIŃSKI 1994, CZORNIK... 2012). All of the above investments generally involve a high capital intensity and long period of use. The establishment and operation of these investments require bearing significant expenditures connected with a long return period and their long-term use. These investments are indivisible and non-reallocatable. Once created, the objects determine the development of spatial structures in the long term. This limits the possibility of recovering outlays in the event of cancellations or changes - mistakes made in the planning and implementation process are long lasting, and their potential repair is complex and expensive.

In this respect, regeneration investments differ from municipal ones in their scope. They are not undertaken and financed by the public sector alone, since the private sector has to be an important and integral participant. Secondly, regeneration investments consist not only of infrastructural activities, but also so-called "soft ones" also from the social sphere. Taking the above into account, i.e., features common to both municipal and infrastructural investments, as well as regeneration investments, the latter are, in the author's assessment, the most complex type of investments where particular areas of regeneration investment impact (spatial, economic, social) are concerned.

3. Regeneration investment management

The special characteristics of regeneration investments result in the need to modify the "classic" management process. According to literature on the topic of economics, management is understood as a decision-making process at the planning, organizing, motivating and controlling stage (functional approach to management). However, when dealing with issues of urban development, PĘSKI (1999) lists: organization, planning, partnership, financing and information. Thus, he also highlights the function (stage) of partnership, financing and information. That is why these functions require some elaboration.

The issue of partnership in regeneration investments is emphasized by BELNIAK (2009), who claims that the key to the success of the regeneration process is the engagement of the local community and private partners in the activities. ZIOBROWKI (2009) also writes about the need to identify all entities and social groups and their interests early, and then analyze their mutual relationships, as well as fields of potential conflicts or cooperation (DEMOGRAFICZNE... 2009). Although tasks of this scope are usually initiated by the public sector, if cooperation is a prerequisite for the success of regeneration investments, they must be implemented jointly by the state, local authorities, businesses and residents. Regeneration investments, as explained above, cannot be equated with public investments, as effective regeneration is also a commercial venture. An example of such an investment is the regeneration of the railway station area in Sopot (WOJEWNIAK-FILIPKOWSKA 2011a). In this context, partnership (understood broadly as cooperation) is a prerequisite for the successful implementation and sustainability of regeneration investment effects. T. Markowski (1999) believes that partnership and participation are one of the biggest challenges in urban development management and a source of local competitive advantage. Although the classic model of regeneration investment "reserves" it for the public sector, the engagement of the private sector in the investment process is desirable when taking into account budgetary constraints (WOJEWNIAK-FILIPKOWSKA 2011a). As a result, regeneration investments may be commercial in nature, or at least public and commercial.

Financing means raising capital (for investment). Investment and financial decisions are interrelated, although according to W. Pęski, under certain circumstances, good organization and information may allow for the execution of certain regeneration tasks without a significant financial commitment, as exemplified by the regeneration of the Letnica district in Gdańsk (WOJEWNIAK-FILIPKOWSKA 2011a).

Finally, information is a prerequisite of a conscious, recognized and rational choice (DECYZJE... 1975; GOSPODAROWANIE... 2009). In each investment process, information is gathered, then verified, and finally updated and processed for the purposes of the decision. Due to the specific areas of impact, as well as the directly and indirectly involved parties, special importance should be attributed to information in the management process of regeneration investments.

4. Determinants of investment management – literature review

Classically, literature suggests a dichotomous division of investment management determinants into macro-economic and micro-economic, internal and external, concerning supply and demand, or subject and object determinants (SIEMIŃSKA 2002; STACHURA 2008; NYKIEL 2008; RYMARZAK 2009; CZORNIK 2010) (table 1). According to other classifications of investment management determinants, they can be divided into tangible and intangible, quantitative and qualitative, or hard and soft factors. In a more detailed classification of factors according to their nature, it is possible to separate them into social and cultural (attitudes and preferences), legal, institutional and political (including fiscal), economic (including financial, related to effectiveness), urban (architectural standards, aesthetical approach to space, public safety), and ecological. Regardless of the above classification, the general economic determinants of the investment decisions of enterprises, local governments and business entities should be highlighted. They make up the general economic situation, whose macroeconomic characteristics generate positive or negative signals to the investor (JAJUGA 2006). Positive signals include: a greater than expected GDP growth rate, a decrease in inflation rate, budget deficit, public debt, unemployment rate, tax rates, the lowering of interest rates by the central bank, and the reduced participation of politicians in economic decisions.

The presented classification of determinants is not separable, i.e., particular groups of factors may overlap. Moreover, some factors may reinforce each other, especially when local systems, due to advancing globalization and integration, are becoming more open and sensitive to the effects of these processes (ROGOWSKA 2010). Thirdly, the factors may be characterized by different intensities and

directions of impact. Finally, the choice of the classification method should be determined, every time, primarily by the type of unique investment while maintaining the supreme criterion of the completeness of the analyzed conditions, which determines making rational investment decisions.

Table 1

Classification of investment management determinants

Criteria of division	Type of determinants
Situation factors	<ul style="list-style-type: none"> – internal (endogenous) – subject to the control of an entity; level and structure of assets, including material, financial and human; – external (exogenous) – dependent on the environment, of a microeconomic (competitive surroundings) and macroeconomic nature;
Sources of determinants	<ul style="list-style-type: none"> – related to the subject – impact generated by entities functioning in a given area; – related to the object – phenomena, historical facts, natural factors, social trends;
Impact on economic urban realities	<ul style="list-style-type: none"> – related to supply – affect the existence of resources and factors favorable for the initiation and development of activities; – related to demand – activate the functioning of entities generating goods and providing services;
Direction of impact	<ul style="list-style-type: none"> – stimulants; – destimulants.

Source: author's own study.

5. Determinants of regeneration investment management

Due to the complex character of regeneration investment projects, the determinants of managing them should be analyzed in many dimensions. From the perspective of managing regeneration investments which have a specific purpose, the two-layer approach to the classification of determinants presented in literature (table 1) seems insufficient. For the purposes of analyzing the determinants of investment management, it is necessary to classify them simultaneously, based on situational factors (internal/external) and the direction of impact (strengths/weaknesses, stimulants/destimulants, opportunities/threats), in regard to both the present and the future (table 2).

Table 2

Classification of determinants of regeneration investment management

Situational factor	Temporal factor	
	Current	Future-oriented
Internal (endogenous)	Strengths Weaknesses	Internal opportunities External threats
External (exogenous)	Stimulants Destimulants	External opportunities Internal threats

Source: author's own study.

The above approach to regeneration investment determinants should be extended in the light of the contemporary trends and changes that affect the investment management process. Current social and economic changes are related, among others, to a well-established concept of sustainable development, which is coherent with socially responsible investment and the stakeholder theory. These concepts can be said to "converge" in regeneration investments. The principles of sustainable development in the social, economic and environmental sphere are consistent with the spheres of impact of regeneration investment. Therefore, determinants should additionally be considered in regard to these three areas (Table 3), certainly without neglecting the analysis of macroeconomic conditions, which can be said to be common to all investments.

The second modern concept mentioned above is the theory of stakeholders, which consists of building transparent, long-term and stable relationships with all the stakeholders. This theory is also relevant in regeneration investments. Many entities can participate in such investments, although spatial planning is assigned by law to local governments of municipalities. The role of an investor in

the regeneration process can be played by an entity of the public finance sector (state and local territorial governments and community partnerships) as well as of the private sector (businesses and households). Thus, the determinants should be considered from the point of view of particular stakeholders: the public sector, households, businesses.

Table 3

Regeneration investment management determinants – direct observation

Social (civilizational and cultural)	Economic (economic and legal)	Environmental (natural and technological)
Local communities' needs Substantial labor resources Science and culture level Local patriotism Tourist attractiveness Demographic phenomena Entrepreneurial predisposition Material condition of households Social communication Social awareness, active civic attitude Cultural values Social infrastructure (availability) Unemployment, social pathologies "Demand" for district Trends and fashion, foreign models	Communication infrastructure (availability) Economic potential, investment, experience Local market Income Capital resources Creditworthiness Financial effectiveness of operation Demand in the area Activation of local capital Credit policy of banks External competition External venture capital External market Quality of authorities Professionalism in city management Organizational and legal system of municipal services provision Real estate ownership structure Offers of cooperation, partnership Local regeneration program, development concept Tender procedures State support at local level	Area and benefits of a place Spatial development plans Incomplete data on building and infrastructural development Level of technology Availability of land for development Spatial structure Post-industrial remains Aesthetics of the surroundings Technical condition and technological level of infrastructure Resources and values of natural environment State of the environment

Source: author's own study.

Secondly, taking into account the specific nature of regeneration investments, it seems reasonable, especially for multi-dimension and complex investments, to view the determinants during a particular phases of the investment process. Only such a comprehensive look at regeneration investments allows conflicts arising from differences between stakeholders (i.e., the public and private sector) to be avoided, and public interests to be protected and reconciled with the interests of all citizens from an individual and collective perspective at the same time.

Thirdly, an evaluation of the strength and significance of the identified factors should be deemed indispensable. This would signify the skillful application of already familiar tools of the PEST macro-environmental analysis and SWOT macro-strategic analysis (in a variety of types) (GIERSZEWSKA, ROMANOWSKA 1997). Yet, it should be noted that it is not possible to automatically apply the principles of the strategic analysis of companies (SWOT and PEST analyses were originally designed for such purposes) to the analysis of local government units. The main reason behind this is the difference in the objectives of both entities. Enterprises meet the needs of customers (external recipients), so their development is exogenous in nature. Local government units are focused on meeting the inhabitants' needs (internal recipients), thus development is endogenous.

Finally, investment management is determined by the investor's individual preferences (both public and private), which are conditioned by risk-return or cost-benefit relations. The established hierarchy of objectives (investment strategy) and investment evaluation criteria, supplemented by information from the environment, form the grounds for an investment decision, which relative or absolute, boils down to a choice between risk and profit.

7. Conclusion

The issue of investments, as a factor determining the potential and opportunities for development, is present in the activities of each entity. Local government entities and companies carry out diverse investments, thus the question of making effective decisions in investment management is a key issue. It should also be acknowledged that investing is not a goal in itself. The importance of regeneration investments is such that they are to serve various public tasks. Therefore, the focus should be on the criterion of rationality, which ought to be understood decision-making that will consist of a systemic approach to investment management and effective actions leading to a situation when a given goal is achieved with maximum satisfaction and certain (usually limited) input. The rational management of regeneration investments is, however, equivalent to maximizing results, even ones accounting for environmental and social criteria. Contemporary transformation processes and socio-demographic phenomena entail a change or rather expansion of a seemingly established model of a sustainable city, which is supposed to compromise the different goals and needs of stakeholders. If the idea of sustainable urban development is to be realized in business practice, however, the rational use of resources is insufficient. It requires the cooperation of stakeholders and a deeper change in and implementation of social responsibility (ethics).

With regard to regeneration investments, which generate complex, multi-dimensional problems, decisions should be based on reasonable grounds, take into account all the determinants and provide a variant solution to the problem. The scope of undertaken activities, as with any investment, depends on political and social factors, the law, and in particular the strategy, function and purpose of real estate assets. The issue of regeneration investment management determinants, however, has a broader dimension. The determinants can be analyzed from the stakeholders' point of view, the area of impact and the phase of the investment process. Moreover, stakeholders can be classified as entities (public administration, households, businesses) but also according to their functions (regulator, controller, partner, passive, dependent) (MAINARDES et al. 2012). Finally, after evaluating the determinants, it is worth attempting to assess the impact each of the stakeholders has on the decision (REED et al. 2009). This, however, is the subject of further study.

8. References

- BELNIAK S. 2009. *Rewitalizacja nieruchomości w procesie odnowy miast*. Wyd. UE, Kraków.
- CZORNIK M. 2010. *Uwarunkowania strategiczne przebudowy centrum miasta przemysłowego*. In: *Wybór inwestora strategicznego dla potrzeb zagospodarowania centrum miasta przemysłowego*. Red. A. Drobnia. Wyd. AE, Katowice.
- Decyzje. Analiza systemowa organizacji*. Red. A. K. Koźmiński. 1975. PWN, Warszawa.
- Demograficzne i społeczne uwarunkowania rewitalizacji miast w Polsce*. Red. A. Zborowski. 2009. Instytut Rozwoju Miast, Kraków.
- GIERZIEWSKA G., ROMANOWSKA M. 1997. *Analiza strategiczna przedsiębiorstwa*. PWE, Warszawa.
- Gospodarowanie gminnymi zasobami nieruchomości*. Red. R. Wiśniewski. 2008. Wydawnictwo Uniwersytetu Warmińsko-Mazurskiego w Olsztynie.
- JAJUGA K. 2006. *Ogólne zasady finansowania. Anatomia Sukcesu. Instytucje i zasady funkcjonowania rynku kapitałowego*. Fundacja Edukacji Rynku Kapitałowego, Warszawa.
- KUCIŃSKI K. 1994. *Geografia ekonomiczna. Zarys teoretyczny*. Oficyna Wydawnicza SGH, Warszawa.
- MAINARDES E. W., ALVES H., RAPOSO M. 2012. *A model for stakeholder classification and stakeholder relationships*. Management Decision, vol. 50, iss: 10: 1861 – 1879.
- NYKIEL L. 2008, *Kierunki rozwoju i przekształceń rynku mieszkaniowego w Polsce*. In: *Rynek Nieruchomości*. Red. S. Żróbek. Studia i Materiały Towarzystwa Naukowego Nieruchomości, TNN, Olsztyn, vol. 16 nr 2: 77-92.
- PĘSKI W. 1999, *Zarządzanie zrównoważonym rozwojem miast*. Arkady, Warszawa.
- REED M. S., GRAVES A., DANDY N., POSTHUMUS H., HUBACEK K., MORRIS J., PRELL C., QUINN C. H., STRINGER L. C. 2009. *Who's in and why? A typology of stakeholder analysis methods for natural resource management*. Journal of Environmental Management, vol. 90: 1933–1949.
- ROGOWSKA M. 2010. *Endogeniczne determinanty rozwoju lokalnego*. In: *Znaczenie samorządu terytorialnego dla rozwoju regionalnego w Polsce Niemczech i na Ukrainie*. Red. E. Malinowska-Klimiuk. Zeszyty Naukowe NR 620, Ekonomiczne Problemy Usług Nr 61, Wyd. Naukowe Uniwersytetu Szczecińskiego, Szczecin: 353-362.
- RYMARZAK M. 2009. *Zarządzanie nieruchomościami przedsiębiorstw w Polsce*, Wyd. CeDeWu, Warszawa.
- SIEMIŃSKA E. 2002. *Metody pomiaru i oceny kondycji finansowej przedsiębiorstwa*, TNOiK, Toruń.

- STACHURA E. 2008. *Determinanty kształtowania produktu na rynku mieszkaniowym*. In: *Rynek Nieruchomości*. Red. S. Żróbek. Studia i Materiały Towarzystwa Naukowego Nieruchomości, TNN, Olsztyn, vol. 16 nr 2: 111-120.
- STANKIEWICZ W. 1998. *Historia myśli ekonomicznej*. PWE, Warszawa.
- Ustawa z dnia 21 sierpnia 1997 r. o gospodarce nieruchomościami.
- WOJEWNIK-FILIPKOWSKA A. 2011a. *Zasady finansowania inwestycji rewitalizacyjnych na przykładzie wybranych inwestycji w Gdańsku i Sopocie*. In: *Inwestycje i Nieruchomości. Wyzwania XXI wieku*. Red. A. Nalepka, Uniwersytet Ekonomiczny, Kraków, s. 501-511.
- WOJEWNIK-FILIPKOWSKA A. 2011b. *Znaczenie i odmienność partnerstwa w inwestycjach rewitalizacyjnych na przykładzie wybranych inwestycji w Gdańsku*, Zeszyty Naukowe Uniwersytetu Szczecińskiego. Finanse, Rynki Finansowe, Ubezpieczenia Nr 38: 205-217.
- Wytyczne dotyczące przygotowywania projektów w ramach poddziałania 3.2.1 Kompleksowe przedsięwzięcia rewitalizacyjne Regionalnego Programu Operacyjnego dla województwa pomorskiego na lata 2007–2013, załącznik nr 5 do Przewodnika Beneficjenta RPOWP 2007–2013, Urząd Marszałkowski Województwa Pomorskiego. Gdańsk 2011.