Looking back on the space of a boom: (re)developing spatial matrices in the City of London

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Abstract. This paper is focused on the (re)development of the global financial space of the City of London during the mid-1980s. Although the financing of this process is the chief concern, the influence of the social space through which this funding was taking place is not ignored. Therefore, an interpretation is provided of, first, the ways in which a range of economic agents within a 'structure of building provision' interact with given sets of spatial practices to capitalise an established social space. And, second, the way in which these agents then realign to develop around newly emerging sociospatial relations is examined. The underlying influence of changes in the wider economic 'setting' of these agents is highlighted, with particular reference to how their economic calculations are mapped onto social space and the overall consequences of these processes.

1 Introduction

"On the face of it, the strength of the City's property market is inexplicable. There is no rational reason for commercial tenants' enthusiasm to pay higher rents, higher rates, higher service charges and to impose travel difficulties on their staff simply to add an EC postal code to their trading address. The reason for this willingness to pay over the odds for accommodation must lie therefore beyond the realms of rationality—in tradition, in inertia, and in simple herd instinct" (Financial Times 1978, page ii, emphasis added).

There is a noticeable imbalance in recent academic coverage of the 'globalisation of finance'. With a few exceptions (Fainstein, 1993; King, 1990, pages 99–100; Thrift, 1987; Williams, 1992; Zukin, 1992a; 1992b), little attention has been paid to the production of the "glitzy office space" that houses the financial command posts of this "latest phase of globalisation" (Hall, 1992, page 5). With this imbalance in mind, I focus in this paper on the mid-1980s (re)development of the global financial space of the City of London. Although I am concerned chiefly with the financing of this process, the influence of the social space through which this funding was taking place is not ignored. Thus I provide an interpretation of, first, the ways in which a range of economic agents within a "structure of building provision" (Ball, 1983) interact with given sets of spatial practices to capitalise an established social space. And, second, I engage with how these agents then realign to develop around newly emerging sociospatial relations. Above all, the underlying influence of changes in the wider economic 'setting' of these agents is highlighted (this is expanded in Pryke, 1994); indeed, how the economic calculations of property companies are mapped onto space is the explicit subject of later sections.

The backdrop to all this, unsurprisingly, is the so-called Big Bang of 1986. The spatial deregulation that accompanied the approach to the Big Bang freed the geography of demand for office space from those involved in 'the City', the traditional home of the City's financial markets, for so long huddled together at the core

† This research is based on empirical work undertaken between 1986 and 1988 (see Pryke, 1988).
of the administrative area of the City of London and referred to here as the old spatial matrix (Pryke, 1991) (figure 1). The time around the Big Bang was a period of rapid change in the City’s office-letting and investment markets. For instance, mergers between firms, discussed in more detail by Coakley in this issue, resulted in demand for large amounts of office space that could house both high-technology and conversational financial practices, and the forms of social interaction peculiar to each. Furthermore, all office space, whether large dealing floors or smaller suites, had to be suited to the use of new technology. Both functionally and technologically, therefore, a large proportion of office space available in the City at the time of the Big Bang very quickly became obsolete.

In this paper, at one level, I interpret what was involved in financing the territorial expansion (figures 2 and 3), particularly the spatial spread of development during the 1980s. I will argue that, despite spatial deregulation, the building out of the old spatial matrix had to be negotiated with a strongly rooted sociospatial ‘inertia’, noted in the above quote from the Financial Times, which still shapes the locational

Figure 1. The City’s old spatial matrix.
Looking back on the space of a boom

Phases 2 & 3 1985
Phase 4 in progress

Figure 2. Office developments of 100,000 ft² completed between 1979 and 1986 or proposed as at December 1985.

Figure 3. Office developments completed between 1960 and 1986.
user demand for office space\(^{(1)}\) and thus continues to influence the geography of the global City.

At another level, I deal with some of the less immediately apparent effects of spatial deregulation. For one thing, it threatened the ability of an established structure of office provision to determine the supply and thus to influence the rate of capitalisation of the old spatial matrix (see section 2.4). Yet, as this was a time of general downturn in investment demand for commercial property (Pryke, 1988), a new structure of office provision—new ways to capitalise social space and to trade in the production of the built form—therefore had to be thought out if a new financial space, a new spatial matrix, was to be created (section 5).

The old and new structures of provision are analysed from within a problematic in which rent is placed in the context of the "specific relations of landownership" (Massey and Catalano, 1978, page 41). Of relevance, therefore, are the implications of the changing nature of 'financial landownership' during this period. The alteration to the specific rent relations—to the "economic form of the rent relation" (Massey and Catalano, 1978, page 141)—within the commercial property sector and which underlies these structural changes is thus of importance, notably in terms of the ways in which the strategic calculations of agents combine with social space (sections 6 and 7) and the outcomes of these processes (section 8).

I begin by outlining the structure of office provision dominant in the City at the beginning of the 1980s. In particular, the role of City office agents and surveyors in the management of the old spatial matrix is introduced. Their role, it is suggested, has helped transform the City's built form into a collection of "(quasi) financial assets" (see Coakley, 1994).

The interview method used is discussed in the appendix.

2 The City's structure of office provision

2.1 The dominance of the long-term funders

"Even if some occupiers had wished to consider locations immediately beyond the City area, there would have been few schemes to choose from. The developers and their funding partners have often preferred to respond to demand, rather than to shape it, and they have often regarded the fringe areas as a gamble which they did not have to take. So the fate of areas such as South Bank has for years been enmeshed in something approaching a psychological stalemate, with prospective occupants unable even to consider them as suitable office locations because of the developers' inactivity" (Financial Times 1981, page v).

\(^{(1)}\) Some of the City's main financial markets still conformed to spatial rules that formed part of collective regulation and spatial policing knitting important elements of the City's markets into the old spatial matrix. These rules were very much part of the workings of the City's major financial markets. They include, first, The Stock Exchange's Regulation B55 covering the location of an office for settlement purposes within 700 yards of the Exchange (The Stock Exchange Membership Department); second, UK and foreign banks and other financial institutions would have had to locate within the walk areas of the City's discount houses which would have stretched, for example, only as far west as St Paul's, to Queen Victoria Street, to Cannon Street in the south, and Moorgate in the north (telephone interview with Richard Vardy, Union Discount House of London, 26 February 1987); third, members of the Accepting Houses Committee, a British group of merchant banks, were expected to locate in the City core and to be within the walks (telephone interview with Brian Hardy, Accepting Houses Committee, 9 December 1986). The Town Clearing 'walks', centred on the Clearing House in Lombard Street, also influenced location, and this was very much a case of "how far messengers were happy to walk" high value paper to meet a 3 pm deadline (telephone interview with an Inspector, Association of Payment Clearing Services, 22 June 1987). (For further details, see Pryke, 1988, chapter 1).
Since the early 1960s the City’s structure of office provision has been dominated by the pension funds and the life funds, often referred to as ‘the institutions’. The institutions generally have stood at the apex of property investment capital in the United Kingdom. As the above quote suggests, this dominant position has been particularly pronounced in the City. Until deregulation of the City’s social space and the (re)emergence of property trading companies, the institutions reinforced a territory marked out by the specific spatial practices of the City’s financial markets (Pryke, 1988; 1991); location had to be suitable to their specific stipulations: “the institutions had the money and were simply not in favour of fringe developments” (interview, finance director, property investment company).2

The institutions (and to a lesser extent the property investment companies), it is contended, thus determined the rate of capitalisation of the City’s social space, turning the old spatial matrix into an investment arena fashioned after their particular investment requirements. Office agents and surveyors involved in the City development–investment processes helped to reinforce this territory and to give flux to the City’s structure of office provision. The combination of this mediating role, the economic power of the institutions, and the sociospatial specificity of demand for office space, added to the viability of the investment arena; it is from the formation of this arena that the arguments of later sections are expanded.

2.2 Managing social space, managing an investment arena

City office agents and surveyors provide important links between funders and developers, at some stage of the development process. Their role in the management of the City as an investment arena involves monitoring the ‘demand curves’ of particular social spaces. The links that have evolved between property trading and investment companies, institutions, and surveyors have grown through advice on lettings, portfolio valuations, (re)development appraisals, the monitoring of development expenditure, and other aspects of property development and investment.

Broadly, the agents’ role divides into two: management and agency work. These functions depend greatly on the type and complexity of property investment and development opportunities, and the type of organisation represented. Some agents, for example, will tend to act only for property companies, whereas others will be involved in portfolio management and agency work for institutions.

As the ownership of an office within the City’s investment arena in itself is not an assurance of high returns (see section 4.1), the ability to run a building as an investment is of great importance. A commercial office, in other words, can be ‘worked’ in several ways and thus turned into a (quasi-)investment asset. For example, a building can be partially or wholly refurbished or redeveloped at a future date, leases may be bought in, or, if ‘multilet’, the different tenants can be played against one another at rent reviews, particularly if the reviews are staggered. Such methods maintain the exchange value of a building, not simply as a realisable asset but, from an accounting standpoint, as a malleable source of income and capital growth.

The management role of agents is important to those institutional investors neither wishing nor perhaps able to fulfil this role internally. For pension funds,

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2 The stress on the authoritative position of the institutions, to the exclusion of other City landowners, such as livery companies, the Church, the City Corporation, or charities, is not only for quantitative reasons (see Savills, 1985), but is also because of their nature as ‘financial landowners’. The institutions, like property companies and banks, are interested in ways to consume the built form as an investment medium. Other forms of landownership have tended not to share this attribute (see Massey and Catalano, 1978, chapter 3).
which tend to be more uniform in their investment approach and managed more by agents and surveyors, the accent is more on “advising—management—rather than management—advising” (interviews, City office agents). For instance, one very large pension fund with a UK portfolio valued at £1.6 billion (1986 valuation), relies solely on City agents for development and investment opportunities (interview with property investment assistant). Another pension fund representative remarked that one major firm of City surveyors is responsible for the day-to-day management and investment work of their fund, whereby investment opportunities are always put to the agents “for their approval” (interview with property investment manager). Another major pension fund had (at 1987) just over half of its portfolio (including City property) managed by City surveyors (interview with the chief regional surveyor of the fund). For the insurance companies, however, depending on their size and their requirements, the relationship with agents is slightly more removed; in an agency capacity, for example, agents will approach with ‘offerings’ which may or may not fit with a company’s investment strategy (interview, City office agent).

This gives some idea of the management of the City’s social space, yet for the arena to offer some degree of investment tradeability, the price of the City’s built form has to be within the buying range of more than a handful of investors.

2.3 The tradeability of City property investments

Until the approach of the Big Bang, the City offices were of a relatively small capital lot size. For instance, and as an indication only, the capital values of offices held by insurance companies and pension funds averaged between £3.8 million to £7.8 million in 1980, and £5.8 million to £9.3 million in 1983 [specially commissioned data from Investment Property Databank (IPD); available from the author]. This meant that pension funds and insurance companies were able to move into (and out of) the City’s arena more easily than became the case around 1986, when the capital lot size rose dramatically [for example, see section 5.2 and table 2]. The purchase and sale of City investments in many cases would have been facilitated by City agents operating in a quasi-open market, involving direct approaches by agents, informal and formal tenders, auctions, and so on, depending on the state of the market and the ‘sensitivity of landownership’.

Arguably, the number of institutions in the market and their eagerness to acquire City investments, the nature of user demand for small office-suites and the socio-spatial shaping of this demand, together with the ability to work offices as investments (as noted above), all served to push down prime yields and to maintain the exchange value of especially the core of the City’s built environment. The Big Bang, however, threatened the control of this supply in a number of ways, as detailed later (sections 5.2 and 6). More immediately, in the next section, I outline the state of supply and demand in the City’s letting markets in the approach to the Big Bang, and suggest something of the control of the investment arena.

3 The City’s property markets in the approach to the ‘Big Bang’: early 1980–84

3.1 The institutions still in control

At the beginning of the 1980s the City’s office-letting and investment markets were still contained within a more or less intact old spatial matrix, with over 60% of insurance, banking, and other finance office users located there in 1982 (City Corporation, 1982). As City rents and commercial property generally began to underperform returns available in the equities markets from 1984 (see Investors Chronicle 1987, page 12), institutional interest in direct development (which had
reemerged in the early 1980s) became increasingly selective and in many cases short-lived. The institutions, in brief, were less than enthusiastic about the potential for the City office investment markets.

Although the large-scale development of the fringe was still distant, some fringe areas, particularly those around the eastern edges of the City, were gradually being (re)developed from 1980 onwards (RSP, 1987, table 12). Of an estimated 3.6 million ft$^2$ of office space (net of demolitions) due to be completed and ready for occupation in the City in the period 1980–83, 52% were developments outside of the main City office area (JLW, 1980, page 32). Yet it should be remembered that many of these schemes were generally in areas that abutted traditional ‘villages of demand’, such as, for instance, the area to the east of the City with its proximity to Lloyd’s, where demand for office space followed recent mergers in the insurance sector. These schemes, therefore, were not establishing a wholly new territory. The institutions, moreover, were still very much in control of the development process.

The development of one 105000 ft$^2$ office scheme at Bevis Marks on the northeastern fringes of the City core serves as a useful example of this institutional economic control of development outside of the core. Although only 200 yards from Lloyd’s, the £15 million scheme was still considered to be in a “bit of a backwater” at the time. The development was carried out by a property development and investment company which had specialised in refurbishments and joint developments in the City with “locationally sensitive” institutions (interview, finance director, property company). The site was pieced together gradually over the years by the property company, in conjunction with City office agents. Once the developer had secured an interest in the site the company arranged funding, with the aid of agents, through a life company. [At the time there were only two or three institutions, all life companies, interested in schemes of this capital lot size (note the points in section 2.3) and in such a marginal location.] The life company was relatively new to property investment and was underexposed in terms of City offices. The Bevis Marks scheme fitted with the institution’s property investment strategy: to acquire City investments at relatively high yields but in areas which would show relatively high and secure rental growth (interview, the chief surveyor).

It was in the banking-sector letting market, however, that user demand was growing and where pressure to locate outside of the traditional City, in fringe areas, was increasing (Pryke, 1991). Thus, particularly amongst young trader-developers, the increasing ability to transform such areas through large-scale redevelopments, careful design, and suitable marketing, meant that these previously marginal sites appeared something more than a “misty eyed option” to the City core. Yet to develop such schemes required vast amounts of finance. In investment markets characterised by a general disenchantment with commercial property and high positive real interest rates, the need to rethink development and long-term finance became crucial (see section 5.2). More immediately, investment market performance had an effect on the supply of office accommodation within the old spatial matrix.

3.2 The downturn before the upturn
The involvement of the institutions in the City’s property investment and development markets from 1983 to 1984 was concentrated largely on the refurbishment of existing portfolios.

The predominantly institutionally provoked downturn in the supply of new floor-space coincided with a gradual pick up in user demand for particular types of office space towards the end of 1983 and into 1984 (see JLW, 1986a). For example, between 1978 and 1980 the number of developments (for letting and owner-occupation)
completed in the City totalled 22; in the three years to the end of 1983 the total number of schemes completed was 62 (data compiled from the Survey and Information Department, City of London Corporation; available from the author); importantly, 63% of which were developments providing office space of less than 50000 ft\(^2\). The total—that is, new and secondhand—office space in the City at the beginning of 1983 was close to 5 million ft\(^2\). Around the fringes of the City at the end of 1982 approximately 1½ million ft\(^2\) of office space was available (RSP, 1987, table 12). This might seem like a considerable stock of office accommodation.

However, although ‘prime’ City property at this time was still very much considered to be determined by a core location, demand for large, functionally specific office space was emerging. Some 70% of the banks (as a group paying the highest rents in the City) that acquired space in the year to mid-1985, for instance, took units of over 10000 ft\(^2\) (Savills, 1985). Moreover, on the supply side, only about 1 million ft\(^2\) of either new or refurbished space was available at the beginning of 1985, and no new buildings of over 51000 ft\(^2\) were due for completion during that year (BHS, 1985).

Despite the growing demand for large office space, however, the property investment companies on the whole were hesitant to become involved in Big Bang buildings (for reasons suggested in the quote at the beginning of section 2). Future demand was uncertain, and they and the institutions did not want to be left with “unlettable aircraft hangers”. With the decline in institutional investment demand for new office developments, large, speculative fringe schemes were thus almost impossible to finance on a traditional institutional basis. Indeed, by 1986 there were perhaps only between 10 to 15 insurance companies and 10 private-sector and public-sector pension funds potentially in the market for schemes of a lot size of £20 million to £25 million; lot sizes over £25 million, rapidly reduced the number of funds in the investment market (interviews, City office agents). Although these numbers provide a useful indication of the limited investment demand for new schemes, they pass over the regearing of investment strategies within the institutions and the resultant requirement for media to provide the type of income and capital return suited to the institutions' new 'institutional settings' (Thompson, 1977; also, see Pryke, 1994), a point taken up again in section 8.1. One answer to the aircraft hanger problem was to build ‘flexibility’ into the buildings. The idea of flexibility, however, was not something that could be achieved easily within the guidelines of the first draft City plan published in 1984 (DLP, 1984). There was clearly much to be lost if planning remained restrictive.

4 Changes in planning and the capitalisation of the old spatial matrix

4.1 The Plan, obsolescence, and investment returns

In this section I offer an interpretation of the effect of the directional change between 1984 and 1986 in the Corporation of London's local plan on the exchange value of the City's built form (for further details, see Pryke, 1988, pages 394-408; 1991, pages 215-216). The spatial deregulation that was signalled by The Bank of England in 1985 produced an immediate threat of an alternative supply of office space, not only on the fringes of the City core (see Savills, 1986), but supposedly from the Docklands. The draft local plan designated an estimated 70% of the City's core, the old spatial matrix, as a conservation area which in effect laid a 'dead hand' over the City's holdings of the investment companies and institutions. Slow to react at first, the institutions and property investment companies then realised that, if the plan remained intact, they would simply not be able to redevelop their portfolios to meet the new user demands of the 'global' City.
As noted in the previous section, the dramatic rise in effective demand, or take up, for floorspace, occurred only from the beginning of 1985—one year after the publication of the first draft local plan. In the opposite direction, however, supply began to fall sharply and continued to fall throughout 1987. This decline was particularly marked for large office units, an increasing number of which were prelet (interviews with City office agents; also see J LW, 1986a, pages 2 and 3, figures 1 and 2). In fact, a feature of the two-year period to 1986 was the sudden growth in user demand for office space in units of over 50,000 ft\(^2\); much of this demand came from the absolute growth of foreign banks and foreign securities companies (J LW, 1986b).

While the user demand for the type of office space that could accommodate the new technology was influencing the thinking of trader developers involved in the provision of new office space outside of the core, the same type of emphasis was informing demand for accommodation within the core and was fast affecting the exchange value of assets within the City’s traditional investment arena. This is reflected, perhaps, in the following investment-performance figures for the institutions’ City property investments, data that perhaps highlight, in particular, technological obsolescence. The nominal net income growth of all IPD-registered City offices built between 1960 and 1969 fell from 16% in 1984 to \(-5.8\)% by 1986; for City offices built within that period and held by pension funds the 1986 figure was \(-11.8\)%; for insurance companies the figure was \(0.2\)%.

Similarly, for City offices built between 1970 and 1979, net income growth fell from 16.3% in 1984 to 0.7% in 1986 (specially commissioned data from IPD, 1987).

The joint effect of new sources of supply outside of this investment arena and the social and functional specificities of user demand thus threatened the ability of the institutions and the property investment companies to extract absolute rent. As one City agent explained to me at the time (1987),

"To have a property in the City is no guarantee of having a higher return, because ... of building specifications ... [which] have a great bearing on rent reviews and the amount of rent that can be extracted at rent review date. If you look at rent reviews and at the arbitration, you'll see all of those variables come up: 'is this the right rent given it is a poor specification building?'. So you could have a prime site, slap bang in the middle of the City core and, alright, it commands a high rent, but you look at the rent profile and it won't look particularly good."

By 1986 and much to the relief of the traditional developers and investors, the required changes to the highly restrictive conservationist policies contained in the 1984 local plan were put into place. Property investment companies and the long-term financial institutions were thus able to redevelop their portfolios at a much higher plot ratio (that is, the amount of floor area in a building expressed as a multiple of its site area).

The long-term ‘exchange values’ of core offices could now be maintained, or so it was thought. For instance, it was estimated that the changes to the City plan which allowed investment companies to initiate redevelopment programmes would, on aggregate, ‘produce’ an estimated 10% capital growth per annum (interview, property-sector analyst). For one leading property investment company in the City, Land Securities, the changes in the planning regime translated into an approximate revaluation surplus on its (then) 2.6 million ft\(^2\) of City offices, of £74 million. This sum would then have been available to contribute to shareholders’ funds and net asset value (NAV) per share (ALC, 1986a)—an extremely important consideration for property investment companies (see section 7). For Wates, another City-dominated
investment company, the changes in plot ratio added a £22 million surplus to their share of the joint redevelopment of Winchester House in the old spatial matrix.

The property investment companies and the institutions now had the opportunity to capture the high rent-paying ability of the representatives of global financial capital within the core, as the threat of an alternative supply from the more risky City fringes diminished. The development—investment decisions of these companies and institutions, however, could not be as free-floating as this perhaps might imply. Their development—investment strategies had to be made in relation to their long-term horizons and the types of profit that would help them successfully to negotiate this period. Furthermore, as pointed out in the following section, these strategies were to be informed by the contours of investment returns mapped out by the spatial practices of the international City (see section 8.2). However, the spatial upheavals of the Big Bang and the disruption to the old structure of office provision meant that these contours were no guarantee of success. They were, nevertheless, a useful guide.

4.2 Different spaces, different returns, and the difference a plan makes

As figure 4 suggests, aggregate nominal investment returns from City offices need to be interpreted in terms of the sociospatial makeup of demand for accommodation. The following examples of property investment returns are felt to show a pattern broadly applicable to property investment companies.

The highest average total returns achieved between 1980 and 1986 from City offices, held by institutions (monitored by the IPD), were in the EC2 district of the City, an area incorporating the spatially prime banking area of the core, which no doubt helped to contribute to a nominal average of 13.1%. This area is closely followed by the core area of postal district EC3, which includes the spatially sensitive insurance and shipping sectors, and banks specialising in financing these functions. Moreover, the comparatively high rate of multitenanted offices in this area (CLaL/IPD, 1987, table 2)—characteristic of the insurance, shipping, and broking letting

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*Figure 4. Performance of City offices by postal district (source: CLaL/IPD, 1987).*
markets—would have provided the opportunity to work rents, in well-managed buildings, at review (as noted in section 2.2). Total returns from this area averaged 12% between 1980 and 1986, almost double the performance rate for institutionally owned, mostly purpose-built, single-tenanted office investments located in EC1 (CLaL/IPD, 1987, table 2). In the downturn in the letting markets in the years 1982 and 1983, total returns in EC1 were $-2.5\%$ and $-0.6\%$, respectively, which compare with $8.6\%$ and $12.7\%$, respectively, achieved in EC2 (CLaL/IPD, 1987, table 2).

What is also of interest is the common decline shown in total returns in 1984 for all postal districts (CLaL/IPD, 1987). These returns would have been calculated at the end of 1984 or linearly interpolated to December (IPD, 20 August 1987, written communication), a time just following the publication of the draft local plan and when the marked shift in demand for new types of 'global' office space began to materialise. With the clear changes in planning policy announced in 1986, capital growth rose and combined with already increasing rents to lift total returns, in some cases to almost double their 1985 levels. Total returns in EC2 and EC1 in 1986 were $21.3\%$ and $20.1\%$, respectively; they had been $9.8\%$ and $4.8\%$, respectively, in 1984, and $10.5\%$ and $12.1\%$, respectively, in 1985. Total returns in EC3 in 1986 reached $14.3\%$, and they reached $14\%$ in EC4 (CLaL/IPD, 1987, table 3).

Meanwhile, the decline in new institutional property investment monies continued to create difficulties for developers in general. As remarked earlier, the opportunity physically to develop the new spatial matrix offered prospects of a substantial profit for developers, provided, that is, finance could be secured and at the right price. In addition to indicating the social makeup of demand for office space at this time, I illustrate in the next section how some of these development opportunities were realised (section 5.1), and detail the novel financing of one scheme (section 5.2).

5 Extending boundaries and capitalising new social spaces

5.1 The social and technological composition of demand

The investment returns mapped out in figure 4 show the capitalisation of spatial practices specific to the workings of the financial markets of the international City. The task of physically extending the geography of the City’s property markets as it turned global was not only about rethinking the financing of an element of the City’s structure of office provision, it also involved bringing new territories within the social boundary of the old City and building around a mix of sociofinancial practices, that brought together the latest in high-technology dealing floors and the most traditional of banking and broking practices, previously rooted in the old spatial matrix (see table 1). Moreover, following the successive waves of decentralisation of support staff that began in the 1970s, facilitated by new technology and which continued into the 1980s as City rents began to rise (see RICS/IoA, various dates), the social composition of demand meant that office schemes, inside and around the core, were very much about capitalising an increasingly high-income space, which of course added to the viability of ‘global’ office schemes (or so it was thought).

Using data from a series of case-study developments, I set out in table 1 the influence of the social composition of demand for office accommodation in the City up to and around the Big Bang of 1986. The data relate to the office-space requirements of three newly formed or relocating investment banks (see also Henney, 1987). These developments highlight two main features of the City in its movement from an international to a global financial centre. The first is the expanding use of new technology in the day-to-day business of many of the City’s financial markets.
Table 1. Social structures, information technology (IT), and location: why banks 1–3 chose to stay in the City (sources: interviews with directors for schemes 1–3 and with property companies and investors for all schemes; additional information from interviews with property sector analysts).

| Scheme | Previous location | Reasons for wanting to move yet remain in or near the old spatial matrix |
|--------|-------------------|-----------------------------------------------------------------------|
| 1      | Several offices within or on fringe of the old OSM (OSM) | Pull the group together; move to purpose-built offices to accommodate new IT and working arrangements; existing buildings need adaptations to IT; in new building have minimum of 2 screens per person (11 for US treasuries and gilts, 20,000 ft² of IT equipment—at present only 2,000–3,000 ft². Need for social interaction; telephone contact of use, but traders, market makers, and analysts need "to meet and talk informally"; this need to discuss market movements and strategy is shared by all sections, for example, morning briefings for equity people. To have all client entertainment facilities in one building, for instance, equity people have monthly buffet lunch with representatives from City investment institutions, thus need to be near clients and to minimise the time staff are away from their desks. A move to areas outside London is out of the question, even a move to some sites near the City was problematical as the bank thought it would be difficult to get 'front-end' people to move there; investment bankers would prefer to work for someone in a more 'central location', "they need to keep their contacts in the City". |
| 2      | Several offices in heart of OSM | Bring newly formed investment bank under one roof; growing need for communication between departments. Need to house specialist IT equipment and generators; main aim in design of building was to accommodate the 750 traders; IT and support staff needed to supply and translate information; wanted to be in the thick of the City as they felt business was "front-end, high external customer contact, high net worth customers"; important for staffing requirements. To be within the 'walks' was also a consideration (see footnote 1 in text). |
| 3      | Several offices in OSM | Bring newly formed investment bank under one roof; nature of bank's business—particularly investment banking side—largely determined the location; relocation needed to be near City's banking community; felt that the bank's clients expect such an organisation to be in the City. Location outside of the City unsatisfactory as cream of bank's staff would quickly lose touch with what was happening in the City. Need to be within the official 'walks' was also an important consideration (note date of move: 1983/84): could only afford to be 9–10 minutes walk away from the Bankers' Clearing House in the core of the OSM. Need for office built around IT. Felt that to decentralise some staff, maybe 100, would create a feeling of two firms: wanted to preserve "intrafirm flow of information" and the "community feel of the company". Docklands "out of the question", especially for the investment bankers. |
Yet, despite the dramatic growth in new information technology, there was (and is) an important social interface in the working of many of the financial markets, including those such as equities, which is not displaced by such technology [for example, see table 1, scheme 1; see also Castells, 1989, chapter 3]. This leads into the second point: the lingering pull, the social power, of the spatial matrix of the traditional City. As highlighted in table 1, the need, for example, to maintain contacts within the City, as well as to be seen to be physically part of the City, remained important, although not cast iron, factors in determining location, particularly amongst the banking community [see table 1, scheme 3]. In simple terms of distance, therefore, spatial deregulation led in most cases to relatively limited moves from the old spatial matrix, with a few exceptions, such as First Chicago to Covent Garden, Citibank to the Aldwych, and Salomon Brothers to Victoria.

The expansion of demands for different types of office accommodation thus created many opportunities for office investment and development. Table 2 emphasises the ways in which different economic agents capitalised this expanding user demand. The developments range over a period that includes some of the earliest moves from the old spatial matrix, to relatively smaller schemes, developed within the core and completed after the Big Bang. These smaller schemes were suited to brokers and smaller foreign banks (see Savills, 1986, figures 2, 3, and 4), amongst whom the Bank of England's spatial rule still had some social bite (see Pryke, 1991). The focus of some of the user demand on the spatial matrix of international City therefore enabled institutions and property investment companies to reduce the costs of redevelopment through the modernisation of their existing stock of City property, without incurring the costs of site acquisition (though, in some instances, they may have had to regear leaseholds), providing, that is, they judged correctly the timing of their redevelopment schemes (see also section 8). These opportunities, furthermore, could in many cases be realised by the institutions themselves because of changes in the structure of office provision which took place in the late 1970s (see Pryke, 1988).

The ability of some property investment companies, and a few institutions, to revamp their portfolios in this way was not limited to the core. For several investment companies (for example, those that had a policy of acquiring sites 'ahead of the market') the spread of user demand from the core provided several more redevelopment opportunities (table 2, scheme 3). These companies, moreover, could finance such schemes by direct approaches to the domestic and international capital markets, especially after the fall in interest rates in 1987/88 (see also section 8.1).

By the mid-1980s, however, the general awareness of profits to be gained from City property development and investment, transmitted through City agents, added fuel to the soaring property prices. As was made clear in interviews, vendors knew that the strength of the market put them in a very strong position. The rise in user demand also put pressure on the availability of core sites—recall the lingering pull of the old matrix, noted above. The assembly of core sites has long been a time-consuming and costly business (see Dunning and Morgan, 1971) and creates particular problems for property (investment) companies. As scheme 5 in table 2 suggests, by the mid-1980s many nonfinancial landowners, such as livery companies, were insisting on a share in development profits on a geared ground-rent basis; freeholders were demanding as much as 20%-40% of the rack rent on the completed buildings.

City office agents Jones Lang Wootton (JLW, 1986b) estimated that in the 12 months to June 1986, £1 billion was spent on the purchase of land and buildings in the City; rising by £670 million to December 1986, £390 million of which was for single deals of more than £25 million (JLW, 1986c).
Table 2. Selected development at financing strategies in the City in the mid-1980s (sources: see table 1).

| Financial activity of tenant and employment structure | Owner-occupier/tenant, and size | Landowner(s), and development start and finish | Developer and strategy |
|-------------------------------------------------------|---------------------------------|-----------------------------------------------|------------------------|
| **Scheme 1: in new spatial matrix**                   |                                 |                                               |                        |
| US investment bank Tenant (but see funding strategy). |                                 | British Petroleum.                             | Main trader — developer |
| 1400 employees (maximum 1650). 400 trading desks.     | Rent: £23 ft$^{-2}$.             | Land bought by developer.                     | new to City.           |
| Dominated by investment and corporate finance.       | 217750 ft$^2$ scheme.           | Sold in 1985.                                 | Trader — developer     |
| Average 100 ft$^2$ per employee.                     |                                 | Work completed early 1988.                    | jointly owned by      |
| Ratio of 1:2 operations staff to 'producers'.         |                                 |                                               | main developer and    |
|                                                       |                                 |                                               | construction company.  |
|                                                       |                                 |                                               | Main trader wanted    |
|                                                       |                                 |                                               | exposure to City.      |
|                                                       |                                 |                                               | Used City agents for  |
|                                                       |                                 |                                               | land purchase and     |
|                                                       |                                 |                                               | teaming up with       |
|                                                       |                                 |                                               | funder.               |
|                                                       |                                 |                                               | Begun as a speculative |
|                                                       |                                 |                                               | scheme.               |
| **Scheme 2: in new spatial matrix**                   |                                 |                                               |                        |
| UK investment bank Tenant.                            | Rent: £27 ft$^{-2}$.             | City Corporation.                             | Trader developer.      |
| 2200 employees.                                      | 110 500 ft$^2$ scheme.          | Sale by tender in 1982.                       | Begun as a speculative  |
| Main aim to house 750 traders.                       |                                 | Agreement to lease in 1985.                   | scheme.               |
|                                                       |                                 | Possession January 1986.                     |                        |
|                                                       |                                 | Fitting-out August 1986.                     |                        |
| **Scheme 3: in old and new spatial matrices**         |                                 |                                               |                        |
| UK investment bank Tenant.                            | Tenant interested in equity stake but developer not interested: '100% control of portfolio'. Initial (1983) rent: £25 ft$^{-2}$ rose to £40 ft$^{-2}$ by 1988. 130000 ft$^2$ net. | Site pieced together over the year by subsidiary of developer. Owned either freehold or on long lease. Completed 1983. | Established property investment and development company. Chance to renovate part of City portfolio in what had been a 'fringe' area. Scheme had been in the company's development portfolio since 1970s. Looking for asset growth for investment portfolio. |
| 1200 employees, half of whom are traders.             |                                 |                                               |                        |
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| Funding and strategy | Construction technique | Planning authority |
|----------------------|------------------------|--------------------|
| Main developer sold site to life fund in return for a 150-year lease to developer jointly owned by main developer and construction company. 8% equity stake sold back to funder at 6.6% prearranged yield 28 days after first rent review. Main developer's profit about £10 million. £75 million scheme was at the time the largest investment held by life fund. Because of tenant's involvement in design, life fund paid £0.5 million of £0.75 million costs of altered specifications to overcome rent review difficulties that might have arisen. Standard institutional lease. | Management contract (JCT 63). Originally designed as two separate schemes connected by atrium. Shell and core. Phased handover of floors with main contractor on site. £27 million building contract and £22 million fitting out contract. Raised floors and suspended ceilings. | Islington Borough Council. Pressure to develop felt only about 1985. Area felt to be part of City. No hard and fast policy. Section 52 agreement secured (creche in the Barbican). |

Building let 18 months before completion at rent £7 ft\(^{-2}\) higher than achieved previously in this area. Agents advised developer of rising demand. Few institutions in market for £80 million scheme thus require lot size discount-1% higher yield. Decided on securitisation: £35.3 million raised by deep-discount first-mortgage bonds at 10.6% gross yield, £25.8 million preferred stock 5.9% intitial yield, £17.9 million ordinary stock. All share rental and capital growth in different proportions. £24 million management contract. Contractor in charge of 12 work packages overseen by client's project manager. 'Fast-track'. Structural steel frame. 'Credits' given to tenant for works saved by early possession. Raised floors and suspended ceilings. | Internally financed by developer. | City Corporation. No restrictions except St Paul's heights. |

Raised floors and suspended ceilings. | Raised floors and suspended ceilings. | City Corporation. No restrictions except St Paul's heights. |
| Financial activity of tenant and employment structure | Owner/occupier/tenant, and size | Landowner(s), and development start and finish | Developer and strategy |
|------------------------------------------------------|--------------------------------|-----------------------------------------------|------------------------|
| **Scheme 4: in new spatial matrix**                  |                                |                                               |                        |
| UK stockbrokers. Legal firm.                         | Marketed at £19 ft$^{-2}$,     | Site acquired by subsidiary of developers.    | Joint trader–developer new to City. |
|                                                      | Let at £32.25 ft$^{-2}$,       | Single nonfinancial landowner.                | Shell company as vehicle. |
|                                                      | 260 000 ft$^2$ net.           | Completed 1984                                | Developer grew from takeovers of unquoted property companies. |
|                                                      |                                |                                               | In 1980 developers subscribed £5 000 for 50% equity of parent company ‘A’. |
|                                                      |                                |                                               | later provided £400 000 loan capital. |
|                                                      |                                |                                               | National Carriers (NC) held 5% of equity, and developer’s partner held a proportion. |
|                                                      |                                |                                               | ‘A’ bought 1.5 acres of land from NC north of OSM for £0.925 million. |
|                                                      |                                |                                               | ‘A’ gradually acquired substantial ownership of 2.9 acres including original site. |
| **Scheme 5: in old spatial matrix**                  | No prelet.                     | Bought in 1985.                               | Newly created property vehicle. |
| Foreign bank.                                        | Let by tender in 1987.         | Company prepared to team up with existing landowners. | 100% City property floated by family construction firm in early 1980s. |
|                                                      | Over £50 ft$^{-2}$ on ground floor. | Strong links with existing landowners.       | At time of issue, discount to assets was 15%, sector average was 23%. |
|                                                      | 43 000 ft$^2$ net.            | Developer granted 150-year lease at fixed rental plus 7% share of rent. | Yield applied to portfolio 5%. |
|                                                      |                                | Development profits split 60:40 developer: livery company. | Looking for asset growth for investment portfolio to boost share price. |
|                                                      |                                | Completed 1987.                               | This scheme estimated to add at least 3 pence to each share; this was before growth in rents. |
| **Scheme 6: on edge of old spatial matrix**          | Rent not known.                | Developer.                                    | UK pension scheme with large property team and trader new to City. |
| Foreign bank.                                        | 22 900 ft$^2$ net.            | Completed 1988.                               | Scheme’s involvement aimed at increasing property returns and to boost City element of its portfolio. |
|                                                      |                                |                                               | Trader secured site and planning permission. |
|                                                      |                                |                                               | Direct approach to institution. |
|                                                      |                                |                                               | Forward funding agreed with overage. |
| Funding and strategy | Construction technique | Planning authority |
|----------------------|------------------------|--------------------|
| Predominantly bank finance. Institutional 'take out' not around for such a scheme. (See section 5.2 for more details.) | Management contract system. Trade contractors appointed by main contractor. Structural grid approach allows for standard 45 ft institutional width to building. Steel construction. Raised floors and suspended ceilings. Tenants set own standard of fittings. | Hackney. Borough in need of rateable income. Development line moved further north into borough. Recognised office potential in area in early 1980s, but acquisition compulsory purchase long and costly. Planning permission granted in 1981 for 206,000 ft² net office space plus public house and shops. |
| Internally financed. £21 million scheme. | Steel construction. Raised floors and suspended ceilings. Basement and ground reinforced concrete. Remainder steel frame. Let fully finished. | City Corporation. |
| Internally funded. | Raised floors and suspended ceilings. In situ reinforced concrete frame and precast floors. Let fully finished. | City Corporation. |
Table 2 also points to the changes in the social relations of office provision in the City at this time, both in construction techniques, such as the use of steel frames, and in management techniques (schemes 1, 2, and 4). These factors, as Ball argues in part 2 of this theme issue, played a very important part in boosting the supply of office accommodation over a relatively short period. A major attraction of new construction and management techniques is speed. As the following example illustrates, speed and the price of finance were entwined particularly in the viability of the large fringe schemes, those that required sizeable amounts of finance—sums which the traditional investors were reluctant to provide.

5.2 Negotiating finance for a backwater scheme

"We had been told that the project [One Finsbury Avenue] was unfundable", Godfrey Bradman says. The area [to the north of the old spatial matrix] was a shabby backwater and institutions were not keen on property investment at the time. I thought there had to be something wrong with that. On my rents, projected future value then was £80 m. So we structured a new way of funding" (Financial Times 1986, page 3).

This scheme took place in an area considered to be well outside of the social bounds of the traditional City area (see table 2 scheme 4; see also figures 2 and 3). With total development costs in the region of £75 million, against the main developer's then market capitalisation of around £30 million, the problem to be solved was how to provide the security for the £40 million construction loan needed to complete a scheme well away from the relative security of the investment arena. Development finance could be arranged with banks, provided that they were granted recourse to the site and if they were given a promissory note that "someone" would "take them out", that is, provide the £40 million at the end of the construction period.

Faced with an unfavourable property investment market, the company "structured a new way of funding", one that made use of a small number of traditional institutional investors, together with several corporates, acting effectively as underwriters, yet in a role that removed them several stages from the risks of development and letting. These investors provided a nonrecourse nil-paid debenture (basically a debt instrument) secured on the site, in return for which they received a one-third share in the development profits (interview with property sector analyst 1987). Against this promise, the developers then borrowed medium-term construction and development finance from the banks.

The medium-term funding was arranged through a consortium of investors, each of whom subscribed at par for the 1987 £38.8 million first mortage debenture stock 1987 and for all of the 3380 £1 'B' shares of the joint development company. The 'B' shareholders were protected insofar as they could exercise a right that 'A' shareholders acquire the 'B' shares at an agreed price and time. The debenture carried interest of 1.5% over London Inter Bank Offer Rate (LIBOR). The issued share capital of the joint development company consisted of 1003 878 £1 1% cumulative preference shares and 7887 £1 A' ordinary shares—all of which were held by a new holding company, 80.63% of whose share capital was owned by the developer and the joint partner in equal proportions (SKG, undated).

As the above quote from the Financial Times (1986) suggests, on the assumption of a rent of £16 ft$^{-2}$ and a yield of 6.5%, phase one, on completion, was expected to show a capital surplus of around £26 million, of which £7 million would be attributable to the Group (that is, the joint company) (SKG, undated; ALC, 1986b). But as the offices were eventually let at £32.5 ft$^{-2}$ (the development originally was
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marketed at an asking rent of £19 ft\(^{-2}\)), on the above yield basis, the capital surplus was instead about £96 million, of which the Group received some £24 million. Although the original aim was to sell the development on completion, it was clear, as this indicates, that the rental income was sufficient to service the long-term debt. What is more, as the completion of the building coincided with the upsurge in demand in the City for high-technology space, a full letting was achieved four months after completion. The developers were thus able to retain the scheme by issuing 29-year 11% debenture stock, secured on the rental income stream from the development. The bank loan was paid off, the cash call on the nil-paid debenture to the institutions was allowed to lapse, and the equity growth of the development was retained by the Group (ALC, 1986b; interview with property sector analyst, 1987).

The novelty of this financing technique is interesting, not only for its intricacies, but also for two other reasons. It suggests, first, how different forms of financial capital viewed the relative risks of creating part of the built form of the global City, and, second, how the formulation of those views, particularly amongst the institutions, flagged a significant realignment in the social relations of rent within the City’s structure of office provision. With the exception of the one or two involved in writing the promissory note, the traditional UK institutions, informed by their money-dealing characteristics, were hesitant to become involved, not only because of the size and location of the scheme (see also scheme 2, table 2), but also, it is argued, because it emerged at a time of changing institutional settings which altered views about the appropriateness of investment media. These new settings, it has been suggested, exerted an increasingly strong influence on the investment strategies of pension-fund and insurance companies (see Pryke, 1994), a point taken up in section 8.1. For the banks, however, such opportunities were more straightforward outlets for interest-bearing paper.

An important element, then, in the restructuring of processes of office development in the City at this time was the reemergence of the so-called trader-developers and their ability, in the context of rising user-demand, to engineer with the banks interest-bearing instruments with repayment profiles that would allow them to “do without the institutions”; in some cases this debt engineering worked, but more often over the longer term it did not (section 8.3). In the next section I outline in more general terms some of the characteristics of the trader companies, notably their relationship to the stock market, hereafter the market. I draw attention to the type of funding links they forged early on with direct institutional funders and highlight several reasons why they found the banks a more attractive source of finance.

6 Property traders and speculative schemes

The reluctance of the property investment companies to become involved in the ‘fringe’ schemes offered a significant opportunity to the trader-developers. As the name implies, the traders came to the market specifically as property dealers, not as holders of property. Although the profits on fringe schemes (quite often expressed as an agreed proportion, say 15%, of development costs) were one-off, as were some of the core schemes which traders became involved in, they served the purpose of producing relatively rapid earnings per share and the accompanying exposure enabled the (successful) traders to move onto other major City schemes.

Yet the biggest difficulty confronting the traders was the limited supply, notably after 1982 and 1983, of development, and also of long-term finance at competitive rates. To realise development opportunities, traders required flexible finance to find a gap of at least two years, between costs and revenue. The gap had to be structured to provide suitable returns for the developer and the funding institution.
There were still several routes open to traders to fund this gap, however, in ways that provided them satisfactory profits (and suitable ‘market exposure’). One was to offer a funder a scheme at a (guaranteed) initial yield, say 1% over the current market yield, in return for development finance at a rate of, say, 3% below LIBOR, but which still gave the institution control over the scheme design and the cash flow. An additional or separate arrangement was to split the rental income on an average basis ranging from, say, 50:50 to 70:30 in favour of the institution. (A financing method similar to this arrangement was used in scheme 1, table 2.) In an effort to attract funders, some property trader companies offered to pay rent to the institution if the development did not let at or before completion;\(^4\) rental cover or profit erosion guarantees, as this type of arrangement is termed, grew in some cases to equal the trader’s profit share and, in other cases, due to institutional pressure, guarantees went over the profit erosion date.

Nevertheless, such arrangements still left the institutions in a dominant position, able to secure more than satisfactory guarantees from the traders. Tight building-contract guarantees, for example, ensured that additional costs, such as cost overruns, would not be borne by the institutions. For a developer wishing to capitalise on the growing user demand, such financing arrangements and funding documents were an obvious disadvantage.

Bank finance, in contrast, gave developers freedom—“your hands aren’t tied by a fund” (interview, property trader). The twofold attraction of teaming up with an institution—the security of finance rates at below LIBOR and the safety of a buyout—therefore began to dwindle, and the need to build and sell (or let) quickly became uppermost: a movement in interest rates and or selling yields in the wrong direction during the development period could escalate costs far beyond the expected returns (hence the importance of the new construction and management techniques noted in table 2). Nonetheless, as the example in section 5.2 demonstrated, although a move outside of the old spatial matrix added to these uncertainties (written communication, finance director, property development company), for some traders it also offered an opportunity to write up large profits, if only over the short term (see section 8.2). In a rising equities market the traders needed high profits, which would feed through to earnings per share, if they were to remain in favour with the market.

7 Property investment companies and core schemes

In the same way that property traders faced certain kinds of market exposure and had to organise their strategies accordingly, the property investment companies also had to rethink their development and investment activity in the light of changing market perceptions of the quality of profits that they were offering, over both the short and longer term. In this section, I summarise how these companies set about this task. Specifically, taking what are felt to be two necessary characteristics of property investment companies—net asset growth and long-term time horizons—I will consider the influence of social space on the activity of such companies in relation to the mid-1980s upturn in the City’s office development markets.

The problem facing many investment companies was how to achieve the right ‘pitch’ in their development programme to benefit the investment portfolio, given

\(^4\) The developer’s profit was used in many cases to derive rental cover, expressed in years, and was calculated by dividing the developer’s profit by the expected rental income from the completed scheme. As a precaution against letting voids, a six-month letting period would have been included in the funding calculations and valued at the anticipated interim finance rate.
that most schemes would not show a profit until the first rent review. For these companies, the two main reasons for carrying out developments were, first, for the capital surplus at the end of the project, which could be used to boost shareholders' funds and provide asset growth, and, second, to upgrade their investment portfolio and provide rental growth, which in turn would feed back into capital asset growth. In terms of spatial strategies, therefore, although a fringe development might provide high development profits, it would only tend to provide medium asset growth; whereas a core development should provide long-term asset growth, but little or no development profit. Expressed differently, the choice is between sharply rising and possibly sporadic profits, rather than a steadily rising profit stream expected of investment companies and preferred, in the longer term, by the market.

The territorial realignment of the spatial practices of the 'global' City also influenced property investment company strategies in other, yet similar, ways, again notably in the area of 'market perceptions'. For instance, redevelopments and refurbishments in the institutionally known, relatively secure space of the old matrix were favoured by the mature developers because, as one property-sector analyst commented, a company will be given a premium rating if the market likes its exposure to a particularly well performing part of the property sector. Similarly, the comments made by another property-sector analyst about a property investment company exclusively exposed to the City's letting market in the 1980s is perhaps illustrative both of the importance of market perception and of the way in which the City's space was being capitalised and traded in during the boom:

"it must be remembered that Wates represents an early opportunity for investors to share in the ownership of a small readily identifiable group of well known buildings. The Wates corporate vehicle represents not only the degree of market liquidity that the sponsors of the various unitization proposals are aiming to achieve, but offers the ability to add value through the development process and the financial gearing that will largely be absent from any of the new proposals" (BZW, 1987, page 3, emphasis added).

And again, at September 1986, another investment company, MEPC, had 1067 600 ft$^2$ of office space under construction in the City, in a market that was showing high rental growth "under the noses of the investors". As commented in one broker's report at the time, MEPCs equity provided a "high yielding discount share that provides investors with the best overall exposure to the City revolution" (Greenwell Montagu, 1986). Investment company calculations and spatial strategies thus had to 'home in' on specific places in order to maintain 'institutional acceptability'.

As if this were not enough, the whole question of market perception produced yet another problem for investment companies, one that ties into the creation of the new spatial matrix and the reorganisation of the City's labour processes (noted in section 5), all of which meant that large sections of the City's older built environment were beginning to show poor rental income and, notably, poor capital growth, noted in section 4. The City's global turn, as it were, impacted on the investment companies mainly because their comparative competitive position is heavily governed by the relationship between share price and underlying NAV. And, as NAV growth is equivalent to capital growth, which is very much dependent on rental flows and the yield at which such flows are discounted, the strength of competitive position and investment portfolio are very much interrelated.

The case of Land Securities provides a useful illustration of this point. At 1986 an estimated 30% of this investment company's portfolio was accounted for by City
offices, mostly within the inner core, in EC3, and was mostly built pre-1980. In the four years to November 1986, although Land Securities' net rental income rose by 13% compound, its average capital growth was only 5.2% (ALC, 1986a). This record may at first seem reasonable, but in terms of the company's competitive position and its market status as a 'blue-chip company', the results were less than satisfactory. This becomes clearer when it is remembered that, for property investment companies, positive capital asset growth provides valuation surpluses and, when added to retained earnings or accruels from first lettings, for example, these surpluses will increase shareholders' funds.

The building-specific effects of poor capital growth, which resulted from the changing nature of user demand, fed through to NAV per share through prior effects on revaluation surpluses: Land Securities' revaluation surpluses, as a percentage of total assets, fell from 6.4% in 1983 to 3.2% in 1986 (ALC, 1986a). Put differently, for this property investment company, as with many others, and still more institutional holders of core office investments, the 'psychological stalemate' (noted in section 2.1), between the dominant agents within the City's old structure of office provision and City office users, had ended with spatial deregulation and had produced significant effects on the viability of the investment arena. And as the trading companies and banks embraced to boost the supply of new, alternative office accommodation, the problems of the investment companies and institutions worsened.

In the next section I combine the emphases of sections 6 and 7, noting in particular the consequences of the rising incidence of bank lending to property companies—investors and traders—and the effects of market opinion on property-sector activity in and around the City.

8 Frantic activity, market criteria, and the rise in interest-bearing capital

“The City market at the moment is very strong, it's extremely competitive buying sites and extremely expensive. It's very easy to borrow money, very easy to link up with joint ventures, and very easy to let buildings” (interview with property trade-developer, December 1986).

“There's such a pressure from tenants to have these new buildings that it can't be ignored. Someone will have to create them ... but everyone is reluctant to finally hold the baby” (interview with property investment company).

8.1 Rental growth, settings, and mapping strategies

The emergence of new financing techniques, some of which were outlined in sections 5, 6 and 7 and in table 2, together with the fall in interest rates from the end of 1986 and the sharp rise in rental growth, meant that trader-developers and property investment companies found it easier to obtain short-term noninstitutional project finance to develop schemes (interviews; see also JLW, 1986a). The lack of institutional finance thus seemed to have been only a temporary hitch, particularly as rental growth in the years from 1984/85 was sufficient to service debt. Even the newly extended area of the City on the South Bank showed a compound growth of 9.7% per annum, a figure 3% above the compounded rate of increase in inflation over the same period; and in the eighteen months to mid-June 1986 in the area to the northeast of the old spatial matrix, rents rose at a compound rate of 44% per annum, whereas City core rents grew by 'only' 15.4% per annum compound (JLW, 1986b).
Similarly, in an area previously thought to be ‘in limbo’ to the west of the old spatial matrix, between St Paul’s and Fleet Street, a location that “no-one had wanted to know” (interview with a representative of a property investment company), rents rose from about £7 ft$^{-2}$ in the early 1980s to around £22 ft$^{-2}$ by 1986, as a result of the westward spread of demand from financial service firms and the eastward spread of accountants and lawyers keen to stay near their ‘home patch’. This provided property investment companies, for example, with the opportunity to demolish buildings, redevelop, and then let the new schemes on upwards-only lease terms, at rents that allowed them to repay debt obtained directly through the capital market.

Despite the rise in the number of owner-occupiers (see JLW, 1986c) as part of the growing aggregate demand for office space, the broadening geography of the City’s office letting markets created a precarious situation, particularly for the traders, summed up well in the second quote opening this section. To explain; although institutional central investment departments were urging their equity, gilt, and property departments to ‘perform’, the rental growth taking place in these fringe areas was felt to be too short term to attract institutional funds. A paradox arose because, although the general investment market was indeed demanding short-term performance, fringe schemes [their capital lot size notwithstanding (recall the need for tradeability; see section 2.3)] could not be viewed by the institutions as providing the potential to be ‘worked’ over the longer term. In a sense, such schemes were not seen to offer the succession of short terms that could sustain their longer term exchange value, something that is of great importance to this particular form of money-dealing capital (see Pryke, 1994).

What is more, for many institutional property investment departments, the effects of the north–south divide in the United Kingdom meant that their portfolios were already showing poor performance, extremely poor when compared with, say, overseas equities. Indeed, for some of the case study institutions, the little new investment monies now allocated to their property departments, together with monies that they were able to generate by selling or ‘turning’ their existing portfolios (including City properties), were directed, where appropriate and where possible, into relatively safe, new, and redeveloped schemes in the City core [as well as, of course, into retail and other office investments in the South East (see table 3)]. So that, although City offices formed an important element in the portfolios both of insurance companies and of pension funds by the end of 1986 (table 3), these investment decisions were confined broadly to the contours of the international city and did not overlap with the widening geography of the City’s letting markets.

Against such a background of changing institutional investment criteria, the need for traders and property investment companies to meet market expectations and to carry out new developments and/or revamp their portfolios (sections 6 and 7), encouraged them to approach the banks. With ‘developing-country’ debt no longer a major outlet for loans, the banks’ excess capital readily flowed into UK property markets. A mix of short memories, a poor understanding—not just amongst the foreign banks—of UK commercial property investment markets, and stunningly optimistic valuations, only served to boost the flow of interest-bearing instruments. In fact, the banks moved into property lending with a bred-in-the-bone herd instinct normally associated with the institutional investors.\(^{(5)}\)

\(^{(5)}\) I am grateful to one referee for pointing this out to me.
Table 3. Changes in the number of properties held by insurance companies and pension funds, and changes in average capital values (ACV) by sector, 1980–86 (source: specially commissioned data from IPD).

|                  | Retail | Offices | City offices | Industrial | Total |
|------------------|--------|---------|--------------|------------|-------|
| **Insurance companies** |        |         |              |            |       |
| 1980             | 918    | 638     | 76           | 375        | 2007  |
| 1986             | 998    | 658     | 86           | 384        | 2126  |
| change           | 80     | 20      | 10           | 9          | 119   |
| ACV 1980 (£ million) | 0.5   | 1.7     | 3.9          | 8.1        |       |
| ACV 1986 (£ million) | 1.3   | 2.9     | 8.3          | 1.1        |       |
| change           | 0.8    | 1.2     | 4.4          | -7         |       |
| **Pension funds** |        |         |              |            |       |
| 1980             | 268    | 224     | 28           | 155        | 675   |
| 1986             | 319    | 211     | 31           | 160        | 721   |
| change           | 51     | -13     | 3            | 5          | 46    |
| ACV 1980 (£ million) | 1.3   | 4.4     | 6.9          | 2.1        |       |
| ACV 1986 (£ million) | 3.6   | 5.5     | 17.2         | 2.7        |       |
| change           | 2.3    | 1.1     | 10.3         | 0.6        |       |

Note: at the end of 1986 the total capital value of the 18 insurance companies monitored by the Investment Property Databank (IPD) was £4032 million; and of the 21 pension funds £3476 million; the insurance companies deposit whichever property-owning funds they choose with the data bank. There is therefore a mixture of 'Life', 'Main' and 'Property Funds'; at the end of 1986 there were only 5 funds directly called 'life' funds monitored by the IPD; three of the pension funds are public-sector and one is a local authority—the remainder are private-sector funds; all valuations are at December of each year or are linearly interpolated to December; the City is defined as postal districts EC1–EC4.

8.2 Interest-bearing instruments and going round in a circle

Bank advances to the UK property sector rose from £2231 million in 1980 to £9331 million in 1986, reaching close to £38 billion by 1990 (figures from the Bank of England), a large proportion of which was wrapped up in the creation of the City's 'global' built form. Unsurprisingly, within the City's structure of office provision, risks, particularly those associated with default and the interest rate, shifted away from the property companies onto the banks, as the frenetic symbiosis of development and lending activity was further stimulated by the rather 'inane' relationship between property companies and the market.

Property-sector strategies, generally, had to be regeared in the bullish, competitive market of this period. For the traders, the use of off-balance-sheet funding, for example, hid debt and allowed them to continue to borrow bank money, quite possibly without causing alarm in market opinion and thus safeguarding their share price. By 1986, many property investment companies had begun to increase their bank borrowing in order to enhance their investment portfolios and to restructure their debt profiles. (Debt, rather than equity, was better received by the market, particularly for existing shareholders, whose existing holding would be diluted if new shares were issued at a discount.)

For both types of property company, therefore, the City core and parts of the new spatial matrix provided new opportunities for investing through an enlarged investment arena. Market criteria, it was hoped, would be met through the wider territory of the global City. MEPC's drive for City schemes, for example, stemmed partly from the company's need to match its forecast for a real increase in dividends
of 2.3% in the five-year period from 1983 (a target announced after investors had pushed for higher growth in dividends).

The City boom was also a period when the trader-developers, many of whom were only recently listed, found that they had to march to a different type of market beat: 'straight-line profitability' became the new goal. The sudden need to provide a steady stream of profits, expected (as noted in section 7) of a listed investment company, required them to reassess their strategies. As one property trader pointed out prophetically in 1987:

"That's why they're all becoming asset-based companies, because you can’t go on being price earnings rated at 20% to 24%, which is untenable if the market starts dipping, and it must dip in the next few years. The only way you can protect yourself from that is by buying an asset base so at least you have a regular supply of income ... The property traders relying purely on development profits are going to be in for a rough time in the next three years because profits won't be there to be generated to protect your share price" (interview, emphasis added).

Before I conclude the paper, I wish to draw attention to the 'rough time' that property companies, overburdened by debt, have experienced since the collapse of the City's letting, owner-occupier, and investment markets after the financial crashes.

8.3 The consequences of meeting market criteria

Trying to 'please the market' has left many property investment companies in a very vulnerable position. The boom provided an opportunity for them to regenerate their investment portfolios, yet they quickly encountered difficulties in letting completed schemes. And, although many of them restructured their debt [for instance, by the early 1990s MEPC had only around 12% of its borrowings represented by short-term money, Hammerson 27%, Land Securities 0.3%, and Wates 29% (interview with property sector analyst, 1992)] their reliance on interest-bearing instruments made matters worse. Some of them have made attempts to capitalise interest-rate payments on schemes now being completed in a virtually 'dead' letting market, and this raises doubt amongst some City analysts about whether or not dividends are covered by cash flows.

Despite the robust front of 1980s entrepreneurship, the traders quickly proved to be just as vulnerable to high real interest rates and no demand as any other form of merchant capital. For example, after making provisions of £205 million, Speyhawk plc turned in a pretax loss of £217 million for the 1991/92 financial year, when the company's net worth per share was £5; moreover, at the time of writing, the company owned two City offices with current market values of less than half their construction costs (Financial Times 1992a; 1992b; 1992d); Rosehaugh plc (one of the companies behind the scheme discussed in section 5.2) showed a loss of £227 million for the same year (Financial Times 1992c).

The results for the financial years 1990/91 clearly reflect the effects of too heavy a reliance on interest-bearing capital: the proportion of short-term (less than five years) borrowings as a proportion of total balance-sheet borrowings stood at 64% for Rosehaugh [a total made up from a range of short-term instruments involving around 28 UK and foreign banks (see Financial Times 1992a)], 89% for London and Metropolitan, and 45% for Speyhawk—the respective figures at the end of the financial year 1988 were 14%, 29%, and 17%. Rosehaugh's total borrowings stood at £394 million against a net asset value (that is, capital and reserves available for distribution amongst ordinary shareholders) of virtually zero (despite the figure
of £164 million marked in the accounts). Speyhawk had £144 million against £120 million, Mountleigh £635 million against £604 million, and London and Metropolitan had £106 million against a negative asset value of £21 million (interview with property-sector analyst, 1992; SGW, 1992).

By 1991, with lettings of office space down by an estimated 21% on the previous year, property companies were desperate to let newly completed schemes; various incentives, equivalent to rent-free periods of up to two years or more, in some cases, have been employed in an attempt to find tenants. Several of the institutions, those whose redevelopment activity was poorly timed, still hold unlet redevelopment schemes started at the peak of the boom. Investment overall through City offices (including purchases by owner-occupiers) has continued to decline since 1990. This has worsened the position of property trader companies and investment companies overburdened with unlet schemes and bank debt. By the end of 1991, 17 million ft² of office space was available in the City, only 3.9 million of which was accounted for by the City 'core' (JLW, 1992, page 9, figure 13). At this time, prime City rents were on average 35% below their 1988 peak, and it is estimated that it will be 1994 at the earliest before City offices again show real rental growth (SGW, 1992).

9 Conclusions
The present spatial concentration of property-related debt in the City, together with all of the risks that this involves, is quite staggering and signals a change in the form of 'financial landownership' within the City's structure of office provision, if not in the wider commercial property sector. Even if on the surface the present property slump appears once again to be describing a familiar circle, invoking memories of the crash of the early 1970s, the wider context suggests a slightly different outcome. Present rent relations are emerging in a climate marked by positive real interest rates, changed investment requirements amongst the institutional investors (something which perhaps alters significantly the traditional relationship between them and the property sector), and a de/reregulated, highly integrated financial world. All of these factors serve to make the present downturn more serious than originally thought.

With hindsight on the (re) development of the 'global' City, it seems that, in a sense, investors (including the banks), many of whom rented office space in the Square Mile, were provided with a chance to play a self-feeding fruit machine which almost guaranteed a payout, in some form, from spiralling fictitious exchange values. An important (causal?) element in this spiralling effect, it is contended, was the way in which property company calculations, with their important differences and similarities, became caught up and driven by an intense interplay of economic and social forces that characterise broader aspects of the workings of the City's financial markets and of the stock market in particular. All of this, remember, was played out over what was a very high income, and still (a few significant moves notwithstanding) relatively confined 'global' space. What can be stated with less contention, however, is that it will be quite some time before this particular fruit machine sticks on three cherries in a row.

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APPENDIX  
Methods and interviews  
The interviews with the various representatives listed below were conducted in 1986 and 1987. The telephone interview questionnaire was structured so as to offer comparability with face-to-face interviews.

The semistructured nature of the interviews enabled a discussion about property development and investment generally and the City in particular to be combined. This interview method also allowed scope for comparisons to be made between different groups of organisations, and between organisations within groups. The quotes used in the text are thus indicative of both general and particular spatial patterns and economic processes; where quotes are exceptional they are introduced as such (for further information, see Pryke, 1988).

All of the interviews were conducted on a nonattributable basis.

Financial institutions  
1 Senior Regional Surveyor  
2 Property Investment Assistant  
3 Property Investment Manager  
4 Property Investment Assistant  
5 Chief Surveyor and Property Director  
6 Estates Manager  
7 Investment Manager  
8 Property Investment Manager  
9 Property Investment Manager  
10 Surveyor  
11 Deputy Property Investment Manager  
12 Executive Director  
13 Property Investment Manager  

PosTel  
British Petroleum Pension Scheme  
Imperial Group (T)  
Electricity Supply  
Prudential  
Norwich Union  
Pearl (T)  
Guardian Royal Exchange Properties  
Sun Life Properties  
Scottish Amicable (T)  
Commercial Union Properties  
Eagle Star  
CIS

Note: (T) means telephone interview.

The following institutions were contacted but interviews were not held for reasons stated:
(a) CIN Properties (Property Holding Company for NCB Staff Superannuation and Workers' Pension Scheme)-"... not been at all active in the City during the [study] period" letter dated 11 November 1986.
(b) British Rail—no reply; letters followed up but with no success.
(c) Legal and General—company policy is not to talk with researchers.
(d) Standard Life—unwilling to talk with researchers; at first prepared to answer questionnaire, later decided questionnaire contained questions which went "to the very heart of my Company's investment policy which is not something we discuss or publish" letter dated 9 January 1987.

Property companies  
1 Deputy Chairman and Deputy Managing Director  
2 Director (Property Development)  
3 Chief Surveyor  
4 Managing Director (Finance) and Chief Surveyor and Director  
5 Surveyor and Finance Director  
6 Surveyor  
7 Surveyor  

CLRPLand Securities  
MEPC  
British Land  
Town and City Properties  
Haselmere Estates (Rodamco)  
Hammerson Group  
Trafalgar House
The following companies were contacted but interviews were not held for reasons stated:
(a) Greycoat—unable to help because of "pressures of business" letter dated 14 October 1986.
(b) Great Portland Estates—"unable to help" letter dated 22 December 1986.

| City office agents or surveyors | 1 Researcher | Jones Lang Wootton |
| 2 City Office Agent and Director (Finance) | Baker Harris Saunders plc |
| 3 Associate Partner | Hillier Parker May and Rowden |
| 4 Associate Director, Research and Associate Director, City Office | Debenham Tewson and Chinnocks plc |

Property sector analysts
1 Senior Property Analyst | Hoare Govett |
2 Senior Property Analyst | CL Alexanders Laing and Cruickshank |
3 Property Analyst | Rowe and Pitman, S G Warburg |

In order to update several points, one of the above property sector analysts was interviewed again in 1992.

Investment bank representatives
1 Associate Director | Midland Montagu |
2 Associate Director | Merrill Lynch International |
3 Associate Director | S G Warburg |