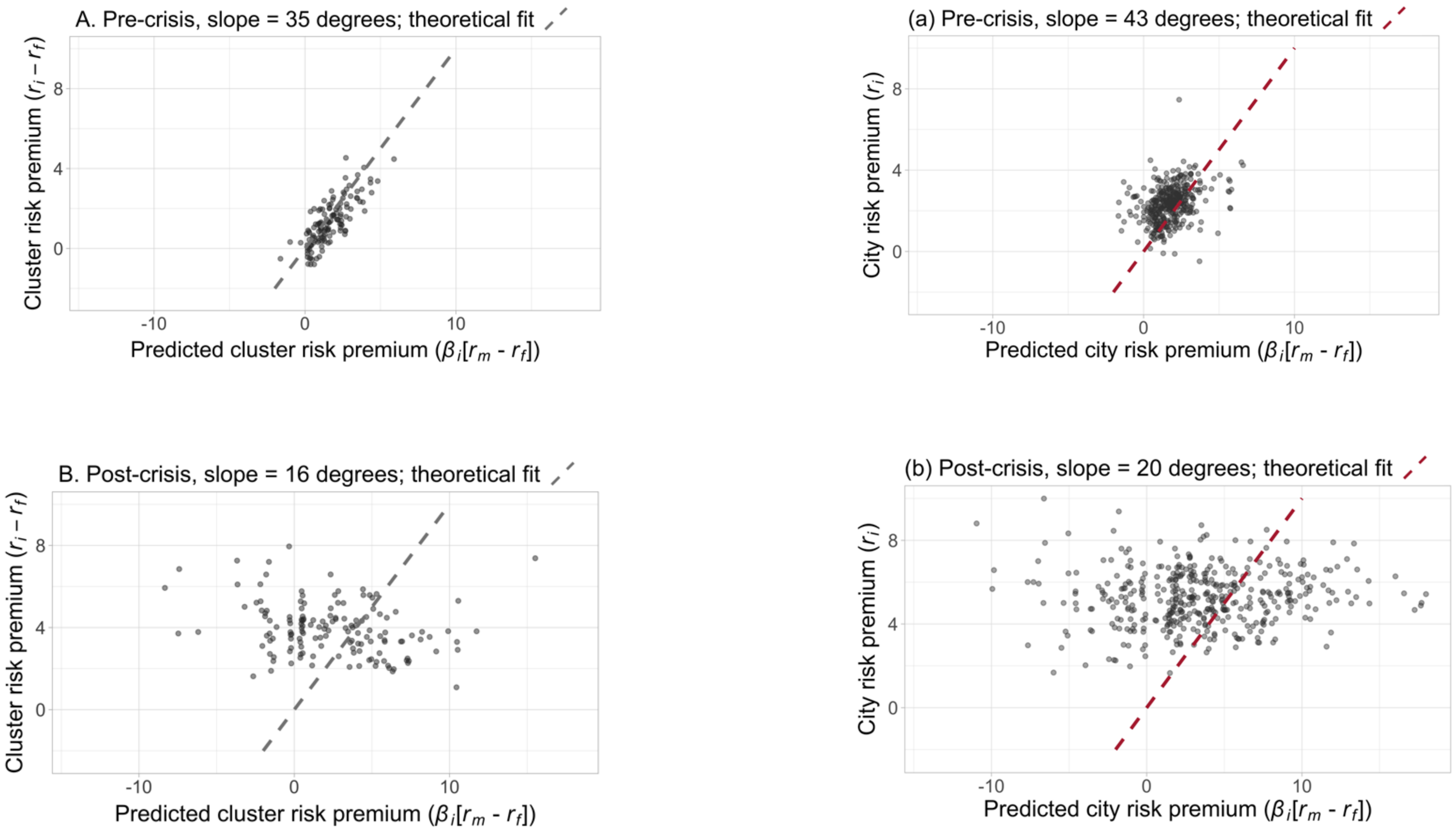
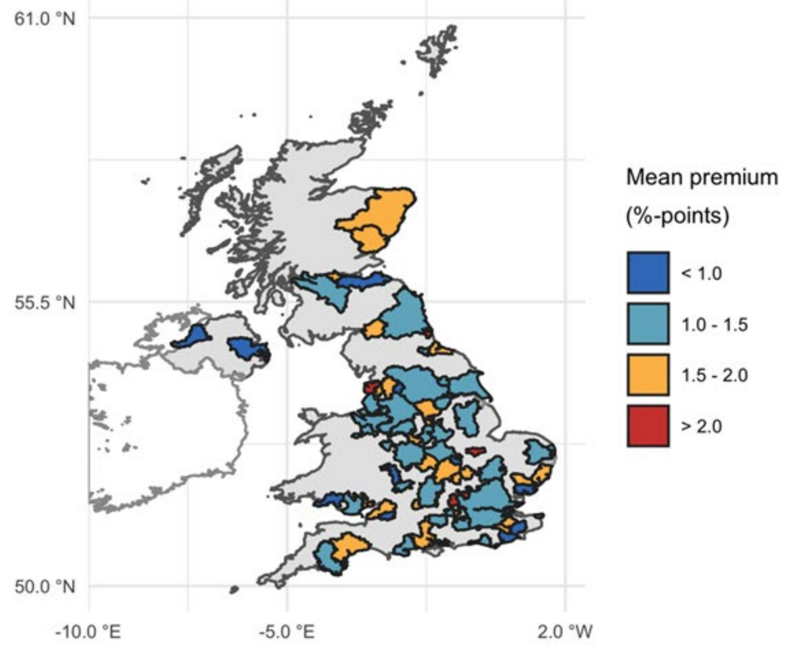
Rethinking the Role of Finance in Regional Growth and Development

Michiel Daams, Colin Mayer and Philip McCann

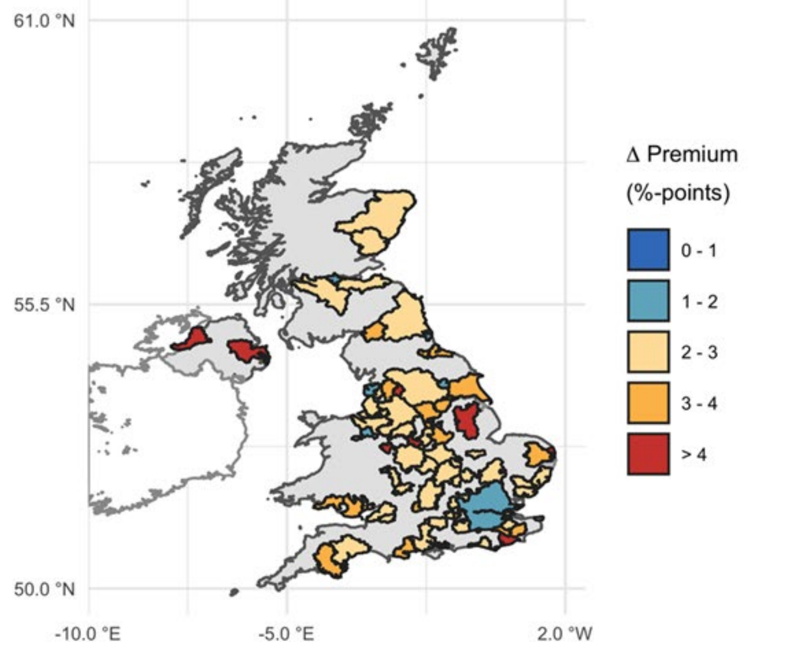


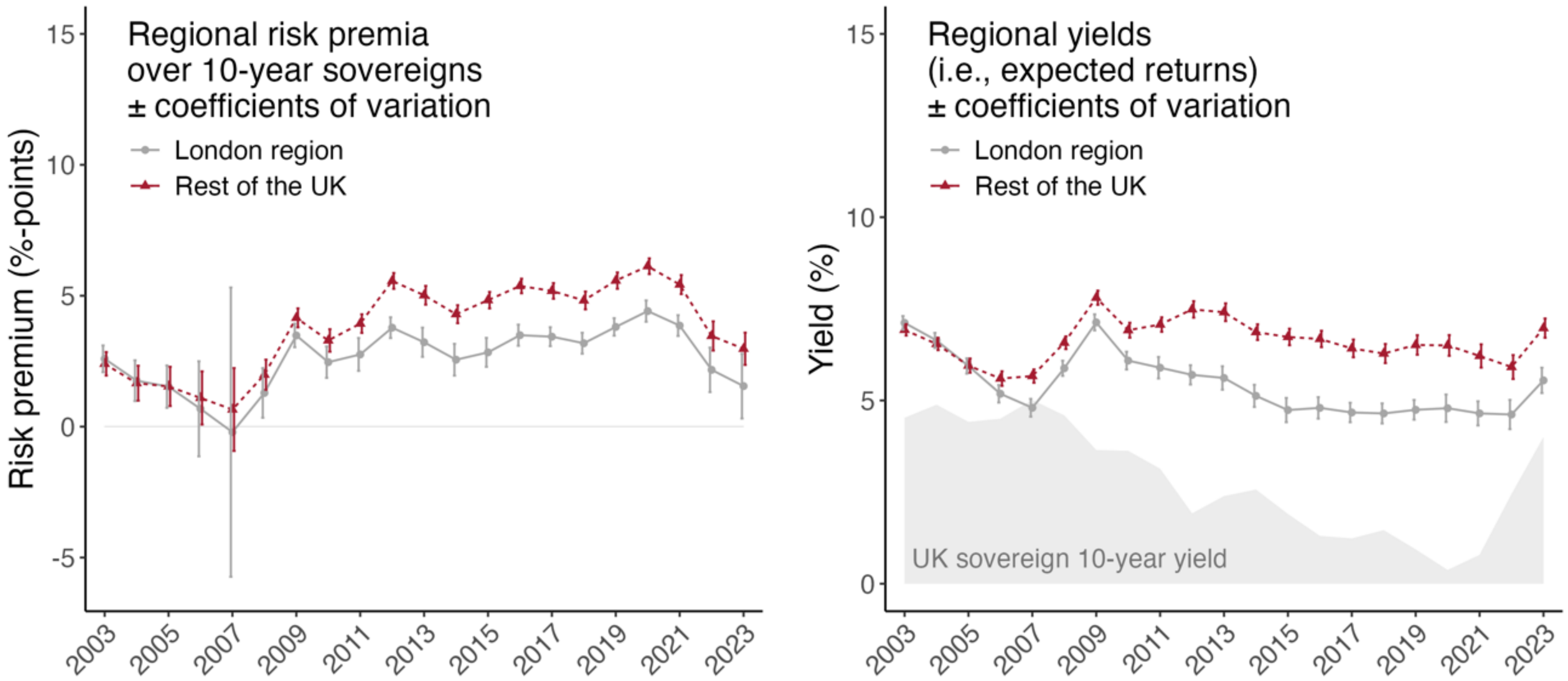
A. Pre-crisis, slope = 35 degrees; theoretical fit
Cluster risk premium ($r_i - r_f$)
Predicted cluster risk premium ($\beta_i[r_m - r_f]$)
(a) Pre-crisis, slope = 43 degrees; theoretical fit
City risk premium (r_i)
Predicted city risk premium ($\beta_i[r_m - r_f]$)
B. Post-crisis, slope = 16 degrees; theoretical fit
Cluster risk premium ($r_i - r_f$)
Predicted cluster risk premium ($\beta_i[r_m - r_f]$)
(b) Post-crisis, slope = 20 degrees; theoretical fit
City risk premium (r_i)
Predicted city risk premium ($\beta_i[r_m - r_f]$)

A. Pre-crisis risk premia across UK metropolitan areas



B. Post-crisis change in UK metropolitan risk premia




Regional risk premia
over 10-year sovereigns
± coefficients of variation
London region
Rest of the UK
Risk premium (%-points)
15
10
5
0
-5
2003
2005
2007
2009
2011
2013
2015
2017
2019
2021
2023
Regional yields
(i.e., expected returns)
± coefficients of variation
London region
Rest of the UK
Yield (%)
15
10
5
0
UK sovereign 10-year yield
2003
2005
2007
2009
2011
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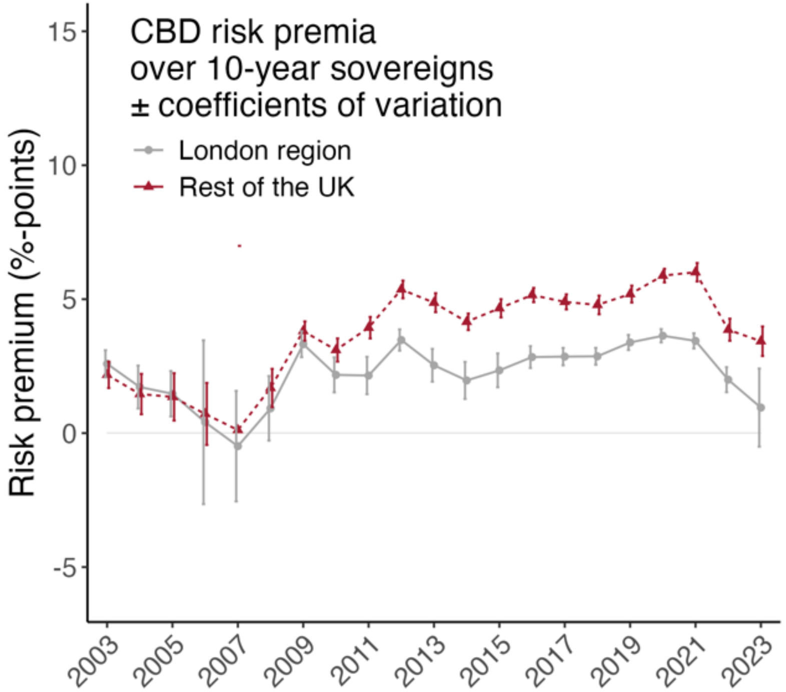
2019
2021
2023


CBD risk premia
over 10-year sovereigns
± coefficients of variation
London region
Rest of the UK
Risk premium (%-points)
15
10
5
0
-5
2003
2005
2007
2009
2011
2013
2015
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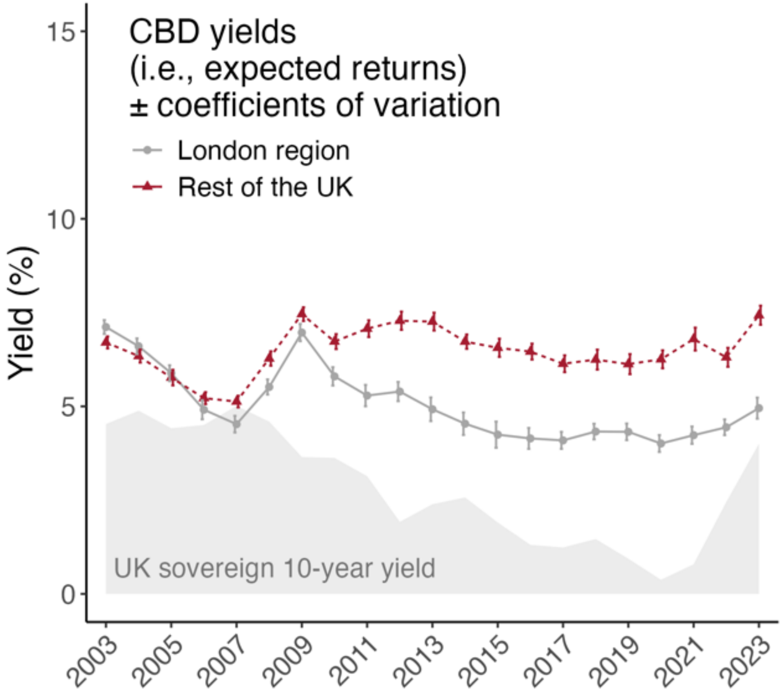
2019
2021
2023


CBD yields
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Rest of the UK
Yield (%)
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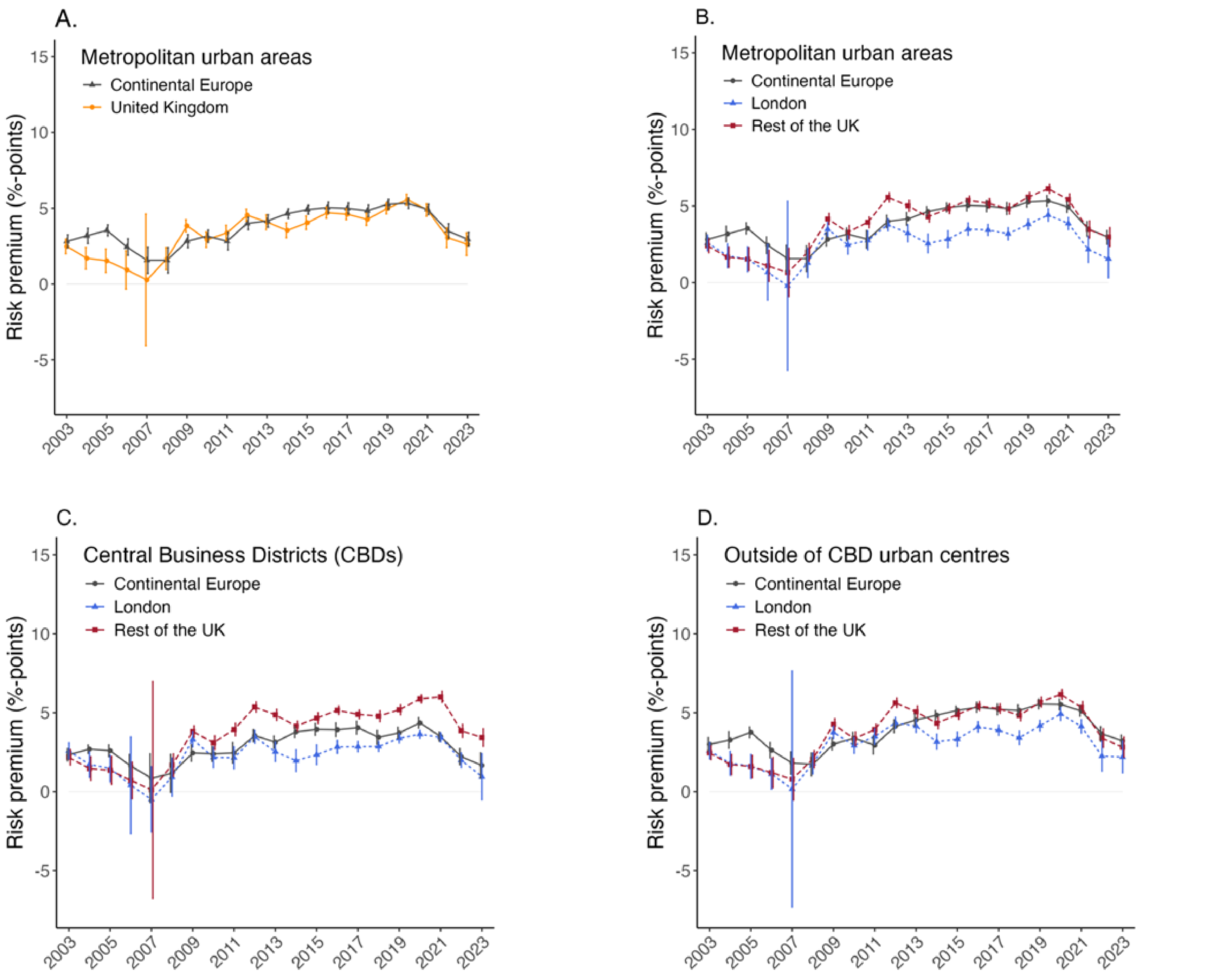

A.
Metropolitan urban areas
Continental Europe
United Kingdom
Risk premium (%-points)
B.
Metropolitan urban areas
Continental Europe
London
Rest of the UK
Risk premium (%-points)
C.
Central Business Districts (CBDs)
Continental Europe
London
Rest of the UK
Risk premium (%-points)
D.
Outside of CBD urban centres
Continental Europe
London
Rest of the UK
Risk premium (%-points)
15
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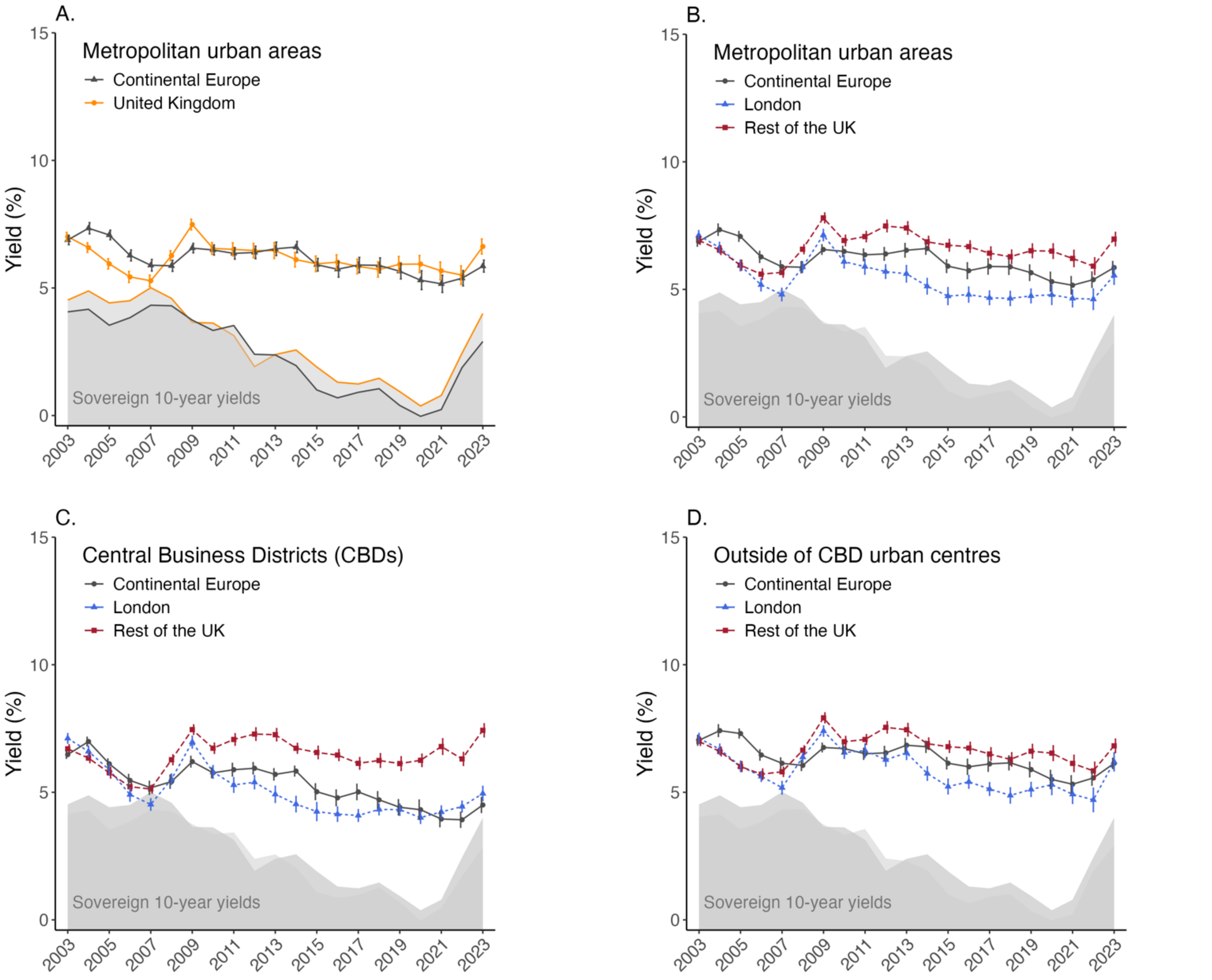
A.
Metropolitan urban areas
Continental Europe
United Kingdom
Sovereign 10-year yields
Yield (%)
B.
Metropolitan urban areas
Continental Europe
London
Rest of the UK
Sovereign 10-year yields
Yield (%)
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Central Business Districts (CBDs)
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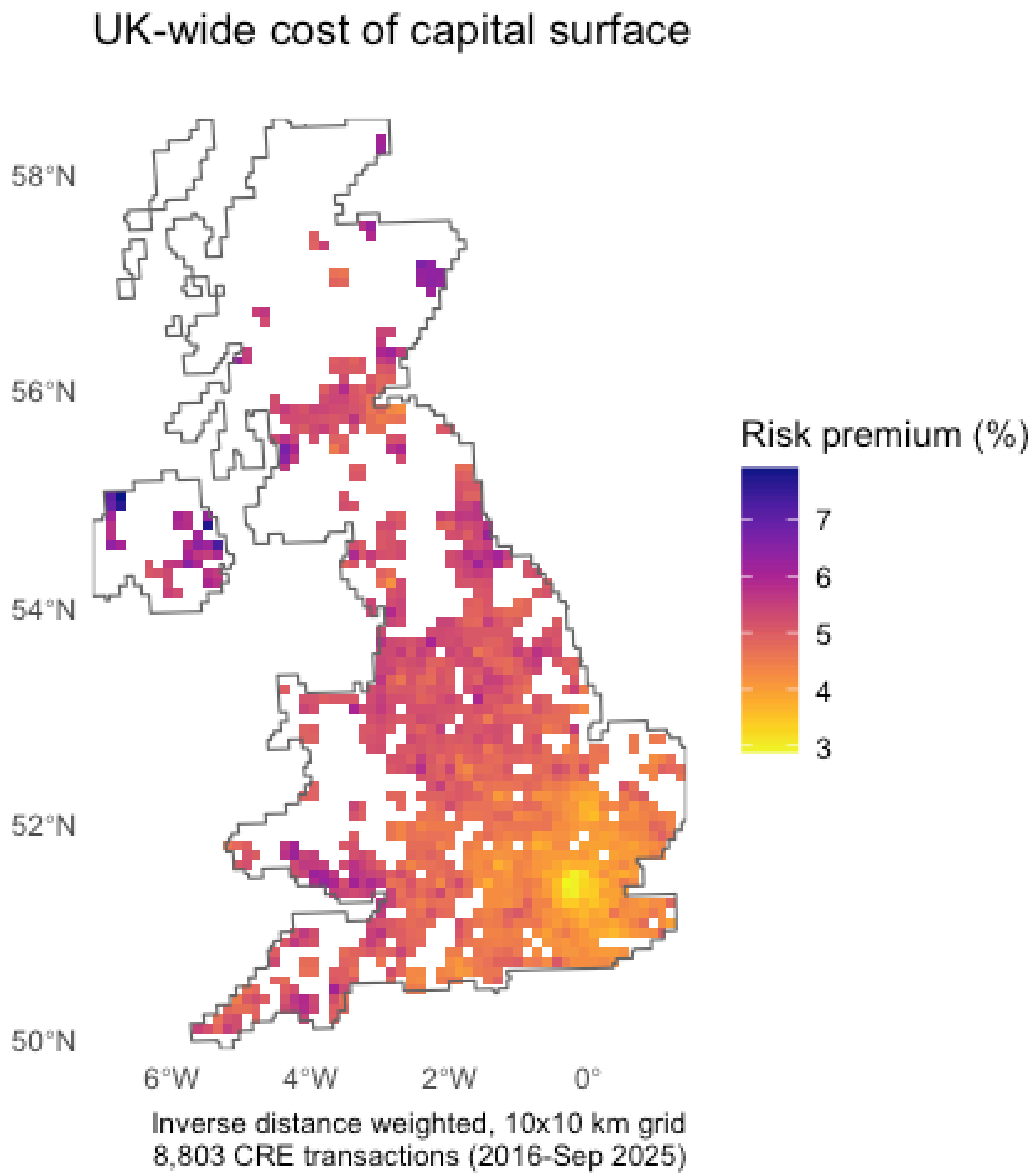
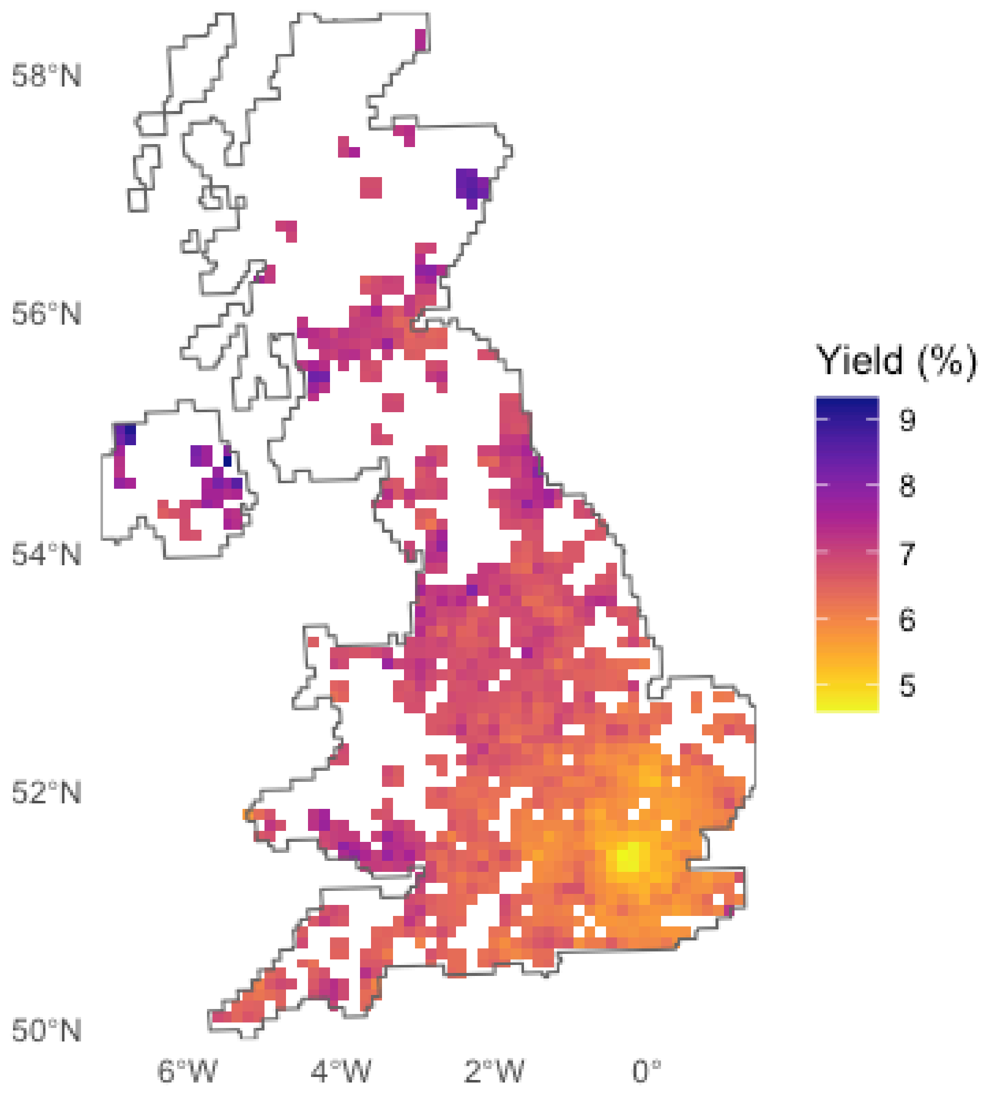
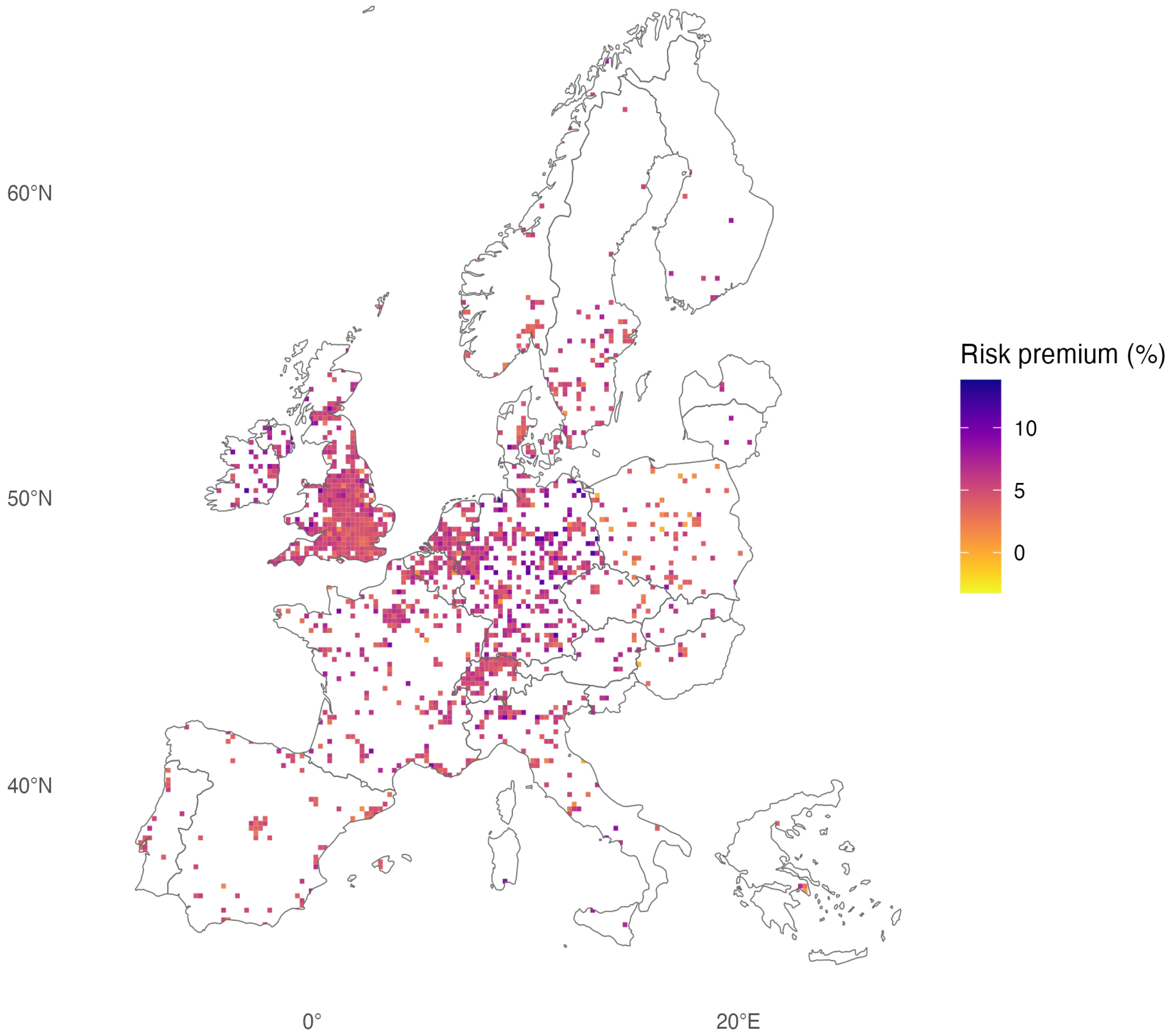
Yield (%)


UK-wide cost of capital surface
58°N
56°N
54°N
52°N
50°N
6°W
4°W
2°W
0°
Risk premium (%)
7
6
5
4
3
Inverse distance weighted, 10x10 km grid
8,803 CRE transactions (2016-Sep 2025)

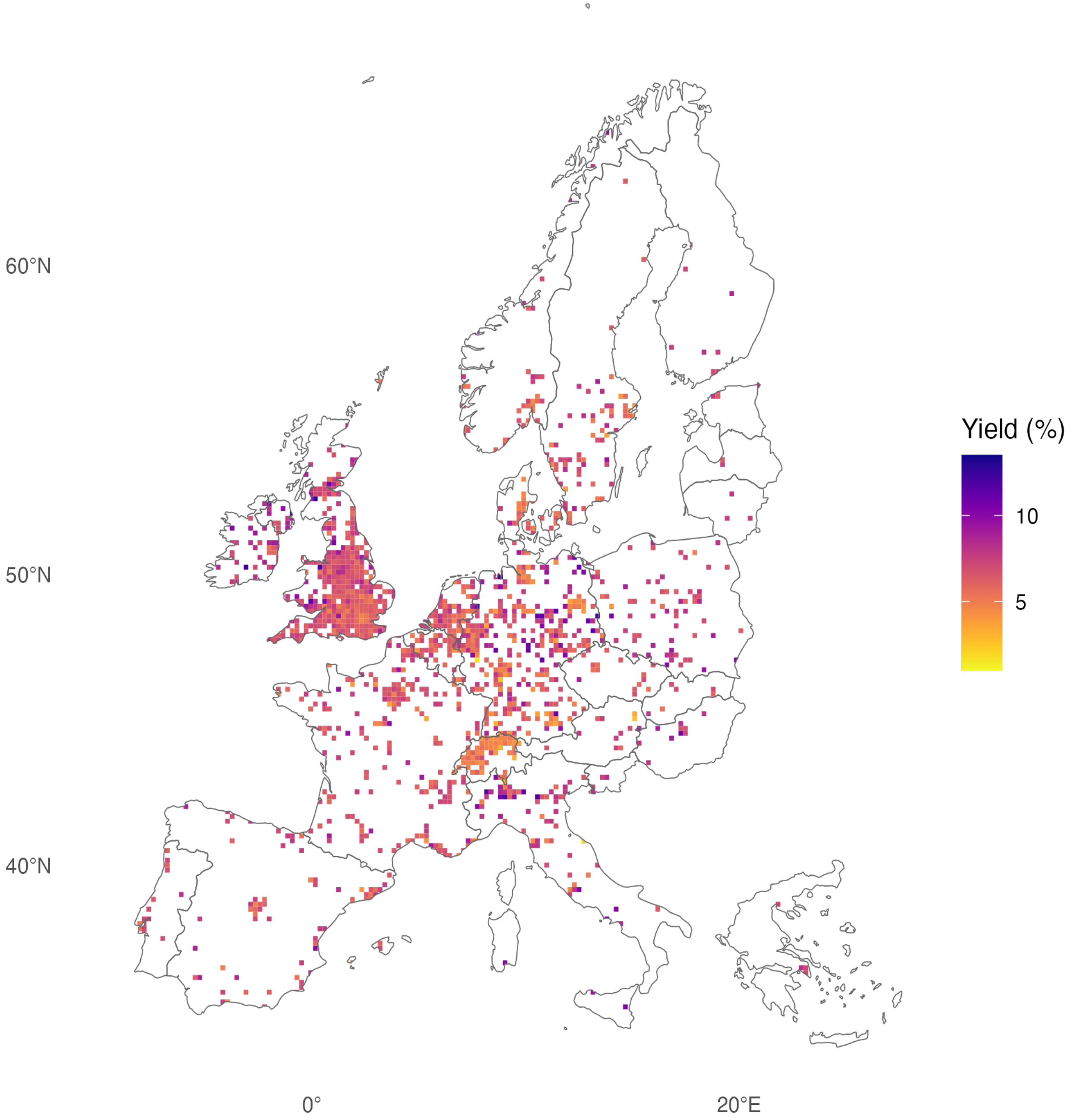
UK-wide cost of capital surface



Inverse distance weighted, 10x10 km grid
8,803 CRE transactions (2016-Sep 2025)



24 countries — 13,929 CRE deals (2016–Sep 2025)



25 countries — 13,938 CRE deals (2016–Sep 2025)

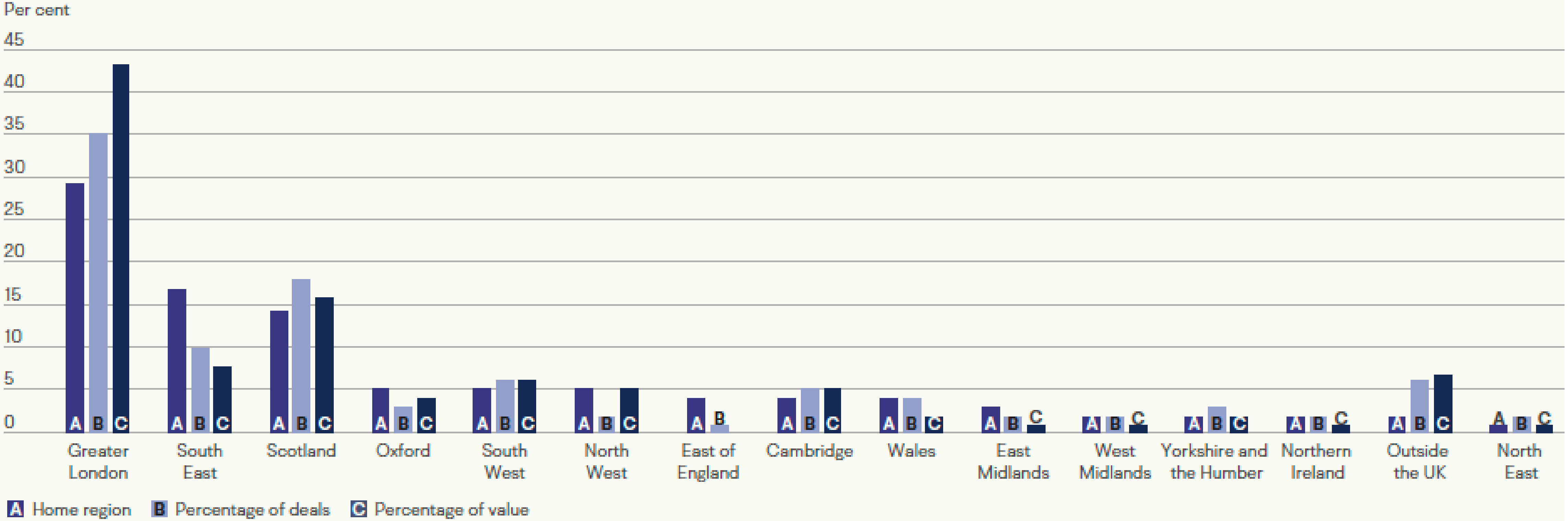
Place Matters

- Local banking in 19th century financed industrial revolution
- Local stock markets in early 20th century financed iconic companies
- Later consolidation in London/ SE made “north another country”
- Relationship banking, e.g. Handelsbanken, requires local presence
- Development banking, e.g. ICFC, requires tacit, local knowledge
- Equity financing for start-ups/ scale-ups requires local angels/ VCs
- Of 39 UK unicorns, 31 are in London

Figure 3.7

Angels' home and investments by location in the 2023/24 tax year and since*,**

Source: The UK Business Angel Market survey 2025



* Q11: Where do you live most of the time?
** Q9&10: What was the total approximate number and value by location of angel investments you made in the tax year ending April 2024 and since?

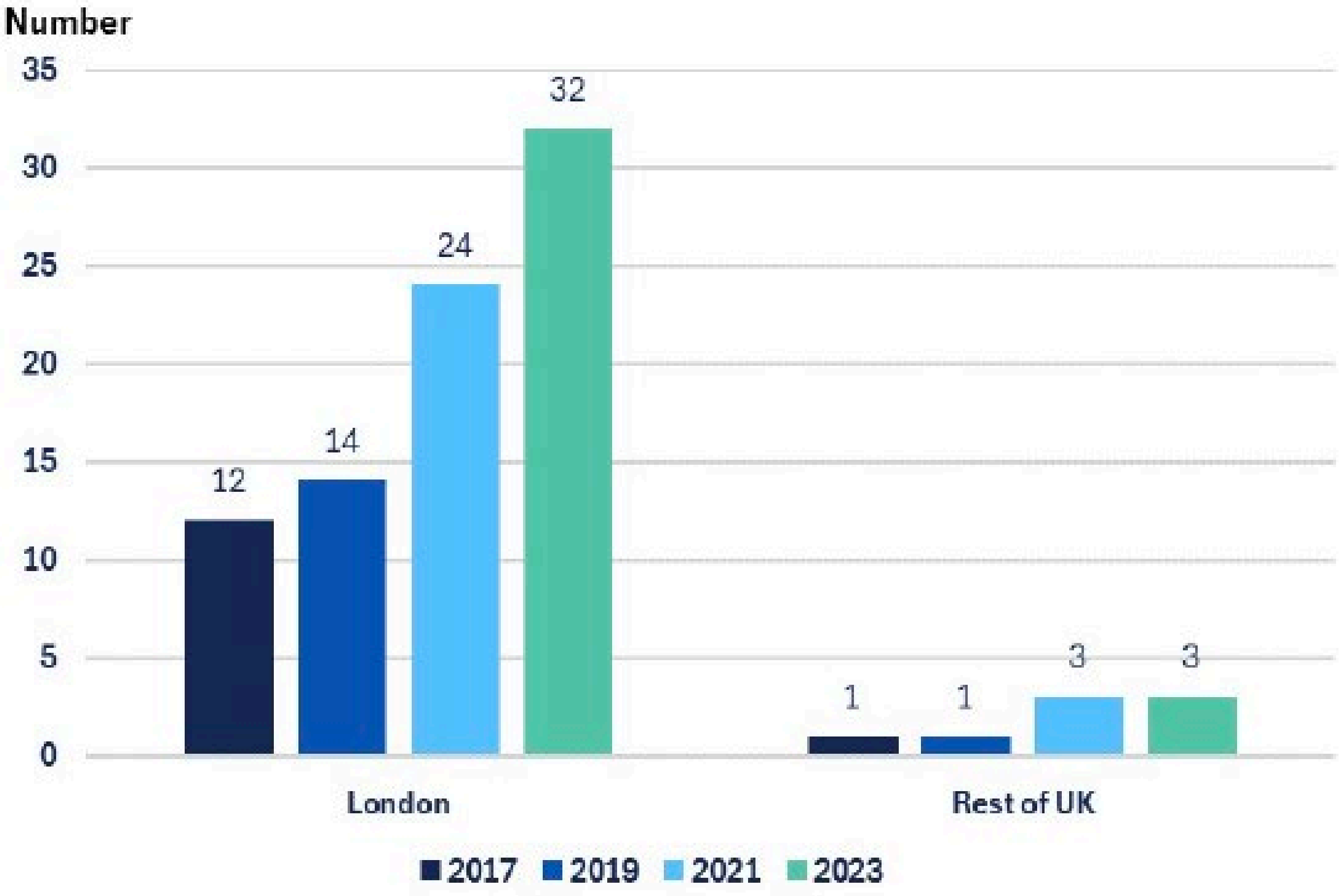
Table 3

Number and value of announced equity deals by nation and region

Source: British Business Bank analysis of Beauhurst data

Nations and English regions	Number of deals (2024)	% change vs 2023	Investment value £m (2024)	% change vs 2023
London	965	-21.3%	6,626	-3.5%
Scotland	201	13.6%	507	28.3%
South East	165	-25.0%	768	-23.8%
North West	146	11.5%	654	46.2%
East of England	129	-26.3%	980	-20.1%
South West	115	-11.5%	314	-17.2%
Wales	74	7.2%	113	-12.1%
Yorkshire and the Humber	68	-18.1%	248	14.1%
North East	63	8.6%	141	-8.1%
East Midlands	55	7.8%	91	26.1%
West Midlands	43	-36.8%	301	141.9%
Northern Ireland	24	0.0%	78	-1.8%
UK	**2,048**	**-15.1%**	**10,822**	**-2.5%**

British Business Bank



Pictured: Number of unique VC investors per 100 high-growth businesses Source: British Business Bank analysis of ONS business demography and PitchBook

Policy Implications

- Importance of regional financial hubs
- Ecosystem of professional service as well financial firms
- Business education, skills, mentoring, networking are critical
- Focus of national/ local public policy
- BBB, as Britain’s development bank, key role in promoting hubs