Comprehensive Financial Solutions for City Resilience Conference

Global Best Practices to Raise Capital Through Land Value Capture – Real Estate in PPPs

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November 2017
At HR&A, we empower urban communities to address pressing resilience challenges by leveraging urban assets to create value.
We have supported the Rockefeller Foundation’s 100 Resilient Cities Program and led resilience strategies for cities across the U.S.
The Infrastructure & Environment dimension represents many of the types of projects that cities at this conference are seeking to finance.
Many infrastructure projects can positively impact resilience, while also creating value that can be captured to finance these projects.
Real Estate Leveraged PPP
Real Estate Leveraged PPP

Overview

Partner with private sector entity, transfer risk of project development, financing, and management;

Minimize public cost by integrating land value capture

Municipalities and governments frequently shift development risk by transferring infrastructure delivery to a private partner under a variety of PPP structures such as Design-Build-Finance, or Design-Build-Finance-Operate-Maintain models. Land Value Capture can be integrated with these models to reduce public costs.
For municipalities that lack capacity to finance and operate public infrastructure projects, this approach offers a solution that:

- shifts construction and operation risk away from the public sector;
- relies on private sector capacity to raise debt and equity;
- Could potentially use land value capture tools to minimize overall project costs;
Long Beach Civic Center

Financially Sustainable Social Infra.

Through redevelopment of the city’s Civic Center campus, the City of Long Beach, California aims to revitalize its downtown.
Rationale: Co-development of two agency facilities, public amenities, and commercial mixed-use

City Hall / Civic Plaza / Library / Park
- Seismic retrofit costs of existing facilities - $170M
- Current occupancy costs - $12.5M/Yr
- Need for new library and revitalize downtown
- Has available land

Port HQ Building
- Needs new consolidated facility
- Has financial resources but limited land
- Has adequate facility management capabilities
Project Structure: Co-development of two agency facilities, public amenities, and commercial mixed-use

City Hall / Civic Plaza / Library / Park

- **DBFOM**: Design-Build-Finance-Operate-Maintain (40 years)
- **Availability Payment**: no more than cost to maintain existing facilities
- **Complementary Private Development** (subsidy)

Port HQ Building

- **Coordinated development**
- **DBF**: Design-Build-Finance
- **Limited FM**: facility management services
Deal Structure: Full-capacity development and management team

- Development Entity: Plenary Properties LB
  - Design Team
  - Sub Contractors
  - Design-Build Team
  - Facilities Management
- Equity Partner
- Commercial Development Partner
- Debt Financing Partner
**Deal Structure:** Land value capture fills critical gap in the capital stack

<table>
<thead>
<tr>
<th>Sources of Funds</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private Financing</td>
<td>$236M</td>
</tr>
<tr>
<td>City Payments</td>
<td>$11M</td>
</tr>
<tr>
<td>Equity (Plenary)</td>
<td>$21M</td>
</tr>
<tr>
<td><strong>Real Estate Payments</strong></td>
<td><strong>$30M</strong></td>
</tr>
<tr>
<td>Total</td>
<td><strong>$298M</strong></td>
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</tbody>
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Port facilities ($213M) were financed by a separate construction loan with cost of construction borne by the Port Authority.
Deal Rationale: Attractive City option to reduce risk and minimize out-of-pocket expense

- Deal structure customized to Port and City needs
- Complete transfer of development and operational risk for the City; Transfer of development risk for the Port
- No change in City’s current occupancy costs
- Real estate value, although small, contributed to project as means of lowering out-of-pocket expenses from the City
Delhi International Airport
Leveraging Real Estate in PPPs

The Delhi Airport concession packaged with commercial and non-aviation use opportunities
Goal: Use commercial development to cross-subsidize infrastructure

- Need for a world class terminal facility for India’s Capital city
- Government invited competitive bidding for private development of airport infrastructure
- Complete transfer of construction and long term operational risk
- Granted long term concessions (30 – 60 years)
- Excess airport land offered for commercial development (with use restrictions)
- Govt. holds minority shares in the operating company
Implementation: Master Plan allows for 250 Acres of Commercial Development

Commercial developments are:
- away from the airport – minimum interference with airport operations
- close to National Highway – easy access

Source: GMR
Implementation: Project timeline

- 2006: Bidder (GMR) Selected
- 2008: 3rd Runway Open
- 2010: Terminal 3 Open
- 2013: Aerocity Open
Implementation: New Terminal 3 Delivered as a world class facility

Source: GMR
Implementation: Adjoining Aerocity developed as one of the largest hospitality clusters in Delhi
While there was an established PPP Policy nationally, Specifics were evolving and created uncertainty in the bidding process.

Lack of clarity on public sector capability and legal authority on land development caused some false starts.

Project commencement aligned with global real estate recession, significantly delaying real estate development and value capture; Airport Authority had to step in to mitigate cash flow risks.

Strong long term market opportunity presents a significant upside in the future.
Thank You

City Resilience Program

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