An approach to improve effectiveness of urban projects implementation with multiple landowners

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1th UPE Lusophone Symposium
Portuguese context

Legal Urban Planning Framework (since 1999)

Urban Development

- Municipal Master Plan
  1: 25 000

- Urban Zoning Plan
  1: 5 000

- Detailed Plan
  1: 1 000

- "Loteamento"
  individual land subdivision schemes

Execution Units

- Compensation
  (private initiative)
  Landowners association

- Cooperation
  (public initiative)
  Landowners association

- Imposition
  (public initiative)

- Land Readjustment
  "perequação"

- Land Banking
Obstacles to LR:

- **Cooperation**
- **Effectiveness**
- **Trust & Transparency**
- **Technical**
- **Financial**

Previous research:

- Inexistence of agreement among property owners
- Inability to motivate and force landowners for a joint and scheduled action for the execution of a detailed plan.
- Presence of small landowners in key locations who block the process;
- Mistrust between Municipality vs. Landowners; Investors vs. Municipality
- Procedural delays (Time)
- Lack of technical and financial resources and know-how on project management
- For banks: for an urban project to be funded a single property owner or one entity should exist as interlocutor
Portuguese context

How to finance urban development projects?

two different approaches:

A kind of TIF
Tax Increment Financing
(session D1)

A kind of CIF
Closed Real Estate Investment Fund
(session B5)

A new instrument needed
(Session B7)
A kind of Closed Real Estate Investment Fund (CIF)

- Urban renewal project example → 3 city blocks

**BEFORE**
Building area = 24,970 sqm

**AFTER**
Building area = 28,285 sqm

- Implementation period: 8 years, phased over time
1) PROPERTY APPRAISAL and FUND’S VALUE

1st) Real Estate Appraisal

2nd) Fund’s initial capital = 17.6 M €

3rd) 1.760.000 Participation Units (PU) → Unitary values = 10 € / PU
2) Subscription of PARTICIPATION UNITS (PU) → negotiation process

- Initial subscription of PU = 50% of total building area
- + 25% throughout the process
- The remaining 25%: expropriated

Appraisal (land + building) = 121.000 € → 12.100 PU
CIF: Urban renewal example

3) CASH-FLOW: Costs (1. intervention)

- Building intervention:
  - New construction
  - Demolition
  - Renewal
  ...

- Public space

- Parking

- Projects

- IVA (6%)

- Urban development charges and permits
CIF: Urban renewal example

3) CASH-FLOW: Costs (2. real estate property)

- Acquisition and expropriation $\rightarrow$ 50% real estate.
- Compensations $\rightarrow$ tenants and economical activities
- Taxes
CIF: Urban renewal example

3) CASH-FLOW: Costs (3. associated with sales)

- Marketing costs
- Taxation on capital gains
CIF: Urban renewal example

3) CASH-FLOW: Costs (4. “Fund Structure” costs)

- Managing body
- Custodian bank
- Supervision authority
- Lawyers, appraisers, certified public accountants, ...
CIF: Urban renewal example

3) CASH-FLOW: Revenues

- Sales
- Rents
- Interest on bank deposits
3) CASH-FLOW: Yield

- Project implementation period
- Costs
- Revenues
- Fund value
- Debt Capital
- Interest rate
- **Yield = 6.6%**

Legend:
- White: Existing plots
- Pink: Existing buildings
- Green: Green area
- Gray: Parking
- Dotted: Pedestrian area
4) LIQUIDATION OF THE FUND

- Only at the end of the implementation period (8 years)
- Monetary contribution or in-kind

Initial Appraisal (land + building) = 121,000 € → 12,100 PU
CIF: Organizational structure / players

**Property Owners and Tenants**

**Participants / shareholders:** property owners and public and private investors

**LOCAL GOVERNMENT:**
- Facilitator among stakeholders
- Speed up administrative processes

**MANAGING BODY**

**Subcontractors:**
- Planners
- Contractors
- Lawyers
- …

**Entities associated to the closed real estate investment fund:**
- Custodian bank
- Appraisers
- Fund’s supervisory authority
- Auditors

Accreditation authority
When choosing the CIF?

Planning ASSUMPTIONS:

- “Demand-led investment model
- Just-in-time production of real estate”

WHEN?

1) Complex urban projects, with multiple landowners, the need to re-plotting urban plots and interventions in public space.

2) Municipalities’ lack of human and financial resources and know-how

→ Managing body’s credibility and operating method (greater negotiation and conflict management skills and more efficient management process) and its ability to attract investors and to obtain bank financing
Heavy financial investment associated with the organizational structure that supports the CIF
Why choose the CIF?

**Obstacles to LR:**

- **Higher integration** (coordination between technical and financial execution) → **higher efficiency** (economies of scale on project formulation and implementation)
- **Higher credibility, trust and transparency** → managing body with financial and technical accreditation, all information is published annually
- **Increased effectiveness** → managing body with know-how on communication and negotiation, attracting investors and bank financing, managing projects and marketing and also skills in planning and construction management.
- **Sharing responsibility and reduction on risk, and on liquidity problems** by the property owners and municipalities
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Thank you for your attention!

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