

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

## CITIES FOR US

engaging communities and citizens for sustainable development

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12<sup>th</sup> International Symposium on Urban Planning and Environment  
1<sup>th</sup> UPE Lusophone Symposium



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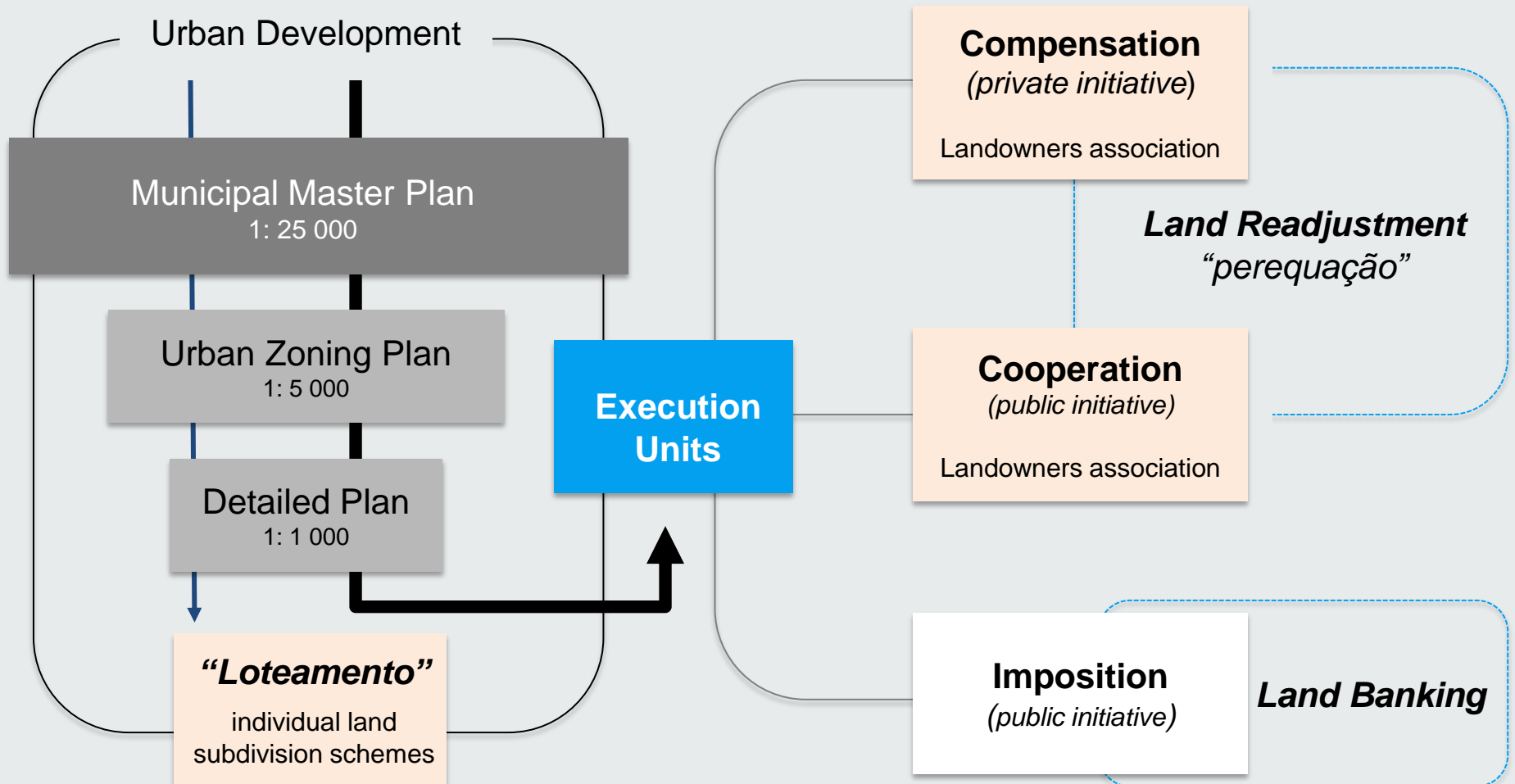


Caixa Geral  
de Depósitos

LISBON, Portugal  
May 31 - June 3  
2016

# Portuguese context

## Legal Urban Planning Framework (since 1999)



# Portuguese context

## Obstacles to LR:

Cooperation

Effectiveness

Trust & Transparency

Technical

Financial

## Previous research:

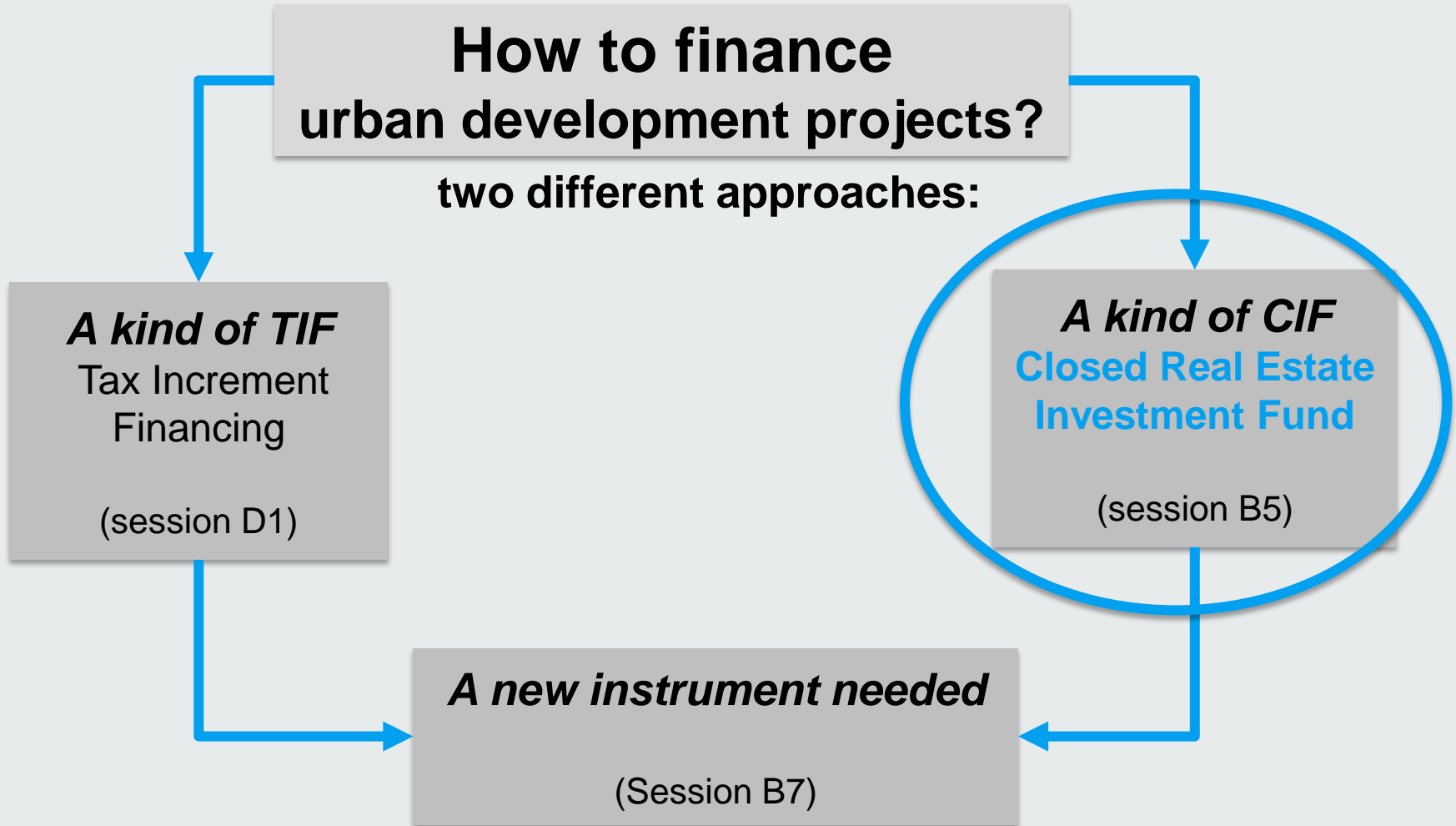
- inexistence of **agreement among property owners**
- Inability to motivate and force landowners for a **joint and scheduled action** for the execution of a detailed plan.
- presence of small **landowners in key locations who block the process**;
- **Mistrust** between Municipality vs. Landowners; Investors 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

**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)

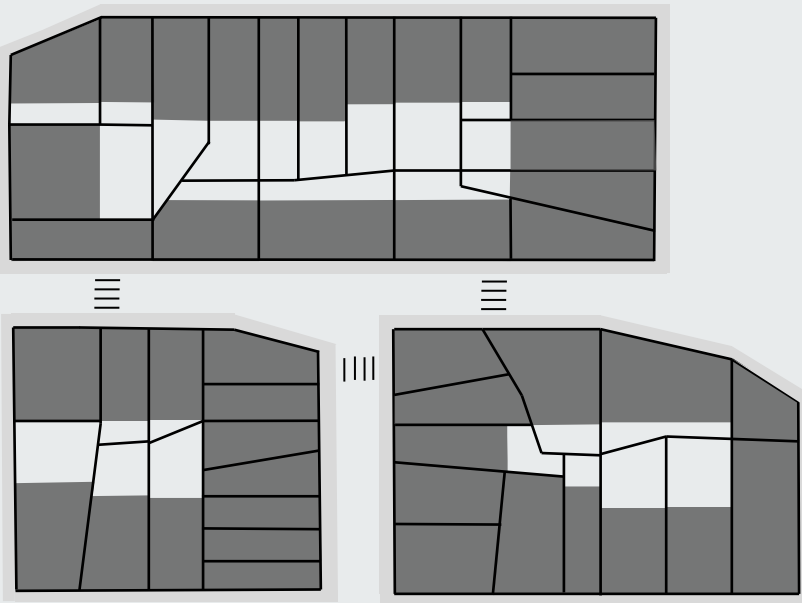


# A kind of Closed Real Estate Investment Fund (CIF)

- Urban renewal project example → 3 city blocks

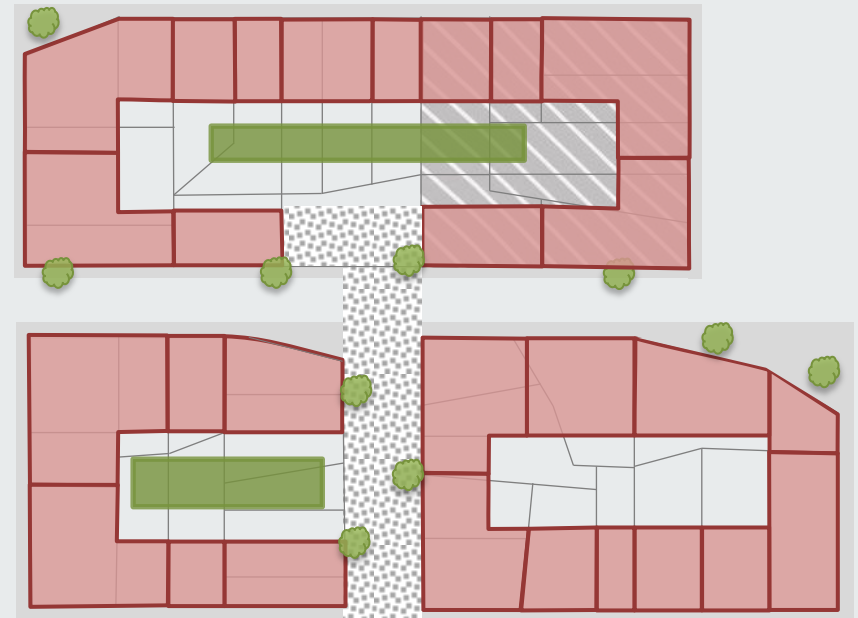
## BEFORE

Building area = 24 970 sqm



## AFTER

Building area = 28 285 sqm



- Implementation period:** 8 years, phased over time

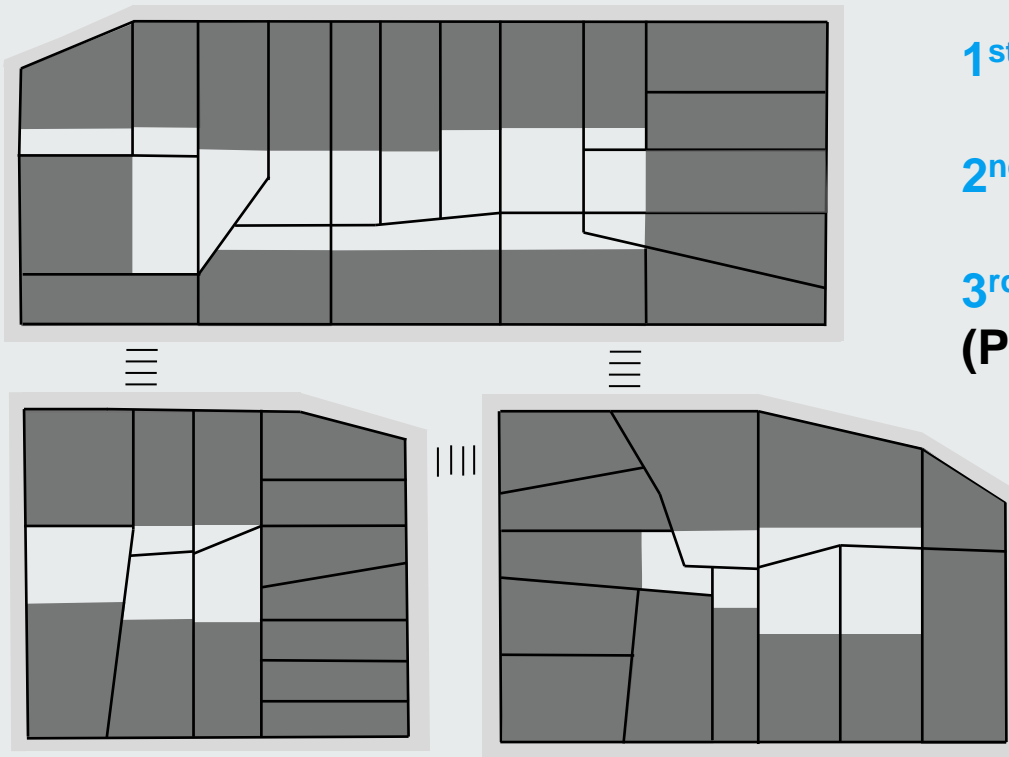
# CIF: Urban renewal example



## 1) PROPERTY APPRAISAL and FUND'S VALUE

**1<sup>st</sup>)** Real Estate Appraisal

**2<sup>nd</sup>)** Fund's initial capital = 17,6 M €

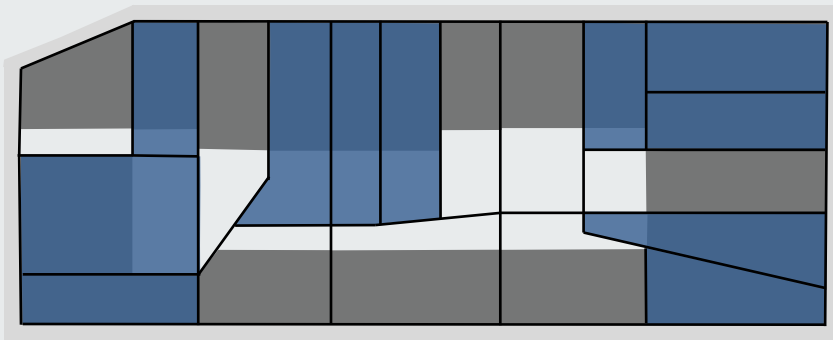
**3<sup>rd</sup>)** 1.760.000 Participation Units  
(PU) → Unitary values= 10 € / PU



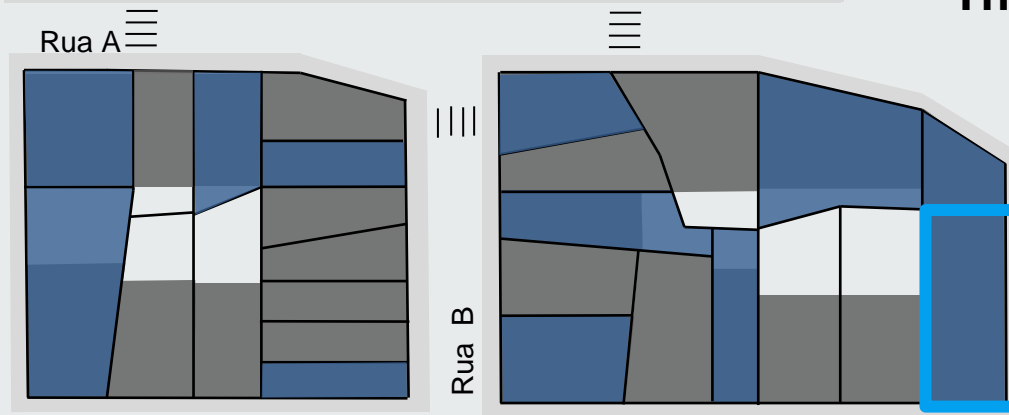
 Existing plot  
 Existing building

# CIF: Urban renewal example

## 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



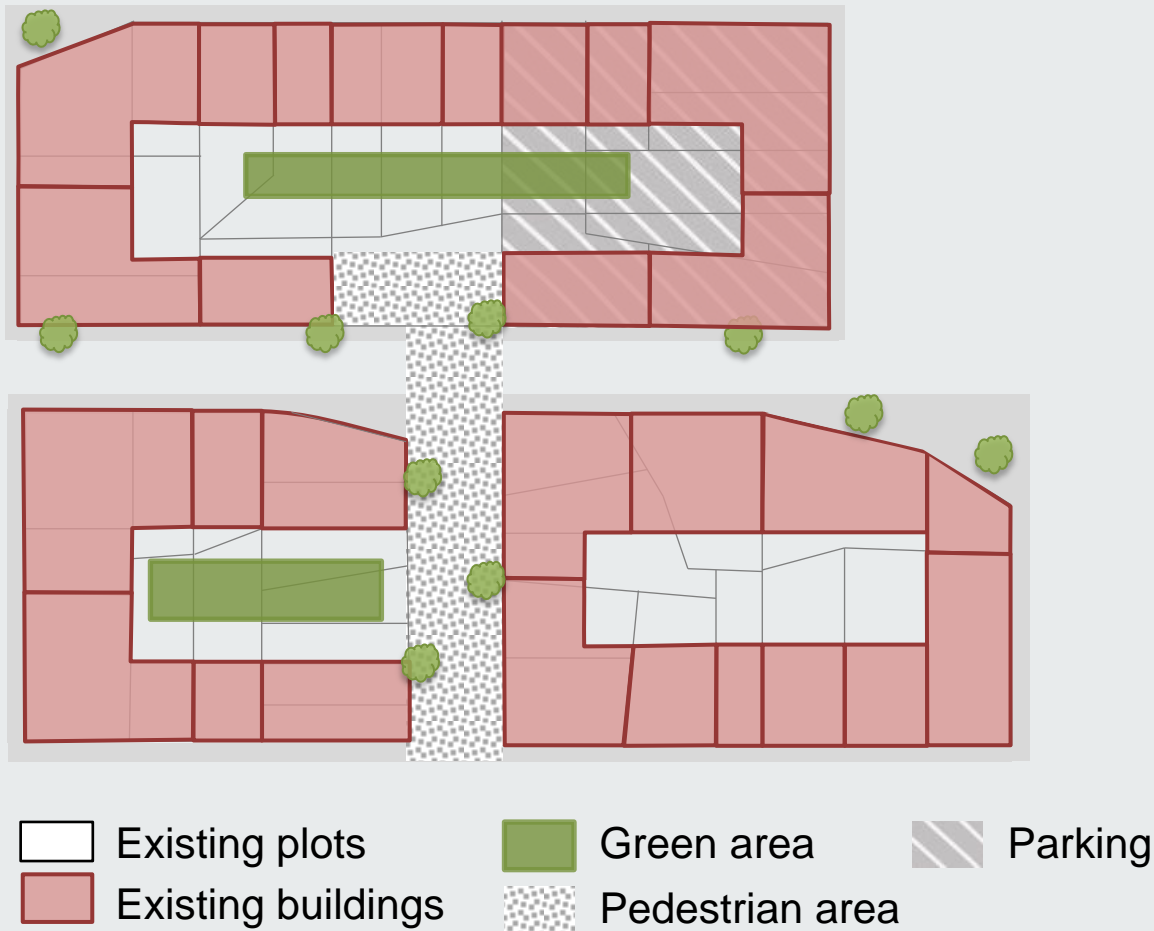
Appraisal (land + building)  
= 121.000 € → 12.100 PU

Existing plot  
Existing building

Real estate owner subscribers

# CIF: Urban renewal example

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

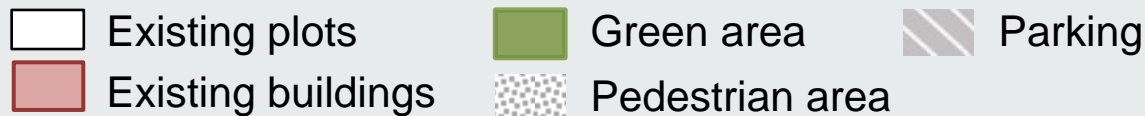
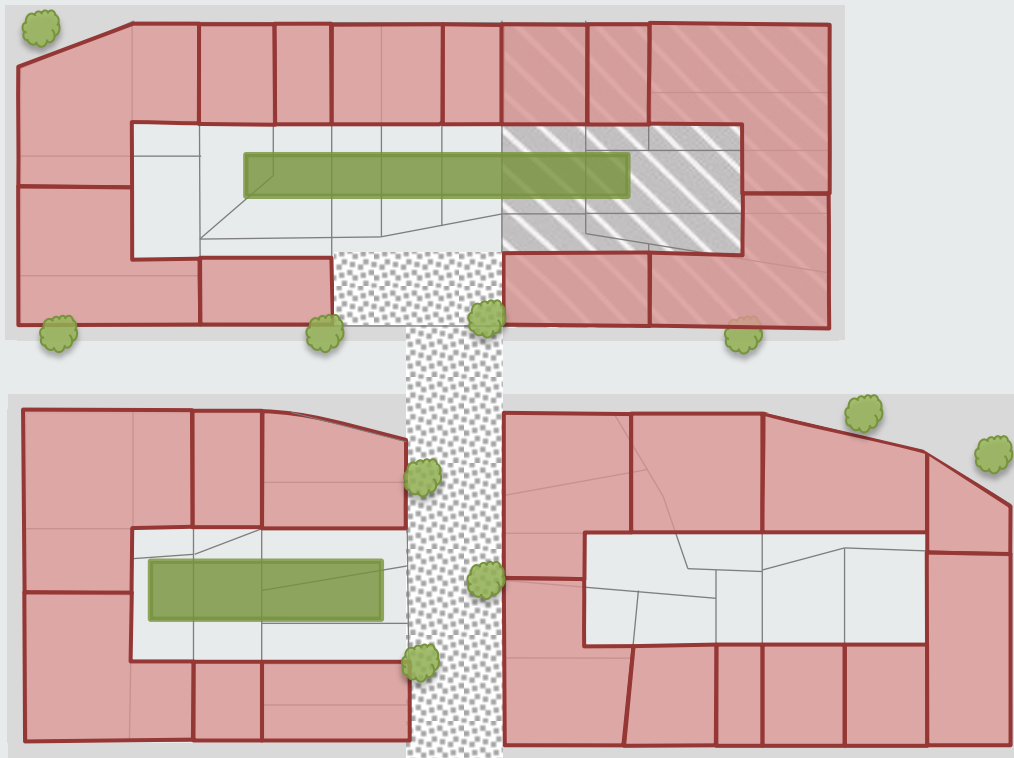


- **Building intervention:**
  - New construction
  - Demolition
  - Renewal
  - ...
- **Public space**
- **Parking**
- **Projects**
- **IVA (6%)**
- **Urban development charges and permits**



# CIF: Urban renewal example

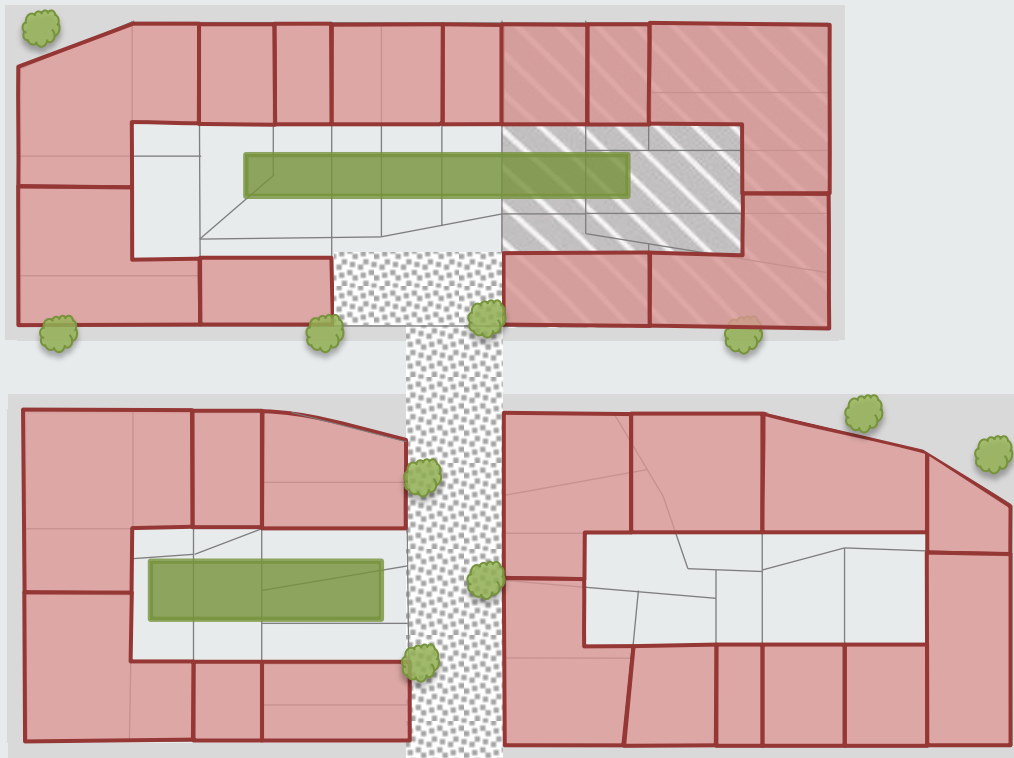
## 3) CASH-FLOW: Costs (2. real estate property)



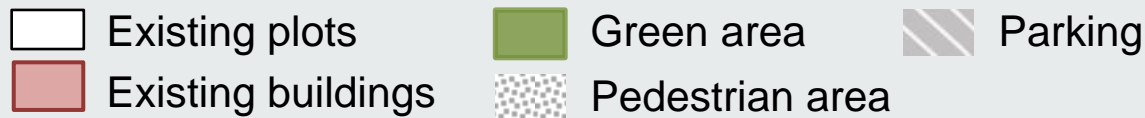
- Acquisition and expropriation → 50% real estate.
- Compensations → tenants and economical activities
- Taxes

# CIF: Urban renewal example

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

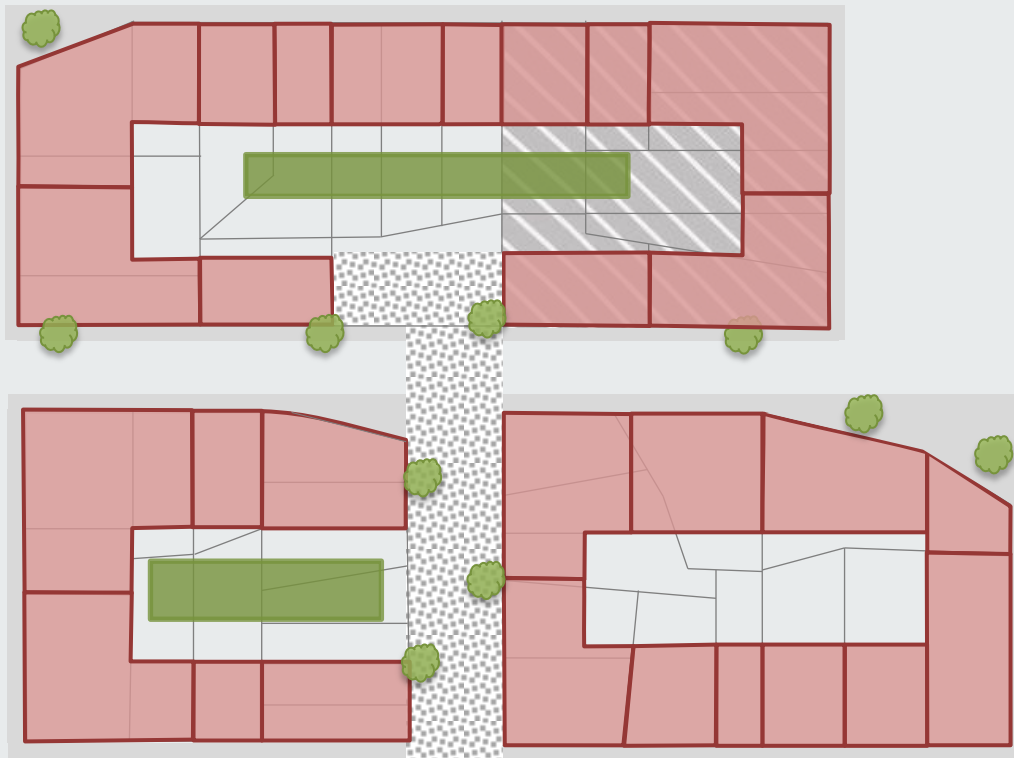


- Marketing costs
- Taxation on capital gains

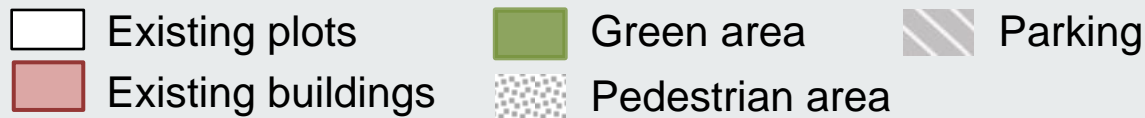


# CIF: Urban renewal example

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

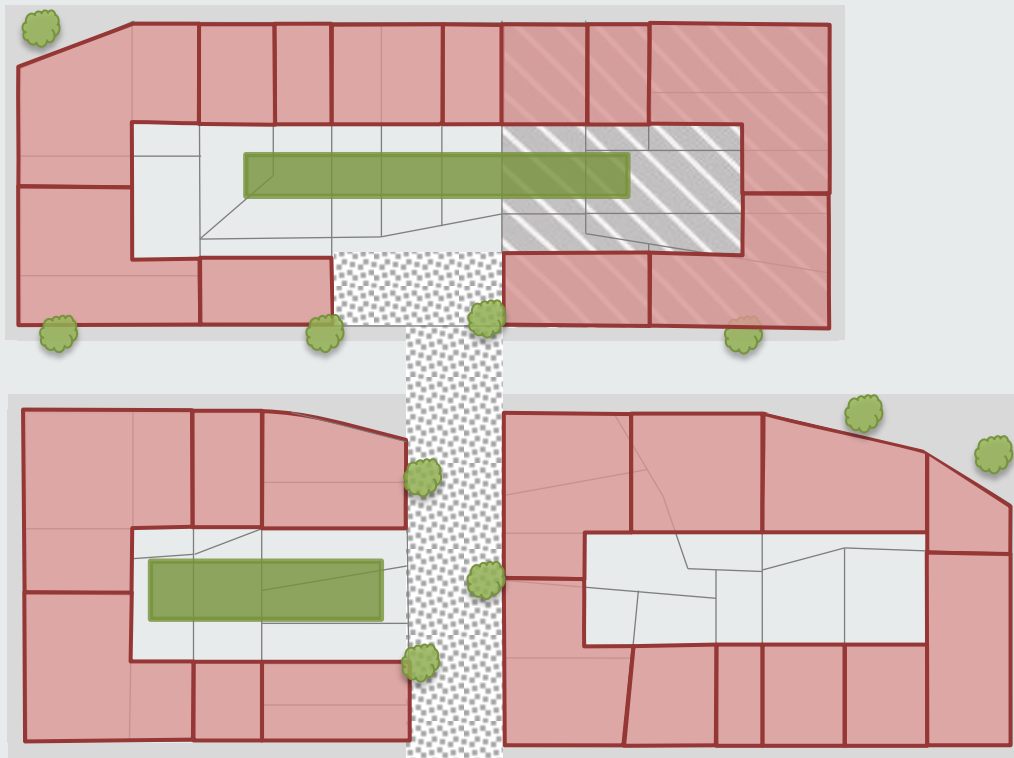


- Managing body
- Custodian bank
- Supervision authority
- Lawyers, appraisers, certified public accountants, ...

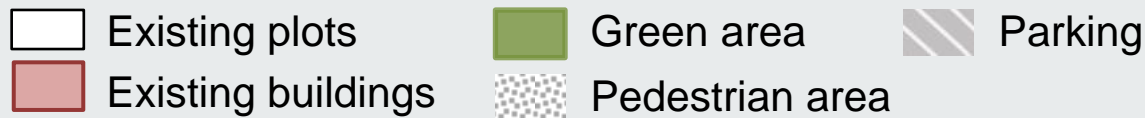


# CIF: Urban renewal example

## 3) CASH-FLOW: Revenues

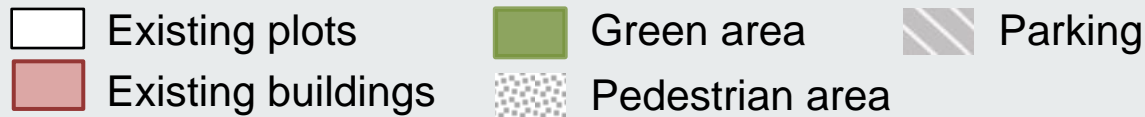
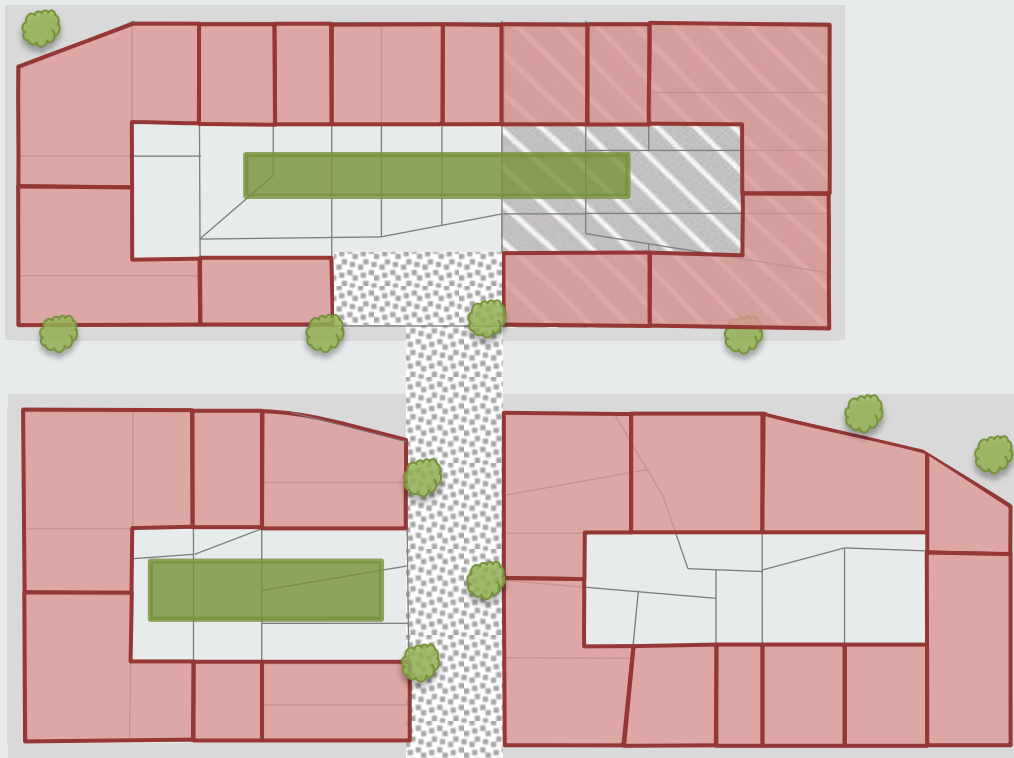


- Sales
- Rents
- Interest on bank deposits



# CF: Urban renewal example

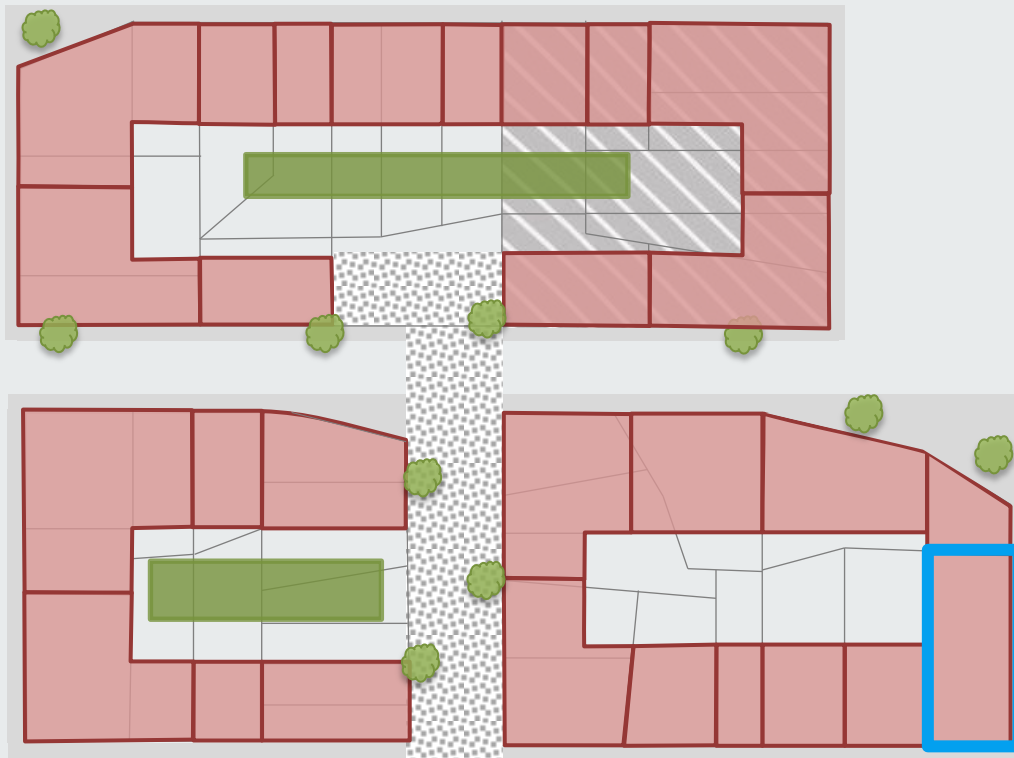
## 3) CASH-FLOW: Yield



- Project implementation period
- Costs
- Revenues
- Fund value
- Debt Capital
- Interest rate
- **Yield = 6,6%**

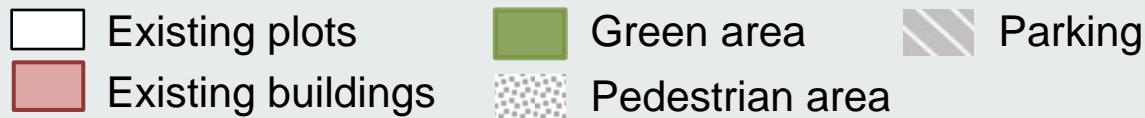
# CIF: Urban renewal example

## 4) LIQUIDATION OF THE FUND

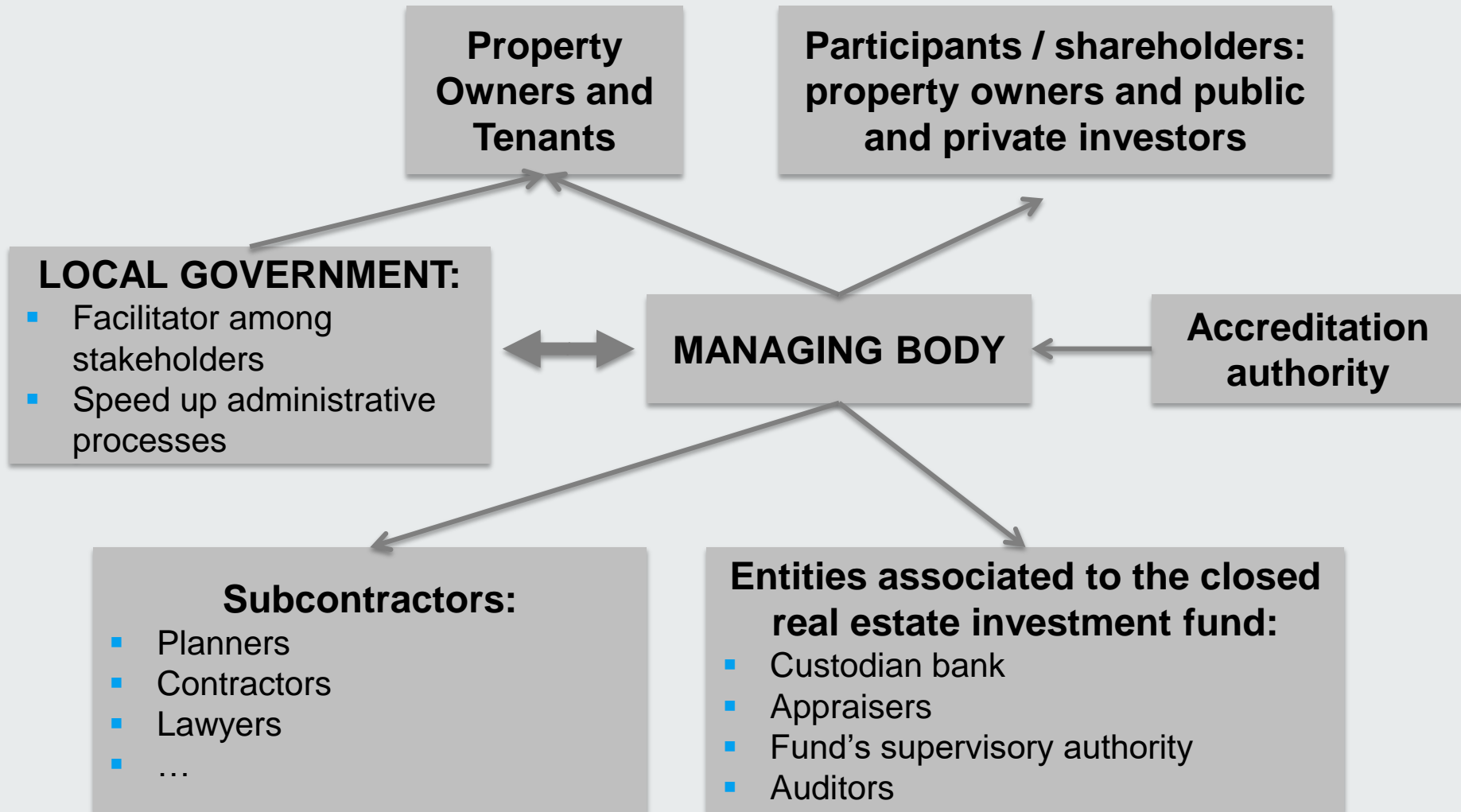


- Only at the end of the implementation period (8 years)
- Monetary contribution or in-kind

Initial Appraisal (land + building) = 121.000 € → 12.100 PU



# CIF: Organizational structure / players



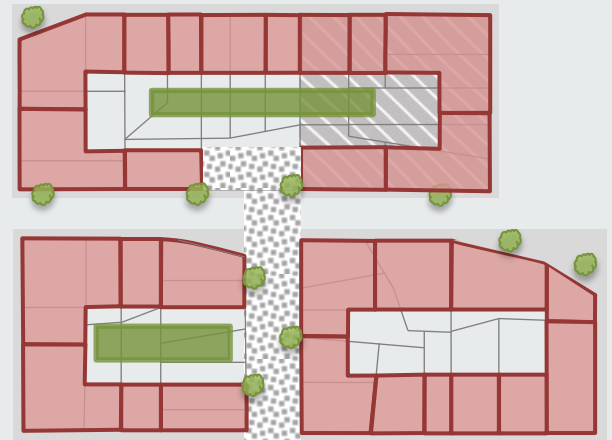
## When choosing the CIF?

### Planning **ASSUMPTIONS**:

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

### WHEN?

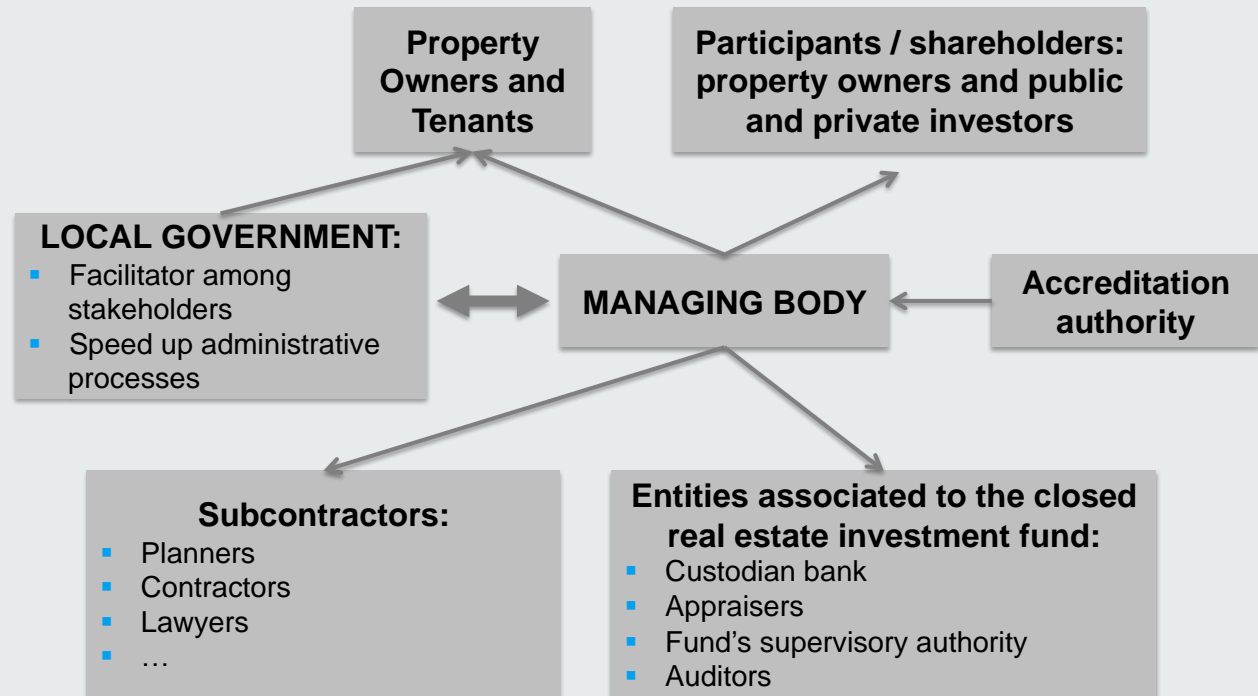
- 1) Complex urban projects, with **multiple landowners**, the need to re-plotting urban plots and **interventions in public space**.
- 2) Municipalities’ **lack of human and financial** resources and know-how
  - **Managing body’s credibility** and operating method (**greater negotiation and conflict management skills** and more efficient management process) and its **ability to attract investors and to obtain bank financing**





# Why NOT choose the CIF?

- **Heavy financial investment** associated with the **organizational structure** that supports the CIF



# Why choose the CIF?

## ~~Obstacles to LR:~~

Cooperation

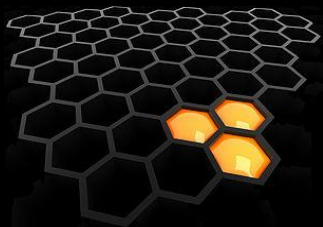
Trust & Transparency

Effectiveness

Technical

Financial

- **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 you attention!

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