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REVIEW ARTICLE

THE BENEFITS OF PPP MODEL IN REAL ESTATE DEVELOPMENT

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The Benefits of PPP Model in Real Estate Development

Raman Kaswan

Research Scholar, CMJ University, Shillong, Meghalaya

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The potential benefits for public and private partners from a successful PPP real estate development have been identified and examined by many observers (Stainback, 2000; Morlock, 1993). Economic development officials should be careful to note what steps and trade-offs are actually involved in a PPP real estate development project. Typical projects require a series of actions from conceptualization through to project completion, successful operation, and beyond. Since the objectives of the public and private partners can be different, and mutually exclusive, the negotiation trade-offs aren't necessarily as clear-cut as between two private parties. In addition to the economic success of the project itself, two related factors influence how each partner views its own success: (1) the contractual allocation of costs, risks, responsibilities and economic, fiscal, and financial returns and (2) the enforcement of these contractual arrangements during the timeline of the project. These are determined as the partnership agreement (and the project itself) is structured and negotiated.The nature and structure of the PPP agreement itself is particularly important. Morlok (1993) describes eight common-sense "guidelines for choosing a partner and making the relationship work." These include careful selection of a committed partner, honesty and clarity about goals and objectives, and specific language detailing roles, responsibilities, and decision-making authority. Obviously, the selection of a (or which) private partner is vitally important. Whenever possible, some type of competitive-selection process should be utilized, both for appearance reasons and for obtaining the most aggressive or committed private partner. (Stainback, 2000; Sagalyn, 1996)

Public officials must become familiar with real estate development and finance (or at least have good advisors) in order to negotiate a partnership agreement for a development project. This includes a clear understanding of the nature of the project and the development financial pro forma calculations used to apportion the costs (including risks) and benefits of such projects to both the public and the private sides. As Kayden (2002) notes public actors must understand the financial realities of private real estate development and its deal structures in order to negotiate effective public-private partnerships or impose reasonable regulatory burdens. Private actors must understand a broad spectrum of public goals and develop the navigational skills befitting an environment in which government regulation and public claims on private profit may be expected to continue. Both parties must understand how this new equation reassigns entrepreneurial risk and public interest oversight, and how such reassignments have intended and unintended consequences on the physical development of cities.

But these do not mean that negotiations should mimic a private deal between two private parties.

As noted above, there are two fundamental differences between the public and private sectors.

First is the nature and types of costs and benefits associated with some action. Since costs and benefits are valued collectively, it is impossible to determine the exact values. It is clear that they are different from the assumed financial profit maximizing behavior of the private agent. Second ,satisfactory PPP negotiations also require the determination of an "appropriate" public discount rate, which may very well differ from the discount rate used by the private partner. Applying the different discount rates to the development pro forma may prove helpful in the public decision making process, as it may help justify the allocation of some costs or benefits sufficient to make the project work, while appearing to be one-sided in favor of the private partner. This point is important. As noted above, the objectives of public and private partners are different. If the partnership structure is evaluated based on a private-private model, it will seem unsatisfactory.

In practical terms, there are lots of informational asymmetries that can lead to bargaining advantages for one side or the other, typically to the disadvantage of the public partner. All efforts should be made to establish good-faith negotiations. Philadelphia Commerce Director James Cuorato stated a principal consideration behind the negotiation of a PPP agreement succinctly: "It has to be a real "partnership," and both sides need to realize this. Both sides have to hold up their end of the bargain—

as simple as this: private developers can't expect the public to do everything and the public can't expect to push off all responsibility to the (private) developer" (Cuorato, 2002).

Several academic studies suggest public partners often or typically bear greater costs and risks, exercise less control and receive lower returns relative to normatively "fair" allocations.

(Guldbrandsen, 2002) This can obviously be true even if different objective functions are taken into account. Blame is often pinned on the public sector's poor ability to negotiate PPP agreements from positions of strength, resulting in the lack of planning and implementation control, oversight capability, and ability to assess costs. As a result, strengthening the public partner's hand in negotiating is of prime concern to some analysts (Stainback, 2000; Sagalyn, 1996; Clark, 1998). This primarily involves paying greater attention to the pre-development project steps:

- Careful conceptualization of the project
- Formal private partner selection procedures
- Clear delineation of project costs and benefits
- Clear delineation of partner's roles and responsibilities

Dangers here may include the process becoming too lengthy, public partners lacking necessarycompetency, and the potential private partners shying away from large upfront expenses.

While sharing some characteristics with project PPPs, ongoing economic development PPPs have their own issues. The nature of such activities is fundamentally different from a real estate development project, and hence they have different benefits and costs. The Upjohn Institute study referred to earlier identifies (a) active business involvement and (b) an atmosphere of cooperation among government, community organizations, and business as two necessary but not sufficient conditions for efficient and effective PPPs.28 Interestingly, they note that the lack of the federal government's leadership role in state and local economic development may account for "the wide variety of arrangements across states and localities" in PPPs when compared to PPP activity in work force development. They suggest that as state and local economic development becomes less of a zero-sum game, "there is more reason for federal government to reenter the game," for example, in industry modernization programs and regional industry cluster efforts. This could possibly lead to more formalized structures for state and local economic development PPPs. (Eberts & Erickcek, 2002, pp. 36–39).

Role of Public Real Estate: Development Projects: Several sources emphasize the value of publicly owned land and assets to PPPs. (Stainback, 2000; Sagalyn, 1996). Land and buildings can be among the most important public-sector contributions to a PPP project. The public sector, in its various forms, owns or controls significant amounts of unused or underutilized land, buildings, and structures. Fiscal pressures on state and local governments have forced governments to seek greater financial returns form these assets. Increasingly, joint development

via PPPs has emerged as an attractive alternative to the outright sale of these assets. Real Estate PPP projects utilizing public land and buildings can take essentially three forms, when classified by the use of the new development:

1. Public land and buildings used exclusively for private development, with some

combination of sale proceeds and participation in the development's financial upside as well as indirect benefits accruing to the public: fiscal (tax revenue) and economic (increased economic activity and employment opportunities).

2. Public land and buildings used for a combination of public and private uses, including mixed-use developments such as transit-oriented development (TOD).

3. Public land and buildings used exclusively for government operations, but is developed, designed, built, operated, and/or managed to some degree by private firms.

These forms of PPP are emerging as attractive alternatives to the outright sale of public assets, allowing the public sector the ability to maintain ownership, some control, and some financial upside to the development. They can positively influence the local real estate market either by making specific areas more attractive to additional private-sector investment or by increasing the overall efficiency of the government. Various public and quasipublic entities have been established in different cities and states to play the role of the public partner in real estate development projects in the first category. Genesis LA (Los Angeles), the Penns Landing Corporation (Philadelphia), and the National Capital Revitalization Corporation (NCRC, Washington, DC) are illustrative examples.29 On its website, Genesis LA identifies itself as "a cutting-edge initiative aimed at transforming abandoned and blighted properties throughout Los Angeles' most disadvantaged communities" via "innovative financing vehicles that provide "last resort" gap financing" for real estate development in the inner city. Penns Landing Corporation was established by the City of Philadelphia as a PPP to develop and manage the central Delaware riverfront, providing land, public financing, and associated services to private developers. According to its website, NCRC is "a public-private entity designed to serve as an important manager of major development projects in the District of Columbia," with a mandate to use "a myriad of incentives and other economic development tools to shape development in the District's downtown and neighborhoods."

As an example of the second category, Greater Philadelphia First, a group of executives of large businesses in the Philadelphia metro area, is proposing to establish a "public-private partnership between (sic) the state, counties, sponsoring public transportation agencies and private-sector transit and real estate developers" to present "innovative public-private strategies for funding, developing and managing the Schuylkill Valley MetroRail (MetroRail), a proposed 62 mile regional commuter rail line that will connect Philadelphia to Reading and its western suburbs along the Schuylkill River." (GPF, 2002). An integral component of this project is expected to be capturing some of the private economic value created by the transit project for use in the financing.

DATA ANALYSIS APPROACH

The suggested data analysis approach is the narrative analysis technique, in which the survey and interview data will be used to construct a narrative of the positive and negative features associated with the history, current state, and future of the public-private partnership in the city chosen. This narrative approach will first use open coding in order to identify the response categories associated with the questions in the survey (Creswell, 2009). This approach will help to identify more or less common themes in the responses; focusing on the meaning of specific phrases, by collapsing individual wording into a single meaning relationship, will allow for identification of themes and meaningful ideas that are repeated through the surveys. This can then be further expanded by comparison with the outcomes of the interviews, which will be with individuals that have extensive knowledge regarding the historical and future practice of public-private partnerships. Feedback from both the survey and interviews can then be combined into a historical account and analysis of public-private partnerships in the city and a preliminary assessment of their effectiveness. This should be supported by other materials, including secondary research, government reports, and if necessary internal documents, that also reflect the historical process and the effectiveness of the public-private partnership in this area. **Conclusion**

The literature review demonstrated that public-private partnerships for management of affordable housing in the urban area originated in the 1980s and 1990s, following the development of a small-government approach that attempted to deregulate or devolve as many services as possible, and that it has continued over time. The justification for the public-private partnership in affordable housing is that the private sector is considerably more efficient at management than the public sector; by providing public funding and a mandate to the private industry for development of affordable housing, it is possible to provide a higher level of affordable housing for a lower cost. However, in practice this has not been seen to be as effective as it is in theory. Research has indicated that the public-private partnerships are prone to a considerable number of potential problems that reduce the effectiveness of the public-private partnership for the affordable housing industry. This paper also proposed preliminary interview and survey questions that can be used to collect information about public-private partnerships in the affordable housing operations of a given urban region or municipality. Although this research could be conducted in any municipality that has used public-private partnerships, the selected municipalities are Chicago, New York and Boston. These three cities were some of the earliest adopters of public-private partnerships, as well as having some of the highest levels of affordable housing stock in the country. However, only one city is required for the study, which allows for flexibility in conducting the study if there was no way to gain access to the housing authority or if there were no suitable people in the housing authority with the appropriate historical knowledge.

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