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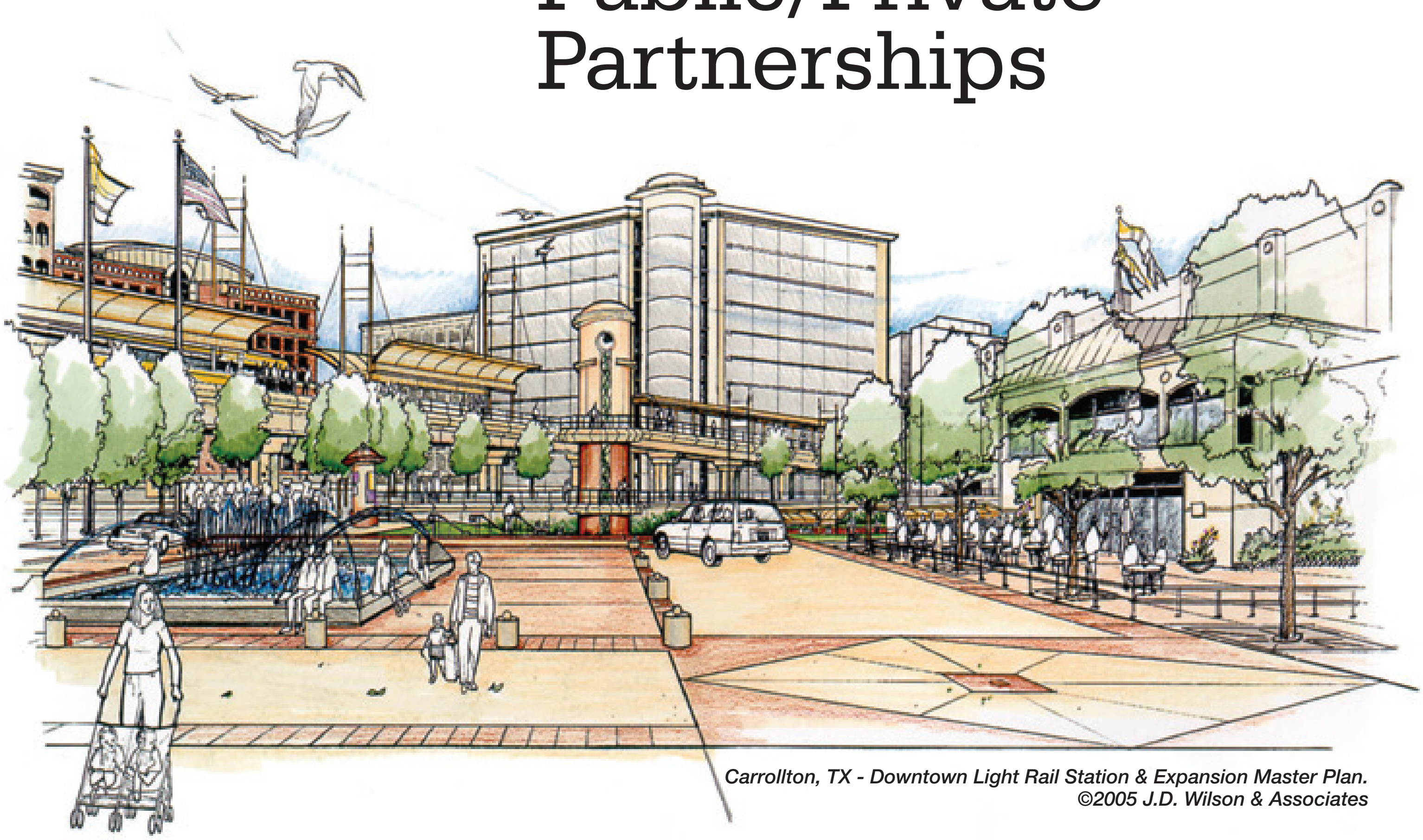
10 REASONS Why Developers Should Enter Into Public/Private Partnerships



Carrollton, TX - Downtown Light Rail Station & Expansion Master Plan.
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Since the mid 1990s, the public/private partnership (PPP) industry has experienced exponential growth. In spite of this growth, developers are still reluctant to use the PPP approach to finance and develop projects because they perceive working with government entities as having too much "red-tape". Developers should change this perception and realize that government entities have much to offer. It is a growing trend that public entities are hiring consultants to manage the pre-development process, proving they are truly ready to structure and implement public/private partnerships.

Most large projects are far too complicated to be financed and developed solely by the public or private partner. Each entity needs the other's assistance and expertise to make projects happen. For large projects, neither entity can usually finance, design, develop, construct and operate the proposed project alone. In order for the project to be financially feasible, the developer often needs some form of assistance from the public partner.

Following are ten reasons why developers should consider the public/private partnership approach to finance and develop projects:

REASON 1 Access to Land Near Activity Generators

Most public entities own a substantial amount of real estate. In many instances, these properties are well located. This is especially true in downtown areas. Assets are often contiguous and, with little effort, can be transformed into larger prime development sites. Assets can be adjacent to, or near the "100% corner" of a downtown, near a major public facility or activity generator such as a stadium, arena, convention center, museum or government center.

Chapel Hill, NC - Mixed Use Development.
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REASON 2 Reduce or Eliminate Upfront Land Cost

Not only do public partners own well located real estate assets, many government entities are willing to structure and negotiate long-term land leases with their private partner. As most developers know, gaining control of well located properties is often difficult. Developers also know that land cost can equal ten to twenty percent of the Total Development Budget of a project, so if they can gain control of prime properties and reduce upfront cash outlay, that is a real advantage.

REASON 3 Public Partners Can Reduce Developers Project Costs

Public partners have the power and resources to reduce development costs. In many cases, these reductions in cost can be realized through modifying development regulations such as parking ratio requirements which can be achieved without any capital investment.

Public partners can also provide capital investments for the cost of project-related elements such as: garages, pedestrian walkways and bridges, roadway improvements, utility systems and open space. Public entities also have the power to defer, waive or rebate selected development fees.

REASON 4 Public Partners Can Enhance Developer Cash Flow

Reducing development costs enhances cash flow, but public partners can also enhance developer cash flow by providing abatements, deferring payments, reinvesting non-tax income and/or selected tax revenue, and providing tax credits for jobs (or other public benefits) created by the project.

Public partners also have the ability to lease naming rights, advertising space and/or pouring rights for large scale projects to generate revenue.

REASON 5 Public Partners Can Accelerate the Project Approval Process

Public partners have the ability to accelerate the various project approval processes, such as design reviews, development approvals and permitting processes. This can save developers time and money, and possibly more importantly, help expedite the time to market and ensure developers capture their fair share of the real-time market demand.

REASON 6 If Required, Public Partners Have an Arsenal of Financial Tools to Cover Costs and Invest in a Project

There are at least 30 public/private finance instruments available to structure public/private finance plans. These instruments include General Obligation Bonds, Revenue Bonds, Tax Increment Financing (TIF), Certificates of Participation (COPs), State Revolving Loan Funds, Municipal Lease Financing and Taxable Bonds. Revenue Bonds can be structured so that the debt service is covered by the non-tax income and tax revenue generated by the proposed project. For most of these instruments, only government entities have access, so if private developers were not in partnership with these public entities, they would miss the opportunity to use these forms of debt, which have coupon rates that are substantially less than the interest rates for traditional construction or permanent loans.

In addition to financing instruments, public and private partners have access to tax credits, such as New Market Tax Credits (NMTC), Historic Tax Credits, and Low Income Housing Tax Credits (LIHTC).

REASON 7 Public Partners Can Save Developers' Time and Money

Public partners are becoming more sophisticated. Public partner staff and/or consultants are completing major pre-development tasks before issuing developer RFQs and/or RFPs. The objective is to assure prospective developers that the proposed project is ready to be implemented. Public partners and/or their consultants are completing pre-development tasks such as:

Hiring objective third parties to determine market demand, which assures developers that the proposed building program is market driven and not the “wish and hope” of a city councilman or special interest.

Hiring architect/planners to complete a schematic master plan, which assures developers that many of the design issues have been resolved.

Completing Total Development Budgets and Developer Proformas, which demonstrates to developers that major financial measurements meet the current requirements of the equity and debt capital markets. If there is a cash flow shortfall using traditional private equity and debt, public partners and their consultants can structure Public/Private Finance Plans that resolve the shortfall.

If the public partner has completed the appropriate due diligence, when the developer receives an RFQ or RFP, they can easily assess whether the proposed project warrants their time and money to respond.

REASON 8 Public Partners Are Increasingly More Sensitive to the Time and Money Required to Respond to RFQs and RFPs

In the early days of the public/private real estate industry, public partners did not realize the enormous amount of money and time required to respond to a lengthy Request for Proposal (RFP). As the industry has matured, public partners are more frequently issuing Request for Qualifications (RFQ) prior to issuing RFPs. This two-step developer solicitation process is far more attractive to developers because the effort and expense to respond to an RFQ is relatively

Santa Fe, NM - Mixed Use Development and TOD.
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small. Based on the RFQ proposals submitted, the public partner can determine which developers are best suited for the proposed project. The RFQ allows public partners to short-list only qualified potential developers to receive the RFP.

Developers like this two-step process because by the time they have to expend the money and time required to respond to a highly technical RFP, they know they have a higher percentage to be selected. If public partners issue only an RFP, developers may be reluctant to make the investment required to respond because they could face a field of 20 or more competing developers.

REASON 9 Public Partners Are Designating a Staff Member or Hiring Consultants to Serve as a Single-Point of Responsibility for Projects

One of the potential drawbacks for developers entering into partnerships with public partners is the fact that there may be multiple entities participating throughout the predevelopment and development processes. These multiple parties could include: city administration officials, city council, city staff, neighborhood groups, merchants

Winter Park, FL - City Hall/Mixed Use Development. ©2005 ***ACi*** *Inc. Architects*

and land owners. If secondary public partners enter the arena, such as the local county, community redevelopment agency, public authorities, state agencies and federal agencies, this just compounds the coordination and communication issues for developers. Successful public partners designate a staff member, or hire a consultant, to be a single-point of responsibility for the public partner(s), and to interact with developer(s).

REASON 10 Public-Public Partnerships

Not only do government entities need the expertise and insights of private developers, but they often need to structure "Public-Public" partnerships, or intergovernmental agreements. These agreements between a primary public partner and secondary public partner(s) are required so that the primary public partner can share the costs, risks, responsibilities and benefits with secondary partner(s). For example, if a city wants to redevelop their downtown, they would serve as the primary public partner, but they should explore forming partnerships with other public entities. These secondary public partner(s) could assist the city in a variety of ways, such as investment, financial assistance, provide additional staff to complete pre-development tasks, and co-underwrite various finance instruments to reduce the risk of the primary public partner. In many instances, the proposed project will likely generate substantial new streams of tax revenue and jobs, so the secondary public partner(s), such as the county and state governments may have significant interest to invest in the proposed project. There are also a multitude of finance and development programs offered by various Federal agencies.

Summary

The scope of the public/private real estate development market may be reaching $100 billion annually. The private development community should recognize that this market is expanding rapidly and should be comforted that public partners are becoming more sophisticated and more responsive to developer concerns and needs. Equally important, there is an increasing number of creative public/private financing techniques and development strategies to reduce development costs and enhance cash flows.

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