



Basics of Public-Private Partnerships for Historic Buildings (Heritage PPPs)

Why PPPs

General Principles of PPPs

Characteristics of Heritage PPPs

Common Denominators and Most Expensive Mistakes of Heritage PPPs

Types of PPP Transactional Structures

Two US Examples

Conclusions

Public-Private Partnership Defined

PPPs constitute an approach to introducing private management into a public service by means of a long-term contractual bond between an operator and a public authority.

Public-Private Partnership Defined

A Public-Private Partnership is:

- *A contractual agreement between a public agency and a private sector entity.*
- *The skills and assets of each sector are shared in delivering a service or facility for the use of the general public.*
- *Each party shares in the risks and rewards potential in the delivery of the services and/or facility.*

When are PPPs Needed?

Public interest or benefit

Need private capital

Need to leverage public capital

Want to share risks

Need management expertise

Want enhanced value of asset

Need innovation

Need ongoing public influence

Want reversionary interest

What's true about *Historic Buildings*?

- ✓ Public interest or benefit
- ✓ Need private capital
- ✓ Need to leverage public capital
- ✓ Want to share risks
- ✓ Need management expertise
- ✓ Want enhanced value of asset
- ✓ Need innovation
- ✓ Need ongoing public influence
- ✓ Want reversionary interest

Principles of PPPs

- Risk transfer
- Performance specifications and competition
- Maintaining value of public assets
- Quest for innovation
- Non-discrimination
- Stability and renegotiation
- Continuity
- Open competitive tenders

Principles of PPPs (continued)

- Transparency and accountability
- Business decisions independent from the State
- Guarantees and other types of public support
- Compensation
- Optimum of public management
- Value for money

Principles of Good Governance and PPPs

1. Process should be feasible, streamlined and as clear as possible within overall legal framework
2. Process conducted by persons with necessary training and skills
3. Realistic expectation from both sectors, with balanced contracts and shared risks
4. Transparent selection process
5. Process needs to promote: clarity, value for money, public accountability, sustainable development and wide shared benefits.

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Characteristics of PPPs

- Long duration
- Funding (often substantial)
- Important role for economic operator
- Distribution of risks

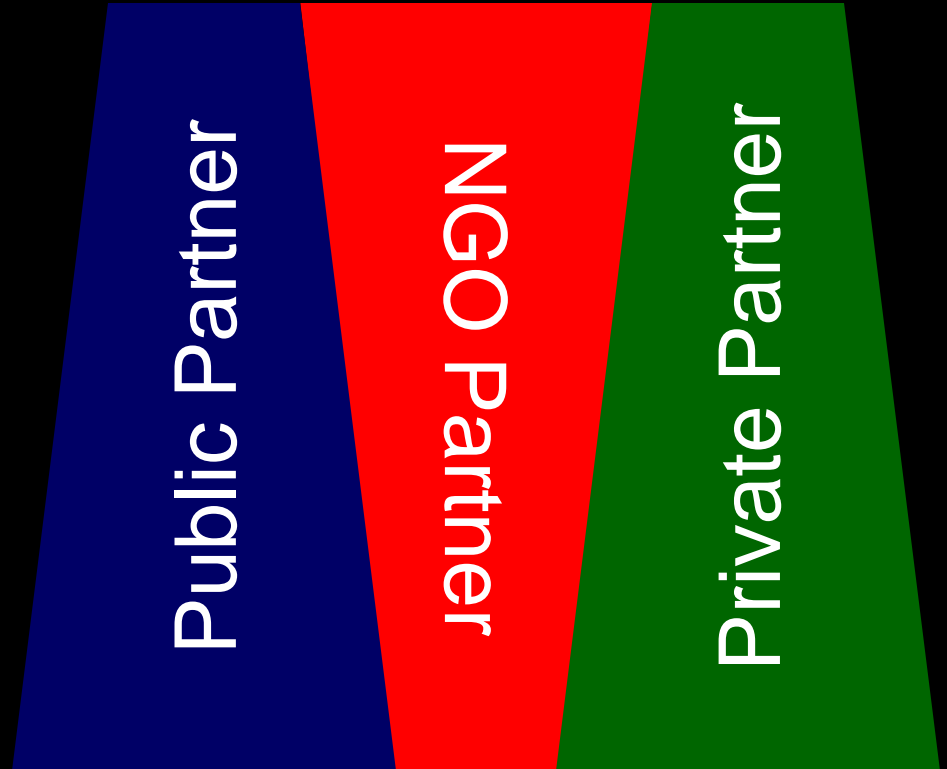
Heritage PPPs

For many (but not all) Heritage PPPs the public partner is local government



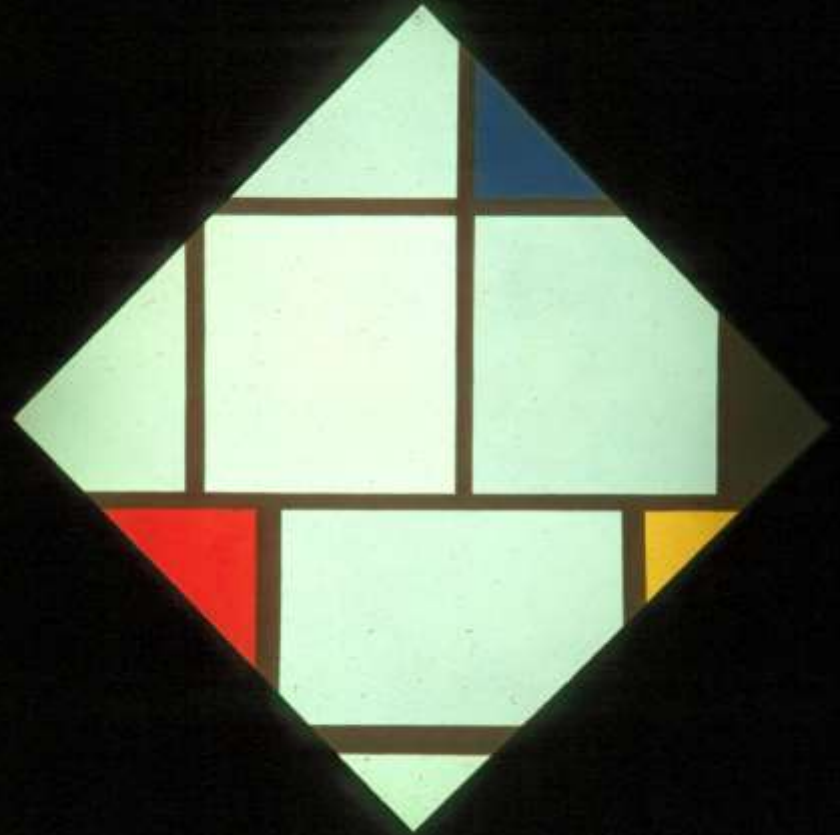
Heritage PPPs

Many Heritage
PPPs are
actually
Public/Private/
Non-Profit
(NGO)
Partnerships



Heritage PPPs

Often several NGOs
are involved, but
most only
passively



Heritage PPPs



Most Heritage PPPs are “White Elephant” Buildings

Heritage PPPs



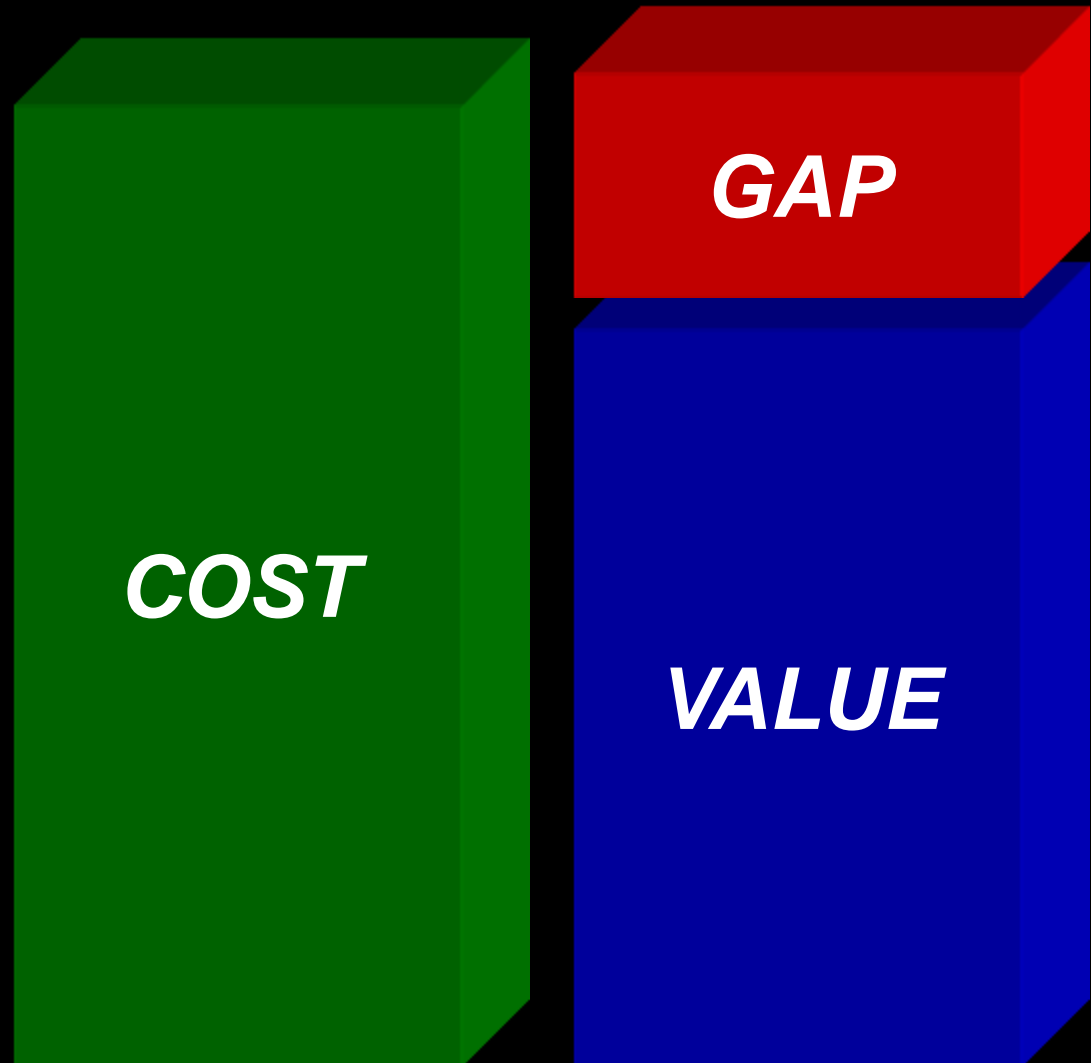
But some involve a large scale regeneration program

Walsh Bay Dock in Sydney, Australia

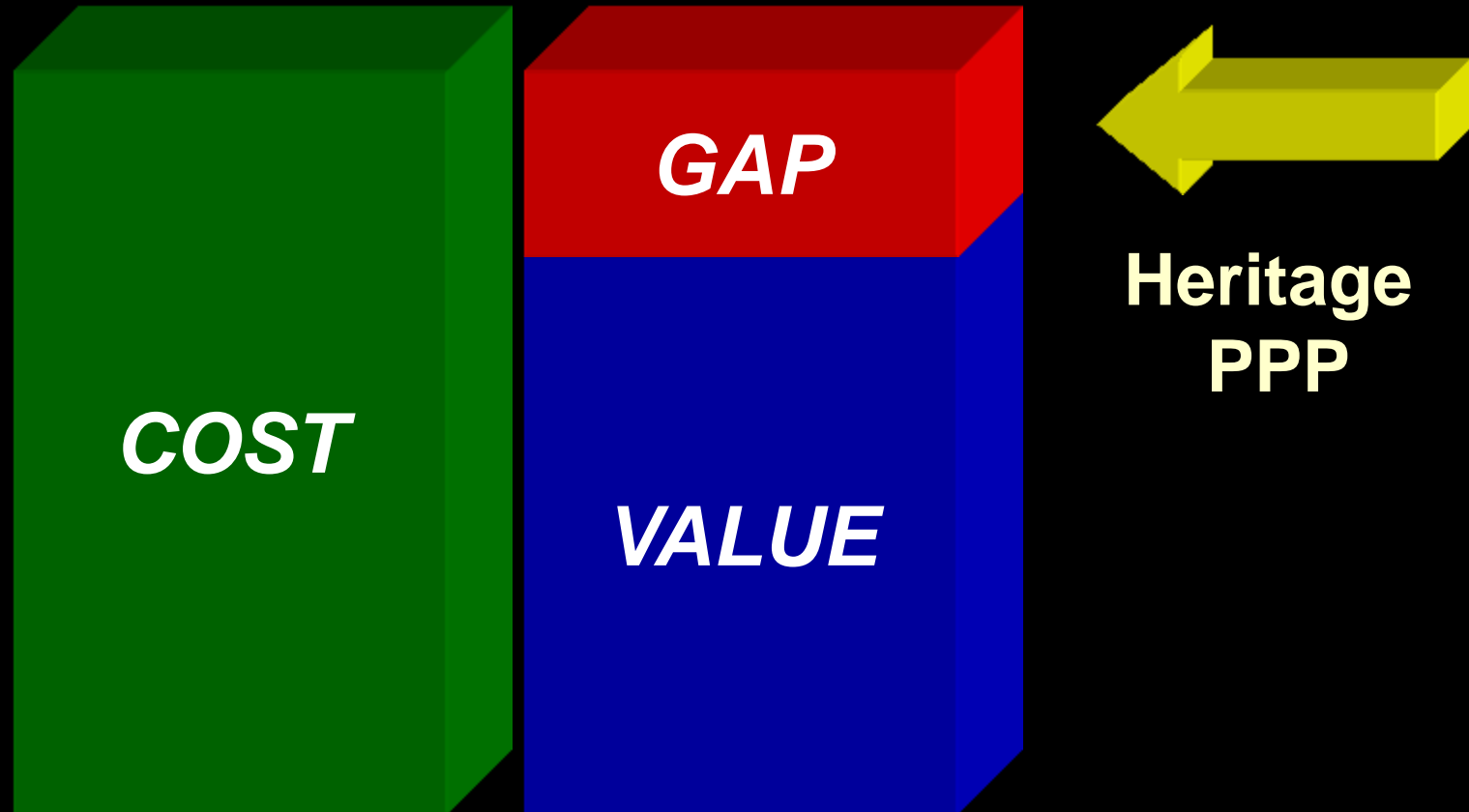
17 hectare redevelopment that includes retail, cultural activities, offices, a residential units

Heritage PPPs

Often the reason the private sector won't take the lead in heritage redevelopment is the *GAP* between *Cost* and *Value*



Heritage PPPs



Major purpose of Heritage PPPs is often to close the *Gap*

Heritage PPPs

Multiple levels of government might provide incentives, but usually only one would be “public partner”



Heritage PPPs

Heritage PPPs
usually involve
adaptive reuse



Typical role of Public Partner in Heritage PPP

Incentives

Regulatory relief

Long term protection

As owner, “bringing the building to the table”

Physical improvement of surrounding areas

Infrastructure



Typical role of Public Partner in Heritage PPP

Public occupancy
Subordinate financing
Acquisition and
reconveyance of
property
Creating targeted
investment area
surrounding the
property
Policy supporting
investment



Typical role of Private Partner in Heritage PPP

- Provide capital
- Raise additional equity
- Arrange financing
- Development process expertise
- Construction expertise
- Long-term ownership and/or occupancy and/or possession



Typical role of Private Partner in Heritage PPP

- Management of the property
- Management of ownership entity
- Marketing
- Identify and utilize technological advances
- Decisions as to disposition (unless already specified in PPP agreement)



Typical role of NGO Partner in Heritage PPP

- Identification of critical heritage buildings
- Public and political pressure on government to act
- Public and political support for project moving forward
- Occasional equity (i.e. ownership) partner in project
- Heritage conservation expertise



Typical role of NGO Partner in Heritage PPP

- Reference source for specialized expertise
- Ongoing oversight to assure quality rehabilitation
- Initiation of redevelopment process
- Predevelopment analysis
- Public face for the project
- Occasionally providing “patient equity”
- Assist public partner in marketing the project to potential private partners



Common Incentives for Heritage Building PPPs

- Income tax incentives
- Property tax incentives
- Sales tax incentives
- Low interest loans
- Design assistance
- Public occupancy
- Pre-acquisition environmental assessment



Common Incentives for Heritage Building PPPs

- Pre-acquisition grants
- Acquisition grants
- Construction grants
- Rent subsidy
- Reinvestment of generated property taxes back into the project
- Priority for eligibility for other programs



Other Forms of Public Support

- Loan guarantees
- Equity participation
- Subsidies
- Government guarantees
- Tax and customs benefits
- Protection from competition



Long term protection methods

Long term lease

- Maintenance requirements
- Approvals required for changes
- Reversion to public at end of lease period



Long term protection methods

Local heritage building protections

(Can be either individual buildings or heritage districts)

- Property changes subject to review
- Demolition prohibited



Long term protection methods

Title restrictions

- Limitations on use
- Limitations on changes
- Approvals required on changes
- Restriction part of “chain of title” and is binding on subsequent owners



Why Heritage PPPs are Suspect

- Fail to take account of interests of heritage advocates
- Lack of transparency and not accountable to the public
- Sacrifice heritage conservation standards for profit
- PPP viewed as Privatization



Public Sector Brings

- Authority to act
- Funding sources
- Legal and financial tools
- Political legitimacy

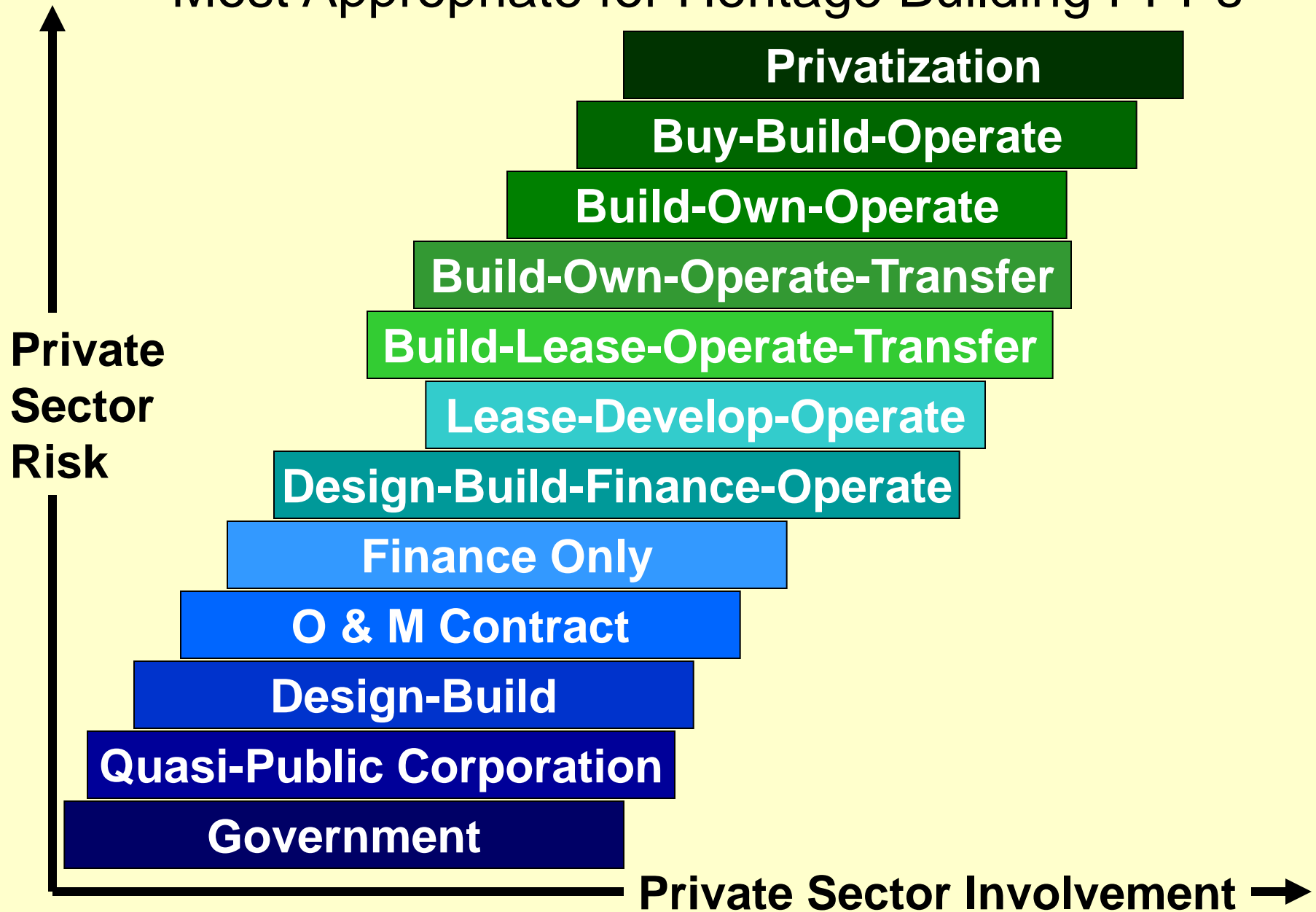
Private Sector Brings

- Authority to act
- Funding sources
- Legal and financial tools
- Political legitimacy
- Capital
- Entrepreneurial skills
- Management abilities
- Willingness to take risks

Non-Profit Sector Brings

- Authority to act
- Funding sources
- Legal and financial tools
- Political legitimacy
- Capital
- Entrepreneurial skills
- Management abilities
- Willingness to take risks
- Innovation
- Manpower & Womanpower
- Political influence
- Time

Most Appropriate for Heritage Building PPPs



Common Heritage PPP Models

Sale Leaseback

- With repurchase option

- With repurchase obligation

- With no repurchase rights

Lease Leaseback

Long Term Lease

All might be preceded by initial acquisition

Public Partner Puts In:

- Property under long term lease
- Statement of objectives
- Performance specifications
- Appropriate constraints
- Project oversight

Long Term Lease

Public Partner Receives:

- Value for money
- Transfer of risk
- Performance specifications compliance
- Enhanced value of public asset
- Skills and expertise of private partner
- Net revenues as negotiated
- Ultimate reversion of the property

Heritage Building



Private Partner Puts in:

- Equity investment
- Financing
- Development expertise
- Management expertise
- Commitment to public objectives
- Negotiated compensation to Public Partner during life of agreement

Private Partner Receives:

- Long term right of occupancy without necessity of purchasing property
- Revenues from operations
- Management rights of operation

Public Partner Puts In:

- Property
- Statement of objectives
- Space requirements
- Appropriate constraints
- Rental Payments
- Repurchase price if provided

Private Partner Puts in:

- Purchase price
- Additional equity investment
- Financing
- Development expertise
- Management expertise
- Commitment to public objectives
- Space as required by public tenant

Heritage Building

Sale Leaseback

Public Partner Receives:

- Proceeds from sale
- Occupancy
- Transfer of risk
- Performance specs compliance
- Enhanced value of asset
- Skills and expertise of private partner
- Reversion of the property only if part of lease agreement

Private Partner Receives:

- Ownership (subject to any repurchase agreement)
- Revenues from public agency
- Management rights of operation
- Sales proceeds if repurchased

Pilot Project for Heritage PPP



Clear economic and cultural need

Pilot Project for Heritage PPP



Known and tested rehabilitation approaches

Pilot Project for Heritage PPP



A marketplace of potential developers

Pilot Project for Heritage PPP



Project major priority of sponsoring agency

Pilot Project for Heritage PPP



Favorable towards adaptive reuse

Pilot Project for Heritage PPP



Payment system affordable by agency

Pilot Project for Heritage PPP



Development of replicable transactions

Why PPPs for *Heritage Buildings*?

- ✓ Public interest or benefit
- ✓ Need private capital
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- ✓ Want to share risks
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*Old General Post
Office*

Washington, DC
(1839 - 1866)



*Brook Army
Medical Center
(BAMC)*

San Antonio, Texas
(1936)



General Post Office

- Owned by General Services Administration (GSA)
- Vacant 15 years
- Couldn't find Federal tenant
- Ongoing maintenance costs, but continuing deterioration
- Center of Washington, DC
- Responsibility of stewardship for historic properties



BAMC



- Owned by US Army
- New building had replaced uses
- Environmental issues
- Pentagon's "replacement rule"
- Building vacant but still required basic maintenance
- Couldn't be sold because middle of active military installation
- Stewardship responsibility

Old General Post Office – The Deal

- 60 year lease for boutique hotel
- GSA invested \$5 million in exterior restoration
- Hotel Developer invested \$40 million in renovation
- Hotel Developer received \$8 million in tax credits
- GSA payment based on hotel revenues, but estimated to be \$50 million over life of lease
- Property rehabilitated based on preservation standards



BAMC – The Deal



- 50 year lease
- Army kept responsibility for environmental liability but developer removed enviro hazards
- Developer received ~\$10 million preferential early distributions
- Then Army received 46% of cash flow during life of lease - \$253 million estimated (cash & services)
- Developer received balance of cash flow
- Army leased some space and maintained some approval rights for other tenants

Public Partner Put In:

- Property under long term lease
- Statement of objectives
- Performance specifications
- Appropriate constraints
- Project oversight
- Cash
- Tax Credits

Private Partner Put in:

- Equity investment
- Financing
- Development expertise
- Management expertise
- Commitment to public objectives
- Negotiated compensation to Public Partner during life of agreement

Hotel Monaco

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graph TD; PP[Public Partner Put In] --> HM((Hotel Monaco)); HM --> PR[Private Partner Receives]; HM --> PP2[Public Partner Receives]; PPI[Private Partner Put in] --> HM
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Public Partner Receives:

- Value for money
- Transfer of risk
- Performance specifications compliance
- Enhanced value of public asset
- Skills and expertise of private partner
- Net revenues as negotiated
- Ultimate reversion of the property

Private Partner Receives:

- Long term right of occupancy without necessity of purchasing property
- Revenues from operations
- Management rights of operation
- Tax benefits

Public Partner Put In:

- Property
- Statement of objectives
- Space requirements
- Appropriate constraints
- Rental Payments
- Environmental liability protections

Private Partner Puts in:

- Equity investment
- Financing
- Lease payments
- Development expertise
- Management expertise
- Enviro hazard removal
- Commitment to public objectives
- Space as required by public tenant

BAMC

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graph TD; PP[Public Partner Put In] --> BAMC((BAMC)); P[Private Partner Puts in] --> BAMC; BAMC --> PR[Public Partner Receives]; BAMC --> PRP[Private Partner Receives];
```

Public Partner Receives:

- Occupancy
- Limited tenant “veto” rights
- Lease payments
- Transfer of risk
- Performance specs compliance
- Enhanced value of public asset
- Skills and expertise of private partner
- Reversion of the property

Private Partner Receives:

- Revenues from public agency
- Revenues from private tenants
- Management rights of operation

Conclusions



Heritage assets
need both
protection
and capital

Conclusions

PPPs can be structured to provide both



Conclusions



Heritage building transactions can be the laboratory for building PPP skills, legislation, and citizen confidence.

WORKSHOP

**public private partnership
in managing historical urban
precincts**



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**Ruang Serbaguna Lantai 8
Gedung Ditjen Sumber Daya Air dan Penataan Ruang**

Thank you very much

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