Basics of Public-Private Partnerships for Historic Buildings

(Heritage PPPs)
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*?

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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
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.
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 reconveyence 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

Private Sector Involvement

- Privatization
- Buy-Build-Operate
- Build-Own-Operate
- Build-Own-Operate-Transfer
- Build-Lease-Operate-Transfer
- Lease-Develop-Operate
- Design-Build-Finance-Operate
- Finance Only
- O & M Contract
- Design-Build
- Quasi-Public Corporation
- Government

Private Sector Risk
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 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 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 under long term lease
- Statement of objectives
- Performance specifications
- Appropriate constraints
- Project oversight

Long Term Lease
Heritage Building
Sale Leaseback

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

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*?

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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

Public Partner Receives:
- Value for money
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- 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

Hotel Monaco
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 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

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.
Thank you very much

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