



Public Private Partnerships in Real Estate

Sep 2017

First and foremost...



“Thank you for inviting KPMG to speak with you today”

Background

White Land

e Mega

This is Difficult!!!
Confused??!!

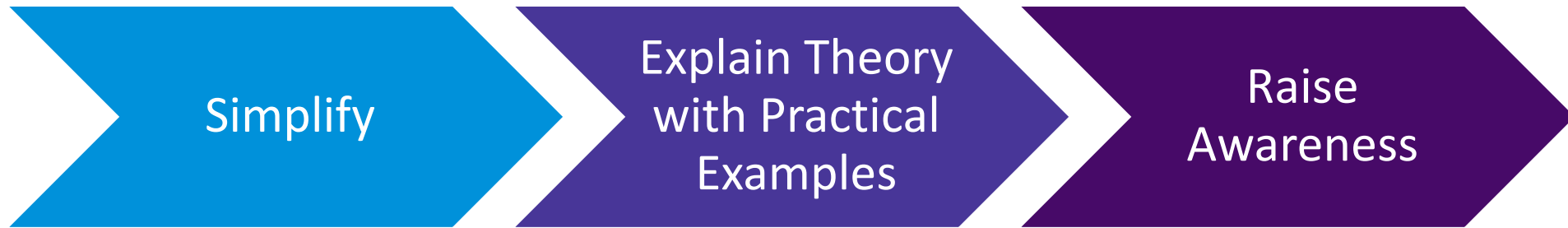
Increase Saudi
Ownership

ed P

PP's

Concessions

Objective



Understanding Public Private Partnerships

What is a PPP?

- Contractual agreement between the public and the private sectors
- Private operator/investor commits to provide public services that have traditionally been financed by public institutions.
- The ultimate goal of PPPs is to obtain more “value for money”

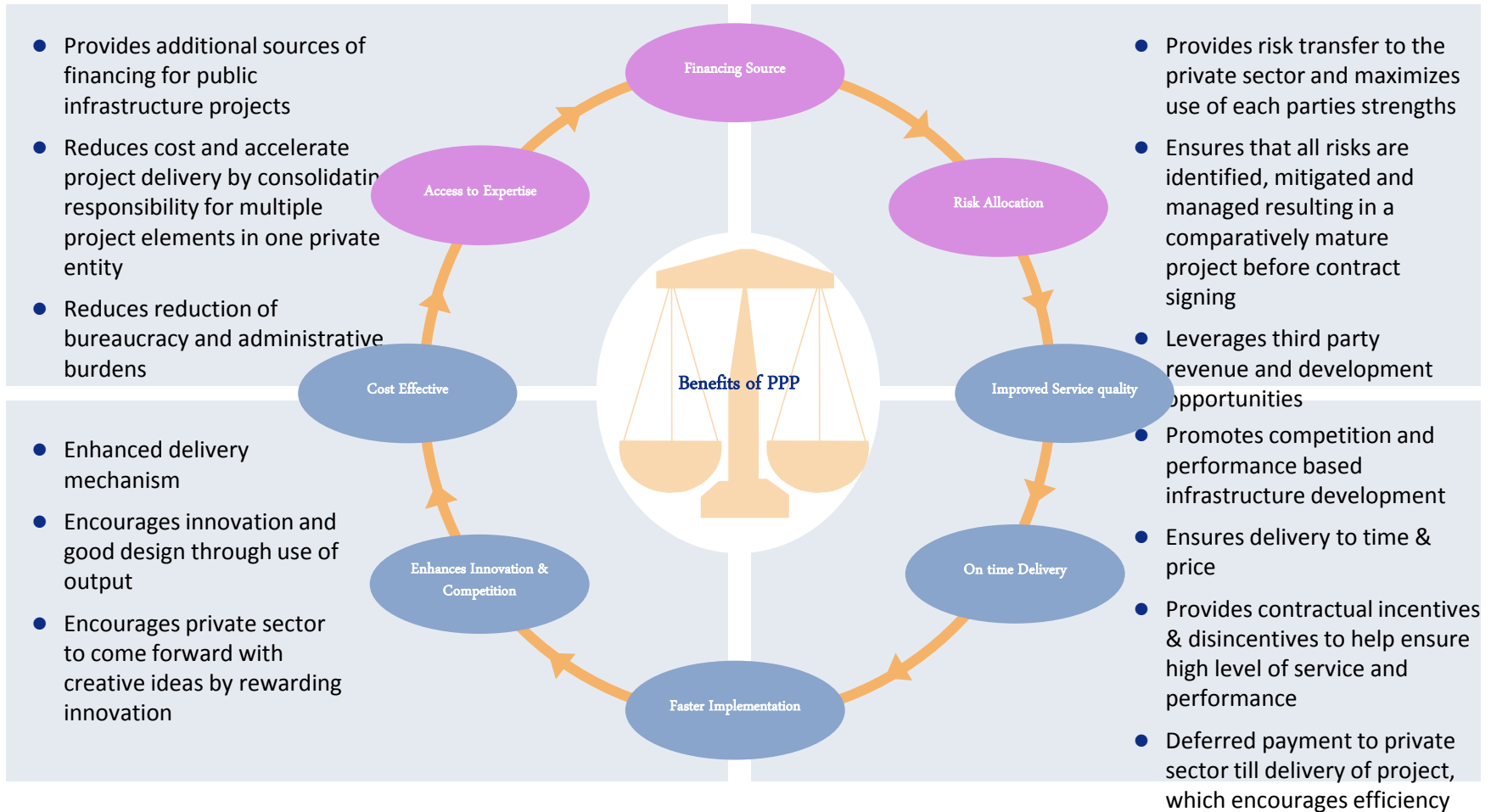
Core Principles of PPP

- Risk allocation between the two parties.
- Redistribution of the risk to the party that is best suited to efficiently manage it

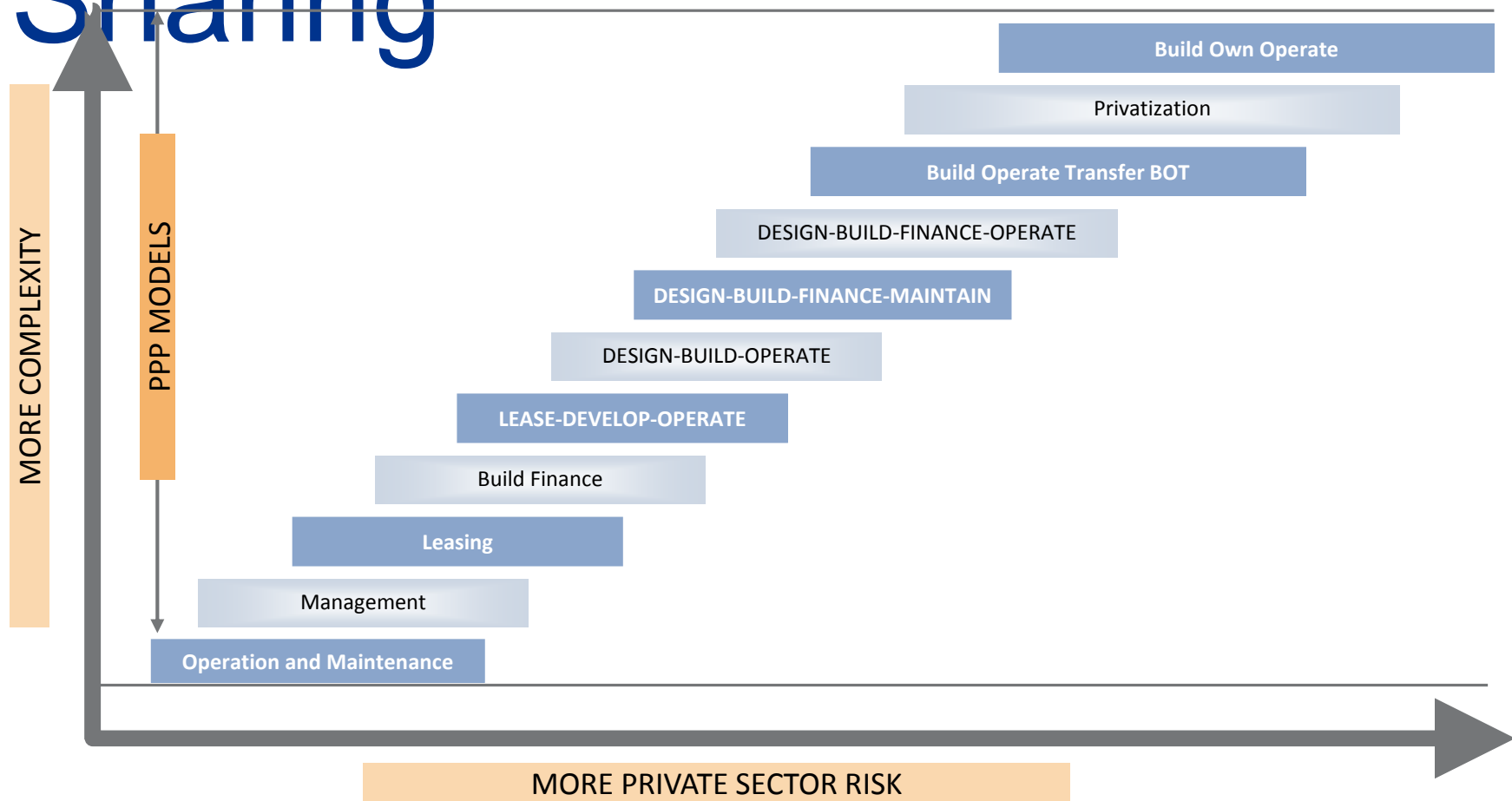
Risk Categories



PPP Benefits



PPP – Risk Allocation & Sharing

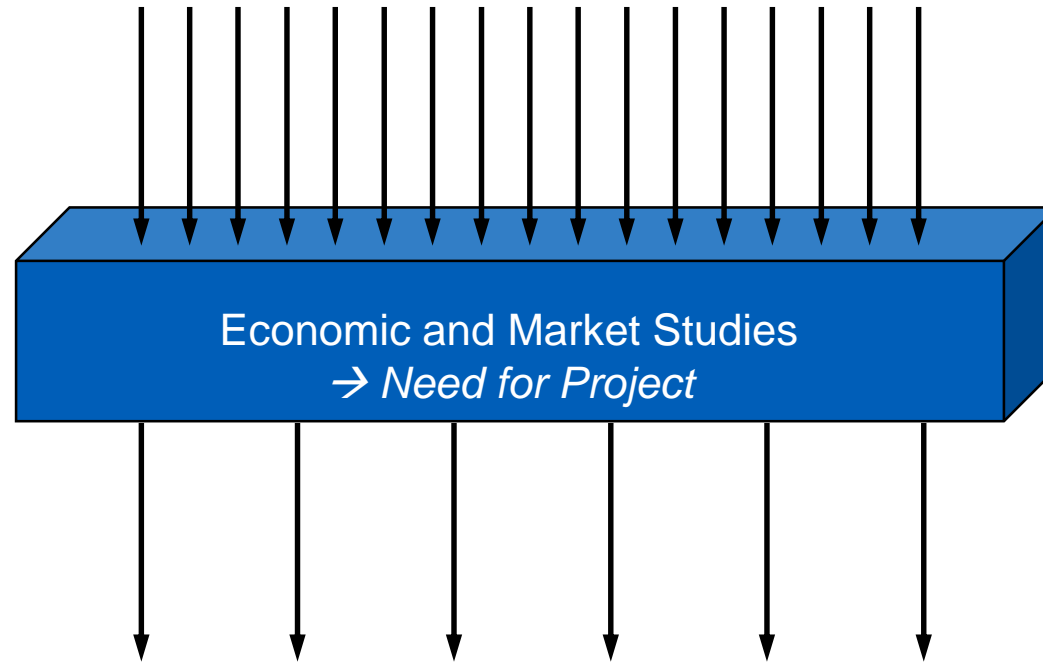


Models of PPP – Risk

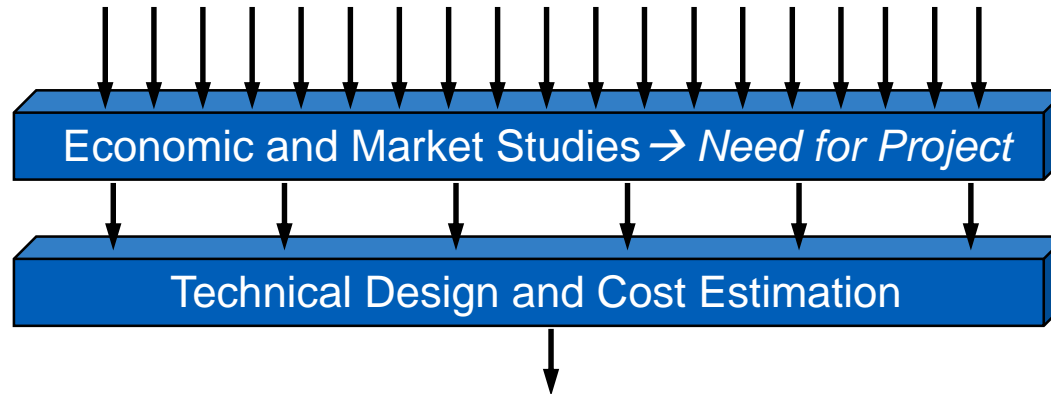
| Risk Mapping | | | | | |
|--------------|---------------------------|------------|------------|--------------------|---------|
| Contracts | Operation and Maintenance | Management | Leasing | BOT | BOO |
| Operation | Private | Private | Private | Private | Private |
| Quality | Private | Private | Private | Private | Private |
| Management | Government | Private | Private | Private | Private |
| Demand | Government | Government | Private | Government/Private | Private |
| Investment | Government | Government | Private | Private | Private |
| Residual | Government | Government | Government | Government | Private |
| Construction | Government | Government | Private | Private | Private |
| Design | Government | Government | Private | Private | Private |

Why do we need
PPP's?

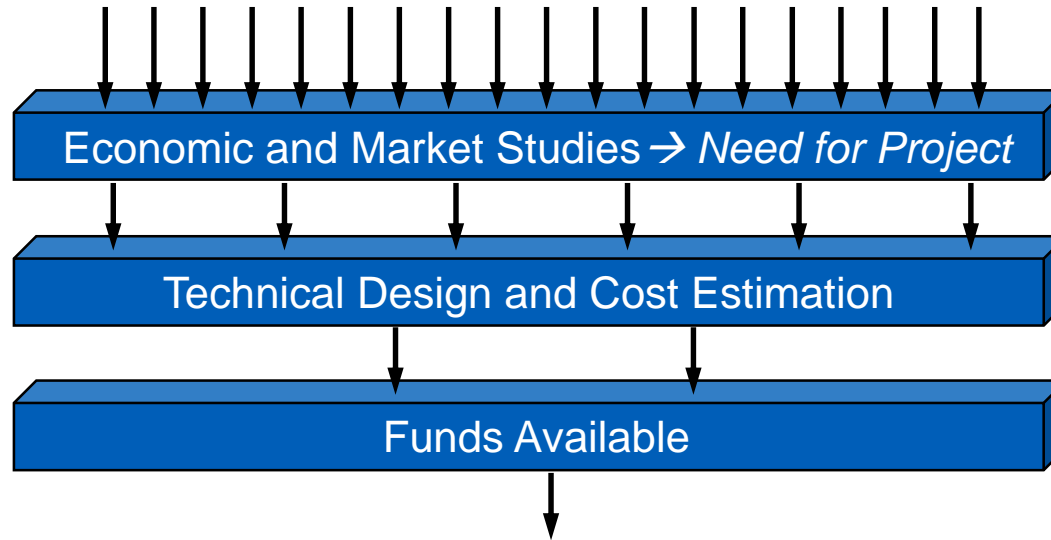
Typical Developments (1/6)



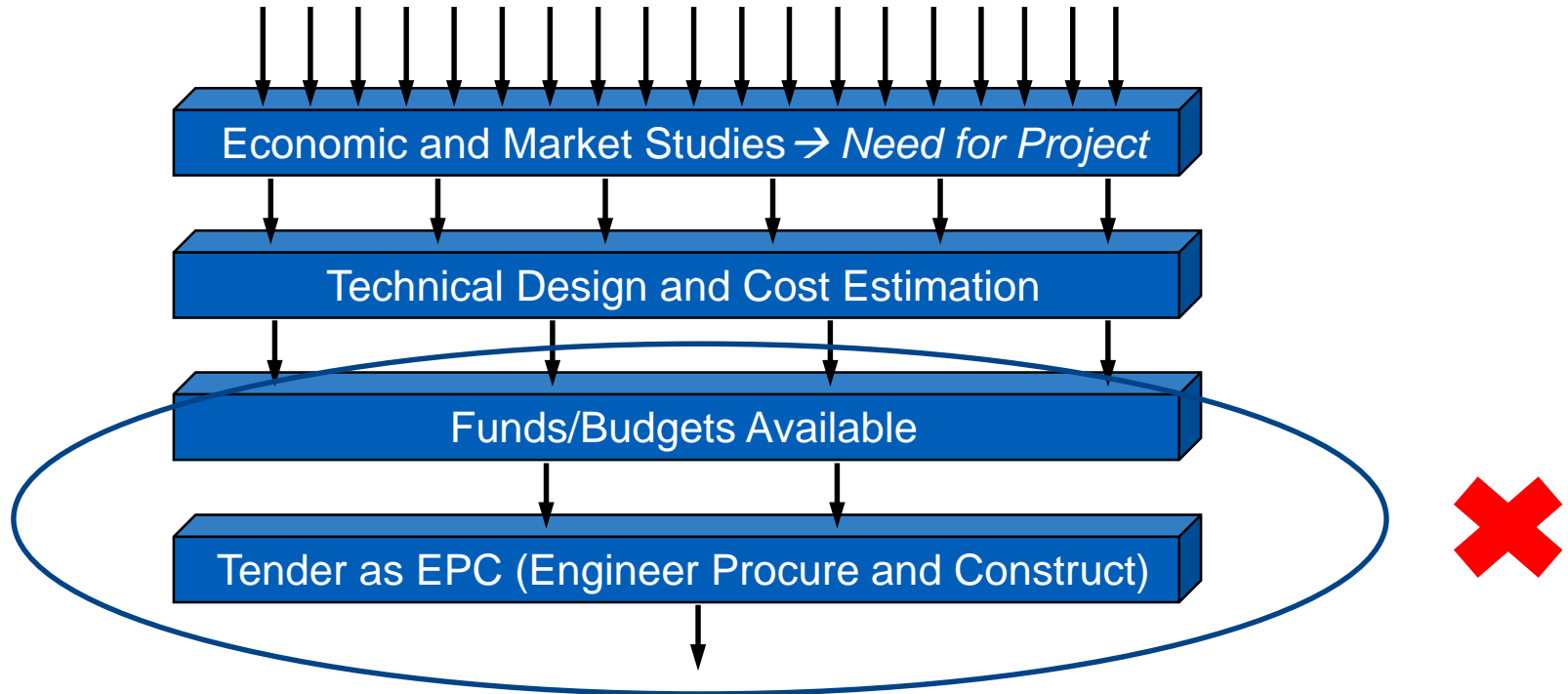
Typical Developments (2/6)



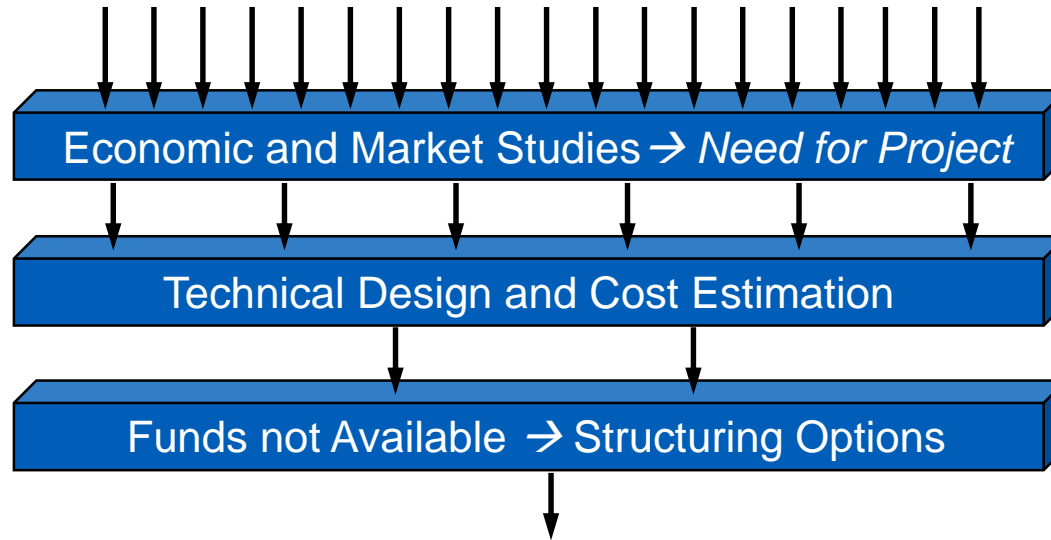
Typical Developments (3/6)



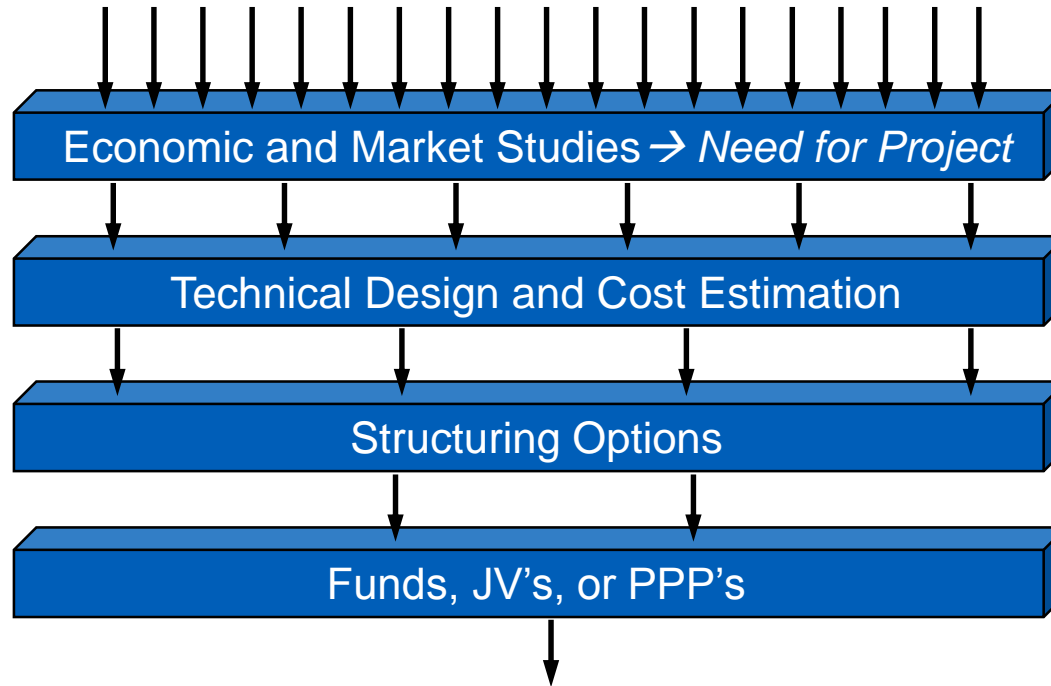
Typical Developments (4/6)



Current Developments (5/6)



Current Developments (6/6)



How can we apply
PPP's in the Real
Estate Sector?

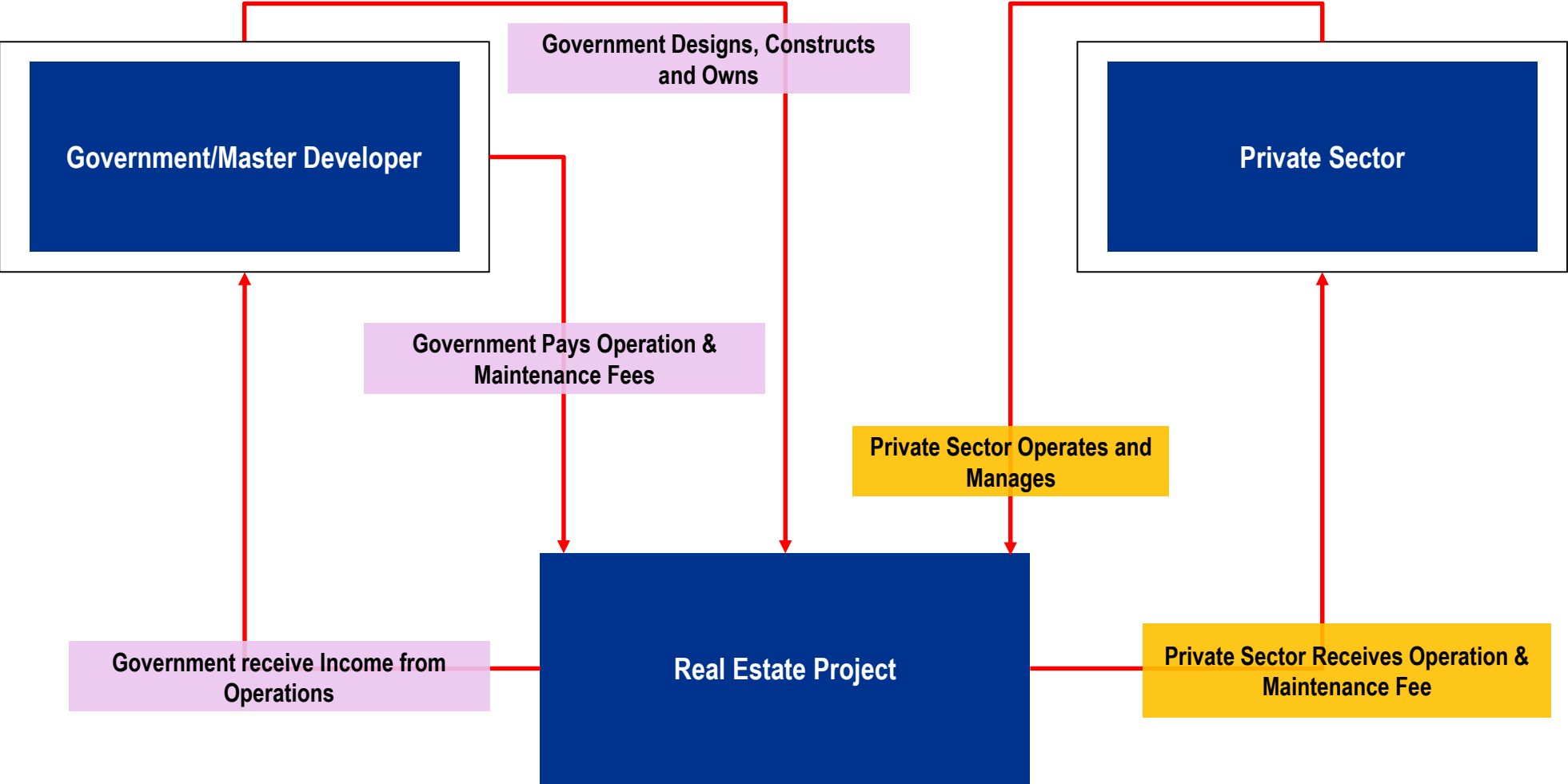
Operation and Maintenance

Operation and Maintenance

| Risk | Government | Private |
|--------------|------------|---------|
| Operation | ✗ | ✓ |
| Quality | ✗ | ✓ |
| Management | ✓ | ✗ |
| Demand | ✓ | ✗ |
| Investment | ✓ | ✗ |
| Residual | ✓ | ✗ |
| Construction | ✓ | ✗ |
| Design | ✓ | ✗ |

- In an operations and maintenance contract, the operational and quality risks lie with the private sector as they are responsible for delivering the product or service to the end user.
- On the contrary, risks associated with design, construction, and investment remain with the government as it is their responsibility.
- Although the private sector will be operating the property, the demand risk remains with the government as the government is responsible to inducing demand for the product or service.

Operation and Maintenance Flowchart



Operation and Maintenance – Examples



- Residential Compounds



- Office Parks

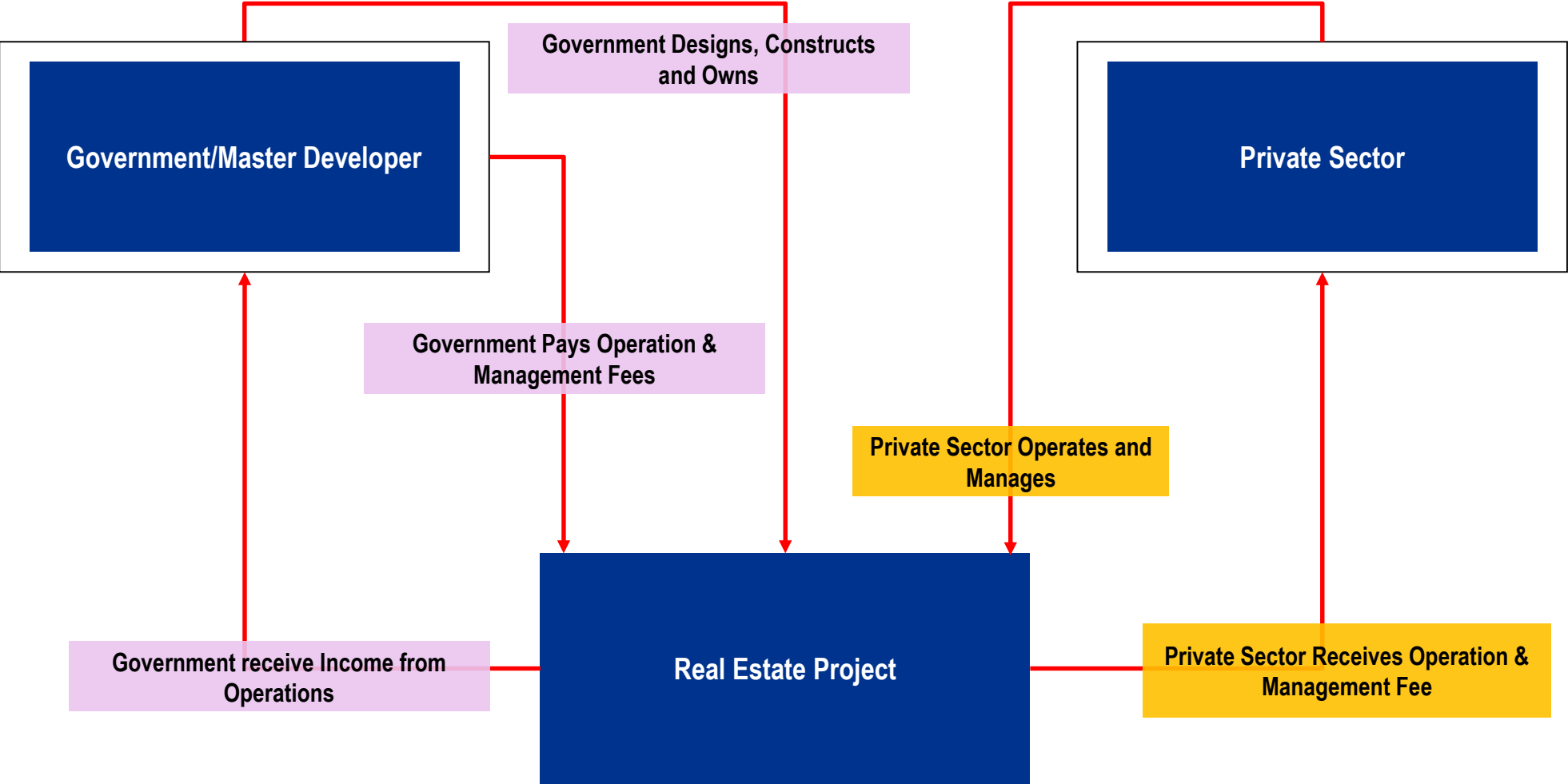
Operation and Management

Operation and Management

| Risk | Government | Private |
|--------------|------------|---------|
| Operation | ✗ | ✓ |
| Quality | ✗ | ✓ |
| Management | ✗ | ✓ |
| Demand | ✓ | ✗ |
| Investment | ✓ | ✗ |
| Residual | ✓ | ✗ |
| Construction | ✓ | ✗ |
| Design | ✓ | ✗ |

- In an operations and management contract, the operational, quality, and management risks lie with the private sector as they are responsible for delivering the product or service to the end user.
- On the contrary, risks associated with design, construction, and investment remain with the government as it is their responsibility.
- Although the private sector will be operating and managing the property, the demand risk remains with the government as the government is responsible to inducing demand for the product or service.

Operation and Management Flowchart



Operation and Management – Examples



- Hotels



- Hospitals / Schools

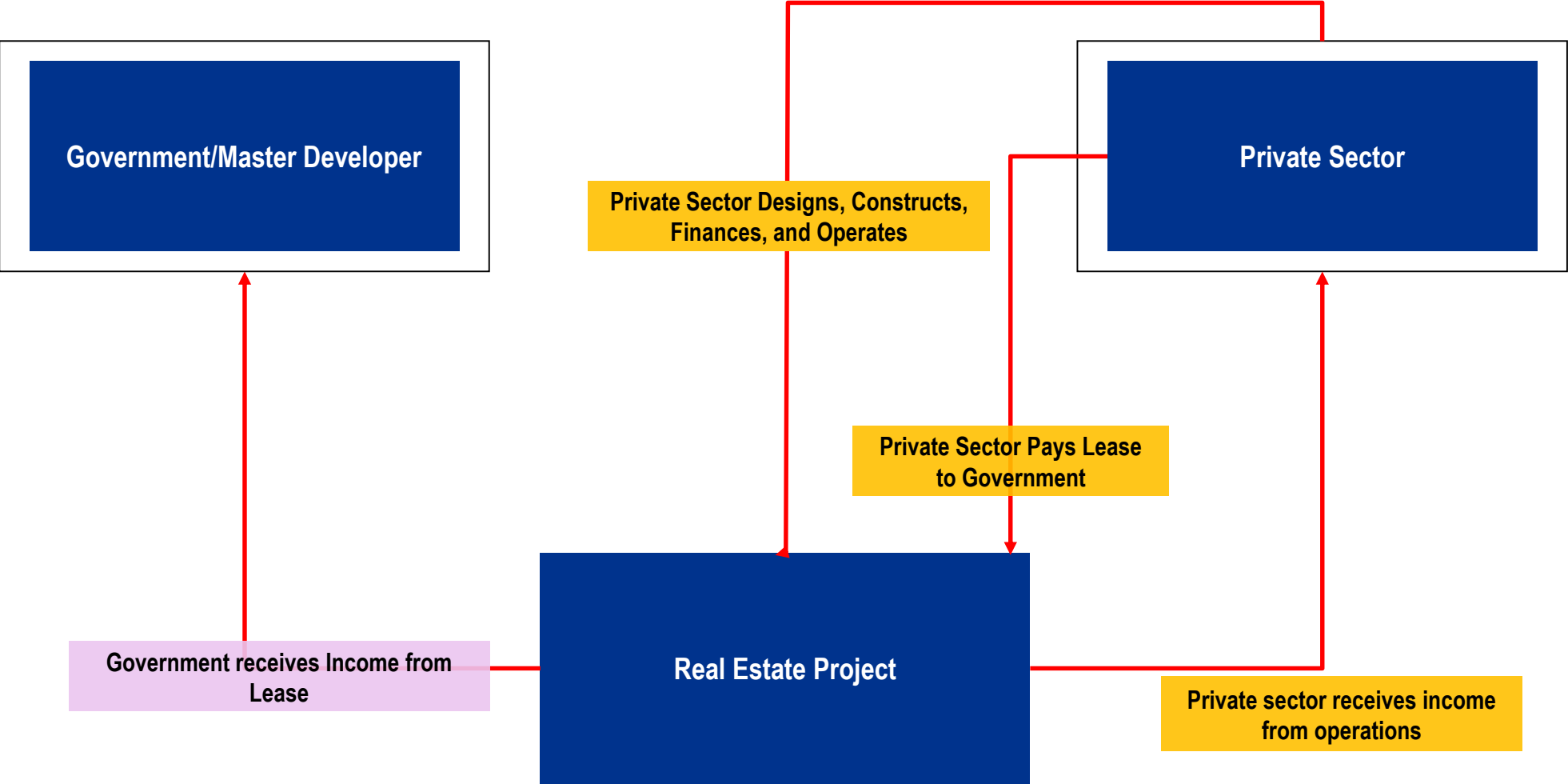
Lease

Lease

| Risk | Government | Private |
|--------------|------------|---------|
| Operation | X | ✓ |
| Quality | X | ✓ |
| Management | X | ✓ |
| Demand | X | ✓ |
| Investment | X | ✓ |
| Residual | ✓ | X |
| Construction | X | ✓ |
| Design | X | ✓ |

- In a lease contract, the design, construction and investment risks lie with the public sector as they are responsible for completing the construction of the Project and having it ready for third parties to lease
- On the contrary, risks associated with quality, management and operations remain with the private sector as it is their responsibility to deliver the Project's services to the end user after having received the final product from the public sector.
- The demand risk remains with the private sector as the private sector is responsible to inducing demand for the product or service. The residual risk however remains with the government as the Project is owned by the public sector

Lease Flowchart



Lease – Examples



- Lands / Mixed Use



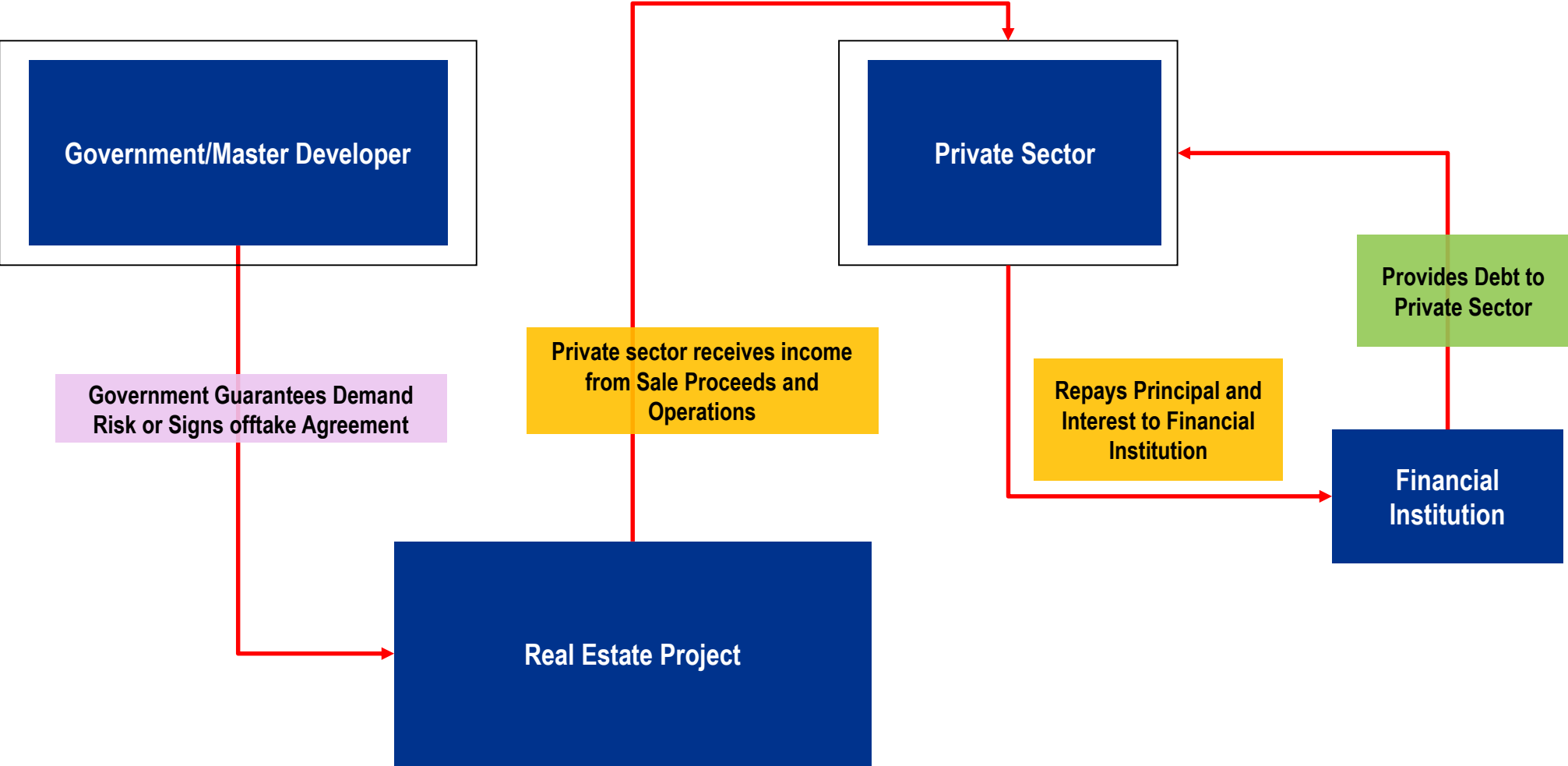
Build Own Operate

Build Own Operate

| Risk | Government | Private |
|--------------|------------|---------|
| Operation | ✗ | ✓ |
| Quality | ✗ | ✓ |
| Management | ✗ | ✓ |
| Demand | ✓ | ✓ |
| Investment | ✗ | ✓ |
| Residual | ✗ | ✓ |
| Construction | ✗ | ✓ |
| Design | ✗ | ✓ |

- In a Build Operate and Own Contract, the private sector designs, builds, operates, and owns the development.
- The demand risk will be shared by the government and the private sector as both parties have interest in the success of the venture.

Build Own Operate Flowchart



Build Own Operate – Examples



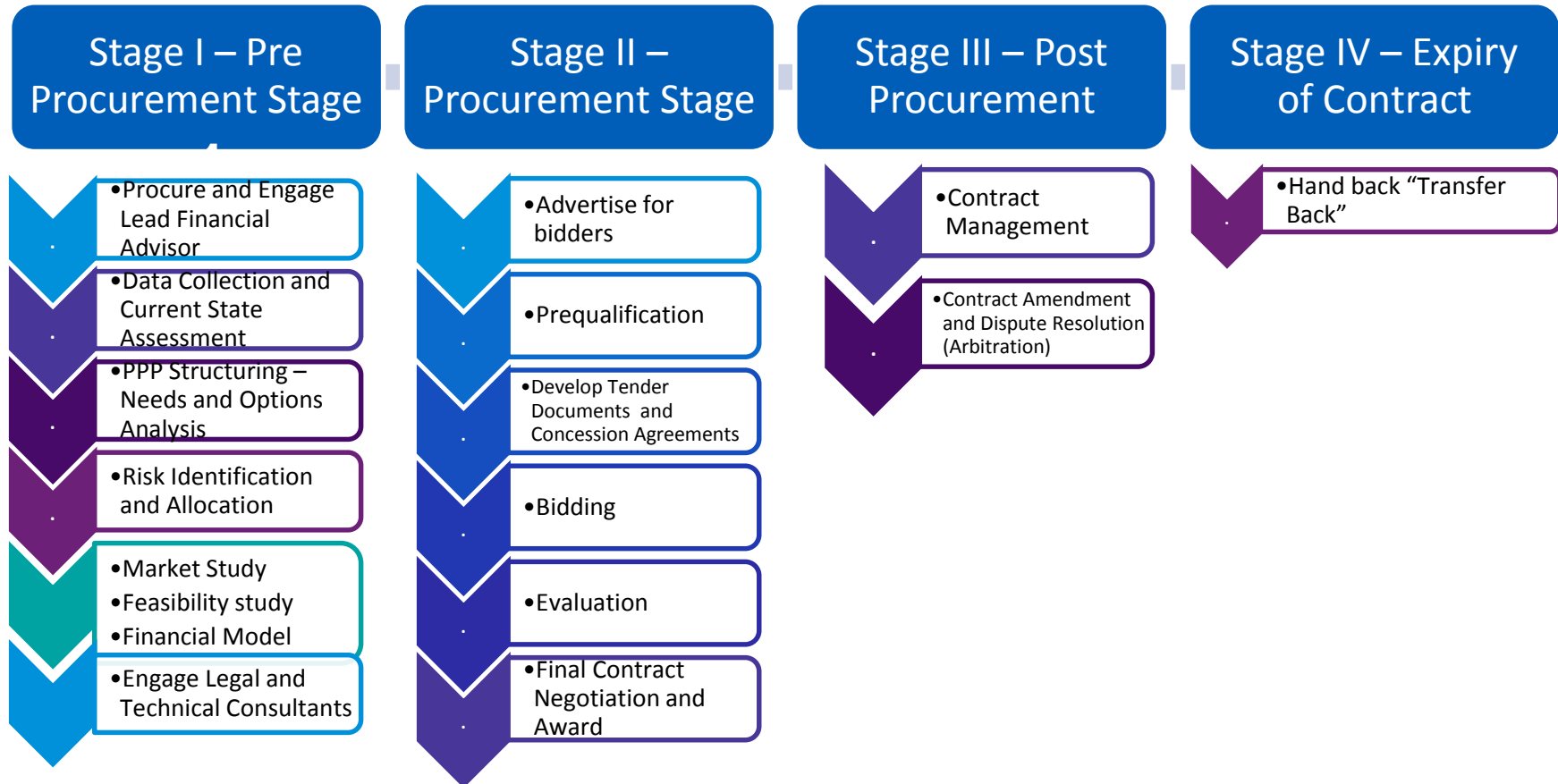
- Housing



- Lands / Mixed Use

PPP Process

PPP Standard Process



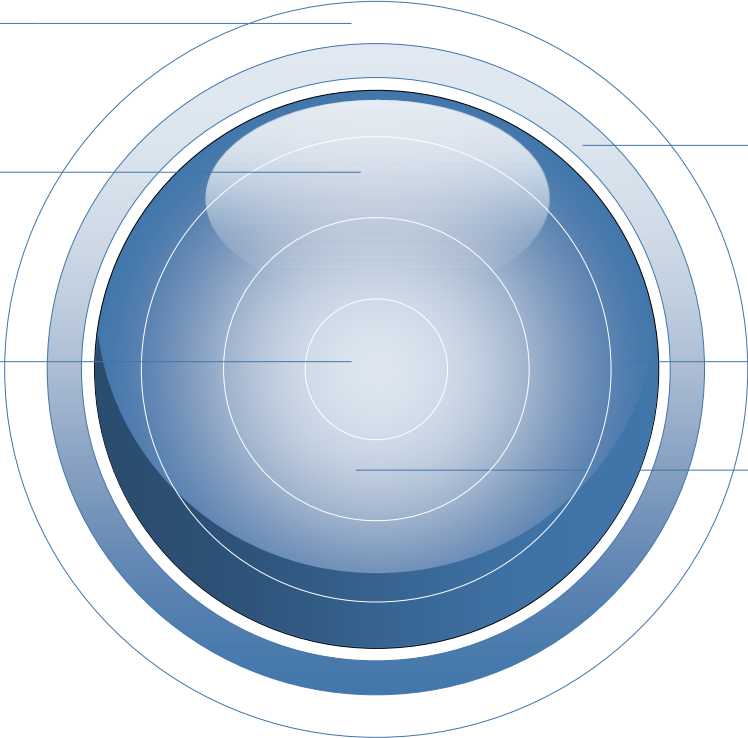
PPP Lessons Learned

PPP – Lessons Learned

PPP's are specific

It is not Free Money or Service

Government should assume Risks that it best could manage



Win - Win Mindset

Proper allocation of risk

Will for a sustainable and trustful partnership



Thank you



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Outline

- ✓ Background
- ✓ Objective
- ✓ Understanding PPP
- ✓ Risk Categories
- ✓ PPP Benefits
- ✓ PPP – Risk Allocation and Sharing
- ✓ Models of PPP – Risk Mapping
- ✓ Typical Developments
- ✓ PPP Standard Process
- ✓ Lessons Learned

PPP Typical Payment

| Title | | |
|-----------------------|----------------------------|--------------------------------------|
| Source of Payment | Sell services to consumers | Sell services to public partner only |
| User Charges | ✓ | |
| Usage Payments | | ✓ |
| Availability Payments | | ✓ |
| Performance payments | | ✓ |
| Ancillary Revenue | ✓ | ✓ |

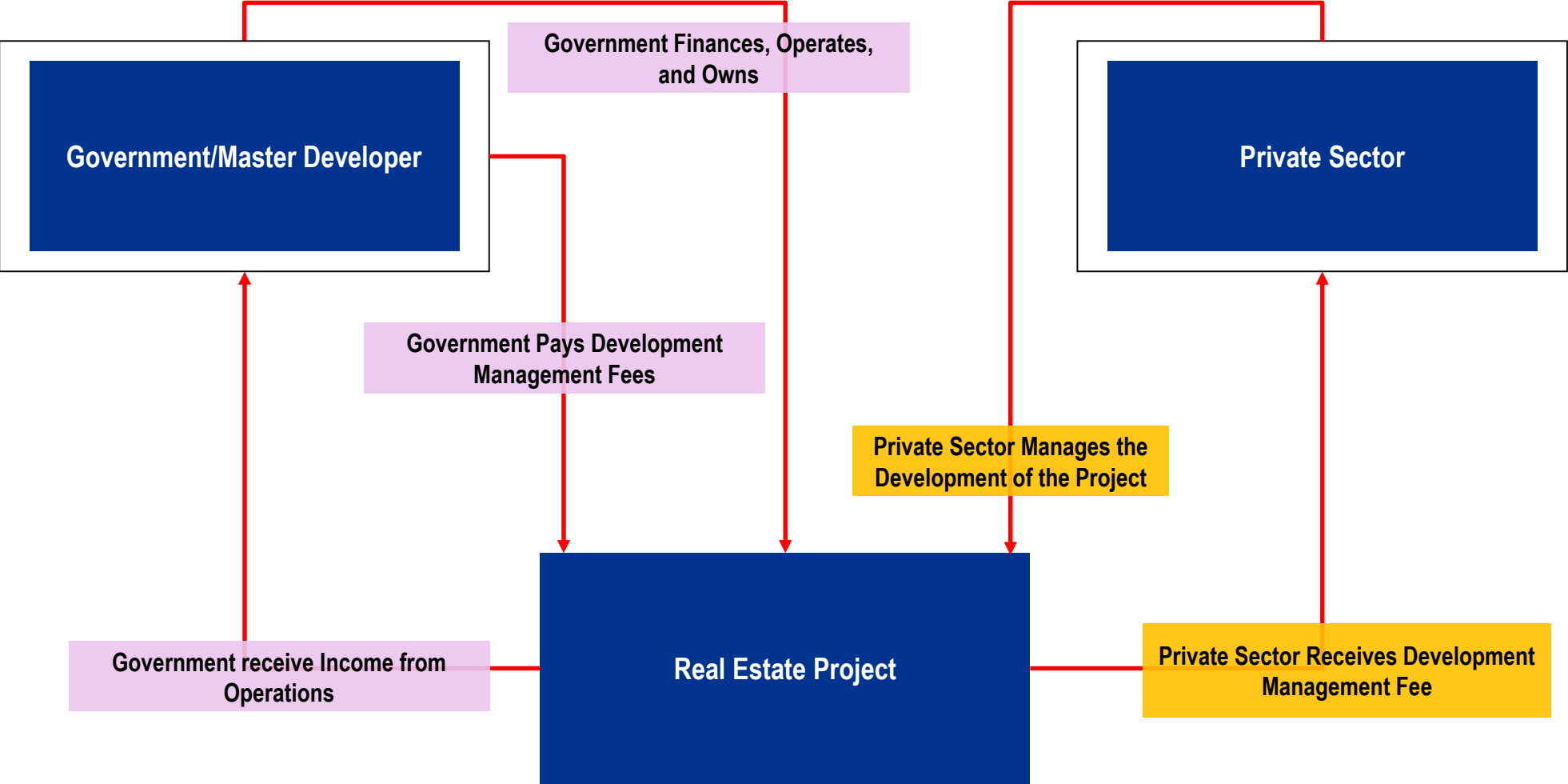
Development Management

Development Management

| Risk | Government | Private |
|--------------|------------|---------|
| Operation | ✓ | ✗ |
| Quality | ✓ | ✗ |
| Management | ✓ | ✗ |
| Demand | ✓ | ✗ |
| Investment | ✓ | ✗ |
| Residual | ✓ | ✗ |
| Construction | ✗ | ✓ |
| Design | ✗ | ✓ |

- In an Development Management contract, the Construction and Design risks lie with the private sector as they are responsible for managing the development of the project.
- On the contrary, risks associated with investment, demand, operational, quality, and residual remain with the government as it is their responsibility.

Development Management Flowchart



Development Management – Examples



- Mixed Use
- Large Master Plans



- Housing