

Public Private Partnerships in Real Estate

Sep 2017

First and foremost...

Thank you for inviting KPMG to speak with you today



Overview



What are PPP's and Why do we need them?





What are the core Principles of PPP's?





How can we apply PPP's in Real Estate?



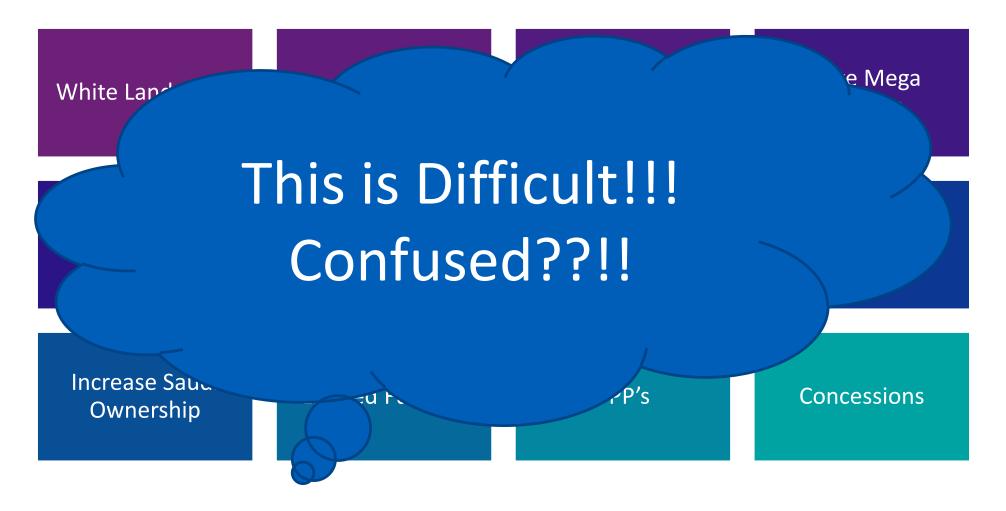


What are the Key lessons learned?





Background





Objective

Simplify

Explain Theory with Practical Examples

Raise Awareness



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"

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

 Provides additional sources of Provides risk transfer to the financing for public private sector and maximizes infrastructure projects use of each parties strengths Reduces cost and accelerate Ensures that all risks are project delivery by consolidating identified, mitigated and responsibility for multiple managed resulting in a project elements in one private comparatively mature project before contract entity signing Reduces reduction of bureaucracy and administrative Leverages third party revenue and development burdens Benefits of PPP Improved Service quality Cost Effective pportunities Promotes competition and Enhanced delivery performance based mechanism infrastructure development Encourages innovation and • Ensures delivery to time & good design through use of Enhances Innovation & price output Provides contractual incentives Encourages private sector & disincentives to help ensure to come forward with high level of service and creative ideas by rewarding performance Faster Implementation innovation Deferred payment to private sector till delivery of project, which encourages efficiency



PPP - Risk Allocation &

Build Own Operate Privatization **Build Operate Transfer BOT DESIGN-BUILD-FINANCE-OPERATE MORE COMPLEXITY** PPP MODEL **DESIGN-BUILD-FINANCE-MAINTAIN DESIGN-BUILD-OPERATE** LEASE-DEVELOP-OPERATE **Build Finance** Leasing Management **Operation and Maintenance**

MORE PRIVATE SECTOR RISK



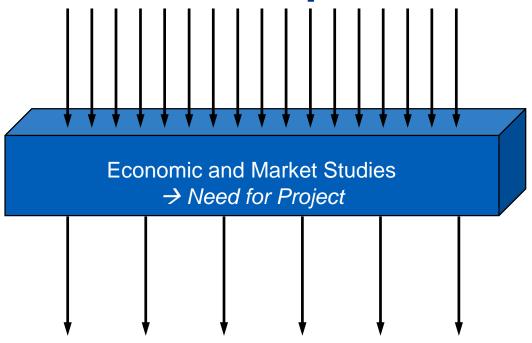
Models of PPP – Risk

Risk Mapping					
Contracts	Operation and Maintenance	Management	Leasing	вот	воо
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



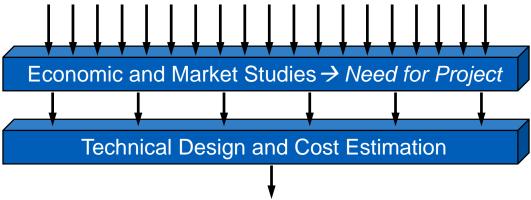
Why do we need PPP's?

Typical Developments (1/6)



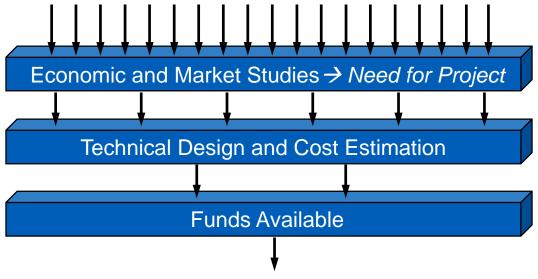


Typical Developments (2/6)



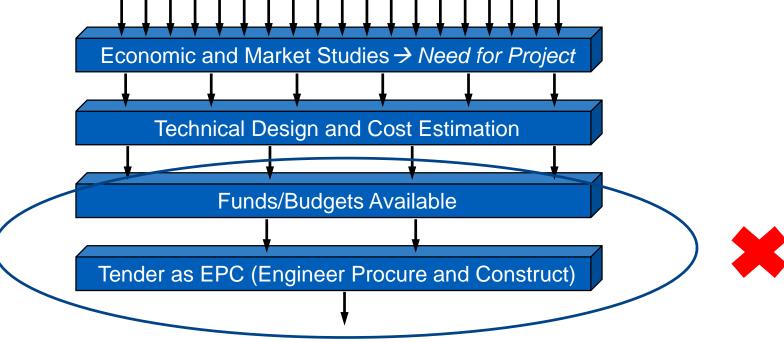


Typical Developments (3/6)



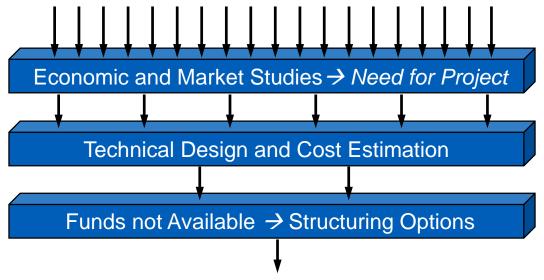


Typical Developments (4/6)



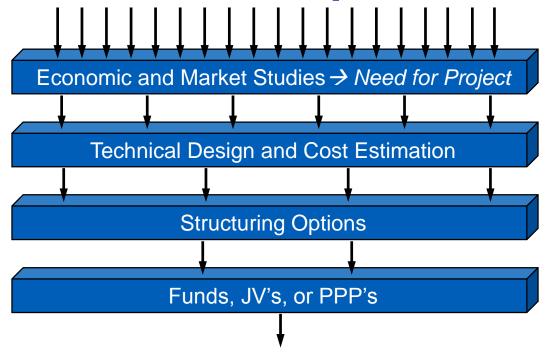


Current Developments (5/6)





Current Developments (6/6)





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

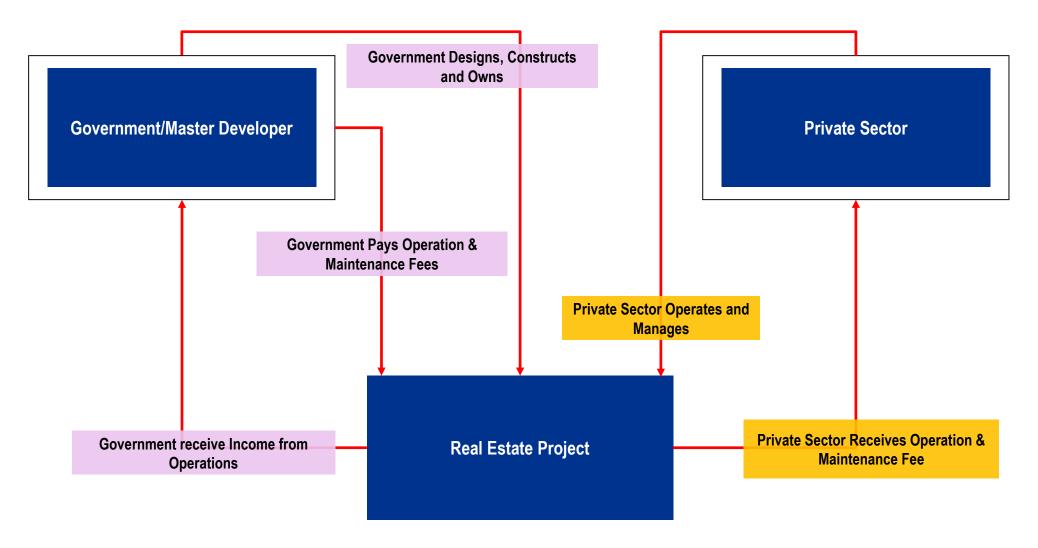
Operation and Maintenance

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

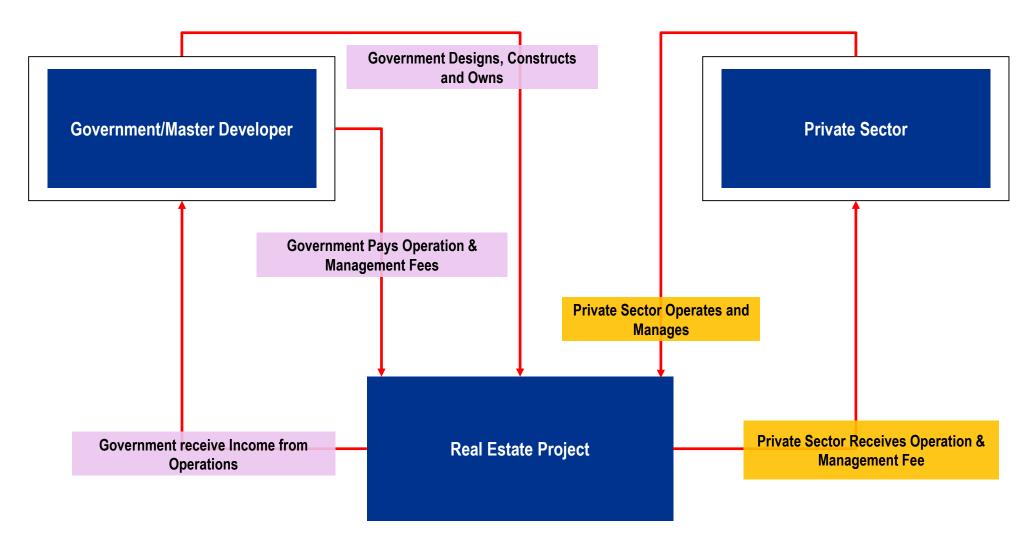
Operation and Management

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

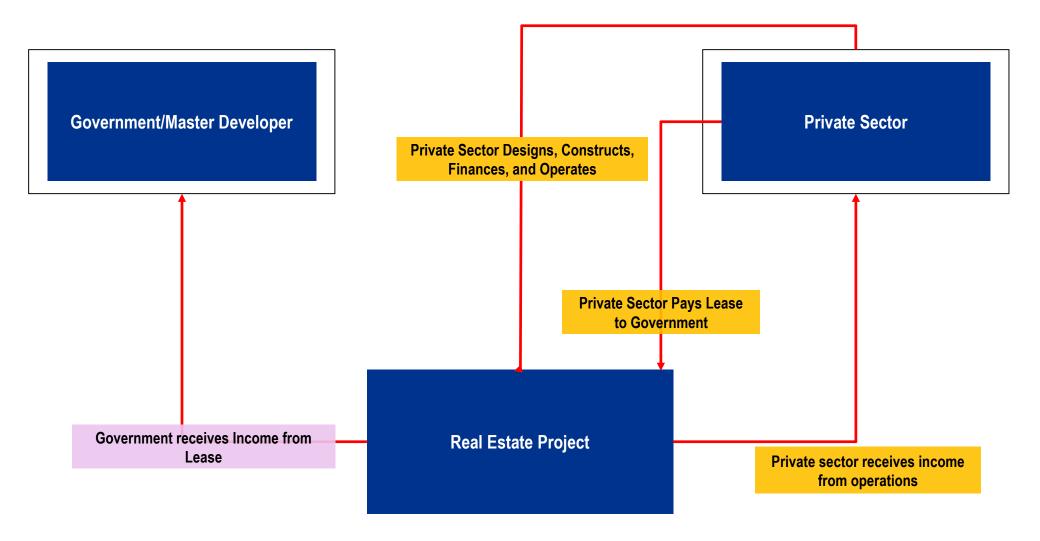
Lease

Risk	Government	Private
Operation	×	√
Quality	×	\checkmark
Management	×	\checkmark
Demand	×	√
Investment	×	√
Residual	√	×
Construction	×	√
Design	×	√

- 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



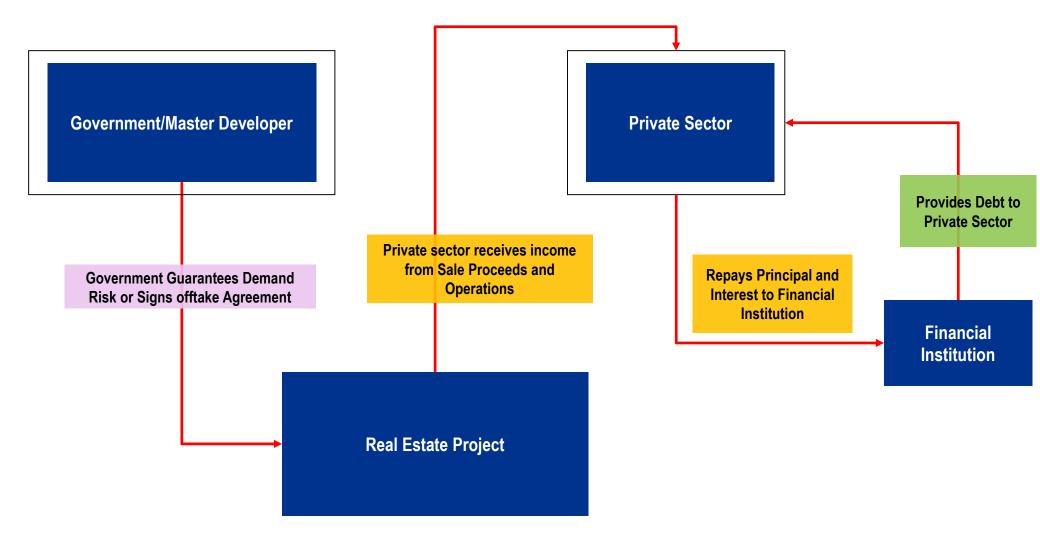
Build Own Operate

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

Stage I – Pre **Procurement Stage**

Stage II – **Procurement Stage**

Stage III – Post **Procurement**

Contract

(Arbitration)

Contract Amendment

and Dispute Resolution

Stage IV – Expiry

•Hand back "Transfer Back"

- Procure and Engage Lead Financial Advisor
- Data Collection and **Current State** Assessment
- PPP Structuring **Needs and Options** Analysis
- Risk Identification and Allocation
- Market Study
- Feasibility study
- •Financial Model
- Engage Legal and **Technical Consultants**

- Advertise for bidders
- Prequalification
- Develop Tender Documents and **Concession Agreements**
- Bidding
- Evaluation
- Final Contract Negotiation and Award

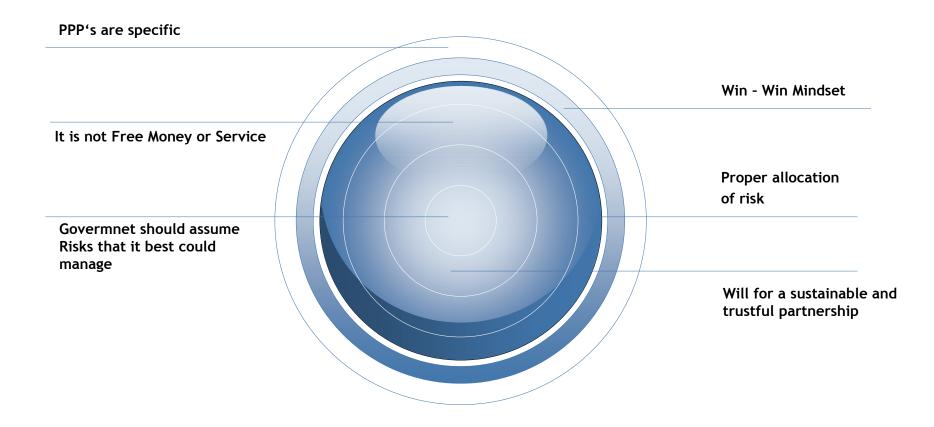
of Contract

Management



PPP Lessons Learned

PPP – Lessons Learned





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			



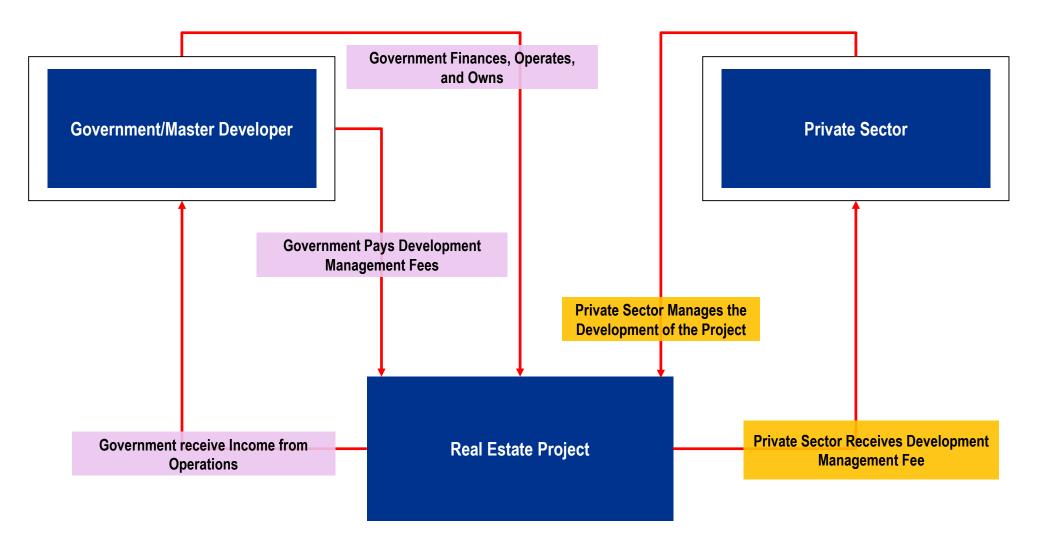
Development Management

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