PPPs for Transit Oriented Development – 4 Options

Chris Hale
Centre for Transport Strategy, University of Queensland

Third International Conference on Funding Transportation Infrastructure, and Tenth « Journée Transport »
Paris, June 19 and 20, 2008

Abstract:
A look at potential project structures for use in integrated land use and mass transit projects. Four potential structures are put forward – each with different profiles of public sector involvement. The dedicated pursuit of Transit Oriented Development involves significant policy challenges, implications and opportunities.

Over the past decade and more, many countries and regions have moved toward the mainstreaming of PPPs. The British approach to PPPs has been adopted in other contexts such as in state-level government in Australia. While the concept emerged as a "new approach" to infrastructure implementation, official policies on acceptable PPP approaches and structures quickly developed a rigid outlook. Some basic PPP assumptions on the nature of partnerships, and on topics such as the allocation of risk, may need fundamental re-assessment.

Transit Oriented Development (TOD) tends to involve significant input from the public sector and the private. The most effective approach to combining the strengths of each sector in major projects has long been debated, though few firm policy options have been put forward. Options for project structure are generally unclear and uncertain. The stakes are high because these projects involve long-term land use and transport changes, and the creation of new and significant living and working environments. Large financial commitments are involved. Perhaps by clarifying the options for TOD project structure we can deliver more certainty and workability and assist the progress of these projects.

The paper presents four potential models for TOD projects, all of which might be regarded as PPPs (depending on the acceptable definition). The focus is on clarity in financial arrangements and management structures for effective project delivery.

Keywords: Public Private Partnerships; Transit Oriented Development; Project Management; Project Finance.

Author contact: c.hale2@uq.edu.au

1. Introduction

Around the world, the new momentum for urban planning, transport, development and design is in integrated land use and transit solutions. European and Asian cities have a head-start in terms of better transit infrastructure. Yet it is in North America and Australasia, where population growth pressures are greatest, that fairly radical changes in policy direction are occurring. The embracing of smart growth principles, of transit oriented development (TCRP 2004) and a generational switch from road expenditure to transit infrastructure investment is gradually changing the lifestyle options and planning typologies in new world cities (OUM 2005; SEQIPP 2006; DOI 2002; DOI 2006; DOP 2005). The 21st century urban landscape sees greater demand for apartment and townhouse living from both younger housing consumers looking for a vibrant urban milieu, and older people who are no longer keen on the isolation and maintenance demands of the suburban house and garden (Salt 2003; Dittmar & Ohland 2004).

In transport, a discernible shift is occurring in which the wisdom of large-scale road construction is now openly questioned in the mainstream media (Hale 2008). Fuel price rises, congestion and environmental factors are putting pressure on public transport systems to accommodate a new wave of passengers (Sandy 2008). At the same time, this economic and environmental context is creating a shift in which economic and financial viability studies for public transport should become more favorable.

Variations of public private partnerships (PPPs) have been proposed and implemented in many areas that were traditionally the concern of the public sector exclusively (DIP 2002; DTF 2000). The most clearly beneficial aspect of a PPP seems to be that they are generally delivered on time and on budget. Additionally, they are said to facilitate the implementation of projects beyond the capabilities of a pure public sector approach. In summary; time, cost and capability advantages form the main case in favour of PPPs. On the negative side, many researchers have questioned the veracity of some claims regularly made about PPPs (Hodge 2004; Hodge & Greve 2007; Shaoul 2002; Wakeford & Valentine 2001; Duffield & Regan 2004). Claimed advantages such as “innovation” and “public sector risk reduction” are now facing open season in academe and perhaps the critical media. PPPs are receiving a lot of scrutiny regarding foggy governance, accountability, and financial arrangements.

After over a decade of PPP successes and failures, it is time to reassess the model and some of the underlying assumptions. The basic concept of “partnership” lies at the heart of the strengths and weaknesses, and future potential of PPPs. In the realm of Transit Oriented Development, unique project circumstances are creating a demand for project structures (perhaps of a PPP nature) that can effectively balance public and private concerns for the creation of sustainable, transit-served communities and activity centres. As yet though, there are few examples of an off-the-shelf PPP model for TOD. Population growth pressures and changing planning contexts probably imply that the demand for workable, transparent and understandable TOD project structures is set to grow significantly.

For these reasons, the paper seeks to establish some basic parameters on which viable PPP ventures in TOD may be based. Four potential TOD models are put forward. These models will be refined and clarified during a subsequent research process based on stakeholder feedback – a process to which parties around the world engaged in transit oriented development activities are invited to contribute.

2. PPPs – A Brief Review of Strengths and Weaknesses

"The common ground among PPP definitions in Australasia is that government has a business relationship, it is long term, with risks and returns being shared, and that private business becomes involved in financing, designing, constructing, owning or operating public facilities or services." (Hodge 2004, p37)

Looking at the literature on perceived or identified weaknesses in recent PPP approaches, a number of important issues emerge repeatedly. The first is that PPPs often fall prey to "salesmanship", "rhetoric" and that they may in some instances "camouflage" arrangements that provide the public with a poor deal. (Hodge 2004; Hodge & Greve 2007; Shaoul 2002). Financial arrangements may at times constrain or limit the public interest. PPPs sometimes seem to preference projects that appear effective on restricted finance-based criteria over those that may have a broader economic impact to offer the public. In practice, valuation of assets in question may be extremely difficult over long time frames against uncertain usage outcomes and economic or policy contexts. Specific questions have also arisen over the veracity of "public sector comparators" in which public sector advantages in the cost of finance are ignored or deliberately left out of the equation (Shaoul 2002, p55). Questions have been raised about the a priori assumption that the private sector is inherently more efficient (Shaoul 2002, p57). Some sources have also pointed out that there is often confusion, deliberate or otherwise, between efficiencies and *economies* – which are often the result of reductions in project scope under a PPP model (Shaoul 2002, p57)

The methodology and assumptions of "risk transfer" are open to doubt (Shaoul 2002, p56). This specific question will form a component of the case mounted in this paper for new options in PPPs for TOD. Many sources have pointed out that on-the-ground cases of troubled PPP projects have ended up with the public sector as ultimate project guarantor and prime holder of project risk. (Shaoul 2002, p59; Duffield & Regan 2004)

Further analysis opens up the possibility that there are other politic and business agendas at play beyond the stated regard for public value-for-money (Hodge & Greve 2004, p545). Some analyses of PPPs see them as a product of political currents at large during the early and mid 1990s. The pressure to reduce public sector budget deficits was seen as one contributing factor (which may no longer be as relevant). And finally, it appears that broader areas of activity such as strategic transport planning are being subsumed by the pressure to package urban life into a neat PPP. It has been suggested that in the Australian context, rail projects are having difficulty finding traction because projects with long asset lives are struggling to compete for attention with toll-based road PPPs

(Forsyth 2008). There is also a question emerging as to whether some of the assumptions and parameters of transport planning are being "cooked" to boost politically-favoured road infrastructure PPPs (Forsyth 2008).

In contrast to the many and varied critiques of PPP approaches, a handful of compelling issues and outcomes emerge as bona fide support for this approach to major infrastructure. In summary the three main issues are advantages in **cost**, **completion time** and **capability –** when compared to public sector outcomes (Hodge 2004, p38; Hodge & Greve 2007, p550).

One of the most problematic aspects of PPP approaches would appear to be the reluctance to offer a flexible, easy-to-understand, partnership-based approach that may be at odds to the standard doctrine on PPPs.

3. Transit Oriented Development – Unique, Complex Project Demands

While many PPP projects relate purely to infrastructure provision such as rail and roads, TOD presents a unique project typology that provides challenges beyond those faced by other transport PPPs. A working definition of TOD might be:
"A vibrant, relatively dense and pedestrianised mixed-use development precinct, featuring quality public space and immediate access to high-frequency public transit."
(Hale and Charles 2006, p1)

Within this definition we can see that there are four or more major elements of TOD that need to be in place if the "end product" is to be judged a success. In project terms this means that a successful TOD may require a significant upgrade to transit service or infrastructure from, say, a state government transit agency. It may also require better public space provision – a realm that is often the preserve of local government. In terms of real estate development, we would expect that large-scale mixed-use construction and marketing will rely on the skills of major private sector developers. With this mix of requirements and inputs, any major TOD undertaking will involve constructive partnering between various private and public stakeholders (TCRP 2004, ch 2,3; Dittmar & Ohland 2004, ch3,5). It is important to identify workable project models that effectively combine and facilitate the different interests (Curtis & James 2004). The standardized PPP approaches referred to in the previous section will probably be incapable of effectively delivering TOD without major clarification, refinement, or wholesale change. This is not to say that some elements of the standardized PPP approach may not be applicable. A new approach is required to PPPs for TOD – one that is built on the needs and role of various key stakeholders. We will categorise these stakeholders below, via the major areas of endeavor and required outcomes.

Transport

It is in the interests of all stakeholders to see better outcomes in transit service and infrastructure for TOD. In the Australian context and in others, it is usually the task of

transit agencies, often an arm of State-level governments, to deliver the required transport outcomes. TOD requires high-frequency, high-capacity mass transit service (Hale & Charles 2006; TCRP 2004, ch8). A TOD location needs to be readily accessible to the primary business locations and activity centers within its broader region. It also needs to integrated effectively into its transport corridor and its population catchment (Vuchic 2005, p268, 269, 283). This requires a well-designed transit station which is effectively served by feeder services, allowing effective transfers to other lines and services. Rail corridors may well require upgrades to serve the increased patronage that the new TOD development will deliver. Projects will also often involve the development of transit agency real estate assets including stations and adjacent land. In this context, the transit stakeholder has an imperative to be involved in a meaningful project partnership with other stakeholders. An effective partnership will need to accommodate the complex financial and organizational issues involved (TCRP 2004, ch3, Dittmar & Ohland, ch3,5; Curtis & James 2004). The transit stakeholders have much to offer a TOD PPP – yet they also have a great deal to gain if development and improved public realm boost patronage.

Real Estate Development

The real estate development component of TOD is a cornerstone of an effective project. It is also the project component that deviates most obviously outside the normal sphere of public sector activities. The development of dense, mixed-use real estate in connection with a TOD precinct is an area in which the public sector might expect delivery to fall to the responsibility of private developers (TCRP 2004, ch5).

An additional complexity in the case of real estate development for TOD is the desire for the public sector to access some of the real estate value uplift of transit investment. This strategy, commonly referred to as “value capture”, is one of the guiding principles of TOD (D&O 2004, p26; TCRP 2004, p173-176). In this sense, there is an impetus to have closer partnership arrangements between public sector TOD proponents and private developers with an interest in TOD. Value capture is also a relevant guiding principle in cases where the public sector holds substantial land assets around a transit station where TOD development is proposed. A further layer of complexity is created for real estate development in TOD due to the long time frames and strategic nature of projects.

In summary, there are a number of reasons why a model of TOD in which real estate development is purely the preserve of private developers may not be the optimal arrangement. While public sector TOD proponents will often need to rely on private delivery skills for development outcomes, there are compelling reasons why partnerships between private and public stakeholders are desirable.

Public Realm and Master planning

Quality TODs are said to require effective master planning and the creation of high-quality public realm (Hale & Charles 2006). This might include measures aimed at pedestrianising and revitalizing core shopping streets. It may include better planting and hard-scaping of public space. It may require changes to planning codes and zoning instruments that can assist with the facilitation of urban renewal or substantial development around a key transit node (TCRP 2004, ch4). All of these aspects are largely

beyond the control of private developers. In order to get the best out of a TOD precinct, the project team needs to generate improved outcomes in terms of public realm and the interface between the project and its local or state government stakeholders. Public sector stakeholders delivering public realm or planning improvements may also be interested to recoup up-front costs. There are a variety of public-realm and planning-based reasons why effective partnerships between the public and private sectors are important in TOD.

Relationship of TOD development to existing PPP Doctrines

The existing body of PPP strategy in use in Australia and elsewhere relies on a handful of somewhat rigidly defined processes and formulae. From the Queensland Government's PPP literature we are offered the following series of prescribed steps toward project acceptance:

1. Service Identification (the need for the project becomes clear). 2. *Preliminary Assessment.* 3. *PPP Business Case Development* (including comparison of public sector versus PPP option). 4. *Expressions of Interest.* 5. *Binding Bids.* 6. *Management of Contracts.* (DIP Aug 2002, p6)

Although these steps provide some assistance for PPP proponents, their applicability in the TOD context is open to question. A short list of key concerns might include:

- Issues of land ownership and timing of acquisition
- Viability of "unsolicited proposals" – a topic which is covered in the DIP document but perhaps lacks realism in scenarios where a single land holder is the driving force behind a TOD proposal
- Protection of intellectual property – another crucial issue mentioned in the document but not satisfactorily resolved from a practical point of view
- Ability of the process to meet time constraints and other requirements that property development projects face
- Lack of established precedent for transit oriented development PPPs
- Ability of the official PPP process to manage a large number of projects that might emerge at a multitude of transport nodes and station areas
- Flexibility to evolve a project structure and approach tailored to the context and needs of individual projects
- Ability to minimise costs to the project of engaging contractors and consultants by avoiding full-blown tendering processes where appropriate.

The real estate development and ownership activity within a TOD project implies that any PPP process needs to be amenable to mainstream property industry approaches. Of significant concern would be the extent to which any PPP recognized norms of ownership, partnering, risk management and finance that apply in the real estate industry. A potential PPP for transit oriented development will be undermined and thrown into confusion to the extent that it deviates from universal industry norms in these areas.

4. Finance and Management – the Cornerstones of Effective Partnerships

Official PPP documents refer to a novel formula for risk "allocation" (DIP 2002, 10,11) and "partnership" that are relatively untried in the arena of real estate development. On the other hand, the mainstream development industry functions according to simple and long accepted principles of project structure.

Financial Parameters

The project activities of the real estate development industry are financed through two basic mechanisms: **equity finance** and **bank lending**. We may need to remind ourselves of these simple frames-of-reference in a context where projects undertaken with both public and private input are under pressure to accept new and uncertain mechanisms for project structure. **Equity finance** is essentially an arrangement in which land or real estate assets are owned by an entity (a company structure) (Wikipedia 2008). The investors in this entity receive a shareholding in the company in proportion to the cash they have ventured. In the first instance, the equity investors are looking to ensure that they are buying into a venture that is founded on an accurate valuation of assets and prospects. In practice, equity investors in real estate projects are largely buying into the tangible, relatively liquid assets of the venture such as land. **Bank finance** or "debt") (Wikipedia 2008) is usually applied in real estate development projects for the purpose of funding construction of the project. It is generally not used to cover land acquisition.

Partnerships and Management

The "partnerships" of a real estate venture are very specifically tied to equity ventured into the project (Milne in Squirell ed 1997, p263; Wikipedia 2008). The relative strength and influence of the project partners is closely tied to the relative amount of equity ventured. In simple terms, a 51% equity holding in a development project provides the investor with a small majority interest in the project. A very small project equity stake (say 5% for argument's sake) will provide an investor with limited influence over the project. The project partners are the equity stakeholders. Any party that does not have a direct equity stake is not within the partnership. This equity-based business partnership arrangement is applicable across almost all business ventures. This, in itself, should be a reason to question and re-assess the validity of the non-mainstream approach to partnering that official PPPs propose.

Risk and Reward

In an equity-based business partnering arrangement (Wikipedia 2008; Milne in Squirell ed 1997, p263), the risks (in both upside and downside) are allocated in accordance with the proportion of equity the partner holds in the project. In simple terms, a project partner with a majority 51% equity stake will share in 51% of project profit – or will be responsible for 51% of any loss that the venture incurs. Risks and rewards are not arrived at by legal haggling or apportioned by complex formulae. This approach is tested and proven across many centuries of business activity and in all areas of financial life. By contrast, the official PPP guidelines, and project agreements themselves, often apportion project risk in a manner contrary to the foundation principle of the equity stake. For this

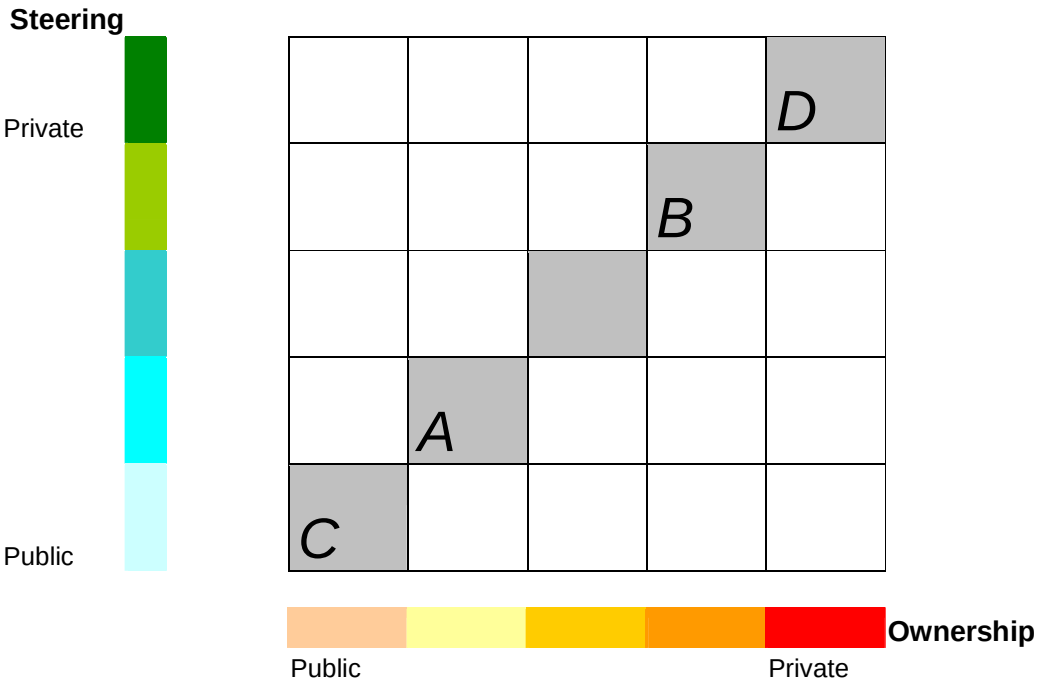
reason alone the newer business approaches entailed by official PPPs should be re-appraised and critically examined.

A New Typology of Project Partnership Analysis

"Overall then, PPPs seem to have at least two dimensions. The first dimension is finance: How are public and private actors engaged financially in PPPs? The other dimension is organizational: How tightly organized are public actors and private actors".
(Hodge & Greve 2007, p547)

In a project or enterprise context in which both public sector and private sector partners are involved, we might propose an arrangement that appropriately balances the two key dimensions of project finance/ownership and steering/management.

Picture 1. Matrix of TOD Structural Relationships.



The matrix outlines a theoretical spectrum of project steering and ownership. The shaded cubes recommend project structures in which ownership of the project through equity investment is effectively balanced with project control and management. Project structures outside the shaded areas would represent projects where ownership and steering is not appropriately balanced. The letters "A, B, C" and "D" denote the position in the project spectrum of the TOD partnership models outlined in Part 5 of the paper.

5. Potential Models for Transit Oriented Development PPP

Project Model A - "Government Sponsored"

This government-sponsored project model would see government agencies (whether state/regional, local or both) playing a leading role in most aspects of the project. Government would be supported and complimented by private industry partners.

Financial Structure and Investment

An independent specialist financial services provider (a financial services "license holder") would play a key role in setting up and managing the Special Purpose Vehicle (SPV) – which is a project-specific company structure for the pooling of equity funds, the holding of land and for access to construction finance. The specialist financial services provider would essentially be playing an independent "financial manager" role. The use of a financial manager for operation of the SPV has a number of advantages – but primarily it offers the opportunity to balance key project stakeholder interests according to equity ventured. Investors can apportion their desired risk and return levels according to the equity they invest. In the case of Model A, the financial structure features majority investment from government or its agencies. The financial manager is in a position to oversee the operation of project finances in a manner that balances the sometimes competing needs of different project investors.

Under project model A, government or a government agency takes a *controlling equity stake* (51% or more) in the SPV. Once the equity stake had been ventured, government would have the same rights and responsibilities as other investors – albeit that its significant equity stake provides for greater representation, influence and responsibility in board-level decision making. The remaining (non-government) investors could comprise any or all of: a developer; a funds manager with an interest in property development projects; a bank or financial institution seeking equity investments; one or more "sophisticated" investors (high net worth individuals, or people who undertake property investment as a vocation), or perhaps even the "retail" market for small investors. Investors would probably need to be provided with a Product Disclosure Statement (PDS) outlining project fundamentals, risks and expected or target investment performance. The project "financial manager" (the financial services specialist) would be the point of contact for investors in the SPV – and would be paid on a fee basis for financial management activities.

Board of Directors

Assuming the board of directors for the SPV is "lean and mean", it might be built around:

- the **Development Director.** Effectively the project CEO – the "DD" has exceptional financial, strategic and property development skills.

- the **Project Manager** - assisting the DD, and focusing on day to day project issues.
- The **Finance Director**. Focusing on the management of the SPV, ideally this director would be a representative of the financial management firm that is operating the SPV. The Finance Director also has responsibility for tracking the financial position of the project.
- **Government Representative A** – representing the government's financial interests in the project.
- **Government Representative B** – another board position would recognise the significant of the government's interests in the project, but government might wish to exercise that interest through influence on planning and design.
- An **Investor Representative** would recognise the equity stake of one of the major investors or JV partners.

The 6-person board structure outlined above could be altered or adjusted according to circumstance, but represents a fairly clear indication of what an effective board of directors might look like for a medium or large-scale redevelopment project. Due to the "outcomes" focus of a significant project, and the financial, planning, transport and development knowledge required for effective project delivery, it is imperative that the board be established on merit, qualifications, skills and potential. Board directors would have ultimate financial responsibility for project outcomes, including financial results.

Project Team (client side)

The project needs effective client-side representation in a variety of key fields and professions, with team members reporting to and working with the Development Director and the Project Manager. These client-side advisors would manage relationships and contracts with key project consultants and contractors. They would play a major role in guiding the project through to completion. The project team would also play a key role in the project development phase – assisting with the conceptualisation and establishment of a workable and attractive project. Client-side project staff need to be leaders in their fields, with high levels of skill, strong qualifications, vision and stamina. They would also need the ability to grow, to adapt and to develop their skills in what is a relatively "new" and novel field. Although 8 or 9 roles are listed here, an ideal project team size might be 5-6 personnel (or fewer) on a mix of full-time and part-time engagement. In some cases, members of the board of directors may take on certain of the project team's client side roles. Some of the client-side team members might themselves be engaged on a consulting basis. Some project staff could take on two or more of the client side responsibilities listed below:

- A **TOD Specialist** providing advice on best-practice in TOD. They would perhaps be drawing on familiarity with successful international TOD projects. They would need to provide strategic advice that understands and spans the spectrum of disciplines involved in TOD – and would need research skills to drive problem-solving.

- The **Property Finance Analyst** would keep and periodically update the project spread sheets. They would incorporate advice on revenues, costs and timing from other project participants. They would need to keep the project team appraised of current and future financial performance issues and movements in property market trends. The DD and PM might rely heavily on their strategic advice.
- The **Design Manager** would be an architect or urban designer overseeing the creation of precinct configuration and built form.
- The **Planning Advisor** would manage and keep track of the relationship with local government and state planning authorities. They would manage the planning consultants and also have a strong input on design and configuration issues.
- A **Construction Manager** can assist with the relationships between the project and its construction contractors. This role is important during project development stage – where a builder would need to be identified, short-listed and hired. Primarily though, the skills of a client-side construction specialist are invaluable during the delivery phase of a major project.
- A **Transport Advisor** might ensure proper integration between the project and the all-important transit facility, as well as negotiating the timely delivery of transit services to underpin the viability of the precinct. This advisor could manage the relationship between the project and the relevant transit agencies.
- A **Marketing Manager** would oversee the project's real estate agents and marketing teams to ensure the timely sale and leasing of project property assets.

Strengths of Model A

Model A delivers a number of significant benefits – especially when taking a "public interest" viewpoint. Strengths include:

Delivery of Value Capture

Model A, which is based on a large government equity stake in the project, allows for achievement of "value capture" in a profitable project. Value capture can be defined as a return on the public investment in transit infrastructure and related capital stock such as facilities – or on project development, master planning and design activity. The return is provided through the "capture" of property value uplifts, or development potential that these interventions create.

General Public Sector Influence on Project Outcomes

While the public sector may not always see itself as having a frontline role in urban development activities, there seems to be a greater requirement for public sector influence on *TOD* outcomes. Public interest arguments for government involvement include:

- The need to achieve positive social and environmental outcomes in TOD.
- The long-term role and the significance of TODs in urban structure and form.
- The need for a master-planning approach to TOD precincts.
- The size and complexity of TOD projects necessitates heavy public sector involvement. Model A matches heavy public sector involvement with *influence*

on project direction – allowing incorporation of public interest goals and government stakeholder objectives.

In summary, Model A allows for significant public sector influence in the TOD project – matching directorial-level control to the equity stake that government would hold.

TOD as a Transport Project

TOD is considered to be an important tool for boosting public transport patronage and operating efficiency. These goals have been nominated as a primary motivating factor for TOD activity in the USA (TCRP 2004, p10). When we remove the transport rationale for TOD projects, their necessity becomes less obvious – even considering the positive urban design outcomes that such projects offer. Successful TOD requires the provision of quality transport services and the integration of transport facilities with their direct precincts. This requires heavy public sector involvement. Model A allows a level of *project influence* that perhaps corresponds to the responsibilities that transport agencies and other public sector players will inevitably have in TOD.

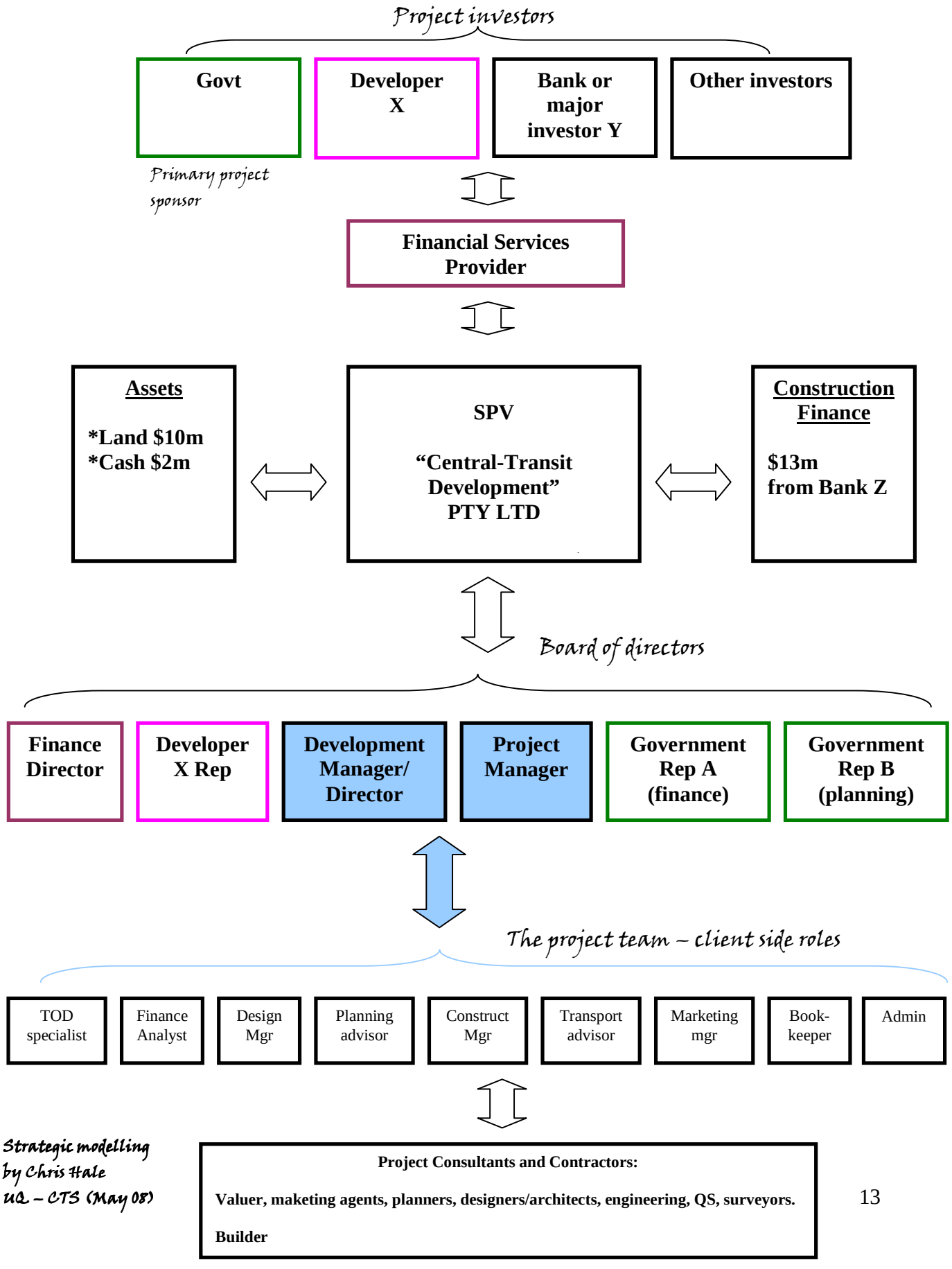
In addition, the *significance* and *scale* of corresponding public transport infrastructure investments should be a motivator for public sector involvement in TOD. When set against the overall costs and risks involved in major transit projects, we might conclude that TOD activity offers an affordable, "self-funding" mechanism for underpinning the success of new transit infrastructure and services.

Risk Management

Model A proposes a significant level of public sector equity investment and exposure to project risk/reward outcomes. While this might at first seem to be an increase in overall public sector risk exposure levels, it is important to remember that the model provides a controlled-risk environment, and that it offers simple mechanisms (such as a sell-down of project shareholding) for risk reduction.

Picture: Southern Cross Station – Melbourne.
Built as a PPP, the once-controversial project is now an iconic fixture in Melbourne. C Hale April 2006.

TOD Project Model A: government-sponsored



Project Model B - "Developer Led"

The developer-led project model would see a major development company play the leading role in most aspects of the project, but with government retaining a minority equity stake in the project.

Financial Structure and Investment

As with Model A, it is recommended that a specialist financial services provider sets up and manages the Special Purpose Vehicle (SPV), playing an independent "financial manager" role. This independence in financial structure is important for balancing the needs and interests of different project investors. An independent SPV allows a diverse equity base for the project. Model B offers perhaps the only viable project structure that can offer a leading role to a development firm, while still providing government with the opportunity to be a project investor. Alternative models, in which the SPV is *not* independently managed, do not appear to allow public sector interests and priorities to be effectively balanced, and probably do not provide an attractive investment structure for potential public sector investors.

Under project Model B, an *expression of interest* (EOI)-winning developer holds a *controlling equity stake* (51% or more) in the SPV. Investors receive board level-representation roughly in line with the value of their share holding. A Product Disclosure Statement (PDS) may still be required as part of the EOI process – and to attract investment from other parties beyond the government and EOI-winner. The project "financial manager" (the financial services specialist) is the point of contact for all investors in the SPV. The government investor and the other investors might alter their project exposure at a later stage by selling down share holdings (or increasing them).

Board of Directors

A board of directors under Model B might include:

- the **Development Director** provided either from the staff roster of the investing developer or engaged as a consultant/contractor.
- the **Project Manager** also from the developer or involved on a consulting basis.
- The **Finance Director**. From the independent financial services provider who maintains the SPV – or perhaps from the developer.
- **Government Representative** This representative has the perhaps un-enviable task of maintaining a "public interest" standpoint in a project where the public sector only holds a minority stake.

Project Team (client side)

Under Model B, it is highly likely that the majority of the project team are drawn from within the staff roster of the developer. Broadly speaking, the same client side roles are required as in Model A. Presumably a strong private sector transport planner would need

to be identified – who would have to manage effective integration of the project with related transit infrastructure and service levels.

Strengths of Model B

Risk Reduction

In Model B, the government is able to effectively reduce its holding of TOD land and project exposure levels, while still maintaining a certain level of influence and involvement in the project. This represents a basic risk reduction outcome. Under Model B, government would maintain some level of interest in the project, but a minority interest holder needs to respect the majority interest's ability to steer the project in directions that align more with their own requirements. In this sense, the lower level of project control for the public sector under Model B could be seen as balancing out risk reduction outcomes.

Value Capture

The maintenance of a certain level of project equity for government under the Model B approach allows access to value created by any transport infrastructure investment and service improvements. The extent of value capture is essentially in-line with the level of equity held. Judicious attention to design and planning issues during the master-planning exercise prior to EOI also has the potential to lift the development value of a government land holding – effectively increasing the valuation figure at which the land is ventured into the SPV.

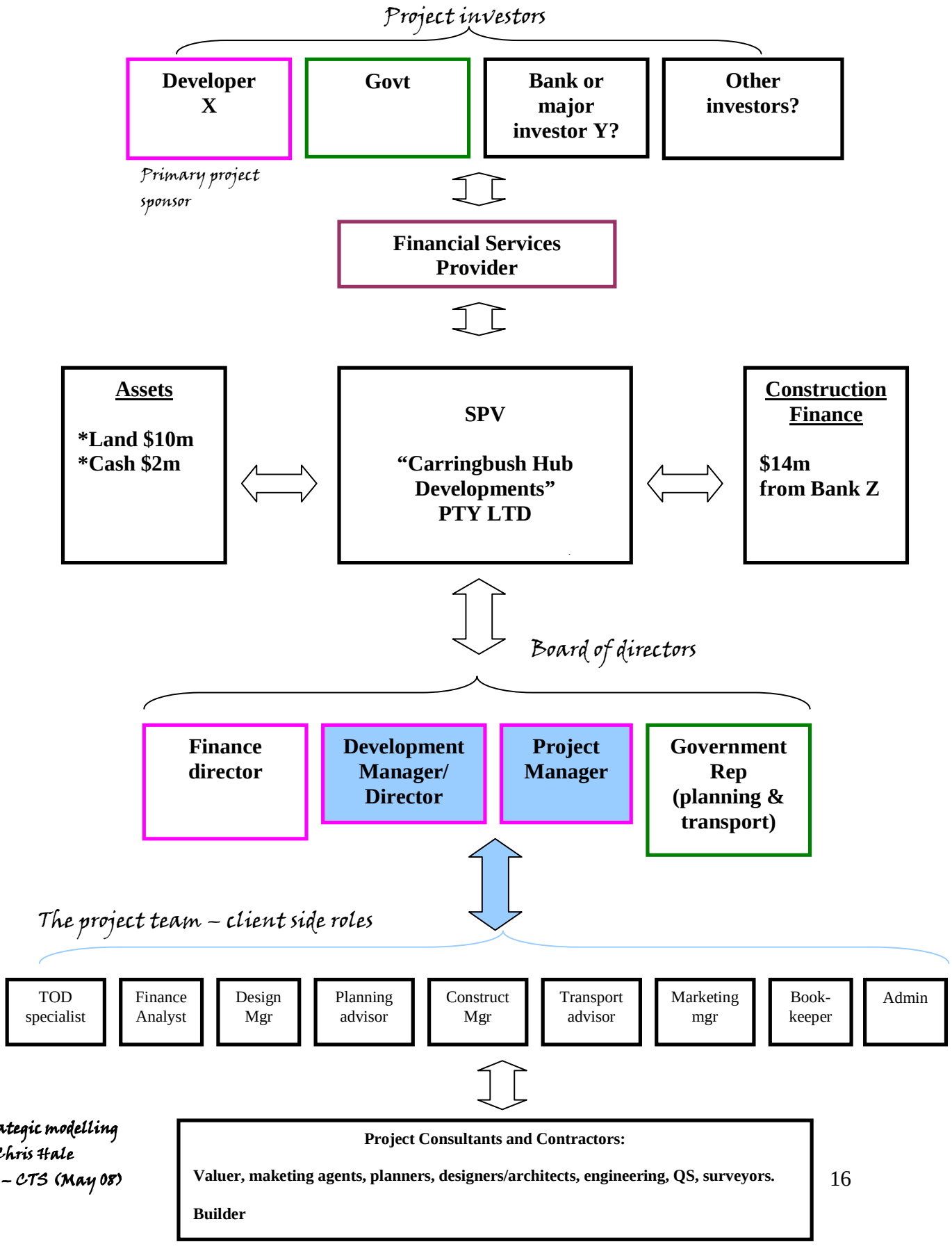
Public Sector Influence on Project Outcomes

A TOD project undertaken through Model B also offers a series of public interest "opportunities" including: ability to positively influence social and environmental outcomes in TOD; the chance to cement a long-term positive element in the urban structure; and the ability to deliver a master-planned TOD precinct. Public interest outcomes through Model B might be mediated through the government's financial and management role in the project, through its role in the master-planning process – as well as through its standard areas of influence in planning policy and infrastructure delivery.

Developer Skills and Resources

Under Model B, the management and funding of the project is primarily delivered by an experienced and well-credentialed development firm. Although it should be noted that TOD is a relatively "new" typology of development, and most developers would need to learn and adapt new skills in a challenging setting.

TOD Project Model B: developer-led



Project Model C - "Public Sector Project"

The "public-sector" project model would see a public sector agency planning and steering the project – most likely with the extensive use of consultants and alliance contracting partners. Government would bear the vast majority of financial responsibilities and risks, but would be in a position to reap extensively from the financial rewards.

Financial Structure and Investors

As with the other models, it is envisaged that a pure public sector project would require the establishment of a Special Purpose Vehicle (SPV) for project finance and operations - in order to deliver flexibility and a degree of project independence. The public sector sponsoring agency would be in a position to establish the SPV through the creation of a standard company structure – but there would be no pressing need to involve a financial services manager. Project financing would presumably occur through standard public sector finance processes. Government provides all project equity and is responsible (via its corporatised SPV entity) for liabilities. Any and all profits are retained by government.

Project Partners

Government may seek an alliance-style partner for project delivery. This partner could provide a comprehensive suite of development services – including real estate marketing, design, planning and construction. Alternatively, government might seek a series of alliance partners who specialise in the various fields – with specialist project planners and designers playing a role, and with a construction firm delivering the project built form.

Board of Directors

A board of directors under Model C might include:

- the **Development Director** from the staff roster of a government agency, or perhaps engaged as a consultant/contractor, or drawn from the staff of the alliance development/construction partner.
- the **Project Manager** - similarly sourced.
- the **Finance Director** would probably come from within government – and may draw on consultants for advice in property development issues.
- **Government Representative A** – representing transport interests.
- **Government Representative B** – planning and design considerations.

Project Team (client side)

The project needs effective client-side representation in a variety of key fields and professions, with team members reporting to and working with the Development Director and the Project Manager. These client-side advisors would manage relationships and contracts with key project consultants and contractors or perhaps with the alliance partner. Some project team members would take on two or more of the following client side responsibilities: A **TOD Specialist** providing advice on best-practice in TOD; the

Property Finance Analyst would keep the project team appraised of current and future financial; the **Design Manager**; the **Planning Advisor**; a **Construction Manager**; a **Transport Advisor**; a **Marketing Manager**.

Strengths of Model C

Risk Reduction
In Model C, government actively manages project costs, timing and other risks through the relationship with the alliance partner. Public and private sector knowledge and resources are combined to deliver the best possible performance on measures of timing and cost. Areas of risk and opportunity such as marketing and construction receive strong risk attention through appropriate staffing. There are major long-term risks associated with poorly performing TODs in terms of transport, social, public realm and other outcomes. We might suggest that Model C balances these major public sector risks quite effectively by maximising public sector control and influence. It is not clear that the public sector can deliver TOD outcomes without addressing some level of market-based risk and real estate activity.

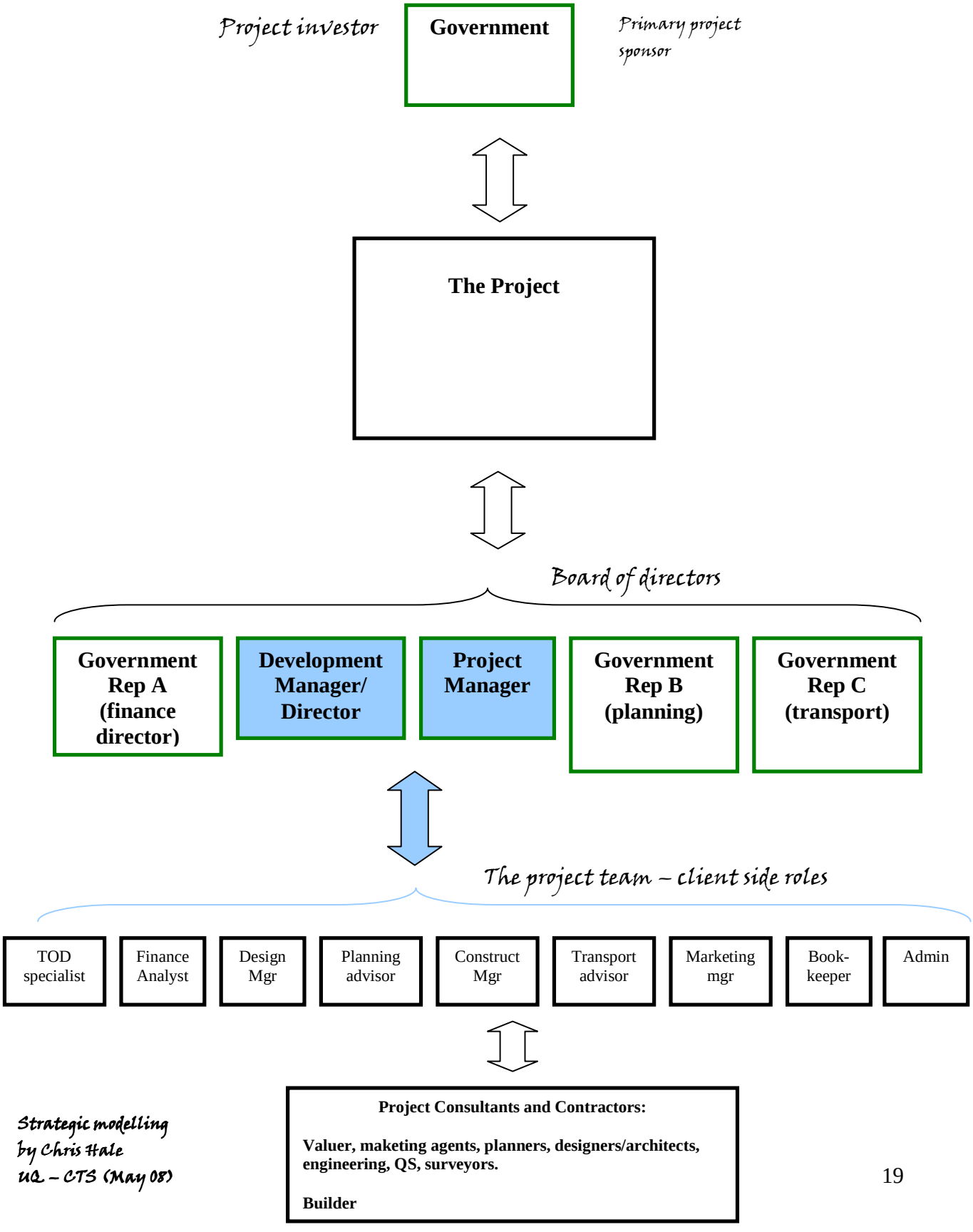
Value Capture
Model C offers the most complete opportunity for value capture of all the models. Any and all project profit is returned to government – creating a direct linking mechanism between state transport infrastructure investment and service improvements, and any value uplift created in the direct precinct of major transit stations.

Public Sector Influence on Project Outcomes
Model C offers the opportunity for very high levels of public sector control over all aspects of the project, from planning, design and project initiation, through to eventual completion. Government can play close attention to achieving its priority objectives in transport planning, land-use planning, in the creation of livable precincts – and can hopefully achieve strongly on many measures related to social, economic and environmental outcomes.

Familiarity
Model C delivers TOD within traditional, well-understood public sector processes – even if property development may not be a familiar field for the public sector.

Workload
It would probably be a rash assumption to suggest that Model C automatically ties the public sector into increased workloads and onerous resourcing requirements. It seems apparent that all project models under review, and probably TOD activity more generally, requires significant attention and resources from the public sector. Even under the "developer-led" approach in Model B, we are assuming that government ploughs significant time and money into project conceptualisation, the design and planning stages and the identification and engagement of a preferred development partner as well as ongoing input through the life of the project. In summary, it might be argued that the workload for government in Model C may be similar to that in other models.

TOD Project Model C: Public sector project



Project Model D - "Private Sector Project"

The "private-sector" project model would see a developer initiating and steering the project. The developer would bear all development-related financial responsibilities and risks, but would clearly need to develop strong relationships with relevant public sector stakeholders – especially in transport.

Financial Structure

A developer-dependent project would probably require the establishment of a Special Purpose Vehicle (SPV) for project finance and operations, and the publication of a Product Disclosure Statement (PDS) for potential investors. In this model is that the public sector has no interest in the financial and development aspects of the project. If the developer is unable to raise capital, the project will not go ahead. There is no (or very little) scope for public sector financial support – even if the social, planning and transport outcomes that the project offers are of significant interest to public sector stakeholders.

Partnering with the Public Sector

The developer will need to cultivate strong relationships with the public sector in order to deliver the project. Primarily, transport agencies will need to deliver service levels and station infrastructure that supports the precinct as a true TOD destination. Where new infrastructure is under development, there is a necessity to achieve timely coordination between delivery of the transit improvement and the project completion and marketing phases of the development project. This represents an extremely challenging working environment for a developer. In addition, the planning aspects of the project will need strong support from local and/or state government. If supportive local planning has been provided, the developer can advance through the standard development application process. In the absence of clear and supportive planning frameworks, the developer will need to make a strong argument on performance-based planning criteria – or engage government support for changes to the planning scheme. Both of these paths are resource intensive, uncertain and time consuming – and require in-depth engagement with government representatives beyond the comfort zone of regular development processes.

Project Team

Beyond the requirements of a regular real estate development project, the TOD developer may need to consider engaging: a **TOD Specialist** providing advice on best-practice in TOD; and a **Transport Advisor**.

Strengths of Model D

Risk Reduction
In Model D, government is absolved of financial and other risks and commitments associated with the development itself. It is not clear that the public sector is completely free of risk however. The key risk factor issue in this model is the potential for sub-

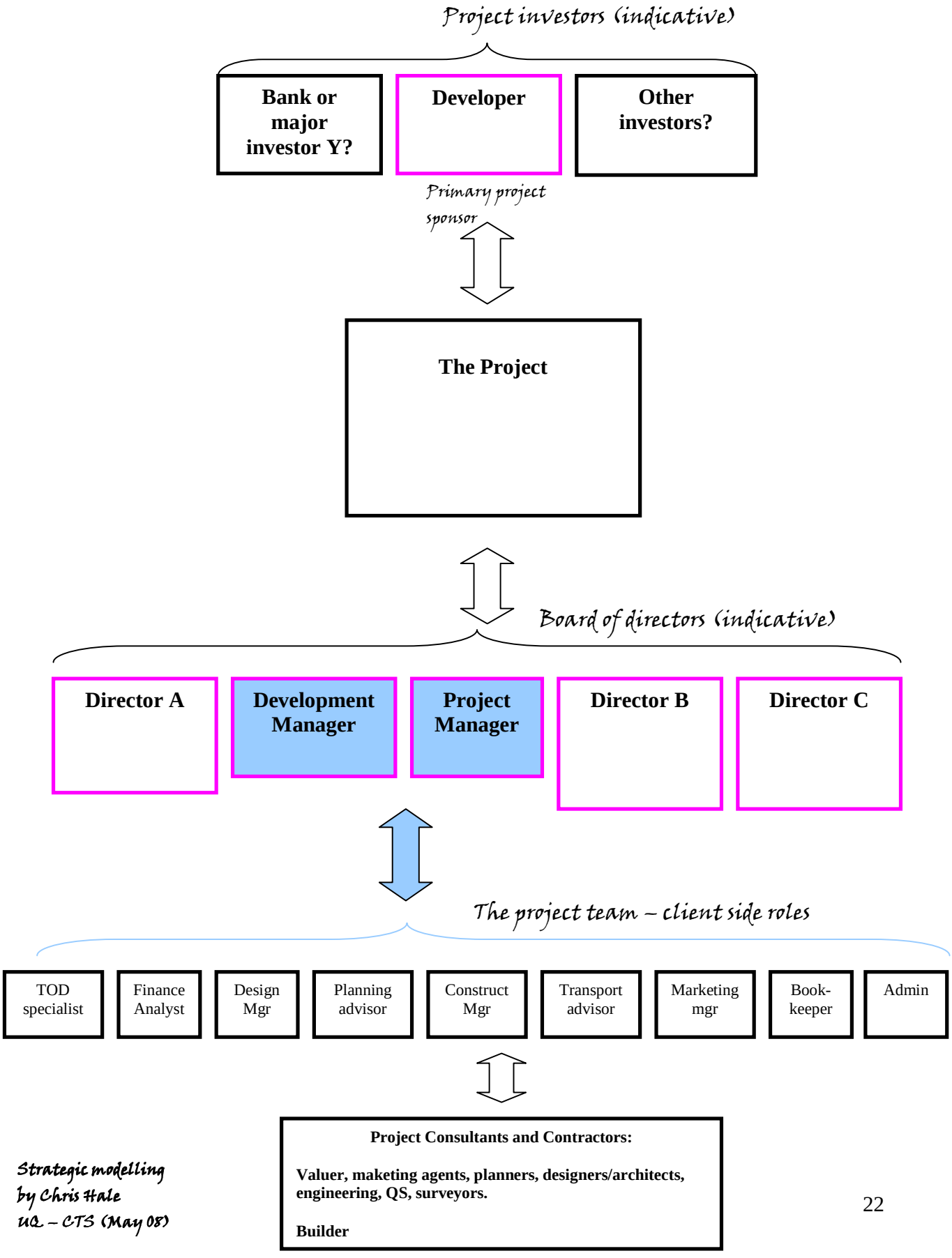
optimal outcomes in significant transit-adjacent precincts. Outcomes in the fields of transport and broader social and environmental concerns cannot be guaranteed and can only be minimally influenced by the public sector under this model.

Private Sector Development Skills and Flexibility
In Model D, development activity is in the hands of the natural possessors of relevant skills. It is often remarked that the private sector are able to deliver projects in a rapid and flexible manner, especially in property development.

Public Sector Workload
The degree to which Model D reduces public sector workloads is dependent on the degree to which government and its agencies take a "hands-off" approach to outcomes. Model D offers the opportunity for the public sector to take a less interventionist approach, and perhaps reduce their *perceived* responsibility. If the project is undertaken at a precinct with significant transport and community interests, the ability for the public sector to reduce general workloads may not be particularly significant in reality.

Picture: Ang Mo Kio interchange – Singapore.
Many hubs in Singapore are developed as integrated retail and transport projects.
C Hale April 2008.

TOD Project Model D: Private sector project



E. Proposed Stakeholder Input for the Refinement of the 4 Models

The primary purpose of this paper is to present a handful of potential PPP-style models and structures for application in transit oriented development projects of varying scale. From this point, the research effort will be extended through refinement of the models and some targeted elaboration in areas that are novel or unclear. In order to achieve a body of intellectual property in transit oriented development project structures, interested parties are invited to be involved in a stakeholder feedback process. The feedback process will allow stakeholders in government, consulting, development, finance and other areas the opportunity to provide suggestions and areas for clarity and improvement. Stakeholders will have their time and input repaid through priority access to the intellectual property that is developed.

The basic phases of subsequent intellectual property development will include:

a) Presentation of the initial "4 models" paper at the *3rd International Conference on Funding Transport Infrastructure* at Paris in June 2008.
b) Issue of a questionnaire to interested stakeholders which invites both structured feedback in specific areas of the 4 models, as well as open comment and suggestions for areas of priority to stakeholders.
c) Second-phase paper presentation through a peer reviewed transport forum or publication and a real estate development or urban planning forum – presenting a refined series of options and models.
d) Development and further refinement of the new body of intellectual property through application in project settings. Commercialisation possibilities will be explored and teaching and advisory opportunities pursued.

Interested industry stakeholders are encouraged to contact the research effort via the author, at: c.hale2@uq.edu.au

Picture: Q Centre, Roma St Station – Brisbane (artist's impression). *A project being built on public sector real estate – but does it achieve "value capture"?*. Courtesy Ray White Commercial.

F. Summary and Conclusions

The current frameworks for PPPs are coming under question and may not be optimal for transit oriented development projects. But as significant projects in which land use, development, urban planning, transit infrastructure and the public realm are all inter-dependent, it is clear that effective mechanisms are required to facilitate outcomes. We need to assume that some form of partnering between private and public stakeholders will be a key component of many TOD activities.

The paper has outlined four potential models for TOD projects, based on the balance of interests in project finance (equity or "ownership") and management ("steering"). Under Potential Model A, the public sector underwrites and controls the project through a majority interest, but is allowing minority equity partnership from private developers and/or investors. In Model B, the balance is inverted and the public sector takes only a minority stake, while private developers steer the project according to their majority interest. In Model C, the standard public sector procurement approach is adopted, and any private industry involvement is limited to a contracting role. Finally, in Model D we see the approach in which private developers take on the overwhelming bulk of TOD responsibility – with the public sector only intervening on an informal basis. A key consideration in this spectrum of project models is the extent to which they allow "value capture" or the recouping of public sector project costs.

The author recommends that regions pursuing a TOD or "Smart Growth" policy actively engage in research and discussion to promote semi-standardised project operational models. This might facilitate the mobilisation of a large number of TOD projects, rather than a handful of micro-managed test-cases. While the planning, design and transport aspects of TOD are now better understood, institutional and project management issues remain a major concern and an area in which new ideas and discussion need to occur.

Picture: "The Mill" project, Albion Station – Brisbane (artist's impression). *A TOD initiative from developers FKP, drawing on planning support from Brisbane City Council and a station improvement agreement with Queensland Rail.* Courtesy FKP.

G. Bibliography

Curtis, C and James, B (September, 2004) An Institutional Model for Land Use and Transport Integration *Urban Policy and Research – Volume 22, Number 3, September 2004* 277 - 297

DIP – Queensland Government Department of Infrastructure and Planning (authors and publishers) (2002) *Public Private Partnerships Guidance Material* Brisbane

Dittmar, H and Ohland, G (2004) *The New Transit Town* Washington, D.C: Island Press.

DOI – Department of Infrastructure, Victoria (author and publisher) (2002) *Melbourne 2030 – Planning for Sustainable Growth* Melbourne, Vic

DOI – Department of Infrastructure, Victoria (author and publisher) (2006) *Meeting Our Transport Challenges* Melbourne, Vic

DOP – Department of Planning, New South Wales (author and publisher) (2005) *City of Cities – A Plan for Sydney's Future. Introduction.* Sydney, NSW

DTF – Department of Treasury and Finance, Victoria (author and publisher) (2000) *Partnerships Victoria* - Melbourne, Vic

Duffield, C F and Regan, M (December, 2004) Public private partnership arrangement for the Spencer Street Station upgrade in Victoria, Australia *Journal of Financial Management of Property and Construction – Volume 9, Number 3, December 2004* 163-177

Forsyth, P (5 May 2008) *Decisions based largely on politics risk becoming lemons* Australian Financial Review 23

Hale, C (2 Jan 2008) "All Aboard" *Courier Mail* newspaper. Brisbane

Hale, C and Charles, P (2006) *Making the most of transit oriented development opportunities* Gold Coast: Australasian Transport Research Forum 2006

Hodge, G (2004) The risky business of public-private partnerships *Australian Journal of Public Administration* December 2004 37 - 49

Hodge, G and Greve, C (2007) Public-Private Partnerships: An International Performance Review *Public Administration Review* May-June 2007 545 - 558

NSW Department of Planning (author and publisher) (2005) *Transport Strategy for Sydney* Sydney

OUM - Queensland Government, Office of Urban Management (June 2005) *South East Queensland Regional Plan 2005 – 2026* Brisbane: Office of Urban Management

Robertson, S (May, 2004) The Fundamentals of Property Syndication *Australian Property Journal – May 2004* 92-98

Salt, B (2003) *The Big Shift* South Yarra, Vic: Hardie Grant Books (2003 edition)

Sandy, A (14 May 2008) "A busway that needs …buses" *Courier Mail* newspaper. Brisbane. 3

SEQIPP - Queensland Government, Office of Urban Management (May 2006) *South East Queensland Infrastructure Plan and Program 2005 – 2026* Brisbane: Office of Urban Management

Shaoul, J (2002) Public Money & Management *April - June 2002* 53 - 60

Squirrell, M (1997) *Readings in Property Economics* Deakin, ACT: AIVL

TCRP - Transit Co-operative Research Program (2004) Transit-Oriented Development in the United States: Experiences, Challenges, and Prospects *TCRP Report 102*. Washington D.C: Transportation Research Board

Vuchic, V R (2005) *Urban Transport – Operations Planning and Economics* New Jersey: John Wiley & Sons

Wakeford, J and Valentine, J (2001) Learning through Partnership: Private Finance Public Policy and Management *October - December 2001* 19 – 25

Wikipedia (accessed May 2008) Search*: business partnership; equity; equity partner; project finance; debt.* www.wikipedia.org.au