CREATING VALUE THROUGH COOPERATION

PUBLIC-PUBLIC PARTNERSHIPS
The Other PPP
JOHN J. HENTSCHEL CRE, MAI, FRICS
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Guidance for Governing
Real Estate Advice, Valuation, Strategies & Solutions
www.hentco.com
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WEALTH IN THE PUBLIC SECTOR

WEALTH CREATION – A COMMON GOAL

- WEALTH OF A NATION = SUM OF THE COLLECTIVE RESOURCES OF COMPONENT REGIONS AND LOCALITIES

- NATIONAL, REGIONAL & LOCAL GOVERNMENTS EACH HAVE A VESTED INTEREST IN CREATING WEALTH:
  - LOCAL ECONOMY HEALTHY = REGION HEALTHY
  - REGIONS HEALTHY = NATION STRONG

- ECONOMIC DEVELOPMENT IS A GRASS ROOTS PROCESS
  - Each Job created in a town/city add to GDP of Region and Nation
  - Economic Development requires support from all levels of government

WEALTH CREATION
GUIDING PRINCIPLE FOR ALL DECISIONS
HOW TO CREATE & MAXIMIZE WEALTH

- Continually monitor & manage resources
- Leverage (use other people’s resources)
- Conserving own resources
- Manage risk – spread, share or transfer it whenever possible
- Rapidly recapTURE & turnover capital
- Enhance value
PUBLIC-PUBLIC PARTNERSHIPS

PUBLIC-PRIVATE PARTNERSHIPS
Risk sharing contractual relationship between Public & Private Sector entities to use the Private Sector to provide a property associated public outcome (e.g. build/renovate/operate property for public purpose)

PUBLIC-PUBLIC PARTNERSHIP
A cooperative relationship between levels of government that is intended to leverage the resources of each for the mutual benefit of both.

LEVELS & UNITS OF GOVERNMENT HAVE DIFFERING:
- ROLES
- RESPONSIBILITIES
- FUNCTIONAL AUTHORITIES
- EXPECTATIONS

EACH LEVEL OF GOVERNMENT HAS THE ABILITY, INCENTIVE & RESPONSIBILITY TO CREATE PUBLIC WEALTH, LEVERAGE VALUE & FOSTER ECONOMIC DEVELOPMENT
THE ESSENTIALS

- KNOW WHAT YOU CONTRIBUTE

- KNOW YOUR ROLE & RESPONSIBILITY

- KNOW WHAT YOU WANT - KNOW WHAT YOU NEED
  - DEFINE SUCCESS

- DEVISE METRICS TO MEASURE SUCCESS

- EXPECT/SEEK REWARDS (BENEFITS) COMMENSURATE WITH
  - CONTRIBUTION
  - BURDENS
  - RISK
THE SITUATION IN SERBIA
AN ADVERSARIAL ENVIRONMENT

- MILITARY
  - FUND REFORMS (HOUSING FOR PERSONNEL & RETIREES) FROM PROCEEDS OF SURPLUS PROPERTY SALES
  - GOAL: **MAXIMIZE** PRICE

- MUNICIPALITIES
  - PRE-EMPTIVE RIGHT TO ACQUIRE AT A NEGOTIATED PRICE FOR PUBLIC USE OR ECONOMIC DEVELOPMENT
  - GOAL: **MINIMIZE** PRICE

VIRTUAL ADVERSARIES IN ZERO SUM GAME
THE RESULT
IMPASSE

DESPITE:
- High Unemployment (2010 - 19%; 30% in Provincial cities)
- Critical Need for Economic Growth After Years of U.N. Sanctions

PALPABLE MUTUAL MISTRUST & FRUSTRATION BETWEEN MILITARY & MUNICIPALITIES
- Relations Strained
- Communication ineffective
- No Meeting of the Minds on Value
- Transactions Languishing & Stalled
SERBIA EXISTING PARADIGM

EXISTING PARADIGM

MILITARY

PROPERTY

MUNICIPALITY

VACANT PROPERTY
NEEDS CAPITAL TO MAKE PRODUCTIVE, ALL RISKS, NO TAXES, NO JOBS
SOLUTION
ALLIES NOT ADVERSARIES

REPOSITION MOD & MUNICIPALITIES AS ALLIES PURSUING COMMON GOALS/OBJECTIVES

- Military controlled large strategic properties in key locations vital to local economic development

- Municipalities had leverage - ability to enhance or diminish value through permitting, zoning & land use controls & offsite improvements

- Create wealth for Serbia through cooperation to attract international investment
SOLUTION
ALLIES NOT ADVERSARIES

- COOPERATE TO ENHANCE VALUE & ATTRACT PRIVATE INVESTMENT

- Re-Define Relationship, Roles, & Responsibilities
- Link success & performance measures of each to the other
- Build trust & confidence in a Process rather than individuals or organizations
- Confidence begins with VALUE, whether contributed or created that is
  - Measured Uniformly
  - Determined Accurately
  - Distributed Equitably


SERBIA – NEW PARADIGM

NEW PARADIGM

ALLIES  ROLE  RESPONSIBILITY  EXPECTATIONS

MILITARY  OWNER  PROPERTY  COOPERATION
INFORMATION
TITLE
REUSE PLANNING
ENVIRONMENTAL
NEGOTIATION

MUNICIPALITY  CATALYST
FACILITATOR

COOPERATION
PLANNING/ZONING
INCENTIVES
EDUCATION/TRG
TECH ASST/TCE
MKTG/PROMOTION
MKT KNOWLEDGE
EXPEDITE APPROVALS/
NEGOTIATION

DEVELOPER
BUYER

ASSUMES RISK
PAYS TAXES/FEES
PROVIDES CAPITAL
PROVIDES JOBS

JOBS
ECONOMIC GROWTH
TAXES/FEES
SHARE ENHANCED VALUE

ENHANCED MARKABILITY
ENHANCED VALUE
EXPEDITED COST RELIEF

$ $ $ $ $
LOCAL GOVERNMENT ACTION AFFECTS VALUE
EXPEDITED PERMITTING – TIME IS MONEY!

<table>
<thead>
<tr>
<th></th>
<th>YEAR 1</th>
<th>YEAR 2</th>
<th>YEAR 3</th>
<th>YEAR 4</th>
<th>YEAR 5</th>
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<tbody>
<tr>
<td>OUT OF POCKET EXPENDITURES</td>
<td>-$100,000</td>
<td>-$100,000</td>
<td>-$500,000</td>
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<tr>
<td>REVENUES</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>$750,000</td>
<td>$900,000</td>
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<tr>
<td>VALUE</td>
<td>$520,000</td>
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</table>

ELIMINATE 1 YEAR UP FRONT CARRYING COSTS

<table>
<thead>
<tr>
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<th>YEAR 4</th>
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<td>0</td>
</tr>
<tr>
<td>REVENUES</td>
<td>0</td>
<td>0</td>
<td>$750,000</td>
<td>$900,000</td>
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<tr>
<td>VALUE</td>
<td>$675,000</td>
<td></td>
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<tr>
<td>VALUE INCREASE</td>
<td>29%</td>
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## LOCAL GOVERNMENT ACTION AFFECTS VALUE
### ZONING CHANGE

<table>
<thead>
<tr>
<th></th>
<th>APARTMENTS</th>
<th>MIXED USE</th>
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<tbody>
<tr>
<td><strong>Units</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Apartments</td>
<td>77</td>
<td>62</td>
</tr>
<tr>
<td>Office</td>
<td>$0</td>
<td>$5.60</td>
</tr>
<tr>
<td>Retail</td>
<td>$0</td>
<td>5000</td>
</tr>
<tr>
<td>Gross Income</td>
<td>$280,280</td>
<td>$225,680</td>
</tr>
<tr>
<td>Expenses</td>
<td>50%</td>
<td>50%</td>
</tr>
<tr>
<td><strong>Gross Income</strong></td>
<td>$280,280</td>
<td>$410,680</td>
</tr>
<tr>
<td><strong>Expenses</strong></td>
<td>$140,140</td>
<td>$205,340</td>
</tr>
<tr>
<td><strong>Net Income</strong></td>
<td>$140,140</td>
<td>$205,340</td>
</tr>
<tr>
<td><strong>Capitalization Yield</strong></td>
<td>10.00%</td>
<td>10.00%</td>
</tr>
<tr>
<td><strong>Renovation Costs</strong></td>
<td>$15.00</td>
<td>$15.00</td>
</tr>
<tr>
<td><strong>Profit</strong></td>
<td>10.00%</td>
<td>10.00%</td>
</tr>
<tr>
<td><strong>Residual Value</strong></td>
<td>$511,260</td>
<td>$1,098,060</td>
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<tr>
<td><strong>Increment in Value from Zoning</strong></td>
<td>$586,800</td>
<td></td>
</tr>
</tbody>
</table>

- **Size**: 50,000
- **Apt Size**: 650
- **Rent**: $5.60
- **Expense**: 50%
- **Cap**: 10.00%
MIZOD ZONING
AN EQUITABLE SHARING OF BENEFITS & BURDENS

- Designed to forestall market forces undermining port interests

- Mixed residential and commercial use yields greater benefits to the City in certain redeveloping communities than the maritime uses MIZOD zoning intended to protect.
  - Ad Valorem Tax
  - Income Tax – Place of Residence rather than work

- Competition between land use – conflict local & regional interests

- Needed - equitable formula for sharing Port’s economic rewards to adequately compensate the City for the burdens assumed and benefits foregone
# MEASURING VALUE AS OPPORTUNITY COST

## PER ACRE COMPARISON OF LAND USES

<table>
<thead>
<tr>
<th>LAND USE</th>
<th>Total* Jobs per Acre</th>
<th>Total* Output per Acre</th>
<th>Total* City Taxes Per Acre</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing/Food Processing</td>
<td>49.8</td>
<td>$15,678,512</td>
<td>$68,288</td>
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<tr>
<td>Port Freight Services</td>
<td>1.6</td>
<td>$147,597</td>
<td>$9,777</td>
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<tr>
<td>Port Composite</td>
<td>8.7</td>
<td>$911,716</td>
<td>$32,187</td>
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<tr>
<td>Retail/Office</td>
<td>162.9</td>
<td>$22,904,787</td>
<td>$316,721</td>
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<tr>
<td>Residential</td>
<td>23.1</td>
<td>$2,803,626</td>
<td>$498,828</td>
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</tbody>
</table>

*Total is the sum of Direct, Indirect and Induced sources from Economic Analysis presented in Report
MIDDLE RIVER STATION AERIAL MAP
A FORMULA FOR SUCCESS

- CONSULTATION
- COORINATION
- COMMUNICATION
- CREATIVITY
- COMMON SENSE
- COMMUNITY NEEDS
- COOPERATION
LINKS

- “Charting The Future of Baltimore’s Industrial Waterfront”, Abell Foundation Report
  
  http://www.abell.org/sites/default/files/publications/Appendix_BaltWater_0109.pdf

- “Adversaries to Allies – Creating Wealth for the Republic of Serbia From Surplus Military Properties”, Real Estate Issues
  

- CRE CONSULTING CORPS
  
  http://www.cre.org/counseling_corps/index.cfm
THANK YOU

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