APPRAISING AND SHAPING PPP FOR URBAN REGENERATION: A LEIPZIG CASE STUDY

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Summary abstract

Since the mid-1990s, Leipzig has developed an integrated strategy of urban development with a strong orientation towards project implementation. All formal instruments are explicitly directed to reduce urban sprawl and new construction in the city. The case study presents the framework adopted by the municipality to appraise and design Public Private Partnership structures, which could be apt to support the regeneration of specific problematic quarters. PPP strategies are designed following a formal multistep procedure aimed at recognizing and assessing, through alternative scenarios, the possible roles for different partners, the possible forms of relationships, and the risks and the economic impact expected for each subject.


Setting and Key questions/Challenges

Since the mid-1990s, Leipzig has developed an integrated strategy of urban development with a strong orientation towards project implementation. All formal instruments are explicitly directed to reduce urban sprawl and new construction in the city. Among others, in Leipziger Oste, two urban regeneration pilot projects were launched, in two nearby quarters (“International Quarter (IQ)-Ost” und “Gründerzeit Erleben”) within the framework of a nation and regional government program called “Districts
with particular development need – the Social City”.

The mentioned districts, in comparison with Leipzig as a whole, are characterized by higher rates of housing vacancy/immigration/low-income people/subsidized housing. The pilot projects can be defined as “micro-intervention of urban restructuring” and were aimed at re-establishing, at a district level, a dynamic economic structure and improving the attractiveness and the social vitality of the quarter through intervention (refurbishment/rebuilding) in the building stock, attraction of “small” businesses as well as marketing/communication and community involvement strategies.

The urban “units”, considered to be focal project targets, are the “building blocks” and the inner courtyards; these spaces are owned both by private owners and by the municipality housing association (LWB) – see Fig.1.

The interventions aimed at reinforcing the attractiveness of the blocks (and of the quarters as a whole) also in terms of retail potentials (development of ethical and other retailers/artisan activities in the courtyards of the blocks).

In 2000-2006, more than 19m euros were invested (10,5 in urban renewal projects, 7,5 in Economic and Employment projects, 1,15 in Social projects, 0,062 in information participation and management) in these pilot projects. Different sources of financing have been integrated: the project started to be developed through EFRD and other various national support funds as well.

**Procedures and actions**

*The (informal) planning framework*

The two pilot projects under investigation was integrated within a general integrated framework of development planning. A framework of priorities of intervention in different urban districts was previously identified (see fig. 2).

The “toolkit” used so far in the Leipzig Project Pilots, include integrated planning documents and action plans (e.g. General Re-development Plan, Conceptual District Plans, etc.), getting sufficient elements for detailed feasibility studies and marketing measures.

In particular, for an informal “Conceptual District Plan” (containing priorities an targets to provide investors planning confidence) has been produced by the Municipality for the districts which need to be restructured.

*The players*

The specific features of the physical and social/economic setting (flats/shops owned by several private subjects and by public housing associations, tenants for shops and flats, etc.) required to deal with many players to be involved into the projects.
Many possible project partners are identified, both of public sector and private sector: City of Leipzig, Leipzig Local Authority (ASW), LWB, “District management”, “Quarter Management”, Investors, Operators, Users/tenants.

The “City of Leipzig” is represented by the city council.

Leipzig Local Authority (ASW) is the technical/operational unit of the municipality, which is in charge of submitting proposals to the Council and implementing support programs.

A key measure by ASW is the implementation of “District Management - DM” and “Quarter management QM”. The district management team, whose target is to reduce the distance between administration and local players, is directly integrated into the ASW and subjected to its directives. The “quarter manager” is directly tasked and financed by the district management team and its primary aim is to activate local residents (district image, soothe conflicts, support local business people).

LWB is a municipal housing association, wholly owned by the City of Leipzig, but not incorporated into the local administration. ASW and LWB are required to cooperate to develop the project.

Other potential “partners” are individual owners (e.g. owner-occupiers) that must be involved in the restructuring of the blocks; project developers, which can vary in terms of the features of risk and process involvement; investors (long-term owners) which can be the same flat/space owners; operator, that in this case, is in charge of marketing and managing the “areas”, as “block manager” providing services such as marketing management, technical management, infrastructure management, commercial management; potential users and tenants are small business (e.g. high-quality multicultural services), retailers (multicultural retailers); exhibition areas, offices and residential.

**Designing and appraising the PPP**

The Municipality of Leipzig developed a managerial framework (“PPP guidelines”) aimed at designing and appraising different “scenarios” of PPP for urban regeneration projects.

For each project, a formalized multi-step appraisal and a suitability test (based on a “polarity profile evaluation”) for alternative PPP structures are foreseen (see fig 3).

Once the assessment of the economic sustainability of the project (required turnover, potential spending power, etc.) is developed, different scenarios of project management structures and, consequently, of PPP are proposed and discussed.
The roles of the possible players (with possible contractual relationships) and the possible “timing” of the actions – e.g. if it is better to start with “step by step” refurbishment or to renew all the block -, are illustrated through diagrams that support the decisional process.

Possible (alternative) contractual relationships concern the following aspects: rent, financial support tied to specific conditions, sale of the areas or authorization agreement for the transfer (or use) of the courtyards within the blocks and the “management” of the courtyards. Further relationships with players are also evaluated (e.g. institutionalized “associations” with the owners, etc.).

The different possible PPP scenarios are described as through diagrams (see fig.4).

The feasibility study and evaluation of the scenarios also includes a rough economic study, by the point of view of the different stakeholders (e.g. owner and occupiers). Rents and costs, with a dynamic income/expenditure occurring at different times, are calculated (for a 20 years horizon) on the basis of “comparable” assets.

The finding from the studies should result in a firm decision being taken to continue or abandon the project.

Integration of private sector and involvement of the community

In each projects aimed at regenerating single blocks of the district (through the development of retail/handcraft activities too), private sector has been integrated from early stages, offering a reasonable planning horizon. The acceptance of the private sector as a crucial project partner was apparent from the initial phases, and possible incentives structures was evaluated (financial compensations, binding scope for ideas – e.g. ideas competitions -, discernible information from which participants would be able to gain advantage).

If the project is sufficiently attractive, this commitment can eventually secure the institutionalization of the partnership (e.g. associations of retailers or owners).

Maintaining transparency of the project steps, and building up relationships of trust and loyalty – also through the “quarter management” – are required. However, the not “neutral” role of the Municipality (e.g. through the “Quarter Manager”) as facilitator and “moderator” could be a point of discussion. A formal “block management”, operated by a professional player, in charge of developing and marketing the services/spaces of the courtyards can be a way to boost the project and to induce trust.

Another key aspect is the risk compensation, to avoid private investors refuse
to invest at the required time. The public sector should provide a risk buffer to boost the project: assumption of risk shares as incentive (e.g. sureties, interest subsidies) is a possible solution, but also reliable “public investment” assurances by the local authority (e.g. preliminary improvement of public amenities to valorize private properties) can play an important role. In general, a short implementation time is an essential aspect.

All these risks and opportunities should be appraised within the “suitability test”.

**Lessons learned and utility**

The Leipzig PPP designing and appraising “procedure” highlights the opportunity to develop managerial approaches aimed at facing the PPP issue through formal frameworks, based on feasibility studies, able to evaluate alternatives hypothesis of PPP structures. The frameworks seem to be useful in particular in situations with numerous owners, tenants and business to be involved at community level, as often occurs in regeneration interventions, instead of settings with few big potential investors. The potential role played by a formal “manager” (in this case, the “block and courtyard manager” which has to promote, on behalf of the municipality, the services to be provided in the courtyards) is essential too. The case study also confirms the need to provide clear and well-founded development plans to improve the confidence of the players, adequate “risk-assurances” (also through adequate incentives), and strong relationships between community and public subjects, as an effective “quarter management” can guarantee. A correct “time planning” of the sequential interventions is also a strategic factor, which has to be harmonized with the PPP structure.

**Bibliographic and further Sources**


Leipzig- EFRE Project (Gruenderzeit Erleben) – In German:


Brochure for communication (in German)

Figure 1: The Leipzig “Block99” in the “IQ-OST”

Figure 2 – The needs of regeneration for the different Leipzig districts – general scheme

Identifying needs
- Determining shortcomings in the urban development process
- Report back to SEK
- Defining the problems of the spatial and social structure concerned
- Proposals for countermeasures (decision)

Forging ideas
- Definition of targets (for possible invitation to tender)
- Generation of a project idea
- Presentation of the project idea in an interdisciplinary round involving act

PPP suitability test (extended feasibility study)
- Location and market analyses
- Analysis of utilisation concept
- Competition analyses
- Risk analyses/risk allocation
- Determining the sustainability of public investment
- Entrance and exit scenarios for the public sector
- Economic feasibility studies
- Addressing the market (estimating interest)

Acquisition of project partners
- Putting project modules out to tender
- Investor meetings
- Actor meetings
- Reviewing bidders (financial muscle, commitment, time horizon)

Establishing the project organisation
- Agreeing the operator model (based on BID?)
- Set-up of operator model (including fixing marketing strategy)
- Financial concept
- Contracts signed by project partners
- Implementation timetable (test phase + final phase)

Contract monitoring + success monitoring
- Representation of interests in project company
- Budget monitoring/budget release (budget planning)
- Examination of exit scenarios
- Proof of follow-up investment

Figure 3a/b – Leipzig – a) “PPP Urban Development Guidelines” (institute of Urban Development and Construction Management – University of Leipzig); b) Example of “polarity profile” for PPP suitability
<table>
<thead>
<tr>
<th>Test Criteria</th>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public subsidy for investor/project developer</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Public subsidy for operators/tenant</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Depreciation opportunities</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Influence that can be exerted over project development through financial support</td>
<td>Large influence</td>
<td>Little influence</td>
</tr>
<tr>
<td>Composition</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Markability of the project without financial support from public sector</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Markability of the project following cessation of financial support from public sector</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Risk</td>
<td></td>
<td></td>
</tr>
<tr>
<td>State of investment by City of Leipzig (subsidy, non-contribution)</td>
<td>Low</td>
<td>High</td>
</tr>
<tr>
<td>Commitment to project by public sector</td>
<td>Mid-term</td>
<td>Long-term</td>
</tr>
</tbody>
</table>

Figure 4: Examples of possible PPP structures to be appraised for the development of the Leipzig IQ-OST