

## A Project on Railway Stations Revitalisation using the PPP approach (RARE/Interreg IIIB CADSES 5C105)

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### ABSTRACT

Railways areas in urban centres are attractive locations which have a large potential for development. Transfer of railways activities in the periphery provides an opportunity for revitalisation. The community initiative INTERREG III and especially Transnational Cooperation Programme CADSES provides the opportunity of addressing the development of railways areas in urban centres on a transnational level. Public private partnerships are useful tools in this effort. However know-how is limited. Hence cautious preparation and capacity development is required. The CADSES project RARE combines several partners from 5 EU countries, comparing and developing possible PPP solutions for certain locations

Key words: Real Estate Development, Public Private Partnerships (PPP), Railway Stations, Transnational Cooperation

### 1 INTRODUCTION

Railways stations are a familiar picture in every larger European City. In the last decades however the tendency is to transfer railway activities from the urban centres to the periphery. The vacant or underused areas are a valuable asset in the congested urban centres, where free spaces are scarce and demand is high. The regeneration of these areas is beneficial to everybody.

The EU project RARE combines the strengths from public and private partners from 5 European Countries which try to find ways and develop concepts for the regeneration of these areas taking in account the economic, environmental and social needs and circumstances within the urban fabric.

The partners of the RARE project are:

- Euroconsultants SA, Thessaloniki Greece as Lead Partner;
- Hellenic Railways Real Estate Organisation GAIAOSE SA, Athens Greece;
- National Railways Company "CFR" S.A., Bucharest Romania;
- Hellenic Railways Organisation OSE SA, Athens Greece;
- Urban Planning Institute of the Republic of Slovenia, Ljubljana Slovenia;
- City of Karlsruhe, Karlsruhe Germany;
- Thema Consulting, S.R.O., Praha Czech Republic.

The outputs of the projects include institutional assessment of the institutions involved and pre-feasibility studies for selected sites.

#### 1.1 The transnational approach

The community initiative INTERREG III for the Period 2000-2006 was addressed to transeuropean co-operation intended to encourage harmonious and balanced development of European territory, as a mean to economical growth and a stronger European competitiveness. Out of the three strands (A, B, C) of the Community Initiative Interreg III, CADSES (Central, Adriatic, Danubian and South-Eastern European Space) belongs to the B strand, addressing trans-European cooperation on a transnational level. CADSES aims at achieving higher territorial and economic integration within the co-operation area, promoting more balanced and harmonious development of the European space.

The RARE project during its initial development phase decided to place the project within the CADSES framework for the following reasons:

- The revitalisation of railway stations is an issue present in most European and especially East-European cities, thus making it a genuine transnational topic;

- CADSES offers a unique funding opportunity for bringing together actors and stakeholders from several European countries (EU member states, Accession countries and third countries);
- The framework of transnational cooperation can act as an incubator for real estate development in order to acquire the necessary political backing and citizens' approval.

## 1.2 Project Cycle Management Principles

In the field of Development Cooperation and Aid Delivery the European Commission adopted the “Project Cycle Management” (PCM) as its primary set of project design and management tools (based on the Logical Framework Approach).

In the RARE project the focus was set early on using Public Private Partnerships (PPP) for the development of proposals for the revitalisation and mobilisation of railway stations and areas in urban areas. Especially in the field of PPP many institutions and stakeholders in the CADSES area are entering a “terra incognita”, thus providing a fertile ground for transnational cooperation. For that reason proved tools from the field of Development Cooperation were utilised as described in Chapter 2.

## 1.3 Developing the PPP

The RARE project planned the development of 3 pre-feasibility studies in Athens, Brno and Ljubljana, as the first step in the development of a PPP project.

While the 3 locations mentioned are quite different from each other and the approach to each city is a different, it was beneficial to all partners to develop a common guideline to escort them through the study development.

This guideline has been prepared to assist in preliminary activity preparation. It has two parts:

- pre-feasibility context and
- Pre-feasibility study documentation – detailed content.

The requirements for information in a pre-feasibility study document can vary considerably. For this reason, this guideline provided a generic model for the study.

During conduction of the pre-feasibility studies, Athens demonstrated the highest degree of maturity, hence leading to the development of detailed Terms of Reference and a Public Call for Tenders in January 2007.

## 2 ASSESSMENT OF THE OPERATING ENVIRONMENT AND CAPACITY DEVELOPMENT OF THE INVOLVED ORGANISATIONS

The tools of Stakeholder Analysis, Benchmarking and Organisational Assessment and Capacity Building were used trying to answer the following questions:

- Who is involved in the urban revitalisation process in railways areas?
- What is the performance of the operating environment (marketing, planning and contracting)?
- Which are the capabilities of the leading institutions (e.g. cities or railway companies) and what capacities should be developed?
- What is the “space” defined by the above mentioned factors for concrete projects to be developed?

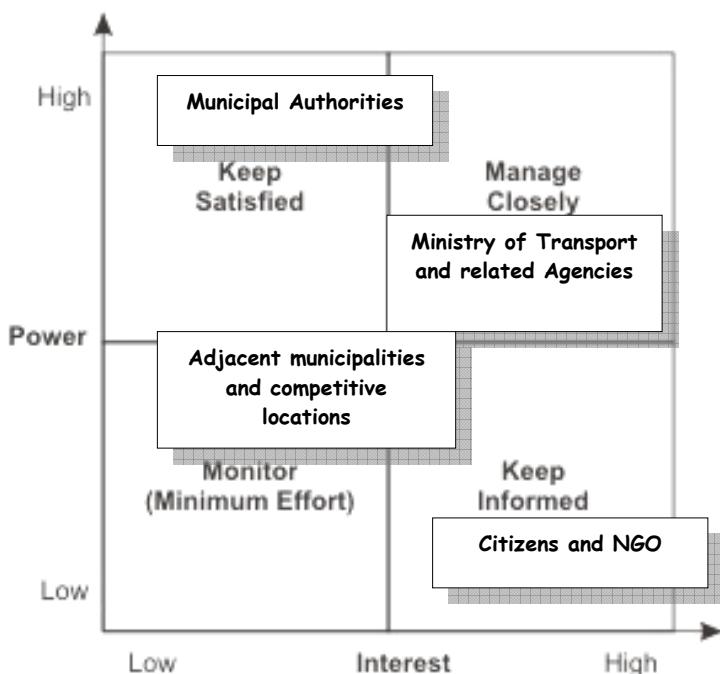
### 2.1 Stakeholder Analysis

Stakeholder Analysis is the technique used to identify the key people who have to be won over. According to the EU Project Cycle Management Guidelines, Stakeholder Analysis addresses:

“Any individuals, groups of people, institutions or firms that may have a significant interest in the success or failure of a project (either as implementers, facilitators, beneficiaries or adversaries) are defined as ‘stakeholders’”.

A basic premise behind stakeholder analysis is that different groups have different concerns, capacities and interests, and that these need to be explicitly understood and recognized in the process of problem identification, objective setting and strategy selection.

While every city and setting form their own distinctive and unique landscape it was possible to draw some general conclusions and summarise stakeholders and possible policies towards them. Graph 2 shows an overview of the positioning of typical stakeholder classes identified by all the RARE partners.



Graph 2: Stakeholders Power/Interest Grid (Source: Manktelow, 2005)

## 2.2 Benchmarking

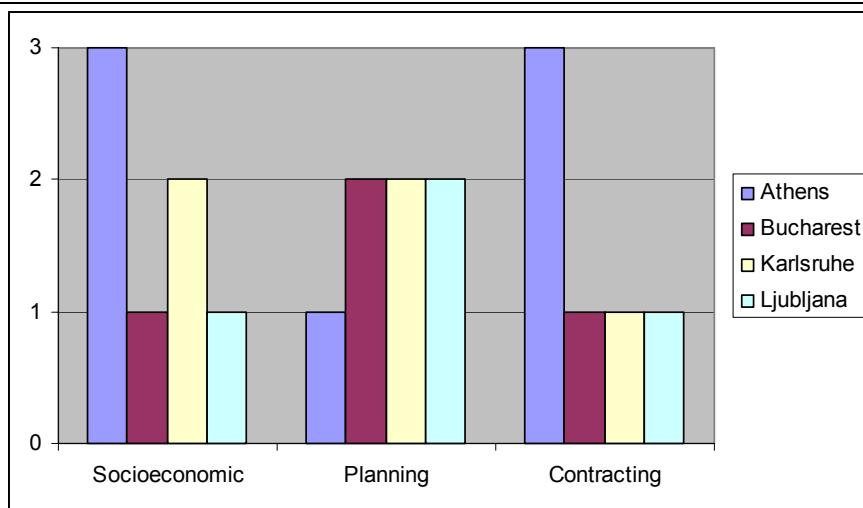
Benchmark Analysis deals with the performance improvements of organizations through identification and formulation of benchmarks, comprehension of performances and adaptation of practices and processes within the operating frame of an organization.

Within the RARE project, different organizations are engaged in the process of railway revitalization. While the characteristics of the partners are different, they all face similar constraints and threats in their efforts. This fact offers the opportunity for the definition of comparable indicators and the extraction of lessons for the compilation of the Pre-feasibility studies.

It was decided to proceed and examine 39 benchmarks indicators in the following 3 categories:

- Block 1: Socioeconomic indicators as an illustration of the market dynamics for real estate;
- Block 2: Planning of railway areas revitalizations as an illustration of the flexibility of the planning system;
- Block 3: Contracting and concessions as an illustration of the maturity of the legal and contractual framework for the Implementation of PPP.

A summary of the benchmarking delivered the picture depicted in Graph 3 for Athens, Bucharest, Karlsruhe and Ljubljana. In a scale of 1 (low) to 3 high Athens scored high in the market demand due to the Metropolitan area of 5 million inhabitants and the vivid economic growth. The recent PPP legislation also offered a supportive framework for contracting while the slow and bureaucratic planning system requires a careful planning for the avoidance of permits and land use regulations delays. In the other cities the medium grades of the rather efficient planning systems are either signs of mature planning systems or recent administrative reforms in order to attract investments and land use changes. However in most cases public procurement and concessions remain the usual vehicle for contracts, thus limiting the experience and acceptance for PPP models.



Graph 3: Benchmark Assessment Athens, Bucharest, Karlsruhe and Ljubljana (Source: 5C105 RARE, 2006)

### 2.3 Organisational Assessment and Capacity Building

Institutional capacity assessment is required to:

- Help identify appropriate stake holding partners and assess their capacity to deliver services and manage change;
- Identify and design relevant and feasible project interventions, which take account of absorptive capacity and effectively support related institutions and organisations to deliver a sustainable stream of benefits; and
- Support an assessment of good governance issues (including organisational adequacy, accountability and transparency);

It would be beyond the scope of this paper to try to present all the findings of the Organisational Assessment and Capacity Building concepts outlined during the project. Illustratively Project Partner 2 GAIAOSE identified the following general strategies:

- Supplying additional financial and physical resources;
- Helping to improve the organizational and technical capabilities of the organization;
- Helping to settle on a clear strategic direction;
- Protecting innovation and providing opportunities for experimentation and learning;
- Helping to strengthen the bigger organizational system;
- Helping to shape an enabling environment;
- Creating more performance incentives and pressures.

For GAIAOSE, it was decided to develop a concept based on Strategy 2 “Helping to improve the organizational and technical capabilities of the organization”.

## 3 PUBLIC PRIVATE PARTNERSHIPS IN GENERAL

Public – Private Partnerships (PPPs) are types of cooperation between the public and the private sector, to finance, manufacture, renovate, manage and maintain public infrastructure and provide services, in those sectors of national economy, where the market liberation is either impossible or undesirable. The participation of the private sector is being held either by the form of a Partner cooperating with the implementation body, or by the form of a services Provider to the public sector. This technique is already being implemented in the EU, the new member states included. Today PPP projects are mostly Large-scale infrastructure projects or services. The goal is to expand to medium-scale projects. A Large-scale project is defined as having a very high construction cost and a very long construction period (e.g. 6-10 years), the revenues inflow is scheduled for after the construction is finished and finally the project financing will only succeed with the participation of both public and private sector

### 3.1 PPP in General

The common contents of PPP Types are the long-term legitimate relationship, the full or partial private financing in complex patterns; the presupposition that the main role of the private sector partner is to assure the project financial parameters while public sector's is to assure the public interest determining goals quality and pricing policy; the risk transfer from the public to the private sector partners, combining their best capabilities for mutual benefit ('making the best out of'). The PPP types vary according to the size of risk included and its distribution among the partners, the required degree of each partner's specialization in contracts negotiations, the potential consequences for taxpayers and finally the financing details. There are three basic PPP Types: Concession, Joint Venture and Hybrid.

### 3.2 Basic PPP institutional arrangements

In Concession, the private partner is in charge of the project exploitation/maintenance/management for the whole concession period, is responsible for every construction/renovation/expansion, is self-financed during the concession period, is responsible for the provided services, determines their value and directly collects the money from the services users and finally may initially pay an amount of money to the state. On the other hand the public sector is responsible for the configuration of the performance criteria, reassures that the above criteria are respected by the private sector, sets the prices and the quality and finally holds the ownership of the public assets. The concession period (which lasts more than 25 years) is based on the contract requirements. Concession is the most common PPP type/category in everyday life. In Joint Venture, the Partners are equally responsible and owners of the provided services/projects. Joint Venture represents an alternative to the pure privatisation, as private sector's participation is less than 100%. The Partners form a new company or they are co-owners of an existing one that is independent from the public sector. The public sector represents the final regulator & an active shareholder of the company, can participate in the profits distribution of the project, and reassures the greater political efforts acceptance, while the private sector often takes the responsibility to deal with everyday project management. The Hybrid PPP forms (B.O.T., O.M., O.M.M) will be later presented.

### 3.3 Basic PPP forms

During the last 20 years of PPP implementation on international level, various PPP forms have been developed. Their differences mainly derive from the "job allocation" between the public and the private partner, the distribution of the risks among them and who finally owns the property of the assets-service. The most common PPP Forms are:

- B.O.T. (Build-Operate-Transfer)
- B.O.O.T. (Build-Own-Operate-Transfer)
- D.B.F.O. (Design-Build-Finance-Operate)
- B.T.O. (Build-Transfer-Operate)
- B.O.O. (Build-Own-Operate)
- B.B.O. (Buy-Build-Operate)
- L.R.O. (Lease-Rehabilitate-Operate)
- B.O.L.T. (Build-Own-Lease-Transfer)
- O.M. (Operation/Maintenance Private Services Contract)
- O.M.M. (Operation/Maintenance/Management Private Services Contract)

### 3.4 3Basic PPP types

Experience shows two basic types pf PPP emerging:

- **Fixed supply and demand projects:** those projects mainly concern the construction, completion and/or management of basic infrastructure networks (water supply, waste water treatment, urban regeneration projects etc.) Those projects have an assured high demand and need immediate implementation. However certain factors such as the absence of mature preparatory studies and zoning issues cause delays. Additionally those projects have to face the need for public acceptance,

legal obstacles concerning billing agreements and the ever present risk of political changes at the municipal level;

- **Added value projects:** Those project concern to a large extent the exploitation of the public real estate property along with investments in environmental management. Those projects differ significantly from the former category. However they still need particular attention in the initial phase, in the clarification of property claims and the assurance of public acceptance and municipal participation over the envisaged PPP period of 25-30 years.

## 4 THE REAL ESTATE MARKET AND PUBLIC PRIVATE PARTNERSHIPS

### 4.1 PPP and Real Estate Development

PPPs are a popular tool for the development of a large array of Brownfield sites. Railway areas in urban centres have an additional appeal to private investors through their centrality and in many cases guaranteed visitors frequency.

This Chapter describes the ideal standard for a PPP project, focusing on the six main components of Brownfield sites and their potential for PPP. These six components are: land ownership, financial aspects, risks, value for money, maintenance and operation and PPP type. Public action can heavily influence the six components, hence optimizing their PPP potential, if so desired.

The preferred PPP model depends on the project characteristics. For example in Athens a concession approach was selected, being the most durable under the present framework and capacities. At the same time the sites elected were not affected by any serious contamination from railway operation, thus making the risks for the private investor more predictable. This does, however, not imply that other PPP models or full public execution of the project would not be adequate alternatives. Accordingly, in all cases the project manager has to weigh the various project characteristics and the effects they have on the selected execution model. Another important aspect to consider is the interdependency between characteristics.

### 4.2 Checklists and project optimizing actions

There is not one universal system to reach “the best PPP model for Railway areas revitalization projects”. Also, it cannot be said that private involvement will certainly and always add value to the project. The public project owner must go through various considerations before deciding whether to develop the project in a public or a PPP form. Before deciding what form will best fit the project, one should first gain insight into the project characteristics and the physical and organisational capacities and limits.

As a next step one should investigate the possibilities for increasing the project potential through PPP or public execution. If the characteristics do not meet the PPP marginal values to be successful, it is possible to influence the project characteristics in an early stage, so that a PPP becomes a possibility for the project which would result in potential extra value. It is important to keep in mind that PPP is not the project objective in itself. It is a means to reach the objective of increasing the project value. A PPP should be established only if it adds value to a project.

The definition of Value indicators for real property PPPs is a useful tool. Real property partnerships between the public owner and private developers depend heavily on the match between the local community's needs and the assets available on the site. The following value indicators should be considered when evaluating real property partnerships:

- The characteristics of the city: A thorough evaluation of local economic and demographic conditions will provide important details about growth prospects, emerging industries, and likely responses from the private sector;
- Former or current mission of the site: The site's mission must be considered to determine how and what kind of real property partnerships will fit within that mission;
- Available capacity: Available capacity should be identified by a real property assessment at every site. That which is least critical to the Railways mission should be targeted for real property PPPs;

- Criteria for success: Determining public owner goals when deciding whether to pursue real property PPPs is critical. Goals are an essential part of planning, negotiating, evaluating, and managing PPPs. Nonexistent or vague criteria for success will only hamper the development of PPPs;
- Potential uses. Based on these first four stages, the most promising matches between local private-sector demands, available public owner facilities, and public owner goals can be identified and pursued;

Indicator	Relevant Question(s)	Relevant Variables
Characteristics of the city	What are the relevant economic and demographic conditions in the city?	Projected economic growth Projected employment growth Projected growth industries Projected population growth Projected labour force growth Average education Office/industrial vacancy rates Price/square foot of office space Distance to metropolitan area Major local university Major local employers Special development incentives
Former or current mission of the site	What are the installation's major land, construction, and infrastructure assets?	Buildings Type of service conducted Equipment Available workforce Land Utilities
Available capacity	How can current installation assets be consolidated, relocated, or restructured to accommodate a PPP? What assets can be used for the PPP?	Buildings, free spaces, Equipment, Rights and Servitudes
Criteria for success	Is the PPP in consonance with the public owner goals? Are there other benefits to the PPP? Does the PPP meet the criteria for success as outlined by the relevant bibliography?	Public owner mission at installation Catalyst for change Statutory basis exists Detailed business plan Coherently organized structure Stakeholder support
Potential uses for site assets	What types of private enterprise should be encouraged to engage in a PPP?	Qualities of potential businesses should be consistent with installation assets capabilities

Table 1: Value Indicators for Assessing Potential PPPs (Source: 5C105 RARE, 2006)

Genuine PPP real estate development models occur, if both of the following conditions are met:

- the private partner bears the construction risk, and
- the private partner bears at least one of either availability or demand risk.

Within the objects examined within INTERREG IIIB CADSES Project 5C105 RARE these conditions are clearly met (i.e. construction and demand risk are borne by the non-public partner).

By comparison the allocation of risks in the Athens and Ljubljana cases could be identified as follows:

	Construction Risk	Availability Risk	Demand Risk
<b>Athens</b>	Private partner	Mixed (the public partner has still to provide some of the necessary framework conditions)	Private partner (however related to the Availability Risk and development of adjacent competitive sites)
<b>Ljubljana</b>	Private partner	Private partner	Private partner (however no mention is made regarding general public partner decisions that might affect the demand)

Table 2: Allocation of Risks in Athens and Ljubljana (Source: 5C105 RARE, 2006)

#### 4.3 The case of the Railway Station of Peloponissos-Pireas (SPAP) in the Athens Metropolitan Area

Within the RARE project one of the developed feasibility study concerned the Railway Station of Peloponissos-Pireas located at the port of Pireas with one of the highest passengers' frequency of over 10 million passengers a year.



Graph 4: Railway Station of Peloponissos-Pireas (SPAP) (Source: 5C105 RARE, 2006)

The study was conducted in 2 phases. The first phase included the assessment of the operational and technical needs of the Railways and the first development concept. The second phase included the market research and the review and assessment of older concepts and development studies. The subjects covered where technical and operational specifications of the Railways, landing permits specifications, environmental regulations and the overall development plan of GAIAOSE SA.

The study focused on the development and evaluation of alternative scenario based on the above mentioned issues including:

- Location information on the station addressing the greater area, accessibility and urban planning specifications;
- Market research on the greater area concerning competitive activities and potential uses;
- Definition of a spectrum of options for development;
- Development of 2 final Scenarios;
- Indicative illustration of the financing assumptions and models for the envisaged development plan.

In February 2007 a call for tenders was launched and the process is expected to be finalized soon.

## 5 CONCLUSIONS

Railways areas in urban centres are attractive locations which have a large potential for development. Public Private Partnerships are a useful tool at the hands of the Public Project Owner, especially when designing “added value” projects.

Successful PPPs pose however a novel approach in many European cities, demanding thus a long period of preparation and analysis. In the RARE project, development cooperation tools were employed in the initial phase in order to communicate to the involved partners the requirements of a railway area revitalisation project and the limitations of their operating framework.

“Easy” straightforward projects were preferred in this initial phase in order to strengthen the capacities of the involved partners, while maintaining a level of success. Thus institutional and political acceptance can be secured and the benefits visualised to the general public. For example concession types on attractive central locations were promoted in order to facilitate the succour implementation of the envisaged real estate PPP developments.

Last but not least the INTERREG cooperation framework provided a supportive shell for the development of the PPP concepts through the comparison of approaches within several countries and basically through the provision of “legitimisation” within a European cooperation programme.

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