

auri research brief

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Revitalization of Public-Private Partnership for the Mixed-use Development of Dated Government Buildings

After a period of rapid government building construction during the 1970s and 80s, there is now an increased need for reconstruction of these buildings due to the passage of time as well as for expansion of space. However, the government budget for this need is severely lacking compared to the overall demand.

Government buildings in the past were located in highly-accessible sites within the city to provide the most facile access to administrative services and had been built to significantly reduced scales compared to its development potential. In this respect, incorporating more diverse functions and facilities in the reconstruction process is possible, including those from the private sector. However, government buildings are still generally built as independent entities that only accommodate government-related functions. If private-sector revenue-generating facilities are incorporated in the reconstruction, the government would be able to secure rental income which would help alleviate overall construction costs. Furthermore, a mixed-use government building which incorporates locally-needed amenities, retail, and office facilities could benefit the local community and help stimulate its economy. It is regretful that, insofar, mixed-development or public-private partnerships have been limited or implemented only on a small scale.

This study aims to propose a number of public-private partnership (PPP) development models, systems and policy improvements in the reconstruction of government buildings with consideration to private-sector knowledge on service provision and increase of land efficiency.

Based on an analysis of applicable legislation and case studies, there were three limitations to reconstruction of government buildings under PPP. The majority of the public administrative system relied on a development model of commissioning a public developer, while participation from the private sector was limited to being the trustee of facility operation. Second, there lacked a clear procedure for private sector-led project planning and participation. In PPP projects where collaboration between the public and private entities is key, insufficient project information and the absence of collaborative models become hindrances for private sector involvement as clear judgment calls regarding the project become more difficult to make. Third, there was an unfulfilled need for a risk-sharing model between the public and private sector. Due to lack of communication to the private sector, and a failure to clearly define the main tasks and deadlines of the project, risks arising from the unpredictability of the project had to be managed by the private sector.

In order to revitalize mixed-use development of public buildings through PPP, there needs to be ① a transition in the national and local government perception of PPP as a collaborative partnership/governance, ② a pilot project that would serve as basis for a collaborative working system among stakeholders identifying the current problems and limitations, ③ consistency in information-sharing and project objectives to help build trust among stakeholders and minimize project risks, ④ flexibility to accommodate various programs, building uses, and sizes, ⑤ a method for negotiation which would ensure equal status between private and public sectors.

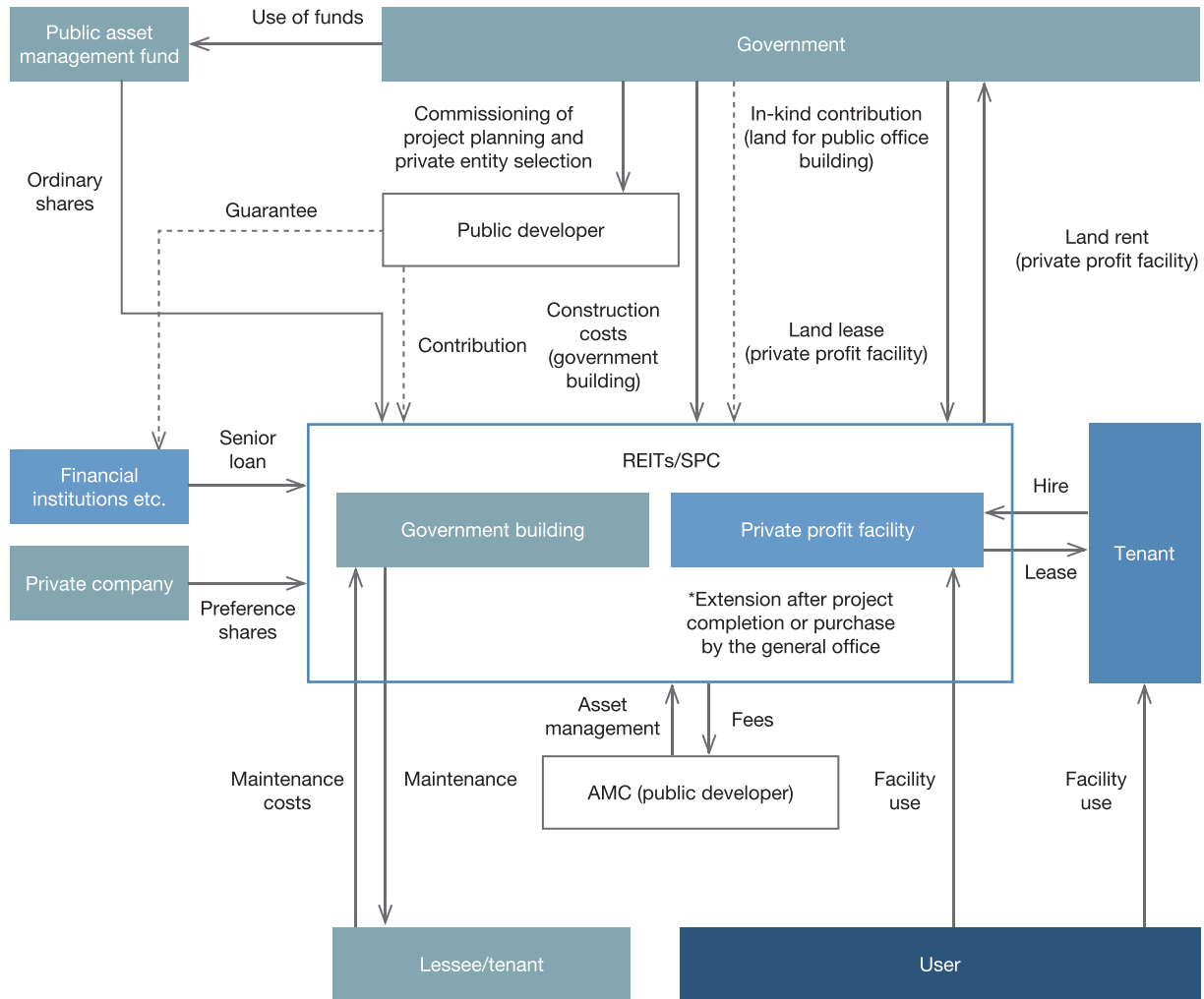
A set of basic principles for examining PPP project models were drawn. First, a mid- to long-term project that considers reduction of public financial burden and long-term leasing of land is to be pursued. A balance between public good and profitability needs to be struck and the role of the public sector should be recognized as that of a project coordinator and AMC. Next, in terms of risk-sharing among stakeholders, a system that allows for private sector involvement in the very early phases of the project needs to be established. Transparency must be emphasized throughout the length of the project and risk-sharing clearly defined under precisely worded contracts.

Based on these principles, the study simulated a business model of developing an older government building into a modernized mixed-use government building with the private-sector renting government land on a long-term basis. Through this simulation, the study derived the “Long-term Land Lease PPP Development Method” to be applied to future projects. In

this model, the government commissions a public developer to undertake the overall project planning phase of preparing a feasibility study, the project requirement documents, and selecting the appropriate private sector entity. After the selection, a Real Estate Investment Trusts (REITs) is organized which would operate the project. If needed, the government may make an in-kind contribution to REITs, and the private entity may also form part of REITs to undertake design, construction, and maintenance and management tasks. REITs may conclude a land lease contract between the government and private revenue-generating facilities for payment of land rent during the project period for either direct operation of the private facility for profits or lease to a third party to secure rental income. The public developer acts as an AMC after the establishment of the REITs. Upon the completion of the project, REITs may request to extend the project period or otherwise can sell (Put Option) the private facilities to the government at the current market price listing. The government agency could then operate the corresponding private revenue facilities through a third party.

There is an acute need for the PPP development method suggested in this study as the government financial burden continues to increase with the aging of old government buildings and the search for new project models lengthens. In addition, the study examined comparative precedence in applying PPP in Japan where institutions and practices regarding public properties are similar to Korea. The study was able to draw from an international workshop of Japanese PPP experts, Korean government officials, public organization stakeholders and other professionals to understand the institutional and policy differences and the need for PPP development and implementation. The study is further substantiated by confirmations from a design office, construction company, and business planner who all participated in the simulation and verified the feasibility and limitations of the proposal for successful implementation and policy improvement of PPP projects.

[Figure] Long-term Land Lease PPP Development Method (suggestion)



Keywords : Decrepit Government Building, Public Building, Mixed-use Development, PPP (Public-Private Partnership), Revitalization

