NEW APPROACHES TO PRIVATE SECTOR FUNDING OF PUBLIC SECTOR PROPERTY: A GLOBAL PERSPECTIVE

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Abstract

The global financial crisis (GFC) has had a profound impact on real estate markets around the world in particular on the way in which public property and infrastructure is financed. The GFC has exposed the dependence on debt finance and the vulnerability of governments and end users to the economic cycle. In addition, illiquidity within the banking sector has been compounded by contraction in risk appetite across investors necessitating significant intervention on the part of national governments.

At a time of constrained public sector spending the challenge for national governments is significant and will necessitate the exploration of innovative investment structures/models. The impact of the GFC has been to reduce both commercial and residential property values dramatically resulting in less scope for developer contributions in financing infrastructure and other public property projects.

This paper draws on research covering three areas of public sector property funding namely, Public Private Partnerships (PPP/PFI), Tax Incremental Financing (TIF) and Business Improvement Districts (BID). The research over the period 2010-2012 is global in scale and combines both quantitative and qualitative methodologies.

Globally the cost of debt has increased markedly for infrastructure which has increased the Whole-Life-Costs of PPPs. Rising interest rates have made project funding more expensive and financial closure difficult. Furthermore the illiquidity of infrastructure as an asset class has made many investors reluctant to be exposed to schemes which transcend the economic/financial cycle.

Consequently the PPP model has not met with universal approval. Rather misgivings centre on reductions in the quality of service/provision, perceptions of private sector profiteering and long-term liabilities on future generations of taxpayers. It is also clear that there is a need to educate investors on the benefits of infrastructure as an investment asset class.

While TIF is a global model its success depends upon the effectiveness of local application. Each proposed TIF project area is different, with its own unique set of ownership issues, development partners, scale of development, timeframe and agreed end use. TIF schemes are by their very nature long term and flexibility is important in order to be able to respond to changes in the property market, as well as to political and economic circumstances.

The BID industry is now significant in the UK with an estimated US$266m investment in urban areas being raised via this funding model. BIDs provide real and tangible evidence of impact on the ground but the challenge for BIDs over the coming years will be to continue to deliver effective solutions for the benefit of the private sector whilst providing commensurate efficiency savings to their members.

The principal conclusion from the research is that managing the continuing negative fallout from the GFC and the pressures of the public sector financial squeeze could prove a difficult balancing act. In order to finance the infrastructure deficit identifying opportunities for innovative financing is paramount highlighting the need for enhanced skills among property professionals both to add value to the property asset and to engage more effectively with the wider capital markets.

THE SIGNIFICANCE OF REAL ESTATE IN ASIAN PENSION FUNDS

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Abstract

Pension funds are major institutional investors, with over $30 trillion in assets. Typically, real estate accounts for 5-10% of their portfolios in the developed markets. Importantly, pension funds in Asia are significant players, with five Asian pension funds in the top ten pension funds globally. However, Asian pension funds typically have low levels of real estate in their portfolios; often having no real estate. A number of critical drivers are now seeing an environment of pension fund reform in Asia, eg: rapid demographic change. This is seeing pension funds in Asia reviewing their strategic asset allocations to meet future obligations; this includes assessing the level of real estate in their portfolios. This paper will highlight this changing pension fund environment in Asia and the activities of various pension funds in Asia strategically increasing their levels of real estate. This includes case studies of South Korea's National Pension Scheme, Malaysia's Employees Provident Fund and other Asian pension funds, as well as interviews with leading pension funds in Asia to assess the implementation of their changing real estate strategies. Enabling strategies are also identified to facilitate other pension funds in Asia to increase their real estate allocations. These increased levels of real estate in Asian pension funds will see significant benefits across all sectors of the real estate industry in Malaysia and Asia.

IMPACTS OF NEW DEVELOPMENT PROJECTS ON PROPERTIES: MEASUREMENT AND INFLUENCE TO ENVIRONMENTAL IMPACT ASSESSMENT [1]

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Abstract

Rapid development in Malaysia has not only led to the launching of new real estate projects but also new infrastructures and services to support the growing settlements and population. Owing to limited strategic open areas, the enaction of some of these new development projects, roads, drainage facilities and solid waste landfills unfortunately are sited quite close to housing areas. Not all new projects, infrastructural and service projects have to conduct a detailed environmental impact assessment (DEIA). Where such projects fall under the "prescribed activities", a DEIA has to be done. Apart from assessing the physical impacts, a DEIA has mandated that an economic valuation of the environmental impacts has to be studied and presented to the DEIA panel at the Department of the Environment, Putrajaya for deliberation. Here lies the opportunity for the impacts upon property values including that of other externalities be discussed.

Proposed development projects and of infrastructural and service activities have impacts upon the public living surrounding these projects. These impacts may take many forms ranging from health, safety, livelihood, environmental resource loss and pollutions and also on changes to property values. Awareness on the outcome of the environmental impact assessment for such projects are being made known by the Department of the Environment, although this could be improved especially for those living within the vicinity of these new proposed developments. Economists have established a framework and empirical methodologies to place values to environmental and socio-economic impacts and a discussion on these will be provided.

Keywords: impacts, environmental impact assessment, economic valuation

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[1]Abstract submitted to the 6th International Real Estate Research Symposium (IRERS) 2012, 24-25 April 2012 at INSPEN 2nd Campus, SELANGOR, MALAYSIA.

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NATURAL DISASTERS AND PROPERTY MARKETS: A GLOBAL ISSUE

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Abstract

The past decade has seen an increase in the number of significant natural disasters that have seen considerable loss of life and damage to all property markets in the affected areas. In many cases these natural disasters have not only caused significant property damage but in numerous cases have resulted in the total destruction of the property in the location.

With these disasters attracting considerable media attention, the public are more aware of where these affected property markets are, as well as the overall damage to properties that have been damaged or destroyed.

This heightened level of awareness has to have an impact on the participants in the property market, whether, a developer, vendor seller or investor.

To assess this issue a number of residential property markets that have been affected by significant natural disasters over the past two years have been analysed to determine the overall impact of the disaster on buyer and vendor behaviour, as well as prices in these residential markets.

This paper will be based on data from the Christchurch earthquakes in September 2010 and February 2011, the Brisbane flood in January 2011 and the North Queensland cyclones in February 2011. All these natural disasters resulted in considerable loss of life and partial and total devastation of considerable residential property sectors. Data will cover sales listings, sales transactions, rental listings and sales performance on a location and socio-economic basis.

Keywords: Natural disasters, floods, earthquakes, cyclones, residential property, property returns, buyer and seller behaviour, property sales.