

JESSICA

Joint European Support for Sustainable Investment in City Areas • Joint European Support for Sustainable Investment in City Areas

JESSICA in Portugal

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Holding Fund constituted on 20 July 2009

6 Operational Programmes involved + Treasury Ministry

- **EUR 130m of which:**
 - **Central Treasury : EUR 30m**
 - **PO de Valorização do Território: EUR 30m**
 - **PO Norte: EUR 30m**
 - **PO Centro : EUR 20m**
 - **PO Lisboa : EUR 5m**
 - **PO Alentejo : EUR 10m**
 - **PO Algarve : EUR 5m**

Market analysis performed on REAL PROJECTS to be adapted to the JESSICA instrument

The analysis allowed to identify 4 “PROJECT TYPES” to be replicated all over the country

2 UDFs have been modelised

The HF cash Flow has been estimated



Base Case Description and Assumptions

Description of Base case intervention area

Due to the degradation of a significant part of the city's historical centre the municipality/SRU have drawn up an integrated urban development plan divided in intervention areas. Base Case project is related with one of these intervention areas.

Regarding the risks perceived associated with eventual delays in implementation, construction expenses higher than estimated and a bearish real estate condition, it has not been possible up to now to obtain the required funding for the project.

Description of the intervention area project

The project involves buildings rehabilitation (including energy efficiency and façades) either for sale or to lease, parking lot and public spaces recovery.

For the project, it must be noted that no grant was assumed although there is an investment in public spaces regeneration.

Assumptions

Given the previous project description, the following assumptions were defined when constructing the financial model supporting the project:

- Project has a 2 year investment period and ends after 20 years;
- Estimated investment amounting to €23M;
 - Rehabilitation of public spaces (€5M);
 - Buildings to lease (€5M);
 - Buildings to sell (€8M);
 - Construction of a Students university (€2M);
 - Construction of an Hotel (€3M)
 - 41% of investment amount is considered as eligible;
- Revenue from:
 - Sale of the rehabilitated buildings (margin of 25% during four years (year 3 to 6));
 - Rent from the remaining rehabilitated buildings (15% ROI);
 - Operation of the Hotel (10% ROI)
 - Operation of the students residence (12,5% ROI)
- Tax rate is 26.5%;
- Funding:
 - Equity (30%):
 - SRU (30%)
 - Private partner (60%)
 - Others (10%)
 - Commercial loan with a 6.5% interest rate;
 - No grant;
- Dividends to shareholders are only considered after the repayment of the commercial loan and can not exceed, for each year, the amount of retained earnings plus net income for the previous year;

PROJECT ANALYSIS TEMPLATE

Base Case

Type of project

Parking lot	
Anchor project (hotel, student residence, elderly residence)	✓
Buildings rehabilitation (civil works, energy efficiency, façades)	✓
Green transportation / Mobility solutions	
Urban infrastructures (water, sewage, heat, gas)	✓
Others	✓

Equity Partners

SRU or/and the Municipality	✓
Private entity (construction company)	✓
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Others (owners or banks)	✓

Project KPI's

IRR	3,3%
Payback	15
Investment period	20

**No appetite for
Financial Sector
and Private
Promoters**

Stakeholders perspective

		Base case	JESSICA		
			Loan	Equity	Equity/Loan
Private Partner	IRR	7.1%	7.1%	18.7%	8.3%
	Payback	15	15	13	15
	Funds used	4,140	4,140	2,430	3,627
JESSICA	IRR	n.a	6.5%	1.9%	4.6%
	Payback	n.a	11	19	12
	Funds used	n.a	2,850	2,850	2,850
Municipality / SRU	IRR	1.9%	1.9%	1.9%	1.9%
	Payback	19	19	19	19
	Funds used	2,070	2,070	1,215	1,813
Financial Institution	IRR	6.5%	6.5%	6.5%	6.5%
	Payback	7	6	7	6
	Funds used	16,100	13,250	16,100	14,105
Others	IRR	1.9%	1.9%	1.9%	1.9%
	Payback	19	19	19	19
	Funds used	690	690	405	605
Public perspective (Includes SRU + structural funds/JESSICA)	IRR	1.9%	3.9%	1.9%	3.3%
	Payback	19	14	19	16
	Funds used	2,070	4,920	4,065	4,663
Project	IRR	3.3%	3.3%	3.3%	3.3%
	Payback	15	15	15	15

JESSICA Key Performance Indicators

Base Case: Grant vs JESSICA

		Base case	Grant	<i>JESSICA</i> Equity/ Loan
Private Partner	IRR	7.1%	11.9%	8.3%
	Payback	15	13	15
	Funds used	4,140	3,708	3,627
JESSICA	IRR	n.a.	n.a.	4.6%
	Payback	n.a.	n.a.	12
	Funds used	n.a.	n.a.	2,850
Municipality / SRU	IRR	1.9%	4.4%	1.9%
	Payback	19	17	19
	Funds used	2,070	1,854	1,813
Others (Property Owners)	IRR	1.9%	4.4%	1.9%
	Payback	19	17	19
	Funds used	690	618	605
Financial Institution	IRR	6.5%	6.5%	6.5%
	Payback	7	7	6
	Funds used	16,100	14,420	14,105
Public perspective (Includes SRU + structural funds/JESSICA)	IRR	1.9%	(2.1)%	3.3%
	Payback	19	n.a.	16
	Funds used	2,070	4,704	4,663
Project	IRR	3.3%	4.9%	3.3%
	Payback	15	13	15

Case Type 1 Description and Assumptions

Description of Case 1

The Municipality/SRU elaborated a rehabilitation project for an area in the historical centre / degraded urban area.

The project consists on the rehabilitation of degraded buildings for sale and the construction of a parking lot. The proposed model involves a partnership with financial institutions, public entities, owners and construction companies, under a close-ended real estate investment fund.

The main differences from the Base Case are the following:

- There is no investment in public spaces regeneration, neither in real estate assets to lease;
- In the end of the rehabilitation period, all the assets are sold;
- Partnership uses the form of a real estate investment fund, being D/E ratio lower than in the other cases;

This case could also be seen as the recovery of a contaminated industrial area.

Assumptions

- Project has a 4 year investment period and ends after 5 years;
- Estimated investment amounting to €16M;
 - Buildings rehabilitation to sell (€13M);
 - Construction of a parking lot (€3M).
 - 25% of investment amount is considered as eligible;
- Revenue from:
 - Sale of the parking lot (margin of 0%) in the last year ;
 - Sale of the rehabilitated buildings (margin of 10%) in the last year;
 - Management fees (€150k per year);
- Funding:
 - Equity (44.44%):
 - SRU (20%)
 - Private partner (30%)
 - Others (50%)
 - No grant;
 - Commercial loan (55.56% of total investment) with a 6.5% interest rate;

Case 1	
Type of project	
Parking lot	✓
Anchor project (hotel, students residence, elderly residence)	
Buildings rehabilitation (civil works, energy efficiency, façades)	✓
Green transportation / Mobility solutions	
Urban infrastructures, sew ages, water, heat and gas)	
Others	
Equity Partners	
SRU or/and the Municipality	✓
Private entity (construction company)	✓
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Others (owners or banks)	✓
Project KPI's	
IRR	6.7%
Payback	5
Investment period	5

Description of the Case 2 intervention area

The project establishes the regeneration of a city historical centre/degraded urban area, which presents social desertification and social degradation issues, along with buildings deterioration.

This Project considers that buildings rehabilitation will be executed by property owners together with third party investors. In this case we assume that SRU or Municipality obliges the owners to make the required rehabilitation. If owners are not interested or does not have the required funds, Municipality / SRU assumes the rehabilitation works and, in the end, recovers the costs incurred either through expenses payment by property owners either through a sale of the property at market prices. Additionally, SRU and Municipality also acquires rehabilitate, and sell some buildings.

Assumptions

- Project has a 9 year investment period and ends after 10 years;
- Estimated investment amounting to €35M;
 - Buildings to lease (€18.1M);
 - Buildings to sell (€16.9M);
 - 20% of investment amount is considered as eligible;
- Revenue from:
 - Agency fee (charged by the SRU to private entities as a result of property value increase in their housing sales amounting to around 5% of the sold amount);
 - Sale of the buildings in the year after construction (with a margin of 20%);
 - Lease rents charged in the same year.
 - the Municipality subsidies and management cost (both canceling out due to the municipality subsidies),
 - the leased buildings are sold back to the municipality at book value;
- Funding:
 - Equity (30% of total investment):
 - SRU (100%)
 - Commercial loan (70% of total investment) with a 6.5% interest rate;
 - Grant of €4.875M (equal to 50% of eligible investment);

Case 2	
Type of project	
Parking lot	
Anchor project (hotel, students residence, elderly residence)	
Buildings rehabilitation (civil works, energy efficiency, façades)	✓
Commercial activity	
Green transportation / Mobility solutions	
Urban infrastructures (sewages, water, heat and gas)	
Others	
Equity Partners	
SRU or/and the Municipality	✓
Private entity (Construction company)	
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Others (owners or banks)	
Project KPI's	
IRR	5.7%
Payback	10
Investment period	10

Located in an historical center, Case 3 area is characterized by its touristic appeal (historical area) and by the urban deterioration of its residential area. Commercial activity is declining, currently being restricted to a few outdated shops. Accessibilities are a major issue for this area.

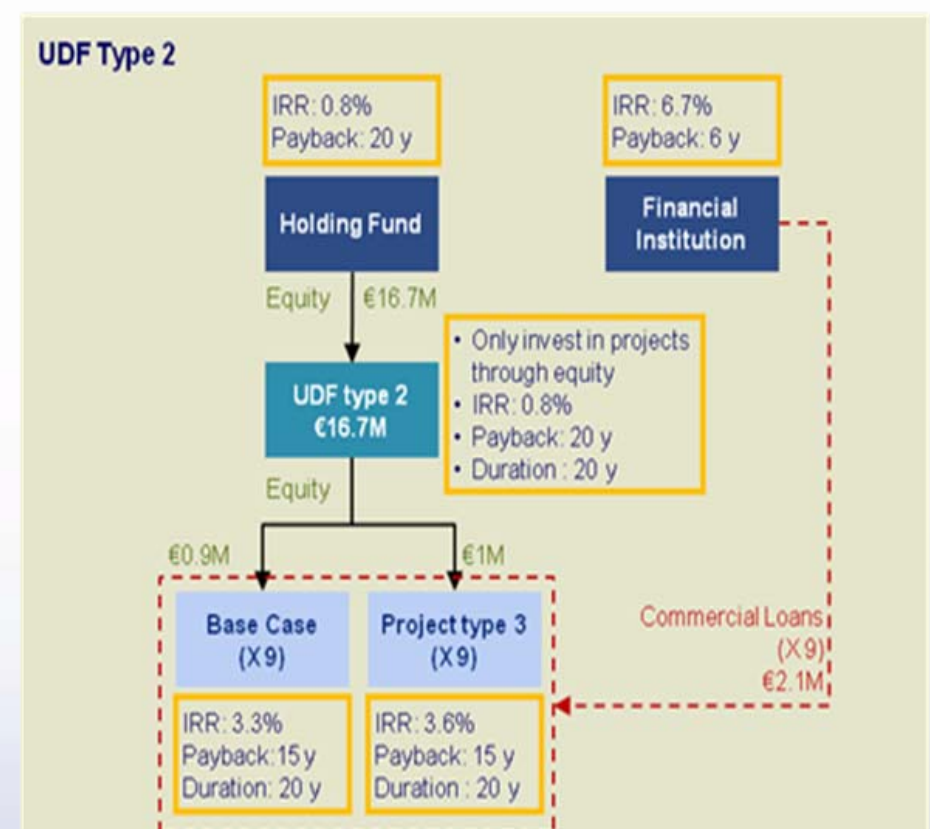
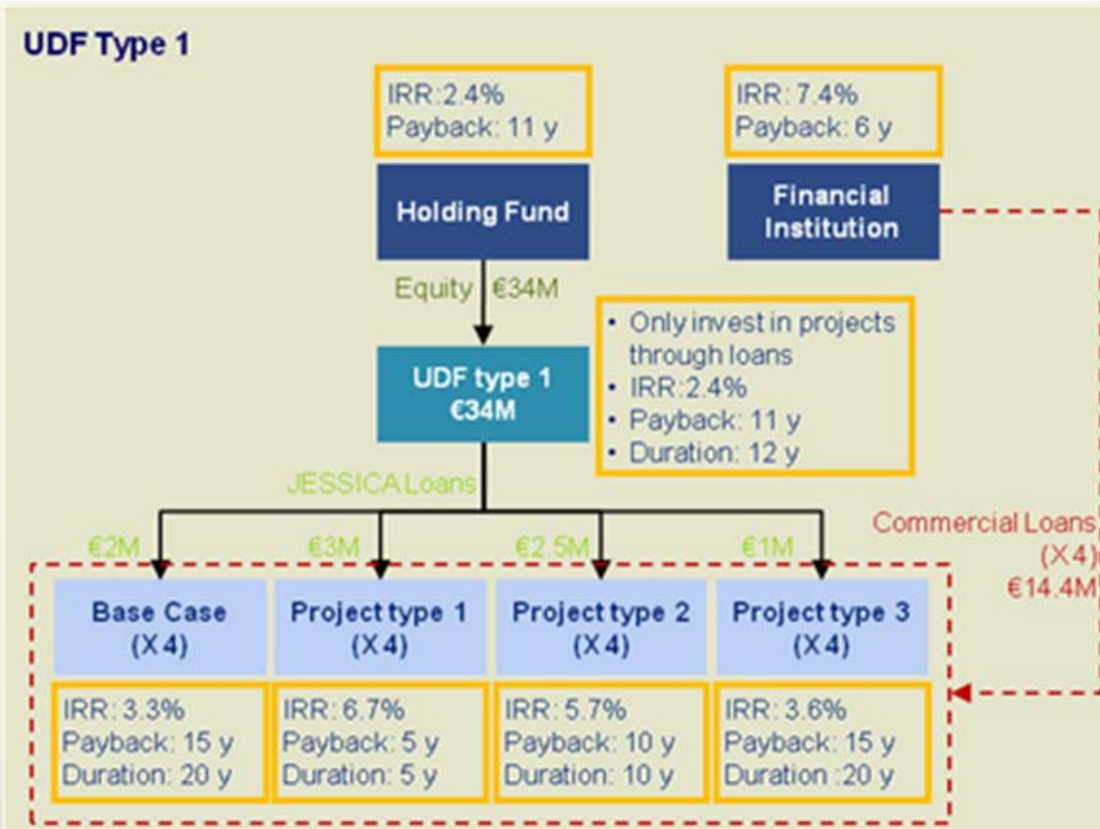
Description of Urban rehabilitation project The project has as key objective the regeneration of Case 3 area and is focused on providing better life conditions to the population, creating new dynamics and development of the touristic activity. The project contemplates several actions, the most representative and expensive being the construction of a parking lot and a shuttle as a mobility solution around the historical area, in order to prevent other vehicles circulation.

Assumptions

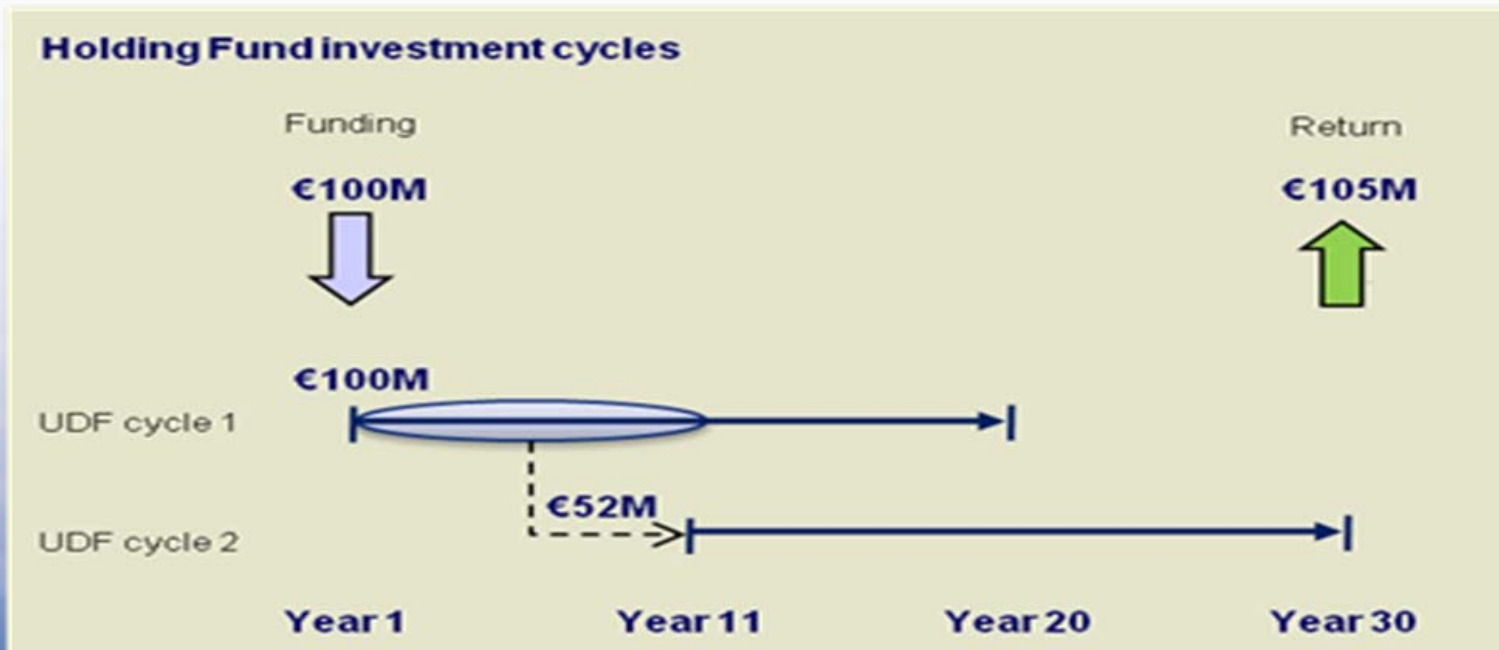
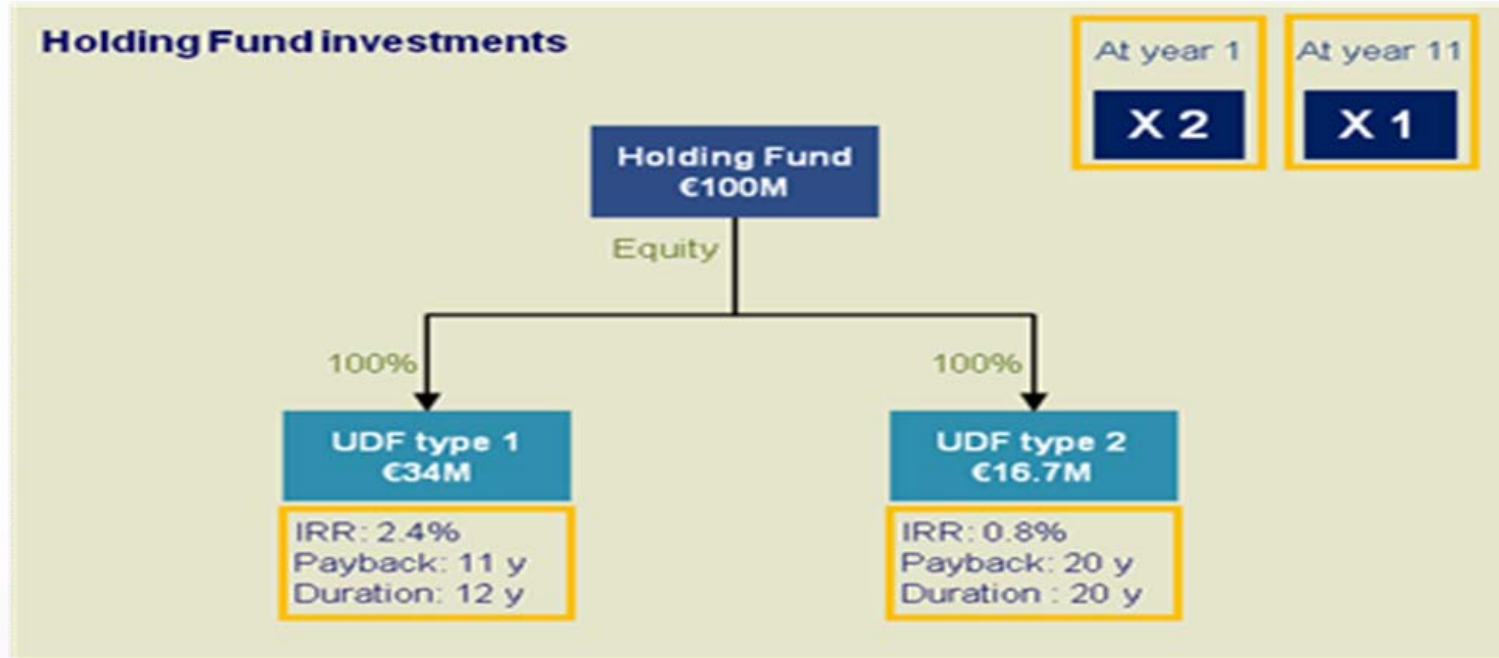
- Project has a 2 year investment period and ends after 20 years;
- Estimated investment amounting to €13M;
 - Rehabilitation of public spaces (€8M);
 - Parking lot (€3M);
 - Shuttles (€2M);
 - 50% of investment amount is considered as eligible;
- Equity (55%):
 - SRU (31%)
 - Private partner (69%)
- Commercial loan (55% of total investment) with a 6.50% interest rate;
- The projects unused cash does not pay interest;
- Grant of €4.875M (65% of eligible investment);
- Revenue starting in the second year from:
 - Parking lot exploration (EBITDA margin of 16%)
 - Shuttles exploration (EBITDA margin of 16%)

Case 3	
Type of project	
Parking lot	✓
Anchor project (Shuttles, students residence, elderly residence)	
Buildings rehabilitation (civil works, energy efficiency, façades)	
Green transportation / Mobility solutions	✓
Urban infrastructures (sewages, water supply, heat, gas)	
Others	✓
Equity Partners	
SRU or/and the Municipality	✓
Private entity (construction company)	✓
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Others (owners or banks)	
Project KPI's	
IRR	3.6%
Payback	15
Investment period	20

Examples

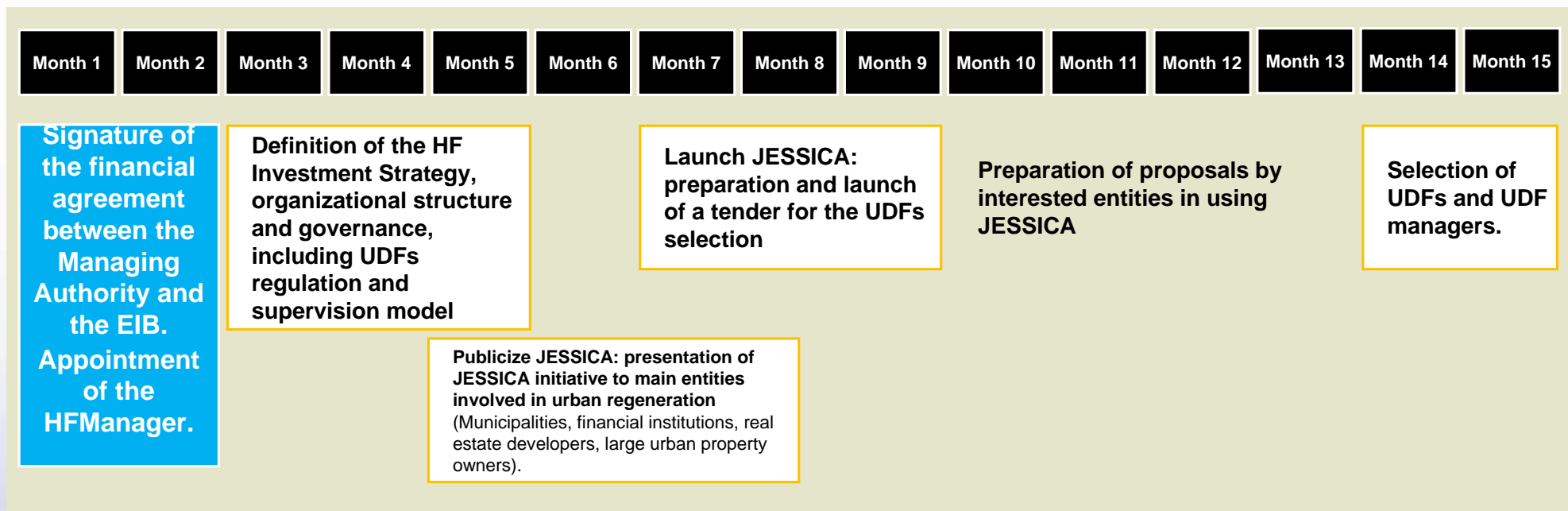


Examples



Implementation Plan

Below is presented a implementation plan with the phasing necessary to apply JESSICA initiative in the selected area.



The first step – the definition of HF investment strategy and UDFs supervision model – incorporates political priorities to be defined by Managing Authority. The second step is to increase awareness of JESSICA as an urban regeneration instrument, to prepare potential interested parties to the tender and to identify key issues in preparing the tender. Then the selection process giving way to the selection of UDF Managers and UDF establishment and then project development.