JESSICA Urban Development Funds
Typologies & Governance Structures of UDFs

Conference on JEREMIE and JESSICA, Brussels, 30th of November 2010

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AGENDA

1. Introduction

2. UDF-Prototypes
   2.1 Energy efficiency funds
   2.2 Infrastructure funds
   2.3 Environment funds
   2.4 “Smart city” investments funds
   2.5 Area-based brownfield funds

3. Governance structures for selected UDF types

4. Outlook
Introduction

Guidance for Managing Authorities for the implementation of UDFs:
Which fund types are applicable to finance different urban development projects?
What are the prerequisites for an efficient fund management?
Which governance models allow for fast implementation?
How can start-up UDFs be developed into long-term instruments?

UDF key dimensions

Business strategy
- relevance of integrated urban planning;
- urban asset types;
- specialization options (geographic/thematic);
- internal/external rate of return targets

Financial products and beneficiaries
- guarantees;
- investment loans;
- debt mezzanine;
- equity mezzanine;
- venture capital;
- later stage private equity

Governance structure
- parties involved;
- refinancing sources;
- incentives and exit strategies;
- consequence for the UDF legal status
Combination of key dimensions to a UDF typology:

Taking into account:
- linkages between expected yields and costs in UDFs,
- linkages between financial products and projects,
- linkage between conditions offered by the UDF and necessary external rates of return

Result: 5 UDF prototypes
Prototype 1: Energy efficiency funds

Business strategy:

- (Energy efficient) renovation of (public and private) buildings
- Existing buildings at the operating stage
- Depending on OP: widest possible geographic scope (= national)
- Specialised theme fund
- Investment loans with lower interest rates; lower collateral requirements or longer periods of redemption for property owners
- Only public parties at the fund management level
- Moderate impact on urban development (low public leveraging; CO₂-reduction)
Prototype 2: Infrastructure funds

Business strategy:

- Development of economic or social infrastructure
- Land/project development and utilisation stage
- Depending on OP: widest possible geographic scope (= national)
- Specialised theme fund (e.g. telecommunication or school fund)
- Investment loans (or guarantees for commercial loans) with lower interest rates; lower collateral requirements or longer periods of redemption for private households and local economy
- Only public parties at the fund management level
- Medium to high impact on urban development (private financing leverage at project level; improvement of public transport or health or education or cultural life)
Prototype 3: Environment funds

Business strategy:

- Development of (innovative) green energy facilities
- Land/project development *and* utilisation stage
- Depending on OP: widest possible geographic scope (= national)
- Specialised theme fund (e.g. solar fund or waste recycling fund)
- Mezzanine capital (no active project management) to reduce capital costs (through less private equity or IRR requirements)
- Only public parties at the fund management level
- Medium impact on urban development (private financing leverage at project level; renewable energy production)
Prototype 4: “Smart city” funds

Business strategy:

- Redevelopment of public assets (land, infrastructure, buildings)
- Existing infrastructure/buildings in utilisation
- Working in a city or region (according to urban planning concept)
- Multi-purpose fund (open to all public assets)
- Loans or later-stage equity capital (in case of planned asset sales) with lower interest rates or IRR requirements
- Final recipients: households and local economy of relevant city
- Only public/local parties at the fund management level (contributions in cash and in kind)

- High impact on urban development (reduction in public expenses/costs and indebtedness; CO₂-reduction; improvement of location)
Prototype 5: Area-based brownfield funds

Business strategy:

- Intermediary asset purchase for refurbishment/redevelopment of existing buildings at the vacancy/non-operating stage
- Depending on OP: working on city-level in certain urban areas
- Multi-purpose fund (combination of multiple asset utilisations)
- Venture/equity capital (with active project management) to reduce capital costs (through less private equity or IRR requirements)
- Public parties at the fund management level (PPP and contributions in kind possible because of separate legal entity)
- High impact on urban development (high public leveraging; brownfield land recycled; key investment in deprived areas; revaluation effects on area property; jobs)
Alternative decision paths for the UDF implementation

For the five UDF prototypes (with different business strategies and financial products) we developed three alternative structures for the governance by Managing Authorities:

<table>
<thead>
<tr>
<th>Governance structure</th>
<th>Costs/time/risk:</th>
<th>Impact:</th>
<th>Necessary first implementation steps (for Managing Authority):</th>
</tr>
</thead>
</table>
| Path 1: the Holding Fund and retail banks path | Low | Moderate | - selection HF manager  
- completion of HF management contract  
- completion of HF funding agreement |
| Path 2: the promotional bank path | Low | Medium to high | - selection promotional bank  
- completion of UDF management contract  
- completion of UDF funding agreement |
| Path 3: the independent investment fund path | High | High | - selection private investment fund manager (competitive tendering)  
- completion of limited partnership contract (company formation)  
- completion of UDF (=LP) funding agreement |

Each governance path consists of a model for the organizational structure and for the operational structure!
More details can be found in the published study: “UDF Typologies and Governance Structures in the context of JESSICA implementation”

Next steps:

1. UDF Handbook (by the beginning of 2011)

2. EIBURS: Empirical research on JESSICA instruments in all Member States (November 2010 - 2013):
   Academic publications, conferences for Managing Authorities and fund manager, on-site research at your HFs/UDFs in operation in 2011

Thank you very much for your attention!

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Additional Information:
Path 1: Holding funds and retail banks path (e.g. for energy efficiency funds)

Organizational Structure:

- Holding Fund Manager:
  - Technical assistance
  - Monitoring capital backflow
  - Contact with retail banks

- Retail banks:
  - Credit decision
  - Credit monitoring
  - Underlying equity capital (if necessary)

Operational Structure:

1. Call for tenders private banks
2. Contract and liquidity management

Operational agreement UDF
Operational agreement UDF + indemnity
Credit decision
Loan procurement

Managing Authority
Holding Fund
Private Banks

UDF 1
UDF 2
UDF ...

Loans
Loans
Loans

ERDF
Co-financing
(Other capital sources)

Loan/debt mezzanine
Loan/debt mezzanine
Loan/debt mezzanine

First step: selection
Managing Authority
Grant

Project
Project
Project

Conclusion management contract
Conclusion funding agreement

Organisational Unit
Event
Function/Action

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Path 2: Promotional bank path
(e.g. for infrastructure funds, “smart city” funds)

Organizational Structure:

<table>
<thead>
<tr>
<th>(Promotional) Bank:</th>
<th>ERDF</th>
<th>Co-Financing (possible from promotional bank)</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Project evaluation</td>
<td>Urban Development Fund as separate bank account</td>
<td></td>
</tr>
<tr>
<td>• Credit decision</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Credit monitoring</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Underlying equity capital</td>
<td></td>
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</tbody>
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Operational Structure:

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Path 3: Investment fund path
(e.g. for environment funds, brownfield funds)

Organizational Structure:

- Managing Authority
  - Grant
  - Contribution
  - Shares

- Urban Development Fund as Venture Capital Fund
  (new establishment)

- ERDF
- Co-Financing
- (Other capital sources)

- Project
- Project
- Project ...

- Fund management:
  - Project evaluation
  - Financing decision
  - Project monitoring, active project management (if so)

- UDF (Limited Partnership)

- Joint Venture (Brownfield Project Company)

- Financial institution (affiliate)

- Management fee (fixed + variable)

- UDF Management
- Profit
- Equity

- Management function

- Commercial bank(s)

- Debt

- Repayment

- Project management
- Equity
- Profit
- Management fee (fixed + variable)
Path 3: Investment fund path
(e.g. for environment funds, brownfield funds)

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