Application of Public Private Partnership in Real Estate

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Abstract: In developing India, we are faced with the problems of infrastructure and shelter to accommodate growing migration of the people to urban areas. Public private partnerships have existed for considerable period in infrastructure development. However, application of Public Private Partnership in real estate is Very Few and the success stories also less. There is a wide scope for application of PPP’s in real estate sector. Therefore, the objective of this Paper is to identify and analyze the critical success factor for successful functioning of public private partnership model in real estate sector. A questionnaire was designed and circulated to various respondents to obtain the information associated with various PPP project in real estate, and the collected information is analyzed by using Relative Importance Index Method. The results of this study indicate that, 15 out of 32 CSF found to be “Extremely Critical” while 10, 5 and 2 were falls under “Very Critical”, “Average critical” and “Fairly Critical” category, respectively.

1. Introduction

In developing countries like India, we are faced with the many problems of infrastructure and shelter to accommodate growing migration of the people to urban areas. Shortage is growing despite best efforts by the Government and the private sector. This huge shortage require more than Rs. 4.5 lakh corer of investment. Problem of this magnitude cannot be handled either by Government or by any Private Sector independently. Public-Private Partnership (PPP) is right approach to address this problem. Public-Private Partnerships (PPPs) is seen as a solution for producing high quality and cost effective real estate service delivery to the peoples. PPPs enable the public sector to benefit from commercial dynamism, the ability to raise finances in an environment of budgetary restrictions, innovations and efficiencies, harnessed through the introduction of private sector investors who contribute their own capital, skills and experience. The Public-Private Partnership (PPP) Project means a project based on contract or concession agreement between a Government entity on the one side and a private sector company on the other side, for delivering services on payment of user charges. The public sector is faced with constraints of lack of expertise, and lack of commitment to quality besides the budgetary constraints. The private sector faces difficulties in assembling large chunks of contiguous land, inordinate delays and problems in approvals from the local authority, development control regulations, and non-coordination with the local authorities who are charged with the provision of off-site infrastructure. There has always been a problem in getting institutional finance for the private sector because housing is not declared as an industry. Hence, PPPs, when correctly structured even with the current policy and administrative constraints, can help to lead to better results. Recent years have seen a marked increase in cooperation between the public and private Sectors. PPPs have demonstrated the ability to harness additional financial resources and operating efficiencies inherent to the private sector.

The real estate sector is largely fragmented. The scope for the development of real estate is tremendous. But, the availability of funds or rather economical availability and use of fund is desired. To achieve this, Public Private Partnership is a desirable solution. There is a large scope of use of PPP Model in various areas of Real Estate sector. But the success of this lies in its correct way of implementation. Therefore, there is a need to find out the best practices in use of PPP Model. This can only be done through detailed analytical and critical studies of existing and ongoing projects. Hence, this research found this topic worth studying.

2. Problem Statement

The problem statement of this project is stated as follows;
1. To identify and analyze the critical factors necessary for successful implementation of PPP in real estate.
2. Design of questionnaire to obtain opinions of the expert in this field.
3. To set the Success Index for different Critical Success Factor Groups (CSFG).
4. Compare the Success Index of different projects in various sectors of real estate.
5. To identify and analyze barriers and challenges in successful implementation of PPPs.
3. Methodology

The study will be carried out in the following manner:
1. First, defining the problem statement with the help of previous literatures.
2. By reviewing various literatures, the factors will be found out for making questionnaire.
3. Also general field survey for identification of critical success factors.
4. Preparation of questionnaire.
5. With the help of this questionnaire, carried out questionnaire survey.
6. Data collection from live case studies.
7. Finding critical factors by using Relative Importance Index.

3.1 Data Collection And Data Analysis

Critical Success Factors were identified from existing literature, discussion with experts and on-site observation. Primary data collected through the questionnaire survey. A questionnaire form was designed to measure the project performance and there were 40 questions were set to obtain the information about various CSF. The information about various CSF and opinions of different experts were obtained by circulating questionnaire to various managerial level persons having experience in such type of projects were recorded. The respondents were asked to give ratings to critical success factor on the basis of likert scale.

3.2 Data Analysis

In this paper, there were ten different Real Estate projects selected to determine the Impact of CSF to measure the performance of projects. The primary data from these projects was processed to carry out the statistical analysis. Relative Importance Index of each CSF was calculated and Criticality of success factors decided depending on the RII Value. Each of CSF was divided into five categories such as extremely critical, very critical, and average critical, fairly critical and not critical as shown in Table 1.

<table>
<thead>
<tr>
<th>RII VALUE</th>
<th>IMPACT</th>
</tr>
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<tbody>
<tr>
<td>0-0.2</td>
<td>Not Critical</td>
</tr>
<tr>
<td>0.21-0.4</td>
<td>Fairly Critical</td>
</tr>
<tr>
<td>0.41-0.6</td>
<td>Average Critical</td>
</tr>
<tr>
<td>0.61-0.8</td>
<td>Very Critical</td>
</tr>
<tr>
<td>0.81-1.00</td>
<td>Extremely Critical</td>
</tr>
</tbody>
</table>

4. Risk involved in PPP

PPP involves sharing of risk and reward between the partners. The risk involved in project implementation may be of the following types:
- Construction/implementation risk, arising from:
  - Delay in project clearance;
  - Contractor default;
  - Environmental damage
- Market risk, arising from:
  - Insufficient demand;
  - Impractical user levies.
- Finance risk, arising from:
  - Inflation
  - Change in interest rates;
  - Increase in taxes
  - Change in exchange rates.
- Operation and maintenance risk, arising from:
  - Termination of contract;
  - Technology risk;
  - Labour risk.
- Legal risk, arising from:
  - Changes in law;
  - Changes in title/lease rights;
  - Insolvency of developer/service provider;
  - Change in security structure.

5. Identification of Success Factors

This knowledge exchange process has led to the identification of the following factors:
1) Formation of “Strong” Partnership Schemes
2) Full Understanding / Acknowledgement of the Social Character of PPP
3) Public / Community Acceptance
4) Political Backing
5) Public Interest Observance
6) Profit Assurance for the Private Sector
7) Management Transfer from Public to Private Sector
8) Public Initiative
9) Knowledge Transfer
10) Public Guarantees for Loans
11) Quality & Product Standards Definition
12) Delimitation of Competence Fields (for the Public and the Private Sector)
13) Maturity of Technology / Project Concept
14) The Guaranty of Meritocracy & Performance Evaluation During Contracting
15) Legislative Framework and Empowerment
16) Capacity Development at National and Regional Level (Public Officials)
17) Compatibility with Structural Funds and National Co-financing
18) Establishment of an Independent Authority for Conflict Resolution
19) Assistance in the PPP Drafting Phase.

The above mentioned set of factors doesn’t cover all possible factors. It only represents the most crucial ones identified throughout the implementation of PPP projects. For a successful PPP approach certain additional conditions have to be considered, such as:

- Distinct regulations concerning the responsibilities of the parties regarding costs/risks
- Project implementability
- Favorable economic conditions & available financial market
- Appropriate Risk Allocation
- Effective procurement

6. Result and Discussion

Results of this Paper shows that 15 out of 32 CSF found to be “Extremely Critical” indicates their significance towards project success while 10, 5 and 2 falls under “Very Critical”, “Average Critical” and “Fairly Critical” category, respectively (Table-3). The Extremely Critical Factor requires higher degree of control with special attention to utilize the resources in the most efficient manner. Fairly Critical factor requires less attention compared to other category and can be dealt with lower degree of control.

6.1. Conclusion

By identifying and analyzing these critical success factors, the project manager can apply the different degree of control according to their criticality. This will help the parties working under construction project to utilize their resources in most effective manner. The findings of this study indicate the feasibility of CSF in Public private partnership projects in real estate. Making CSF’s explicit and communicating them with individuals involved, one can keep the project on track towards common aims and goals. This will help the project manager to identify the critical areas that affect project performance and necessitate careful planning. Further research is necessary to carryout risk analysis depending upon the nature of CSF and scope of the project.

7. References