

A Review on the PPP in Urban Development in Korea

- Focusing on the PIPF(Publicly Invited PF) Project -

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1. Introduction

The need for the PPP(Public Private Partnership) has increased continuously in urban development field. Because the environmental conditions surrounding urban development has been changed greatly and the practical use of PPP has expanded globally in recent years.

The PPP related with urban development proceeds in two-way fashion in their mutual roles. The way the private participates in the public sphere and the other way the public intervenes in the private sphere are becoming simultaneously active.

Generally, private-public urban development project designates the former. The case of the latter is still not clear. It is of the same concept used in the American PPD(Public Private Development), and is the method in which public organizations participate directly and widely in various stages of planning and development processes of urban development projects and promote them. In Korea as well, as the necessity of adopting the cooperative type urban regeneration project gets conspicuous, such project is evolving into a public-private one.

Among PPPs, unlike the case of private investment project in SOC for which has a clear legal system, there is no established legal system for PPP projects related with urban development. This paper examined PPP urban development projects in which the private participation in public sphere is increasing, and PIPF(Publicly Invited PF) Projects which is typical PPP urban development project.

2. The Characteristics of PPP in Urban Development

Conceptually, the PPP designates allowing the private to participate in public services which was previously taken by the public sector. The reason for doing this is financial constraints and organizational inefficiency of the public sector.

The PPP has settled down as the general project promotion method since the 1980s. In Korea, private investment project has been activated which is what the government support the private businesses for their investment in SOC.

There is a conceptual difference between traditional PPP and that in urban development. The core of PPP project is that the private sector provides public service or the private sector and government jointly do it. However, since the urban development itself is not public service, the simple fact that the private sector participates in urban development cannot be considered as PPP project.

However, in Korea, the public role has been taken seriously in urban development, to promote housing supply. Urban development activities such as housing site supply, housing site preparation, and new town development have been considered as the role of the public. Considering these practices, PPP project in urban development can be defined as what the private and the public cooperate as real principal agents in overall urban space making.

3. The Types of PPP in Urban Development

The PPP in urban development is the project where the private is allowed to participate in the public sphere either by joint investment or joint promotion. There are three types of it.

The first type is the PIPF project which is the one performed per project through SPC. This is the type where the public provides land and the private constructs housing, and pays back the land price by selling houses.

The second type is the joint housing site development project following the 'Housing Site Promotion Law', in which the private and the public jointly perform housing sites development. It was adopted in April 2007 with the purposes of promoting the project rapidly and reducing sale prices of built houses as well as making use of private potentials in public housing site development.

Criteria for land space for the joint housing site development project is over 10,000m² in urban areas, and over 30,000m² in non-urban areas. The private company should first secure land space over the minimum requirements and can apply for this kind of project by suggesting the public to perform it jointly. Demonstration projects have been implemented in three districts since December 2007. However, there has been few participation of the private in this kind of projects mainly because of their lack of knowledge on it.

The third type is called the third sector project based on 'The Local Public Enterprise Law'. It was adopted in 1992 to develop local regions and to expand financial resources of local governments, as the local self-governing system was being implemented in those days in an increasing scale. It is a stock company where the local government invests less than 50% and is available for housing project and land development project. Though there are 29 corporations of this type as of December 2009, they are not used in urban development.

4. PIPF(Publicly Invited PF) Project

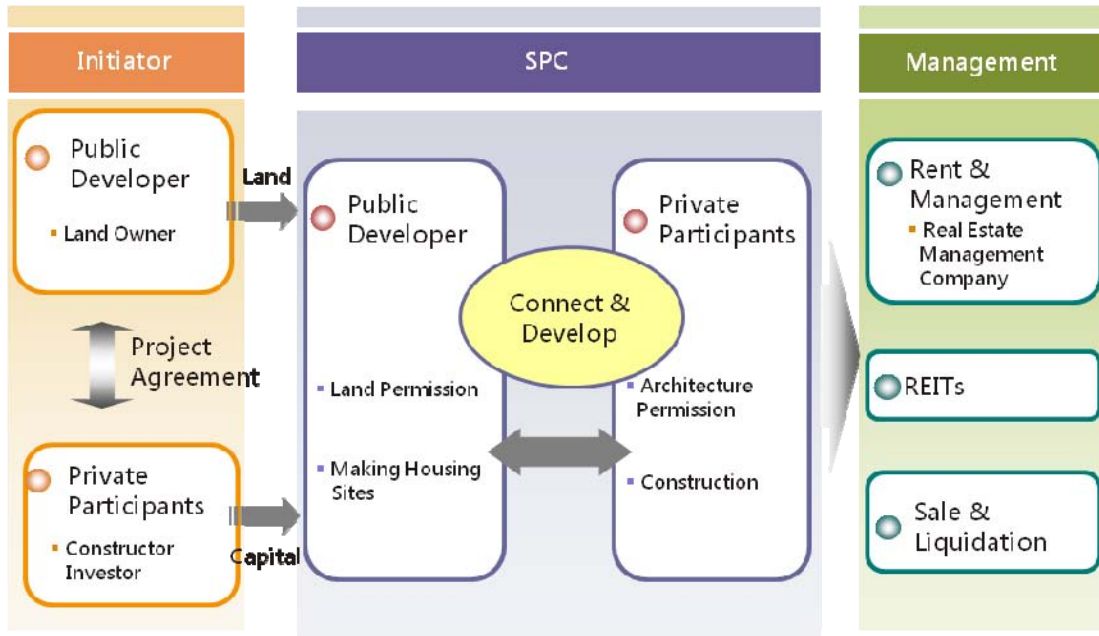
4.1 Concept

The PIPF project is the PPP project in urban development used most actively in Korea. At first, for a specific site the public holds, the public recruits the private companies by public contest to do the development project. Then, the public and the chosen company (or companies) establish a SPC by joint investment, which implement the development project.

The private supplies ideas like project plans and capital, and the public helps the company by providing land capital and supports the company for the matters regarding approval and permits of the project. Unlike traditional PF development projects, it can be

called the unique private-public development project utilizing PF, and can also be called as SPC type real estate development project.

<Figure> The structure of PIPF project



The PIPF project is in principle a win-win model in which synergy effect can be created by the combination of the public's know-how on housing site selection and the private's construction techniques.

<Table > Merits of the PIPF project

Merits of the PIPF project	
The Public	<ul style="list-style-type: none"> - It can develop creative and cubic urban space using the capital and ideas of the private - By constructing convenient facilities on time, it can serve residents and vitalize the area as early as possible - By inviting strategic multi-functional facilities, it can enhance the image of the urban center and meet self-sufficiency
The Private	<ul style="list-style-type: none"> - By the public's participation in the project, it can lower risk and secure project stability - With less burden of early investment money, it can easily secure profitability - By learning know-how on large-scale real estate development, it can contribute to advancement of the real estate market

4.2 History

The PIPF project was adopted as means of seeking efficiency in new town development for on-time provision of big-size complex facilities, and the unification of plan-construction, and management system. In the past new town developments, it was repetitive problems that, as the commercial district was later developed than the housing section, the completion degree of the development complex was low when residents entered their new houses.

To solve this problem, the LH(Korea Land & Housing) Corporation adopted the PIPF project in the near-station sector development of the Jookjun district, Yongin city for the first time in 1998. Subsequently, it has been used in many commercial district developments in housing site developments. For the land owned by the public, the type of regenerating the existing built-up area by linking it with redevelopment and urban center revitalization project has also been used.

<Table> The main PIPF project cases of LH Corporation.

Project name	Green City	Junwave	Metapolis	Smart City	Morning Bridge	Lake Park	Alpha Dome City
Project area	49,279m ²	44,310m ²	95,494m ²	170,529m ²	62,024m ²	33,537m ²	137,500m ²
Total floor area	267,157m ²	212,446m ²	812,502m ²	522,298m ²	25,934m ²	116,466m ²	1,216,010m ²
Total cost	USD 420 million	USD 380 million	USD 1,570 million	USD 935 million	USD 135 million	USD 220 million	USD 7,300 million
Land price	USD 100 million	USD 90 million	USD 280 million	USD 160 million	USD 43 million	USD 60 million	USD 2,140 million
Period	'02.1 ~ '08.3	'03.5 ~ '08.12	'04.4 ~ '11.12	'04.6 ~ '09.12	'05.6 ~ '09.3	'06.12 ~ '11.12	'07.12 ~ '14.12
Facilities	department Store, officetel, etc	theater, educational facilities, etc	housing, hotel, broadcasting station, etc	housing, hotel, IBC, broadcasting station, etc	detached house, etc	shopping mall, multiplex, sports center, etc	shopping mall, department Store, office, etc

<Figure> Metapolis



<Figure> Alpha Dome City



4.3 General Situation

As of March 2009, 32 PIPF projects in total are being implemented. 94% of them (in terms of the project number) have been located within public housing sites. The proportion of those implemented in the capital area is 68%, over the half of the total. Though the projects were applied in capital area public housing sites in the beginning stage, they have spread into other cities.

<Table> The numbers of projects by year/region

	2001	2002	2003	2004	2005	2006	2007	2008	2009	Total
SMA*	1	1	1	1	1	5	9	4		23
Non-SMA				1	2	1	2	2	1	9
Total	1	1	1	2	3	6	11	6	1	32

* : Seoul Metropolitan Area

The average cost is 2.8 billion USD, and the land cost of the total cost is 25%. The average site size is 426,000m², and the average total floor area is 856,000m². In terms of the scale, the PIPF project had grown rapidly. As of late 2009, it is estimated that the market size of PIPF projects for which selecting processes for private companies were completed passed 90 billion USD.

4.4 Present Problems

However, since the financial crisis in September 2009, it has been in serious stagnation. In the case of existing projects, those which acquired business rights are in difficulty in financing and financial input caused by dissenting opinions of CI(construction investor) and FI(financial investor) in financial negotiations. In the case of new projects, the failures to select a company in a bid and the unlimited delay of planned projects have taken place.

Therefore, there have been few cases where projects have proceeded following the plans and schedules established at the time of public invitation. So, most of them have failed to achieve expected effects such as employment enlargement, revitalization of local economy, and increase of tourism demand, etc.

The direct cause why the PIPF project fell into crisis is the profit deterioration due to the following external factors: financial crisis, slump of real estate market, and the house sale price ceiling system, etc. The financial crisis blocked capital flow, causing real estate businesses to fall into slump. For real estate development projects, the real estate market slump made their profitability unclear. The uniform application of the house sale price ceiling system without considering characteristics of each project deteriorated their profitability to the extreme.

4.5 Introspection

Besides profitability deterioration due to external factors, internal defects those projects originally had also have caused the current crisis.

First, the lack of systemic management over projects led to the failure of prior response. The central government has neglected to administer projects. There have been problems such as too many similar PF projects across the country, lack of systematic administration, and insufficient examination of project validity. Lack of the management system made it difficult to respond actively to crisis at the beginning stage. Even today, it is still difficult to coordinate opinions among concerned interests.

And since there was no independent legal system for the PIPF project, those projects were carried out applying related laws and ordinances. When problems took place, there were not sufficient standards and criteria on which those problems could be solved.

Second, risk management and proper response to the exposed risk failed to be done. When the business environment was good before the financial crisis, neither public organizations nor construction companies established precise prediction of risk or made proper risk management plan. The unique characteristics that the ordering organization as contractor and stake-holder is the public body make it difficult to respond effectively to risks happening in the processes of project implementation.

There exists a specific risk derived from the reality that, unlike other projects, the ordering organization is the public body in the PIPF project, which makes it difficult for the ordering organization to perform a project only on profitability. While the characteristics of the project where the public body participates in as a project principal agent can lead the project to be a win-win model, it has potential to make it defective when external problems happen in reality.

5. Future Issues and Policy Direction

When we examine various kinds of PPP urban development projects as well as the PIPF project, they all have the following problems. In legal and institutional senses, they are not administered and supported systematically. And it is difficult for two parties to establish equal cooperative relationship in terms of sharing roles and risks.

To enlarge the quantitative scale and to improve the quality of private-public urban development projects, the most important problems are more active role of the government and systematization of laws and institutions.

First of all, it is necessary to establish a comprehensive legal and institutional system on PPP in urban development. An independent legal system should be made to rule comprehensively PPP in urban development. In the basic laws designating general principles and methods on PPP projects related with urban development, various project types should be included. It is also necessary to prevent unnecessary conflicts and work delay by standardizing various works related with PPP projects through standard contracts and standardized work manuals and by giving legal basis.

Next, it is necessary to consider establishing an official organization which will oversee PPP urban development projects. It is necessary, because there should be an organization to check and administer profitability and management achievements to solve the problems of special favors and corruptions in public projects. It needs also to function to

prevent problems that similar development projects emerge simultaneously at real estate boom times and to administer those projects systematically in larger regional scales.

The final important challenge is to seek a new project model. It is possible to implement it as a private investment project for which the legal and institutional system is already established. It is possible to devise a method to carry out SOC construction project and urban development independently and also connectively. It is possible to devise project models where, while public projects like official building construction and public rental housing development, etc. are implemented as the BTL(Build-Transfer-Lease) private investment project, enlarging their scale and a single principal agent carries out those projects simultaneously.