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**Public Real Estate Development:
A New Role for Planners**

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ABSTRACT

Over the past five years, public-sector development of land and property has become routine. While the motivations for such development are varied, they reflect public policy goals aimed at promoting economic development, improving the physical appearance and vitality of urban areas, and raising revenues for public programs. These new initiatives are creating new roles for planners. This paper outlines a step-by-step approach for carrying out successful joint real estate development programs.

PUBLIC REAL ESTATE DEVELOPMENT: A NEW ROLE FOR PLANNERS

Many city and county governments are squeezed--state and federal assistance is declining, and traditional methods for raising revenues are limited. In response, many public agencies are tapping surplus or under-utilized real estate assets for new sources of revenues (Paris, 1986). These agencies are taking on new roles and new risks: participating in joint development projects, sharing capital and operating costs, and arranging long-term ground leases with developers. Planners are increasingly being called on to help guide this process.

Making the transition from planning to real estate development is challenging. In many cases I've participated in, or closely observed, planners fail to recognize the financial implications of public-sector involvement. They either do not recognize the potential payoff of assisting developers, or they don't grasp the harmful implications of bureaucratic inertia and slowness. As a result, many joint development projects never make it to first base, or, if they do, the public sector fails to fully appropriate its fair share of the economic and financial benefits of the project--they "give away the store." To help avoid these problems, this paper outlines a step-by-step approach for carrying out successful joint real estate development (Figure 1).

WHAT IS JOINT DEVELOPMENT?

"Joint Development" or "public-private real estate development" traditionally has been associated with urban renewal and redevelopment, where government's role is normally limited to land assembly and infrastructure development. In contrast, joint development is a much more active and entrepreneurial approach to public real estate development.

Figure 1

OUTLINE OF THE JOINT REAL ESTATE DEVELOPMENT PROCESS

1. Setting goals and objectives
2. Establishing the public real estate process
3. Inventory and assess public properties
4. Identify high-priority development sites
5. Package sites for development
6. Find and select a developer
7. Negotiate the joint venture
8. Monitor project development and performance
9. Ongoing asset management

Public agencies and developers can benefit from joint development projects.

The possible benefits include:

- urban redevelopment in decayed neighborhoods considered too "risky" by developers to tackle on their own (Algatt and Lenney, 1985);
- increased tax base as under-utilized and surplus public lands become developed and added to the tax roles (Dana and Hankla, 1985);
- financial gains from ground lease income and participation in ongoing cash flow from joint development projects;
- private developer-provided public spaces and amenities such as theatres and cultural centers (Gordon, 1985);
- employment growth and economic development;
- increased transit ridership (Urban Land Institute and Gladstone Associates, 1979); and
- developer subsidies for new public facilities.

Teaming up with the private sector is risky, and it has downsides.

Sometimes governments give away too much to developers. Other times deals can go sour, such as when the local government has failed to gauge the strength of public opposition to a project. Joint development adds additional time and complexity to a risky process. Legal complexities, requirements of multiple funding sources, staff changes, and funding and planning delays can all hinder projects and increase their costs. In some cases, if delays are long enough, they can cause projects to fall completely apart.

HOW TO STRUCTURE JOINT DEVELOPMENT

Step One: Setting Goals and Objectives for Public Real Estate Programs

Establishing clear goals and objectives is essential for a successful public real estate program. They help determine what type of development

entity should be established; what should be its role; when and how revenues should accrue; and what types and size of projects should be pursued.

Public real estate program goals will vary, depending upon the mandate of the land-holding agency. For example, transit agencies view real estate development as a means to generate revenues and increase transit ridership. Redevelopment agencies, on the other hand, seek urban development, increased employment, and greater tax revenues. Despite these differences, most public real estate projects attempt to:

- redevelop blighted areas;
- generate ground lease income and participation in cash flows;
- increase tax base;
- develop public spaces and public amenities; and
- create jobs.

Project-specific objectives should be established prior to starting any development project. Setting measurable objectives for projects provides a method for evaluating the success of a project. The objectives must be reasonable, given the local real estate market and the constraints of the site. They should identify specific features that the public agency wishes to see incorporated in the site, including: public and design amenities, desired uses, and economic development goals. These should be clearly set forth in the project description developed by the agency.

Community input should be sought when setting program and project objectives. One method is to appoint a Citizens' Committee to evaluate the potential of carrying out public-private development and develop a work plan for a public real estate program. The Committee should bring its activities to

the attention of governmental agencies and departments and citizens by circulating news of its activities among governmental bodies, community organizations, and the local press. The Committee should schedule public workshops to provide opportunities to learn about and comment on the prospects and pitfalls of public-private development. Over time, these workshops can serve as a forum for community involvement in the determination of program goals and objectives (Peattie, Cornell, Rein, 1985).

Governmental agencies with a stake in the project must also be identified and brought into goal development, especially where inter-jurisdictional cooperation is necessary (Gordon, 1985). Also, priorities need to be set before beginning project negotiations. Inevitably, the public partner will have to make some concessions during negotiations, and it needs to know what can be traded away.

In the course of goal and objective setting, conflicts are likely to emerge within and between the various stakeholders in the project. Reaching a consensus on project goals before project initiation can lessen or prevent controversy at later stages in the development process. Conflicts can lead to long delays, hamper the successful execution of a project, and even prevent a project from being developed. Techniques for mediating and resolving conflicts should be developed early and utilized whenever necessary.

Step Two: Establishing The Public Real Estate Program

The basic organizational question which must be answered early on is how the real estate development function will be structured. Regardless of how government real estate programs are organized, each must have several fundamental powers. These include:

- Continuity so that agreements and policies are not disrupted by changing political administrations and staff.
- Experienced personnel who know the ins and outs of real estate development.
- Ability to acquire and dispose of real estate assets through sales and leases.
- Financial capability to receive grants and loans.
- Ability to deliver commitments on time with a minimum of unnecessary bureaucracy.
- Ability to facilitate inter-governmental and inter-agency coordination.
- Flexibility to adapt to changing circumstances and conditions.

While there is no simple answer, there are two primary approaches: organizing an internal unit or division, and establishing a separate organizational entity. To determine which approach is best, each public entity must assess its internal and external resources and constraints.

Several factors will influence the process of structuring the appropriate organization. One major factor to consider is how much property will be under the control of the real estate program. If the agency controls very little property, it may be more appropriate to use current public staff and consultants than to invest in the development of a separate external real estate development entity.

A second factor includes the legislative and statutory limits which circumscribe an agency's ability to acquire and develop property, to negotiate with the private sector, to use various financing mechanisms, and operate without public scrutiny. For example, transportation agencies, school districts, cities, and public non-profit corporations all have distinct advantages and disadvantages when it comes to public real estate development.

Of course, not all legislative constraints should be accepted entirely as unchangeable "givens," since some agencies have worked to change legislation (Caro, 1974).

A third constraint is whether the public sector can staff a real estate program internally. The agency may already have this expertise on staff, or it may be able to hire new staff or bring in consultants. However, personnel decisions may be constrained by institutional issues such as civil service hiring requirements, fixed salary ranges, or budget constraints. Some organizational forms may be able to circumvent these constraints while others will not. Care should be taken not to build large bureaucracies which diminish entrepreneurial spirit.

Many local governments actively involved in real estate asset management have established separate entities to carry out their programs. Examples include the Public Development Corporation in New York City, the Asset Management Program in Los Angeles, and the City Centre Development Corporation in San Diego (Dowall, 1987). These entities are usually established as a special-purpose public or quasi-public corporation, with the authority to plan, negotiate, and market joint development parcels.

In-house public real estate programs have also been successful. They can be set up by designating one department as the public agency's real estate entity, or by creating a task force or committee with representatives from various departments. Examples include the City of Fairfield (California), the Washington Metropolitan Area Transit Authority, and the Massachusetts Bay Transit Authority (Dowall, 1987).

In-house entities may be able to get plans approved and permits processed more easily or more quickly than external organizations. As part of the larger

public agency, there may be more assurance of public safeguards and more direct public accountability. The use of existing professional and support staff, supplemented by consultants as necessary, allows the program to begin with a small budget and develop incrementally. In-house public real estate development is particularly well-suited for small- to medium-sized cities with a limited real estate asset-base.

There are several potential drawbacks to creating an in-house real estate program. First, most staff that are attracted to employment in public agencies do not have real estate development backgrounds. Second, review and evaluation procedures which are part of most large public bureaucracies can be extremely time-consuming, delaying projects and constraining development opportunities. Finally, in-house operations can raise potential conflict of interest. It is difficult for the planning department to properly regulate development when it is also in the development business.

Overall, both approaches to structuring a public real estate development program can be successful. What is more important than any particular structure is that the public agency create a real estate entity which avoids unnecessary constraints and includes the crucial capabilities.

Step Three: Inventory and Assess the Public Properties

A well-managed and up-to-date real estate inventory is an essential component of an active and efficient asset management program. Unfortunately, most cities do not have a centralized inventory of public real estate holdings. A thorough inventory can serve as a method, identifying opportunities, marketing sites, and as a reference file for outside parties interested in publicly-held land.

Site Information

The inventory should include all public real estate holdings and contain basic site information, including: parcel identification (Assessor's Parcel Number and street address), current land use, parcel size, parcel configuration, access, the portion of site that is undeveloped, topography, and current market value, as well as information assessing whether specific parcels meet or reflect the goals and objectives of the asset management program (Carlson and Duffy, 1985).

As a start, each public department or agency should provide a list of all properties they control to the real estate management team. For a city or county the General Services Administration, Public Works, Parks and Recreation, Redevelopment Agency, and the Tax Collector will control most public land. Similarly, transportation agencies should have complete lists of their holdings from acquisition records. A transit authority's air rights should also be identified as a part of the real estate holdings. If there is no record of real estate holdings, it may be necessary to review the County Assessor's records to develop the initial inventory.

The data gathered as a part of the initial inventory can be managed in a number of ways. It can be manually cataloged, or a computerized catalog can be developed. A manual system is workable for an entity charged with the management of a small number of parcels. Use of an automated data management system has several advantages; it can handle a larger amount of information in a form that is easy to access and update, and a computer database may be analyzed more quickly, simultaneously determining all sites of a particular size with access to particular forms of transportation (Godschalk et al., 1985).

Evaluating the Inventory

Based on the parcel information system, an evaluation system should be set up as a series of "screens" that a site must filter through before it is considered for development. The series and type of screens will vary depending upon the needs, goals, and objectives of a particular entity. A typical screening system might be constructed as follows:

Stage One: Eliminate perpetual public-use sites.

Identify parcels that support a use or uses that for public purposes must remain fixed (for example, City Hall). These sites would be put aside unless they contain unused surplus acreage.

Stage Two: Eliminate small sites.

Under most circumstances, parcels smaller than one-half acre should be dropped from the analysis. These parcels may be reviewed later to evaluate their potential for the development of housing or small infill commercial uses.

Stage Three: Eliminate sites with poor configuration.

Develop and apply criteria on the desired length and width of parcels to be considered for development. Using data from the inventory, identify parcels that do not meet the established criteria and drop from consideration.

Stage Four: Eliminate sites with poor street access.

Criteria should be developed and applied for excluding sites with inadequate access.

The results of the screening process will generate the following types of parcels:

1. Vacant, potentially developable sites not required for public use.
2. Under-utilized sites with potential for intensified development.
3. Fully developed sites with no potential for further development.

Sites placed into categories one and two should be evaluated further to assess development potential.

Updating the Inventory

The inventory should be updated periodically to reflect the acquisition or disposal of properties and major changes in the current planned uses of parcels, particularly ones that are declared as surplus. Developed parcels should be reevaluated periodically to determine if they are fully utilized. Also, sites occupied by public uses should be examined to determine whether they are still needed for public service.

Step Four: Identify High Priority Development Sites

Once an inventory of real estate holdings has been developed and sites with development potential have been identified, the real estate asset management team or consultant should proceed with more in-depth evaluations.

To determine whether sites have development potential, market studies need to be conducted. Market studies can be generalized to cover an area encompassing a number of potential development sites, or can be more specialized to reflect market conditions at specific sites. Site-specific studies will be useful for sites where a preferred use has been identified. Market studies should include an assessment of the supply and demand of any and all uses that are likely to be considered by the public real estate program; at the minimum, markets for residential, commercial, and industrial uses should be evaluated. In some areas, hotels and recreational activities might be considered.

A profile of the residential real estate market should begin with the delineation of the housing market area or areas. The market area can then be broken into submarkets to permit the analysis of particular housing types or geographic subregions.

The market profile includes demographics describing household income distribution, household size, tenure, and population growth and

characteristics. The current composition of the area's residents and data on changing demographics indicates the type of housing necessary to meet current needs and the future needs of a changing community. Current market conditions, including housing stock composition, vacancy rates, current prices, rental rates, and absorption rates, are good indicators of short-term trends in housing markets. Future market demand and supply must also be assessed, since housing development takes time to be developed and absorbed by the market. Analysis of market conditions permit a decision to be made as to whether housing is a viable land use in the area, and, if so, what types and quantities of housing should be built (Vernor, 1985).

Analysis of the industrial market requires an evaluation of the economic base of the community relative to current economic trends, past patterns, potential industrial expansion, and deficiencies in the current market. Economic base studies are often prepared and made available by offices of economic development or regional councils of governments.

Analysis of the retail market requires the delineation of a trade area. The trade area varies depending upon the type of retail use considered. Unmet retail demand or market void can be estimated by comparing potential household expenditures for the trade area with actual expenditures. Potential for additional retail development exists if potential expenditures significantly exceed actual expenditures. Retail market assessments should include assessments of recently developed or proposed retail space in the trade area. Similar developments are likely to affect the amount of supportable space in the area and may capture portions of the retail market (Rocca, 1980).

An analysis of the office market should begin by assessing the growth potential of office employment, and lead to an estimate of the annual

absorbable square footage of commercial space. Given the physical and locational characteristics of the site, its market share should be estimated given the current and future demand and supply conditions.

Upon completion of these analyses for residential, industrial, retail, and office uses, the public real estate team will know which markets are over-supplied and under-supplied.

Assessment of the development potential of the short-listed sites will provide information on the constraints and factors which might affect site development costs or the type or amount of development on the site. This preliminary work is usually done on a limited budget and is designed to identify and explore major problems with the site. The development constraints that should be evaluated include: physical constraints, service availability, and public policy.

An analysis of topography is useful in determining the amount and cost of grading, developing roads, and siting buildings. Soil conditions and geologic factors may constrain development of portions of the site or require additional improvements and reinforcement. If there is any suspicion of contamination at the site, a preliminary hazardous substance study should also be conducted.

Easements and rights-of-way across the site must be identified when evaluating the development potential of a site. These entitlements can preclude development over portions of a site.

Site access should be evaluated at several different levels. Where street access is available, the capacity of the road to support traffic to and from the site should be assessed. The availability of transportation linkages should also be assessed and distances to employment and commercial centers, schools, and residential areas measured.

The availability and capacity of services to the site should be assessed. These include water supply, sanitary sewers, natural gas, electric, and telephone service. Generally, these services will be available within urban areas, but in suburban and less-developed areas it may be necessary to extend service to the site.

After assessing market conditions and considering a site's development constraints, the highest and best use of the site should be determined. The highest and best use is the use of a site that, within the constraints of legal limits, will provide the maximum return on investment. It is based upon the consideration of market conditions, physical constraints, and public regulations that affect probable and legal uses, and result in the highest land value. An evaluation of highest and best use will be helpful in determining the desired use or uses for a site (Barrett and Blair, 1982).

Analyses of general market conditions, site constraints, and the highest and best uses for particular sites provide a complete picture of economic potential. Ranking sites for development as a part of the public real estate program requires more than merely identifying the sites with the highest income potential. The ability of the project to achieve program and site goals must also be considered at this stage. This requires evaluation of site potential in light of the priority of meeting goals and objectives. Careful weighing of priorities is crucial where conflicts exist between the economics of development and other objectives.

Step Five: Package Sites for Development

Before the public sector can advertise for a joint development partner, it must determine the type of project it wishes to develop on the site and what are the desired roles and responsibilities of the joint-venture partner.

By considering the cost and benefits of the factors described above, the public entity can establish a game plan to entice developers, garner community support, and guarantee project success. Once the site, its development program, and the roles and responsibilities of each partner are determined, a development prospectus can be prepared. Defining the actual level of public contribution requires the use of proforma and sensitivity analysis to evaluate the actual costs and benefits to both partners.

The principal public roles and resources brought to joint projects include: land assembly, construction of site improvements and the installation of infrastructure, coordination of approvals, land write-downs, access to lower-cost funds, tax incentives, and shared risk. Most of these contributions described above will lessen the developer's risk. Lease or sale terms based upon project performance also serve to reduce the developer's risk by limiting the public partner's participation in project income in excess of the developer's break-even point.

Step Six: Find and Select a Developer

The first step in finding the right developer is locating good developers and getting them interested in the project. This may involve inviting specific firms to submit proposals or extending an open invitation to all developers. Often major projects are advertised in local newspapers, the Wall Street Journal, and the New York Times. Local developers may also be invited to briefings describing the project. Real estate development organizations such as the Urban Land Institute are possible sources for identifying developers. Other public agencies that have done joint developments should be contacted for referrals. There are four possible methods for screening developers:

Competitive Bids

A competitive bid process is most often used when the agency is restricted in its ability to negotiate with developers, when it has a specific plan for the site, or when achieving the highest return is the primary objective of the agency. Several difficulties arise from this system. First, the range of bids is frequently wide, making it difficult to assess different proposals. Second, although the most beneficial project may be selected, there is no guarantee that it is the "highest and best use" for the site.

Requests for Qualifications

Requests for Qualifications, or "RFQs," gather information that allows the agency to assess developers' general abilities to handle a project. RFQs typically ask developers to describe their development experience, their financial strength, and their ability to work with the public sector in a joint development relationship. RFQs do not require the submittal of a detailed proposal of how the developer would develop the site.

RFQs are used in two ways. Some agencies select a developer using an RFQ process and then directly negotiate with that developer to flesh out the project. Other agencies use an RFQ as a preliminary screen. RFQs are easier to evaluate, and they are faster and less expensive to prepare and respond to than RFPs. On the other hand, some agencies find that the more detailed information in responses to RFPs is very valuable and allows them to identify other development options.

Requests for Proposals

RFPs ask developers to submit a detailed proposal of how they would develop the site. The responses are usually very extensive, including materials on market feasibility, urban design and architecture, and financial

performance, as well as a detailed statement of the developer's past experience and qualifications.

At a minimum, Requests for Proposals should contain the following information:

- background on the project, description of site, market studies, development potential, and the agency's objectives for development;
- description of the developer selection process and the criteria that will be used to select the developer;
- guidelines for what information the statement of qualifications should contain;
- guidelines for financial performance characteristics; and
- guidelines for describing the proposed project.

There are several advantages of using an RFP over an RFQ. First, the agency receives detailed information about the developer's approach. By receiving multiple responses, the agency has available a variety of approaches to consider. The RFP also requires the developers to prepare a competitive response that frequently provides more benefits to the agency than would occur from a deal negotiated after an RFQ process. The disadvantages of the RFP process are that it is very expensive and risky to the developer, preventing some firms from responding.

Two-Stage RFQ-RFP Process

To capture the benefits of both the RFQ and RFP processes, while hopefully avoiding their disadvantages, some agencies use a combined approach. Responses to RFQs are used to narrow the field of firms that are asked to respond to the RFP. The two-stage process may encourage qualified developers to apply, since they are prequalified through the RFQ process prior to expending the resources

necessary to prepare a response to the RFP. It also saves staff time and resources, since fewer full proposals are evaluated.

Evaluating Developer Responses

Normally, a selection team put together by the agency evaluates the proposals in light of established criteria. Depending on the skills and capacity of the agency, the selection team can be composed entirely of staff members or include private consultants. The most critical elements of the evaluation criteria include:

- the developer's track record with similar projects;
- the developer's responsiveness to the RFP;
- the compatibility of project with surrounding land use;
- the development phasing and construction schedule;
- the financial returns to the government; and
- evidence of the development's feasibility over the short and long run.

Exclusive Right to Negotiate

The winning developer is granted an exclusive right to negotiate with the public agency for a specified period of time. This is an initial designation of a developer. Final selection is made after a mutually acceptable deal has been fully negotiated. If the agency makes a final designation too early, it will lose much of its negotiating leverage.

Step Seven: Negotiate the Joint Venture

Most public agencies assemble a team of experts to negotiate joint-development partnerships. The team is responsible for working out the terms of the deal with the developer's negotiating team. Typically, the negotiating

team consists of between three and five members with the authority to make decisions for the agency. Members should have specific skills necessary to effectively negotiate the deal, including up-to-date knowledge of the real estate market, understanding of sophisticated financing techniques, real estate law, planning, and negotiation (Public Technology inc., 1983).

The negotiating strategy lays out the entity's goals for the negotiation, its "bottom line," its leveraging mechanisms or what it can contribute to the deal, and a timeline for negotiations (Levitt and Kirlin, 1985). The public entity should understand the developer's goals and recognize that certain financial returns must be met in order for the project to be feasible. The most successful cases are those in which the negotiation results in a deal which simultaneously satisfies the goals of all the parties involved. This will ensure that all sides have a stake in the successful completion of the project.

The first step in developing the negotiating strategy is to establish goals for the negotiation. These will be based on project-specific goals established when the public agency determined its overall program goals, possibly refined and modified in light of more complete understanding of the market and what is realistic. The goals should clearly specify what the agency hopes to achieve through the project and should establish a "bottom line," or a point below which the risks are too great or the return too small to justify the entity's participation in the deal (Hoel, 1986).

Public agencies often underestimate the value of what they contribute to the development deal. It is crucial for the agency to assess its contributions realistically in order to get the best possible deal. All of the methods by which the agency can reduce the risk or increase the return associated with the

development should be examined and evaluated. The agency should estimate the value of guarantees to provide financing, loan guarantees, subordination of fee interest in the land to the lender, infrastructure, rezoning, offsite improvements, the "fast track" approval of the project, or whatever it is willing and able to bring to the table. These estimates should be made before the negotiations begin, so that the agency fully understands the economic value of what it is bringing to the deal.

The negotiations should generate a timeline of performance deadlines for the developer and the public sector. In setting these deadlines, a critical path of necessary actions, commitments, and products should be determined, so that milestones can be set to keep the project on-schedule. Obviously, these timelines must also include deadlines for the public's contributions to the negotiations.

Negotiating the Best Deal

The crux of the negotiations is, of course, reaching an agreement satisfactory to both parties. Commonly negotiated items include:

- land sale or lease terms;
- for land leases, whether public wholly or partially subordinates interest to lenders;
- indexed lease payment increases and kinds of public participation in project revenues;
- mix and density of development;
- responsibility for construction of utilities and infrastructure;
- developer's responsibility for completion of the project;
- design and construction of public spaces and project amenities;
- penalties and sanctions on developer in the event of default or failure to meet schedule;

- participation in sale of building or in proceeds from refinancing;
- recourse;
- minority participation;
- control of marketing and leasing;
- right of assignment of leases; and
- provision and maintenance of public areas.

The key to good negotiations is to keep them simple. Focus on the business deal first, establishing agreement on its main parameters: project cost, schedule, participation of the public agency, and responsibilities and commitments from both sides. These initial elements can be outlined in a preliminary "memorandum of understanding." Later, when detailed market studies and cashflow projections have been made, more precise terms regarding participation can be made. As the uncertainties of the project are removed, the deal can be consummated in the form of a development and disposition agreement. This agreement outlines the precise contractual elements of the deal--the roles and responsibilities of each party and their participation in the costs and benefits generated by the project. The disposition and development agreement is executed before the control of the land is transferred to the developer.

The public agency should consistently seek common ground, areas of mutual agreement, and build on them. Search for options and alternatives that can increase mutual gains. At the same time, the public negotiators must not lose sight of the agency's goals and its bottom line.

Step Eight: Monitor Project Development and Performance

The public entity must closely monitor the progress of the project, including: ensuring performance during the option period, monitoring the construction phase, monitoring lease-up of the project, and management of the ground lease over the life of the project.

The option to lease or option to purchase establishes a timeline for performance, and is usually contingent on obtaining regulatory and development approvals, arranging financing and loan commitments, developing acceptable design and construction plans, obtaining building permits, and getting lease commitments. Failure to perform as agreed can nullify the contract.

Proper performance of a developer's obligation to construct a project in a timely manner is of utmost importance to the public sector partner. It is important to write contracts which facilitate project execution. Contract clauses that expedite project construction include: kick-in dates for rent payments independent of completion of construction; deadlines for meeting milestones; and payment of penalties for failure to meet deadlines. Contract clauses can also be used to encourage developers to remain within cost constraints.

In addition to monitoring compliance with time and cost requirements, the public partners must take responsibility for insuring compliance with other special conditions placed upon the developer. This might include monitoring of hiring practices and impact mitigation. To insure that the project remains on-schedule and in compliance with set standards, the development agreements should permit on-site monitoring of construction.

Because failure to reach occupancy soon after project completion can bankrupt a project, it is vital that careful attention is given to project marketing. The public partner should retain some control over leasing and

marketing agent selection by retaining the right to reject the developer's choice or to demand replacement should the agent fail to perform adequately.

Step Nine: Ongoing Asset Management

The public partner must develop a system to manage property lease or income agreements, monitor project performance over the life of the agreement, and ensure compliance with the terms of all agreements. Mechanisms must be put into place for the collection of base and percentage rents, to monitor rent levels, and to verify reported project income.

Long-term management must also include a periodic assessment of the project's success in meeting site-specific and program goals. This assessment will provide an understanding of how realistic those goals are and help to determine the course of future projects (Heckman, 1983).

Active public asset management does not end with the successful completion of one project or even several projects. It requires a continual process of monitoring and evaluating each project and the public entity's entire portfolio of real estate assets. In that sense, asset management is a circular process; with time and experience, markets and opportunities change and assets should be reevaluated. The portfolio overall must also be evaluated and managed in accordance with changing public policies and objectives.

CONCLUSIONS

This paper has outlined a nine-step process for establishing and implementing a public real estate development program. To successfully launch such programs, development professionals with a variety of skills are needed to help governments grapple with staffing issues. Table 1 presents a matrix of skills needed for real estate development.

TABLE 1

Real Estate Development Functions

<u>Skills Required For:</u>					
<u>Project Planning</u>	<u>Project Management</u>	<u>Market Analysis</u>	<u>Project Design</u>	<u>Real Estate Analysis</u>	<u>Project Evaluation</u>
Goal Setting, write RFPs, screen RFP responses, identify project opportunities and needs, understand site capability	Negotiate agree- ments, schedule work, manage work effort, expedite projects	Gauge market demand and supply; determine feasibility of proposals	Site planning, architectural design, access and circulation, spatial structure	Financial analysis, struc- ture financial framework for project, assess financial benefit to public	Evaluate benefits and costs of the project, gauge whether public sector should subsidize project

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