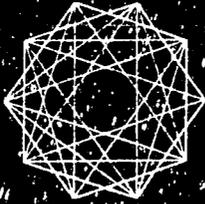


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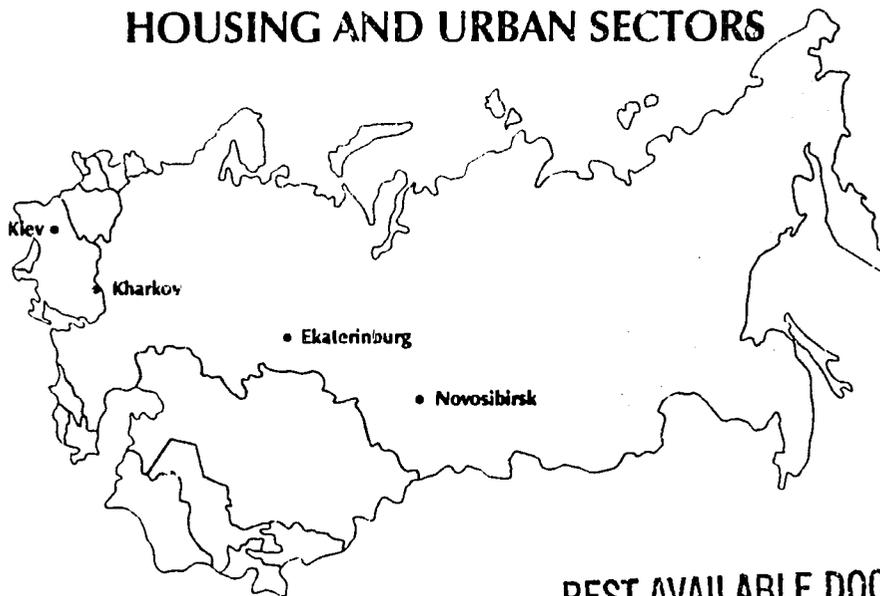
**PLANNING AND DEVELOPMENT COLLABORATIVE INTERNATIONAL**

**Sale of Land Development Rights  
by Tendered Bidding in Ekaterinburg:  
Report on the Results of the Land for  
Housing Demonstration Project**

**Working Paper No. 9**

**STRUCTURAL REFORM OF THE NIS**

**HOUSING AND URBAN SECTORS**



**BEST AVAILABLE DOCUMENT**

**Working Paper Series**

**Prepared for the Office of Housing and Urban Programs (A.I.D.)**

# **DRAFT REPORT**

## **Sale of Land Development Rights by Tendered Bidding in Ekaterinburg: Report on the Results of the Land for Housing Demonstration Project**

**Working Paper No. 9**

**Prepared for  
Office of Housing and Urban Programs  
Bureau for Private Enterprise  
Agency for International Development  
Washington, DC 20523**

**Prepared by  
Richard E. Boiz  
Mark R. Brown  
PADCO, Inc.  
1012 N Street, NW  
Washington, DC 20001**

**CCS-0008-C-00-2057-00, T.O. #2**

**April 1994**

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## EXECUTIVE SUMMARY

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In the fourth quarter of 1993 the Ekaterinburg City Administration sold the development rights to two parcels of vacant land designated for residential use. This was the culmination of the "Land for Housing Demonstration Project" conducted with USAID technical assistance under the NIS Shelter Sector Reform Project. The two parcels, totaling 1.1 hectares, were bought by a single bidder for a price of 200 million rubles, roughly equivalent in value to the cost of 15 typical newly-built apartments. Under current legislation parcels of this sort cannot be sold outright. The City, however, hopes to recover the market value by selling development rights, which may later be converted to fee simple ownership for a nominal registration fee, when federal law so permits.

The two sites were identified by the City in July 1993. A design competition was held during August to help define the form and density of housing which would be allowed on the sites. The aim of the design competition was to introduce townhouses mixed with low-rise apartments, an attractive new alternative to the traditional high-rise apartments and the expensive new "cottages" being built at the urban fringe. The "sketch project" materials which resulted from the design competition were refined into the architectural and planning permit or "APZ" during September. A complete set of tender documents, including the APZ, Request for Proposals, Invitation to Bid and Bid Submission Forms, was prepared and announced by the City at a Bidders' Conference on November 2. A period of one month was allowed for submission of bids, during which a five-day seminar was held to train local builders and developers in market-based approaches to project planning and bid preparation. Bids were received from 5 private developers, and negotiations were held in December. The sale was then awarded to the highest bidder.

The demonstration project marks the beginning of a move away from the traditional approach to administered land allocation, through which large municipal and state-owned enterprises were typically given large parcels at no cost. The new approach is a conscious effort to move toward a land market, to improve private developers' access to land, and to generate revenues to the city budget. In addition to actively supporting the emerging land market, the City made several other notable achievements through the Demonstration Project. The bidding process was open and the evaluation process and criteria were transparent to the participants. The parcels were pre-approved by the City for residential development of low-rise townhouses and apartments, and the critical infrastructure connections were also approved in advance. In the past, the process of obtaining approvals posed an almost insurmountable obstacle to private developers. To further expedite and facilitate development, the sites selected for the project were infill parcels offering easy connection to infrastructure lines in adjacent streets.

The Developers' Seminar, designed to help developers respond to the tendered bidding process, included theoretical and practical work focused on the operation of land and housing markets, analysis of market demand and pricing mechanisms, and feasibility assessment of

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housing projects. It was attended by more than 30 developers, potential investors and public agency staff, including executives from all 5 firms that subsequently bid for the parcels.

Major policy questions addressed include: the nature of rights being sold (development rights, leasehold, freehold), the permitted uses and the amount of flexibility allowed to the developer, the method of sale (tendered bidding, auction), and the responsibilities of the buyer and seller (to clear the site, relocate tenants). The decisions made during the Demonstration Project are clearly incremental steps toward mechanisms that will fully support the emerging land market.

Expansion of the program in 1994 will raise some new issues and questions, such as gauging the market demand for land; limiting the allocation of land at no cost, which continues in parallel; targeting parcels for middle-income housing; making land use controls simpler and more flexible; and simplifying the administrative procedures. Other long-range policy issues include the possibility of allowing enterprises now holding excess vacant land to sell it on the market, the need for subdivision regulations the need to separate the functions of land use controls and land transfers (use rights are now specified in the allocation order), and coordination of land management between the City and Oblast.

# **Sale of Land Development Rights by Tendered Bidding in Ekaterinburg: Report on the Results of the Land for Housing Demonstration Project**

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## **1 Introduction and Overview**

### **1.1 Introduction**

In the first quarter of 1993, a team of experts working under the USAID Shelter Sector Reform Project undertook a study to identify obstacles to the transition from the old system of administered housing to new, market-based approaches. The results of the study are reported in Working Paper No. 5, *Promoting Private Sector Land for Housing Development in Ekaterinburg: A Feasibility Study*.

Two principle obstacles were identified: the lack of an effective and sustainable housing finance system, and poor access to serviced, vacant land for housing development. USAID, working through its contractor, the Urban Institute, is providing significant technical assistance at the level of the Federation and in the City of Moscow, with the objectives of improving the legal basis for private-sector housing finance, and helping banks establish and manage mortgage lending operations. With the expectation that the success of the Moscow-based housing finance program can be replicated in Ekaterinburg, it was decided to address the second major constraint: the availability of land for housing.

The existing system of land allocation was designed to serve the interests of large municipal and state-owned enterprises, as well as the City's Basic Construction Department. Demand for high volume housing production led to an approach best characterized as "mass production," of which the land allocation process was an integral part. Important characteristics of this approach included:

- Sites were typically very large—some comprising entire microrayons—suited to the construction of large high rise apartment buildings.
- Allocation of these sites unserviced to large developers capable of installing the necessary infrastructure networks.
- Allocation of the sites free of charge to the developer.
- Highly centralized control over the entire development process with little flexibility or discretion allowed to the developer on the location and timing of development, and the planning and architectural design of the housing.

Economic and political reforms in Russia are beginning to cause significant changes in the shelter sector, so much so that old approaches and practices are rapidly becoming obsolete or inappropriate. In particular, the emergence of private developers and builders, the drastic reduction in state subsidies for housing construction, and the ability to own private property

have profound implications for the entire housing production process, including the system of land allocation. Many of the differences between the old system and a new system of private developers working under market conditions can be summed up in the word "diversity." While the old system produced a narrow range of housing types, built by a small number of builders on large sites, the new system is likely to offer a more diverse selection of products built by public and private builders of all sizes, for a variety of customers in the housing market.

The "demonstration project," outlined in the Feasibility Study, was designed to assist the City Administration in adapting the land allocation process to better suit the evolving nature of the housing market and construction industry. In essence, this means taking steps to establish a land market. Numerous benefits would accrue to various participants:

- The introduction of market-based approaches would allow the city to reduce its direct control over the development process, thus reducing its administrative burden and costs, while at the same time giving developers more flexibility to cater to changing conditions of supply and demand.
- Developers and builders would have a better chance to obtain sites well matched to their capacities to build and finance housing, thus reducing barriers to entry for small firms in the local housing market.
- Competition among builders and developers will improve the choices available to buyers, while at the same time reducing the cost of housing.
- The City would be able to capture the "development gain" from serviced sites sold at or near their market value.

## 1.2 Overview

The demonstration project concept was endorsed by the City Administration, and work began in the second quarter of 1993. The process then proceeded as follows:

April 1993	Completion of Feasibility Study Agreement on project objectives, assignment of counterparts
July	City selects two sites
August	Start Design Competition to define housing project parameters
September	Discuss and draft RFP Conclude Design Competition Formulate Publicity Campaign Select date for Bidders' Conference
October	Obtain Development Approvals Prepare Tender Documents including APZ Draft Resolution of Allotment, RFP Conduct Publicity Campaign
November	Set Reserve or "Start" Price Bidders' Conference Distribution of Tender Documents

	Training Seminar for Developers
	Close of Bidding
December	Bid Evaluation
	Negotiation with Bidder(s)
	Review process and make recommendations for replication
January	Sale of Development Rights, Register APZ, Issue Resolution

## 2 Objectives and Limitations

The following objectives guided the demonstration project:

- Demonstrate a process of market-based land allocation for Ekaterinburg.
- Facilitate access to land by emerging private sector housing developers to show that they can profitably develop and sell housing on land purchased from the City through competitive bidding.
- Introduce market-based land pricing mechanisms (competitive bidding).
- Illustrate that infill housing development is cost effective and economical in terms of infrastructure costs and that leasing or selling infill sites through competitive bidding can generate revenues for the city.
- Show that infill housing designs of stacked townhouses are an attractive alternative to flats and to more expensive suburban cottages.

These objectives correspond reasonably well to the aim of the City to “promote new single-family housing” and to “stimulate housing construction from non-budget sources.”

The Feasibility Study concluded (contrary to the implicit assumptions of the system of administered allocation) that land does have substantial value in Ekaterinburg. Thus, while land is the City’s largest unencumbered asset, it contributes virtually nothing to the City budget, not even to land development costs, nor is it used to secure public debt. The emergence of a land market introduces the possibility of raising public revenues through the disposal of public land to private developers. Lacking any concrete experience, the City has yet to articulate a policy toward the “sale” of vacant land. It was assumed, therefore, that the approach to land sales should aim to achieve a balance between the conflicting objectives of maximizing land revenues, while facilitating access to land by private developers and builders.

A significant limitation to land disposal was the prohibition against private land ownership, removed by presidential order only in September 1993. At this writing, (November 1993) the federal “implementing regulations” for private ownership have yet to be promulgated, adopted or disseminated. This inability to actually sell land had several implications for the demonstration project:

- The project would assist the City to adopt an active approach to identifying and “packaging” sites which would contribute to achieving the desired benefits regardless of the exact nature of “ownership,” “development rights” or “use rights” allowed to be sold to developers.

- The existing process of allocation would be modified incrementally to better accommodate the needs and motives of private sector developers.
- Within the bounds of current legislation the land rights to be allocated should be as close as possible to fee simple absolute ownership.

This approach acknowledges that a complete and instant transition to a private market may not be possible. Yet at the same time, there is considerable scope for reforming existing practices to make them more suitable to a market-based system. It should be expected that greater movement toward a market-based system would yield a land price that is closer to its market value.

### **3 Achievements of the Demonstration Project**

The City adopted a proactive approach toward land disposition. The City actively offered the sites on the market, rather than wait for applicants to appear. The City also took steps to increase the value of the sites, while reducing the developer's risk, by obtaining many of the "approvals" in advance of the allocation. The approvals, which include permission to connect to the infrastructure networks and clearances from environmental and other committees, have been an obstacle to small developers in the past.

For the first time, the Chief Architect's Office approved an Architectural and Planning Passport (the "APZ") without first identifying the specific allottee for the site. Furthermore, the allocation was made without restricting the developer to a single, pre-approved architectural design. The tender documents explicitly offered flexibility in the ultimate design for the sites. This change should reduce the private developer's risk by giving the freedom to adopt the design best suited to the perceived market.

The new approach gives the developer advance knowledge of what is being offered, which makes it possible to calculate a rational purchase price if the parcel is suitable. This marks a significant departure from the administered approach to land allocation (which continues to operate). The administered allocation process gives applicants little say in the location or qualities of the site they were allotted, though in practice there was dialogue between the parties. Presumably, influence over the allocation process was directly related to the applicant's political influence. The old approach is ill-suited to a market setting, where the location and qualities of a site play a major role in determining the cost and market value of the housing.

The sites disposed of during the demonstration project were two infill sites of 0.5 and 0.6 hectares, located in an established neighborhood with infrastructure networks already in place in the adjacent streets. The City Administration has, in the past, preferred to allocate large unserviced sites to large developers, and subsequently require them to develop the site. This practice was favorable to existing developers—primarily the privatized kombinats—placing new, smaller private firms at a competitive disadvantage. Increased availability of smaller, serviced sites should help "level the playing field" for new developers. The five companies that bid for the parcels are among the largest builders/developers in Ekaterinburg. This

suggests that the parcel size was so large that the parcels were unaffordable to small builders and developers. Yet it is evident that serviced infill sites offer good opportunities for private builders (such as reducing the length of the project cycle), and the sale of smaller sites would reduce the amount of up-front financing, thus improving affordability to small firms.

The City authorized construction of townhouses and low-rise apartments on the demonstration sites, thereby introducing a new form of housing unlike the existing, dominant forms, which are high rise apartments and single-family suburban homes. Medium-density projects, such as townhouses and low-rise apartments, are well-suited to small infill sites. They should be attractive to those who can afford private housing, yet less costly than the typical "cottages," which have been permitted since 1988.

The quality of bid proposals received during the concourse was notably higher than those received earlier in the year by the USAID "Officer Resettlement Housing Project." This may be due, in part, to the more highly structured format given to bidders in the later concourse, and in part to the Developers Training Seminar (all the bidders were represented in the Seminar).

Participating staff of the City Administration, especially the Chief Architect's Office, Concourse Preparation Committee and Selection Committee, should be commended for their highly professional approach to conducting the Concourse in an open and fair manner. Their performance sets an excellent model to replicate in the future.

Finally, it should be noted that the sale of the development rights generated revenues of 200 million rubles to the city budget, and that the price was 4.25 times higher than the reserve price. At the time the price was negotiated, it was equivalent to the cost of roughly 15 typical apartments, newly built by the municipal developer, and equal to the value of 23 apartments of average size and price trading on the local resale market.

#### **4 Implementation and Process**

The purpose of this section is to review the process followed to dispose of the sites, including some comments and explanatory notes about the activities as they actually occurred, and to highlight, in general terms, the main elements of the process.

The process can be divided into roughly 3 phases:

**Preparations:** Set Objectives (market strategy)  
Define Management Structure  
Select Sites  
Obtain Owner's Approval (i.e. the City)  
Define Land Use, Architectural Controls  
Design and Conduct Publicity Campaign  
Prepare Tender Documents  
Set Evaluation Criteria, Process  
Set Reserve Price

**Bidding:**           Opening of Bidding Period  
                  Bidders' Conference  
                  Distribute Tender Documents  
                  Coach Bidders  
                  Receive Bid Proposals  
                  Close of Bidding

**Selection:**        Evaluate Bid Proposals  
                  Notify Winner(s)  
                  Negotiate Sale (Payment)  
                  Award Sites (Resolution)  
                  Register the APZ to buyer

#### **4.1 Set Objectives**

Ideally, there should be a strategy for land disposal, with the objectives of matching market demand while generating revenues corresponding to the market value of the land. Such a strategy would be the product of a "land market assessment," and would guide the determination of the amount of land to be sold, criteria for selection of sites, and other key aspects of the process.

The Feasibility Study served as a proxy for a more complete land sales strategy, in light of the "pioneering" nature of the demonstration project, and given that there is no formal land market in Ekaterinburg. Principal inputs to the preliminary land market assessment reported in the Feasibility Study included:

- Statistical data and projections of demography, economic strength, wages and incomes (mainly derived from published materials available from public sources, such as the Regional Statistical Office).
- Analysis of existing housing stock (interpretation of information received from various departments of the City Administration, supplemented by interviews).
- Analysis of land supply, allocation procedures and availability of services (interviews with Administration staff).
- Estimation of construction costs (interviews with local architects, builders and developers).
- Analysis of housing resale prices (from multiple listings; interviews with brokers).

#### **4.2 Define Project, Management Structure**

In addition to the market strategy, other aspects of the project needed to be defined. These included the method of competition (auction vs. tender/bid proposal) and the form of rights to be transferred or sold (fee simple ownership, leasehold ownership, development rights). A tendered bidding process was preferred for the demonstration project, since it seems to be a more deliberate process that allows the City to retain a higher degree of control, while enabling bidders to enter into negotiations with the City on substantive issues. Private developers and builders in the City have also expressed the concern that a public auction would force them to expose their wealth to the Mafia.

Land allocation in Ekaterinburg is an administrative function under the responsibility of the Mayor and Vice Mayor (Housing). The work is substantively performed by the Chief Architect's Office, which reports directly to the Vice Mayor (who is also the chief counterpart for USAID Shelter Sector Project activities).

The work of the demonstration project was conducted mainly by the Chief Architect's Office, with policy inputs from the Vice Mayor and with certain decisions authorized directly by the Mayor. In addition, the Mayor established two committees:

- *Concourse*<sup>1</sup> Organizing Committee, chaired by the Vice Mayor (Housing), and which includes representatives of the Chief Architect's Office, City Property Management Committee, Public Relations Department, and the Chief Administrative Officer. This Committee was assigned the task of organizing the Concourse.
- Bid Selection Committee, chaired by the Vice Mayor (Housing), which includes the Chief Architect, Deputy Chief Architect, and Chairman of the Economics Committee. This Committee was instructed to "determine the results of the concourse," (open and evaluate bids, select the winners and negotiate with the bidders).

Other experts were occasionally engaged on specific jobs, as required. For example, lawyers employed by the City were consulted for opinions on the legality of issuing leases, and the City's Land Committee set the reserve price.

In general terms, the following main groups of actors must be involved in the process:

- **Real Estate and Land Market Analysts** develop a strategy for land disposition which conforms to market demand. A clear understanding of the market demand for land is essential to achieving the objectives of supporting development while capturing the market value of the land.
- **Landowner.** The owner (presumably a public body) must have legal authority to dispose of the sites. This means that the owner must endorse the intent to sell (potentially a political issue), and that the method of disposition (outright sale, lease, sale of development and use rights) must be legal and within the powers of the owner. The landowner or its agent<sup>2</sup> will probably also be required to supervise or to be involved in the evaluation of bids, negotiations with bidders and transferring the ownership (or other rights).
- **Technical Staff.** A host of "technical" activities are involved in "packaging" the sites for sale, such as identifying suitable sites, defining the allowable land use and architectural

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<sup>1</sup>"Concourse," from the Russian word for competition, конкурс, is used occasionally in this report as a convenient abbreviation for "the competitive bidding process."

<sup>2</sup>The term "agent" in this report refers to anyone authorized to sell the land on behalf of the owner, presumably this will be a department or body of the city administration, but could conceivably be a private firm, or a parastatal or public enterprise.

controls (if necessary), preparing tender documents, setting the reserve price, and responding to technical questions from bidders.

- **Lawyers.** Some mechanisms and documents require legal scrutiny to protect the interests of the parties, for example, review of the tender documents, contracts and leases, resolutions of allotment.
- **Publicity and Press Liaison.** The sale needs to be advertised to potential buyers through an appropriate publicity campaign.
- **Project Manager.** Overall responsibility for management of the disposition process must be assigned to a person (post) interested in the success of the project and possessing sufficient political clout to ensure that the participants take action when required.

The arrangement of temporary committees supplemented by local and foreign expertise proved adequate for the small scale demonstration project (two sites).

A moderately larger program of land disposal (say 10 or 15 sites in the next year) could be conducted by a similar temporary structure, if it can be strengthened in several respects: (a) counterparts would require training and assistance to assess the land market; (b) the committees should be delegated greater authority in order to expedite the process; and (c) there would be a greatly increased demand for services from the Chief Architect's Office, which would probably require the full-time assignment of at least one senior staff member. (Refer to Section 6 below for a more complete discussion of these recommendations).

In the long term, if there is to be a significant reorientation to market-oriented principles and practices, the responsibilities assigned to the temporary committees should be integrated into the regular operations of the relevant departments (perhaps requiring an investigation of how new market-oriented activities will replace old activities, and the implications for the staffing of the affected departments).

#### **4.3 Select the Sites**

Site selection should respond directly to the market strategy. The market strategy for the Demonstration Project was described in the "Land for Housing" Feasibility Study:

The demonstration project should use an attractive and marketable site appropriate for small private sector developers . . . relatively small . . . near the city center in a high-quality residential area close to shopping and community services.

Specifically, the Study suggested the following:

Location:	within 5 km of city center
Size of Site:	less than 1 hectare
Infrastructure:	all services available
Number of Units:	50 to 60 dwelling units
Design:	low-rise, 3-story townhouses

An additional parameter not explicitly stated in the Study is that the parcel(s) must be owned by the City and available for development.

The Study further pinpointed several sites in Ekaterinburg considered to possess nearly ideal physical attributes.

In practice, the Chief Architect's Office required as long as three months to select two demonstration sites. However, the sites identified are very close to the ideal (refer to the RFP, Appendix A, for a description).

In general, the selection of sites is a routine activity for the Chief Architect's Office, which traditionally performed this function as part of the land allocation process (often in cooperation with the district administrations).

Some unanticipated obstacles were encountered in the site selection process:

- The City apparently has no convenient system of managing information about parcels and property rights (the "geographic information system" is entirely manual), making it difficult to ascertain which parcels may be unencumbered by prior allocation. This is a serious constraint to the efficient and effective management of public lands (virtually 100 percent of the city at present).
- Reluctance to sell centrally located sites in anticipation that their value will appreciate rapidly in real terms, resulting in higher prices (public revenues).
- Concern that allocation of centrally located sites would be viewed by the public as an invitation to the Mafia to strengthen their control in the heart of the city (on the assumption that the Mafia are among those most likely to have funds to invest).

#### **4.4 Obtain Owner's Approval**

It seems obvious that the owner must approve of the intent to sell the land. It is less clear, especially in light of the rapidly changing legal and political environments, who actually owns public land, and who is entitled to sell the land (or to lease or sell development rights, etc.). It will be of particular importance to obtain the unambiguous commitment of the owner, in cases where the process is managed by an independent agent.

The two sites disposed of via the demonstration project had been previously allocated to a firm that had proposed to develop the site. The City canceled the prior allocation, on the grounds that the allottee had not fulfilled his requirements to convert his temporary allocation into "inheritable perpetual use rights."<sup>3</sup>

In addition, one of the sites contains "obsolete housing," occupied by an undisclosed number of families (probably 6 to 10 households; refer to information provided by the BTI contained in the APZ, attached at Appendix B), and both sites are occupied by temporary garages. The owner must be legally capable of evicting these users, and the agent authorized

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<sup>3</sup>The temporary allocation is typically converted into "perpetual use rights" once the developer has "started construction," normally defined as completion of the foundations. If work on the foundations has started but is not yet complete, then the temporary period is usually extended

to dispose of land should be able to demonstrate both the owner's commitment and legal authority to bidders (see additional discussion of occupants in Section 5.1 below). Fortunately, in the case of the demonstration project, the housing had not been privatized, which makes the eviction process somewhat easier.

Finally, the specific form of ownership interest to be sold should be confirmed by the seller (owner). It appears that "fee simple absolute" and "leasehold" ownership may soon be possible in Russia (something similar to fee simple absolute is apparently already possible for garden plots and single family housing). When a wider range of ownership types comes into practice, this will become an important question to be answered by the seller. At the time of the demonstration project, full private ownership was not yet enabled, neither under the law, nor by the adoption of necessary implementing regulations. Therefore, the rights sold were the traditional "temporary development rights convertible into perpetual use rights," with the exception that the resolution of allotment does not specify an expiry date for the temporary stage (normally the developer loses the rights after a period of one or two years if he has not at least built the foundations). It is interesting to note that the sale of temporary development rights has some similarities to the concept of selling an option to purchase land (as used in the US).

#### **4.5 Land Use, Design and Infrastructure Approvals**

Land use is controlled by the Master Plan, but since it is a secret document the City appears to have considerable—if not complete—discretion in its implementation. From the bidder's viewpoint it seems largely irrelevant. In practice, the system of land use controls in Ekaterinburg resembles what is called a "permit system" in the US, rather than a zoning system, except that the criteria for granting permits are much more transparent in US cities. In Ekaterinburg, since the City is both owner and controls the land use, it is assumed that the sites selected by the City can be approved for the purpose(s) specified in the market strategy (i.e., the City will screen the sites for conformance with the Master Plan). The "Architectural and Planning Passport", or "APZ", is the document by which various approvals are registered to the prospective allottee (the "applicant"), including:

- land use
- infrastructure connections
- architectural and site design
- other approvals

The applicant obtains these approvals based on a "sketch project" that it prepares, and which includes drawings (site plan, typical floor plans, sections, elevations and perspective sketches) and a "technical-economic justification" (describing other aspects of the project such as construction methods, areas and volumes, and cost estimates).

Since the applicant/allottee was not known in advance of the concourse, the sketch project materials for the demonstration project sites were defined by means of a design competition. The competitors were required to follow design parameters, specifying a mixture of townhouses and apartments. The winning design served as the sketch project, thus combining

the old approach with a new form of housing. This had the advantage of being familiar to those who were asked to grant approvals, while using the sketch project materials to market the sites to potential bidders. The Mayor and Chief Architect's Office also set out, from the start, to obtain a high-quality design to serve as a model to encourage wider adoption of medium-density, low-rise residential projects by designers and developers.

A major disadvantage of the "sketch project" approach is that developers might be constrained to the specific architectural solution, which may not suit their taste, customary construction methods, the target market, etc. In the demonstration project, this constraint was relaxed by allowing the developers flexibility in deviating from the sketch project, but restricting them to roughly the same density, heights, and number of units. In the future, if more sites are to be disposed of, the City must become less concerned about specifying the details of the project before selling the site. For example, the tender documents might include basic parameters defining maximum density (FAR), height, minimum setbacks, and the like. Conceptually, this would be like giving bidders the same "design program" prepared for the design competition, rather than the sketch project materials which resulted from it (see additional discussion in Sections 5 and 6 below).

Under the old system of land allocation the prospective allottee was required to obtain the approvals listed below (and often others). For the demonstration project some of the approvals were given in advance, as indicated in the following list:

- **Approvals obtained in advance by the City:**

- Water and sewer authority
- Gas company
- Radio/TV service (cable)
- Master plan authority
- Landscaping department
- Bureau of technical inventory control

- **Approvals the Chief Architect's Office undertook to obtain for buyer:**

- District heating company

- **Approvals the Buyer must obtain (all relatively easy to obtain):**

- Sanitary station (environmental health)
- Fire brigade
- Civil defense authority
- Trees and shrubs authority
- Check for unsafe radiation levels
- Civil aviation authority
- Street lighting department
- District hospital
- Center for protection of historic monuments
- Nature protection committee

In addition to these, the approval of the Chief Architect's Office (on land use and architectural design matters), and of the "Urban Design Committee" (on architectural and site design) are also required.

The applicant is required to approach each of the relevant authorities to request approval based on the "sketch project" materials. Lacking an applicant, the Chief Architect's Office obtained the approvals in order to issue an APZ for the demonstration project. This was necessary because it would have been unreasonable for the City to sell the sites for residential construction without knowing in advance that they could be approved for this purpose. It was also assumed that bidders would be less interested to bid if there was uncertainty over the approvals.

The approval of the Urban Design Committee is also conveyed by the APZ. In the case of the demonstration project, the successful bidder is required to resubmit his project to this Committee only if he deviates significantly from the pre-approved design. In the future, it would be preferable to separate the architectural design from the land use control.

#### **4.6 Design and Conduct Publicity Campaign**

Once the owner has committed to sell, and land use, design and infrastructure approvals have been obtained, the sites can be advertised and the bidding procedures announced. The primary goal of the publicity campaign for the demonstration project was to attract potential bidders to a Bidders' Conference, at which the tender documents would be distributed. The campaign was designed to include the following elements:

- **Interviews.** During the design competition background interviews were given to two newspaper reporters, one of which resulted in a substantial article about the reform of the land allocation process, and which was printed in one of the largest regional daily newspapers.
- **Press Releases.** Two press releases were prepared and distributed by the City to representatives of local, regional and national print and broadcast media. The first release announced the results of the design competition, and the second announced some details of the offering and the date of the Bidders' Conference.
- **Media Events.** The announcement of the results of the design competition was covered by a local television program, and additional "plugs" announcing the Bidders Conference were made by the Mayor and staff of the Chief Architect's Office on several occasions.
- **Advertising.** It was intended to advertise the sale and bidders conference in at least one regional daily newspaper, "Kommersant," which is a national weekly business journal, and in the national "Construction Journal." Although the City's Public Relations Department had originally agreed to arrange this advertising, the orders were never placed, presumably because of the cost involved.
- **Direct Mail.** Copies of the press release announcing the Bidders' Conference and the advertisement were delivered to approximately 240 "targets" considered to be potential bidders: builders and developers (50), banks (65) and large firms and enterprises considered likely to be profitable (125).

Apart from the failure to place advertisements, the only other problem encountered in the publicity campaign was the short time between the confirmation of the date of the Bidders' Conference and the actual event itself. While the date had been notionally set at least six weeks in advance, formal approval by the Mayor (required to authorize publicity activities) was given only three weeks beforehand, which left little time to advertise.

#### **4.7 Prepare and Approve Tender Documents**

The tender documents should be designed to describe what is offered for sale, as well as to explain the bidding process. The tender documents for the demonstration project included:

- **The APZ:** (a) plans showing the size, layout and location of the sites and nearby infrastructure; (b) some parameters of the sketch project proposal; and (c) conditional approvals of various utility providers and other public authorities (see Appendix B).
- **The RFP:** (a) the invitation to bid; (b) a description of the offering (the parcels and development rights to be allocated); (c) an explanation of the bid procedures; (d) a description of the minimum requirements for bid proposals; and (e) an explanation of the bid evaluation criteria (see Appendix A).
- **Draft Resolution:** an unsigned draft of the proposed resolution of allotment for the parcel(s) (see Appendix C).
- **Bidder Information Forms:** blank forms comprising part of the bid proposal, to be filled out by bidders, regarding information on experience, the project proposal, etc. (see Appendix D).

A single APZ describing both sites was prepared (the sites are adjoining). This was considered more efficient, since the two sites could be bid on as one, and since the approvals were based on a single sketch project covering both sites.

The APZ is somewhat inconsistent in that it is to provide detailed "technical-economic parameters" of the sketch project, yet the only graphic material provided to describe the project is a simple site plan. Furthermore, the technical-economic parameters seem incomplete and confusing.

A serious shortcoming of the APZ as a tender document is the lack of information about the tenants who currently occupy the sites, and who must be relocated at the expense of the buyer. Bidders desire accurate and reliable estimates of these costs, since they will add to the cost of the housing built on the sites. The current prohibition against releasing information about the occupants of obsolete housing before the land is allocated is a major constraint to the process of land disposal, and will reduce the revenues generated by the City. At a minimum, when offering a site for sale, the City should make a commitment to the number of households required to be relocated by the buyer, and the minimum housing entitlement of each household.

As for the temporary garages, although each bidder can survey the site to count the number of units, in order to estimate the relocation cost, it would be more efficient for the City to provide this information in the APZ.

As for the obsolete housing, the task is more difficult, if not impossible for bidders without the assistance of the City. The controlling regulations appear to deny a census of the occupants until after the sites are allocated, meaning that the City cannot provide the relevant information as part of the tender documents. A bidder who desires an accurate estimate of the relocation costs would have to conduct his own survey of the occupants, which is clearly unacceptable (see additional discussion in Sections 5 and 6 below).

For future offerings it would be better to prepare a single APZ for each site, which would make it easier to register the APZs to different buyers and would avoid misunderstandings about the relative "shares" of services allocated to the respective sites.

If the City adopts a more general approach toward specifying land use requirements, then the APZ format should be modified accordingly, primarily to simplify the presentation of "technical-economic information" (i.e., the land use and design parameters).

Future tender documents should provide sufficient information for bidders to estimate the cost to relocate existing users and occupants. For temporary garages, this should include a simple count of the number of garages, and if possible, identification of the sites to which they must be relocated. As for the "obsolete housing" that must be replaced, the number and approximate size of housing units required should be identified.

Although the Invitation to Bid stated that "bids must respond to the requirements contained in the RFP," no formal connection was made between the RFP and the Resolution of Allotment. Because of this, several points addressed in the RFP should probably have been reflected in the draft Resolution, but were not:

- Guarantee or assurance from the City to evict the occupants of obsolete housing.
- Guarantee or assurance from the City to evict the users of temporary garages.
- Ability of the buyer to transfer possession of the development rights (or prohibition of transfer, etc.) during the period of "insecure tenure" (after allotment, but before the foundation is complete), and after the "insecure tenure," but before acceptance of the housing.
- Ability of the buyer to convert the development rights to full private ownership in fee simple absolute (or equivalent), at such time as this form of ownership becomes possible in Ekaterinburg, at no extra cost, except for a nominal registration fee (this was agreed to in principle by the City, but somehow was not included in the draft Resolution).

In the case of the demonstration project, approval of the RFP was conveyed by signature of the Vice Mayor (Housing) who signed the "Invitation to Bidders," which identified the role of the tender documents in the bidding process.

#### **4.8 Decide upon Evaluation Criteria and Process**

“Bidder Information Forms” were an important part of the tender documents (included in Appendix D). The primary purpose of the forms was to facilitate evaluation of bids by simplifying the task of analyzing and comparing them, and by showing bidders exactly the minimum amount of information required and its format. The information provided in the forms also helped structure the interviews with bidders. The forms designed for the concourse served these purposes quite well, although some improvements have been made.

It was found that bidders provided incomplete or vague answers on their financial strength (part 22 of the forms). They were reluctant to disclose details of their assets and profits to the authorities, in case they were passed on to the tax department.

A set of selection criteria were identified in the tender documents in order to encourage bidders to make their proposals as complete and accurate as possible (see Appendix A, part 5.3 of the RFP). All the bids received were weak in two areas: marketability and financing. Bidders uniformly demonstrated little or no evidence of market research nor commitments from buyers, though one included a letter from a possible customer expressing interest in the project. During interviews with the two top bidders, both indicated that they had notional commitments to buy a small number of units, but no formal commitment. Given the very small market for privately-built housing, it is probably unrealistic to expect developers to conduct comprehensive research of the real estate market (it would not be cost effective for them to do so), but this should become more important in the future, as more developers compete for sales and as units begin to be built speculatively.

Concerning financing, those interviewed intended to construct the project in stages, as and when units could be pre-sold. The developers typically intend to invest their own money only in purchasing and preparing the site, until such time as profits are available to reinvest in the project for speculative resale. None of the proposals addressed the effect of inflation in estimating cash flows.

In retrospect, it is probably useful to retain these questions in future tender documents, since the information certainly would strengthen a bid proposal if included. Even a cursory response could help select amongst otherwise comparable proposals.

#### **4.9 Set Reserve Price, Security Deposit**

The Reserve Price (“start” price) was calculated by the City according to federal normative prices adjusted for local conditions (according to the Russian Federation Law “On Payment for Land” adopted October 11, 1991).

For the demonstration project, the start price per square meter was set as follows:

Tax rate per m <sup>2</sup> based on zoning system adopted by Ekaterinburg Small Soviet	X	Inflation coefficient approved by presidential order	X	Multiplier to convert tax rate to normative price	=	Start price for land sold by auction or competitive bidding (rubles/m <sup>2</sup> )
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or:

12.42 rubles	X	7	X	50	=	4,347.00 rubles
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The two parcels together totaled 11,000 m<sup>2</sup>, thus the start price for the whole was:  
4,347.00 x 11,000 = 47,817,000 rubles (rounded to 47 million in tender documents)

While preparing the tender documents, it is advisable to discuss, in advance, what forms of payment will be acceptable to the owner (seller). For example, whether the purchase price may be paid in installments, whether the installments are to be indexed to inflation, or whether part of the payment can be paid "in kind", for example, by dedication of completed units. If the owner will not accept any of these alternatives, this might be stated explicitly in the tender documents.

Finally, it may be useful to specify a deposit to be paid by bidders as a prerequisite to bidding, in order to discourage spurious or casual bids. In the case of the Ekaterinburg demonstration project, however, no bidder paid the "required" deposit, and yet none was disqualified by the City for non-payment.

#### 4.10 Opening of Bidding Period

The date for release of tender documents (the start of the bidding period) was agreed to by resolution of the Mayor. In the future, the decision should be made to allow a minimum of six weeks to advertise the concourse. In the context of an expanded program to dispose of more sites, the Organizing Committee should be authorized by the Mayor to set the timetable for bidding and other events associated with the concourse.

#### 4.11 Bidders' Conference

The Bidders' Conference serves several purposes. First, it is a press event that can be used to publicize the concourse. Second, it marks the opening of the bidding period. Third, it offers a convenient way to distribute tender documents. Finally, it allows the organizers to brief the bidders on the offering and selection criteria and process.

The Bidders' Conference for the Demonstration Project was organized as a press conference lasting about half an hour. The Vice Mayor (Housing) opened the Conference and briefly described the City's objectives. The Chief Engineer described the sites and sketch project, the tender documents and bidding procedures.

The Bidders' Conference was attended by approximately 25 people, and 10 copies of the tender documents were taken.

#### **4.12 Distribute Tender Documents**

During the week following the Bidders' Conference, at least ten more copies were collected from the Chief Architect's Office. All those who took the tender documents were asked to register their names and addresses (for information purposes, but also in case it subsequently becomes necessary to amend information contained in the tender documents, prior to the close of bidding).

In the demonstration project, 21 sets of tender documents were collected, by organizations which could be categorized as follows:

Main Business Interest	Type of Organization or Business Structure				Row Total
	Private	Limited Partnership	Joint Stock Company	Trust	
Builder/Developer	3	2	7	1	13
Real Estate Broker or Developer	1	-	-	1	2
Producer of Building Materials	-	-	1	-	1
Holding Company	-	-	-	1	1
Bank	-	-	1	-	1
Unknown	1	1	-	1	3
Column Total	5	3	9	4	21

#### 4.13 Provide Technical Assistance to Bidders

Because the process of competitive bidding in response to an RFP is a new approach to land disposal in Ekaterinburg, it was considered important to provide technical assistance to bidders. This was accomplished through a workshop/seminar. The general goal of the seminar was to introduce participants to market-based housing and land development techniques. More specifically, to describe how developers operate in a market environment and to teach methods of formulating project proposals for private sector housing projects. The training was also expected to help bidders prepare high quality bid proposals and better calculate the bid price.

A four-day Housing Developers' Seminar was offered free of charge to bidders and other interested developers and builders. The seminar was conducted by a Real Estate Counselor provided by the USAID project. (Refer to the detailed outline in Appendix F). Nearly 40 applications were received, and attendance varied from 28 to 35 people.

The seminar was enthusiastically received by the participants, and it was decided to hold a one-day follow-up session for the same group, to conduct a working exercise with small groups. The purpose of the follow-on seminar was to impart practical experience in calculating the land bid price based on real housing market information and construction cost estimates. Attendance at the final day of training varied from 12 to 22 people.

#### 4.14 Receive Bid Proposals

An arrangement for submission of bid proposals that is convenient for bidders should be made. The Chief Architect's Office was authorized to accept bids during working hours. Receipts were given to bidders on submission of their proposal.

#### **4.15 Close of Bidding**

The bids should be formally “recorded” as soon as possible following the time the bidding period formally closes. This event should be open to the bidders, so they may ensure their bid was received. It also allows them to inspect the envelope(s) for tampering (if a sealed bid). Depending on the process adopted for bid evaluation, the amount of each bid might be announced and recorded at this time.

In the demonstration project, the Bid Selection Committee met the day after the close of bidding, discussed the evaluation procedure, and then opened the meeting to participation by the bidders. The bidders were allowed to inspect their bid envelopes, which were then opened. The names of bidders and price offered by each were read out and recorded by the Committee. The Chairman of the Committee made a few remarks about the City’s interest in the new bidding process and in the quality of the bid proposals, highlighting the intent of the City to review all of the proposals carefully. He explained that the Committee would undertake this review within one week, and that negotiations with bidders would only take place after the technical review. The Chairman thanked the bidders for their interest and assured them that the unsuccessful bidders will have plenty of other chances to compete for other parcels which the City will dispose of in the near future.

#### **4.16 Evaluate Bid Proposals**

In the opening and evaluation of bids, it is important to preserve objectivity and “transparency”. Thus, the bid opening should be open to the public, with the bidders invited to attend. At that time the salient elements of each bid should be disclosed and the review and evaluation process reaffirmed.

The evaluation of bids should be undertaken in the most objective manner possible, with the essential criteria determined prior to the opening of the bids. While a case can be made for a predetermined weighting system, in practice it is extremely difficult to prepare such a system in advance that will be responsive to the actual proposals. Even where the use of RFPs is well established, it is difficult to calibrate a predetermined weighting system to ensure that the “best” proposal is selected. This problem is especially acute where there has been no local experience with RFPs. It is difficult to anticipate the quality and consistency of responses, let alone calibrate a weighting system.

Thus, in the demonstration project, the advisors suggested what criteria were to be evaluated, but recommended against a pre-established weighting system. The essential criteria were determined by the committee, based on the advisors’ recommendations. These included: the amount, form, and timing of land payments (price); bidder’s experience; conformance to the RFP, design quality and development program composition (program); pricing and identification of market support (marketability); and development feasibility as measured by the approach to the relocation of existing site uses, realism of cost estimates, development time schedule, and bidder’s financial capability.

The selection committee considered the offering price to be the most important criterion, assuming that the other criteria were within acceptable levels. The advisors were asked to

review all proposals and to concentrate on the two that offered the highest purchase price. Original proposals were provided to the advisors and translated for evaluation. In order to evaluate the proposals, it was necessary to invite the bidders to answer specific follow-up questions concerning elements of their proposals. Based on this review, it became apparent that the bidder offering the highest land price had established conditions in the proposal that could make the proposal substantially less attractive to the City. Specifically, the bidder had staged the payment over several years, with future payments based on the sale of units. This bidder had also significantly reduced the payment of the City's Infrastructure Fee.

A summary comparing the top two proposals was prepared for the review of the Selection Committee. The terms of comparison were: stated bid price, bid conditions, program, analysis of land and infrastructure fee payments, and the strengths and weaknesses of each proposal. In addition, the committee was provided with a recommended strategy to improve the quality of both proposals and to minimize the City's potential risks.

#### **4.17 Notify Winner and Award Documentation**

Upon evaluation of the bids by the Selection Committee and final interviews with the two finalists, the Committee, assisted by the US Advisors, conducted a final review of the proposals and unanimously selected a winning bidder. The winner was the bidder who made the highest offer for the site and who agreed to pay the full Infrastructure Tax, less the credits provided for in the RFP (site preparation costs). The Committee agreed to make the deliberations of the meeting available to the bidders and notify the winner and the other bidders of its choice and its evaluation of the four bids that qualified for consideration, by virtue of being higher than the minimum required bid price.

The deliberations of the Selection Committee and its unanimously adopted policy of full disclosure, and written notification of the winner and all participants were intentional acts on the part of the Committee to ensure the "transparency" of the process. The written notification to the winner included the final terms of the bid, incorporating all points clarified and/or agreed to by the City and the winner subsequent to the submission of the winner's written bid.

The Committee instructed the Chief Architect's Office to prepare an APZ based on the final negotiations. The Chairman of the City's Economics Committee was asked to prepare orders designating sites for the relocation of garages and new housing units for the relocation of site occupants. The Deputy Mayor for Housing was to have prepared for the Mayor's signature a Resolution awarding the site to the winning bidder and specifying the terms of the award as agreed to by the Committee and the winner.

## **5 Discussion**

This section discusses some of the questions and issues encountered in disposing of the sites.

## **5.1 Who Should Relocate Existing Owners, Tenants and Occupants?**

The most heavily debated topic, while preparing the tender documents, was whether the City or the developer should bear the burden of relocating existing users and occupants. It was generally assumed that the cost of clearing the site would be borne by the developer, either:

- directly, for example, if the developer is responsible for purchasing or building new housing to give to sitting occupants, or;
- indirectly, for example, if the City undertook the job, but recovered the costs through the land price.

In either case the cost will be deducted from the land price, so in principle the decision has little impact on the land price. However, several other factors should be considered.

First is the question of efficiency. It should be apparent that costs saved in relocating users or occupants will result in either increased profits for the developer or increased land price (revenues) for the City, or probably both. It also seems reasonable to expect savings to be passed on to the buyers of the housing (developers will eventually be competing on price). All of these are strong arguments for choosing the most efficient approach. This probably means placing the burden on the developer, who has greater incentives to act efficiently.

Second is the issue of risk to the developer. Lack of authority to evict the occupants and users leaves the developer uncertain of its control of the site. At best the developer will be uncertain of the time required to vacate the site, which reduces its control over costs and delivery schedule. At worst it may be unable to remove the occupants and users in time (or at all) in which case the housing project fails and the site becomes a liability. These risks influence the developer's cost estimates, which in turn influence the bid price. In principle, more uncertainty means more risk to the developer, which lowers the value of the site. At some point reasonable developers will find the proposition wholly unattractive, perhaps leaving only land speculators interested in buying the site, since their immediate concern is not to begin construction.

Finally, the situation in which the City possesses the authority to evict but requires the developer to do the job complicates the process of land disposal, and thus increases its cost to all parties.

To help reduce the developer's risk the City might consider selling the existing housing to the developer along with the land, thus enabling it to evict the occupants of obsolete houses (perhaps they would be given rent-free leases until relocated by the developer). This might be difficult in light of the very strong tenant rights that exist. As for garages, the developer could be authorized to rent the land under garages and to evict the users at its discretion. But this approach seems unsatisfactory in some respects, partly because it seems inconsistent with the principles and practice of eviction (compulsory purchase), and because it might give the developer an incentive not to clear the site (if he can generate rental income).

On the other hand, if the City takes on the burden of relocating the occupants, the following principles should be followed:

- Pay no more than necessary for the replacement housing, buying acceptable units being offered on the private resale market rather than new units purchased at inflated prices;
- Evict and relocate occupants prior to offering the site for sale, since this will increase its value to developers (reduce their risks); and
- If the City cannot evict and relocate sitting users and occupants before offering the site for sale, it should firmly commit to a schedule for vacating the site.

The best approach in the long run may be for the City to evict and relocate prior users because only the City has the authority to do so, and because a vacant site is less risky and thus more attractive to bidders. However, the City should take pains to minimize the relocation costs.

If this approach is followed, the City should add the actual legitimate costs of relocation to the reserve price, which seems to be permissible under existing regulations. This would also help to raise the start price closer to the market value of the land.

In the Demonstration Project these issues were resolved neatly in negotiation between the developer and the City. The developer will make the final payment (part of the price) to the City only after the eviction of tenants, and the City agreed to sell the developer newly-built units from the public housing stock at cost for the purpose of relocating the tenants.

It is interesting to note that the developer that won the concourse offered to construct a permanent parking structure at its own expense on land provided by the City to encourage the removal of temporary garages from the site.

## **5.2 What Form of Rights to Sell?**

To answer the question of “what land rights should be sold” it is useful to ask “what is the objective of selling land rights?” In the context of this report these questions are limited to publicly owned lands that are to be disposed of for the purpose of new residential development.

For the eventual owner of the housing, the main advantages of land ownership are:

- Security of tenure, which encourages the owner to invest in maintenance and improvement of the property;
- Ability to mortgage the property; and
- Ability to control access to, and use of the land, which is mainly an issue in the case of garden plots and other individually owned parcels on which the land itself has substantial uses in addition to providing space for a house.

Existing housing laws seem to give fairly strong tenure to owners of housing, though the actual mechanisms giving evidence of title to land are not yet well established. Furthermore,

few if any private individuals or households are yet in the position<sup>4</sup> to buy vacant land for housing construction in Ekaterinburg, except for those purchasing garden plots.

In the disposal of public lands, the more important questions of ownership interests are those involving developers. In current practice the ownership interests pass through 4 stages as a vacant site is developed:

- **Public Ownership and Control.** The starting point, where the parcel is unallocated to a developer (including land from which occupants, users and prior allottees have been evicted).
- **Conditional Allocation of Development Rights.** The parcel has been allocated to a developer for a specific project, but the allocation expires within a fixed period if the developer does not “begin construction,” which is defined as substantial completion of the foundations of the building, or if other conditions of the allocation are violated.
- **Inheritable Perpetual Use Rights.** The temporary development rights are converted to perpetual use rights by removing the time limit and by allowing transfer of the rights by inheritance.
- **Private Ownership.** On completion of the housing the owner is apparently entitled to private ownership of the land, although the exact nature of this ownership has not yet been defined by laws and implementing regulations. Presumably the owner of a single family home will obtain fee simple absolute ownership interests, while owners of housing in multi-unit buildings will probably own the land in condominium. In the case of housing built by public enterprises, the resident is entitled to privatize the housing and as a consequence gains ownership over the land. Private land ownership is primarily a product of recent land reforms.

There are two main objectives to selling the land to the developer. The first is to increase the developer’s security of tenure, and the second is to enable the ownership interests to be transferred freely, to be bought and sold in the market. The goal in both cases is to reduce the risks to the developer. Reducing the developer’s risk would encourage investment in housing development, and would probably reduce the cost of housing (investors expect higher profits when taking higher risks).

The period of “temporary allocation” entails significant risk for the developer, a risk that will be even more serious once developers start to finance housing construction (rather than pre-selling). Although in the past the developer paid no purchase price for the land per se, it invested considerable time and effort in obtaining the allocation, formulating the sketch project, and possibly in preparatory site work. This investment could be forfeit if the time limit expires. Although the City has been lenient in the past, the developer’s lack of security must count as a risk.

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<sup>4</sup>“In the position” is admittedly a vague term, which covers various factors: affordability, availability of vacant land, and simply the lack of awareness that individuals could engage in buying and selling land .

There was some discussion as to whether a time limit should be imposed for the development rights sold through the demonstration project. If this were the case, the situation would resemble the approach often used in the US of buying a time-limited option on a site. If there is no such time limit, the buyer would effectively obtain perpetual use rights from the moment of purchase, which is closer to ownership in fee simple. It seems that full private ownership and unrestricted transfer of ownership will soon be possible in Russia, and hopefully the second and third steps, "Conditional Allocation" and "Perpetual Use Rights," will be eliminated.

The prohibition against sale of development rights by the allottee is more of a constraint to the efficient operation of the land market than it is a risk to the developer, since there are ways for one developer to transfer a parcel to another (by entering into a business partnership for the purpose, or by the process of "negotiated eviction," superintended by the City). These methods of transfer seem unnecessarily cumbersome, and the prohibition should be lifted to support the development of a land market.

During discussions to decide rights to be sold in the demonstration project there was a largely inconclusive debate over the City's ability to lease the land. Several lawyers and other local experts who were consulted on the issue gave conflicting opinions, and concluded that existing laws and regulations seem to be contradictory or ambiguous.

### **5.3 Land Use and Architectural Controls**

Although the demonstration project represents a more active approach to land disposal, the Chief Architect's Office clearly retains considerable discretionary control over decisions normally taken by private sector developers in a market oriented system. While this high degree of public control may be designed to protect public interests, it will certainly act as a constraint to private development in a market setting. Two main problems are:

- Lack of control by the developer, who should be as free as possible to modify his product to meet market demand; and
- Uncertainty over aspects of the design, which translates into risk for the developer, to the extent that it reduces its control over the cost of the project.

Clearly, the effort required to specify these controls in detail in the APZ is a burden that should be avoided in the future, if only to make the process of land disposal more efficient. In the case of the demonstration project, the bidders understood that the City would tolerate a reasonable amount of flexibility in the final design. In the future the tender documents should aim to give a more simplified set of parameters, such as setbacks, maximum floor area ratio or maximum number of units, maximum height, etc.

### **5.4 Infrastructure Investment Tax**

The Infrastructure Investment Tax (calculated as 33 percent of construction costs) is a serious disincentive to investment in new housing construction for several reasons:

- It places an excessive burden resulting from decades of under-investment directly on new construction projects, thus raising housing costs, whereas the burden should be borne equally by existing users of public utilities;
- It encourages developers to under-report costs in order to reduce the tax;
- It gives a competitive advantage to those large developers capable of installing their own infrastructure networks, thus gaining an exemption from the tax (thus presumably avoiding the burden of subsidizing postponed investment in existing infrastructure that is built into the tax).

Although developers around the world commonly pay infrastructure fees (or exactions), the rate of assessment in Ekaterinburg seems excessive, especially at a time when emerging small private sector developers must also cope with high inflation and a very high threshold of affordability. One source in the City Administration stated that the historical cost of providing the services now covered by the tax had been estimated at 12 percent of construction costs in central areas, 19 percent in non-central areas, and a maximum of 24 percent in difficult or remote areas. The City should consider recalculating the fee based on the average marginal cost(s) of service attributable to each project.

### **5.5 Who Should Sell the Land?**

As an administrative function, land allocation was previously the responsibility of the administrative branch of government (municipality or oblast). Now that sale of land in public ownership is to be permitted it may be necessary to review the role of the legislative branch of government. Presumably the citizens of Russia collectively own public lands. Who is authorized to sell public assets? Is the legislative or administrative body more likely to protect the public interests and to manage the public asset wisely on the owners' behalf?

### **5.6 Auction or Tendered Bidding?**

In market economies, transactions involving land and property dispositions have usually employed one of three approaches: an offer to sell at a predetermined price; an auction; or a tendered bid submitted in response to a request for proposals. There are numerous variants of each method. These approaches and some of their advantages and drawbacks are outlined in the following paragraphs.

*Offer to Sell at Predetermined Price.* This approach is one the most highly utilized methods of selling real estate—both land and improved property—in an established market economy. It is used to sell real estate either with or without specific encumbrances, development or use restrictions, etc. It is not appropriate where variables other than price are being considered. To be effective, it requires a reasonably predictable market together with a history of market experience involving similar properties. If the price is established below the normal market range, this mechanism is not a rational means of resource allocation. Given the lack of market experience, attempts to sell land at predetermined prices will likely result in irrational allocation, and thus are inappropriate in the current and near term market environment in Ekaterinburg (and elsewhere throughout most of the NIS).

**Auctions.** There are a variety of auction procedures ranging from an open bid auction to a sealed bid auction. The key characteristic of an auction is that only one variable, price, is considered and the property is sold to the highest bidder. Where there is concern about the winner's capability to develop the site, for example, it is possible to screen or limit the participating bidders through a pre-qualifying process that admits only those deemed capable of bidding. In those parts of the NIS where the market is poorly formed, with the resultant inability to reasonably predict the probable selling price, an auction can be an effective technique of property transfer. It is an efficient mechanism for the sale of large numbers of properties and is viewed as a transparent mechanism for property transfer. The auction is also viewed as an essentially "pure market method." However, as such, it does not take advantage of market inefficiencies which could produce higher prices. Auctions are susceptible to collusion in the case where many parcels are to be sold to a small number of experienced bidders.

**RFP Tender.** This approach has been the mainstay of property disposition for public agencies and for urban renewal in the United States and elsewhere. It enables a wider range of objectives than price to be considered, for example, type of use, design characteristics and project feasibility. For this reason, tendered bidding may be an appropriate vehicle for the early stage of transition from a command economy to a market economy, especially in sensitive urban areas where the successful development of a project is a major consideration. While the RFP process provides a flexible means of addressing complex issues and enhancing project success, it is an inefficient, time consuming mechanism for dealing with large numbers of transfers. As it is virtually impossible to devise a rational weighting scheme that will ensure that the "best, most feasible" project, with the highest return to the City is selected, the selection process may suffer from a perceived lack of "transparency."

Until developers gain more experience, the RFP process may be the most appropriate means for disposing of key land parcels in Ekaterinburg. It also shares more similarities with the prior system of allocation, in which the City exercised considerable control over the terms of the allocation. This has the advantage of familiarity to the participants. In the early stages of a land disposal program, when it is important that the ensuing construction projects be successful, or where the City aims to achieve several different objectives, the RFP process is likely to be the best choice. As the volume of land privatization increases, it will no longer be possible to employ the RFP process, except for high-profile or potentially sensitive land parcels where the intent is to ensure successful development. Where large numbers of properties are being privatized, the auction approach will likely provide the most efficient, "transparent" mechanism. After several years, when the market has developed, it will be easier to estimate property values. At that time, offerings at pre-established prices can be effectively employed.

## **5.7 Who Can Bid?**

More than once during preparations for the demonstration project the concern was expressed that bidders should be “builders and developers” rather than “investors.” This concern seems to indicate displeasure that housing construction should be a profitable activity, and may also reflect a desire to limit land speculation. The first attitude is clearly at odds with the move towards private markets which are largely driven by “the profit motive.” It may also mask the intent to protect current and former public-sector developers from the risks of a competitive market. Irrespective of the motivation, it seems wholly impractical (if not impossible) to exclude “investors” from the land market, since any privately owned firm is almost by definition owned by “investors,” and since “investors” could conveniently form partnerships with builders and developers if this were necessary in order to bid for land. Furthermore, in comparison with the public sector, private investors are probably smarter and more cautious about how and where they invest their capital. Thus private investment into housing construction will likely result in efficiency and productivity gains for the sector.

Concerning the second point, “speculation” (which simply means to take unusual business risks, usually associated with buying and selling on a fluctuating market) is neither inherently harmful nor evil. Two related issues, however, bear careful consideration in designing the land disposal program:

- When selling public land the City should attempt to capture the “development gain” that results from public investment in providing roads, infrastructure and other services. The opportunity exists for the City to sell the land below its market value, resulting in a “windfall!” to the purchaser (as a result of underpricing by the city, not from market fluctuations). Avoiding privatizing the development gain calls for careful assessment of land values on the market, and the ability to set prices close to the market value.
- The potential for windfall profits from public land sales may increase the incentives for improper or unethical practices in the process of selling the land. This is a strong argument for maximum transparency and accountability (to the owners, who are ultimately the electorate) in conducting a land disposal program.

## **6 Expansion and Replication of the Program**

This section outlines a process for expanding the land disposal program to meet market demand during market year 1994. Four main subject areas are covered:

- Identification of the main objectives of an expanded land disposal program;
- Outline of specific steps to expand the program;
- Principles to guide the evolution of the disposal process; and
- Some urgent policy issues with significant implications for a land disposal program.

### **6.1 Objectives of Expanded Land Disposal Program**

The general objectives outlined in Section 2 above remain valid, for the most part, for the purpose of expanding the land disposal program. Other new objectives include:

- Increasing the supply of vacant land for residential development to match market demand;

- Introducing new, incremental improvements to the process of disposal, based on the experience of the demonstration project, and responding to legal and regulatory changes;
- Strengthening the capacity of the counterpart staff to conduct the program with less external technical assistance; and
- Resolving some of the wider policy issues surrounding public land disposal, such as (a) curtailing the free allocation of land into the market; (b) deciding what form of ownership to give in different circumstances (fee simple vs. leasehold); and (c) separating the functions of allocation, land use control, and architectural control.

## 6.2 Steps to Expand Program

The following steps should be followed to expand the land disposal program.

**Step 1: Review Demonstration Project Results.** Assuming a modest expansion during the next year (for example, to dispose of 10 to 20 sites), the City should review the demonstration project, with particular emphasis on:

- Identifying measures to streamline and improve the process;
- Assessing the staffing requirements; and
- Estimating the time requirements to repeat the process.

The present report may serve as an input to the review.

**Step 2: Review the Changing Legal Environment.** Recent changes in federal law concerning private ownership of land, land registration and procedures for disposal of public land may influence how the expanded program is to be structured. The Presidential Order of October 27, "On Regulation of Land Policy and Development of Agricultural Reforms in Russia" calls for the promulgation of implementing regulations within 1 month. It is possible that they could be formally adopted or codified early in 1994. In case there is no clear indication of how the Order will be implemented, the City should do its best to anticipate any likely changes in defining the expanded program, but should not let uncertainty at the federal level delay its implementation. For example, if land sales have not yet been authorized at the local level, the program might allocate land by resolution with specific reference to "allow the allottee to convert his development rights to full private ownership at no additional cost when permitted by law."

Review of the legal environment should be done in conjunction with the formulation of a Land Policy, an independent but closely related activity called for by the Mayor.

**Step 3: Develop a Strategy for Land Sale.** The goal is to estimate market demand for residential land, and to characterize the type(s) of parcels best suited to meet the demand and the constraints of private sector developers. Two main activities are required:

- Conduct a Land Market Assessment (LMA) to obtain information, such as land and housing prices, supply of serviced and unserviced land, etc., to be used as a general

input to many land management activities such as conversion of land uses, extension of services, and analysis of the property tax base.

- **Define Market Strategy.** The results of the LMA, which identifies the types of land, gross area, target sizes and locations, target rate of disposal, etc., will directly guide the implementation of the land disposal program. Refer to Appendix G for an outline of the Land Market Assessment.

Steps 1, 2 and 3 can occur in parallel.

**Step 4: *Establish Team and Management Structure.*** As the strategy for land sale is being formulated, the City should prepare the management structure for the program:

- Assure that the necessary staff (at all levels) are available to conduct the program, including temporary reassignment or hiring of new staff if necessary.
- Train staff if necessary, both about the objectives and procedures of the program, and in specific skill areas in order to reduce or eliminate the need for subsequent external technical assistance (for example, training on different approaches to land use controls, and methods of updating the land market assessment).
- Formally delegate authority to the team to conduct the program of land disposal.

**Step 5: *Institute Legal or Regulatory Changes.*** Depending on the results of legal and regulatory changes at all levels of government it may be necessary to adopt new regulations to enable the implementation of the program.

Some local regulatory changes should also be sought, for example, to change the prohibition against releasing information about sitting tenants prior to the sale of the land parcel (the City apparently cannot provide bidders or buyers with information about the number of occupants who will be required to be relocated).

#### **Step 6: *Conduct Land Disposal Program***

**Step 7: *Evaluate Results.*** Conceptually, this means beginning again at Step 1. In practice, however, it may be necessary to review and modify the program during its execution, according to whether or not the reality of the market was well anticipated by the land market assessment and strategy, as well as adjust for continuing legal reforms and other reforms that may affect the demand for land, the affordability of housing, etc.

### **6.3 Principles to Guide Future Land Disposal**

Regardless of how the program is expanded, the City should follow some general principles in order to achieve its objectives:

- Dispose of enough land to meet or slightly exceed real market demand.
- Attempt to recover the “development gain” resulting from public investment in infrastructure and other land development activities.

- Increase the transparency of the processes of disposal, land use approval, infrastructure and other approvals in order to reduce risks for developers.
- Simplify and streamline procedures surrounding land disposal and transfers to reduce costs for all parties.
- Be flexible in packaging the sites for sale. For example, if it appears difficult for a developer to evict sitting occupants and users, the City should finance this activity in advance, but add the expense to the reserve price for the parcel.
- Apply procedures, taxes and other sources of costs equitably between developers.
- Be prepared to incur minor expenditures in advance of the sale if it serves to attract more bidders or to improve the value of the parcel(s), especially if the costs can be added to the reserve price. For example, advertising costs and the cost of soil surveys, boundary surveys and the like.

#### **6.4 Urgent Policy Issues**

There are numerous land policy issues that will have a significant impact on the success of the land disposal program, and generally on land management activities. Some of these issues, which should be resolved at the earliest possible opportunity, are identified below. The list of issues is intended mainly to highlight their connection with the land disposal program, but it is assumed that they will be addressed in the formulation of a land policy for the City (a parallel activity that is expected to start shortly).

*Free Allocation of Land Distorts the Market.* The City is still disposing of land through the established, traditional process of land allocation free of charge. From the perspective of the market, this would be viewed as a subsidy to the developer. It must be recognized that this approach probably undermines the revenues received through land sales. It is important to begin charging a market price for land to all “customers” and developers, yet this implies other important changes to the public housing program. If the City stops giving land away free of charge, who stands to lose and who will gain?

*Vacant Allocated Lands Should Enter the Market.* Many large parcels allocated in the past to enterprises, firms and other developers remain undeveloped for various reasons. It may serve the interests of the City to stimulate development of these lands (where suitable) if they are already served by infrastructure and thus may be put to productive use more quickly. The City should consider removing restrictions to subdivision and sale of these lands by the allottees (although many aspects of the question require careful, detailed analysis). There may even be scope for the City to generate revenues in partnership with the prior allottees. For example, the City could lease the land to the allottee at market rents, but allow the allottee to sell the parcel and retain the sales price (which compensates the City while the land is vacant and stimulates the allottee to sell it). Alternately, the City might assist the allottee to subdivide and sell parcels through the land disposal program (perhaps for a fee or a percentage of the sales price). Allowing prior allottees to sell their excess lands may help them generate revenues to complete the development of incomplete housing units.

***Subdivision Regulations and Standards are Urgently Required.*** Positive action on the prior issue would reinforce the urgent need to adopt subdivision procedures, regulations and standards.

***Coordination of Land Management with the Oblast is Needed.*** It has been rumored recently that the Oblast will soon dispose of huge tracts of land as "garden plots" which might lead to explosive low density residential development at the urban fringe. The same result may occur as a result of the privatization of state farms, though details of their sale and subdivision are not known yet. This new residential construction activity would presumably reduce the current housing "shortage,"<sup>5</sup> but may also undermine the land disposal program (and raise other problems such as public health hazards and demand for massive public investment in low-density infrastructure networks).

***Bidders Need Information about Sitting Tenants.*** The regulation against releasing information about the tenants occupying a site prior to the allocation (or sale of development rights) must be lifted or circumvented in order to provide full information about the buyers' obligations at the time of bidding.

## **7 Recommendations**

Note that Sections 4, 5 and 6 above contain numerous recommendations, mostly of a specific nature. Such recommendations are not repeated in this section.

### **7.1 Expand the Land Disposal Program**

Based on the success of the demonstration project, and in response to continued economic and legal reforms, the City of Ekaterinburg should expand the land disposal program to stimulate private sector housing development according to market demand.

Preparatory activities, including a land market assessment, should be undertaken in the first quarter of 1994. Implementation of the resulting program of land disposal should begin thereafter.

### **7.2 Expand and Strengthen the Staff Assigned to the Program**

Staff assigned to the original demonstration project have proven their ability to conduct the work and have gained valuable experience in the process.

This team should be retained to assist in formulating, supervising and conducting the expanded land disposal program. Some additional staff resources will probably be required. Furthermore, the manager of the program should be able to devote a significant amount of

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<sup>5</sup>It is difficult to know whether the magnitude of the shortage is due to: (i) inefficient allocation and distribution of housing; for example, pensioners often occupy large flats which they would exchange for smaller units if there was greater mobility in the housing stock; and (ii) little analytical information describing the waiting lists for public housing.

time to ensure its further success. In addition, the existing team should receive training in several skill areas including land market assessment methods, and land use controls and subdivision techniques. Team members should also take an active role in preparing the proposed "land policy" in order to fully understand the legal issues and to achieve a high degree of correspondence between the goals of the policy and the land disposal strategy.

The team should be formally authorized to execute the land disposal strategy or program once it has been approved by the Mayor, and subject to adequate monitoring and continued progress toward the stated objectives. As many of the routine decisions as possible should be delegated to the manager of the program in order to reduce the burden on the Mayor of signing off at every stage of the process for each site.

Staff of the District Administrations (presumably the District Chief Architects and their staff) should be increasingly involved in the process. For example, the DAs can identify suitable parcels in order to reduce the burden on the Chief Architect's Office.

External technical assistance should be sought to strengthen the team in critical areas such as land market assessment, formulation of the land disposal strategy, and for the training activities mentioned above.

### **7.3 Adopt a Municipal Land Policy to Guide Land Management and Relations**

During 1993, the City (including the Administration and Soviet) adopted several important regulations concerning land management. Other relevant regulations were drafted but have not yet been adopted. It has become apparent that land management and land regulatory activities are rather unfocused, and no coherent land policy has yet been formulated in response to current political, social and economic changes. There should be close coordination between the land disposal program and development of the municipal land policy statement.<sup>6</sup>

### **7.4 Improve Land Information and Management of Land Information**

Many of the activities discussed or mentioned in this report require access to accurate, reliable and timely information on the status of land: primarily land use, ownership and development rights. Information of this sort will be required when formulating the land disposal strategy, and for many other land management activities. The City should immediately begin to update and analyze information on its land assets. For example, to effectively select sites to sell it would be preferable to have a census of vacant sites, in order to be able to ascertain the status of their ownership and use rights, and the availability of services.

Over the medium term the City should upgrade its ability to manage and analyze information about its land assets.

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<sup>6</sup>Refer to two draft discussion papers prepared by the PADCO Resident Advisor: "Land Policy for Ekaterinburg" and "Structure and Process for Ekaterinburg Land Policy" for additional information.

## **7.5 Improve the Housing Developers' Training Seminar**

Prior to offering the seminar again, some improvements can be made to its structure and presented materials:

- More time should be devoted to teaching specific methods of assessing the housing market and in presenting the resulting information in the bid proposal;
- It may be useful to strengthen the material on construction financing, particularly if local banks are interested in making construction loans (local bankers might agree to discuss their lending practices with seminar participants);
- The illustrative material developed for the first seminar could be somewhat condensed; additional descriptive text and a glossary could be added; a single consistent illustrative example, based on local construction costs, market prices, etc., should be developed if possible.

## **APPENDIX A**

### **City of Ekaterinburg REQUEST FOR PROPOSALS Sale of Development Rights for Residential Construction**

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#### **INVITATION TO BID**

The Ekaterinburg City Administration invites individuals and entities to bid for the purchase of the development rights for two parcels of land bounded by Volgogradskaya, Amundsena, Raskovoi and Pechatnikov streets. The purchaser will obtain perpetual use rights, which may be convertible to ownership depending on future legislation and regulations.

Acknowledging the growing role of private builders and developers in Ekaterinburg and recognizing the positive effect of new capital investment in the housing sector, the City wishes to promote residential construction in the private sector. To facilitate access to land for housing construction the City will allocate two land parcels to one or two developers selected through open competition. Bidders will compete on price and technical merits: the winner(s) will be the qualified (technically acceptable) bid(s) that offer the highest price. After the Competition and upon payment of the purchase price, the land parcels will be allocated to the winner(s) by a Resolution of the Mayor.

The City expects bidders to identify customers for the housing, to obtain construction financing for the project, and to construct housing on the site in a timely manner.

All bids must respond to the requirements contained in this Request for Proposals (the "RFP"), a copy of which may be obtained free of charge by any interested party from the Chief Architect's Office. Bidders should familiarize themselves fully with the contents of the RFP and the format of the bid proposals before preparing their bids.

A Bidders' Conference will be held on November 1 at 14:00 in the 6th floor Rotunda, City Building, to brief prospective bidders about the RFP, its contents, the format of bids, and bidding and evaluation procedures. All interested parties are encouraged to attend.

All bids must be submitted in sealed envelopes by 17:00 on November 26. Any proposal received after that deadline will be returned unopened to the submitting entity.

The City Administration reserves the right to reject any and all bids, and may choose not to sell below the reserve price.

For additional information contact Mr. V. V. Burdakin, Chief Architect's Office,  
Ekaterinburg (tel. 51-26-27).

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V.V. Popov, Vice Mayor  
(date)  
Chairman, Selection Committee

## **1 General Conditions**

This RFP identifies the general principles of organizing and conducting a concourse for the purchase of development rights for two parcels designated for residential development within the boundaries of Ekaterinburg. It explains conditions of participation of the bidders, selection procedure and proposal evaluation. The entire documentation describing the offering and procedures includes:

- this RFP
- a draft Resolution of Allotment
- APZs for the two sites
- a set of forms to be completed by bidders

The concourse is authorized by Mayoral Resolution No. 565 of October 27, 1993, "On the organization of a concourse for the right to build. . . ."

## **2 The Offering: Description of the Bid Package**

### **2.1 Development Rights to be Allocated**

In consideration for the price of the land, the City will allocate the development rights as specified in the attached (draft) Resolution of Allocation.

### **2.2 Development Approvals**

Development approvals already obtained and recorded in the APZ will be registered in the name of the Developer(s) after the Resolution of Allocation has been signed.

Subsequent to the Resolution of Allocation, and prior to the start of construction, the developer(s) will be responsible for preparing full working drawings for submission to the Chief Architect's Office, in order to receive:

- the approval of the Chief Architect's Office, given by the Certificate to Use the Parcel, according to standard procedures and regulations;
- confirmation of development approvals (refer to APZ) by the relevant authorities;
- permission to start construction, given by the Letter of Permission issued by State Building Inspector.

The form of housing pre-approved for the sites is described in the sketch project materials and APZ which form an integral part of this RFP. The specific architectural designs to be built on the parcels may be determined by the developer(s), but must conform substantially to the project (i.e. land use, density, building heights) defined by the APZ.

If the actual project design conforms substantially to the parameters of the sketch project identified in the APZ, these approvals and permits will be granted as by right. If the project

design deviates significantly from the sketch project identified in the APZ, the Chief Architect's Office may be required to obtain a new APZ.

### **2.3 The Sites**

Two adjoining sites bounded by Volgogradskaya, Amundsena, Raskovoi and Pechatnikov streets are offered. The red line (boundaries) of the sites are identified in the site plan included in the APZ. They are flat sites, approximately 0.5 hectares each, and with essential infrastructure located in the adjacent streets. These attractive sites are well located in the popular Southwest district, with excellent access to public transport and other amenities. The sites can easily be developed without the need for extensive site preparatory work.

Bidders are encouraged to inspect the sites at their convenience.

### **2.4 Removal of Temporary Garages**

The developer(s) will be responsible for removing temporary garages located on the sites to one or more new sites identified by the District Administration. The City Administration agrees to evict the occupants and/or owners of all temporary garages not later than the date of issuance of the Letter of Permission to start construction.

### **2.5 Relocation of Existing Residents**

The developer(s) will be responsible for relocating at its own expense those families that legally occupy obsolete housing on the site bounded by Pechatnikov Street, in conformance with existing regulations. Characteristics of the affected households are included in the APZ. Following relocation of the legal occupants the developer will demolish and remove the obsolete housing.

The City Administration agrees to evict the occupants not later than the issuance of the Letter of Permission to start construction, and to offer them temporary housing if necessary in accordance with the existing standards and regulations.

### **2.6 Payment of Infrastructure Capital Investment Tax**

The developer(s) is responsible for paying the Infrastructure Capital Investment Tax according to Regulation No. 405 of the City Administration, subject to negotiation of specific items, such as credit for the expense of demolishing obsolete housing. The Infrastructure Capital Investment Tax should not be included in the bid price.

### **2.7 Start Price**

The Start Price for the offering is set at 47 million rubles according to decision/resolution of Ekaterinburg Tender Center of the City Property Fund. The procedures for defining the

Start Price are defined by RF Resolution 112 of February 25, 1992. The start price of each parcel is proportionate to its area (see the APZ).

### **3 Bid Procedures**

#### **3.1 Who May Bid?**

Bidding is open to any Russian citizen or legal entity. Bidders may submit no more than one bid proposal in each of the following categories:

- one bid proposal for the site with frontage on Amundsen Street;
- one bid proposal for the site with frontage on Pechatnikov Street;
- one combined bid proposal for the two sites (treated as a single inseparable site)

If the bidder submits more than one bid proposal per each of the above categories the Selection Committee may, at its discretion, reject any or all of the subject bids.

Prospective bidders who collect the RFP are encouraged to register with the City Administration either at the Bidders Conference or at the office indicated in Section 3.3 below in order that they may be assured of receiving any additional information concerning the RFP and bidding procedures that may be issued subsequent to the Bidders Conference. The terms of this RFP are subject to change and the City Administration will bear no responsibility for any mistakes or omissions that may occur if the bidder declines to register.

#### **3.2 Bid Format**

Bidders must follow the format specified in Section 4 below. Non-responsive bids will be disqualified.

Bids must be submitted in one or more sealed envelopes. No materials will be received or considered that are not submitted in the sealed envelopes. Once the bid has been submitted no additional materials may be added to the bid by the bidder.

The bid may be withdrawn only prior to the close of bidding and only by presentation of the receipt in person at the place of submission. In case the bid is withdrawn following this procedure the full amount of the Security Deposit will be refunded to the bidder.

#### **3.3 Where to Submit Bids**

Bids will be received and registered during regular business hours only, by Mr. V. V. Burdakin, Chief Architect's Office, City Administration, Lenina Street 24, 2nd Floor (tel. 51-26-27). No other person is authorized to receive bids. Each bidder will receive a receipt for the materials submitted, and should verify that the name of bidder, number of envelopes and date and time are correctly indicated on the receipt.

### **3.4 Bid Opening**

Bids will be opened on November 26 at 17:00 in the 6th floor Rotunda, City Administration Building, by the Bid Evaluation Committee. Bidders may attend the Bid Opening if desired in order to verify that their bid is received and registered intact. A list of bidders and bid prices will be made at the Bid Opening, which may be examined by bidders.

### **3.5 Bidding Procedure**

The winning bid(s) will be selected by the following process:

- (1) the bids will be evaluated and ranked;
- (2) within two weeks of the bid opening the winning bidder(s) will be notified and assigned exclusive rights to negotiate the terms of allocation during two weeks from the date of notification;
- (3) the winning bidder(s) and City Administration will negotiate the allocation; and
- (4) if negotiations are successful then the Resolution of Allocation will be signed, otherwise the negotiation rights will be assigned to the bidder ranked next in order of preference.

### **3.6 Validity**

Bidders are required to keep their bids open for a period of not less than 45 days from the Bid Opening date.

### **3.7 Security Deposit**

Each bid proposal must be accompanied by evidence that the bidder has paid the Security Deposit into the bank account of the Ekaterinburg Tender Center. Bids submitted without proper evidence of Security Deposit will be rejected.

Bidders offering a price lower than the start price are not repaid the security deposit.

The Security Deposit will be refunded to the unsuccessful bidders within 45 days after close of bidding.

For the winner(s) of the competition the Security Deposit is deducted from the price.

## **4 Form of Submission**

No bid will be considered complete which does not respond to the following minimum requirements and to the procedures specified in this RFP. Incomplete bids will be rejected. Additional materials not specifically identified below may be submitted as part of the bid proposal at the discretion of the bidders. Bidders should clearly identify the 3 main parts of their bid proposals:

- Letter of Submission
- Technical Proposal
- Financial Proposal

#### **4.1 Letter of Submission**

Each bid proposal must be accompanied by a “Letter of Submission” which must:

- identify the bidder (legal name of individual or entity);
- identify the bid proposal (by title or reference number clearly indicated on bid proposal documents);
- indicate what is being bid for, i.e.: “Bid for Parcel on Amundsen Street” or “Bid for Parcel on Pechatnikov Street” or “Single Bid for two Parcels”;
- specifically warrant the validity of the bid proposal (see Section 3.6 above);
- be signed by bidder: private person or officer of the legal entity (as appropriate).

#### **4.2 Technical Proposal**

##### **4.2.1 Information Forms**

Each bid proposal must include a completed set of Bidder Information Forms provided with the RFP. Bidders may also submit additional information at their discretion to supplement the forms, such as brochures, promotional materials, letters of reference and/or testimonials from prior clients, etc.

##### **4.2.2 Project Design Materials**

Each bid proposal must contain sketch project materials including:

- site plan showing proposed layout of buildings, roads and other structures to be built on the site(s);
- floor plans showing internal layout of all buildings;
- typical elevations

The bidder may submit the existing sketch project materials if proposing to build according to the sketch project identified in the APZ.

#### **4.3 Financial Proposal**

The Financial Proposal including bid price must be submitted in a sealed envelope separate from the technical proposal, and clearly marked “Financial Proposal.”

State in November 1993 Rubles the entire amount bid (purchase price) for the bid package (as identified above). The price offered should not include any payment for Infrastructure Capital Investment Tax.

#### **4.4 Form of Payment**

State how you prefer to pay the bid to the City Administration (e.g. in cash, in kind, combination, etc.).

#### **4.5 Financing Plan**

Briefly explain how you will finance the purchase of the site(s), including source or sources of funds, lenders and sources of credit (rate of interest, type of security, etc.).

Explain how you propose to finance the construction costs, including sources of funds, lenders and sources of credit (rate of interest, type of security, etc.), pre-sales of housing units, and tax credits.

How is your construction financing plan designed to adjust for inflation, and how have you forecast inflation over the life of the project?

#### **4.6 Number of Copies**

A single Letter of Submission should be submitted for each unique bid. Technical and Financial Proposals should be submitted in 3 copies per unique bid.

### **5 Selection Process and Criteria**

The selection and contracting process will be carried out in an open and fair fashion. Proposals will be evaluated and the allocation decided on an equal and fair basis, without regard to the bidder's race, sex, religion or ethnic background.

#### **5.1 Selection Committee**

A Selection Committee authorized to represent the City has been formed and notified by Resolution of the Mayor. The duties of the Selection Committee are to:

- record the bids and bidders at the bid opening;
- evaluate the bid proposals within two weeks of the bid opening, following the criteria identified in Section 5.3 below;
- based on the evaluation, rank the bids on technical merit, briefly indicating their relative merits and demerits;
- issue a letter assigning negotiating rights to the technically acceptable bidder offering the highest bid price;
- negotiate the terms of allocation with selected bidder(s);

- co-opt additional nonvoting members to the Selection Committee if needed.

## **5.2 Selection Process**

Prior to reviewing the bid proposals, the Selection Committee shall meet to discuss and agree upon a system of ranking the bids according to the Selection Criteria identified below.

The Selection Committee will review all complete bids according to the Selection Criteria. The Committee may also disqualify bids deemed to be technically unacceptable, subject to the condition that such a ruling must be uniformly applied in a nondiscriminatory fashion. Disqualification must be supported by written explanation. The Committee will assign exclusive negotiating rights by letter signed by the Chairman of the Committee. These rights shall lapse after a period of two weeks or sooner on issuance of the Resolution, or at the request of the bidder. If the terms of allocation are not successfully concluded within the two week period the Committee shall repeat the procedure with the second place bidder.

## **5.3 Selection Criteria**

The City Administration has adopted the criteria identified below as the basis for evaluating bids and selecting a developer with whom to negotiate the terms of allocation. The bid proposal which, in the sole judgment of the Selection Committee, best satisfies these criteria will be selected.

### **5.3.1 Responsiveness**

Proposals should be responsive to the objectives and requirements of this RFP.

### **5.3.2 Experience and Qualifications**

The Committee will look for the following in the bid proposals:

- evidence that the developer can manage the construction project, build and sell the housing units;
- evidence that the developer has prior experience executing similar projects;
- evidence that the developer has sufficient knowledge and experience to complete the approval process and receive the Certificate of Permission to Build;
- evidence that the bidder has, or is formally associated with others who have, the professional and technical capabilities to complete the project, including its marketing and financial management.

### **5.3.3 Consistency with Approved Design**

The Committee will look for the following in the bid proposals:

- evidence that the architectural plans of the proposed project reflect the spirit of the Sketch Project and APZ including building heights, site coverage, number and characteristics of units, etc.;
- evidence that any deviations from the approved sketch design serve to improve the quality, feasibility and marketability of the project.

#### **5.3.4 Marketability**

The Committee expects that bid proposals will demonstrate the bidder's ability to sell the housing units, as evidenced by:

- letters of interest or proposals to purchase housing units from individuals, enterprises or firms, or any other prospective purchasers;
- other evidence, such as a housing market survey, that demonstrates the developers ability to profitably sell the units.

#### **5.3.5 Construction Schedule**

The Committee will look for the following in the bid proposals:

- evidence that the duration and sequence of construction activities are realistic.

#### **5.3.6 Financing**

The Committee will look for the following in the bid proposals:

- identification of sources of construction finance in amounts necessary to undertake and complete the project;
- a realistic treatment of inflation in cost and financing estimates;
- correspondence between the construction schedule, cash flow projection, and availability of financing.

## APPENDIX B

### ARCHITECTURAL-PLANNING TASK ORDER To Design and Build High-Density Residential Townhouses

---

*Address of the site:*

Volgogradskaya, Amundsena, M.Raskovoi, Pechatnikov streets  
Leninski District of Ekaterinburg.

*Customer:* \_\_\_\_\_

On the basis of the Resolution of the Mayor of Ekaterinburg dated \_\_\_\_/\_\_\_\_/\_\_\_\_, No. \_\_\_\_\_, the land parcel with the area of 1.1 hectares is allocated into perpetual use. This site is to be evicted from the association "Contract", because it has not started to develop the above site during two years; the rest is to be allocated from the city stock (reserved) lands along Volgogradskaya-Amundsena-Raskovoy-Pechatnickov streets. The purposeful use is to develop the residential townhouses of high density construction according to the individual design.

#### **Urban Design and Architectural Planning**

Further design should be done on the basis of the conceptual sketch design, which was the winner of the design competition for the development of the particular site.

It is recommended to use the conceptual design of the project, which was developed by the winner of the competition, the Urals Architectural Institute (*UralArchi*: see Attachment to APZ), the main technical-economical parameters.

While implementing the project it is necessary to consider the noise factor and to protect the site and the buildings from the noise effects along Volgogradskaya and Amundsena streets. It is also necessary to focus attention on providing the appropriate separation of courtyards.

The required and most efficient structure of the designed housing is the mid-rise townhouses with the high level of the exterior design and interior layout of the apartments with built-in or adjacent garages.

It is required to pay attention to the organization of the traffic and landscaping of the site.

In the process of developing the detailed design and working drawings it is allowed to refine the following elements of the project:

- maximum number of floors (not more than three or four floors recommended);
- construction materials and elements (new technologies highly desirable).

It is recommended to stipulate the possibility of two-story housing construction on the site.

Both sites, No.1 and No.2 (see the map: plan, lot-lines scheme included to APZ) should be designed and developed in conformity with each other.

**Technical-economical parameters according to the Master Plan:**

		1 phase	total
1	Area of the site (hectares)	0.6	1.00
2	Number of occupants including owners (persons)	192	280
3	Housing stock (total area)		9,383.4
4	Density of the housing stock		9,383.4
5	Number of housing units	34	54
	4 room apartments	13	22
	5 room apartment	13	18
	6 room apartment	8	14
6	Area of the housing		4,624.6
7	Area of the garages and road accesses		
8	Number of floors in average		4

**Technical-economical parameters of different types of housing:**

		A1	B1	C1	D
1	Area of the housing, m <sup>2</sup>	132.6	123.8	191	227.5
2	Construction volume, m <sup>3</sup>	810	1,097	1,699	
3	Number of housing units (apartment/rooms)	1/5	2/4	2/5+6	
4	Total area, sq.m	261.3	188.7	346	
	(without garage)		225	352.4	
5	Net area, sq.m.	112.7	78.5	99.1	
			65.8	99.2	
6	Area of the garage, sq.m	23.5	45	35	

B-3

7	Number of buildings (townhouses)	A1-5	B1-3		D1-3
		A2-7	B2-3	4	D2-1
		A3-2	B3-1		D3-1
8	Estimated construction cost (1984 prices)	91.5	99.2	148	
	Cost of 1 sq.m of gross area	0.350	0.280	0.270	
Type D was not designed.					
Type A2, A3 - see Table TEP of the sheet					
Type B2, B3 - areas not changed; flexible setting up.					

Demolishing the existing houses on the site and relocating the occupants should be done in accordance with the Attachment, on the basis of the Resolution of the Mayor, item 2.3.2.

To design the landscaping, lighting and trees and shrubs works on the site according to the enabling Regulations.

**Vertical Layout**

- The existing landscaping marks should be used as the basis for designing the vertical layout.
- Information concerning the engineering and geological survey can be obtained in the Chief Architect's Office, if necessary.

**Infrastructure**

- **Water:**
  - To design the connection with the existing water pipeline D-300 along Volgogradskaya street.
  - Point of connection and access to the site should be established by the design (1.1).
- **Sewer:**
  - To design the connection with the existing sewer pipes D-200 along Amundsena street.
  - Point of connection, access to the site and the crossing of Volgogradskaya street should be established by the design documentation (1.1).
- **Gas:**
  - To design the connection with the existing gas line n/d along Amundsena street.
  - Point of connection, access to the site and the crossing of Volgogradskaya street should be established by the design (1.1.2).

- To design the gas pipes to be electro-chemical corrosion resistant.
- To provide sealed connections of infrastructure pipes in buildings and other facilities, located within 15 meters of gas pipes.
- **Telephone:**
  - To design the connection with the existing telephone station on Amundsena street.
  - To design a 4-input telephone line (telephone conduit) from the existing one along Amundsena street.
  - Access should be established by the design documentation.

Before preparing the design it is required:

- to obtain the permit to carry out an engineering survey and air photo of the site in the appropriate department of Chief Architect's Office
- to carry out a geological survey of the soils on the site and get topography data on the location of infrastructure pipelines.
- the above materials should be submitted to the appropriate department of the Chief Architect's Office.

According to the Resolution of the City Soviet dated December 11, 1991, No. 738, it is required to carry out geological and environmental surveys of the soils on the site. Required information can be received in City Center of Sanitary Environmental Control (tel. 55-26-55).

The proposed infrastructure for the project should be approved at PO BG and the Department of Infrastructure, Transport and Landscaping of the Chief Architect's Office.

To maintain the geological marks, the proposed infrastructure and facilities should be confirmed in the Geological Department of the Chief Architect's Office.

The mains and infrastructure accesses within the boundaries of the block (neighborhood) should be approved by the land users.

To stipulate the rehabilitation of the geological marks and landscaping, as well as transfer trees and shrubs damaged because of the site works.

***Requirements for the project and approval procedures***

The complete project design with the design of infrastructure should be submitted for approval to the Chief Architect's Office according to the standard procedures.

Construction on the site can be started only after submission of the complete documentation and obtaining a construction permit in the State Building Inspector Office, and getting the documentation to land allocation in the Chief Architect's Office.

B-5

After the completion of construction, as-built drawings of the site should be submitted to the Geological Department of the Chief Architect's Office.

The APZ is valid for 5 years, after which time it should be extended by the Chief Architect's Office.

- Attachments:**
1. Map with draft lot lines and infrastructure accesses.
  2. Situation plan to design the infrastructure.
  3. Profile of Volgogradskaya street and Amundsena street.
  4. Site plan for housing blocks as proposed in sketch project.

District Chief Architect

Orlova (signed)

Executed by:

Chusainova (signed)

## APPENDIX C

### DRAFT RESOLUTION of the Mayor of Ekaterinburg on the Allocation of Land Parcels for Residential Construction

---

On the basis of the documents submitted by the Chief Architect's Office,

#### **I RESOLVE:**

1. To allocate perpetual use rights for the land parcel with an area of 1.1 hectares. To foreclose with this purpose the above land parcel from the "Contract" cooperative association, because it has not started development of the site during the two year period. The rest of the area should be allocated from the reserved land stock. The land parcel is located along Volgogradskaya, Amundsena, M. Raskovoi and Pechatnikov Streets.

The land parcel is to be allocated for an individual high-density townhouse construction design project.

2. To implement the above project the existing housing and other facilities on the site are to be demolished according to the list attached.
3. To appoint (the developer):
  - 3.1 to obtain the APZ in the Chief Architect's Office, to work out the project documentation according to it and to submit it for approval to the Chief Architect's Office.
  - 3.2 before starting the construction process to relocate the occupants of the existing housing stock according to the attached list. After relocation these houses have to be demolished.
  - 3.3 to remove the temporary garages from the site allocated in the agreement with the district administration.
  - 3.4 reach an agreement with the occupants of the site and to have it approved by Resolution of the Mayor.
4. To appoint the Chief Architect's Office to designate a site for the removed temporary garages.
5. To stipulate the transfer of funds equal to 33 percent of the estimated development cost for the development of infrastructure to the City administration.

6. To appoint the Chief Architect's Office and the Administration of the Leninski district to supervise the implementation of this Resolution.

Mayor of the City                      A.M. Chernetsky

Approved by: Vice Mayor              A.I. Strachov  
                    Deputy Mayor              V.V. Popov

## **APPENDIX D**

### **Bidder Information Forms**

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#### **BID PROPOSAL FORMS**

##### **IMPORTANT INFORMATION FOR BIDDERS**

1. The purpose of these forms is to simplify the preparation of bid proposals by bidders and the evaluation of bid proposals by the selection committee.
2. Every bid proposal must include a set of these forms (in three copies) filled in as accurately and completely as possible by the bidder.
3. Bidders are invited to attach supplemental documents to these forms if desired.



***BIDDER EXPERIENCE AND QUALIFICATION FORM***

**8** Legal name of Bidder:

**9** When did you register to do business? Where?

**10** What is your main business activity?

**11** Summarize your work experience as a builder and/or developer:

<b>12</b>	<p>In this section provide information on construction projects you managed or built during the last three years, and which best demonstrate your ability to successfully undertake the proposed housing project. Attach additional copies of this form if necessary. You may include other descriptive materials with the bid proposal if desired. If your organization was recently reorganized or privatized, but worked previously under a different name, the prior experience can be described in this section.</p>
<b>12.1</b>	<p>Name of project:</p>
	<p>Address of project:</p>
	<p>Type of Project (e.g., housing, school, factory etc.):</p>
	<p>Date Started:      Date of Acceptance:</p>
	<p>Customer:</p>
	<p>Your role in the project:</p>
	<p>Briefly describe the project (type of construction, size, etc.):</p>
<b>12.2</b>	<p>Name of project:</p>
	<p>Address of project:</p>
	<p>Type of Project (e.g., housing, school, factory etc.):</p>
	<p>Date Started:      Date of Acceptance:</p>
	<p>Customer:</p>
	<p>Your role in the project:</p>
	<p>Briefly describe the project (type of construction, size, etc.):</p>
<p><b>NOTE: You may attach additional copies of this form describing other projects.</b></p>	

D-5

13 Describe your firm in part 12.	1991	1992	1993	1994 (planned)
Number of professional employees:				
Number of non-professional employees:				
Total m <sup>2</sup> accepted (for 1994, amount of m <sup>2</sup> for which you have permission to build):				
Number of m <sup>2</sup> of new construction started (construction of foundations commenced):				
Number of residential m <sup>2</sup> accepted:				
Number of residential m <sup>2</sup> new construction started (construction of foundations commenced):				

<b>14</b> If you will hire a general contractor for the proposed construction project, please provide information concerning that firm in Section 13. Name of General Contractor:				
	1991	1992	1993	1994 (planned)
Number of professional employees:				
Number of non-professional employees:				
Total m <sup>2</sup> accepted (for 1994, amount of m <sup>2</sup> for which you have permission to build):				
Number of m <sup>2</sup> of new construction started (construction of foundations commenced):				
Number of residential m <sup>2</sup> accepted:				
Number of residential m <sup>2</sup> new construction started (construction of foundations commenced):				
<b>15</b> Describe other major subcontractor (optional). Name of firm:				
	1991	1992	1993	1994 (planned)
Number of professional employees:				
Number of non-professional employees:				
Total m <sup>2</sup> accepted (for 1994, amount of m <sup>2</sup> for which you have permission to build):				
Number of m <sup>2</sup> new construction started (construction of foundations commenced):				
Number of residential m <sup>2</sup> accepted:				
Number of residential m <sup>2</sup> new construction started (construction of foundations commenced):				

16 Describe other major subcontractor (optional). Name of firm:				
	1991	1992	1993	1994 (planned)
Number of professional employees:				
Number of non-professional employees:				
Total m <sup>2</sup> accepted (for 1994, amount of m <sup>2</sup> for which you have permission to build):				
Number of m <sup>2</sup> new construction started (construction of foundations commenced):				
Number of residential m <sup>2</sup> accepted:				
Number of residential m <sup>2</sup> for which new construction has been started (construction of foundations begun):				

17 **INFORMATION ABOUT PROPOSED PROJECT****ON ABOUT HOUSING UNITS**

<b>Type of Unit</b>	<b>No. of Rooms in This Type of Unit</b>	<b>No. of Units of This Type in Project</b>	<b>No. of Garages Included With This Type of Unit</b>	<b>Gross Area of 1 Unit Excluding Garages (m<sup>2</sup>)</b>	<b>Living Area of 1 Unit (m<sup>2</sup>)</b>	<b>Estimated Total Construction Cost of 1 Unit Including Garages</b>	<b>Estimated Market Price of 1 Unit</b>
<i>(example)</i>							
<b>Total for All Units</b>							

<b>18</b>	
<b><i>PROJECT DESCRIPTION FORM</i></b>	
Number of buildings to be constructed	
Number of housing units to be constructed	
Gross finished area of all housing units	m <sup>2</sup>
Gross area of common areas such as entryways, corridors, staircases, utility or service rooms, etc.	m <sup>2</sup>
Gross finished area of entire project (sum of 8.2 + 8.3)	m <sup>2</sup>
Type of foundations	
Construction material/type, exterior walls	
Construction material/type, other load bearing walls	
Construction material/type, partitions	
Construction material/type, roof	
Construction material/type, floors	
Construction material/type, common stairways	
Construction material/type, stairways inside units	
Type of heating system	
Other details of construction materials, building components, equipment, finish	

<b>19 COST ESTIMATES</b>		
Item	Cost	Percent
Site Work		
Foundation		
Walls		
Ceilings		
Roof		
Windows and doors		
Floors		
Stairways		
Interior finish		
Exterior finish		
Partitions		
Balconies and railings		
Other works		
Heating		
Ventilation		
Water		
Hot water		
Sewer		
Electrical		
Phone/Radio/TV		
Gas		
Other costs		
Architectural & engineering design & drawings		
Architectural & engineering supervision		
Construction supervision		
Other		
Other		
<b>TOTAL</b>		<b>100%</b>

<b>20 ESTIMATED DEVELOPMENT COSTS</b>
<b>Construction Costs</b>
Buildings
Sitework
Landscaping
Subtotal
<b>Architectural &amp; Engineering</b>
Architectural Design
Soils Testing
Environmental Testing
Other (describe):
Subtotal
<b>Fees and Permits</b>
Infrastructure Fee
Other (describe):
Subtotal
<b>Site Acquisition</b>
Payment to City
<b>Site Clearance</b>
Garage Relocation
Relocate Occupants of Housing
Obsolete Housing Demolition
Subtotal
<b>Professional Services</b>
Legal, Accounting, Etc.
<b>Financing Costs</b>
Fees & Charges
Interest
Other (describe):
Subtotal
<b>Marketing Costs</b>

Brokerage (if any)
Advertising
Other (describe):
Subtotal
<b>Developer Fee &amp; Overhead</b>
Construction Costs
Fee and Permits
Site Acquisition
Site Clearance
Professional Services
Financing Costs
Marketing Costs
Subtotal
<b>Total Development Costs</b>



22		Preliminary Financial Statement	
Assets		Liabilities	
Current		Current	
Deposits		Bank Loans Due	
Bank Deposits		Accounts Payable	
Accounts Receivable		Other...	
Short term Notes		Other...	
Stock/Bonds		Other...	
Other...		Other...	
Subtotal		Subtotal	
Long Term		Long Term	
Accounts Receivable		Mortgages	
Long term Notes		Leases	
Real Estate Held		Long term Debt	
Undeveloped Land		Other...	
Completed Buildings/Units		Other...	
Incomplete Buildings/Units		Other...	
Inventory		Other...	
Plant and Equipment		Subtotal	
Other...			
Other...		Total Liabilities	
Other...			
Subtotal		Net Worth	
Total Assets		Total Liabilities	

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## APPENDIX E

	Viz Stroi	Urals Monolith	DSK	N. Dom
<b>Estimated Payments to the City</b>				
<b>Upfront:</b>				
Land	50.0	156.0 <sup>1</sup>	101.0 <sup>1</sup>	80.0 <sup>1</sup>
25% Infra Fee	268.4 <sup>2</sup>	408.8 <sup>3</sup>	404.3 <sup>1</sup>	404.8 <sup>1</sup>
<b>Subtotal</b>	<b>318.4</b>	<b>564.8</b>	<b>505.3</b>	<b>484.8</b>
<b>Future Payments:</b>				
Land	400			
Infra Balance	805.2 <sup>2</sup>	1,226.4 <sup>3</sup>	1,219.9 <sup>1</sup>	1,214.4 <sup>1</sup>
<b>Subtotal</b>	<b>1,205.2</b>	<b>1,226.4</b>	<b>1,219.9</b>	<b>1,214.4</b>
<b>Total</b>	<b>1,523.6</b>	<b>1,791.2</b>	<b>1,725.2</b>	<b>1,699.2</b>
<b>Less Site Clearance<sup>4</sup></b>	<b>-451</b>	<b>-330</b>	<b>-207</b>	<b>-287</b>
<b>Total</b>	<b>1,072.6</b>	<b>1,461.2</b>	<b>1,518.2</b>	<b>1,412.2</b>

<sup>1</sup>Not confirmed.

<sup>2</sup>Based on verbal offer to pay 13 percent (not 33%).

<sup>3</sup>Based on proposal, before offset for site clearance.

<sup>4</sup>To offset actual cost, all should be based on similar figures, estimated average cost = 320 million rubles

Bidder: **Viz Stroi**  
Stated Bid Price: 450,000,000 rubles

Conditions:

- Payment to be staged over 30 to 36 months, indexed to inflation
- Infrastructure proposed to be 13%

Program:

- 54 Townhouse Units
- 9 Office Units
- 58 Garage Parking Spaces
- Community Facility

Payment Summary:

Land Purchase:	
Initial Payment:	50,000,000 rubles
Future Payments:	
1995-June	70,000,000 rubles
1996-June	180,000,000 rubles
1997-July	<u>150,000,000 rubles</u>
Total	450,000,000 rubles

Infrastructure Fee: 1,205,200,000 rubles (13 percent of estimated construction cost)  
less cost of site clearance and relocation

Comments:

Proposal Strengths:

- Innovative design
- Purported commitments for Phase I
- Consistent with RFP
- Experienced builder
- High future land price
- Have discussed project financing with financial institutions

Proposal Weaknesses:

- City at risk for future payments
- Potential parking problem due to offices
- Infrastructure fee substantially below 33 percent norm

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**Recommended Strategy:**

- Revise payment schedule as follows:
 

First Payment	On Signing	100,000,000 rubles
Second Payment	Start Phase I, Before 1.9.94	100,000,000 rubles
Third Payment	Start Phase II, Before 1.9.95	125,000,000 rubles
Fourth Payment	Start Phase III, Before 1.9.96	125,000,000 rubles
- Increase Infrastructure Fee to 20 percent, less cost of site clearance and relocation

**Bidder:** **Urals Monolith**  
**Stated Bid Price:** 156,000,000 rubles

**Conditions:**

- Payment in two stages:
  - 1st payment at signing
  - 2nd payment at designation of garage site and agreement to reserve units from public housing orders to be bought by developer for relocation of tenants, payment indexed to inflation

**Program:**

- Preliminary Design
- 44 Townhouse Units
- 44 Garage Spaces

**Payment Summary:**

**Land Purchase:**  
 Initial Payment: 50,000,000 rubles  
 Future Payments: 106,000,000\* rubles  
 (on designation of garage site and housing units for tenant relocation)

**Total (from bid):** 156,000,000\* rubles

**Infrastructure Fee:** 1,635,000,000 rubles  
 (33 percent of estimated construction cost) less cost of site clearance and relocation of tenants.

**Comments:**


---

\*Second payment increased by 50,000,000 based on increase in number of units from 44 to 55.

**Proposal Strengths:**

- Analysis well thought out
- Consistent with RFP
- Experienced builder
- Preliminary investor discussions
- Proposed full infrastructure fee

**Proposal Weaknesses:**

- Design not completed
- Fewer units than RFP (final negotiated land price of 200 million allows developer to build 55 units maximum)

**Recommended Strategy:**

- Have developer pay additional 3,550,000 rubles for each additional unit in final design, indexed to inflation

## APPENDIX F

### Outline of Housing Developers' Seminar

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#### Housing Seminar: An Introduction to Private Market Housing

Richard E. Bonz, CRE  
PADCO/USAID

Ekaterinburg  
November 2-5, 1993

#### Seminar Outline

- Part I Overview
- Part II Land
- Part III Understanding the Market
- Part IV Development Economics
- Part V Sample Problem on Pricing and Project Feasibility

#### Slide No. Topic or Heading

- Part I: **Overview of Housing Market**
  - 4 Participants in the Housing Market
  - 5 Typical Housing Users
  - 6 Typical Housing Types
  - 7 Ownership Rights
  - 8 Reasons for Home Ownership
  - 9 Example of Home Ownership
  - 10 Housing Finance
  - 11 Effects of Finance
  - 12 Types of Housing Ownership
  - 13 Housing Supply
  - 14 Typical Housing Producers
  - 15 Housing Market Regulators
  - 16 Other Market Participants
  - 17 Housing Production Sequence
  - 18 Developer Motivation
  - 19 Housing Market Components
  - 20 Buyer's View of Housing Market
  - 21 Developer's View of Housing Market

<b>Part II:</b>	<b>Land</b>
23	Land Development Process
24	Potential Development Sites
25	Important Site Attributes
26	Market Attractiveness
27	Physical Characteristics
28	Physical Infrastructure
29	Governmental Regulations
30	Land for Development
31	Land Registration
32	Estimation of Land Value
33	Market Based Land Value Estimate
34	Market Based Example
35	Economic Based Land Price
36	Residual Value Analysis
37	Project Summary (Financing Proposal)
38	Project Summary (Project Description)
39	Project Summary (Market)
40	Project Summary (Financial Analysis)
<b>Part III:</b>	<b>Housing Market Analysis</b>
43	Seller's Basis for Price
44	Buyer's Basis for Price
45	Effective Demand
46	Understanding Developer's Risk
47	Example of Developer's Risk/Returns
48	Over-estimate of Effective Demand
49	Under-estimate of Effective Demand
50	Role of Market Analysis
51	Market Questions
52	Defining the Market Area
53	Understanding the Market
54	Demographic Analysis
55	Demographic Data Sources
56	Population Trends
57	Household Trends
58	Household Size Trends
59	Household Age Distribution
60	Household Change by Age
61	Household Income Trends
62	Employment Trends
63	Detailed Sector Analysis
64	Future Projections
65	Housing Construction Trends

- 66 Competitive Housing
- 67 Survey Recent Housing Sales
- 68 Summary of Market Data (1)
- 69 Summary of Market Data (2)
- 70 Summary of Market Data (3)
- 71 Formulate Development Program
- 72 Example of Development Program

**Part IV: Development Economics**

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- 93 Typical Sizes of "Western Style" Apartments
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- 97 Quarterly Sales and Financial Analysis
- 98 Comparison of Rental vs. Sales
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- 100 Quarterly Sales and Financial Analysis (sample solution)
- 101 Comparison of Rental vs. Sales (sample solution)

## **APPENDIX G**

### **DRAFT**

### **Proposed Outline of Ekaterinburg Land Market Assessment Strategy, 1994**

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The purpose of this memorandum is to outline a process for identifying potential housing sites in Ekaterinburg to be privatized by RFPs and/or auctions during 1994. The focus is on the assessment of potential sites in terms of the number of parcels, site sizes, location, and other characteristics to identify attractive, marketable, and developable properties. The assessment must recognize the limits both of available market data and near-term effective demand. The assessment must also take into consideration the vehicle by which site control is vested, i.e., permanent use rights, long term lease, or outright fee simple land sale, because the transfer vehicle will effect the eventual type and timing of housing development.

#### **Market and Housing Preference Assessment**

The initial task would involve a market and housing preference assessment. Although data are available concerning market transactions, primarily resales, of apartment units, the underlying market data—demographic and economic—are limited. Without a better understanding of the basic elements of potential market demand, it is difficult to formulate a program which will successfully attract bidders and eventual housing users.

Initially, a pilot survey should be undertaken to assess basic market data: population and households by number, age, and income; employment; housing condition; etc. This assessment should be conducted using a survey technique and should cover a cross section of the market, including buyers of apartments, residents of privatized and non-privatized apartments, cottage buyers, etc. The results will provide an initial overview of the market. Subsequent, broader-based data collection may be warranted to provide a better gauge of the housing market. It is not essential, however, for an initial estimate of market demand and an initial understanding of housing preferences.

Based on initial estimates of market data, an analysis of effective demand should be undertaken with a view toward mechanisms which would expand effective demand. Such mechanisms might include mortgage financing, the introduction of partially finished starter homes, etc.

#### **Preliminary Housing Program**

The results of the market assessment and the analysis of effective demand will profile the likely number and types of housing units sought by the market. A key concept, to the extent possible, is to expand the private housing market beyond the current upper-income/high-wealth strata.

The target of the evaluation would be to provide a preliminary range of likely appropriate solutions by price and type of housing for a three- to five-year time frame. This information will provide a basis for estimating the appropriate locations, number, and sizes of parcels.

### **Site Selection**

The first step in the site selection process is to identify available land parcels served by public infrastructure. To the extent possible, an effort should be made to identify sites that would be appropriate for a variety of housing types, including cottages, starter single-family expansion houses, townhouses, and higher density housing. This task could be undertaken at the same time the housing market analysis was being conducted.

Next, each of the identified parcels should be evaluated in terms of market criteria such as location, access, availability of community and social services, etc. and by appropriateness for various types and densities of housing.

### **Disposal Strategy**

The appropriate means of disposition (RFP or auction), ownership/site control vehicle (convertible permanent use rights, long-term lease, or outright fee simple land sale), and the number of parcels, site sizes, and disposition timing will be determined based on the findings of the market assessment and the site selection analysis.