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**BUSINESS CLIMATE
REFORM**

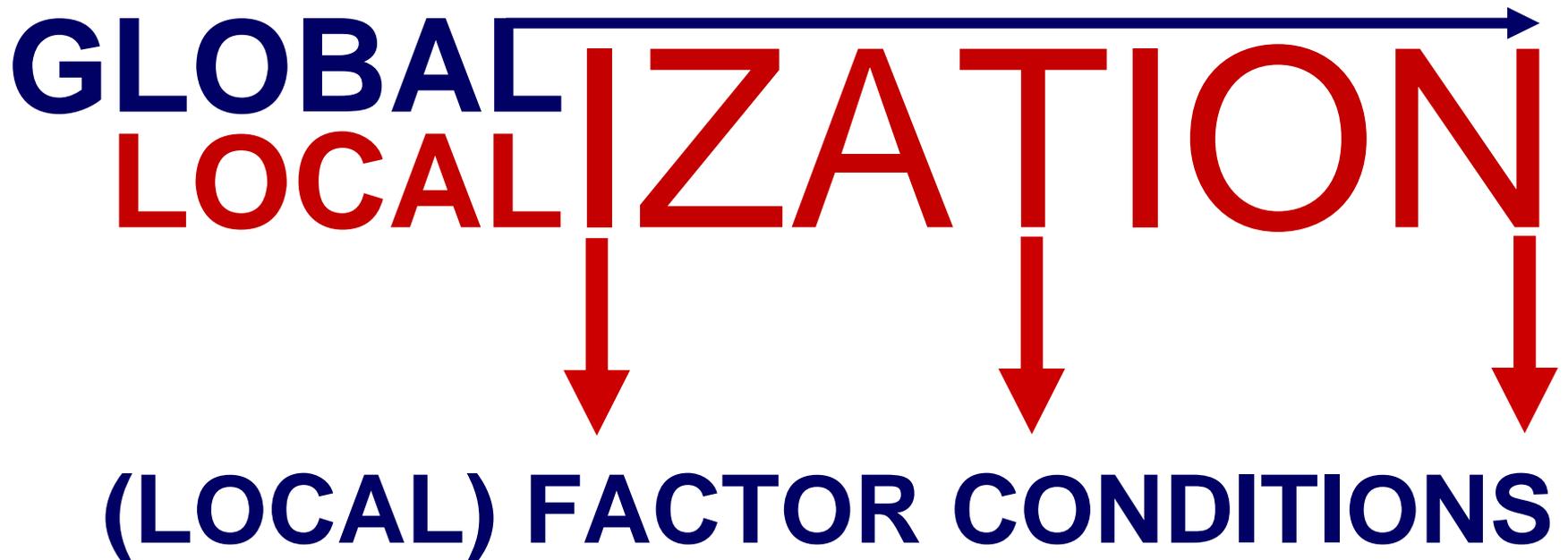
Role of Property in economic development

Product for FDI

Dusan Kulka, May 2007

1. Introduction

Economic development takes place in an increasingly competitive environment driven by processes that work simultaneously in the global economy



Factor conditions

 **Capital**

 **Land**

Location; Physical features; Price; Infrastructure; Availability; ...

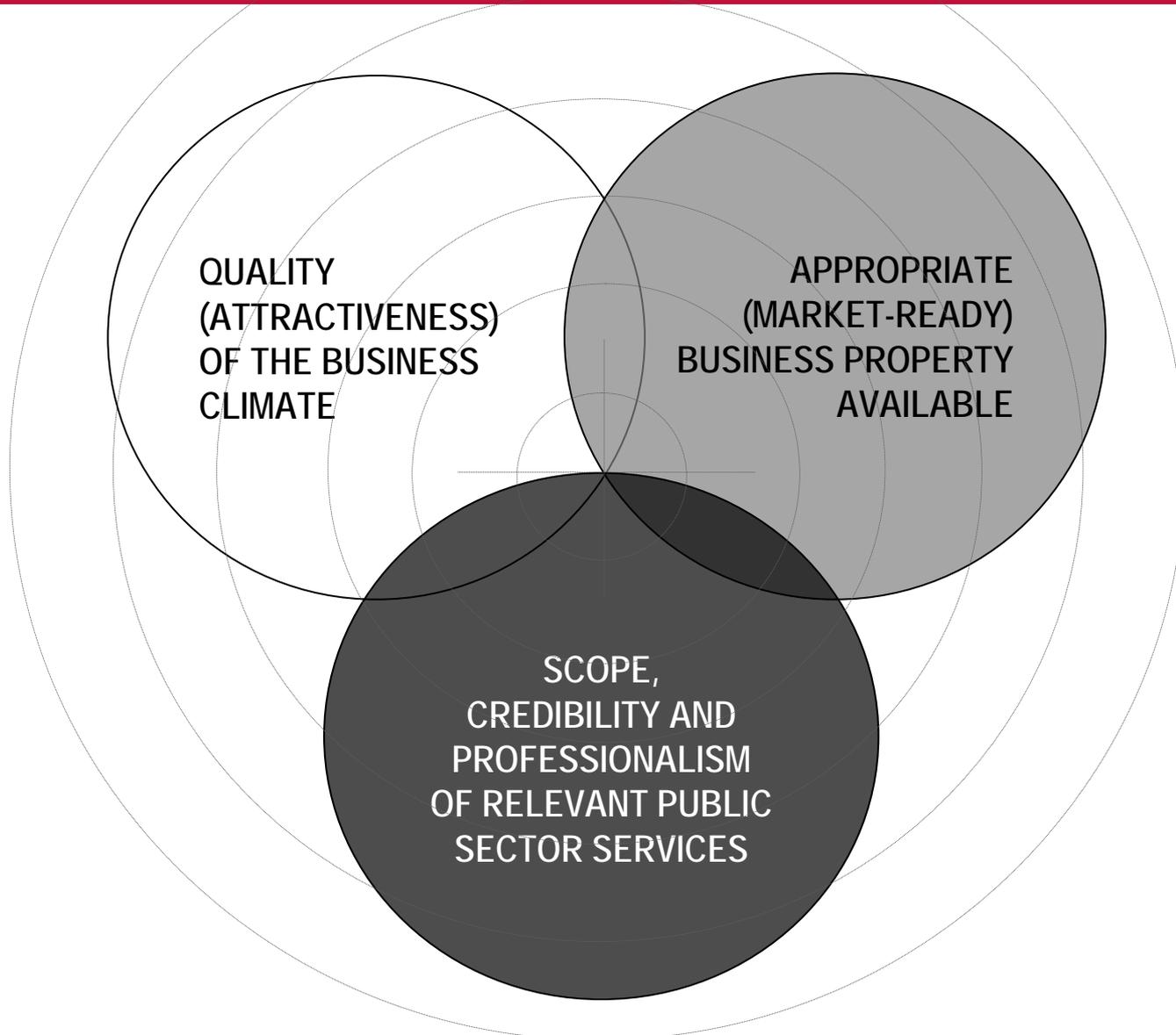
 **Labor**

Specialized skills; General skills; Attitudes; Cost; Availability; ...

 **Knowledge**

Innovations

Major Location Selection Factors



2. A couple of real estate concepts

Questions:

- How is property defined? What distinguishes property from other factor conditions?
- What determines the value of property for a business? What role does location play in the value of property?
- What makes up the property market? Who are the key players?
- What makes up a good supply mix of business property?
- What do we mean by market gap and market failure in property? What are their causes and impacts?

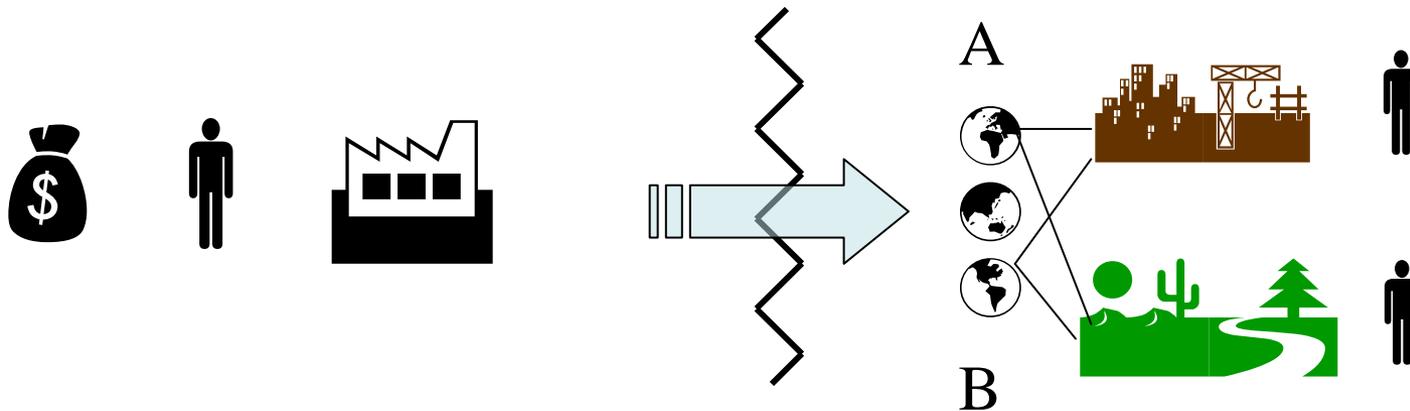
Real estate property market basics

- In economic development we define **property** as the real estate [land, buildings and other **immobile** assets located in a particular place] and the rights and obligations [ownership title, usage title] associated with the real estate.
- The **value of property** is determined by the **future** [financial] **benefit** it represents for its owner.
- The **price of property** is determined **by market** forces because property is subject to frequent market exchange transactions among owners.

“Best use” concept

- There are three ways to determine economic value of property:
 - **Sales price [SP]**. The highest price a buyer is willing to pay for the property. Represents immediate income to owner [SP=NPV].
 - **Future income**. The potential the buyer sees for the *best future economic use* of the property.
 - **Cost perspective**. It is the input-cost of the land plus **time adjusted cost** of all improvements that must be made to the land so that it can be offered and sold on the market in the most profitable way.
- The **best-use option** is defined as an alternative for which the **opportunity cost** is equal to zero, i.e. there is no other way to use the property that would represent higher **net present value** of the **future cash flows**.
- “**Best-use**” aligns the goals of urban planning and economic development because UP aspires to concert spatial organization of economic activities while ED drives to achieve highest long term value of economic activities.

Location, location, location



Does location matter? What makes up a property market? [*15 minute group exercise*]

- Team 1: The property in cases A and B is identical. Why is the price 200 times higher in downtown Dublin than in downtown Kutaisi? Come up with a set of reasons.
- Team 2: Who are the actors [direct and indirectly involved] in property markets?

Property market strategies

- **Demand:** stimulate interest of target sectors

How?

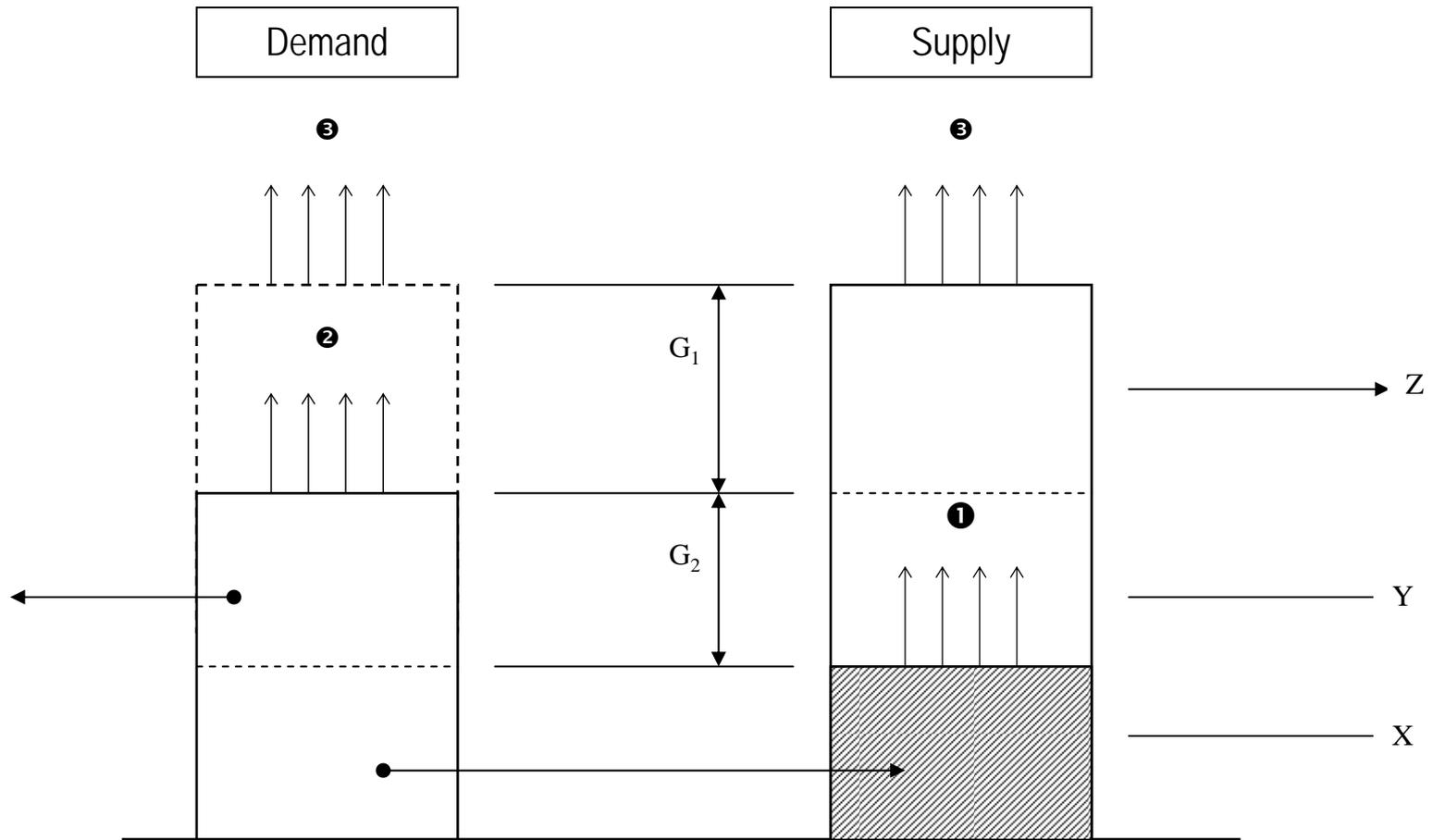
- *Define target sectors, identify investors*
- *Provide information, promote, market ...*

- **Supply:** ensure corresponding property stock

How?

- *Develop a strategic site using public resources*
- *Coordinate, inform and support private developers*

Market gap and market failure



Market failure

- Market failure is a result of growing market gap. It occurs when demand and supply do not meet and has forms: [1] at any **ask-price** buyers are not interested, [2] owners will not sell for any of the **bid-prices**.
- Do you experience market gap or market failure on property markets in Georgian cities?

Stock of property for investment / business

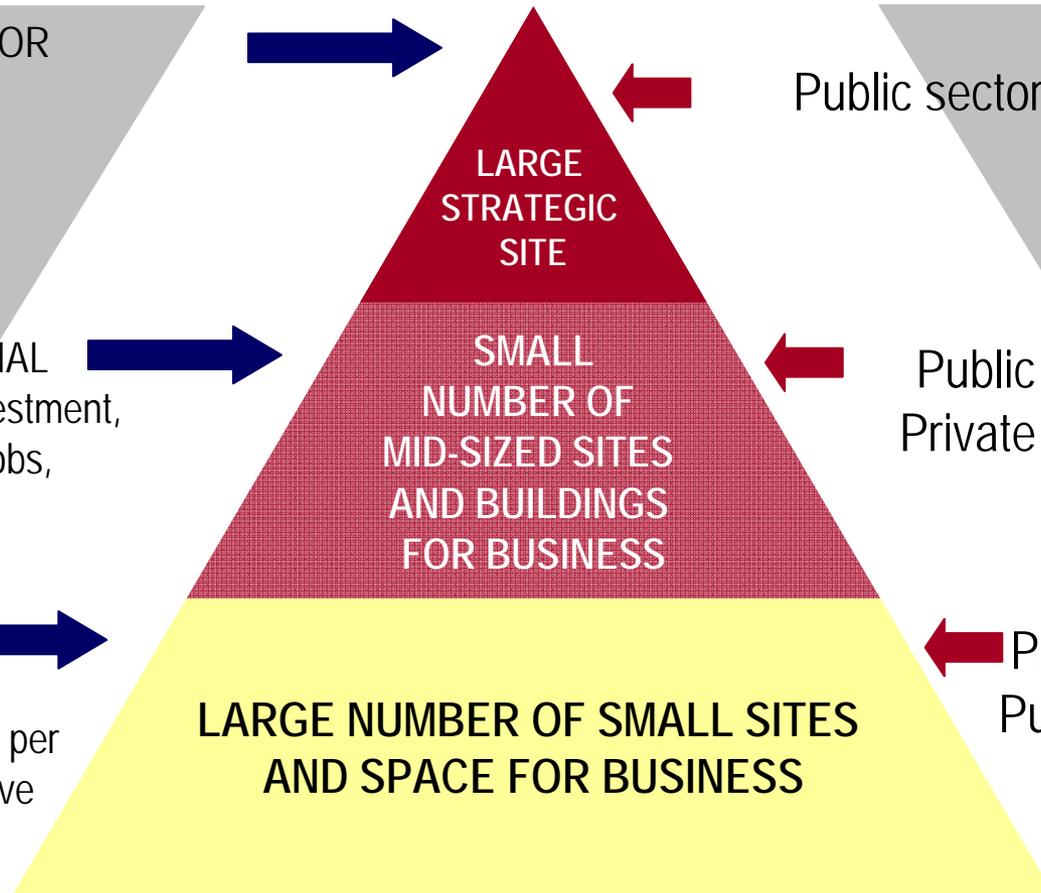
Demand:

different strategic impact

EXTERNAL INVESTOR
large investment,
large number of jobs
flagship project

LOCAL OR EXTERNAL
SME - mid-sized investment,
average number of jobs,
higher stability

LOCAL
small and start-ups,
small number of jobs per
firm but large collective
Number of jobs



Supply:

diminishing role of public sector

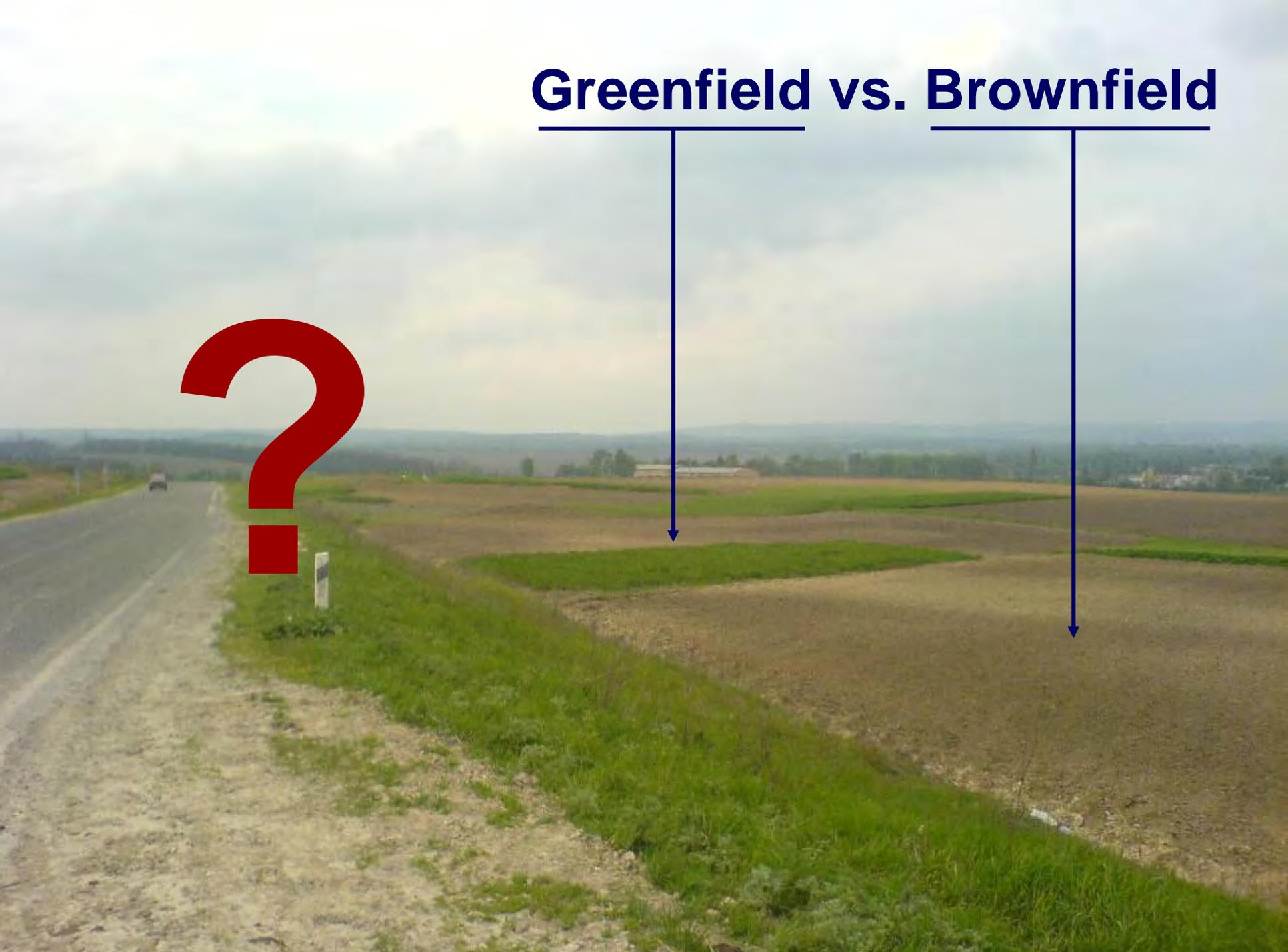
Public sector acts as developer

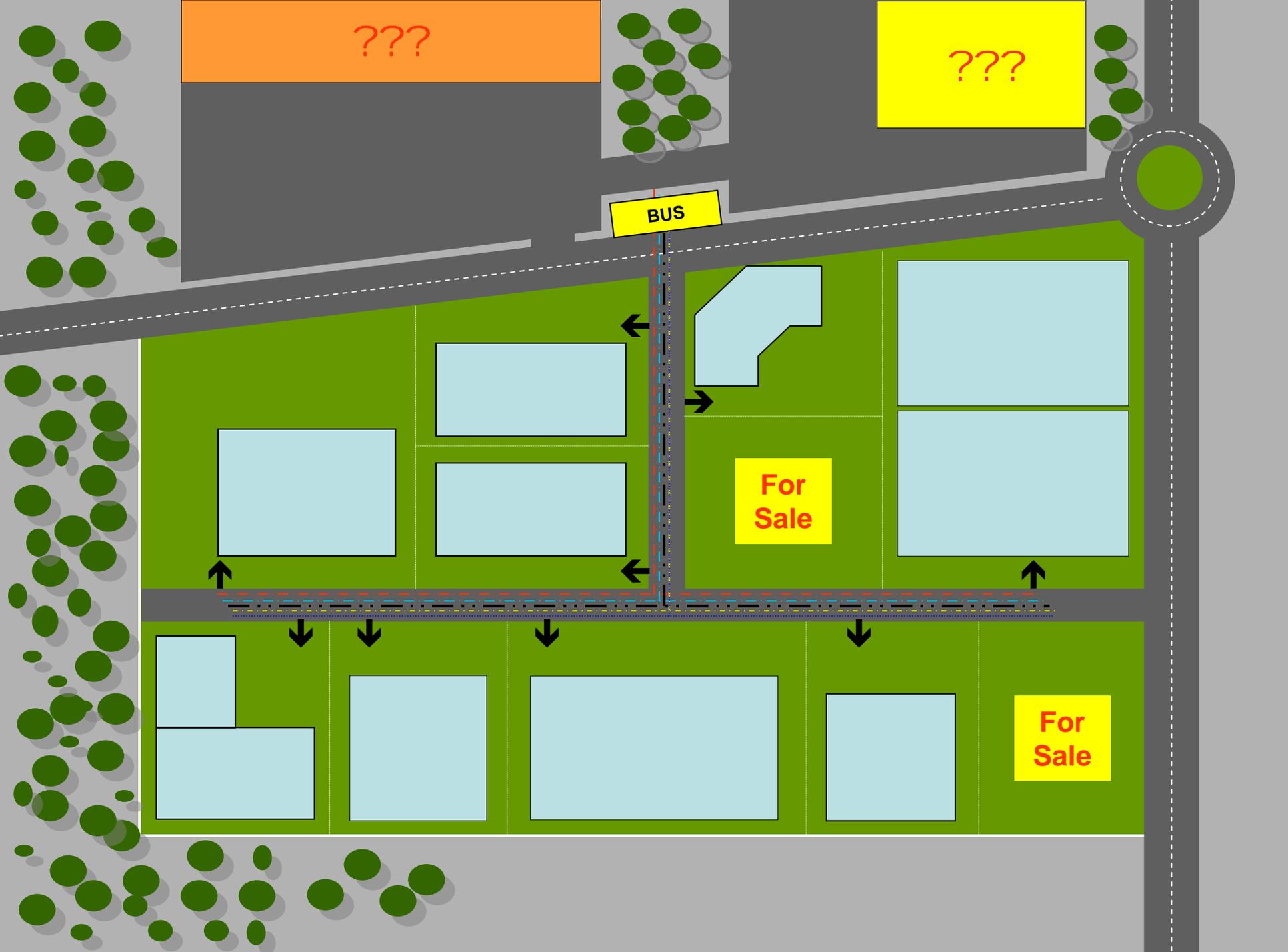
Public sector coordinates
Private sector more active

Private sector active
Public sector informs

3. Ideal zone

Greenfield vs. Brownfield





???

???

BUS

For Sale

For Sale

4. Practical examples

Trnava / Slovakia

practical example 1

- 193 hectares industrial site for €1 billion PSA investment
- Slovak government spent €25 million for the site preparation (land + infrastructure)
- Approximately €9 million on purchase of land



Ostrava / Czech Rep.

practical example 2

- 329 hectares industrial site for €1,3 billion Hyundai investment
- Regional government expected to spend approximately €30 million for the site development (infrastructure)
- €7,5 million already spent on purchase of land

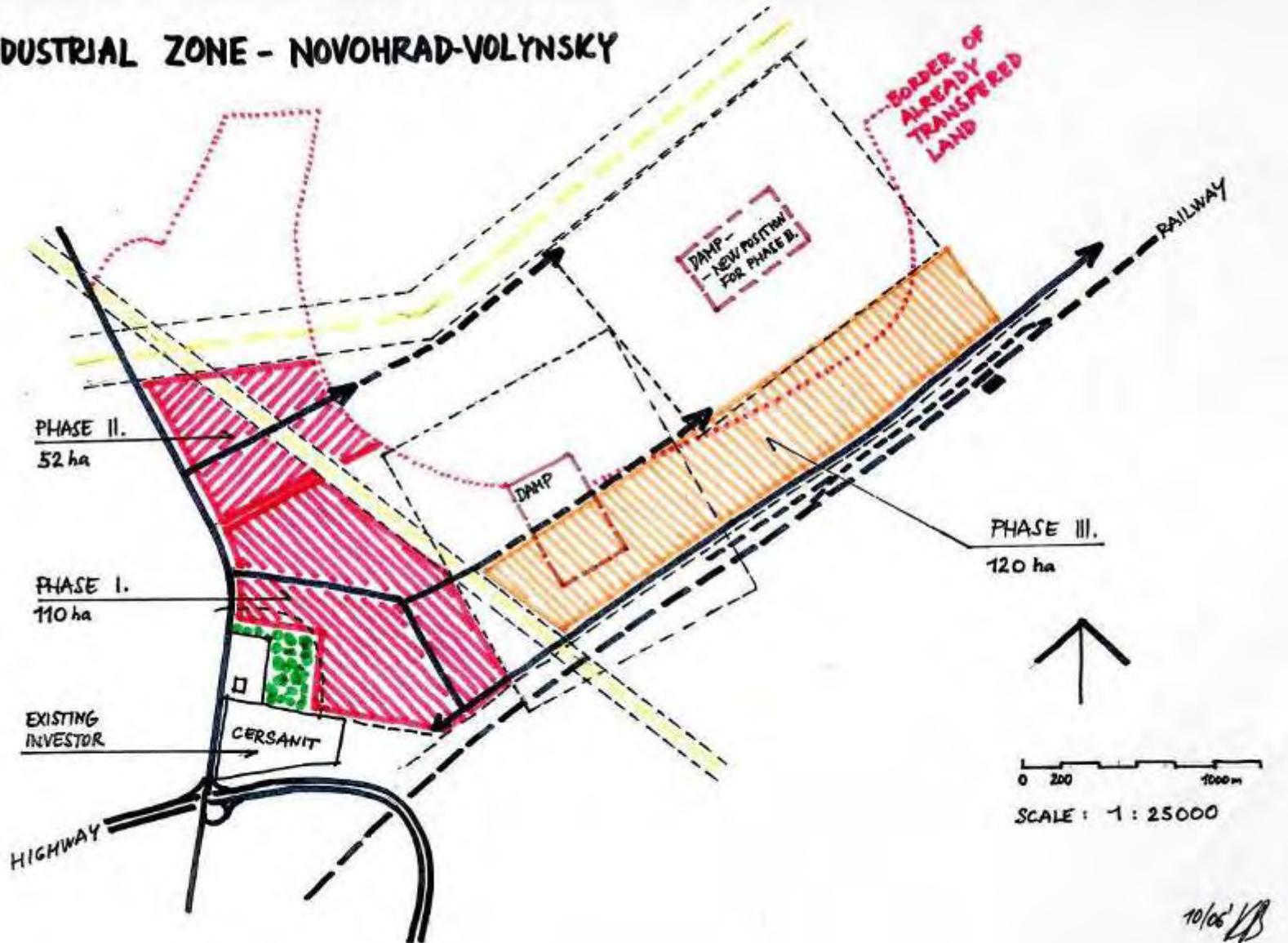
PLÁNEK TOVÁRNÝ HYUNDAI V NOŠOVICÍCH



Novohrad-Volynsky

practical example 3

INDUSTRIAL ZONE - NOVOHRAD-VOLYNSKY



Novohrad-Volynsky

practical example 3



INDUSTRIAL ZONE
NOVOGRAD-VOLYNSKIJ 110 ha

| I.PHASE |

I.a	45,5 ha
I.b	28,9 ha
I.c	23,0 ha
INFRASTRUCTURE	12,6 ha
SUMMARY	110 ha

LED UKRAINE PROJECT
CONCEPTUAL DESIGN
OF INDUSTRIAL AREA NOVOGRAD-VOLYNSKIJ



NAME OF DRAWING	SITE PLAN
ARCHITECT	KAREL BARINKA
CAD, VISUALISATION	STUDIO VIZAGE, www.vizage.cz
PROPERTY DEVELOPMENT	RADON GILL
LOCATION	NOVOGRAD-VOLYNSKIJ, UKRAINE
SCALE	1:5000
DRAWING NO	2

Novohrad-Volynsky

practical example 3



Novohrad-Volynsky

practical example 3

June 2006



- \$100 million investment
- 1200 new jobs
- 25 hectares site
- Bathroom ceramic products
- Majority for export

The logo for cersanit, featuring a stylized white umbrella icon above the word "cersanit" in a white, lowercase, sans-serif font, all set against a dark blue rectangular background.

March 2007



5. Czech approach

Czech industrial zones

1998-2005 results (rough numbers):

- 100 industrial zones created
- 3000 hectares of sites prepared
- €200 million spent by public budgets
- 450 investment projects successfully completed
- €9 billion of investments attracted to those sites
- 70,000 new jobs created

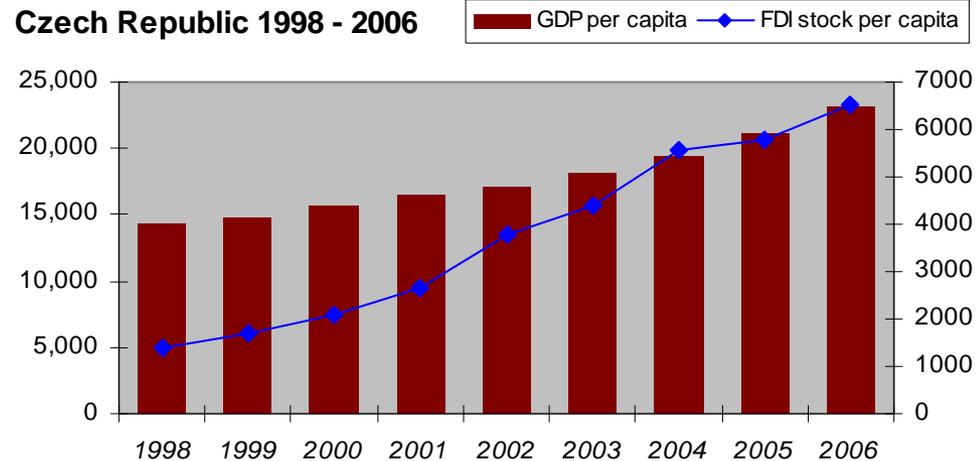
Total FDI stock €55,152 billion (12/2006)

Czech statistics

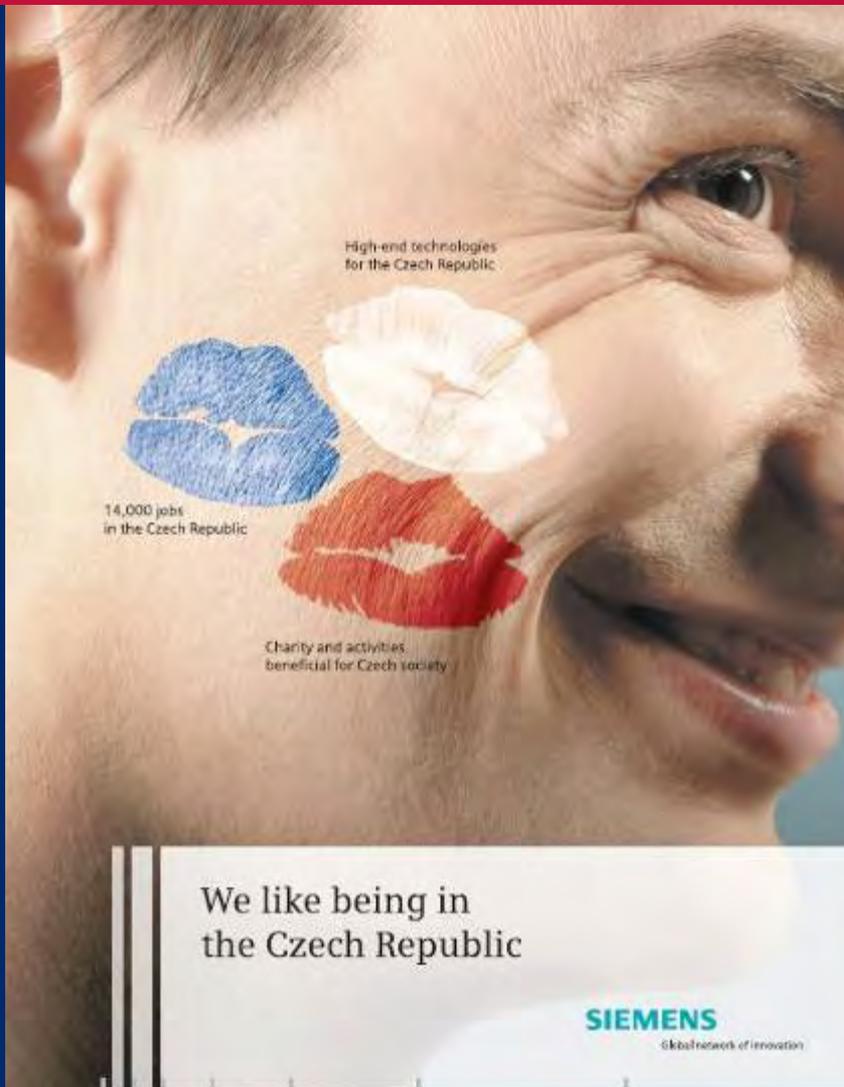
<i>Economic Indicator (2006)</i>	Czech Republic
<i>Population</i>	10,276 million
<i>Territory</i>	78 866 sq km
<i>Unemployment rate</i>	7.1%
<i>Average monthly salary</i>	\$971
<i>GDP at PPP</i>	\$236,536 billion
<i>GDP per capita at PPP</i>	\$23 100
<i>FDI stock</i>	\$67,200 billion*
<i>FDI stock per capita</i>	\$6 540*



Czech Republic 1998 - 2006



Once investors feel happy ...



- **45% of employees in industry**
- **55% of industrial production**
- **65% of industrial exports**

- **700+ German companies**
- **400+ US companies**
- **165 Japanese companies**
- **20 Taiwanese companies**
- **15 Korean companies**

6. A must

Investment property database - Poland

Back Search Favorites

Address http://infobase.paiz.gov.pl/indexl.php?action=select_nieruch_id&id=1280&offset=0&zones_id=5&voivodship=0&area_min=0&area_max= Links >>

Polish Information & Foreign Investment Agency
Polska Agencja Informacji i Inwestycji Zagranicznych S.A.

PO LAND OF OPPORTUNITIES

Home > Greenfields

The best locations - "The Golden Sites" 2005

Greenfields

>> Advanced Search

>> Login

Brownfields

Industrial and technological parks

Special Economic Zones

Privatisation

Sectors with huge potential

<< back LUBIN

ID 1280
Town Lubin
Voivodship Dolnośląskie
Area total 25.00 ha

Distances:

- Distance to motorway / national road 0.8 km
- Distance to airport 75 km
- Distance to railway 0.7 km

Infrastructure:

- Electricity yes
- Gas yes
- Water yes
- Sewage yes

Buildings on site:

- Halls no
- Offices no
- Warehouses no

Zoning: industry



Jeśli chcesz zamieścić ofertę w bazie ofert PAIIZ - kliknij tutaj
Please click here to submit a location (in Polish)

Polish Information and Foreign Investment Agency

Done Internet

Investment property database - Ukraine

Back Search Favorites

Address http://server.bermangroup.cz/ipd/public/zone_preview.php?ID=44

Description

Site development vision:
To develop an Industrial Park to locate different high productivity in economic structure & city labor market.
The City of Komsomolsk is offering to the developers and/ or future the Northern part of the city nearby Poltava Ore Refinery Industrial Komsomolsk - Potoky Railway siding as well as the Komsomolsk is a green belt that divides the site from the city private garden area adjacent to the access roads leading to the existing Poltava Ore Refinery cadaster this site falls into the category of the Komsomolsk City (

Investors:

Picture Gallery, Additional files



Documentation (zip): [File download](#)

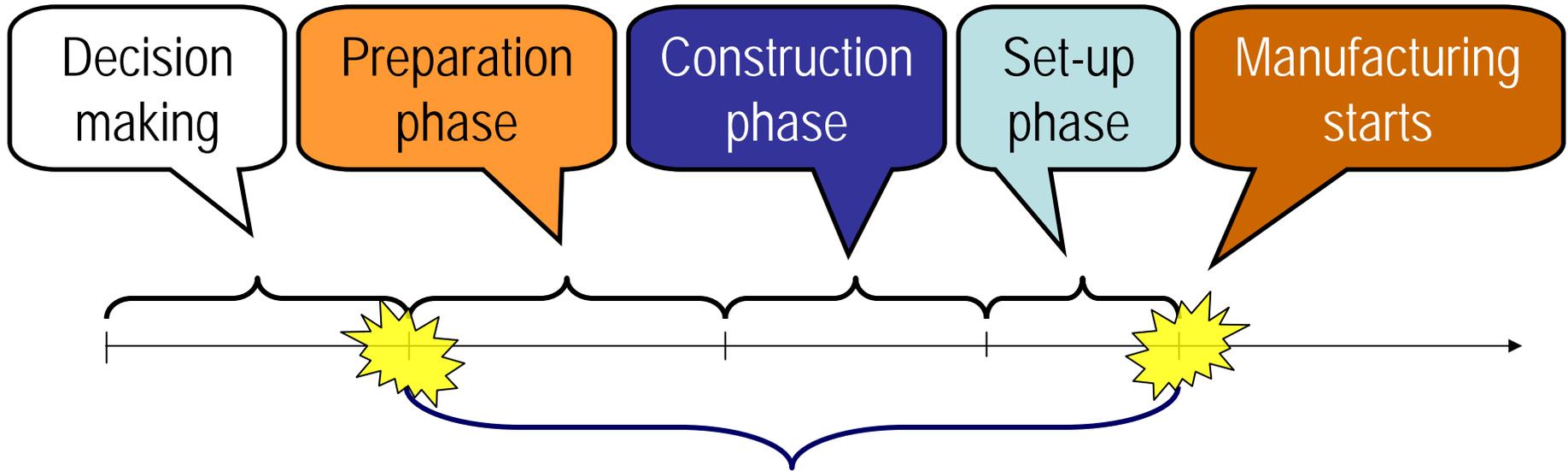
Last modified: 03/02/07



Done Internet

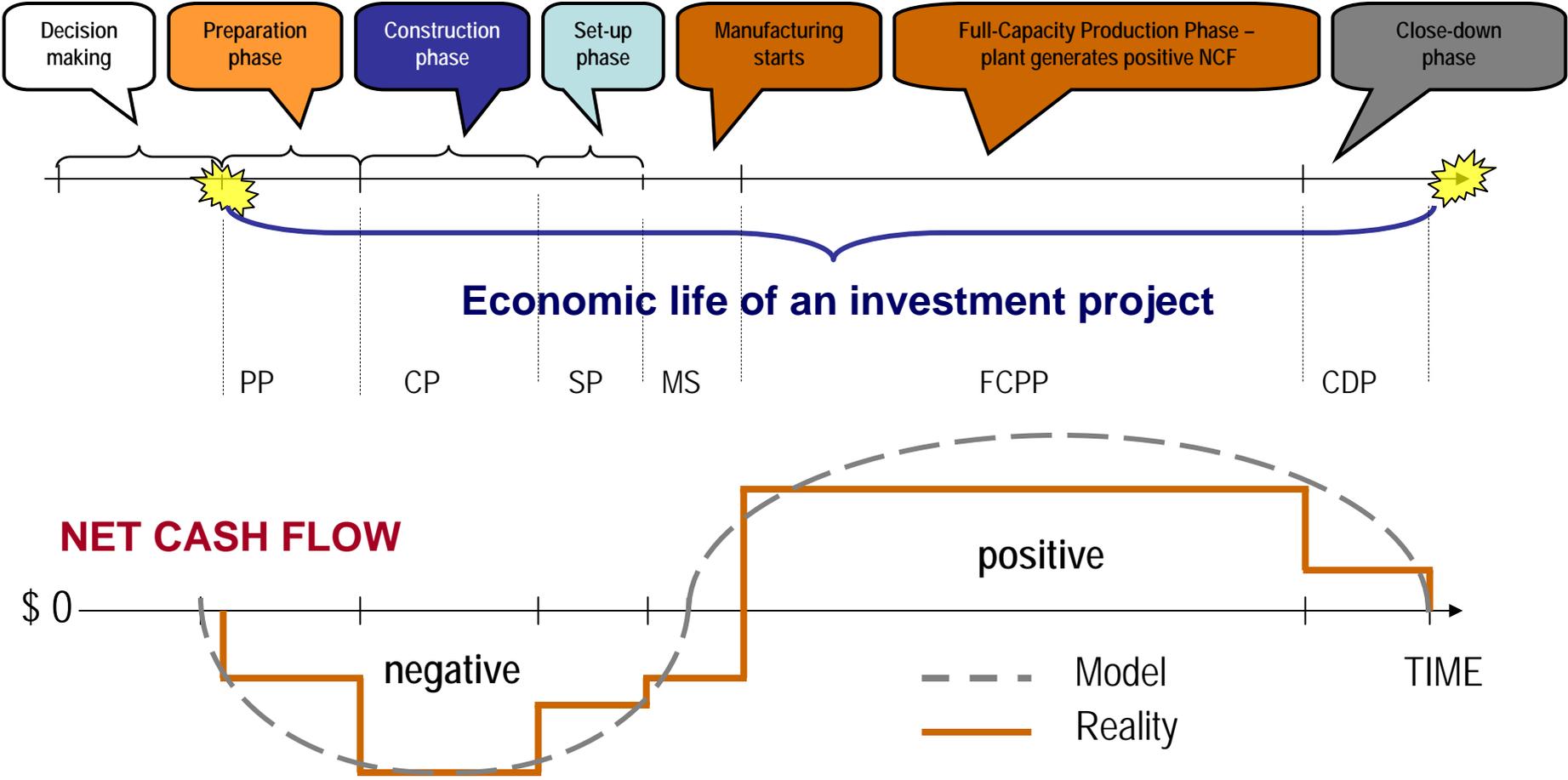
7. Investors count ...

Time-to-market



Time-to-market is the time lapsed between investment decision and the time when first product assembled / manufactured at the facility hits the market. Time-to-market represents the gap between negative and positive cash flows of investment-based economic activities. Why?

Net Cash Flow: Investor point of view



8. Product for Foreign Direct Investment

Your product for FDI

- National / Regional / Local Business Climate
- Market-ready property
- Professional services
 - *Customer-friendly treatment of investment prospects*
 - *Information*
 - *Assistance / Guidance*
 - *Aftercare*
- + Understanding of a country's (region's, city's) potential and needs
- + Understanding of investors' needs, potential and limitations

