PD-AAZ-627
ISN 62284

Project Assistance Completion Report

Project Title:	Inner Kingston Employment
Project Number:	532-0141
Funding Period:	9/27/85 - 9/30/87
LOP Funding:	$725,000
Implementing Agency:	Kingston Restoration Company
PACD:	9/30/87

I. PURPOSE: Raise inner city employment by rehabilitating a derelict building/complex to create medium sized factory facilities suitable for light manufacturing and garment enterprises. This effort also was intended to assist in the development of Kingston Restoration Company's capacity for undertaking such types of activities.

II. BACKGROUND: On September 29, 1985 AID approved an OPG (Project 532-0141) in the amount of $650,000 to the Kingston Restoration Company (KRC) to rehabilitate a vacant factory complex in downtown Kingston, Jamaica into factory space for medium sized local firms. The objectives of the project were to make factory space available to generate approximately 400 additional jobs and to assist in the development of KRC as a private, public purpose developer capable of undertaking large scale inner city rehabilitation projects. The project was a pilot effort which sought to answer various implementation questions. Many questioned whether rehabilitation could be carried out successfully. For example, it was not known if contractors would bid on an inner city rehabilitation project, if contractors would be able to complete such a project in the hostile environment in which it is located and if KRC could rent space out to businesses willing to pay the rent that was currently being charged in the Free Zone. Rehabilitation of an existing structure seemed appropriate because the costs of making factory space available through rehabilitation appeared much cheaper than building new space.

Rehabilitation of the building is now complete and the building is 100% tenanted. While the final costs of construction have not been fully resolved with the construction contractor, eventhough construction work was completed for 18 months, it is timely to review KRC's and AID's experience with the project and to prepare a Project Assistance Completion Report.

KRC was incorporated in March 1983 as a private company to assist in the restoration and improvement of downtown Kingston. Its board is composed of concerned businessmen and women.

The relocation of the harbor out of downtown, the out migration of businesses to New Kingston, political and social unrest and the generally outmoded and deteriorated conditions of buildings and infrastructure all contributed to the decline of downtown as the center of commerce and industry and to substantial disinvestment from the area. KRC was established to help arrest the decline and to improve the area visually and environmentally. A nine-member KRC board of directors was appointed who subscribed to share capital to finance the initial operations of KRC. A small staff was hired. Mr. Maurice Facey, a well regarded businessman and developer, conceived of the idea of KRC and serves as its Board Chairman. Mr. Vayden McMorris, a well known architect, was appointed as Managing Director. During its first two and one half years of operations, KRC carried out various planning and design studies but had few tangible accomplishments to point to.

In September 1985, KRC submitted a request to AID for $650,000 in funding to rehabilitate the vacant, vandalized former D&G Brewery on Pechon Street, a three-section building complex of one to five stories. KRC proposed to create a multi-tenant industrial facility of 50,000 square feet through rehabilitating and modernizing the existing complex. KRC proposed to rehabilitate the building under a lease arrangement with the owners, with the owners reimbursing KRC for the construction costs after securing financing for the property. AID grant funds were to be used for professional fees to design the building, finance the rehabilitation costs and finance part of the cost of KRC's operations (54%). AID approved the proposal and obligated funds for the project on September 27, 1985.

Initial design studies by the architect indicated that the $650,000 available would not allow the rehabilitation of the whole property and, consequently, it was decided to divide the project into two phases. Phase I involved the rehabilitation of the principal structure, the 35,000 square foot brewery building with approximately 29,000 square feet of net rentable space. Development of part of the site with 15,000 square feet of buildings was deferred to Phase II. Once the design work was completed, KRC's quantity surveyor estimated the construction cost for Phase I at $714,286, far in excess of the original $650,000 budget. Eventhough funds

were not available to finance the cost of construction as estimated by the quantity surveyor it was decided to put the project out to tender to "test the market" and develop a more accurate estimate of what the construction work would cost. The lowest bid received was for $761,296.

In September 1986, AID increased the grant to $725,000 based on the results of tendering for the construction. The new budget was estimated as follows:

Construction	$587,645
Professional Fees	113,200
KRC Operations	24,115
Total	$725,000

Extensive negotiations took place between KRC, the architect and the contractor to modify the specifications and reduce the construction budget. The major deletions that were made were to eliminate an elevator and welfare space to provide support services to the factory workers. Ultimately, $84,578 worth of costs were eliminated and KRC entered into a construction contract in the amount of $676,718 in September 1986 with Aerocon Construction Company Limited. An additional $145,000 was made available by AID in December 1986 for the project to finance the shortfall in the project budget and to provide $54,945 for possible tenant improvements. These funds were made available from the $6,875 million Inner Kingston Development Project Cooperative Agreement signed with KRC on June 30, 1986 (Project 532-0120). Construction began in October 1986 and was essentially completed by September 1987. While the construction work has been completed since September 1987, as of March 1989 KRC has been unable to reach a final settlement with the contractor. KRC and the contractor have been trying to reach agreement on the cost of various modifications to the original construction contract.

Modifications to the building design and a longer than planned construction period have further increased project costs by $95,781. The current AID approved project budget is as follows:

Construction	$742,580
Professional Fees	144,101
Tenant Improvements	54,945
KRC Operating Expenses	24,155
	$965,781

It is expected that an additional $50,000 will be required to reach a final settlement with the contractor so that the final cost for the project will be about $1,016,000 of which $725,000 will be funded out of the Project and $291,000 from Project 538-0120. Final cost per net rentable square foot will be about $36 (J$196).

As of March 1989 the building is fully rented. All of the tenants pay an annual rent of J$12 a square foot rent (escalating to J16 over the five year rental period) plus their share of common services. These rents are competitive with similar space that is available. Tenants produce a wide variety of products for domestic sale and export ranging from road signs to garments to food processing.

The attached table (Annex 1) lists the tenants, the amount of space they occupy, their employment levels at the time they signed a lease with KRC and their current employment levels. These data suggest that the project facilitated the expansion of existing businesses or the creation of new ones and thereby created a substantial amount of additional employment downtown.

III. PLANNED VS ACTUAL OUTPUT: The full complex of 45,000 net rentable square feet of building was to be rehabilitated through the $650,000 grant. Instead only phase I was completed and the costs increased from $650,000 to an estimated $1,016,000. Phase II which would complete the rehabilitation work may be undertaken using funds from Project 538-120 if it is determined to be economically sound. The project hoped to generate about 400 jobs. Currently the tenants employ 178 persons so that the project has generated 134 new jobs. KRC was able to develop a staff and the skills necessary to undertake a large scale redevelopment program. Many of the lessons learned from the project have been incorporated into KRc's operations under the Inner Kingston Development Project.

IV. Project Accomplishments: While the project is substantially more costly than contemplated, it has generated a large number of jobs and provided KRC with the experience it needed to undertake the larger and more complex Inner Kingston Development Project. Through the project KRC developed many of the policies and procedures that it employs in the Inner Kingston Development Project. The rehabilitation of the building played an important role in the upgrading of Pechon Street and improving the environment for other public and private developments.

The project was a pioneering effort in downtown industrial redevelopment and KRC's first construction project. To have successfully completed the project in the neighborhood in which it is located and to have rented the space to viable tenants is a major accomplishment. This pilot effort exposed KRC to the problems of downtown redevelopment and enable it to develop more effective approaches in carrying out the Inner Kingston Development Project.

Based on the experience with the project the following lessons or experiences were incorporated in the Inner Kingston Development Project: (1) AID and KRC agreed that a detailed feasibility study and analysis should be completed for all subsequent projects, (2) KRC needed to monitor more carefully the design and construction management performance of its architects, (3) KRC and AID developed better knowledge of construction costs and the appropriate construction standards and building layouts for industrial development, (4) AID and KRC came to appreciate how difficult it would be to develop joint ventures with private owners or negotiate long term leases and development plans with owners and (5) KRC and AID learned that it was essential that KRC have staff skilled in project and construction management. As a result of the 141 project KRC set up its own design and procurement processes and developed a rental strategy and set of rental policies and procedures.

IV. FOLLOW ON AND EVALUATION: The final adjustment of costs and follow on monitoring of the rental and management of the project have been incorporated into the Inner Kingston Development Project. No separate monitoring of the project is required but it is important to evaluate the long-term financial viability of the project.

The ABT Associates Inc. evaluation of Project 538-0120 which was completed in February 1989 examined and evaluated the 141 project. The Urban Institute, the management and monitoring contractor for the Inner Kingston Development Project, as part of its monitoring efforts is expected to assess the results and impacts of both the project and project 532-0120 in late 1990 when it is expected the Inner Kingston Project will be essentially completed.

V. LESSONS LEARNED

The major lessons learned from the project were:

1. Inner City rehabilitation is a complex undertaking requiring a variety of skills and experiences. Because rehabilitation involves improving an existing structure

in many ways it is more difficult to complete on time and within the budget than new construction and the best architects and contractors for renovation work are those familiar with the problems associated with rehabilitation

2. In order to determine whether a project is cost effective to rehabilitate and appropriate to undertake, it is essential to undertake a detailed feasibility study of both the costs of construction as well as a financial projection of the expected operating costs and expenses. Projects that are not sensible financially should not be undertaken. As a result of the project experience KRC under the Inner Kingston project has minimized cost overruns and significantly increased its rates of return on invested capital.

3. Acquiring property or negotiating development arrangements with downtown property owners was much more time consuming and difficult than had been expected. Indications of possible interest in a proposed project were followed by a hard headed bottom line oriented approach by owners of derelict buildings. In the end, deals "for the public good" went ahead only to the extent they made practical business sense. Absorbing this lesson in a pilot project paid big dividends in the follow-on project

4. Tight review procedures and close monitoring of construction work is needed in order to avoid costly overruns and construction delays. Based on experience in the project KRC has implemented, under the Inner Kingston Project, more effective construction monitoring procedures.

5. Real estate projects require a lot of front end investment in determining the feasibility of the projects and completing the legal, technical and architectural work that is necessary. In the long run such technical studies are cost effective. KRC has developed under the Inner Kingston Project regularized arrangements and procedures for handling the different phases of development.

6. Regular and competent management by implementing agencies and AID is needed to insure the timely and efficient completion of real estate development projects.

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ANNEX 1

D&G COMPLEX TENANTS

Company Name	Net Sq. Ft. Rented	Produced Product	Employees at time of Signing	No. of Women	Current Employees	No. of Women	Net New Employment
Albert Wong Communications	4,830	Food Procsng	6	2	22	8*	16
Engineering	1,745	Circuit Boards	5	3	12	3	7
Vinton Griffiths	5,336	Ladies Dresses	0	0	50	49	50
Multi Projects Ltd.	5,365	Signs	33	10	22	6	(11)
Hong's Fashion	5,135	807 Garments	0	0	70	68	70
DB Micro Systems	5,158	Electronics Assembly	0	0	12	11	12
Canteen (H. Brown)	673	Food	0	0	3	3	3
TOTAL	28,242	-	44	15	191	148	147

*Albert Wong also employs 5 women part-time