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## **Poland**

# **Public Land and Property Asset Management in Warsaw: Strategic Opportunities**

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## **EXECUTIVE SUMMARY**

This report contributes to the World Bank's ongoing dialogue with the City of Warsaw officials on sustaining a high-priority municipal investment program and enhancing the financial sustainability of public transport, especially in the context of a financial crisis. The report discusses the potential of City's land and property assets for land-based financing of investment as well as broader issues of strategic management of municipal land and property, including asset-related risks and opportunities for development beyond the current financial crisis. The report is addressed to the World Bank team and the decision makers and technical experts at the City administration who define the future of land and asset management in Warsaw.

### **Review of Assets and Land Management**

#### Property Holdings

The City of Warsaw owns large and diverse portfolios of built-up property, including extensive portfolios of residential and commercial properties: almost 100,000 housing units and more than 10,000 commercial rental units. The latter contains 0.64 m<sup>2</sup> of floor area per capita, constituting more area than Los Angeles County (population of about 9.2 million) has in its entire non-residential building stock for all governmental functions excluding schools (0.43 m<sup>2</sup> per capita).

The City and its institutions own close to 11,400 hectares, or 22% of City territory. Over 30% of this land is alienated under long-term private control, predominantly under perpetual usufruct held by 203,000 tenants. The remaining 7,456 hectares under City control constitutes only 14.4% of City territory. This indicates a hidden shortage of land for public uses in some districts: by international standards, 30 – 35% of the territory in residential areas should be publically owned for roads and for social infrastructure. Territorial distribution of municipal land is *extremely* uneven: too much in some central districts (41% - 57% of the territory) and very little (3% - 9%) in other districts.

Of the 265 hectares of municipally owned land classified as “vacant,” only 112 hectares, or 0.2% of City territory, are easily available for allocation of public and private needs, while the rest might be subject to potential restitution claims. However, there are hidden resources of vacant and under-used municipal land listed under other categories. Identifying this land through systematic screening of all municipal land should be a priority for strategic land management.

For the past 5 years the City has auctioned 5.3 hectares of land to private ownership each year. An additional 22.3 hectares per year have been disposed of at requests of landholders whom the municipal land managers must satisfy by law.

#### Asset Values, Revenues, and Expenses

The book value of municipal real estate on the City balance sheet is transitional as land is re-evaluated from historic to market value. Despite this underestimated value, land still constitutes about 80% of all City assets.

Based on available data, the following observations regarding property related revenues are possible:

- Land under perpetual usufruct produces less revenue than it could under market-based arrangements due to massive discounts guaranteed by law.
- As a result of the international real estate crisis, municipal land auctions crashed. Prices dropped 5-fold from 2007 to 2009, and sale revenues dropped from 329.8 million PLN in 2007 to 1.2 million PLN received by November 4, 2009. This dramatic decline indicates that the current tactic of letting land sales be driven by annual fiscal targets may not be best for Warsaw.
- Municipal rentals produce the highest revenue related to municipal assets, but property-by-property net results are not monitored, so it is unknown whether surplus property, such as commercial rental, produces acceptable return on investment.

On the expenditure side:

- Property related operating expenses make up more than 12% of the 2009 municipal current budget, which is consistent with international estimates. Based on rough international benchmarks, Warsaw could save at least 168 million PLN annually in its operating budget by improving asset management efficiency.
- Opportunities for capital costs savings exist mainly within the use of PPPs instead of direct public expenditures, with illustrative examples provided in the chapter on PPPs.
- Dispositions of non-performing or surplus properties from many portfolios would further reduce operating expenses and produce one-time capital revenues.

Subsidies:

- Both operating revenues and operating expenses associated with municipal property are affected by explicit and hidden property-related subsidies throughout the system. Identifying subsidies of this sort in all portfolios and re-tooling and targeting them with lower direct and indirect costs to the City should result in budget gains.

### Institutional Arrangements

Several units within the City government play key roles in asset management and they report to four different vice mayors. This apparent dispersal of responsibilities can lead to a lack of coordinated and consistent action among Bureaus, despite formal requirements regarding cooperation.

### **Achievements, Issues, and Risks**

Many evident achievements include the strategic centralization of land management (reversing the earlier control by boroughs), introduction of a new generation of PPPs focusing on engaging the private sector in delivery of public services, and a whole range of operational advancements.

Nevertheless, Warsaw faces multiple challenges on this front:

- The City's needs and capabilities have outgrown outdated elements of the legal framework.
- Asset management does not have a strategic framework and is often driven by short-term operating needs.
- One example of land and asset management fragmentation felt though the City administration is tension between local development planning and land sales planning.
- There are alarming examples of private interests having more control over land than would be considered reasonable in contemporary cities in the developed world.

All together, this creates specific multiple risks:

- Strategic opportunities for land- and property-related financial gains being overlooked and forgone due to lack of strategic asset management.
- Further weakening of the spatial integrity of Warsaw.
- Long-term land-related public interests being jeopardized by private lobbies.

### **Public-Private Partnerships (PPPs) in Warsaw: The Turning Point**

Warsaw is changing its approach to PPPs from joint-ventures to contract-based arrangements and from commercial real estate development to public service delivery. Private advisors, both international and domestic, were selected competitively, and several PPPs for delivering public-service facilities are at various stages of preparation. Despite these positive developments, there are two big challenges: (i) PPPs are very complex instruments and the City may need more help than commercial consulting companies might provide, and (ii) past experiences with the first generation of PPPs created skepticism and mistrust in both private and public camps, making PPPs a highly politically charged subject. Success of the new generation of PPPs is at risk until this spirit is left well behind.

#### Transportation related PPPs

The City does not yet have advanced experiences in building transportation related facilities through PPPs. In particular, Park & Ride (P & R) facilities from Phase I and II have been funded and executed by the City and some are planned for EU funding. In a sample of five P & R visited (four built and one planned), at least four seem to be

obviously forgone opportunities for commercialization. For example, the private sector could have fully funded the Wilanowska P & R for 290 cars as part of a simple “land-for-parking” PPP, similar to what has been practiced internationally.

## **Recommendations**

The City of Warsaw would benefit greatly from shifting to more systemic and strategic management of its land and property assets. This would result in financial gains on both sides of the budget (revenues and expenses) and in both parts of the budget (current and capital), as well as positively impacting the City’s territorial development and quality of the cityscape.

The process of improving asset management would incorporate several interrelated components:

- ***Modification of the national-level legal framework.*** Adoption of a restitution law to “reverse” the Bierut’s Decree or, at least, to require claim holders to register their claims and modernize the legacy elements of the legal framework that impede effective land management by local governments and the central government as property owners.
- ***Introduction of a strategic approach to municipal land and property assets.*** The report suggests a range of actions and methods successfully tested internationally. Among them: Establishing a special temporary Asset Management Task Force (TF), consisting of representatives of all key Bureaus related to land & real estate management and serving as a platform for their cooperation; introducing analysis of financial performance on the property-by-property level, etc. In particular, based on the lessons from the current real estate market crash, it is advisable to stop establishing annual budget targets for capital revenues from property disposition. Instead, link real estate dispositions to conditions on the real estate market and accumulate the revenues in a special budgetary fund earmarked for capital investment.
- Launching a strategic approach would require some further analysis, including such topics as IT needs, organizational arrangements related to property operations throughout the City government, and legal feasibility of some land management instruments. This would also require establishing priorities.
- ***Improvement of spatial aspects of land management and administration.*** Given the specific territorial challenges that the City of Warsaw is enduring, improving the spatial aspects of land management and administration is particularly important:
  - ↳ Urban planners should be obligated to reflect on the impact that local development plans have on land value, particularly municipal vacant land.

- ↳ Land managers should be sensitive to unevenness in spatial distribution of municipal land and avoid massive long-term alienation of municipal land in areas where public land might already be insufficient for public needs – at least until specific analysis of development trends and needs is conducted. Most sale dispositions should take place in areas with excessive municipal ownership, while in districts with potential shortage of public-use land, a combination of more advanced instruments may be needed, such as land swaps or land readjustment.
- ↳ Prominently located municipal sites that are critical for forming the cityscape and / or have high potential value should be identified by a joint effort of land managers, urban planners, and the private real estate community. Prior to development of these prominent locations, urban planners should seek input from the private sector, and land managers make sure that the mode of disposition – an auction or a contract-based PPP – is carefully considered.
- ***Implementing the new generation of PPPs.*** During this process, the City would benefit from technical assistance on several issues. Further, several agencies should cooperate to identify locations that could potentially be used for PPPs. It is advisable to test a new financial policy requiring that feasibility of obtaining public-use facilities through PPPs be explored before public-funding solutions are approved. Goodwill must be restored in the private sector through such an ice-breaking and otherwise necessary impetus as a Private Sector Advisory Group on PPP.

## 1. INTRODUCTION

1. The purpose of this report is to contribute to the World Bank’s ongoing dialogue with the City of Warsaw officials on how to sustain a high-priority municipal investment program and to enhance the financial sustainability of public transport, especially in the context of a financial crisis. This report serves as a supplement to Bank advice regarding the City’s financial management, focusing on the potential of City’s land and property assets for land-based financing of investment; it also addresses broader issues of strategic management of land and property assets owned by the City. In particular, the report seeks to address the following:
  - A broad assessment of the current status of asset management, and in particular, real property asset management, as practiced by the City of Warsaw—how systematic, proactive, strategic it is.
  - The revenue potential of municipal land and property in the short - and long-term, and which of various land-related instruments present additional opportunities as sources of investment financing (this includes a number of instruments: land sales, disposal of partial rights, PPPs, and taking a more commercial approach to the city’s planning powers of zoning and density controls). Some particular cases of municipal property at or around public transport hubs, such as Park and Ride facilities, are explored as key examples.
  - Specific issues, risks, and possible opportunities suggested by the current situation in Warsaw, in light of emerging international good practice in municipal land and property management and administration.
  - Recommendations, as suggested by the above analysis, and directions for next steps.
2. However, this report was commissioned with modest resources and objectives and, therefore, if the City decides to pursue strategic opportunities presented by its property holdings, further analysis of the issues that are not reflected in the report will be needed.
3. In contemporary public management, governmental property asset management is understood as activities related to the adoption and implementation of decisions on the acquisition, use and disposal of governmental property aimed at performing governmental functions, delivering public services, and achieving other government objectives. The eminent challenge that the City of Warsaw faces is the multiple dimensions and objectives of its property asset management. In particular, public property asset management has to address such issues as revenue mobilization and reduction of avoidable expenses, the need to deliver public services and manage impact on spatial and infrastructure development, facilitate the City's growth, ensure balance of public and private space, etc. Balancing these multiple – and often conflicting – needs in a sustainable way is hardly possible without a strategic approach.
4. The report is addressed to two audiences: the World Bank team and the decision makers and technical experts at the City administration who define the future of land and asset management in Warsaw.

5. The report starts (Section 2) from reviewing municipal property holdings and associated institutional arrangements. This section focuses primarily on land and financial aspects of asset management, due to the overall orientation of the report and its limited scope. Portfolios of built-up properties are considered only partly, mainly for indicating the grand magnitude of the total holdings. For the same reason, the institutional arrangements are analyzed only at the level that identify main issues, but not details.
6. Section 3 reviews main achievements, challenges, and risks related to municipal land and asset management in Warsaw. Section 4 considers the experiences of Warsaw with public-private partnerships (PPPs) in the past and on City's plans. This section also includes a discussion of a PPP potential related to such transportation facilities as Park & Ride, illustrated by mini case studies of five P&R facilities funded and delivered by the City itself. Finally, Section 5 presents a range of recommendations on what is needed for introducing a more strategic approach to asset management and outlines next steps.

## **2. REVIEW OF ASSET AND LAND MANAGEMENT**

### **2.1 Municipal Property & Land Holdings**

7. By any account, the City of Warsaw owns, directly and indirectly, large and diverse property portfolios. Local governments in former centrally-planned economies often own more built-up properties (i.e. more floor space in buildings) than local governments in old market economies. While data on municipal property holdings for cross-country comparisons is not available on any regular basis,<sup>1</sup> the size of some specific portfolios – such as commercial properties and housing – is indicative regarding overall amplitude of governmental holdings of built-up properties. In Warsaw, these two portfolios are very extensive (Table 1): almost 100,000 housing units and a portfolio of more than 10,000 commercial rental units.
8. As a scale of comparison: Los Angeles County, with its population of about 9.2 million, has a total non-residential building stock (which includes properties for all governmental functions, but not schools) of 0.43 m<sup>2</sup> per capita, i.e. smaller than the Warsaw's commercial portfolio (i.e. property that is surplus to governmental functions) alone.<sup>2</sup>

**Table 1: Municipal Residential Stock and Commercial Rental Stock\***

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<sup>1</sup> Composition and size of local government property holdings vary wildly depending on history and tradition. However, there are clear international trends, at least, in advanced market economies. Thus, many if not most governments never engaged in holding and operating noticeable commercial properties, leaving this function to the private sector. More broadly, starting from late 1980s, a worldwide trend is that governments retreat from holding properties not needed for core governmental and social functions (examples include New Zealand, the UK, Sweden, and France).

<sup>2</sup> Los Angeles County Citizen's Economy and Efficiency Commission. Asset Management Strategies for the Los Angeles County Real Estate Portfolio, 1995.

	Housing stock	Commercial rentals
<b>Number of units (apartments or premises)</b>	<b>96,874</b>	<b>10,088</b>
<b>Total floor area, m<sup>2</sup></b>	<b>3,972,156</b>	<b>1,099,025</b>
<i>Average unit size, m<sup>2</sup></i>	<i>41</i>	<i>109</i>
<i>As a share of the total housing stock (estimate), ** %</i>	<i>14</i>	
<i>Municipal commercial rental space per capita, *** m<sup>2</sup></i>		<i>0.64</i>

Source: Numbers in Bold provided by the Bureau of Real Estate Management, the City of Warsaw; in *Italic* – author's calculation.

Notes: \* As of 31.12.2008. \*\* Based on the assumption that the total number of housing units in Warsaw is roughly equal to the number of households, 703,614. \*\*\* The population size =1,709,781.

9. Further, municipal land holdings cover a large physical area (Table 2), but not relative to the City territory. Municipal holdings, directly owned by the City and its institutions and enterprises, make up close to 11,400 hectares, which constitutes only 22% of the City territory of 51,700 hectares. The City also indirectly controls an area which is unknown but may not be very large, held by commercial-law companies owned or co-owned by the City.<sup>3</sup> Furthermore, as shown in Table 2, close to 35% of land directly owned by the City is under temporary private control, mostly long-term (31%). This long-term alienation is dominated by the perpetual usufruct held by a huge number of landholders (203,000), while land under long-term lease is negligible in comparison.

**Table 2: Municipally Owned Land, by Type of Holders\***

Type of rights	Land area, he	Number of current holders (or contracts)	Average area per holder, m <sup>2</sup>
<b>TOTAL</b>	<b>11,400</b>		
<b>Under temporary private control:</b>	<b>3,944</b>		
<i>Perpetual usufruct</i>	<i>3,454</i>	<i>203,000</i>	<i>170</i>
<i>Long-term land leases</i>	<i>77</i>	<i>336</i>	<i>2,293</i>
<i>Short-term leases</i>	<i>412</i>	<i>5,702</i>	<i>723</i>
<b>Under government control:</b>	<b>7,456</b>		
<i>Under "permanent management" by public entities</i>	<i>3,724**</i>		
<i>Not burdened</i>	<i>3,732</i>		

Source: Bureau of Real Estate Management, the City of Warsaw. Notes: \*) As of 31.12.2008. \*) This does not include the land owned by the commercial-law companies.

10. The remaining 7,456 hectares under the City control constitutes only 14.4% of the city territory, which may be an alarming sign, indicating a hidden shortage of land for public

<sup>3</sup> Specifically by 30 companies where the City is a sole shareholder and 19 companies with partial share ownership (as of 30.06.2008). In this case, land and property are owned by the companies, not by the City; however, the City owns or co-owns the companies.

uses, at least in some areas. Indeed, a general rule, at least for residential areas, is that about 28 – 35% of the territory should be publically owned, for use as roads and for social infrastructure (schools, hospitals, etc.).<sup>4</sup> Non-residential areas may need a smaller share of public land, but still the city-wide average of less than 15% deserves some further attention. As Table 3 demonstrates, territorial distribution of municipally owned land is extremely uneven: a number of centrally located districts, such as Mokotów, Ochota, Praga Południe, and Wola, which all belong to the territory of old (i.e. “pre-war”) Warsaw, have very high, even excessive municipal ownership, accounting for about 41% - 57% of the territory, which goes back to the land nationalization of 1945 under the – so called – “Bierut’s Decree.” Two non-central districts, Śródmieście and Żoliborz, are above the 50% threshold in terms of publicly owned land as well. At the same time, five other districts, which together represent 45% of the City territory (Białołęka, Rembertów, Wawer, Wesoła, Wilanów) have very little municipally owned land, from 2.3% to 8.8%, which certainly will create problems for the city government if and when public-use land (streets) and public services will be needed in these areas. At least three other districts (Ursus, Ursynów, and Włochy) also may have problems with provision of public services and public-use land, as municipally owned land there (14% - 22%) may be not sufficient either.

11. This uneven and unbalanced territorial pattern of municipal ownership indicates, first of all, that land privatization should be very sensitive to this spatial pattern. In particular, it should avoid massive long-term alienation of municipal land in areas where public land is already insufficient for public needs, especially if this land can be suitable for future public uses. Instead, most dispositions should take place in areas with excessive municipal ownership. This is hindered, though, by the fact that most of these areas are potentially subject to restitution claims (Table 3 and the map). Second, this uneven spatial distribution of the municipal land brings up an important public policy issue of balancing better the public and private interests related to land, which is further discussed in section 3.5.

### **Table 3: Distribution of Municipally Owned Land by District**

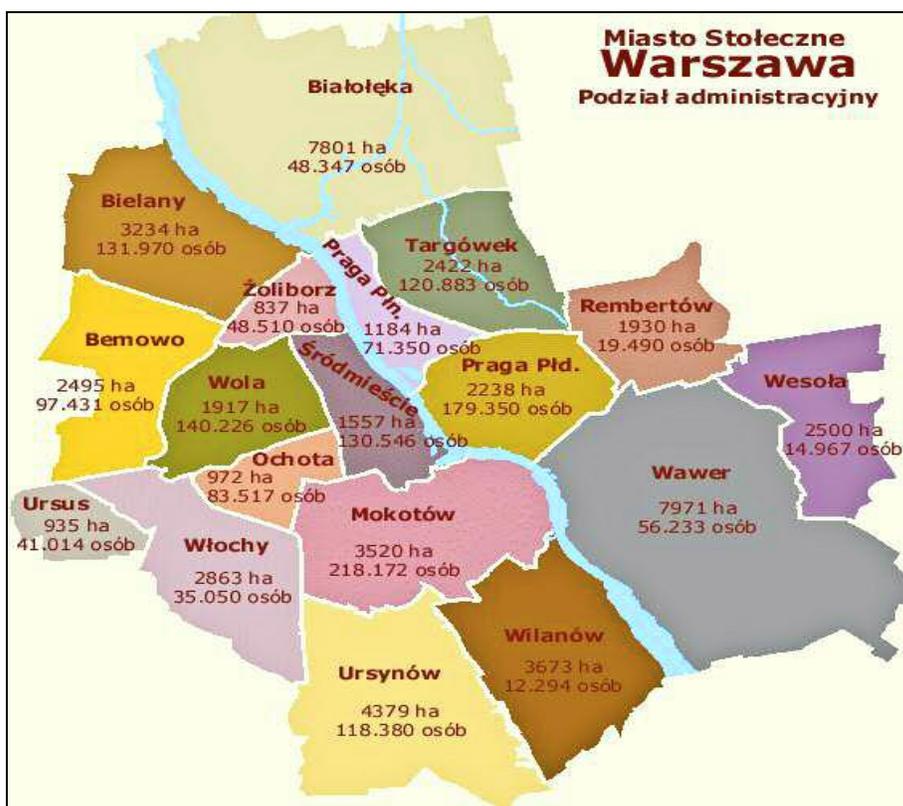
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<sup>4</sup> This estimate comes from common practice in market economies (e.g. Germany) and specific large-scale land development projects supported by international donors.

District	Land area	Municipally owned land		Municipal land at potential risk of restitution claims (rough estimates)	
	Ha	ha*	%	%**	he
Bemowo	2,495	689	27.60%	0.05	34
Białołęka	7,801	686	8.80%	0.1	69
Bielany	3,234	937	29.00%	0.3	281
Mokotów	3,520	1,998	56.80%	0.95	1898
Ochota	972	486	50.00%	0.7	340
Praga Pd.	2,238	1,155	51.60%	0.95	1097
Praga Pn.	1,184	336	28.40%	1	336
Rembertów	1,930	64	3.30%	0	0
Śródmieście	1,557	833	53.50%	1	833
Targówek	2,422	729	30.10%	0.3	219
Ursus	935	177	18.90%	0	0
Ursynów	4,379	957	21.90%	0.1	96
Wawer	7,971	403	5.10%	0	0
Wesoła	2,500	58	2.30%	0	0
Wilanów	3,673	170	4.60%	0	0
Włochy	2,863	400	14.00%	0	0
Wola	1,917	786	41.00%	0.85	668
Żoliborz	837	437	52.20%	1	437
Offices of Warsaw City Hall		98			
TOTAL	51,690	11,400			6,308
TOTAL OFFICIAL	51,724				

Notes: \*) Report *Municipal Assets of City of Warsaw, 2008*;

\*\*\*) Author's estimates based on the map over-imposing the current districts on the territory of old Warsaw.



12. A close look at available data (Table 4) reveals that vacant land constitutes only 265 hectares or 2.3% of municipally owned land, which is an alarmingly small amount. Moreover, roughly 153 hectares<sup>5</sup> (58%) of the vacant land are located on the territory of the old Warsaw and thus can be subject to restitution claims. This implies that only about 112 hectares of vacant land (0.2% of the city territory) are easily available for allocating for both public and private needs, which is not much.

**Table 4. Municipally Owned Land, by Type of Use\***

	Hectares	%
<b>TOTAL</b>	<b>11,400</b>	100%

<sup>5</sup> This estimate is made by combining (i) the distribution of vacant land by district provided by the Bureau of Real Estate Management, the City of Warsaw, and (ii) the estimated share of territory potentially subject to restitution claims presented in Table 3.

<b>Under government control, not burdened:</b>	3,732	32.7%
Agriculture	629	5.5%
Forest	268	2.4%
<b>Urban vacant</b>	<b>265**</b>	<b>2.3%</b>
Residential	638	5.6%
Industrial, storage	141	1.2%
All other uses	1,791	15.7%

Source: Bureau of Real Estate Management, the City of Warsaw.

Notes: \*) As of 31.12.2008. \*\*) The category "vacant" includes predominantly the land within city blocks, existing or planned, i.e. does not include streets.

13. However, one can surely assume that, in addition to the land formally classified as vacant, there are substantial "hidden" resources of vacant (under-used) municipal land listed under other categories, which can be identified and released for re-use. Below are some illustrative suggestions on where such land could be found:

- Some portion of the 638 hectares of "residential" land, which most probably has some reserves for increasing the density of land use by either selling some parcels for in-fill private development or by using them for new public facilities where needed.
- Some of agricultural land can be eventually converted into urban land.
- A surprisingly large portion of land – 412 hectares or 3.6% of the municipal total – is under short-term (up to 3 years) leases, as Table 2 shows. On the one hand, this indicates that the City is being entrepreneurial in extracting income from its idle land, in particular, land under current review for restitution claims. On the other hand, some of land in this portfolio has the potential to be deployed for long-term uses.

14. Systematic screening of all municipal land, including land under "permanent management" by public entities, is needed to identify under-used parcels, and this screening should be a priority for strategic land management as discussed in chapter 5.

15. Further, it is useful to look at the dynamic of municipal land (trends in land transactions) as well. The data available for this report do not explain all the mechanisms of disposition and acquisition, but still are instructive. The size of land holdings directly owned by the City and its institutions and enterprises fluctuates up and down from year to year, but the trend seems to show some decrease in ownership: from mid-2004 to mid-2008<sup>6</sup>, the total decreased by 443 hectares<sup>7</sup> or about 4% of 2004 holdings. The holdings under the perpetual usufruct have the opposite trend: this land has increased slightly by 75 hectares over the same four years.

<sup>6</sup> These are two years for which compatible data are available.

<sup>7</sup> Calculated based on to the Report *Municipal Assets of City of Warsaw, 2008* and Report *Municipal Assets of City of Warsaw, 2004*:

[http://www.bip.warszawa.pl/dokumenty/ip/informacja\\_stan\\_mienia\\_na2005.pdf](http://www.bip.warszawa.pl/dokumenty/ip/informacja_stan_mienia_na2005.pdf)

15. The full spectrum of channels through which these approximately 110 hectares per year have been privatized is not known to the authors. Two of the channels are (i) conversion of the perpetual usufruct into ownership, upon holders' requests (in cases required by law), and (ii) auction sales of land in private ownership. However, these channels explain only about 28 hectares per year (Table 5).
16. It is worth noting that between these two channels, only the auctioning process is initiated by land managers themselves, and it has been responsible for only a relatively small release of 5.3 hectares per year, while other 22.3 hectares have been disposed of at the prompting of landholders whom the land managers must satisfy by law.

**Table 5. Alienation of Municipal Land through Conversion of Usufruct and Auction Sales, 2005 - 2009**

Year	Converted from usufruct into ownership		Sold on auctions in ownership		Total alienated through these two channels	
	he	# of contracts	he	# of contracts	he	# of contracts
2005	11.9	294	6.3	48	18.2	342
2006	12.4	361	10.8	58	23.2	419
2007	42.6	973	5.7	26	48.3	999
2008	26.8	610	3.5	22	30.3	632
2009*	18.0	480	0.1	7	18.1	487
<b>Total</b>	<b>111.7</b>	<b>2,718</b>	<b>26.4</b>	<b>161</b>	<b>138.1</b>	<b>2879</b>
<b>Annual average</b>	<b>22.3</b>	<b>544</b>	<b>5.3</b>	<b>32</b>	<b>27.6</b>	<b>576</b>

Source: Bureau of Real Estate Management, the City of Warsaw.

Note: \*) Through about mid-November.

17. On the acquisition side, land managers attempt to return land to municipal control when usufruct rights expire, but these returns are very limited: less than a total of 3 hectares were returned from 2005 to 2009. In the years when the land holdings increased (such as 76 hectares from mid-2007 to mid-2008), it is not clear whether this land was acquired through purchase or other mechanisms.
18. Table 5 shows that auction sales steeply declined: only 7 successful sales took place in 2009 not because the land managers did not try but because the success rate declined dramatically, due to the real estate market crisis.

Year	% of successful auctions
2007	85
2008	35
2009	10

19. The conversions of usufruct land also declined from its top volume in 2007, but the reasons are not clear.

**2.2. Property Asset Values, Property-Related Revenues and Expenses**

**Municipal property values**

20. The value of property assets, as reflected on City's balance sheet, is shown in Table 6. According to Polish Accounting Rules, land and civil engineering facilities and other buildings directly owned by the City and its institutions and enterprises are included, in a

separate line, as tangible fixed assets. Buildings and facilities are recorded at the initial depreciated cost, while land is recorded at its historic cost. However, for the balance sheet, the land value is adjusted annually according to the “analytical records” of the Bureau of Real Estate Management, which, in turn, is in the process of systematic re-evaluation of land at market value. Therefore, the current representation of land value on the balance sheet is a mixture of historic and market values and can be expected to increase in the future. However, underestimated as it is, land still constitutes the lion’s share of the total: the value of land comprised about 83.3% of all fixed assets in the consolidated balance sheet or on the order of 80% of all City assets. Further, this share does not include the value of land and other property assets held by commercial-law companies, which are themselves shown in the category long-term financial assets.

**Table 6: Fixed Assets on Municipal Balance Sheet, PLN**

	City, consolidated with contributory organizations and business corporations with City’s equity
<b>TOTAL ASSETS</b>	<b>94,523,088,862<sup>*</sup></b>
<b>FIXED ASSETS</b>	<b>88,493,493,038<sup>**</sup></b>
<b>Land</b>	<b>73,700,771,150</b>
Civil engineering facilities and buildings	7,599,432,708
Other fixed assets	287,640,704
Under construction	2,831,430,461
Long-term receivables	92,595,761
Intangible assets	9,318,650
<b>Long-term financial assets</b>	<b>3,972,303,604</b>

Source: \*) as of 31.12.2007, Prospectus, City of Warsaw, March 2009.

\*\*) as of 30.06.2008, Report *Municipal Assets of City of Warsaw*.

21. It is worth noting that the current land valuations assign, on average, much greater value to land per m<sup>2</sup> under the perpetual usufruct than to all municipal land combined:

	<i>Total municipally owned</i>	<i>In particular, land under perpetual usufruct</i>
<i>PLN</i>	<i>73,700,771,150</i>	<i>35,193,822,136</i>
<i>m<sup>2</sup></i>	<i>113,996,638</i>	<i>34,544,192</i>
<i>PLN/m<sup>2</sup></i>	<i>647</i>	<i>1,019</i>

22. This valuation is explained, most probably, by the fact that land managers have focused efforts on re-evaluating lands under the perpetual usufruct, because this re-evaluation leads to increased revenues from annual fees for the usufruct, as the fee is defined as percentage of the land value. As a result, a higher share of land under usufruct is recorded at market values.

### **Municipal property revenues**

23. How do revenues from municipal property assets correspond to property values? The scope of this report and the data available do not allow for a detailed analysis, only partial

observations. First, land under the perpetual usufruct seems to be “cheap land” for land holders, at least for most of them. Indeed, the annual fee for usufruct, on average, has produced 8 – 9 PLN per m<sup>2</sup> for the City budget from 2007 – 2008, which is about 0.8% of the average value of land under the usufruct. Similarly, the initial fee and the conversion fees (Table 7), also produce only tiny fractions of the market value of the land. Indeed, the initial fee is, by law, only 15-25% of the purchase price, while the price itself can be (i) below market, as the City does not have a possibility to auction the land that it sells in perpetual usufruct to holders of old development permits, following law requirements, and (ii) subject to discounts. Further, the conversion fee is also small, given all the discounts. Specifically, the Act on Real Estate Management (August 1997) established very low rates for many categories of usufruct holders, such as an annual fee of 0.3% of the land value for defense functions, church, and non-profits, and 1% of the value for the residential, public-purpose, sport, and infrastructure uses.

24. It appears that usufruct, as currently defined, grants broad and not quite targeted benefits for specific land users. At the same time, the City’s rights as of the owner of municipal land and a conduit of public interests are quite severely limited by the system of usufruct: the City cannot set up rates for the usufruct fee, or define payment schedules, or deny conversion of its land in private ownership. This is a substantial deviation from good international practices that recognize and protect local governments’ property rights similar to those of private owners. It should be noted that in an attempt to increase the revenues from the usufruct, the City is using the lone lever it has, the estimated land value. As a result the city re-evaluates land too often, sometimes annually, which has negative impact on usufruct holders by making their expenses for this fee unpredictable. A better balanced system of public and private land interests may include modernization of the usufruct system, while protecting needs of specific land users through other social policy measures.

25. Second, the City’s revenues from land auctions crashed, along with auction prices and sales:

*From the top 329.8 million PLN in 2007 to 1.2 million PLN received in 2009 (by Novemb.).*

Table 7 shows auction prices for land declining more than 5 times, on average, from their highest level in 2007. In addition, the number of successful sales has declined even more steeply, as discussed above. This dramatic decline of revenues from land auctions reflects the impact that the international real estate crisis has had on the municipal land market in Warsaw. How does this connection work? First of all, the municipal supply of land in Warsaw is closely linked to the private supply: there is a lot of vacant land in private hands, and many buyers / investors prefer buying not from the government, but from private owners. Second, Warsaw has enjoyed good ratings on the international real estate scene,<sup>8</sup> so the real estate prices on residential and commercial real estate in Warsaw were

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<sup>8</sup> For example: In 2009, Warsaw scored # 10 among 34 European cities on how the cities improve themselves (Cushman & Wakefield, European Cities Monitor, 2009). In 2008, it became the first Eastern European city ever that made it to the top ten on the European Economic Growth Index measured by LaSalle Investment Management for 91 cities in

driven up not only by strong local demand, but by international demand as well, in particular, from Spanish and Irish investors. Now, as investors try to retreat from the Warsaw market by selling, supply exceeds demand. Demand itself is further limited by less availability and higher costs of real estate loans: the typical loan-to-value ratio declined from 90% to 70%, and additional assets (in addition to the mortgaged site) are required. The “first line of defense” that real estate investors and developers have for responding to declining prices on their final products and decreased availability of loans is reduction of land prices they are ready to pay. The prices in the private market reportedly declined almost twice by November 2009. At that time, real estate experts in Warsaw believed that the real estate market had not yet hit the bottom, and that foreclosures on real estate loans and the disposal of bank-held foreclosed properties were still ahead. All together, these movements had a very direct and negative impact on municipal land sales. However, demand can still exist for unique prime locations and for sites well-located for PPPs.

**Table 7. Average Land Alienation Prices, 2005 – 2009, PLN/m<sup>2</sup>**

Year	Newly granted usufruct*	Conversions from usufruct into ownership**	Auction sales in ownership
2005	105	26	2,208
2006	2	41	4,854
2007	33	26	5,772
2008	91	26	2,209
2009	68	21	1,039
<b>Annual average</b>	24	27	4,059

*Source:* Author’s calculation based on the data provided by Bureau of Real Estate Management, the City of Warsaw.

*Notes:* \*) By law, up-front payment for obtaining the usufruct constitutes only 15-25% of the land value or price, discounted further for certain land users; the rest is payable as an annual fee.

\*\*\*) The conversion fee consists of the outstanding annual fees, but given the discounts, yields these small amounts only.

26. In this environment, it is understandable that in 2009 municipal land managers were able to obtain from land sales only 48.6 million PLN or 33.8% of the budget target of 143.9 million PLN (see Table 8), even though the target itself took into account the market decline by aiming for only 54% of 2007 sales revenues. Similarly, the year 2010 does not promise to bring the market back.

**Table 8: Structure of City Budget Own Revenues Related to Land and Property and Budget Targets for 2009, PLN**

Revenue source	Planned for 2009, PLN	To which property applies	Comment (including on the change during 2007 – 2009)
<b>RECCURENT:</b>			
<b>Real estate tax</b>	769,451,792	Private	Planned 2.9% annual increase;

Europe. Also in 2008, Poland scored 25<sup>th</sup> among 84 markets by the Jones Lang LaSalle Real Estate Transparency Index.

<b>Property transfer tax</b>	550,000,000	Both private and public	Not based on the market valuation Planned 14.3% annual decrease
<b>Planning gain</b>	1,218,000	Private	Expensive to administer and should be dropped off
<b>Liquidation of enterprises</b>	82,200,000	Municipal	Planned steep (385 times) increase
<b>Interest on bank accounts</b>	55,554,371	Municipal	Planned steep increase from zero
<b>Fees from management, use, and usufruct of municipal assets</b>	292,535,079	Municipal	Planned 1.1% annual decrease
<b>Dividends income from companies</b>	12,825,000	Municipal	Planned 20% annual increase
<b>Fee for lease and rent of municipal assets</b>	423,869,846	Municipal	Planned 2.7% annual decrease
<b>CAPITAL:</b>			
<b>Sales of machinery</b>	226,000	Municipal	
<b>Conversion of usufruct into ownership</b>	6,844,870	Municipal	Planned 19% annual decrease
<b>Sales of land and property</b>	235,490,666	Municipal	Planned 23% annual decrease
<i>Including:</i>			
<b>Land</b>	143,912,288		
<b>Apartments</b>	56,144,248		
<b>Shops</b>	21,034,130		
<b>Other</b>	14,400,000		
<b>Sales of enterprise shares</b>	80,939,800		Steep increase from 2007 to 2008, and 17% decrease from 2008 to 2009

Source: The City 2009 Budget.

27. Moreover, the crash of 2009 highlights the need to discuss whether the current tactic of letting land sales be driven by annual fiscal targets is good for Warsaw or whether another approach would be more beneficial. This issue is further discussed in chapter 5.
28. Third, while municipal rentals produce the highest revenue related to municipal assets (Table 8), it is impossible to assess the efficiency of the management of municipal income-generating portfolios of commercial rentals and apartments. Some indicators of performance, such as occupancy rates, are good; the collection rates are relatively good for the public sector as well (though lower than they normally are in the private sector):

	<i>Municipal Housing stock</i>	<i>Commercial rentals</i>
<i>Occupancy (% of units rented out)</i>	97.3	93.2
<i>Payment collection rate (% of rent payable that is collected)</i>	82	89

29. However, the net financial results (income less expenses) at the property-by-property level are not monitored, and without this it is impossible to conclude whether these portfolios - and in particular, the commercial rentals as obviously surplus property - are producing acceptable return on investment for the City. Moreover, based on experiences of some other post-transitional cities in Eastern and Central Europe, one can confidently

expect that if the portfolio of 10,000+ commercial rentals would be analyzed according to even basic criteria used for investment properties in the private sector, many of these premises would be found to not deliver acceptable returns or even produce net losses.

30. Fourth, it is worth noting that the revenues from planning gain have been insignificant; given the fact that this fee is expensive to administer, it would behoove one to stop collecting it, along with the betterment fee<sup>9</sup>, which would be consistent with the experiences of other cities (in Poland and internationally) that demonstrated that these fees do not work anywhere except some South American countries.<sup>10</sup>

### **Land related expenditures**

31. Current (operating) expenses related to municipal real estate constitute a very substantial portion of the municipal current budget – more than 12% in 2009.<sup>11</sup> This is consistent with international estimates: in Germany, property related operating expenses of the public sector are estimated between 15 and 20% of the operating budgets.<sup>12</sup> Furthermore, it is believed, based on estimates by various authors, that optimization of government property management in Germany can lead to costs savings in the order of 10 to 15% of costs involved. Hypothetically, if Warsaw could achieve similar cost savings of 12%, this would translate to at least 168 million PLN of operating costs eliminated annually (or about 1.5% of the 2009 current municipal budget), even if no other measures, such as strategic reduction of the property holdings, are taken.
32. Opportunities for capital costs savings exist mainly within the use of PPPs instead of direct public expenditures.

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<sup>9</sup> The planning gain fee is defined by the *Act on Spatial Planning and Development*. If, in connection with the adoption or modification of a Local Spatial Development Plan, value of property was increased, and the owner of the property or the holder of the of perpetual usufruct right is selling the property within 5 years after the adoption of the Plan, he shall pay a one-time fee specified in the Plan, defined as a percentage of the increase in property value. The amount of the fee shall not exceed 30% of the increase in property value.

The betterment levy is defined by the *Act on Real Estate Management and should be collected due to increase of the real estate value resulting from construction of technical infrastructure facilities or due to partition or consolidation of real estate*. The betterment levy has been hardly ever collected.

<sup>10</sup> Peterson, George E. *Unlocking Land Values to Finance Urban Infrastructure (World Bank and PPIAF: 2009)*

<sup>11</sup> According to *The Budget of the City Warsaw 2009: Condensed Summary*, maintenance of real estate made up 11.7% of the total current (operating) expenses, but this does not include operating expenses related to two large specialized portfolios (educational properties and sport facilities), so the total is higher than 11.7%.

<sup>12</sup> Schulte, K-W and C. Ecke. *Public Real Estate Management in Germany: An Empirical Study*. – In O. Kaganova, J. Mckellar (Editors). *Managing Government Property Assets: International Experiences*. The Urban Institute Press, 2006, p. 232.

33. If strategic asset management is implemented, one can expect disposition of non-performing or surplus properties from many portfolios, from apartments and shops to vacant municipal buildings, which would result in one-time capital revenues much higher than they have been in recent years (assuming, of course, that dispositions will be scheduled when the real estate market recovers from its current crisis).

### **Subsidies**

34. Another important issue is that both operating revenues and operating expenses associated with municipal property are affected by explicit and hidden property-related subsidies throughout the system. For example, we already mentioned the explicit discount on the usufruct fee for the church and non-profits. Other examples, less explicit, include (i) not collecting apartment rent from some tenants of municipal apartments, for social reasons (which is why the collection is only 80% ), and (ii) not re-auctioning shops pro-actively, when leases expire. The other two portfolios where badly targeted subsidies often exist (in other countries in CEE) are sport facilities and municipal surplus office space (often in prime locations) given to various NGOs at below-market rents. Identifying subsidies of this sort related to all portfolios and re-tooling and targeting them better, with lower direct and indirect costs to the City, should result in budget gains.
35. Finally, big land-related expenditures may be needed for cleaning contaminated municipal sites for their re-use, if such sites exist. At the same time, the disposition of such “brownfields” in the context of strategic land management, and with carefully designed arrangements to account for liabilities and risks, can be a source of future public revenues and a way of encouraging in-fill redevelopment.<sup>13</sup> It appears, however, that site contamination has not surfaced as a big item for municipal land, at least so far, and has been known instead for State-owned or privately owned sites, such as former industrial buildings at Wola district owned by the State Treasury, or some post-military sites, or some privately owned land in the vicinity of the Arcelor Mittal steel-mill. Some municipal sites (like a bus depot) were purchased by the commercial housing developers during “the boom period,” regardless of sites’ obvious contamination. The developers cleaned these sites using their development budgets.

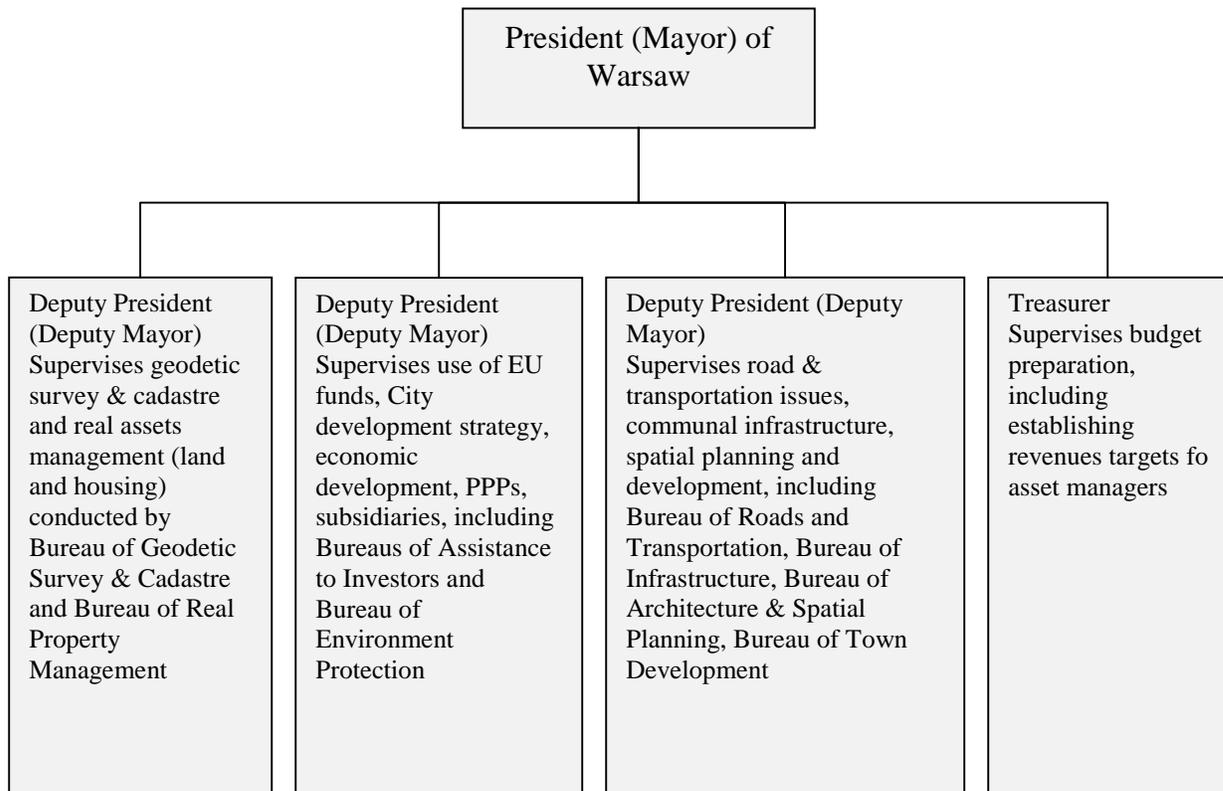
### **2.3. Institutional Arrangements**

36. There are several units within the City government that play key roles in asset management. They report to four different vice mayors (graph below). In particular, land management and housing management, PPPs, and planning of land uses and their parameters are under three different deputy mayors, while the budgetary “targets” are set up under the Treasurer. This apparent dispersal of responsibilities may lead to a lack of coordinated or consistent action among Bureaus reporting to different vice mayors (in particular, the Bureau on Real Property Management, Bureau of Architecture and Spatial Planning, and Bureaus of Assistance to Investors), even if formal requirements regarding cooperation on such issues as preparation of land sites for sale exist. Moreover, some practices were introduced in order to bypass problems of fragmentation or overlap of Bureaus’ responsibilities related to land management. In particular, there is the conscious

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<sup>13</sup> A recent Bank report discusses these issues: *Sustainable Brownfield Redevelopment: A Guidance Note*. Europe and Central Asia Region, World Bank, March 2010.

preference to auction land sites in locations where local development plans do not exist. This allows the Bureau on Real Property Management to auction sites with “development conditions” that usually are more attuned to an expected market demand than the local development plans developed by the Bureau of Architecture and Spatial Planning and, as a result, may produce – upon some specific locations - higher revenues from land sales. Specific issues related to this fragmentation are discussed in sections 3.3 and 3.4 and possible remedies – in chapter 5.



### 3. ACHIEVMENTS, ISSUES, AND RISKS

#### 3.1 Municipal asset management in Warsaw has many evident achievements, both strategic and operational

37. Strategically, a positive step forward was the centralization of land management as a result of administrative unification of the City in 2002, from the previous system of the boroughs managing land on their own. A difficult technical legacy of the previous territorial fragmentation was the lack of a unified, city-wide geodetic system, which only recently has been generally resolved.
38. Current land management has elements of a policy, though not formal or publically announced, that are attributed directly to the Mayor (President) and indicate that the current administration attempts to make land management more efficient:

- Thus, another strategic shift, which should lead to positive results, if executed well, is the introduction of a new generation of PPPs. Differing from the first generation, which was focused exclusively on commercial land development, the new generation will deal with engaging the private sector in delivering public services and infrastructure, similar to the mainstream PPPs in the EU (see chapter 4).
- At the operational level, land sales have several features that indicate that economic value of land is acutely recognized. First, “packaging” of land sites for auctions is of good quality, in comparison to municipal sales in many other countries. Secondly, the current practice is to sell land for private ownership instead of usufruct, for two reasons: to eliminate the costs and problems of enforcing the usufruct contracts (such as deadlines for completing construction) and to improve attractiveness of land for private investors.<sup>14</sup> Further, there is the tendency to maximize land value by selling land sites with the land use parameters that are the most attractive to developers. The policy to re-evaluate municipal land at market value is another strong initiative. Finally, annual “revenue targets” for land sales established in the City budget also indicate that the revenue-generating capacity of land is recognized quite explicitly.
- Budget-linked incentives for boroughs are established, to stimulate collection of rental fees.

39. Nevertheless, the municipal asset management faces multiple challenges, one of the most important being that the legacy of the past is still unresolved. The key difficulties are detailed in sections below.

### **3.2 The needs of asset management and City’s capability have outgrown the legal framework**

40. Further development and improvement of asset management in Warsaw and strategic development of the City are seriously inhibited by outdated or lacking laws. Two areas are of the most serious concern:

- The Polish Parliament has not introduced a law to cancel the Bierut’s Decree of 1945 and restitute the property and does not have any draft officially in a Parliament pipeline, though many drafts and intentions have been discussed since 1990. Reportedly, the high cost of the systemic restitution is one of main obstacles for adopting such a law. As a result, restitution claims can be filed in courts without a deadline, which keeps a cloud of questionable municipal ownership over the majority of municipal land in the territory of old Warsaw (Table 3), without a possibility to clarify which parcels really could be claimed.

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<sup>14</sup> Though whether the ownership is the preferred option for developers is debated in Warsaw, and the answer often depends on the type of development. In particular, many developers of residential real estate prefer buying the usufruct rights, because it is cheaper: only 15% - 25% of the purchase price is payable upfront, and after completing construction and selling apartments, developers are getting away, leaving the buyers to deal with future land rights and increasing annual fees.

An estimated number of such parcels reaches into the magnitude of 15,000, with only about 1/3 being under active claims. This reduces marketability of the most valuable, centrally located land, especially given that potential claimants often are dormant until the City places parcels for sale. The current Warsaw administration tries to buyout the claims, with a speed of about 300 per year in the best case, but the fact that the total portfolio of claims is not known prevents strategic planning of this process. In addition, the lack of a restitution law allows the courts to restitute properties with current public uses (schools), which creates problems for delivery of public services – this is a case that a good restitution law would perhaps be able to resolve by way of compensation, not physical restitution. However, a high price tag of the restitution (for both the central and City government) impedes adoption of the law.<sup>15</sup>

- There is a notable mismatch between the advanced government decentralization in Poland and the fact that local governments' power over municipal land is still largely governed by the legacy rules from the past. Cities, Warsaw included, lack some basic rights that municipal owners usually have in developed countries. In particular, the use of even basic standard instruments, such as land leases, is severely limited: the term of the lease can not be longer than 30 years, according to the Civil Code of 1964.<sup>16</sup> The duration of perpetual usufruct rights can be longer and thus the usufruct could substitute for long-term leases, but to a limited extent only. As discussed above, local governments do not have the right to set up payment rates for the usufruct and often can not prevent tenants from converting usufruct in ownership, so this form is not a real substitute for the normal long term lease. Not surprisingly, alienation of partial rights, under more sophisticated arrangements such as air rights, is also not legally feasible.<sup>17</sup>

41. Finally, a further factor making the land use planning process cumbersome is the fact that even small revisions of, or amendments to, local development plans require the same procedures and steps that were required of their initial development and approval.

### **3.3 Asset management does not have a strategic framework and is often driven by short-term operating needs**

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<sup>15</sup> Given the challenge of securing land rights that the City faces, it may be worth considering title insurance as a possible intermediate solution for transactions with municipal land sites at a potential risk of restitution claim. In the US in particular, title insurance is a routine instrument of property transaction, although the benefits of this system relative to costs have been questioned and a broad international trend is to use government-backed property registration systems of guarantying property rights. Nevertheless, there are established title insurance companies with international practices (including in Poland), which the City might consult. For example, First American Corporation has offices in Europe: [www.firstam.com](http://www.firstam.com)

<sup>16</sup> Obviously, these limitations are affecting all local governments in Poland. Moreover, they are applicable to State property as well and limit asset management options for the central government and its institutions, similar to local governments.

<sup>17</sup> According to the legal analysis conducted by – among the other ones – Ms. Rachele Alterman, Prof., Technion University, Israel, for introducing the air rights the Act on Real Estate Management and the Civil Code should be amended.

42. Despite all the advances and sophistication of many operational aspects of property asset management, a strategic view and approach are lacking. Moreover, it appears that strategic importance of land and property assets and the need for an integrated approach are not sufficiently recognized. This is manifested by the fragmented nature of the land and property asset management: for example, land sales and PPPs are run quite autonomously from one another, although, they are just two different instruments of land management and should be planned accordingly, in recognition of one another. Another indication is that selection of land sites for auctioning is driven by the pressure to meet annual budget targets, and no mid- or long-term strategies exist. Land managers appear to have no more than a 3-year sales plan, which is not sufficient for such an advanced city as Warsaw.
43. At the moment, there is no articulated, generally agreed view - either within the administration itself, or between the administration and the public – on a number of issues critical for the City’s future. For example:
- Can any vacant municipal site potentially be sold on auction or are there locations where other criteria, beyond the highest price (for instance, the architectural quality of a future building at hallmark locations) should be used? If some sites are “reserved” for disposition differing from simple auctioning, what are these sites?
  - While planning land sites for auctions, does the City have any guiding principles beyond meeting the current budget target?
  - Are there any spatial considerations or preferences for dispositions of municipal vacant land?
  - How can the needs and demands of private investors be satisfied better by urban planners, whose views of how land should be used are expressed in local development plans? (More on this below, in section 3.3.)
  - For areas not covered by local development plans, how are future public-use needs accounted for while land sites for sale are selected?
  - What can and should be the role of PPPs in Warsaw development and operating public-use properties, such as sport facilities? (More on this in chapter 4.)
44. Similarly, the huge portfolio of commercial rentals is not managed pro-actively or strategically, which was already discussed. The same is true regarding the portfolio of municipal residential properties.<sup>18</sup>
45. Just as important, there is not yet a citywide practice to proactively improve the utilization of public buildings and facilities, and to manage them more efficiently. For example, as a part of the City’s concession to districts struggling to regain some control over land and property that they lost with the unification of the City administration, the current administration gave vacant municipal buildings to districts to sell, but the

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<sup>18</sup> While a recent report *Residential Rental Markets in Poland: TBS Review* (World Bank, April 2009) indicates substantial issues associated with municipal rental housing.

buildings have not been disposed of yet and continue to be in their non-productive condition and exist as a source of expenses for the City.

46. In mid- and long term, optimizing the size of municipal property holdings in a strategic way (which, for most portfolios, would imply making them leaner) and improving efficiency of asset management should produce substantial fiscal benefits to the City along two lines: (i) generating one-time capital revenues from disposing surplus properties (shops, apartments, vacant and under-utilized public-use properties) and (ii) reducing property-related operating expenses.
47. This all presents an opportunity for a new stage of municipal asset management. The current successes in improving various operating aspects indicate that the administration may be ready for the next, more strategic steps suggested in chapter 5.

### **3.4 Tension between local development planning and land sales planning**

48. What makes Warsaw different from cities in many other post-transitional countries is that the tension around land use parameters exists not only between the urban planners and private developers, which is a common case in many countries, but additionally, within the City administration itself, between the urban planners and land managers.
49. The issue can be summarized as follows: there is a general agreement within the professional community, from international urban planners visiting Warsaw to real estate experts working in the City for a long time, that real estate development is less risky for investors and better for the overall quality of urban life if it takes place in a predictable environment where potential land uses for surrounding parcels in a neighborhood are known. In Warsaw, this translates into a need for local development plans (LDPs) that have the power to legally define ranges of permitted land uses and their parameters.
50. However, so far, only slightly less than 25% of the territory of Warsaw is covered by LDPs. Moreover, municipal land managers prefer selling land outside the areas covered by the LDPs, which is legally feasible through defining land uses and land use parameters for specific sites (so-called “development conditions”, i.e.: “decisions on conditions for development”). Why? The reason for this is that “development conditions” can be formulated to reflect the most profitable use of the land site according to the market signals (or expected needs) and thus generate higher sales revenue than from the sales of seemingly similar sites within the LDP-covered areas. Meanwhile, many LDPs<sup>19</sup> are viewed as too rigid, prescriptive, and not accurate in reflecting market demand, thus reducing the land value and prices that developers are ready to pay, if interested at all.

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<sup>19</sup> The number of current *LDPs* (as for Nov. 30<sup>th</sup>, 2009) is 163, covering 23,4% of the whole area of the City of Warsaw; the areas covered by each plan vary considerably from 10 to 100 hectares.

**Box 1: Land Use & Financial Models (“Bertaud Model”)**

Spreadsheet models exist that connect land use parameters and financial aspects (costs and potential revenues) of developing certain land areas or sites. These models can be used for various purposes, such as testing the feasibility of large land development projects, testing the affordability of land use regulations, or estimating expected prices on land auctions depending on land use parameters, market prices on final real estate products, and project costs, etc. In particular, they allow simulating the impact of land uses and land use intensity on financial outcomes of market-oriented real estate development. A number of models adjusted to specific situations and needs are used in real projects in real cities around the world. The model’s generic name, *Bertaud Model*, goes back to Alain Bertaud who introduced and promoted its use during his tenure at the World Bank.

51. To Warsaw’s advantage, the Polish urban planning system has an obligatory instrument which, if used better than in current practices, could quickly become a platform for a rational approach to converging the views of urban planners with interests of the private sector and needs of municipal land managers. This is Financial Impact Study (FIS) that, by law, must be produced before a LDP can be approved. The version of the FIS reviewed for this report<sup>20</sup> contains a simple calculation that allows estimate expected land-related revenues from the area covered by the LDP and public expenses related to its implementation. In particular, the following items were included in the FIS:

<i>Revenues</i>	<i>Expenditures</i>
<i>Property tax</i>	<i>Construction of streets / roads</i>
<i>Perpetual usufruct fee</i>	<i>Sewage mains</i>
<i>Planning gain</i>	<i>Water mains</i>
<i>Betterment fee</i>	<i>Purchases of the private lands to build the above infrastructure</i>

52. So far, the lone modification of the LDP that its authors would consider based on this FIS, has been the reduction of the length and characteristics of streets, if the expenditure side seems too high compared to revenues.
53. An obvious modification of this model would be to add potential revenues from sales of vacant municipal land to the revenue side. Further, the model can be developed into a spreadsheet to be used for considering various revenue scenarios depending on land uses and their parameters, such as floor-to-area ratio (FAR), land coverage, etc. In fact, the spreadsheet model implies the adaptation of the Bertaud Model (see Box 1) for use as a part of the FIS. Such a modified model can be used by urban planners and land managers, with the participation of private sector real estate appraisers, for finding a reasonable compromise regarding land use in the early stages of developing LDPs, as suggested in chapter 5.
54. Another existing source of tension is the size of land parcels for release by the City for private development. The issue is well illustrated by the case of the “Bielany Triangle”

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<sup>20</sup> Kindly demonstrated by Mr. Kiziniewicz.

site. While this 3.2 hectare site was under the control of the Bielany Borough, the borough administration designed a local development plan for the entire site, for high-density mixed-use land that would integrate a “shallow” metro station and an underground parking garage for the entire development. The development concept was to convert the whole site into a joint venture with a strategic investor and have one “master developer” be responsible for the entire site. In particular, it was expected that multiple uses would be located in large integrated structures rather than separate buildings. The plan was not realized, and a more recent plan proposes subdividing the “Triangle” and selling smaller sites to various developers. There are several core questions on which opinions vary broadly: (i) whether selling “sliced” sites would increase or decrease the total value of these 3.2 hectares (and resulting revenues of the City), (ii) which scheme contains less risk for the City that the development would not take place as envisioned, and (iii) which of the two schemes would produce better results in terms of functional amenities and architectural aesthetics for this prominent location.

55. The questions of “optimal” site size for development and the “best” type of development scheme for large and prominently located sites (“master developer” or multiple independent developers) do not have universally “correct” answers and continue to be debated throughout the world. For Warsaw, it can be useful to maintain open the possibility of a diversified approach, so that various solutions can be deployed depending on the situation and location, through a compromise achieved by constructive debate between the City administration and the professional community. This flexible solution would require, however, a strategic approach to land management and harmonization of views within the City administration itself, along with more open attention to the views of the private sector, and new approaches to PPPs.
56. Finally, the City would benefit from capturing a part of land value through selling “development rights” – the right to exceed the planned parameters of land use (FAR, number of floors, land coverage, etc.) in exchange for money or building public infrastructure.<sup>21</sup> Use of this instrument would be especially beneficial at locations around public transportation nodes and along main public transportation corridors and could help finance the public transportation. However, it appears that the current legal framework does not allow using this instrument efficiently, because any deviation from an approved LDP would require the same elaborate approval process as the initial LDP.

### **3.5 Fragmentation of land and asset management is felt though the City administration**

57. Our observations suggest that this fragmentation can be a deeply ingrained problem. As already mentioned, the Bureaus related to various aspects of land and property management seem not to share a common ground facilitating cooperation. In practice, systematic and constructive exchange of information and ideas among Bureaus reporting to different vice mayors appears to be insufficient. For example, our impression was that

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<sup>21</sup> This instrument has been successfully used in *Sao Paulo*, Brazil; *Lima*, Peru; *Stuttgart*, Germany; *Bethesda*, MD, USA. Its implementation requires, however, substantial transparency and careful prior planning.

the new approach to PPPs, while clearly being the new de facto policy supported by the Mayor, was not equally perceived and understood by Bureaus under other deputy majors.

### **3.6 Tendency of private interests prevailing over the public?**

58. There are examples that indicate an alarming tendency of private interests to have more control over land than would be considered a reasonable balance in contemporary cities in the developed world.

- *Example 1:* In the Ursynów District, housing cooperatives near the Ursynów metro station claim whole territories within large blocks of high-rise residential housing into their perpetual usufruct, with, perhaps, a potential for buying out into private ownership. This includes large vacant areas used for surface parking which accommodate the growing population of individual cars of apartment owners (thus consuming a large amount of land in a very inefficient, low-density manner) and large open spaces. Some of this land could be released by the City for further in-fill private development or for public facilities. As mentioned above, such a practice of delegating almost 100% of land to private control is quite different from common practices in modern democracies, where approximately 30% of land in urban residential areas is held under public control.
- *Example 2:* During privatization of industrial and other state-owned enterprises during the 1990s, some territories formerly occupied by large industrial or agricultural estates were sold to developers without any land exemptions or dedications for public uses. As a result, the public authorities were repurchasing land, for building streets and/or schools etc, as in the territories of Wilanów, Wola, Mokotów (Służew area) and Żoliborz districts.
- *Example 3:* Even family garden plots and low density built individual garage boxes in urban areas, never intended for the long term, are claimed in perpetual usufruct by their holders.

59. These examples indicate that public interests might not be sufficiently represented or protected, due either to a lack of relevant regulations or to powerful political lobbying by private interest groups.

### **3.7 Risks**

60. All together, the issues outlined above create specific multiple risks:

- The risk of strategic opportunities for land- and property-related financial gains (costs savings and revenues) being overlooked and forgone due to lack of strategic asset management;
- The risk of further weakening the spatial integrity of Warsaw due to a number of factors (the restitution clouds over the centrally located land; lack of integrated, strategic use of all feasible land management instruments; and insufficient cooperation of urban planners and land managers). In particular, the continuing legal and planning limbo in the central part of the City has been accelerating the spread of high-quality, high-density developments to the periphery, such as the

former industrial areas of Wola and Służew as well as outer parts of Bielany, Bemowo, and Praga. At the same time, critical central locations, such as Defilad Square and the areas designated for district centers around the Wilanowska and Słodowiec Metro stations are not yet utilized.

- The risk of long-term public interests and need of municipal land being jeopardized by private lobbies.

#### **4. PUBLIC-PRIVATE PARTNERSHIPS (PPPs) IN WARSAW: THE TURNING POINT**

61. PPPs in Warsaw are distinctively changing from joint-ventures (JV) to contract-based arrangements. No less importantly, the subject of PPPs is also changing. The first generation of PPPs in Warsaw emerged in the early 1990s and was dealing practically exclusively with real estate development. In particular, these PPPs accelerated the emergence of professional real estate development and stimulated the delivery of high quality mixed-use and retail real estate previously lacking in Warsaw. Examples include such cityscape forming projects as the Atrium Business Center in Wola District and Złote Tarasy in Downtown. These first-generation PPPs used generally one scheme: a district administration would create a JV with a private developer, selected with a varying level of competition, and would contribute a vacant freehold land, while the private partner would contribute finance, construction, and management of the property. The exit strategy for the governmental partner would stipulate that after project completion, the public sector would sell its share at the market value, equivalent to the market value of the land the administration had contributed and that had appreciated due to the development.
62. While the Atrium Business Center was a success (in particular, the first of its four buildings, completed in 1995, was recognized by EBRD as “the best real estate project in CEE”), many other PPPs of this type have been quickly caught in disputes resulting from a number of factors, including insufficient professionalism and errors during establishing JVs. Whether the public sector was receiving a fair share in a JV and a fair exit compensation for its land became frequent subjects of concern.<sup>22</sup> To date, many remaining PPPs of this generation are mired in mutual accusations, mistrust, disappointments, bankruptcies, and litigations.

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<sup>22</sup> What might be nor sufficiently recognized or at least not publically acknowledged by parties in disputes is that valuation of companies and partial interests related to real estate is very sensitive to valuation assumptions and methods used, and estimates can vary very substantially even when conducted by honest professional appraisers. A recent example of disputes among *private* partners in a former PPP in Warsaw is instructive: One party’s appraiser estimated the value as 70 million PLN, which was marked up to 100 million by the first-level court; the other party’s appraiser valued the same property at 770 million, and the final court’s ruling (in London) was 600 million.

63. The current Warsaw administration clearly departed from this JV model and is launching the new generation of PPPs, as they are practiced in EU and other developed countries. Three potential advisors were selected through procurement (PricewaterhouseCoopers, Deloitte, and Ernst & Young), so for any particular PPP, they will compete amongst themselves to advise the City. For projects that do not generate their interest, a local consulting company was selected to assist the City on PPP preparation. Moreover, a number of PPPs under preparation or discussion within the new approach are of the public-service nature and have no relation to real estate development as the main function:

- Garbage incineration facility,
- Water facility,
- Hospital,
- Refurbishing 1,600 bus stops, and
- Tram lines.

However, some other projects mentioned in the interviews, such as building new municipal apartments, an underground garage, a new City Hall, an aqua park, and sell-lease-back arrangements are, in fact, more explicit real estate developments.

64. The launch of the new generation of PPPs is a very positive development, but the City will inevitably face at least two serious challenges:

- PPPs, regardless of legal arrangements, are one of the most complex instruments of governmental asset management, and at this moment the City might have insufficient in-house capacity and qualifications for conceptualizing some of the projects and being a qualified client for receiving advisory services provided by commercial consulting companies, such as PW and others.
- Past experiences created mutual skepticism, suspicion and mistrust in both camps, private and public, and made PPPs a highly politically charged subject. Success of the new generation of PPPs can be at risk until this spirit is left well behind. A very important element of the PPP policy / practice should be establishment of on-going constructive communication with the private sector, perhaps through a special advisory board on PPPs. So far, however, the fact that the City is moving

**Box 2: Examples of PPPs with Public Garages**

**Kuwait City:** Practically all public garages were developed by the private sector on governmental land, as part of “sandwich” skyscrapers (retail, garage, offices).

**Washington, DC metropolitan area:** A 5-level parking garage was funded and built by a private developer underneath its mixed-use (retail / residential) building on the municipal land site near Bethesda Metro station (photo)



toward new PPPs seems to be not sufficiently known yet, neither within the City government nor the private sector.

#### 4.1 Transportation related PPPs

65. In general, the City does not yet have advanced experiences in building transportation related facilities through PPPs. In particular, Park & Ride (P & R) facilities from Phase I (five of them) and even Phase II (seven, with two already completed) have been funded and executed by the City itself, with EU funding earmarked for them. In the sample of five P & R visited (four built and one planned), at least four seem to be obviously forgone opportunities for commercialization. Specifically:

- *The Ursynów P & R* is a surface parking lot built between two traffic lines on a very wide street. It could be funded, at least partly, if leased to a private developer for a 2-3 store light construction structure with retail-service on the top of the parking,
- *The Wilanowska P & R* is a functioning 2-story parking garage for 290 cars at the 2,700 m<sup>2</sup> site, build at an attractive location adjacent to a metro-tram-bus hub. It is surrounded by a large vacant municipal plot. For this site, the private sector could have fully funded this parking capacity as part of a simple “land-for-parking” PPP, similar to what is practiced internationally (see Box 2). Indeed, assuming that taking 290 public-parking spots in an underground garage would cost 102,500 PLN per car,<sup>23</sup> and that land for the mixed-use development, that would incorporate this public garage, could be sold for 5,700 PLN/m<sup>2</sup> <sup>24</sup>, the City would need to give for this PPP about 5,200 m<sup>2</sup> of land, which is only 1.93 times larger than the site of 2,700 m<sup>2</sup> consumed by the current mono-use garage. With a standard requirement that built-up area of the site constitutes not more than 60%, an outcome of this PPP could be a nice mixed-use building covering 3,120 m<sup>2</sup> of land, with the rest of the site being an open space, with the public garage hidden underground, and without public money spent on building it.
- *The Marymont P & R* is a functioning 400-car garage, located on the border of a well-developed area, next to a temporary bazaar. Similar to the previous case, a mixed-use PPP could cover the cost of the facility, at least in part, and result in a more effective use of urban land.
- *The Ursus P & R* (planned for 400 cars). The location is less prestigious than Wilanowska, and predominantly residential development in the surrounding area has low density at one side of the railway. However, there is a bus hub there, and

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<sup>23</sup> This is EURO 25,000 per car. In general, the cost of private parking garages in Warsaw is in the range of EURO 10,500 – 40,000 per car (which includes the cost of land), with the underground garages costs starting from EURO 25,000. Given that in this case, the cost of land is not included, the assumption of EURO 25,000 per car is conservative enough.

<sup>24</sup> Before- or after the crisis, according to 2009 valuation of a municipal similar site in the Mokotów District by the Bureau of Real Estate Management.

a rail stop is planned. The location could be made attractive for mixed-use development along the railway (services, offices, some retail and entertainment), which could recover at least a part of the P & R costs and improve the quality of life for surrounding residential areas.

- *Mociny* – a large integrated hub for Metro, bus, and tram, with the large parking capacity to accommodate the future influx from the north-eastern districts thanks to the new “Northern” (i.e.: Północny) Bridge connection. In principle, the City could have planned to integrate the hub with private development, but this would be a more complex project than a simple one-site PPP of the kind forgone at the Wilanowska Metro station.

66. What seems important is that building public garages for P & R program through PPPs would not only save public money spent on these garages or parking, but, no less importantly, would result in more effective use of urban land and also provide the opportunity for buildings that look better than the parking garages. However, this scheme could only work in commercially attractive areas and only if the current skepticism of the private sector in regards to the government can be overcome.
67. In addition, transportation-related PPPs may turn out to be more complicated than PPPs located inside street blocks, due to confusion and overlaps regarding which agency controls certain entities in transportation corridors (streets, roads, transportation sub-systems). In particular, some of these lands are in “permanent management” by various agencies, which adds a layer of legal complexity for potential PPPs.
68. There is some probability that presence of the current P & R facilities, especially in such prime locations as the Wilanowska Metro, will increase the value of the municipal vacant land in the surrounding area, so this public spending could be recouped, at least partly and indirectly, through further land auctions.

## **5. RECOMMENDATIONS**

69. The City of Warsaw would benefit greatly from shifting to more systemic and strategic management of its land and property assets. In particular, such a shift would lead to:
  - Financial gains on the both sides of the budget (revenues and expenses) and in both parts of the budget (current and capital), and
  - Positive results for City’s territorial development and quality of the cityscape.
70. This is a process that would incorporate several interrelated components.

### **5.1 Modification of the legal framework**

71. Adoption of a restitution law to “reverse” the Bierut’s Decree,<sup>25</sup> modernization of the legacy legal provisions on land lease and perpetual usufruct that restrict the rights of local governments and the central government as property owners, and legal reform to permit the sale of air rights.

## 5.2. Introduction of a Strategic Approach to Municipal Land and Property Assets

72. A general methodology based on international good practices does exist,<sup>26</sup> but it should be adapted to specifics and challenges of Warsaw. This can include the following critical elements:
73. *a) Establish a special temporary Asset Management Task Force (TF)*, consisting of representatives of all key Bureaus related to land & real estate management that report to the three Vice Mayors and the Treasurer. The TF should have the high status and act under the auspices of the City’s President (Mayor), with their Vice Mayors and Treasurer being involved at the policy level and assuring that their respective Bureaus and other units cooperate as needed. TF’s main task should be development of the Asset Management Strategy and its Implementation Plan, along with coordination of cross-agency activities, making the process flow. One of TF’s key functions would be to serve as a platform for various Bureaus to work together.
74. *b) Screen all property portfolios systematically*, including all municipal land holdings and built-up properties, to identify surplus and underused properties.
75. *c) Introduce analysis of the financial performance on the property-by-property level, starting from portfolios with an obvious potential for financial gains*. For example, for commercial rentals, the start would be to estimate the rate of return (= Net Income / Property Market Value), identify the units that are not delivering the competitive return, and dispose these units when the market is back.
76. *d) Identify hidden property-related subsidies, estimate their costs to the City, and develop portfolio-specific approaches to minimizing these costs without sacrificing the social values behind these policies*. For example, the huge portfolio of municipal housing (over 96 thousand units) – is all of it subsidized housing or only a part of this portfolio? Do rents in this portfolio need fine-tuning and diversification (making a part of the

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<sup>25</sup> If the full-scale restitution related to the Bierut Decree is not feasible at this moment, a law that would at least require claimants to register their claims within a specified time period would be of great help for strategic land management in Warsaw. A similar law was adopted in Serbia in 1995.

<sup>26</sup> See Kaganova O. *Integrating Public Property in the Realm of Fiscal Transparency and Anti-Corruption Efforts*. In: Gábor Péteri (ed.) *Finding the Money: Public Accountability and Service Efficiency through Fiscal Transparency*. Budapest: Local Government and Public Service Reform Initiative/Open Society Institute, 2008. pp. 209-222, and chapters 6 and 12 in Kaganova Olga and James McKellar (Editors). *Managing Government Property Assets: International Experiences*. - The UI Press, Washington DC, 2006.

portfolio strictly commercial and the other part explicitly subsidized)? Another example: are there any NGOs sitting in municipal offices in prime locations, with below-market rents? If so, can the City offer them relocation to less valuable premises and auction the vacated space at market rates? The portfolios of cultural and sport facilities operated with municipal funding should also be scrutinized, not to eliminate or reduce the support, but to rationalize it.

77. **e) *Based on the screening and financial analysis, rationalize the holdings of built-up properties.*** This, most probably, will lead to disposal of many properties, but these dispositions should be timed to the real estate market.
78. **f) Based on the lessons from the current real estate market crash:**
- ***Stop establishing annual budget targets for capital revenues from property disposition*** (land, shops, apartments, and other immovable property). Instead, link real estate dispositions to conditions on the real estate market, and accumulate the revenues in a special budgetary fund earmarked for capital investment. This would allow benefiting from the value of municipal real estate substantially better than within the current annual budgetary cycle. In particular, timing real estate sales to the market and accumulating and releasing funds on the multi-year basis would buffer this part of the municipal capital income from detrimental affects of the cyclical nature of the real estate market;
  - ***Put land sales on pause in 2010 and use the capacity of the Bureau of Real Estate Management for strategic planning as outlined in this report.***
79. **g) *Put some capital investment projects on hold, and investigate opportunities for shifting these capital costs to the private sector through the new generation of PPPs.***
80. **h) *When land sales are restored, try on-line land auctions structured similarly to e-Bay auctions.*** Experiences of the City of Johannesburg (South Africa) and the US Department of Defense with on-line land auctions indicate that sale prices can be substantially higher than at other auctions (verbal, sealed bids).

### **5.3 Improvement of Spatial Aspects of Land Management and Administration.**

81. Given the specific territorial challenges that the City of Warsaw is enduring as discussed in this report, improving the territorial aspects of land management and administration is more important for Warsaw than for many other cities. The related issues should be tackled from several directions:
82. **i) *Urban planners should be obligated to reflect on the impact that the local development plans have on land value, in particular of the municipal vacant land.*** This can be achieved by (i) introducing a unified city-wide format for the Financial Impact Study; (ii) developing a relevant Bertaud Model as a part of the FIS and making its use mandatory before the land use parameters are finalized in the local development plan; (iii) engaging private real estate appraisers and the Bureau on Real Estate Management in these aspects of preparing local development plans. An important element would be to offer municipal urban planners and those who draft local development plans a mandatory short term training on the basics of land economics.

83. *j) Urban planners should also collect and supply, for other agencies, city-wide information about land development activities*, for example, as was suggested in 2000.<sup>27</sup> The Treasury could re-enforce this information supply by publishing for the real estate industry annual information on exactly where infrastructure was built / improved during the past year.
84. *k) Land managers, from their end, should conduct regular land sales reflective of unevenness in spatial distribution of municipal land and use other land management instruments*. In particular, sales should take place predominantly in the districts where the municipal share of land is high (see Table 3), while in districts where there is a potential shortage of municipal land for public purposes, careful planning is needed, along with use of diversified instruments of land management. In particular, future development of these districts and needs for public-use land should be examined. The current pattern of both municipal and private land holdings should be compared with the expected public-use needs, in order to plan whether and how to secure such land. A combination of various land management instruments would likely be required: land swaps between the City and private owners, land readjustment,<sup>28</sup> etc.

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<sup>27</sup> The Spatial Development of Warsaw Metropolitan Area: Comments on “Warsaw Development Strategy until the Year 2010” - prepared for the World Bank By Alain and Marie Agnes Bertaud, 2000. [http://alain-bertaud.com/images/AB\\_Warsaw\\_Dec\\_2000.pdf](http://alain-bertaud.com/images/AB_Warsaw_Dec_2000.pdf).

<sup>28</sup> Land readjustment schemes are performed jointly by authorities and landowners, usually in outskirts of cities, with the goal of making land suitable for new urban development through planning and reshaping and redistributing parcels. The government assembles land from owners within the area; forms a new subdivision plan, which carves site shapes and location suitable for construction, reserves some part of the land for public use (streets, schools, etc.); supplies infrastructure and services (in some cases funding this by proceeds from selling some plots in the area: and returns newly shaped sites to owners. Though the sites become smaller, owners are usually are satisfied by better site configurations, their connections to infrastructure and services, and an increased land value.

The notion of land readjustment was first introduced by President George Washington in 1791. Various types of land readjustment were used in Germany, Japan, Taiwan Province of China, Korea, Western Australia, India, and Indonesia. For example, in Japan, approximately thirty percent of the urban land was supplied by means of land readjustment schemes, while in the city of Nagoya, around 77 percent of the land was supplied through this land approach. Other examples include Korea, where 342 land readjustment projects were undertaken by 1987. (UNESCAP, 1995. Municipal Land Management in Asia: A Comparative Study, [http://www.unescap.org/huset/m\\_land/ack.htm](http://www.unescap.org/huset/m_land/ack.htm))

85. *l) Prominently located municipal sites and areas that are critical for forming the cityscape and / or have high potential value should be identified by a joint effort of land managers, urban planners, and the private real estate community.* The purpose is two-fold: first, prior to planning development of these areas, it would be useful if urban planners seek input of the private sector, and second, to make sure that the mode of disposition – an auction or a contract-based PPP – is carefully considered. A special interest would have, of course, locations in the vicinity of transportation hubs. Examples, in addition to the obvious Defilad Square/ Palace of Culture area and the lands along the western side of Marszałkowska street, between Świętokrzyska and Grzybowska streets, include municipal land close to: the Eastern, Western, Gdański and Stadium railroad stations areas; Zawiszy Roundabout; Wilanowska Metro station (so called: “Southern Station”); municipal lands located close to and above the planned stations of the East-West (second) metro line.
86. *m) The City might consider introducing a policy, legislated through local regulatory acts if needed, which would protect the City from land grabs by powerful private lobbies,* such as housing cooperatives, and inefficient land uses on such territories.

#### **5.4. Implementing the New Generation of PPPs**

87. This process is already underway, so the issue is not “whether” but “how”. Given the technical complexity of this instrument and international lessons concerning what makes PPPs successful, the City would need new technical skills, qualifications, and, first of all, new attitudes and lines of cooperation within the City administration itself and also between the government and the private sector. In particular, this is the subject where the current organizational fragmentation should be bridged.
88. *n) At this turning point, Warsaw might benefit from technical assistance on several issues:*
- Educational / training effort targeting both the government and the private sector on the new generation (i.e. contract based PPPs). This could be a series of events (seminars, workshops) targeting various audiences. These events should include specific international case studies on projects similar to those in Warsaw’s pipeline and on the latest approaches to procurement (e.g. “competitive dialog process”). This component may also include a public relations campaign to explain the departure from the past and benefits of the new approach.
  - Facilitation of the initial stage: conceptualization of the PPP goals, potential subjects, and approaches in general; conceptualization of specific PPPs, along with formulation of scope of work for commercial PPP advisors; and assistance on accepting their products (quality control). One of the key issues is correctly scaling first projects, to minimize risks of significant errors while uses of the PPP instruments in Warsaw are still being developed and tested.
  - Preparation of the required procedural base (procurement procedure, etc.)
  - Conceptualization of what the City will contribute and how it should “package” its contribution (land, pre-approvals, feasibility studies, etc.), which may include hands-on assistance with “packaging”, launching, and conducting procurement.

- Training on contract management and enforcement during the time span of PPPs.
  - Learning from experience by monitoring costs and level of effort; analysis of lessons; preparation of case studies on launched PPPs; and advisory with on-going corrections.
89. *o) The Bureau in charge of PPPs, land managers, urban planners, and transportation planners should cooperate with the process of identifying locations that could potentially be used for PPPs, potential examples of which are provided in item l) above.*
90. *p) The City might establish a financial policy related to new capital investment: a potential for obtaining public-use facilities through privately funded and built PPPs should be tested before public-funding solutions are approved* (for example, parking facilities “sandwiched” into private development in exchange for municipal land, at locations similar to the Wilanowska Metro station as discussed above).
91. *q) The City needs to restore goodwill in the private sector*, as the current view in the industry can often be summarized with the following question: “Why should we deal with the City when it’s faster and easier to work with private partners?” An ice-breaking and otherwise necessary impetus for on-going communication with the private sector could take the form of a private sector Advisory Group on PPPs.

## 5.5 Next Steps

92. Introduction of strategic asset management would require further analysis of some important aspects that were not discussed in this report. The following needs can be expected:
- Assessment of the IT side of land and asset management, to make sure that the IT tools – from digital mapping and inventory and lease databases – serve adequately the needs of asset managers
  - Investigation of which of the advanced land management instruments (land swaps, land re-adjustment) are legally feasible
  - Review of organizational arrangements, to obtain a complete picture of who is doing what in respect of operating and maintaining various property portfolios and identify inefficiencies and opportunities for improvements, and
  - Establishing priorities in the never-ending process of improving asset management.