

# BANK FINANCING OF URBAN DEVELOPMENT: experiences and perspectives in Portugal

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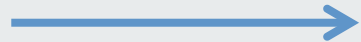
Ricardo Tomé



***PERCOM - Fairness and efficiency in the urbanization process:  
a land readjustment execution model***



**Financing  
systems  
task**



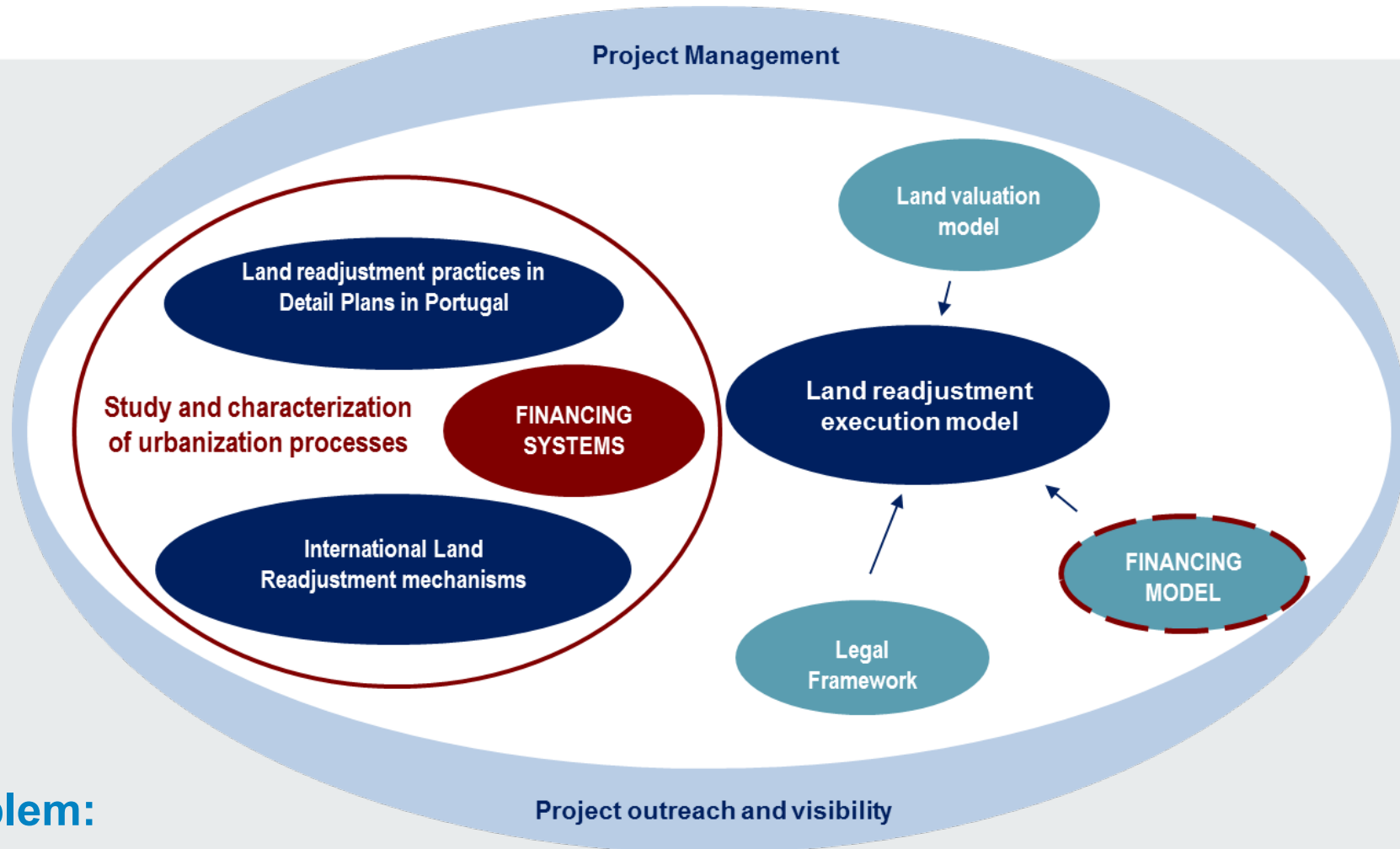
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## The problem:

Low level of execution of urban development projects involving several landowners. WHY?



**Lack of funding for the implementation of urban projects with multiple landowners**

**Why banks do not finance urban projects with multiple landowners?**

## Objectives:

- **Knowing the urban projects funded by the banking sector**
- **Assessing the Banking sector openness to finance urban projects with multiple landowners**

# Methodology

**Six semi-structured interviews with  
the leading financial institutions operating in Portugal**



- A. Openness to financing
- B. Financing model
- C. Eligibility conditions
- D. Financing conditions

## Results:

### A. Openness to financing

#### Funded projects in the past:

- **One developer (generally, the leader and with the most capital to invest)**
- **Type of projects: urban expansion (majority), new tourism developments.**

**More recently, urban regeneration → JESSICA initiative:**

- **hotels, tourist housing, guest houses**
- **buildings requalification (uses: commerce, services, tourism, students and senior residences)**
- **public infrastructures and facilities**

## Results:

### A. Openness to financing

#### NON-funded projects in the past:

- **Urban projects with several landowners (even when the detailed plan is approved)**

#### WHY?

- **Landowners with different expectations and financial capabilities**
- **Disagreements between landowners**
- **Smallholders blocking the project development**
- **Land readjustment → legal difficulties (property registration); procedural difficulties (manager entities, responsibilities, functions and powers)**



## Results:

### A. Openness to financing

#### Other NEW Reasons for NOT granting financing new urban projects:

- **Social, political and economic dynamics**
- **Restrictions imposed by the “Troika” on the banking sector**
- **Changes to financing conditions (less attractive)**
- **Excess offer of properties on the market to be sold**
- **Time-consuming of planning and project approval processes**

## Results:

### A. Openness to financing

#### Funded urban projects in the future, by type of project:

- Urban expansion: No
- Urban regeneration: Yes, depending on the location and the accordance between landowners
- New tourism developments: Yes, depending on the location and the type of touristic development (hostels, touristic apartments)



## Results:

### B. Financing Model

#### Mixture of *Corporate Finance* and *Project Finance*

- Financing model more frequent
- Analysis of the developer and project characteristics

#### Closed real estate investment fund

- Establishment and *modus operandi* regulated by specific legislation and defined for the fund entity management

#### Joint European Support for Sustainable Investment in City Areas (JESSICA) initiative

- Loan funded by bank and EU funds

## Results:

### C. Eligibility conditions

#### Project

- **Location (fundamental)**
- **Economic and financial viability analysis of urban development**
- **Approved plan and urban project by public administration**
- **Product differentiation**

## Results:

### C. Eligibility conditions

#### Developer

- **Solvency and assets (What assets the developer has? What wealth has he generated? Has he a non structured debt?)**
- **Experience in urban development (Number of years in the market? Quantity, quality and location of the projects?)**
- **Own capital, to support the project's initial phase**
- **Previous relationship with the leading financial institution**

## Results:

### D. Financing conditions

#### Five years ago

#### Current state

#### BANK FINANCING FOR A PROJECT (%)

Generally around 70% but could be as much as 100% in isolated cases

Roughly 50%

***CHANGES: Banks are providing less financing for projects in percentage terms***

#### Five years ago

#### Current state

#### INITIAL CHARGES

Urban development fees.  
Commission for property valuation.

Urban development fees.  
Commission for property valuation.  
Monitoring of project execution (possible).  
Market, communication and marketing studies (possible)

***CHANGES: Greater monitoring of projects by the bank, which has corresponding costs to be borne by developers***

**Results:****D. Financing conditions**

	<b>Five years ago</b>	<b>Current state</b>
<b>GUARANTEES</b>		Mortgage on project or land. Financial guarantee (possible)
<b>FINANCING PERIOD</b>	Generally speaking, 3 to 5 years. Can be extended, if necessary	

	<b>Five years ago</b>	<b>Current state</b>
<b>INTEREST RATES</b>	Generally, 0.25% to 3%	Generally, 4% to 6%

***CHANGES: Considerable increase in interest rates***

## Results:

### D. Financing conditions

	Five years ago	Current state
<b>LANDOWNER/ DEVELOPER UPFRONT CAPITAL</b>	Upfront capital not necessary, though it may have been desirable	Land (owned by developer, free of encumbrances). Developer investment with own capital allocated to project's initial phase
<b><i>CHANGES: Developer needs to apply own capital in initial phase of project execution</i></b>		

	Five years ago	Current state
<b>GRACE PERIOD (PRINCIPAL)</b>	Depends on project. Repayments only begin when project starts providing revenue	



## Bank financing depends on five key factors:

- **Developer (reliability, economic/financial capacity, experience, capacity for leadership, guarantees and previous relationship with the bank)**
- **Development project (economic/ and financial viability, quality and standout qualities)**
- **Location**
- **Market dynamics and expectations**
- **Time (legal public administration procedures)**



# Challenges and opportunities

**There are constraints arising from the Portuguese legislation that have to be overcome:**

- e.g. debt limits for local governments**
- property valuation and expropriation**
- urban regeneration**
- (...)**



# Challenges and opportunities

1. **Urban rehabilitation:  
creation of financial  
instruments like JESSICA**



2. **Process of spatial planning and project approval more expedites**
3. **More demanding requirements in the urban project documentation**
4. **Management process credibility**



**WHAT CHANGES?**

**Cooperation**

**Clarity**

**Trust Initiative**

**Legitimacy**

**Transparency**

**Credibility Communication**

**Accuracy Responsibility**

**Information Negotiation**

## Project website

<http://projectopercom.tecnico.ulisboa.pt/>

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