

The Various PPP Options for the Renovation of the Palais des Nations

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I Executive summary

This report is our second study for the renovation of the Palais des Nations. The report focuses the project development process, the options and the possible schedules to complete the project, which are not identified in the previous reports we have seen.

We have attempted to put down the possible process with the associated risks on each step of the development. We did not have the access to the other reports, which were completed by the UN consultants. We have heard the innovationrenovation cost to be over \$800 million. Without the basic design and chosen options of the development, such costs estimates cannot be calculated. We have also heard the PPP option costs three times more than PPP optionstraditional methods in the same report. Our first study and this second study apply the new development approach in PPP to generate the revenue for the renovation rather than applying PPP in traditional development process, which simply attempt to reduce the cost. We would like very much to an access to such report so that we can evaluate such claims. The report may have been done by the parties, which favor the traditional way and which may benefit their cause. Because, the PPP experts around the world, who support the UN PPP Initiative effort can all disagree with such claims.

Several things are clear to us:

- 1 The member statesMember States will have very hard time to contribute toward the renovation of the PdN. It may be impossible to support at this stage.
- 2 UNOG must proceed with the renovation of the PdN.
- 3 UNOG must consider some kinds of PPP options to save the renovation costs and/or utilize Toyo PPP suggested PPP options to generate the revenue to off-set the renovation costs of the PdN.
- 4 There are several PPP options stated in the Toyo PPP report, which UNOG can implement for the renovation of the PdN.

On behalf of Toyo University PPP School, we would like to express our gratitude for allowing us to conduct the PPP studies for the renovation of the Palais des Nations.

We sincerely hope that our reports can contribute in some way for the application of PPP for the renovation of the Palais des Nations.

Previous study

“Preliminary Study on the Various PPP Options for the Renovation of the Palais des Nations”

Alternative project approach and funding

The Toyo PPP Team used a two-step approach to assess the current situation and to determine the optimal, best value options for the renovation project. The steps were as follows:

Step 1: Develop a high-level assessment and inventory of the existing assets and compare the current operational requirements and needs against those assets. Identify PPP options for using new technology strategies in the renovation that will modernize PdN and meet the objectives of the renovation SHP.

Step 2: Based on the assessment results, the Toyo PPP Team sought to identify the most appropriate logical project delivery models using the Public-Private Partnership approach.

Preliminary findings

Toyo University assessed the current situation and to determine the optimal, best value options for the renovation project. The study included meeting with UNOG officials, Member States and their representatives in Geneva, including several Ambassadors. Interviews were conducted and numerous meetings were held to discuss the current situation and future needs.

Below is a summary of our key findings:

- Existing PdN facilities (and their associated infrastructure) are in poor condition and not fit for their intended purposes.
- Existing PdN facilities are inadequate in terms of meeting the current needs and operational requirements of UNOG.
- Both short and long-term accommodation for Member States’ delegations and the United Nations is inadequate. Those assigned to work at the United Nations on longer-term assignments are required to rent expensive housing in the local areas.
- Building services and building management (e.g. information technology, power supply, lighting and controls, high voltage electrical systems, and water and sewage piping) are obsolete to a point where it is more costly to maintain them rather than replace them.
- Current infrastructure is potentially hazardous to the health of those working at UNOG (e.g. asbestos, poor ventilation, poor ergonomics in offices, “sick building” syndrome).
- Existing land at the PdN is an underutilized asset. Developing a site master plan could significantly improve the capacity, operability and financial position of UNOG at the PdN.

Assessing PPP options and renovation methods

During our interviews with many Member States, they have indicated difficulties in making a financial contribution towards the renovation, while simultaneously pressurizing the United Nations to improve its efficiency and to reduce its assessed contribution;

Hence, cost reduction and revenue generation need to be explored. No matter what method is chosen for the renovation, unless UNOG changes its system from traditional methods, the

Member States will have to pay off the debt. In addition, it is necessary for UNOG to establish mechanisms to avoid cost and time project delivery overruns as well as managing the performance of private sector parties.

Since operations and maintenance costs over the asset's lifetime far exceed the initial capital renovation costs, a rigorous cost benefit analysis should be done and should cover the "whole life" of the PdN. UNOG procures and pays large amount of services, goods and energy separately each year. Therefore, our preference is to use a comprehensive (scope and project flow) project delivery method such as Design/Build/Finance/Maintain (DBFM).

We reached a strong conclusion that opportunities for lodging, housing and other accommodation could provide significant income towards the required investment in the SHP. During the interviews with several Member States, we found that there is a rather limited interest in providing direct capital funding towards the renovation of the PdN.

A key strategy in employing PPP methodology for this project is to take advantage of the underutilized property of UNOG and to develop certain projects that can be revenue generators, which can in turn be used to pay for the renovation works. The United Nations undoubtedly has such underutilized property at the PdN. This study has examined whether such property can be used to develop certain United Nations related development projects and to determine whether such projects can produce enough revenue to pay for a significant portion of the renovation cost. When we speak of these projects we are referring to the development of: 1) accommodation facilities for the guests of the Member States and the United Nations; and 2) housing for the Member States' representatives and staff of the United Nations and other international organizations.

In order to consider this type of PPP methodology in supporting the cost of the PdN renovation project, the study examined the involvement of several public organizations such as the Member States of the United Nations, the Swiss Mission (Swiss Government, Canton of Geneva and the City of Geneva) and UNOG in this possible PPP project.

II About This Report

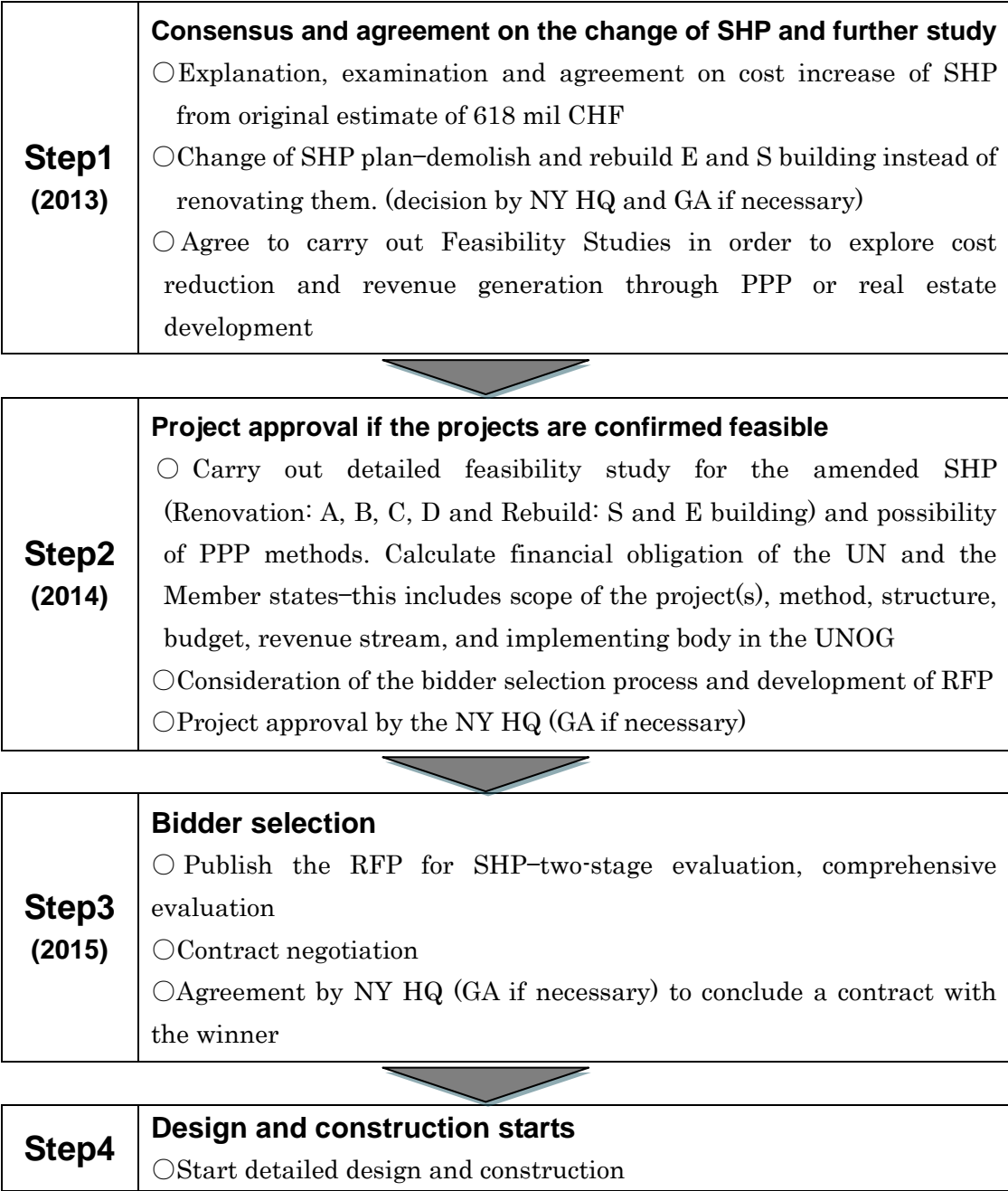
(1) Purpose of This Report

The purpose of this report is to point out issues, concerns and items to be considered in implementing various development options shown in a report entitled “Preliminary Study on the Various PPP Options for the Renovation of the Palais des Nations,” prepared by Toyo University. Several structures for renovation of PdN, and real estate utilization to offset the cost of renovation are also considered.

The followings are the preconditions presented to Toyo University upon preparation of this report.

- 1) Several sources claimed that the estimated project cost for the SHP has been gone up to 800 million CHF or more from the original estimate of 618 million CHF.
- 2) According to our interviews, many Member States were concerned about the capacity of UNOG to carry out the SHP on time and on budget. Some most contributing Member States are not willing to pay allocations for the SHP, and strongly recommended to pursuit ways to reduce the cost or offset the cost with some revenue generation.
- 3) There are several candidate sites for development to generate revenues to UNOG. Especially the site called Feuillantines is considered suitable for development. The project is expected to be materialized and completed early.
- 4) E and S building will be demolished and rebuilt while in original SHP, both buildings were preserved and renovated.
- 5) Because of its history and cultural heritage, A, B and C building will be preserved and renovated

(2) Next Steps (before implementing the project)



II Project Scopes of the PdN Renovation and PPP Options

(1) Scope of The Renovation of the Palais des Nations

A) Rebuild E and S building

In the original SHP, façade and footprints of all buildings in the PdN (A, B, C, D, E and S building) were preserved. However, with some examination, it is said that UNOG is now demolishing E building because they have found structural weakness of the building in addition to the use of asbestos.

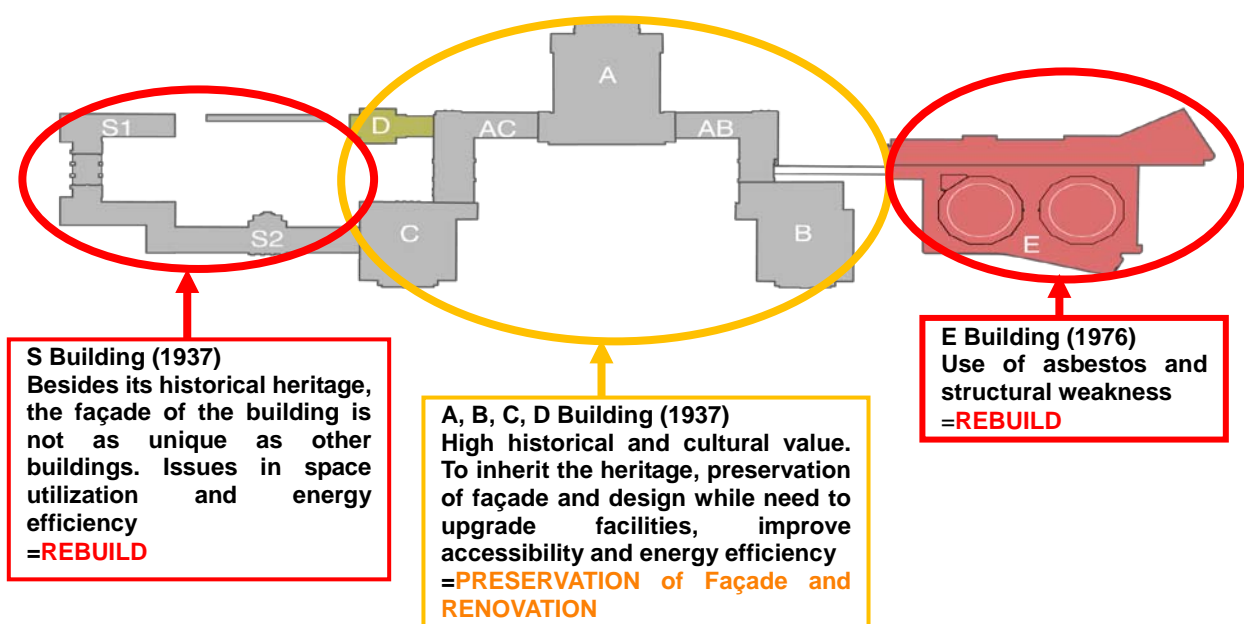
While S building is one of the original structures build in 1930s and has historical and cultural heritage, it has issues in effective office space use (ex. open office) and energy consumption.

Because of these conditions, E and S buildings are segregated from renovation plan. PPP methods may be applicable for new constructions.

B) Renovation of A, B, C, D building

Other four buildings—A, B, C and D buildings are recognized their high historical value. Thus, UNOG envisage preserving all the façades, designs, and footprint of them while plans to improve the function of the office and meeting space, including upgrade of facilities, accessibility, energy consumption and other issues.

While rebuild of E and S building may be prospects for PPP implementation, renovation of these old buildings may better suit for traditional method, since latent defect can cause larger risks for the private sectors and grater cost to UNOG. Since these risks associated with old buildings can be better examined and managed by UNOG, it is better for UNOG to employ traditional procurement methods for the renovation.



(2) Real-estate utilization

Toyo University recommended UNOG to use its under-utilized assets to generate revenue in order to offset the heavy financial burden of the SHP. The potential sites for utilization are shown in the picture. In this report, three plots are considered for utilization:



- Feuillantines;
- UN Beach; and
- Northern part of plot within the Ariana Site

A) Feuillantines (hotel or condominium)

In this site, UNOG and Canton of Geneva own plots of land, and have been discussing to develop a mixed-use high rise. This project is a good candidate for a hotel or condominium development. UNOG can acquire some money by giving the development right of this site to private hotel/condo developer/operator, and offset the cost of the SHP.

B) UN Beach (condominium)

UNOG owns about 5000 sq meters of plot on the lake shore. This site is a luxurious site for residence. UNOG can give development right to a condominium developer, and offset the cost of the SHP with the revenue.

C) Within the Ariana Site (Office, swing space etc)

Since E and S buildings are to be demolished and rebuilt, more efficient space use can be considered. Some spaces might be used to develop a building for swing space for E and S building, and may be used for rental office space for less developed countries, NPOs, international organizations/agencies, once the SHP is finished. An example of suitable site for such development is a parking lot space nearby the main gate and the Flags (yellow box in the picture). In order to make this building available for use by missions of less developed countries or other international organizations/agencies, security fence should be changed. Otherwise a office or conference building for UNOG’ s permanent use can be built in such location, so that buildings in PdN are consolidated and long-trip among office and conference buildings are shortened. UNOG can give development right to a condominium developer, and offset the cost of the SHP with the revenue.

III Structures of Various Options

(1) Renovation of A, B, C and D Building

There are huge risks of latent defect—cost increase, additional work, delay in work etc—in the renovation of the historical A, B, C and D building. If UNOG tries to transfer such risks to the private sector, the cost charged will become large. Since such risk may be handled by UNOG better than the private sector, it is cheaper to carry out the renovations through traditional method.

Operation and Maintenance maybe packaged and outsourced comprehensively to one private contractor (SPC). UNOG has been procuring various services from many private parties—USD 70 million in 2012. In addition, UNOG paid CHF 32 million for electricity and water in 2012. If these operation and maintenance are outsourced comprehensively, private sector may take advantage of economy of scale, and may achieve better Value for Money.

(2) Redevelopment of E and S building and real-estate development

In order to compare possible development patterns, following conditions and timeframe are set as follows.

Phase1:Development of Feuillantines and/or UN Beach property and/or plots within the Ariana site

Phase2:Redevelopment of E and S building (either through PPP or traditional mode)

If UNOG will carry out both redevelopment of E and S building and real estate development in either sites, there are four combinations shown below.

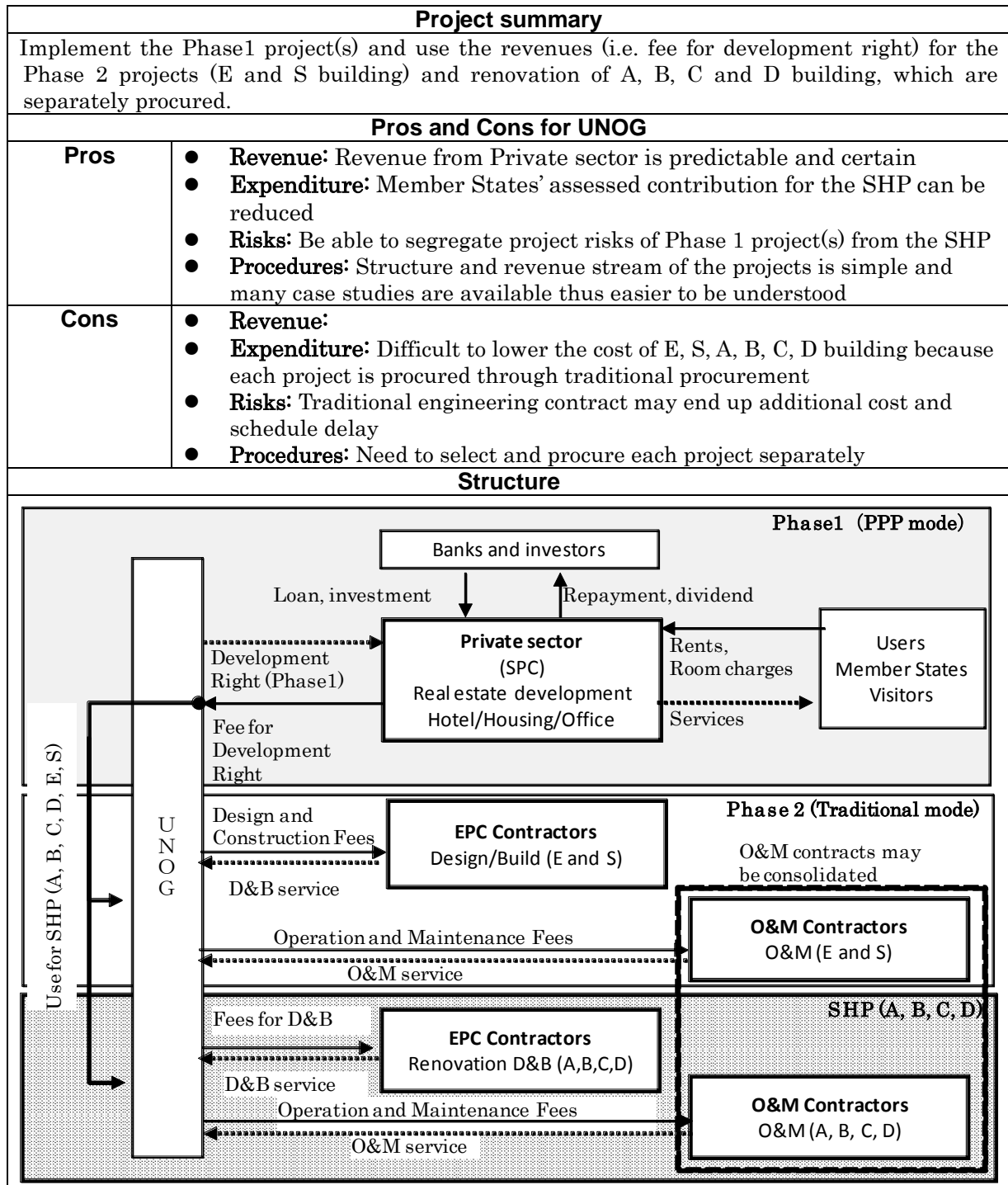
O&M of new E and S building may be outsourced comprehensively. Private sector may prefer to include O&M of A, B, C and D building in the contract.

	Phase 1*: Real estate development Phase 2: Reconstruction of E, S and Renovation of A, B, C, D** (Traditional method)	Phase 1: Real estate development Phase 2: Reconstruction of E, S (PPP method) and Renovation of A, B, C, D (Traditional method)
Phase1, 2 implemented separately	Option 1	Option 2
Phase1, 2 implemented as one project	Option 3	Option 4

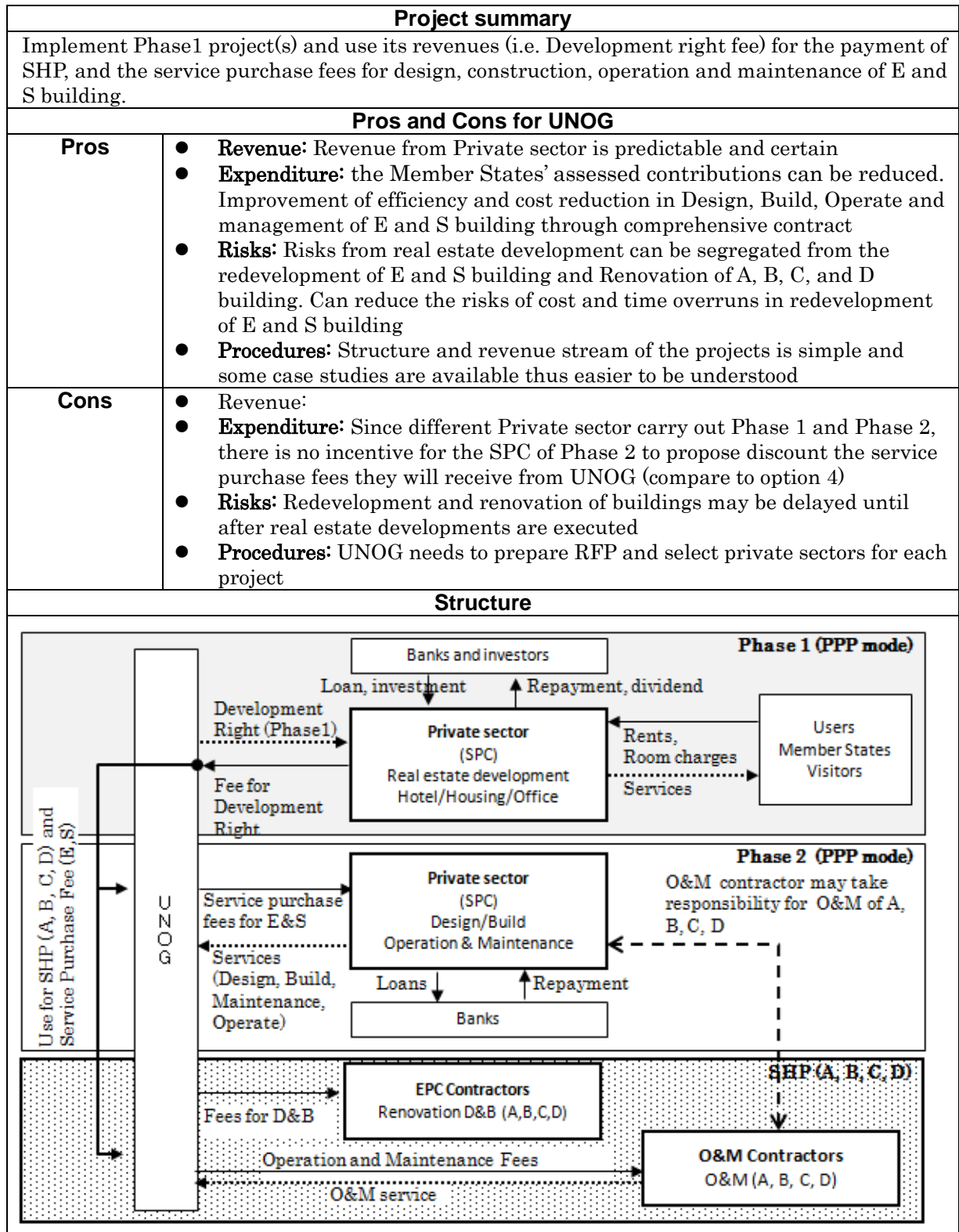
* In “Phase 1,” UNOG may decide all or either one or two project(s) according to the feasibility and implementability of the project. If UNOG decides to implement two or more projects, it may decide to execute them simultaneously or in several stages.

** Renovation of A, B, C and D building will take relocations and many years. Thus, discussions and sounding of private sectors are necessary to decide appropriate construction packaging, contract size, and phasing.

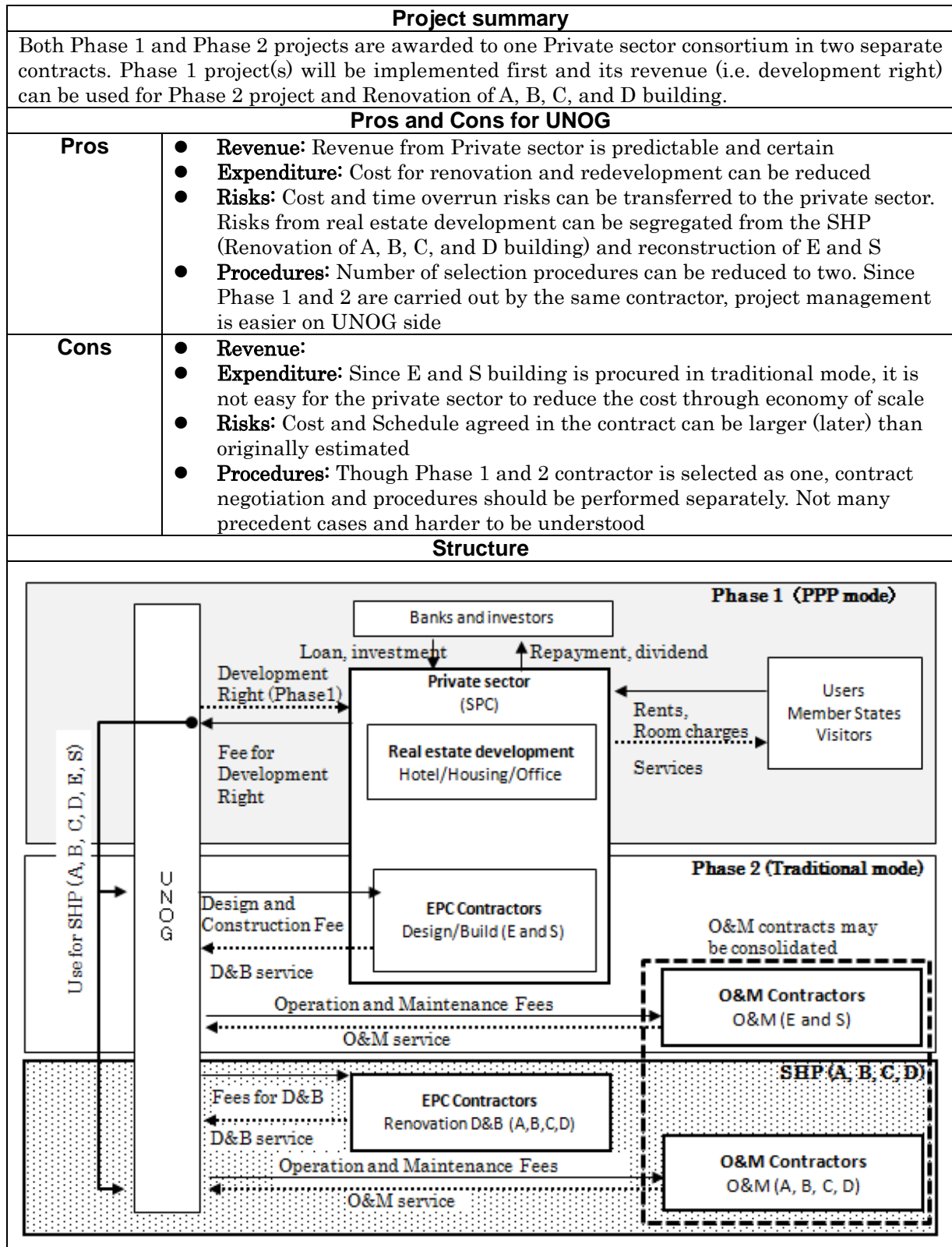
A) Option 1



B) Option 2



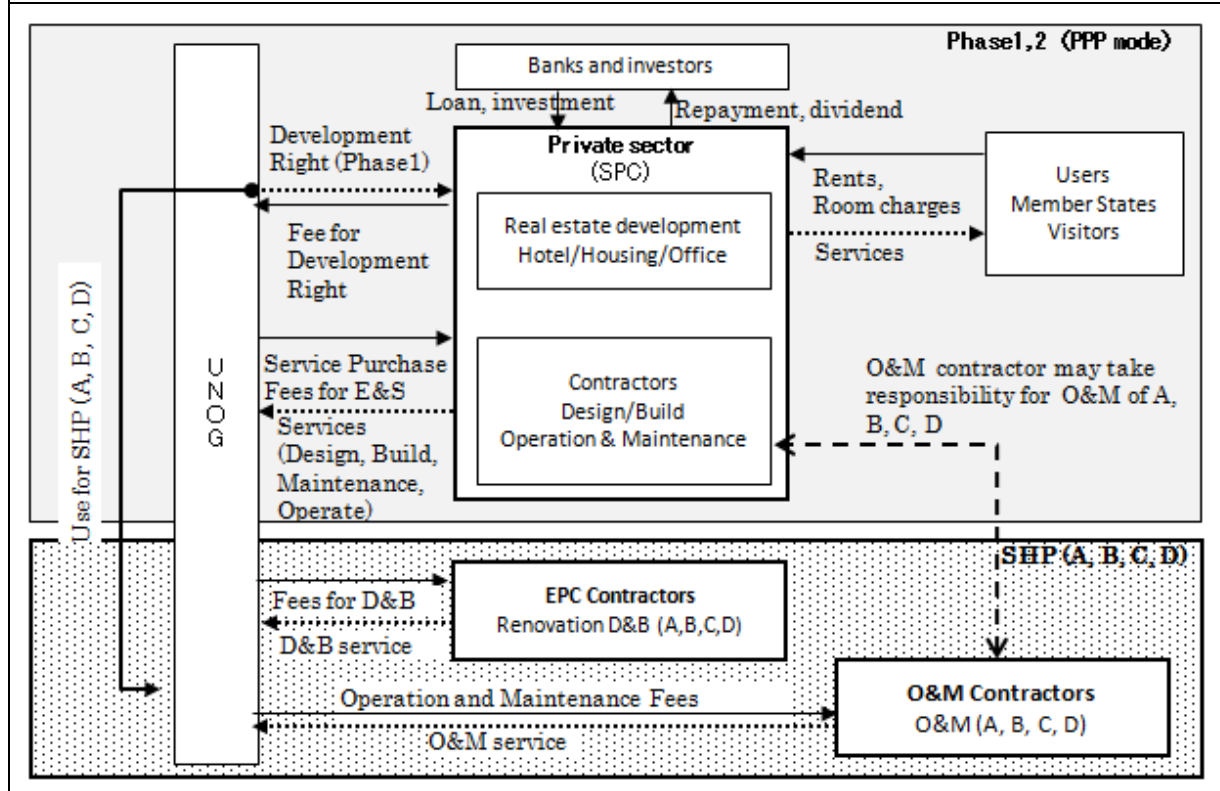
C) Option 3



D) Option 4

Project summary	
<p>Phase 1 and Phase 2 projects are awarded as one contract. Private sector will obtain development right for Phase1, as well as execute DBFMO of E and S building. Fee for the development right paid to UNOG can be used for SHP (renovation of A, B, C and D building). In the PPP selection process of private sectors, the amount of the service purchase fee for the private sector to receive from UNOG are one of the key criteria for selection (the less, the better evaluation)</p>	
Pros and Cons for UNOG	
Pros	<ul style="list-style-type: none"> ● Revenue: Revenue from Private sector is predictable and certain ● Expenditure: If the Phase 1 project(s) will generate good revenue for the private sector, they may propose less service purchase fees to be charged to UNOG (Redevelopment and O&M cost of E and S building can be offset) ● Risks: If the Phase 1 project(s) will generate good revenue for the private sector, projects will be stable. Since both Phase 1 and Phase 2 projects are awarded as one project, private sector will manage the whole projects and schedule ● Procedures: Number of selection and contracts can be reduced to two. Since Phase 1 and 2 are carried out by the same contractor, project management is easier on UNOG side
Cons	<ul style="list-style-type: none"> ● Revenue: ● Expenditure: ● Risks: Risks of real estate development may affect on the redevelopment of E and S building. If the real estate development will not generate enough revenue, the project risk is very high and may keep private sector to participate in the project. Project size may be too big ● Procedures: Since both Phase 1 and 2 are selected in one selection procedure, selection criteria for the project will be complicated. Almost no precedent cases available. May require amendment/adjustment of the Ariana Agreement

Structure



(3) Structure of the contracting Private sector

There are two structures possible to implement the PPP projects shown in the previous pages:

Structure 1: Selected private sector will establish a Special purpose company (SPC) with investments from comprising companies and investors to implement the project

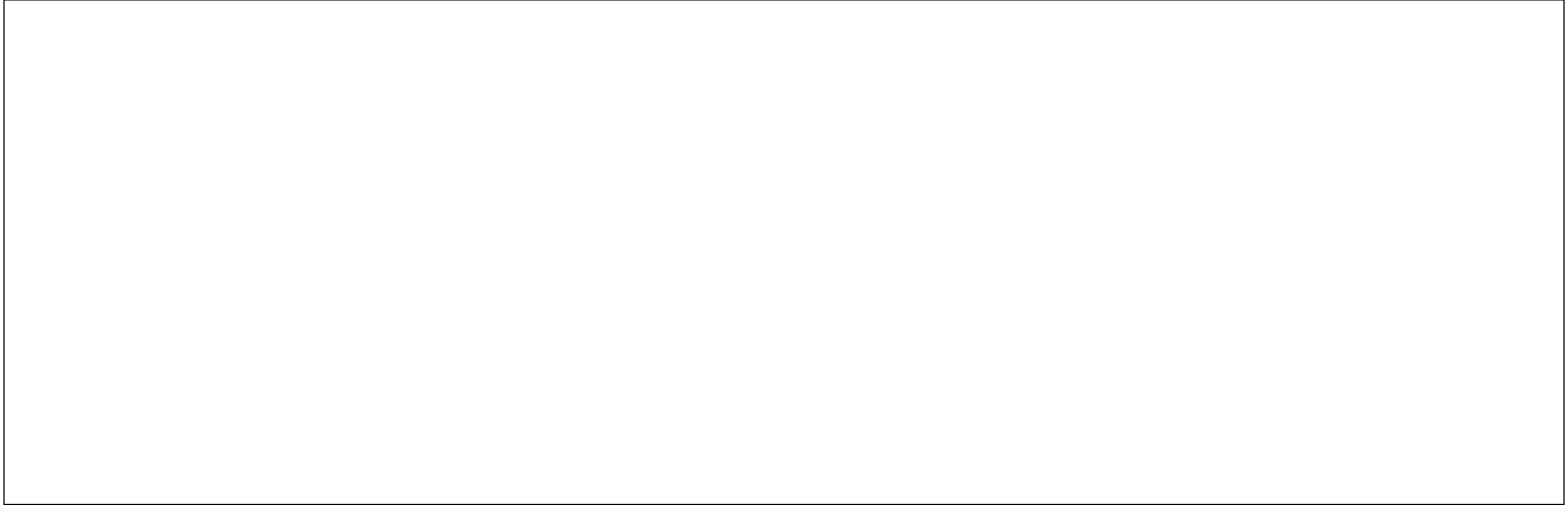
Structure 2: Real estate developer will become the contracting body and implement the project

Followings are characteristics and merits and demerits of both structures:

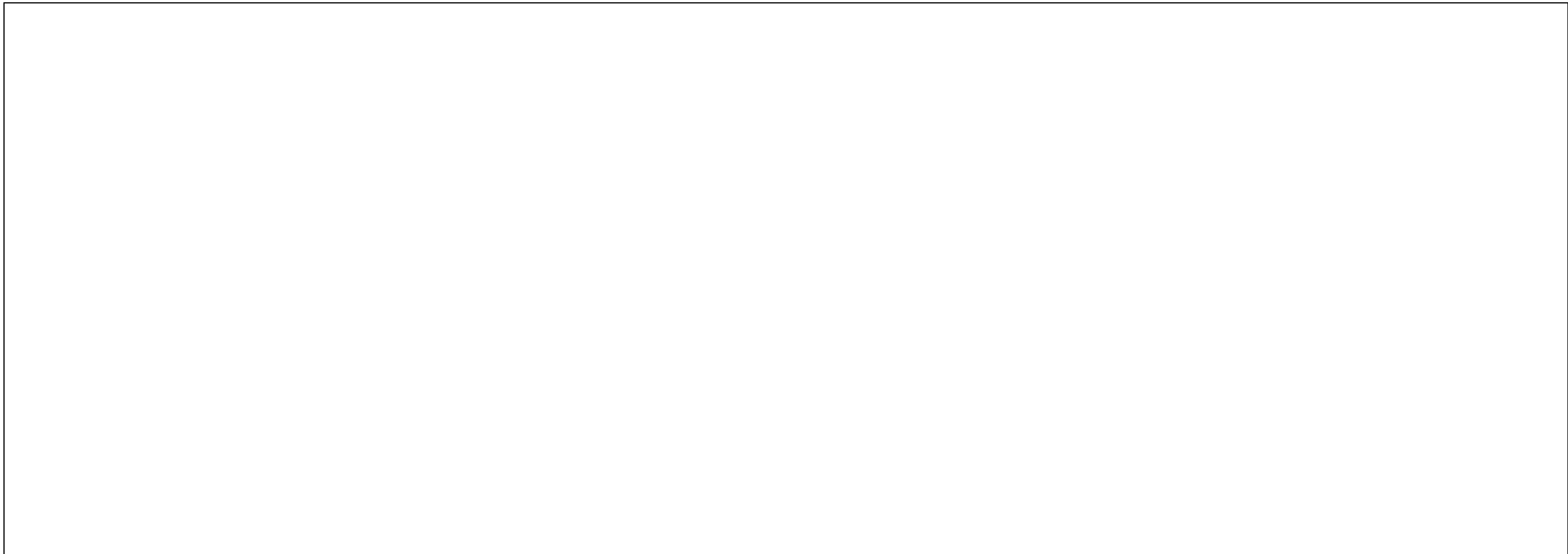
	Structure 1: SPC	Structure 2: Developer
Summary	<ul style="list-style-type: none"> - Companies and investors will contribute capital to establish the SPC - Design, construction, operation, maintenance, real estate agency contracts are awarded to each company by the SPC 	<ul style="list-style-type: none"> - A developer will take risks and responsibilities to implement the projects - Developer will contract out design, construction, operation, maintenance, and real estate agency are outsourced if necessary
Schema	<pre> graph TD UNOG[UNOG] --> SPC[SPC] Capital[Capital] --> SPC SPC --> CD[Contract & Dividend] SPC --- Grid subgraph Grid D[Design] --- M[Maintenance] --- O[operation] C[Construction] --- S[Sales] --- MA[maintenance] end </pre>	<pre> graph TD UNOG[UNOG] --> Developer[Developer] Developer --> Outsource[Outsource] Outsource --> Grid subgraph Grid D[Design] --- M[Maintenance] --- O[operation] C[Construction] --- S[Sales] --- MA[maintenance] end </pre>
Merits	<ul style="list-style-type: none"> - SPC can be mitigated from bankruptcy risks associated with other projects of investing companies - Higher transparency in the cash flow of this project and easier to monitor 	<ul style="list-style-type: none"> - Time and cost overrun risks will be better transferred to the developer - Smooth execution of project with developer's expertise and experience
Demerits	<ul style="list-style-type: none"> - Very high project management skills are required by the heading company of the SPC for implementation - Allocation of risks and responsibility will sometime become unclear within the SPC 	<ul style="list-style-type: none"> - Developer's bankruptcy remote cannot be mitigated - Developer's high capacity and creditworthiness are required to finance such huge projects

IV Possible Project Schedule

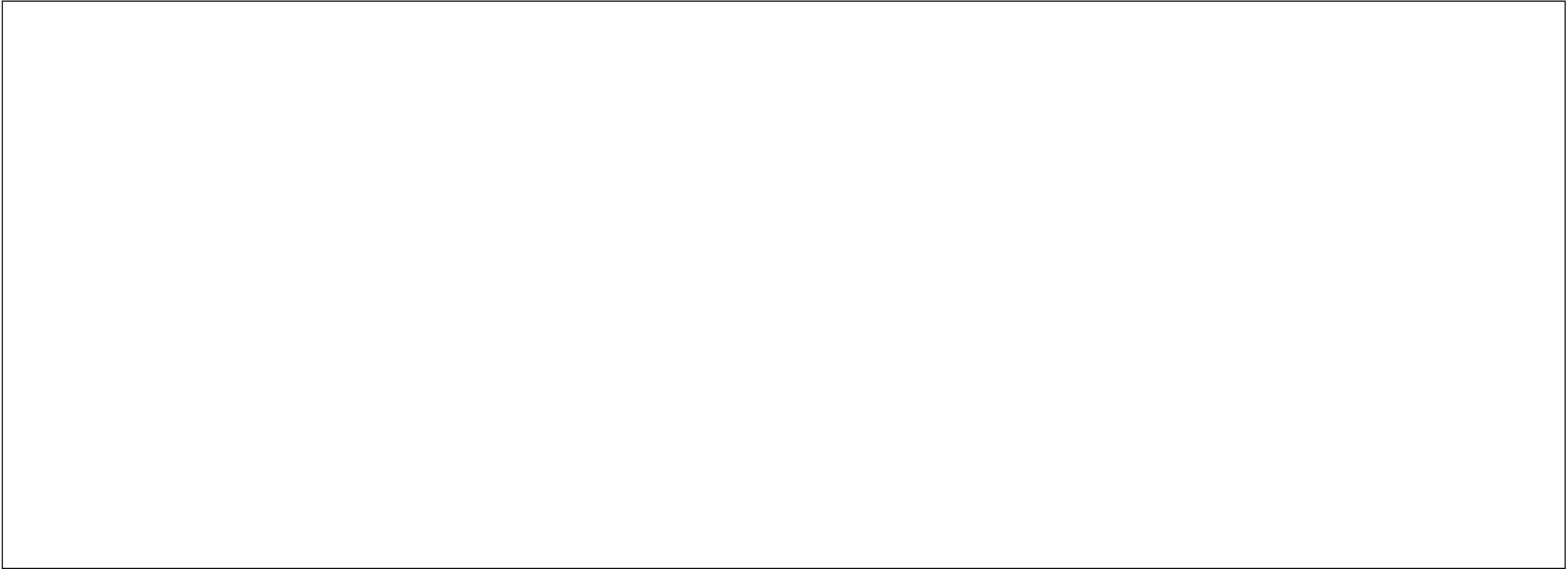
(1) Option 1

A large, empty rectangular box with a thin black border, intended for a project schedule under Option 1.

(2) Option 2

A large, empty rectangular box with a thin black border, intended for a project schedule under Option 2.

(3) Option 3



(4) Option 4



V Items to be considered in Implementing the Project

(1) Feasibility study for Phase 1 Project

In order to proceed with the above mentioned projects, UNOG needs to conduct a feasibility study covering following items in 2014.

A) Hotel, Condos, Office market

Examine the feasibility of Hotel (service apartments), Condos and offices as well as demands from Member States and other UN related activities.

Demand: Current market and forecast as well as demands and usage commitment from the Member States)

Price: Rents and room charges in the area and acceptable and reasonable price for this project

Environment: Suitable size of rooms and volume of the development

* In order to determine the volume and use of these developments, interviews on demands and willingness to commit usage by the Member States are necessary.

Service : desired and competitive service level in the market

B) Determining the project site(s)

- Plotting of Feuillantunes, UN Beach and plots in the Ariana site
- Regulation and conditions of each site (Zoning, height, density, volume, development regulation etc)

C) Survey (arpentage) and geological survey (Ariana site and all areas of PdN, Feuillantines, Palais des Nations, and the UN Beach)

- Measurement/survey/arpentage (building, location, elevation etc)
- Abuttals and boundary
- Geological survey

D) Model planning

- Space usage, volume, and other items for Hotel, Office, and Condos.
- Flow planning of each site and function, including security
- Model plan for buildings (decide volume and others)
- Area and model floor plans

E) Consultation with the Host State

- Consultation and negotiation of model plans
- Adjustment of model plans according to the consultation
- If building plans are proposed by the private sectors, acceptable ranges of these buildings (use, height, form, volume, density, color, etc)

F) Conditions of the projects

- Duration of the land use, conditions

- Other conditions

G) Study of project structure

- Contractor and implementing body of each project
- Examination of relationships of related parties
- Project structures
- Selection of the private sector

H) Feasibility of projects (Hotel, Office, Comdos)

- Construction and related costs
- Operation and maintenance costs
- Expected revenues
- Long term operating revenue and profit gains
- Sensitivity analysis

(2) Feasibility study for Phase 2 Project

A) Asbestos removal

- Necessary examination/investigation and schedule
- What to be included in the project

B) Development of model building plans (E, S building)

- Use of building and facility, volume and area, function
- Flow plans of buildings
- Model plan for buildings (decide volume and others)
- Area and model floor plans
- Schedule and phasing of the construction (Swing space and temporary works)

C) Consultation with the Host State

- Consultation and negotiation of model plans
- Adjustment of model plans according to the consultation
- If building plans are proposed by the private sectors, acceptable ranges of these buildings (use, height, form, volume, density, color, etc)

D) Projection of project costs (E and S building)

- Construction cost (design, demolition, new construction, foundation/earthwork, exterior works, landscaping etc)
- Operation and maintenance costs (inspection, maintenance, repairs)

E) Project structures

- Scope of services (construction, maintenance, operation)
- Examination of relationships of related parties
- Project structures
- Selection of the private sector

(3) Items to be considered in Developing the RFP

A) Conditions of the project

Scope of the project(s), method, procedures, schedules, and other conditions necessary to be considered for implementation.

B) Requirements and qualifications

Criteria which are required for private sectors to participate in the projects. Size of company, financial condition, skills, experience and other qualifications

C) Scope of services

Determine and clearly define desired project scope, and project subject to private finance

D) Risk allocation

list all the risks associated with the project and reasonable allocation of these risks between UNOG and private sectors

E) Selection procedures (Multi-stages selection, competitive dialogue, Variant bid etc)

Examine and determine the procedures for selection and negotiation.

F) Specifications and requirements (input specifications and output specifications)

Define input/output specifications on levels, quality, volume/quantity/frequency of each building and service.

G) Criteria for selection

Determine selection criteria and weights of each criterion.

H) Payment and monitoring

Determine procedures for payment from UNOG to private sector, frequency, amount, schedule, conditions, and means. UNOG also should decide the methods of monitoring and incentive/penalty given on contractor's performance.

Determine means, amount and schedule of payment made by private sector to UNOG (ex. Development right fee).

I) Draft contract

Responsibilities of both private sector and UNOG, terms and conditions including amount of payment, dispute resolution and force majeure, termination/cancellation of contract, responsibilities after project termination, and all other clauses necessary for project implementation.

(4) Items to be considered to implement the renovation of A, B, C and D building

A) Asbestos removal (if any)

- Necessary examination/investigation and schedule
- What to be included in the scope of service

B) Development of basic (preliminary) design and engineering (A, B, C, D)

- Basic design and engineering of renovation
- Structural engineering based on the basic design
- Capacity and improvement of facilities
- Development of blueprints and drawings
- Construction schedule and phasing (swing space, flow plan during the construction, temporary work etc)
- Preservation of artwork and interiors

C) Projection of costs

- Project costs based on basic design and engineering

(5) Considerations and Issues in Soliciting and Selecting Private Entities

A) Procedures

- EOI and RFP or RFQ and RFP

B) Documents and elements UNOG should present to the Private sectors at solicitation

- Implementation policy
- Selection criteria
- Output specifications (Demolition works, design, construction, construction management, operation and maintenance, relocation etc.)
- Announcement of bid
- Document formats
- Draft Memorandum of Understanding/Letter of Intent and contracts
- Description on site and project

C) Clauses need to be included in the Implementation policy and Announcement for bid

1. Project description

- Name of the project
- Purpose
- Overview and background
- Scope of service / statement of work (Who, what, when, where, how)
- Definition of project mode
- Payment to the Private sector (payment method, frequency, amount etc.)
- Responsibility of the Private sector (financing, allocated risks etc.)
- Schedule
- Relevant Laws and regulations
- Schedule of site visit (if any)

2. Selection of private sectors (evaluation method, schedule, allotment of points)

- Requirements and qualifications for participation (Equity participation, experience, technology, capability, certified personnel for each contractor of design/build/management/operation/maintenance)
- Conditions of disqualification
- Confidentiality, Intellectual property right, public access of information of proposals
- Basic policy on evaluation (whether jurors are confidential/announced, important criteria for evaluation etc.)
- Evaluation criteria (detailed explanation of each criterion, weight/point allotment, target price etc.)
- Evaluation procedures and schedule
- Schedule for selection, negotiation, contracting and financial close
- Draft of Memorandum of Understanding/Letter of Intent and contract

3. Responsibility and obligations of private sectors and risk allocations

- Basic rules of risk allocation
 - Details of risk allocations
 - Contract bond required upon contracting
 - Required insurance and guarantees
 - Performance monitoring by UNOG (design, construction, management, operation and maintenance, relocation, real estate development)
 - Frequency, method, criteria of monitoring, report of monitoring result, and incentive/penalty
4. Description of the site and facility
- Site information
 - Location
 - Area
 - Zoning
 - Density, volume
 - Height restriction
 - Environmental factors
 - Other conditions relevant to the land use (UN rules, relationship with the Host State)
 - Basic conditions of construction work (Environment, safety, loudness, traffic etc.)
 - Construction plan (construction packaging/section, phasing etc.)
 - Construction procedures for demolition and reconstruction (if any particular order is preferred)
 - Building concept of A, B, C, D, E and S building
 - Potential/proposed private building(s)/facilities/function(s)
 - Conditions, preferences, notabilia, forbidden clause (Façade, plot plan etc.)
 - Required specifications are presented in detail in separate document(s)
 - Proposed and/or forbidden use for private real estate development
 - Area for proposed private real estate development
 - Restrictions on private real estate development (protection of environment, greenery coverage ratio etc.)
5. Principle and procedures in the event of default
- Principle and procedures if the default is caused by private sectors
 - Principle and procedures if the default is caused by UNOG
 - Principle and procedures if the default is caused by neither/both parties
6. Support from the Host State (deregulation, tax incentive, financial support, shortened process etc.) or UNOG (support for acquiring permission, negotiation with the Host State and neighbors, incentives etc.)
7. Cost of proposals (which party is responsible for proposal cost, reimbursement of cost etc.)
8. Arbitration and dispute resolution

D) Considerations in selection

1. Minimum price for development right for Phase 1 and target price for A, B, C, D, E and S building
2. Description on evaluation method
3. Evaluation criteria
 - Price for design and construction/renovation of A, B, C, D, E and S building
 - Price for relocation service
 - Price for development right
 - Building plan for A, B, C, D, E and S (compliance, landscape, environment, safety, convenience, design etc.)
 - Plan for construction work
 - Proposed plan for private development (feasibility, compliance, landscape, environment, safety, user convenience, design, security etc.)
 - Schedule for implementation
 - Certainty for finance (amount, source, security etc.)

(6) Considerations in Procurement in the United Nations Systems

- Negotiations and dialogue: in the UN system, Best and Final Offer (BAFO) is used. However, while competitive dialogue procedure accepts modifications or arrangements in substantial elements of the bid, BAFO does not accept substantial changes.
- Competitive dialogue: some procedures to discuss with private sectors to decide appropriate scope of service and statement of works. Competitive dialogue is widely used procedures in Europe, especially when the public authority cannot specify technology, quantity or other substantial element of the bid.
- Variant bid: Since Phase 1 project(s) consists of several different components of real estate development and facility operations, project specifications drawn by UNOG may not be optimum for the private sectors. Thus, private sectors may have better development plan, variant bid may be good option to achieve optimization.