

Smart District Špitálka

Meeting minutes from preliminary market consultation – „individual EN consultations“

Date: 13. 10. 2022 10:30

Place: Primátorský salonek, Stará radnice, Mečová 5, Brno

Participants in the meeting on behalf of the contracting authority:

Name	initials	Company	E-mail
Filip Chvátal	FCH	city councillor	chvatal.filip@brno.cz
Lukáš Grůza	LG	Brno city municipality	gruza.lukas@brno.cz
Martina Pacasová	MP	Brno city municipality	martina.pacasova@brno.cz
Tomáš Janeba	TJ	PWC	tomas.janeba@ceskainfrastruktura.cz
Libor Čech	LČ	PWC	libor.cech@pwc.com
Maroš Sovák	MS	Kroupa & Helán	sovak@kroupahelan.cz
Michal Chudožilov	MCh	Proficheck	michal.chudozilov@pfck.cz
Ondřej Svoboda	OS	Proficheck	ondrej.svoboda@pfck.cz

The market consultation agenda:

- 10:30 Introduction
- 10:40 – 11:30 Block I
 - o Project introduction by MMB
 - o Presentation of Masterplan and White Book
 - o Presentation of financial model by PwC Czech Republic a.s.
- 11:30 – 12:30 Lunch break
- 12:30 – 15:10 Block II – Individual discussion
 - o 12:30 Linkcity/Bouygues
 - o 13:45 Meridiam/ViaPribina
- 15:15 End

Minutes of the meeting:

In the beginning, all the representatives of the contracting authority and the suppliers present agreed that an audio recording would be made of this pre-market consultation. The recording will be used solely for the purpose of producing this written document.

The following suppliers participated in the preliminary consultation:

- Linkcity Czech Republic, a.s.
- Meridiam / Via Pribina

Beginning:

The first word was taken by Mr Grůza, who introduced Mr Chvátal - Brno City Councillor. This was followed by introductions of all those seated in the meeting room.

Brno City Councillor Filip Chvátal welcomed the participants and presented Brno's long-term vision and goals. FCH stressed that the proposal of the Smart District of Špitálka is a strategic project for the city, which should be a model for other projects not only in Brno. The design of the Špitálka Smart District is based on the zoning study and the winning architectural study, which respects, among other things, the design of the planned Brno Avenue. These documents were the basis for the new master plan, which is currently in the process of approval. The architectural study was followed by a Master Plan (urban planning study) and a White Book (description of standards) prepared by A8000. Filip Chvátal stressed that it is essential for the city of Brno to find a partner to help implement the project.

Block I

Presentation of the White Paper and Masterplan

The full presentation is available on the project website - <https://respitalka.brno.cz>

Michal Chudožilov, from Proficheck, s.r.o., which provides project management support within the Smart Neighbourhoods project, presented the English pre-market consultation programme. The participants were introduced to the project team of the contracting authority.

- Political representation.
- Project promoter: Department of Strategic Development and Cooperation
- Project assistance: Proficheck, s.r.o.
- Legal assistance: KroupaHelán advokátní kancelář, s.r.o.
- Urban planning concept and technical parameters of construction: A8000, s.r.o.
- Financial analysis: PricewaterhouseCoopers Česká republika, s.r.o.

The participants were introduced to the Smart Neighbourhoods Masterplan, which was developed in parallel as part of the redevelopment study of the area, which was the basis for the design of the new master plan. The basic functions of the buildings (Work&Live, Culture Hub, Event Hub, Cowork Hub) and the requirements for public space on the ground floor and rooftops were explained.

Following the Masterplan, a White Paper was produced which defines basic standards of quality, design, energy performance, sustainability and other requirements.

Summary of the Preliminary English Market Consultation

The participants were familiarized with the points from the previous individual PTCs in Czech

language. The main topics discussed by the participants were:

- Schedule
- Guarantees from SMB
- Documents for further negotiations
- Energy concept
- Economic optimisation
- Green optimisation
- Building functions:
 - o Event Hub
 - o Culture Hub
- Certification
- Project risks

Introducing the financial model

The full presentation is available on the project website - <https://respitalka.brno.cz>

Tomáš Janeba from PwC Česká republika, s.r.o. presented the Options for financing the strategic approach to the implementation of the Smart District Špitálka project. And various financial models that were developed during the project. Their advantages and disadvantages. Then the participants were given the floor to express their opinions or questions. The vision of the project is to be attractive, innovative and inspiring.

Goals SMB are:

- Minimising the amount of SMB expenditure
- Minimising debt
- Maintaining ownership
- To have an impact on the long-term operation
- Self-sustaining funding model
- Preference for rental housing
- Passive standard for new buildings

Participants were presented with the project phases, facility types, and identified constraints and recommended threats.

Tomas Janeba presented the estimated investment costs for Phase "0" Site Preparation. PwC recommends that these costs be paid by the SMB and not involve a Smart Neighborhood partner. Following a query as to when the preparation phase would be completed, it was responded that it would start next year. Its completion would be followed by phase "1" of the

Smart Neighbourhood implementation. The assumption is to start the implementation of the Smart Neighbourhood in 2026/2027.

The investment cost per 1m² of net floor area in 2022 prices was discussed. Participants were asked to comment on the amount if appropriate in the questionnaire to be sent after the mass PTC.

In addition to investment costs, operating cash flows were also discussed. It was recommended that it be examined as part of the financial analysis how VAT is accounted for and possibly reflected in the model as to what parts of the construction can be subject to VAT and where not.

The commercial residential rental rate of €15.5 excluding VAT per sqm of CPP was found to be appropriate. Retail commercial rents of €18.0 ex VAT / sqm CPP seem high to participants. They propose to reduce it to EUR 15.0 ex VAT / m² CPP. It was recommended that the prices should be verified in the next phase as part of a "market survey".

Participants were informed that they will receive feature cards and a summary of the financial model assumptions showing income/expenditure over time.

Variants of the strategic approach to project implementation

Tomáš Janeba to present 2 variants of the project implementation procedure:

- Joint-Venture with a strategic partner and a minimum income guarantee
- Public-Private Partnership with payment for availability

The risks and the way of their distribution according to the variants were described.

The basic principles of the strategic partnership option with minimum revenue guarantee:

- SMB selects the strategic partner in the public procurement procedure based on the amount of the minimum income guarantee.
- SMB and the partner jointly establish a project company
- the JV implements the Smart Neighbourhood at its own cost into the SMB property
- Motivation of partner based on profit share
- At the end of the partnership, the partner's share will pass to SMB for CZK 1.

The basic principles of the PPP variant with payment for accessibility:

- SMB will select the consortium in the tender based on the merits of the offer, where the price offer will consist of the availability payment.

- The consortium will set up a project company
- The concessionaire will implement the Smart Neighbourhood at its own cost into the SMB property
- Motivation of partner based on profit share
- Concessionaire collects rent on behalf of SMB.

It was stressed that the detailed parameters of the cooperation (e.g., risk sharing and technical assignment) will be discussed in the next rounds. SMB is looking for a partner and wants to find a workable model that will be attractive for partners, therefore it is open to all suggestions received either in mass or individual consultations.

Phases of construction were explained for better understanding of the financial model. After phases of construction were explained he started to talk about estimated profits financial models – two model Joint-Venture (JV) or Private-Public-Partnership (PPP) Advantages of each model were explained as well with disadvantages, based on previous consultancies MMB with PWC edited the JV model into “JV with a minimum income guarantee” for partner in case the estimated outcomes wouldn’t be achievable. Second model is “PPP with payment for availability”

Lunch break followed by Block II

Block II – Individual consultations

Linkcity / Bouygues

Important points from meeting:

- Transfer of demand risks to Brno city
- Not enough parking space, shared parking between residents/public may be the solution
- JV financial model generate more risks:
 - o “deadlocks”
 - o Risk of public tenders
 - o Overpriced
- Risk of lack of attractiveness of some flats due to cooling tower
- Recommendations:
 - o Partial rental of premises and payments from it
 - Culture, public/private events, rentals
 - o Revenue from operations of assets
 - Work & Live, Co-work, galleries

- Rental living should have bright future due to the increasing cost of living and flat/apartments price
- Find a balance between flats owned and rented
- In the context of a competitive dialogue, to refine the terms of reference

Meridiam / Via Pribina:

Important points from the meeting:

- Ownership of the properties:
 - public ownership - worse conditions for the financing, but greater value at the end
 - Does it help to maintain the objectives of the current project?
- One of the main objectives should be developing neighbouring areas
- The size of the project is a question mark - it's a really small project in a small area (involving technical infrastructure in the project may be one way to scale up the project - ideally if it's linked to the operation of the infrastructure)
- Another question is where the SMART City aspect should end, it is worth considering that smart city aspects should extend beyond the site (lighting, power, parking, charging etc - should interact with the wider environment)
- Exactly define what should be part of the public service
- Cultural/non-commercial operators will play a key role in the sustainability of the project
- Build trust in partners by giving them the option to be also shareholders
 - Create a concept of shareholding
- In the PPP model is not so important to appoint the operator as a shareholder but the specs must be done properly
- In the JV model is more room to tailor-made specs regarding requirements
 - Involved parties in the JV model:
 - City
 - Developer
 - Operator
- The attractiveness of cultural facilities depends a lot on competition in the city - is the main motivation based on real need or other objectives?
- If the city is able to submit a demand study for CCEH, that would be great
- If the project is successful, it will bring great value to the whole area, need to think about how to get that value for the city - and for the partner too Meridiam is flexible regarding the size of the company, and they provide or hire more staff to cover necessary tasks. They don't have a preference regarding financial model (JV or PPP)
- JV with 20% SMB involvement is acceptable

General questions:

- Concerning the masterplan what is the timeframe for approval of the zoning plan?
 - o Councilor Chvátal: 1st possibility is changing the current status or 2nd changing the plan of the whole area. Currently, it's planned for one year

- Has the city approached some operators for the maintenance of the refurbished building?
 - o Mr Grůza: No, not yet as the final usage is not set. Later, with or awarded partner, we will look for some

- The objectives of the municipalities are clear. Not every model would be able to fulfil all the conditions. Is it possible to discuss that after the "finish" not everything will be owned by the city? What are the demands for sharing the profits?
 - o Mr Grůza: City is open for discussion, but it needs to be investigated in more detail.
 - o PWC: There will be made models of sharing the profits, but it must be shared.

- How important is the Project for the city? How to solve the brown zone. Whether the city will build capacities even if this project wouldn't realise. Is it important to do it this way?
 - o Mr Grůza: It's really important, and exactly in this location. Because those things are needed there
 - So, they cannot build anywhere else?
 - Mr Grůza: No, we are planning this smart district exactly there and showing that we can refurbish

- Parking area - Would Brno have its own rules regarding this?
 - o Mr Grůza: Unfortunately, not yet, maybe in future. Student flats are excluded from this rule (no parking needed)

- Public parking and residential parking elsewhere? People renting the flats will most likely have cars.
 - o A mixture of parking would be needed to provide but reduced as this should be sort of independent area with a reduced amount of cars

- If MMB would give up on the ownership after the period they will have had better financing during all those years, but in the end, left with nothing
 - o This idea is not aligned with MMB's visions. But it's still open for discussion.