

**Marketplace on Innovative financial solutions for development**  
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## **Case study**

**How to finance public infrastructure from the  
private investors' pockets in urban development  
projects**

**The example of Brazilian CEPACs**

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# Presentation's content

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# The CEPACs : how it works

- **CEPACs = Certificates of Additional Potential of Construction**  
Used in large scale urban development / redevelopment projects in a determined area
- **Pilot : Municipality**
- **Mechanism :**
  1. **Definition of public investment needs in the area**
  2. **Definition of a limited amount of additional building rights to be used for real estate production above a basic building right attached to land ownership**
  3. **Translation into CEPACs to be sold to investors at a minimum price covering the planned public expenses**
  4. **These CEPACs are auctioned out or used in payment for works, and are freely tradable until they are used.**

# The CEPACs : Agua Espraiada project, São

## Project design

- Started 28/12/2001
- 15-year project
- Planned public investment :
  - Road system including public transport, 8.500 social housing units, land acquisition, financial and management costs,...
  - 1 125 million R\$ (450 million Euro 2010)
- Total additional building rights in the project area : 3,75 million m<sup>2</sup>
- Total CEPAC : 3,75 million



- Minimum price :

Setor	Para área adicional de construção	Para área de terreno referente para modificação de usos e parâmetros
Jabaquara	3 m <sup>2</sup>	2 m <sup>2</sup>
Brooklin	1 m <sup>2</sup>	1 m <sup>2</sup>
Berrini	1 m <sup>2</sup>	2 m <sup>2</sup>
Marginal Pinheiros	2 m <sup>2</sup>	2 m <sup>2</sup>
Chucri Zaidan	1 m <sup>2</sup>	2 m <sup>2</sup>

**R\$ 1 125 million / 3,75 million CEPACs = R\$ 300 / CEPAC**

# The CEPACs : Agua Espraiada project, São

## Paulo Results

- 2004 – 2009 : 4 offerings / 1 to 4 auctions per offering
- 1,79 million CEPACs proposed / 1,38 million CEPACs bought
- Proposed price : 300 to 611 R\$ / CEPAC
- Actual buying price : 300 to 1.110 R\$ / CEPAC
  
- Total revenue : R\$ 740,4 million (around Euro 300 million)
  
- CEPACs used (7/10/2009) : 921.411
- 84% = additional building rights / 16% use change

# The CEPACs : some pros and cons

## Pros :

- Public investment is financed by private investors instead of taxpayers
- Captures a significant share of land value increase linked to the public investment
- Particularly relevant if land is owned by private or profit – oriented public entities
- No expropriation cost (political risk, financial cost, delays)
- No financial risk for the Municipality : if the CEPACs don't sell, it doesn't have to do the investments

## Limits :

- Tricky balance between densification / urban coherence, public investment maximization and market absorption
- Political risk if lowering free building rights linked to land ownership / limited potential if these « free » rights are high
- Necessary interest from the market : limited to big projects in big cities, and land value increase and gentrification leads to social exclusion
- Public investments limited to the project area = few social spillovers
  - Mitigation : public investments including regional public facilities (health, education, transport,...), social housing, resettlement policy, project area including low income areas

# The CEPACs

**THANK YOU**

# The CEPACs : Agua Espraiada project, São Paulo

Year	Nb. of proposed CEPACs	Nb. of bought CEPACs	Minimum price (R\$)	Actual price (R\$)	Revenue (million R\$)	Use
2004 - 2006	560 468	299 368	300 - 370	300 - 371	102,8	2 bridges + 600 social housing units
2006 - 2008		127 092	371 - 411		51,3	
2007	317 781	317 781	400 - 411	411	130,6	2 bridges + 600 social housing units
2008	186 740	186 740	460	1 110	207,3	Social housing
2008 - 2009	723 500	453 150	535 - 611	535 - 615,5	248,4	Roads, public transport, social housing, green areas, drainage
<b>TOTAL</b>	<b>1 788 489</b>	<b>1 384 131</b>			<b>740,4</b>	



# The CEPACs : Port Area project, Rio de Janeiro

➤ Polderized areas with big lots mainly owned by private or profit – oriented public entities (map below sectors H and J).

➤ APUR study (2008) :

- Public investment : R\$ 385 million (Municipality estimate)
- Mainly road system, public space and public equipments
- CEPAC minimum price R\$ 300

➤ Current debate on minimum CEPAC price (Municipality proposal 2009 : 400 R\$, could be increased due to recent real estate prices evolution in the area and in Rio)

