

Managing Public Assets to boost the Economy – with Transparency –

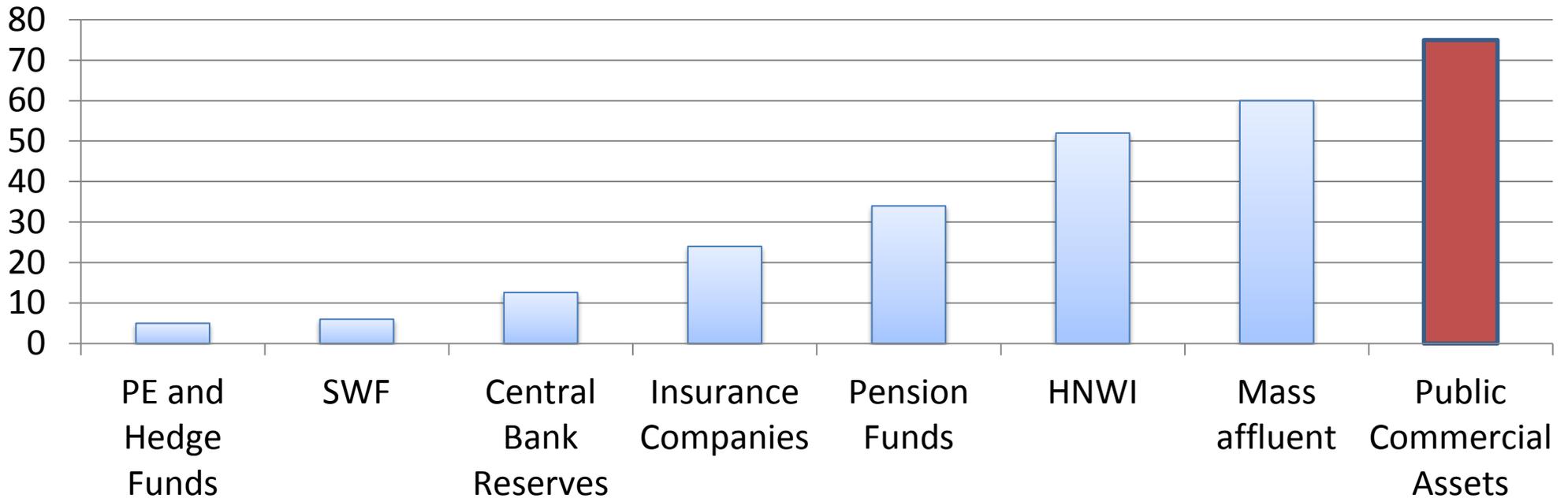
USC Global Leadership Summit 2016

April 30, 2016, Los Angeles

The Public Wealth

- Sitting on a 'gold mine'

\$75 trillion – equals Global GDP but more than Global Debt



\$ 75 trn - Book Value and mainly Central Government

The Public Wealth

- Governments are Wealth Managers

The tip of the iceberg



National wealth

- A multiple of GDP
- Real estate - the lion part
- Often also;
 - Transport
 - Energy
 - Water / Waste
 - Finance

Yield not Ownership - is the Key

The Public Wealth

- What are Commercial Assets?

- Can **generate a fee**, if properly managed
 - Transportation, energy, utilities and real estate
- Real estate with **alternative use**
 - Nearly every asset, except for those of cultural and symbolic importance
 - An old post office can become residential, or offices
 - A school can benefit from better location than CBD
 - Even affordable housing can benefit from partial commercial development

Maximizing Value

The Public Wealth

- What are Policy Assets?

- Policy operations **funded by tax** to execute a political decision
 - Social welfare, military, police, government bureaucracy
- Real estate **managed separately** from operations
 - Technology and demography often change demand
- Deregulated activities can **maintain some subsidies**
 - Special needs costed – transparently outsourced and procured

Prudent Use of Tax Money

The Public Wealth

- The Georgetown Day School

- Built in the heart of Bethesda in 1789, when this was inexpensive agricultural land
 - Several acres of land, worth hundreds of millions, if put to its **best use** today
 - Value of education is **unrelated** to the value of the land
 - If charged the full opportunity cost to society, the school would have to close
 - Major **misallocation of resources** from social perspective, in spite of its socially desirable output

Transparency of Opportunity Cost is vital for Society

The Public Wealth

-Amtrak as example

- Confusing objectives - misallocation of resources
 - 400miles serving 26m passengers
 - 750miles serving 0.4m passengers
 - Half the states served profitable, but all states needed for congressional support
 - \$30bn subsidies since 1971, \$600m loss pa.
- Clear objective - separating tracks and operations
 - routes procured in transparent competition to ensure best or maximum value

Unlocking Value

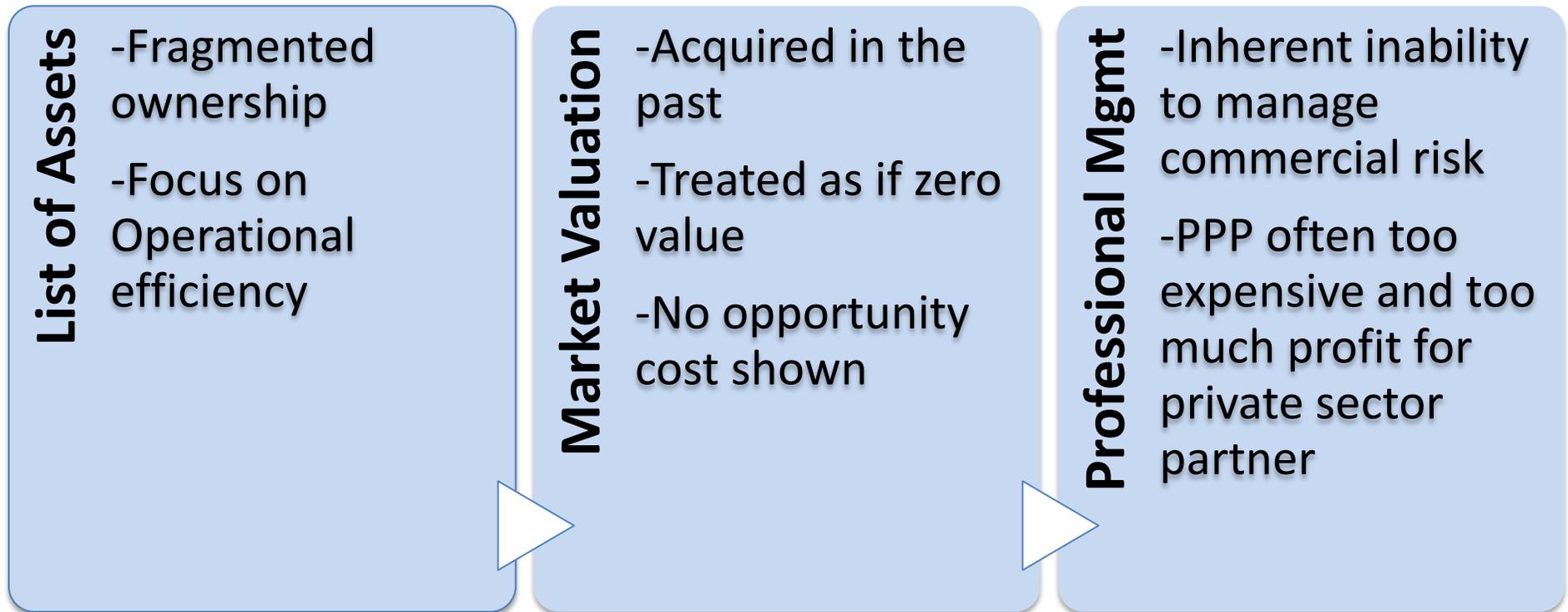
- Better management - bigger returns

- Public assets can yield **significant return**
 - Temasek, the Urban Wealth Fund has had a **16%** return since 1974
 - MTR, the Hong Kong metro-system, makes as much profit from property development as from its operations
 - The Ontario Teachers' Pension Plan had a **13%** return on real estate alone
- Only 3.5% yield would bridge the investment chasm

Every Penny in Yield – is a Penny saved in Tax or Debt

Unlocking Value

- Transparency and independent management



Lack of transparency, guarantees misuse

Unlocking Value

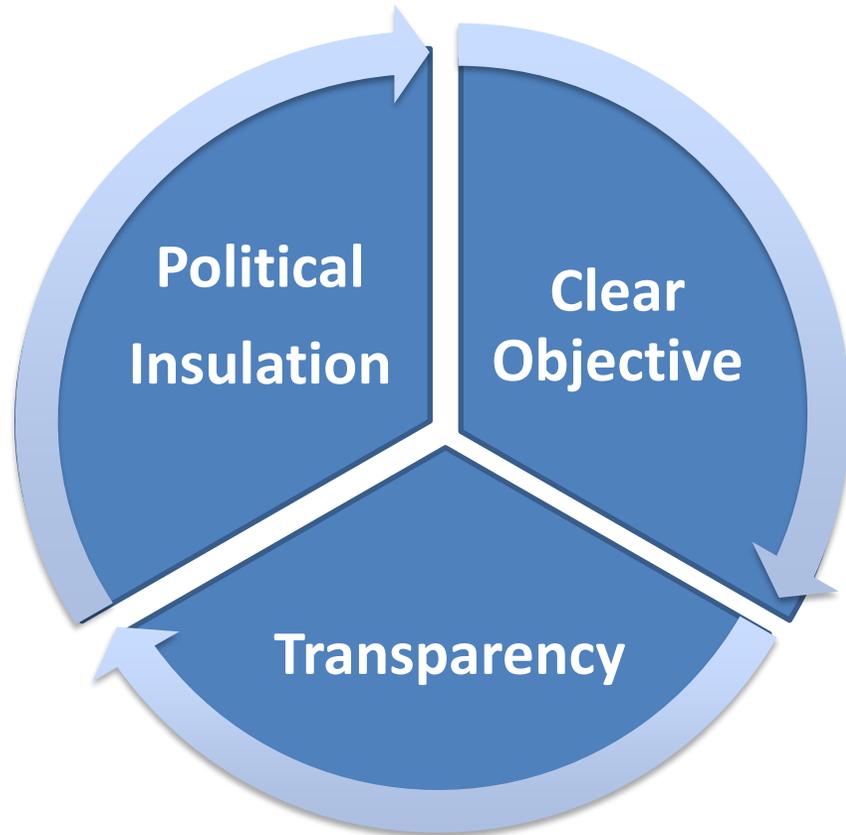
- Transparency Process

- **Full inventory** of all public assets
 - Separate commercial and policy assets
- **Market value** to impute an opportunity cost
 - Unused, proprietary used, third party and affordable housing
- **Comprehensive business plan**
 - Show most productive use, or;
 - Cost of using asset sub-optimally
 - Structuring process

The Annual Review - with value and yield - is a start

Unlocking Value

- Independent Asset Management



- **Ring-fenced vehicle**
 - Arms-length from short-term political influence
- **Maximising value**
 - Private sector professionals
 - Incentive system
- **Private sector framework**
 - Accounting, auditing, legal
 - Understood by investors

Unlocking Value

- Structuring Process

- Commercialization - **Best use** of all assets;
 - Bethesda School, post office, transportation assets
- Optimization - **Economies of scale** across the entire portfolio
 - Specialized management in each segment, focused on operational, financial and commercial efficiencies
- Rationalization – **Reinvesting** proceeds from sale
 - Mature assets, that reached a fair value can be sold, only if; reinvestment is yielding a higher return.

Increasing Net Worth for Future Generations

Unlocking Value

- Examples of independent asset management

- **CPH City & Port** - Copenhagen

- Residential and office properties around the port
- Örestad - 310 hectares and 20,000 residents, office space for more than 80,000 workers, and educational facilities for 20,000 students.

- **King's Cross** - London

- The 165 hectares in central London
- Google, Louis Vuitton, Universal and the University of the Arts
- almost 2,000 residents
- New public squares, gardens, and parks have opened, as well as restaurants, shops, and cafés

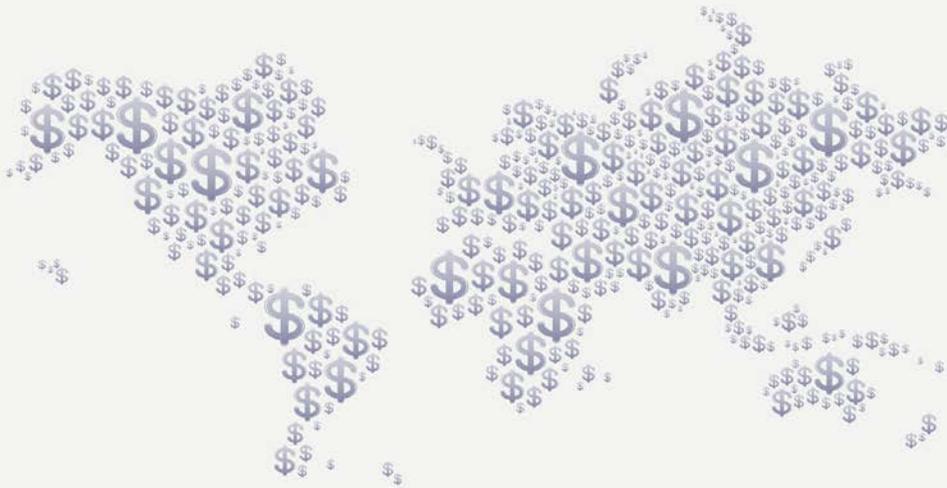
Unlocking Value

- Examples of independent asset management
- MTR - the **Hong Kong metro system**
 - stations incorporated into large housing estates or shopping complexes
 - residential and commercial projects have arisen above existing stations and along new line extensions.
 - leasing of retail and poster advertising space, etc.
- Singapore – **The Urban Wealth Manager**
 - From military barrack to riches in 30 years
 - **Temasek** -operational assets and real estate
 - **GIC** - liquid asset management

It can be done!

The **PUBLIC** WEALTH of NATIONS

How Management of Public
Assets Can Boost or Bust
Economic Growth



**DAG DETTER and
STEFAN FÖLSTER**

PalgraveMacMillan

*... a wake-up call for
governments
to become more responsible
in managing their citizen's
wealth
and securing the foundation for
future generations*

Marcel Fratzscher
President of DIW in Berlin