



# Pre-Feasibility Study Study on Primary Land Development Strategy and Investment and Financing Mode for Gejiu Yangshan New Area

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Abstract



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## i. ABSTRACT

### A. Background of this Pre-feasibility Study

1. Gejiu City's development is limited by its special geological location. Gejiu City is difficult to meet the demands of the residents with the present public service capacity. Gejiu City has completed 2011 *Detailed Regulatory Planning Yangshan New District (Gob) of Gejiu City (Editing and Revision)* and *Cooperation Agreement on Primary Land Development of 8.10km<sup>2</sup> in Yangshan New District in Gejiu City* for Yangshan New District ((6.6-Square-KM Area) in Gejiu City. Even to this day, it is hard to reach an agreement on primary land development cooperation and investment. Therefore, CDIA chooses to guide and subsidize the project, organizing consultants to deeply analyze the development scheme and mode of Yangshan New District in Gejiu City and the issues of the original agreement, and puts forward a new Framework Agreement for Land Development Solution and Primary Land Development of Yangshan New District.

### B. Objective and Task for this Pre-feasibility Study

2. The overall target of this study is to develop a fair project structure that enables public and private sectors being able to work jointly on the Yangshan District land transformation project with limited risks. In order to fulfil this target, following outputs is expected through the course of PFS:

2.1 Forecast the land value increase through estimate the market acceptable land / real estate process before and after the Yangshan land Transformation Development project. Estimate the cost of primary land development and the land transaction, and the value of the risks involved during the development and trade of the land.

2.2 Based on the above study, review the rationality of the current draft agreement of <Gejiu Yangshan District 8.10km<sup>2</sup> Land Transformation Development Cooperation Agreement> (Gejiu government planned to attract private developer to develop the two piece of land of 6.6km<sup>2</sup> and 1.5km<sup>2</sup> together. However the city's application to CDIA was for the 6.6km<sup>2</sup> land development.) with a particular focus on the rationality of the risks and benefits sharing mode between public and private sector in the proposed draft agreement.

2.3 Improve current PPP development strategy, including but not limited to:

2.3.1 Within the certain flexibility agreed from Gejiu government, appraise the current version of *Detailed Controlled Planning of Yangshan New District in Gejiu*, then come up with some suggestions, so that it will be easier to achieve the PPP cooperation conditions of the plan.

2.3.2 Improved the current draft agreement with more rational cooperation structure between public and private sector. Meanwhile, revise the clauses of the overall agreement from legal perspective. Further concretion of the current draft agreement with phased development programs to mitigate the risks of the development project, which could be attached to the main agreement.

2.3.3 Based on the agreed improved version of the Agreement, prepare a marketing and business plan according to Gejiu city conditions, which should include the revised development planning and PPP draft agreement. A

facilitation process to introduce the project to potential developers by means of consultation conversations. Workshop are to be provided by the CDIA consultants. Carry out interviews with 5 – 10 potential targeted financiers that are interested in land development in second to fourth tier of cities in this region in China.

### **C. Main Conclusion**

3. Based on the present location, planning, land market, development conditions and government finance conditions of Yangshan New District in Gejiu City, and combined with the original planning and development strategy of Gejiu City Government, the CDIA consultants made a detailed assessment on the profit and cost of the Primary Land Development Project of Yangshan New District, and confirmed that the project couldn't be implemented in the respect of finance according to the original planning scheme and development strategy. The gross profit margin of the original scheme is only 7.7% and the net profit is -6.55 million yuan, which is a deficit. The internal rate of return (after paying the interest tax) is -1.0%, and the maximum financial gap is 846 million yuan, so it's unable to attract developers for cooperation.

4. In view of the above-mentioned conditions, to maximize the land value and minimize the market risk of the project, consultants offered suggestions for adjusting the planning scheme, the development strategy and the development sequence and so on, and re-estimated the project cost and profit on this basis, which greatly improves the economy of the project. The gross profit rate is 25%, the net profit is 1.02 billion yuan, the internal rate of return (after paying the interest tax) is 17.1% and the future maximum financial gap is 457 million yuan, which lowers the development risk and improves the feasibility of the project.

5. The consultants, on this basis, compared several feasible public-private cooperation modes and finally chose a basic mode—"fixed income +profit sharing" after discussing with Gejiu City Government for many times and proposed a new Framework Agreement for Primary Land Development of Yangshan New District, ensuring equal risk sharing and profit sharing between the government and the developers.