Research on the Operation Mode of Infrastructure Projects Based on "REITs+PPP"

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Abstract: Based on the complex international situation and the continued impact of the epidemic, infrastructure investment has become an important means to promote domestic economic recovery, combined with infrastructure public offering REITs policy documents, constructing an operation mode combining "REITs+PPP", analyzing the operation process and applicable project scope of the operation model, Finally, the main problems existing in the model are explained and corresponding solutions are proposed.

1. Introduction
With the continuous advancement of urbanization, the demand for infrastructure project construction has emerged in large numbers, and the huge amount of funds required for its construction and the long payback period of investment have caused the government's debt to continue to increase. Although PPP financing mode can effectively alleviate the pressure of government debt, due to the high capital investment and high risk of PPP projects, the participation of social assets is gradually reduced, which restricts the process of infrastructure construction. Under the impact of the epidemic and the economic downturn, in order to further promote infrastructure investment, the government is constantly trying other solutions. REITs are an important method for financing infrastructure funds in many foreign countries. They can broaden the financing channels of PPP projects, effectively reduce the financing costs of PPP projects, and increase the enthusiasm of social capital for participation. The combination of REITs and PPP projects can effectively solve the contradiction between the increasing demand for domestic infrastructure investment and insufficient social participation.

2. Connotation of "REITs+PPP"
PPP (public-private-partnership) mode is a mode in which government departments and social capital cooperate to jointly carry out infrastructure construction. Because of its ability to effectively reduce local government debt, it has been vigorously promoted by the central government. It is mainly applicable to infrastructure and public service projects that the government is responsible for providing and suitable for market operation. In recent years, infrastructure projects in the PPP model have been increasing day by day. However, since the minimum capital ratio of PPP infrastructure projects is generally 20%, and the remaining funds are provided by debt funds, the financing of PPP projects is difficult, and the development trend is gradually showing weakness.

REITs (Real Estate Investment Trusts) emerged in the United States in the 1960s. They mainly pooled...
funds in the form of issuance of shares and receipts of income, then handed them over to professional investment institutions for operation and management, and the cash income generated was distributed to investments in the form of dividends. The advantages of REITs mainly include three aspects, namely equity, public offering and standardization. The connotation of infrastructure REITs is a product issued by using infrastructure assets as the underlying assets of REITs.

3. Infrastructure project operation mode under REITs mode

The emergence of infrastructure public offering REITs is expected to become a new model of PPP infrastructure project financing, the purpose is to acquire infrastructure assets and convert them into securities that can be raised. Judging from practical experience, participation in infrastructure projects in the “REITs+PPP” model is mainly achieved through the operation model shown in Figure 1. The characteristics of the "REITs+PPP" model are mainly reflected in the particularity of PPP projects as the underlying assets and the construction and distribution of public funds.

3.1. Asset acquisition and securitization stage

The asset acquisition stage can be subdivided into two steps: Asset isolation and structure of equity and debt. First, package the infrastructure project and add it to the brand new project company. The company to which the infrastructure project belongs holds the ownership or franchise rights of the PPP project, and the company holds shares in the project company to manage the operation of the project. Subsequently, private equity funds acquired companies through the establishment of a "stock-bond structure", and achieved the purpose of reducing corporate income tax by weakening equity and strengthening creditor's rights. Since public funds cannot directly subscribe for the equity of unlisted companies, special plans are used as an intermediary to obtain the ownership of basic assets. The special plan is to acquire shares of private equity funds, then securitize the underlying assets, and finally subscribe for public equity funds.

3.2. Fundraising and distribution stage

The stage of fundraising is the key difference between public REITs and similar REITs. Although similar REITs also hold equity, the exit method involves repurchase by the original equity holder, and there is a distinction between priority and secondary equity. In fact, it is a model of real debt. After the completion
of the asset securitization stage of publicly offered REITs, public offerings are used to raise funds from the public, and the publicly raised infrastructure funds are used as investors in the asset-backed special plan of the REITs project. Investors include original equity holders, professional investors and public investors, among which the original equity holders need to invest no less than 20% of the capital, the remaining 80% is jointly funded by social investors and public investors, and there is no repurchase behavior by the original stakeholders.

4. Suggestions on the operation of infrastructure projects under the "REITs+PPP" model

4.1. Broaden the scope of application of "REITs+PPP"
Although infrastructure REITs involve a wide range of industries, the initial pilot projects require high asset conditions, focus on high-quality projects, and require users to pay and operate for more than 3 years of basic requirements. There are few infrastructure projects that have entered a stable operation period and have achieved profitability. Therefore, expanding the scope of compatibility of infrastructure REITs with PPP projects and mobilizing market enthusiasm are issues that need to be resolved urgently.

PPP projects paid by the government and subsidized by the feasibility gap can also be used as the basic assets of public REITs. In the future, with the continuous development and improvement of the REITs market, infrastructure REITs are expected to gradually relax the requirements for income sources and expand the scope of PPP projects that can be financed by REITs.

The operation mode of logistics parks, industrial parks and other projects has similarities with the operation mode of commercial properties, which can be used as commercial property REITs to accumulate experience in the application of commercial property and lay the foundation for the development of property REITs. Promoting the implementation of composite PPP projects and REITs will help promote the application of infrastructure REITs under the PPP model.

4.2. Straighten out the ownership of the "REITs+PPP" project
Under the "REITs+PPP" model, infrastructure projects are not only the underlying assets of public REITs, but also the product of government-enterprise cooperation. The dual identity not only increases the responsibility of the enterprise, but also brings about complicated ownership relationships that are difficult to sort out.

(1) For PPP projects in the concession period, the law stipulates that the infrastructure is exclusively owned by the state, and its ownership obviously cannot be used as the underlying asset of REITs. On the one hand, it can communicate with the relevant departments responsible for the franchise in accordance with the penetrating principle.

(2) After the end of the franchise period, the PPP infrastructure project returns the ownership of the project to the government in accordance with the concession agreement, and then the government can sell the entire project through bidding or deferred transfer. But before the transfer, it must follow the franchise agreement or obtain the consent of the local industry authority.

4.3. Clarify the operating subject of the "REITs+PPP" project
The assets in the "REITs+PPP" project are the foundation, and its subsequent PPP project operation is the key, which involves stable cash flow distribution. The “Guidelines” require “fund managers to actively operate and manage infrastructure projects”. At present, personnel who have both the professional ability to operate PPP projects and the financial ability of REITs are extremely scarce, and new requirements are set for the orderly advancement of "REITs+PPP".

First, the operation of PPP infrastructure projects still tends to be the responsibility of the original unit of the project. The social capital party can realize the equity transfer and exit after government discussion and approval. In order to ensure the continuity of PPP project operation and the inheritance of operation and management experience, the original stakeholders of the infrastructure project need to participate in the strategic placement of the newly established infrastructure fund.

Secondly, the daily operational decisions of REITs funds tend to be the responsibility of fund
managers in order to realize asset appreciation. Due to the public-private partnership nature of my country's PPP projects, during the implementation of "REITs+PPP", in addition to the fund share holders' meeting, the government can also supervise to ensure the continuous operation of PPP projects.

5. Conclusion
In view of China's actual environment, the investment and financing reforms in the infrastructure sector are very urgent. At present, there are a large stock of PPP infrastructure projects, and the emergence of REITs can solve many problems of PPP, which corresponds to the development of PPP. Through "REITs+PPP", the government leverage can be reduced, the social capital withdrawal mechanism can be improved, and investors from all parties can achieve stable and continuous income. In the future, with the joint efforts of various policies and industry research, The relevant system rules and specific implementation rules of REITs will be continuously promoted and improved to promote the sustainable development of REITs.

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