This is a new section of the Public-Private Partnership Resource Center website and is currently in draft form. Your feedback is welcome: If you would like to comment on the content of this section of the website or if you have suggestions for links or materials that could be included please contact us at ppp@worldbank.org.

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Elbphilharmonie, Hamburg, Germany

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On this page: *A case study on Elbphilharmonie, Hamburg, Germany. Find more at the Municipal Public-Private Partnership Framework - Project Summaries section for brief summaries of around 100 projects from around the world, examples of successes and challenges, as well as innovative ideas on solutions, or visit the Guidelines on Innovative Revenues for Infrastructure section.*

Project Summary:

Background

The city of Hamburg has been undergoing a process of redevelopment and expansion, which led to the idea of constructing a philharmonic hall upon a 1960s factory building that enjoys a magnificent view of the Elbe River. The project was intended to give a new life to Kaispeicher (part of Hamburg's harbour) by constructing a philharmonic hall on top of the historic warehouse building, surrounded by private business facilities and a freely accessible plaza.

Project Structure

The Elbe Philharmonic Hall in Hamburg is designed to host a concert building, a wellness and conference zone, 47 owner-occupied apartments and a five-star hotel with 250 rooms.

The Philharmonic Hall's design concept was private and unsolicited, originating from a real estate developer and then informally accepted by the city of Hamburg without undergoing a competitive selection process. After undertaking a feasibility study in 2004 that estimated the project costs at EUR 186.7 million, the Free and Hanseatic City of Hamburg conducted a Europe-wide tender to construct, finance, and operate the project for 20 years, and began negotiations with six bidders. After the feasibility study and the tender process began, the Philharmonic Hall suffered intensive design changes several times in order to improve the project's revenue prospects. This, coupled with planning missteps, skyrocketed the cost estimates on various occasions.

By 2006, the total project costs had increased to EUR 228.6 million, with EUR 143.7 million needed for the public core and EUR 84.9 million for the commercial facilities. It was later suggested to switch the commercial structure from the initial thought-of investor model to one where the City would own the commercial facilities (hotel, parking lots and restaurants –excluding the apartments). The new structure would make the city the bank's creditor which allowed them to achieve more affordable interest rates, reducing the estimated costs by EUR 10 million. Now the city, as the owner of these facilities, would lease them to the private partner for 20 years after construction, and use the income to repay the debt. However, this shifted the entire construction risk and financial risk for the project's commercial facilities to the city.

When the contract was awarded, the project cost was estimated at EUR 351.8 million, of which the city would provide EUR 142.3 million and the rest would be covered by private donations and cross-financing. These cost projections were unrealistically low due to the unfinished planning, inadequately detailed construction design and weak oversight. It is reported that the decisionmakers "underestimated the difference between the value of the contract and the value of the planned building".

In September 2006, the project was awarded to Adamanta, a consortium made up of Hochtief Construction AG and Commerz Real AG, which would be responsible for building the Elbphilharmonie and operating the commercial part of the project. The income for the private partner would come from the high-class hotel, restaurants, apartments, and parking lots, as at the same time the lease and sale profits from this part would cross-subsidize the Hall, requiring minimum financial commitments from Hamburg. The contract was amended four times through the end of 2008, and in April 2013 a new contract amendment was signed with a new total of EUR 575 million in estimated construction costs, and under which the constructor agreed to accept all liabilities for the part of the edification that was already built and the portion that was to be built.

Reports indicate that the role of the company appointed for the management of the project, ProjektRealisierungsgesellschaft mbH (ReGe) which was originally only for stakeholder management and then, for several reasons, became the project's overall developer, planner, and manager, lacked significant risk management and planning proactivity. Optimism bias, high expectations for the project, an upcoming election, and a rush to include the project within the planned budget for the next fiscal year, led ReGe and the Mayor's Office to underestimate the costs and feel pressured to close the deal before the end of 2006. ReGe reported directly to the Mayor in an informal basis and was the only point of contact between the rest of the agencies, the construction company and the Mayor's office. This meant that it was the center for all stakeholder communication and could filter feedback to the authorities.

The project started its construction in April 2007 and was only completed in 2016 at a cost of around USD 850 million.

The construction stopped in 2011 for over 18 months, and only after a long negotiation process the project started running again after a turnaround in 2013. The project faced a cost increase of 145.9 percent and opened seven years later than originally planned. The largest amount of overrun costs was driven by "decisions and external influence factors in the projects development phase before construction contract signature in late 2006". It is reported that "a lack of detailed planning, insufficient risk management, an overambitious tender schedule, and public pressure led to a premature lump-sum contract signature with unrealistically low cost assumptions when measured against the value of the envisaged building."

Fortunately, demand for the concert hall, after it opened in January 2017, is growing – subscriptions for classical concerts have doubled since the hall opened and tickets have sold out. The building was recently named among the "World's Greatest Places 2018" by TIME Magazine.[1]

Lessons Learned

- Adequate planning and proper preparation cannot be circumvented. In this case, unfinished planning at the time of contract signature, such that planning continued in parallel with construction, led to several design changes and constant cost increases. Although the contract had been initially agreed on as a lump sum structure, the indefinite nature of several significant construction details nearly annuled the guaranteed fixed character of the payment.
- External expert advisors that can guide and oversee the project can help give a vital, objective look at a project.

Footnote 1: Case source(s): https://www. researchgate.net/ profile/Genia_Kostka/ publication/ 316559651_Large_ infrastructure_projects_ in_Germany_Between_ ambition_and_realities/ links/5b6ca5024585 1546c9f953f0/Largeinfrastructure- projectsin- Germany-Betweenambition- and-

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To find more, visit the Innovative Revenues for Infrastructure section and the Content Outline, or Download the Full Report. For feedback on the content of this section of the website or suggestions for links or materials that could be included, please contact the Public-Private Partnership Resource Center at ppp@worldbank.org.

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