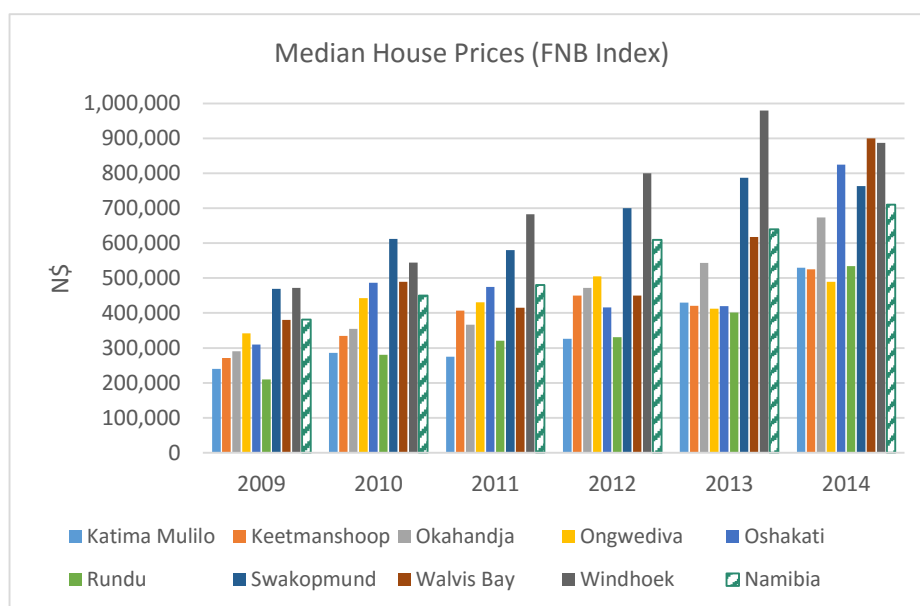


Public Private Partnerships in Affordable Housing – Concept Note

1. Background¹:

As per market price estimates, house prices in Namibia have approximately doubled over a five year period, between 2009 and 2014. In some of the country's towns and cities, however, the price ascent has been even more dramatic, with Windhoek, amongst others, seeing prices double in less than four years. The reasons for these notable increases are manifold, both due to supply and demand dynamics in the local economy. On the demand side, growth in the local economy, rural-urban migration, increased employment and a rapidly growing middle-class have driven strong, but ultimately foreseeable, increases in demand for formal housing, particularly in urban centres. It is however, the constrained supply of property, particularly serviced land that is the key driver of price increases. The reason for this is simply that over the past two decades, land supply has not kept pace with demand growth. The outcome of this supply shortfall is price increases, above all in urban areas.



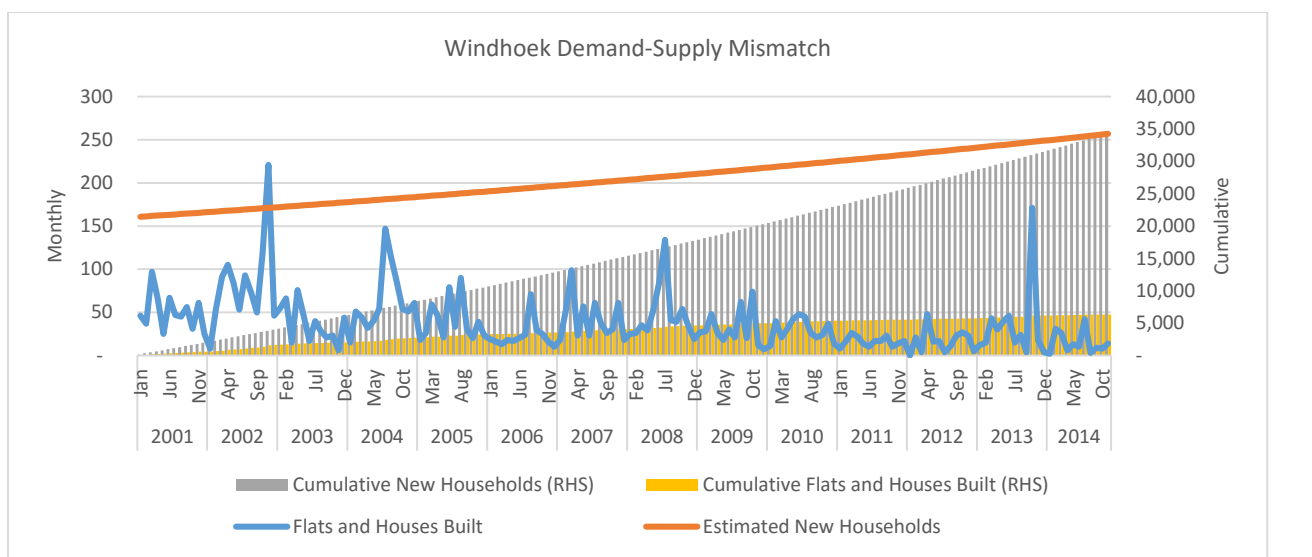
As well as increasing house prices, limited supply of new property in urban centres, has resulted in a sizable shortfall of formal housing, which means that many families that would otherwise be willing and able to afford formal housing are unable to do so and thus end up in informal housing. According to Vision 2030, adopted in 2004, the extent of the shortfall was estimated to be approximately 80,000 houses. Updated estimates by local experts put the current shortfall in the region of 100,000 houses, which is broadly in line with the number of families living in informal housing.

High house prices not only bear an enormous brunt on the income of households, but it also precipitates an in-or-out situation whereby the majority of the population becomes defined as either owners or renters, with little ability to transcend the boundary from renter to owner. In addition, this in-or-out scenario has a pervasive long term impact in terms inequality, as those that own property experience the capital gains of revaluation as well as increased income from these investment assets, not to mention bank credibility. Thus, those that own property can buy more. Those that do not, are effectively enslaved to pay rent, boosting the income of the already more prosperous.

¹ Acknowledgements: parts of the background section of this note are adopted from work undertaken by the Economic Association of Namibia

Case in point: Windhoek demand-supply mismatch

Over the decade from 2001 to 2011, the population of Windhoek grew by 3.4 percent per year on average (compounded), adding a total of approximately 92,300 people to the city's population. Given the average size of a Khomas family of 4.1 persons, an approximate 22,500 new households came into existence over this period. However, over this same period, building plans completed for houses and flats totalled a relatively paltry 5,500. Moreover, while the population of the city has seen compounded growth, the number of flats and houses completed has been on a declining trend. This is largely due to the lack of serviced land on which to develop, and means that the annual shortfall in new-house provision is ever increasing.



In view of the above discussed constraint with respect to supply of housing stock, one of the targeted measures to assist ownership of houses in lower income families is for the government to directly develop or facilitate the development of affordable housing programs.

This note outlines a Public Private Partnership (PPP) approach for development of affordable housing units in Namibia.

2. The PPP concept

The constrained supply of houses in urban areas is a key contributor to high cost in the market. While increase in the supply of serviced land in urban areas – and corresponding increase in property development activities – is the overarching factor that can ease supply and price pressure across the board in the real estate sector, targeted increase in the stock of affordable houses can specifically assist lower income families.

A PPP project concept is contemplated in order to catalyse private investment in development of affordable housing units in urban centres in Namibia. The planned PPP initiative is with the following core objectives:

- Accelerated development of affordable housing units of acceptable quality that are finally delivered to deserving members of the population
- Undertake development through a commercially viable project structure such that private investment is possible
- Achieve significant risk transfer to the private sector developers, also such that for the pilot projects there is minimal to nil fiscal burden due to the project

2.1. Salient features of the PPP concept and associated preparatory activities

In line with the previously articulated objectives of the affordable housing development, this section summarises the salient features of the proposed PPP concept and anticipated sequence of project preparation activities.

The PPP project developments are proposed to entail the following key features:

- 1. Site selection to be jointly undertaken by the MURD and relevant local government entities:** It is proposed that the government entities involved in the preparation of the PPP project shall take a lead in the identification of suitable sites at key urban centres in the country for project development.

It is further proposed that in order for each project development to have a significant impact on supply of affordable housing units in the relevant urban centre and also attract large private sector developers, the sites would be selected such that they could accommodate development of approximately over 1000 housing units.

A criteria for selection of suitable sites has been compiled and is available at [Annexure I](#)

- 2. Objective project development standards to be developed for the housing PPP program:** It is important for the success of any PPP initiative that the expected development requirements, including output specifications, are clearly identified and articulated at the PPP agreement / contract entered into between the government and selected private sector developer. The MURD shall take up the task of drawing up the minimum project development requirements in terms of: design and layout parameters for the housing units, minimum quality specifications, and minimum development requirements of the project site and common facilities.

These minimum development requirements shall be made available to all potential private developers at the project procurement stage. This is essential so that all bidders have a common understanding of development expectations and thus submit financial bids that are comparable.

- 3. Significant preparation work to be undertaken at each project site:** It is proposed that before commencing the procurement activities for selection of a private sector developer for an identified location, significant preparation activities are undertaken to assist in project success. For the purpose of the affordable housing development, the specific preparation activities shall be:
 - a. Site investigations / studies:** to enable potential bidders to make fair assessment of development costs and any risk factors – these shall include: a topographic survey and geotechnical studies / soil tests
 - b. Facilities planning and project cost estimates:** the project team shall undertake a conceptual facilities planning exercise for the identified project site (this shall be in line with the laid out project development standards, as discussed above). This exercise shall enable a realistic sponsor's estimate of the project development cost, and shall be a key input to the subsequently discussed activity of financial feasibility. The results of the facilities planning exercise, while not prescriptive for final development, shall be made available to potential bidders as a workable template to facilitate bid preparation activities
 - c. Financial feasibility assessment to formulate a plausible house price ceiling:** finally, before proceeding to the procurement phase, a financial feasibility assessment shall be undertaken for the housing development project for the specific identified project site. One of the key outcomes of the financial feasibility analysis shall be a sponsor's assessment of the likely

price at which a private project developer will be able to sell the developed housing units while maintaining reasonable profitability

4. **Responsibility of development of housing units and sale to ultimate beneficiaries to be a responsibility of the selected private entity:** As discussed, one of the objectives of development of affordable housing through a PPP route is reducing the financial burden of the project on the exchequer. Significant transfer of risk to the private sector entity is also one of the core features of a PPP project design. Accordingly, it is proposed that the selected private developer shall assume the demand risk in case of the proposed PPP housing development, and shall be responsible for directly selling the developed housing units to final beneficiaries. This is in contrast to the alternative model where the government is involved in direct production or centralised purchase of public housing for subsequent sale to beneficiaries.
5. **Financial selection criteria aimed to minimize the delivered price of housing units:** One of the primary motivations of the contemplated housing development is to facilitate the development and delivery of houses at an affordable price. Correspondingly, the financial selection criteria can be designed such that the PPP housing development project is awarded to the bidder (amongst the private entities shortlisted at the pre-qualification stage) that commits to sell a typical housing unit to the final beneficiaries at the lowest committed price. It is expected that such competitive pressure will nudge prospective developers to adopt a cost plus pricing approach as opposed to selling developed housing units at the market clearing price. On the other hand, the prescribed minimum development specifications and quality standards, coupled with the responsibility of the selected private entity to directly sell housing units to beneficiaries, is expected to keep the quality of developments at a reasonable level.

Such 'lowest committed selling price' is the proposed financial bidding criteria to be followed at the procurement stage.

6. **Measures to be put in place to safeguard against purchase of housing units for speculative purposes:** It has been previously discussed in this document, that the constrained supply of housing stock in Namibia is a key contributor to systematic increase in prices. This means that while the selection criteria deployed at the PPP procurement stage would make it possible to mandate project developers to sell housing units at a reasonable price, there will be market demand to purchase such units at significantly higher prices. This difference between mandated original selling price and market clearing price would create natural conditions for speculative buyers to purchase housing units developed under this proposed PPP model at a low initial price and then onsell these at a profit. Such speculative buying and selling behaviour would however defeat the core project objective of *availing housing units at an affordable price to deserving members of the population*.

In light of a possibility of speculative buying and selling of houses developed under the proposed PPP program, it is recommended that measures be put in place to minimise such disturbances. Some of the recommended approaches are:

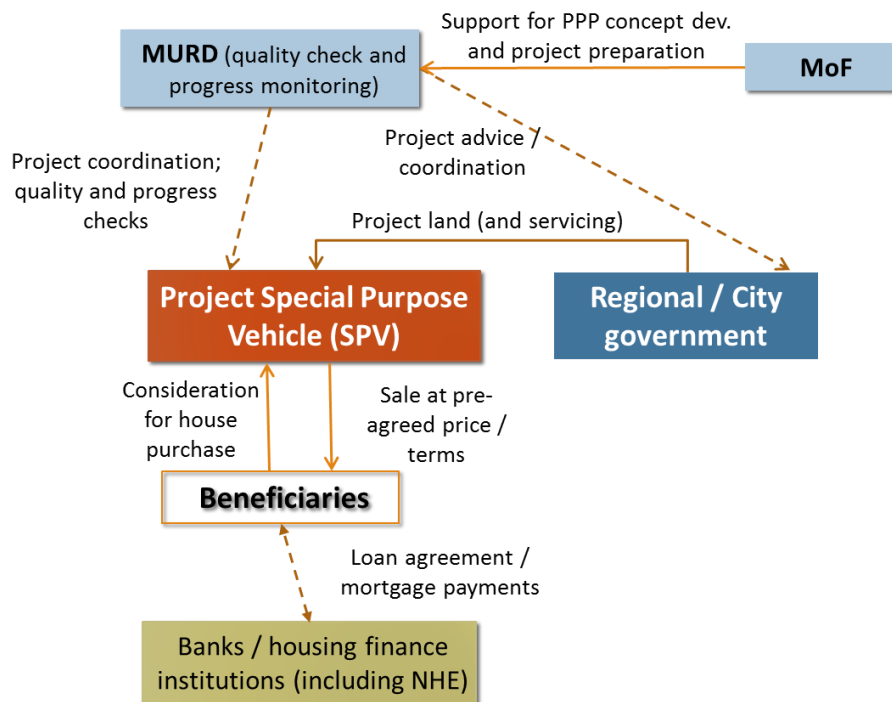
- a. Placing a purchase limitation such that an individual is not allowed to purchase more than one unit in the country developed under an affordable housing PPP program in a given time frame, say 10 years
- b. Other sale restrictions can also be put in place to ensure allocation of affordable housing units to deserving individuals, like: sale restricted to Namibian nationals, sale of affordable houses to families that are below a threshold income level, or acceptance of purchase

applications only from a pool of pre-screened households that are awaiting allocation under government developed accommodation projects

- c. Imposing a minimum holding period, such that a unit once bought under an affordable housing development program cannot be sold before a specified time period, say six years from initial purchase. *Imposition of a minimum holding period is a common mechanism to discourage speculative buying and selling activities; a similar mechanism is in place in Namibia in case of purchase of agricultural land under the affirmative action program (holding period of 10 years)*
- d. Another good practice is that in case the number of qualified applications received for purchase of housing units developed under a particular affordable housing program exceed the stock of available units, allocation is made through a transparent draw-of-lots

2.2. Project structure and roles of key stakeholders

The below schematic summarises the proposed project structure of the affordable housing PPPs.



The proposed project structure defines the roles and relationships between the key stakeholders expected to be involved in the PPP project preparation and monitoring activities. The entities relevant for the project structure will be:

- **The Ministry of Urban and Rural Development (MURD):** central ministry responsible, among other mandates, for development of the housing sector in the country
- **Regional / city governments:** local government entities that would typically be owners of land selected to be the site for the PPP housing development
- **Ministry of Finance:** central ministry responsible for managing financing aspects of government development projects and the Public Private Partnerships (PPP) agenda in the country
- **Private developer:** to be selected for the project development

- **Project special purpose vehicle (SPV):** company formed for the development and commercialisation of the housing project
- **Beneficiaries:** Buyers of the developed housing units
- **Banks / housing finance institutions:** mortgage finance providers

The below table summarises the main roles expected to be performed by the various stakeholders during the preparation and development of an affordable housing PPP program:

Main stakeholder	Main roles
Ministry of Urban and Rural Development	<ul style="list-style-type: none"> ▪ (along with local government agencies) identification of suitable site(s) for affordable housing development ▪ Project preparation, along with verification of site for suitability + technical investigations for the site (topographical & geotechnical) ▪ Leading the project procurement: developing bidding documents along with developer selection criteria, managing procurement process ▪ Technical inputs to PPP agreement: developing design and quality standards ▪ Co-signing of contract with selected project developer ▪ Project management: oversight to ensure adherence to time schedules, development and quality specifications
Regional / city government	<ul style="list-style-type: none"> ▪ Identification of suitable land / site for the project ▪ Signing of PPP agreement (along with MURD) with identified private sector developer ▪ Project management: oversight to ensure compliance with sale terms, other conditions of the PPP agreement
Project developer	<ul style="list-style-type: none"> ▪ Servicing of land – if required ▪ Construction of housing units and development of project site, based on pre-approved design, quality and timeliness standards ▪ Sale of developed affordable houses based on terms of sale (at or below pre-committed maximum sale price)
Ministry of Finance	<ul style="list-style-type: none"> ▪ Collaboration with the MURD for conceptualization of the PPP program and during preparation of specific projects
Banks/ Financial institutions	<ul style="list-style-type: none"> ▪ Providing mortgage financing to beneficiaries as the buyers of the developed housing units

A listing of key activities to be undertaken through the preparation phases of affordable housing PPPs and corresponding responsibility centres is presented at [Annexure II](#)

[A] Commercial & suitability

1. **High demand for affordable houses at planned project location:** This criteria is relevant both from the stand point of undertaking a project that will address unmet demand, and choosing a location (city / town) where the private sector player will have high confidence with respect to marketability of developed houses.
2. **Suitability of site for residential development from a location perspective:** The site proposed for project development should be a suitable residential location: i.e. it would not be too far away from existing developments or facilities like shopping areas, hospitals, or schools
 - The identified site should not be more than 12 Kms (road distance) from a city / town centre

[B] Technical parameters

3. **Sufficient size and dimensions of the site:** It is targeted that the affordable housing development at each site shall be for approximately 1000 housing units. Accordingly the identified site should be of a sufficient size to accommodate such development. Also, the dimensions of the site should not be such that it fragments development or increases land servicing cost
4. **Easy serviceability of site and availability of bulk services:** The identified project site should either be already serviced or it should be possible for the selected private developer to easily service the site. There should also be adequate availability of bulk services at the municipal region to cater for additional requirements of the planned residential development.
 - In case the site is not already serviced then it must be verified that there are no technical or planning constraints that would inhibit or delay servicing of the site by the private developer
 - There should be adequate availability of water, sewerage processing / disposal, and electricity distribution capacity at the planned location such that availability of bulk services would not be a constraint to development. It is preferred that bulk services are available within 300 meters, but are no more than 2 KMs away from the proposed site
5. **Suitable terrain and soil / ground conditions for construction:** The site should not be overly undulated or otherwise of the nature that construction would be difficult or expensive

[C] Readiness of site

6. **Ready usability of site:** It shall be important for project's success that the identified site will be readily usable for development purposes, and that the selected project developer is not likely to face any risks or delays.
 - Project site should be owned by the local authority
 - Before start of the PPP transaction process (launch of RFQ) all finalised project sites will need to be free of any encroachments and should not have any R&R issues that may hinder development
 - The site should be planned and surveyed, and should otherwise be sufficiently ready from a land / development planning perspective such that related requirements for approvals shall not be a bottleneck to project development

Annexure II Activities planning for affordable housing PPP projects preparation

This section presents a listing of the various activities, along with responsibility centres (MURD / MoF), that shall be undertaken for the purpose of bringing well prepared and creditable affordable housing PPP project(s) to market. In this section activities are indicated up till the market launch of the PPP project(s) for procurement; bids evaluation and award of contract to preferred bidder(s) shall follow.

Key Activities	Description	Responsibility
Activity 0: Consensus on the broad project concept / structure for affordable housing PPP Pilots	<ul style="list-style-type: none"> ▪ A project concept has been prepared by the MoF (PPP Unit) and has been discussed with the MURD; one of the first steps for the managements of the two ministries shall be to consider the prepared project concept and approve it ▪ The broad project concept prepared at this stage shall be further detailed through the project preparation stages, and finalised at the technical and financial feasibility stage (Stage II) ▪ The further activities described in this note are for the purpose of preparation and bringing this planned PPP project to market 	Responsibility: Joint responsibility for MURD and MoF; project concept development led by MoF Output: <ul style="list-style-type: none"> ▪ Documented agreement on the broad project concept
Stage I	Initial preparation	
Activity 1: Project site(s) - Identification of between 1 and 3 project sites for pilots + site investigations	<ul style="list-style-type: none"> ▪ MURD will work with one or more municipal authorities to identify suitable sites that are available and can be utilised for the pilot affordable housing PPPs ▪ Desirable site features: <ul style="list-style-type: none"> ○ well located, in a prominent population centre where it is understood that there is high demand for affordable houses ○ free from encumbrances and otherwise readily useable for the project ○ either already serviced or easily serviceable ○ is not overly undulated or otherwise of the nature that construction would be difficult or expensive ○ is of the appropriate size ○ is located such that municipal levies or other rates are relatively favourable and would be affordable for occupants ▪ Required site investigations: studies / investigations need to be undertaken on the identified project sites such that any likely issues or risk factors regarding construction are known in advance, and the project team and project bidders are able to make fair assessments of likely development costs; investigations including: <ul style="list-style-type: none"> ○ topographical surveys ○ geotechnical studies / soil tests 	Responsibility: MURD, working closely with local / city governments Outputs: <ul style="list-style-type: none"> ▪ Clearly identified suitable sites for pilot projects
Activity 2: Specifications for	The project preparation and procurement (including development of PPP Agreement to be signed with the	Responsibility: MURD, as required

project development	<p>identified private developer) would require clear instructions to be prepared with respect to development requirements. Project development requirements would include:</p> <ul style="list-style-type: none"> ▪ House unit design & layout specifications ▪ Project site layout + requirements for development of common facilities (e.g. internal roads, street lighting, water storage, central electrical systems etc.) ▪ Building quality specifications (in some cases reference to already available building / development codes may suffice) ▪ Project development timeframes, including intermediate milestones <p><i>[Note: balance will need to be struck between development standards / requirements and anticipated affordability of housing units]</i></p>	<p>working with project consultants / transaction advisors</p> <p>Outputs:</p> <ul style="list-style-type: none"> ▪ Project development standards (will be used as inputs to PPP Agreement)
Stage II	Technical and financial feasibility <i>[may entail activities in addition to below mentioned]</i>	
<p>Activity 3: Facilities planning and project cost estimate</p>	<p>Preparation of model house and site development plans to facilitate development cost estimates:</p> <ul style="list-style-type: none"> ▪ Sample or reference project development plans would need to be developed for each identified project site (designs for individual housing units may well be identical across project sites); these would need to be realistic with reference to site conditions and should be in efficient compliance with required development standards ▪ <i>This exercise would also allow for circulation of a workable version of project development plans to potential bidders, this may facilitate proposal / response preparations</i> <p>Project cost estimation:</p> <ul style="list-style-type: none"> ▪ Based on project site investigation results, development standards, and model development plans (above) – estimation of overall project development cost for each project / location, and consequently anticipated cost of development of a typical housing unit ▪ <i>[suggestion: prepared BOQs and estimated unit prices for construction materials / activities may be distributed to potential bidders, this may facilitate proposal / response preparations]</i> 	<p>Responsibility: MURD, as required working with project consultants / transaction advisors</p> <p>Output:</p> <ul style="list-style-type: none"> ▪ Reference site and housing unit development plans ▪ Assessment of project development cost for each pilot site, and consequently – anticipated cost of a typical housing unit
<p>Activity 4: Financial feasibility assessment</p>	<p>Financial feasibility assessment: As part of the feasibility stage, a detailed financial feasibility assessment would need to be undertaken, this will be to confirm the commercial viability of the PPP project and also to provide inputs to: the project structure, financial bidding criteria, and internal reference points (including walk away thresholds) with</p>	<p>Responsibility: May be supervised by the PPP Unit, majority of work to be done through project consultants / transaction advisors</p>

	<p>respect to reasonableness of financial offers. The financial feasibility assessment shall entail:</p> <ul style="list-style-type: none"> ▪ Compilation of assumptions relating to financing, including: expected financing mix, cost of debt financing, expected equity returns, project development cost phasing ▪ Preparation of detailed financial model for the project, including revenue projections ▪ <i>[note: financial feasibility assessment will draw from the outputs of project cost estimates (as described above)]</i> <p>Proposed financial bidding structure and benchmark for financial offer:</p> <ul style="list-style-type: none"> ▪ One of the key outcomes of the financial feasibility analysis shall be an internal assessment of the likely price at which a private project developer will be able to the sell the developed housing units while maintaining reasonable profitability 	<p><i>(MURD engagement also essential)</i></p> <p>Outputs:</p> <ul style="list-style-type: none"> ▪ Financial feasibility assessment report
<p>Activity 5: Risk assessment and project structuring</p>	<p><i>[This activity shall significantly draw from the financial feasibility assessment, and other project preparation works]</i></p> <p>Project risk assessment and allocation:</p> <ul style="list-style-type: none"> ▪ Drawing from the project preparation and feasibility phases – developing a list of possible project risks, and deciding of allocation of risks to the public or private party ▪ Documentation of risk mitigation measures where relevant <p>Arriving at recommended project structure</p> <ul style="list-style-type: none"> ▪ Based on strategic project objectives, project feasibility assessment and risk allocation philosophy – developing a project structure that will be suitable for this project execution. ▪ Project structure to delineate roles and responsibilities of private and public participant 	<p>Responsibility: Supervised by the PPP Unit, majority of work to be done through project consultants / transaction advisors <i>(MURD engagement also essential)</i></p> <p>Outputs:</p> <ul style="list-style-type: none"> ▪ Project risk assessment ▪ Recommended project structure
<p>Stage III Project procurement – preparatory activities</p>		
<p>Activity 6: Developing of bidding documents including draft PPP agreement</p>	<p><i>[Generating investor interest and making it easier for potential investors to bid for a given project is as critical to the success of a PPP as is robust project preparation.]</i></p> <p>Preparation of Request for Qualification (RFQ) document and Project Information Memorandum (PIM)</p> <ul style="list-style-type: none"> ▪ RFQ document to seek information from interested private sector participants with respect to their technical expertise / experience and financial capacity relevant to the project 	<p>Responsibility: Supervised by the PPP Unit, majority of work to be done through project consultants / transaction advisors <i>(MURD engagement also essential)</i></p> <p>- Procurement documents would</p>

- RFQ preparation phase to entail preparation of relevant and objective criteria to shortlist private participants, who would be progressed to the proposal / tender stage
- RFQ document to include clear indication on information sought (corresponding to the evaluation criteria), supported by easy to use submission formats
- PIM document to provide detailed information the to be developed project, along with site details, development requirements, quality standards and other build specifications [PIM will substantially draw from the feasibility assessment]

Preparation of Request for Proposal Document (RFP)

- RFP document to seek financial and technical (if relevant) proposals from shortlisted bidders
- RFP preparation to entail preparation of relevant and objective criteria to evaluate proposals and select a preferred bidder. *[Criteria expected to focus on lowest possible sale price of housing units]*
- RFP document to include clear indication on information sought (corresponding to the evaluation criteria), supported by easy to use submission formats

Draft PPP Agreement (to be circulated to shortlisted bidders, along with RFP document)

- A detailed draft contract will be drawn up at the RFP stage, and this will be circulated along with the RFP document to all shortlisted bidders. The draft contract shall include: documentation of all roles and responsibilities for the private and public parties (as per the project structure determined at feasibility stage) as well as all development specifications that the selected private sector developer would comply with.
- Draft PPP Agreement to also include clear codification of risk allocation, any penalty clauses, and treatment in case of termination of agreement
- Draft PPP Agreement would need to be approved by the Attorney General's office

need to be released by and evaluated at the MURD

Outputs:

- RFQ document along with evaluation criteria
- RFP document along with evaluation criteria
- Draft PPP Agreement

[The bidding phase of the project including issuance of procurement documents to the market and evaluation of bids; and followed by the subsequent stage of the project: signing of PPP Agreement with the selected bidder shall be led by the MURD]

- ⇒ Next stage: Launch of project and release of procurement documents to market; followed by bid evaluations (RFQ and RFP stages) and selection of preferred bidder
- ⇒ Followed by: Finalization and signing of the PPP Agreement with preferred bidder and start of project development