

A guidebook to successful affordable housing PPPs

Lessons from Fiji, Peru, Rwanda, Solomon Islands, South Africa, Turkey, UK, US



*Social FLISP housing
Cape Town, South Africa*

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Understand the development/ finance ecosystem

Never set out on a journey without mapping the terrain

- Macroeconomics and finance
 - Long-term interest rates (yield curve)
 - Currency rates relative to 'stable' currencies
 - Inflationary expectations
 - Political stability
- Banking and capital markets
 - Domestic capital markets: breadth and depth/ secondary market liquidity
 - Experience with and receptivity to long-tenor fixed-income securities
- Private-sector development
 - Locally produced versus imported materials and components
 - Experience with large-scale residential development
 - Specialized experience with professional multifamily rental
- PPP environment
 - Established law or practice/ jurisprudence
 - Experience with PPPs in other industries (e.g. traditional infrastructure)
 - Judicial reliability when government is a sovereign counterparty
 - Intra-governmental national-provincial-municipal dynamics

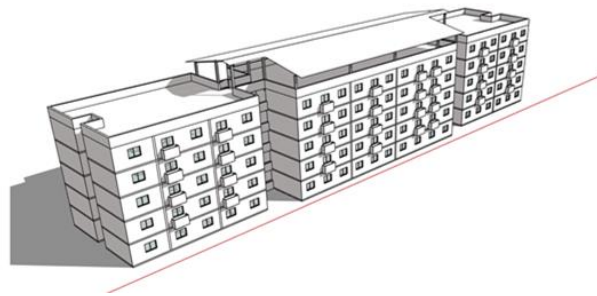


Define the goal in both demand-side and supply-side outcomes

A home is a shield around a family, and it should be sized to match the family it's protecting

- Envision a target population
 - Composition ♦ Ages
 - Income level ♦ Income sourcing ♦ Income reliability
 - Level of formality (income, housing, current tenure, registration)
 - Depth of demand: How many with our effective market radius?
- Distinguish three consumption levels
 - Need: What a middle-income-plus household of this type would have
 - Effective demand: What our target population can regularly afford to pay monthly
 - Financeable demand: What they can borrow to buy
 - Down payment household can tap &
 - What a third-party evaluator will underwrite into a loan
- Right-size the housing typology
 - Density (units per 100 m² of land area)
 - Bungalow, walkup, high-rise
- Envision the city ten years from now
 - How much urbanization/ verticalization/ formalizing of the informal?

Affordable Housing Public-Private Partnership, potential structure: Start with the End State in mind



- Household wants home
- Ready to move in
- Has *need and effective demand*



- Site can accommodate homes
- Construction is possible
- Developer is motivated
- Developer is ready to take many risks

A housing PPP is not an infrastructure PPP/ 1

Even though housing is human infrastructure

	<u>'Typical classical' PPP for infrastructure</u>	<u>Homeownership housing PPP</u>
1. Who is the offtaker?	Private contractor or State-Owned Enterprise (SOE)	Envision an 'OwnCo' before launching RfP or RfQ
2. Who maintains and operates capital asset/ With what funds?	Who/ Operator / Out of its operating profits	Who/ OwnCo How/ Assessments (reserves?)
3. How/ when does developer make its profit?	How/ By selling outputs When/ Over time (e.g. B-O-O-T)	Up front, because the GoM buys the flats at bulk offtake
4. Who manages physical asset?	Offtaker/ operator (can often be a follow-on to developer)	FMO or management company under direction of OwnCo
5. Who takes downstream performance risk?	Private contractor: Gov is buying outputs as they are produced	OwnCo/ What is Gov's role? Who owns non-payment risk?
6. What is Gov's principal risk period?	1-2 years: until verification of output volume and quality	10-20 years: Value-for-Money and social impact
7. What is Gov's biggest financial vulnerability?	Contractor's failure to achieve commissioning and startup	Citizens' failure to make R2B payments

A Housing PPP is not an infrastructure PPP/ 2

Citizens are in between, and both consume the 'output' and live in the 'factory'

- Infrastructure PPP: Facility is developed to produce outputs
 - Government buys output, directly or indirectly
 - "Pay for it in rate"

Private PPP contractor	↔	Government authority	↔	Citizens
Builds capital asset, finances with OPM , operates it, maintains it, sells outputs over many years, makes profit over time		Commits that citizens will buy minimum quantity of outputs at agreed prices; does not take downstream performance risk		Do not own capital asset; buy outputs (e.g. water, electricity) based on family consumption needs

- In an infrastructure PPP, government stands between contractor and the citizens, who consume outputs
- In a housing PPP, citizens stand between contractor and government
 - Citizens not only consume the output (they live in it), they 'own' it (legally or psychologically)

- Housing PPP: Facility is its own output
 - Developer often exits
 - Government and citizens have stewardship

Private PPP contractor	↔	Citizens	↔	Government authority
Builds capital asset, finances construction with OPM, sells outputs all at once (offtake) and makes its profit up front (offtake)		Buy capital asset to own for themselves ; live in it continuously; use the asset, not just its outputs		Finances offtake payments on behalf of citizens



Housing PPP's are about value-additive trading

Swap what you have for what you need more

	<u>Public sector</u>	<u>Private sector</u>
Can deliver	<ul style="list-style-type: none">• Land• Infrastructure• Demand aggregation• Fiscal incentives (e.g. VAT waiver)• Non-cash incentives (e.g. approvals)• Public support• Policy legitimacy	<ul style="list-style-type: none">• Capital at scale (commercial return)• Risk assessment, risk mitigation• Risk tolerance• Entrepreneurial expertise• Track record for the property type• Rapid decision-making• Rapid adaptation to events• Speed of execution
Needs	<ul style="list-style-type: none">• Off-budget capital for development• Outside party to take risks• Credible delivery with accountability• Real estate expertise• Property management expertise• Intermediation from complaints	<ul style="list-style-type: none">• Site with a good location• Ready-to-build accessibility• Reliable offtake• Marginal resources to go down-market

- The more complementary the selected partner, the greater the potential for a mutually viable bargain



Affordable Housing Public-Private Partnership: Define eligible bidder

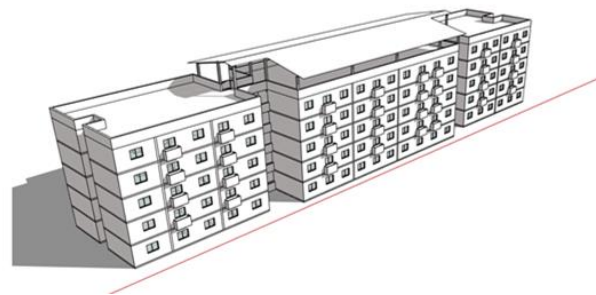
Sponsor
(Large Real Estate Developer)

CAPITAL PROVIDER
(Large Lender or Investor)

- Provides Equal Capital
- Borrows construction loan
- Conceives development plan in full
- Tasks specific and general risks
- Manages development phase

New SPV 1
'BidCo'

Legal entity formed under country's law for purpose of this bid; 'unitary counterparty'; selected by City after RfQ/ ERN process



Housing PPP's are a journey into an unknown future

Things always happen that no one could have foreseen

- Cost of materials rises
- Promised commitments prove unenforceable
- Expected demand does not materialize
 - People who sign up for off-plan purchases don't actually close
 - Change their minds later
 - Can't pass credit underwriting
 - Need to be given their money back
- The 'wrong households' move in
- Latent defects appear 6-12-24 months downstream
- Who owns the unknown risks?
 - Because *somebody* always does, whether they know it or not
- Best strategy: form a true public-private team
 - "If you want to go fast, go alone; if you want to go far, go together"
- A DevCo with GovSub and BidCo
 - With the right team of expert contractors



Andrew Clark



Meriwether Lewis

Affordable Housing Public-Private Partnership: Define eligible developer



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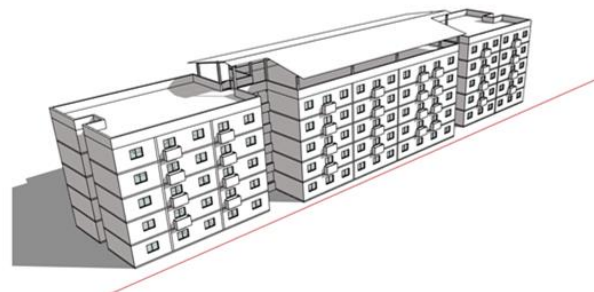
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New SPV 2
'DevCo'

Legal entity formed under country's PPP Act; governance, economic sharing defined by City; specific elements negotiated with winning BidCo

Develops, constructs, sells



Affordable Housing Public-Private Partnership: Define government's role

→Land
→Guarantees
→Pre-closing commitments

City
(or subsidiary entity
TBD)

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Developer)

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Contributes land into SPV at agreed value, could be sold at offtake or evidenced by ground lease

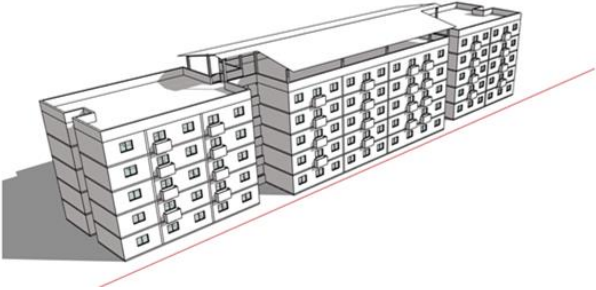
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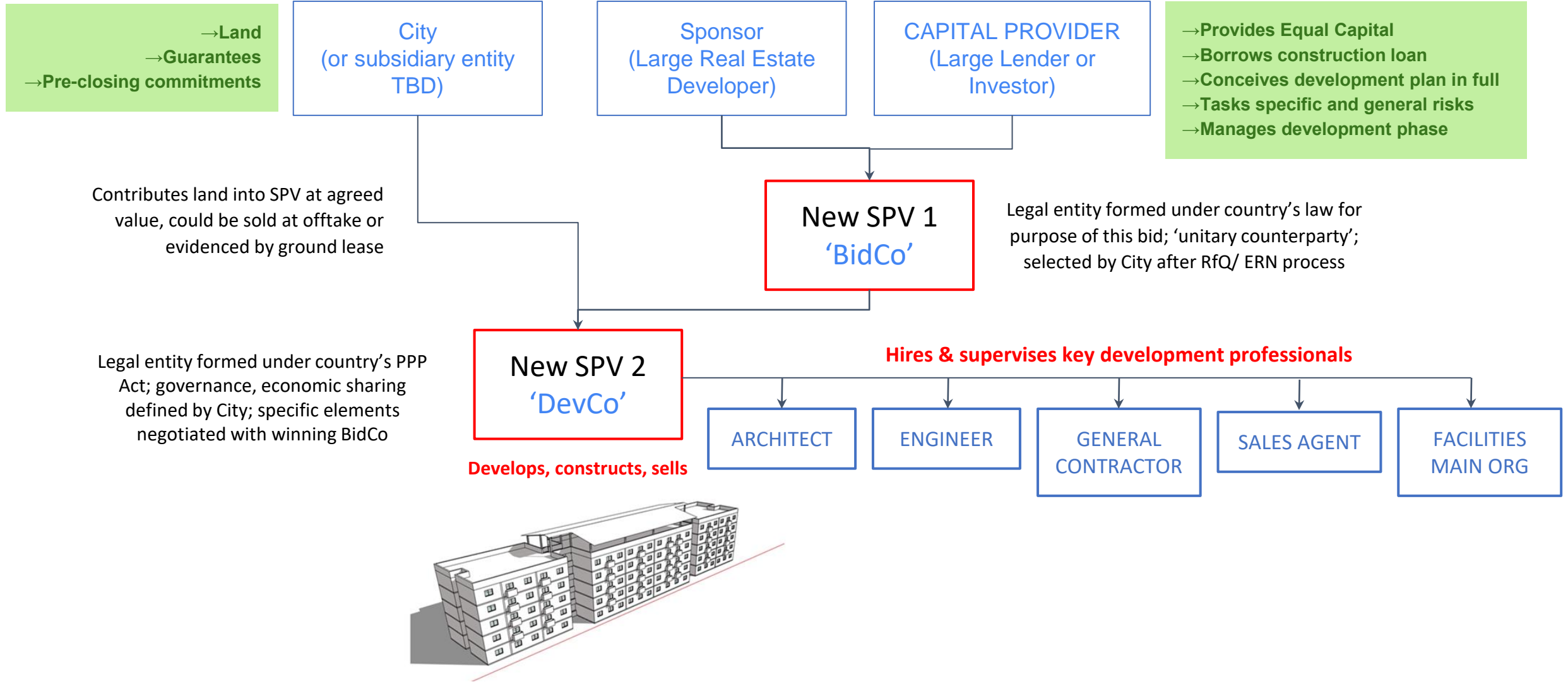
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Affordable Housing Public-Private Partnership: Require professional team



Always have a viable offtake strategy

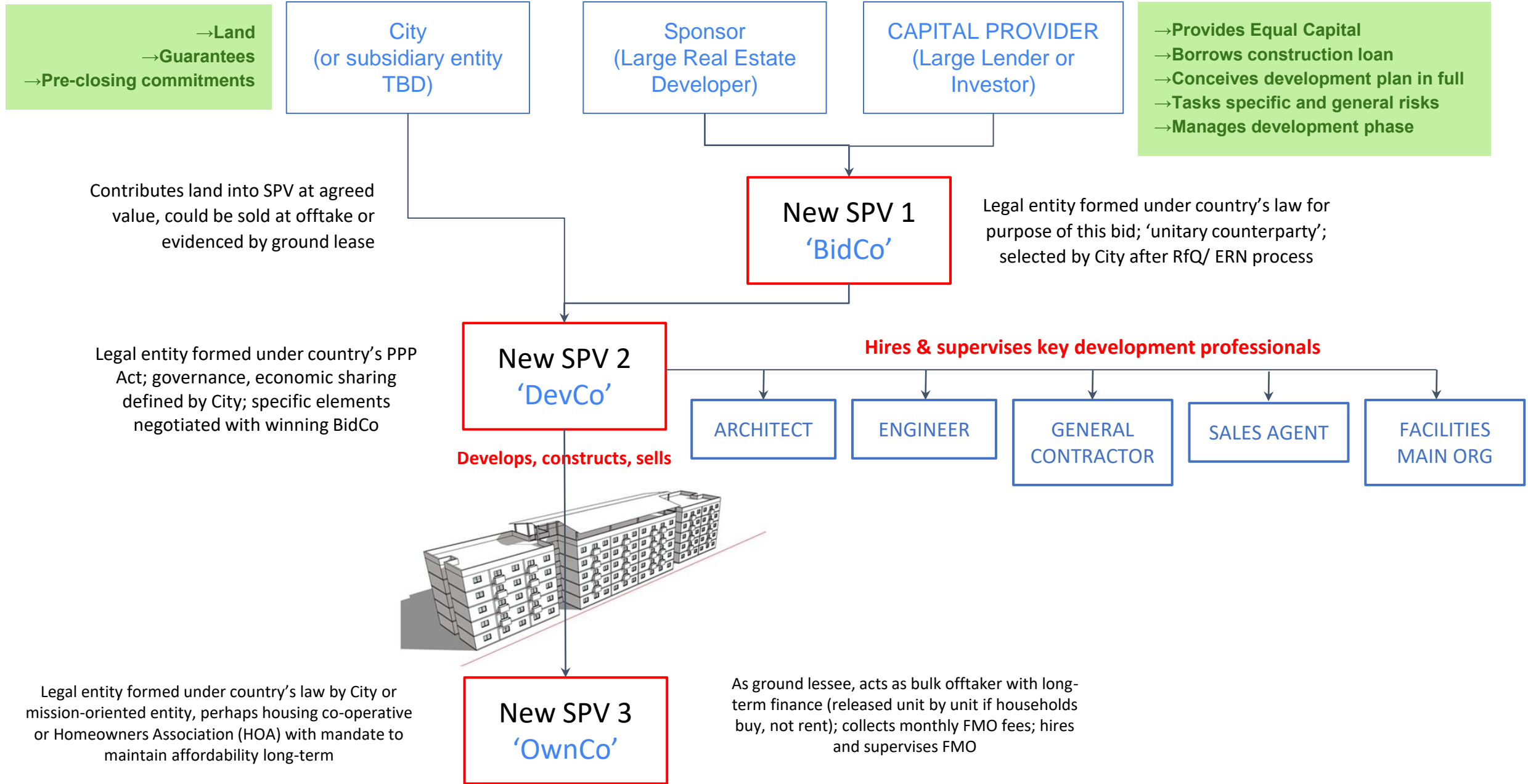
A sprint and a marathon are entirely different kinds of running

- Offtake = Payment in full, in cash, for the development phase
 - 'Rolling over the development debt' is not an offtake, it's a buck-pass
- Ideal offtake is bulk offtake
 - Sell all the homes/ flats at one mass closing
 - One building, one subphase, one phase
 - A partially sold property is like a partially cleared fence
- Offtakers can include:
 - Homeownership
 - Direct (freehold or leasehold)
 - Via homeowners' association (HOA), or condominium
 - Indirect via intermediary steward (demand aggregator)
 - Housing co-operative
 - Employer-assisted or employer co-owned
 - 'Intentional' landlords (professional, socially motivated)
 - University, hospital, or other entity needing dormitory-style accommodations
 - Mission-oriented landlord (e.g. faith-based group)
 - Government (via an entity dedicated to being a mission landlord)
- What about 'rent to own'?



Student dormitory, University of Nairobi

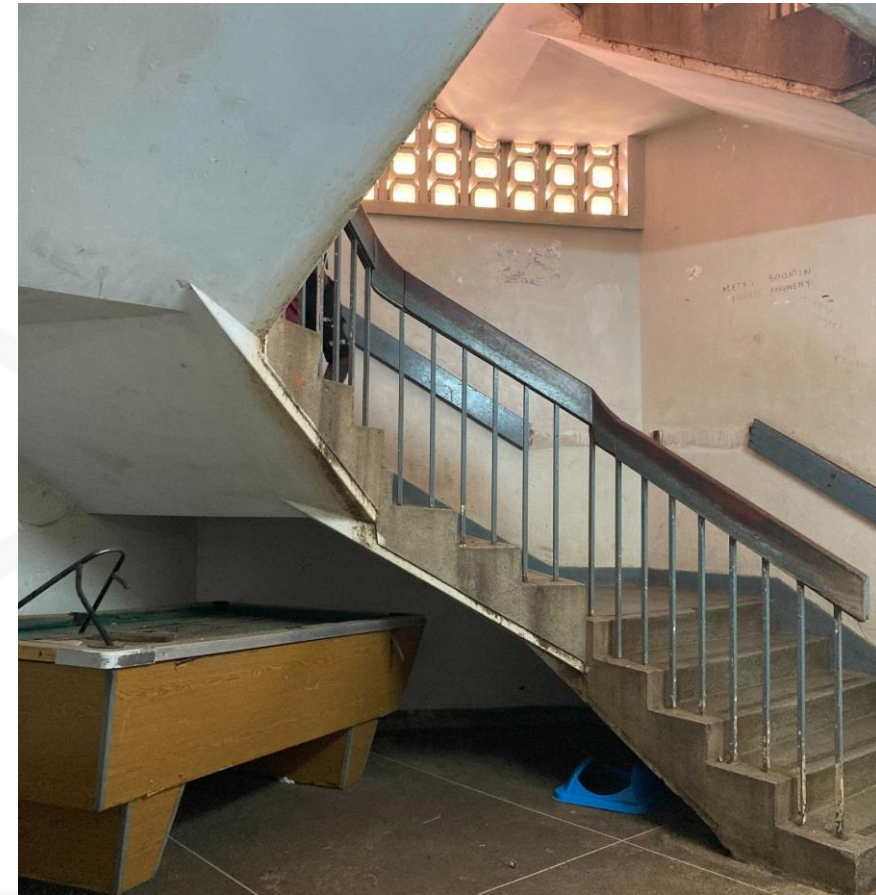
Affordable Housing Public-Private Partnership: Establish offtaker/ owner



After offtake, properties must be asset-managed

Facilities maintenance, common areas, capital reserves, property rules,

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 - Government
- What about 'rent to own'?



Older student housing, Nairobi

Affordable Housing Public-Private Partnership: How it all fits together

→Land
→Guarantees
→Pre-closing commitments

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New SPV 2
'DevCo'

Hires & supervises key development professionals

ARCHITECT

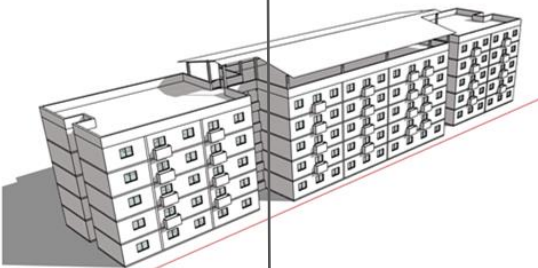
ENGINEER

GENERAL CONTRACTOR

SALES AGENT

FACILITIES MAIN ORG

Develops, constructs, sells



Legal entity formed under country's law by City or mission-oriented entity, perhaps housing co-operative or Homeowners Association (HOA) with mandate to maintain affordability long-term

New SPV 3
'OwnCo'

As ground lessee, acts as bulk offtaker with long-term finance (released unit by unit if households buy, not rent); collects monthly FMO fees; hires and supervises FMO

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