A guidebook to successful affordable housing PPPs
Lessons from Fiji, Peru, Rwanda, Solomon Islands, South Africa, Turkey, UK, US
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

<table>
<thead>
<tr>
<th>‘Typical classical’ PPP for infrastructure</th>
<th>Homeownership housing PPP</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Who is the offtaker?</td>
<td>Private contractor or State-Owned Enterprise (SOE)</td>
</tr>
<tr>
<td>2. Who maintains and operates capital asset/ With what funds?</td>
<td>Who/ Operator / Out of its operating profits</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>3. How/ when does developer make its profit?</td>
<td>How/ By selling outputs</td>
</tr>
<tr>
<td></td>
<td>When/ Over time (e.g. B-O-O-T)</td>
</tr>
<tr>
<td>4. Who manages physical asset?</td>
<td>Offtaker/ operator (can often be a follow-on to developer)</td>
</tr>
<tr>
<td>5. Who takes downstream performance risk?</td>
<td>Private contractor: Gov is buying outputs as they are produced</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>6. What is Gov’s principal risk period?</td>
<td>1-2 years: until verification of output volume and quality</td>
</tr>
<tr>
<td>7. What is Gov’s biggest financial vulnerability?</td>
<td>Contractor’s failure to achieve commissioning and startup</td>
</tr>
</tbody>
</table>
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”

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

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

- 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)

<table>
<thead>
<tr>
<th>Private PPP contractor</th>
<th>Citizens</th>
<th>Government authority</th>
</tr>
</thead>
<tbody>
<tr>
<td>Builds capital asset, finances construction with OPM, sells outputs all at once (offtake) and makes its profit up front (offtake)</td>
<td>Buy capital asset to own for themselves; live in it continuously; use the asset, not just its outputs</td>
<td>Finances offtake payments on behalf of citizens</td>
</tr>
</tbody>
</table>
Housing PPP’s are about value-additive trading
Swap what you have for what you need more

<table>
<thead>
<tr>
<th>Public sector</th>
<th>Private sector</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Can deliver</strong></td>
<td></td>
</tr>
<tr>
<td>• Land</td>
<td>• Capital at scale (commercial return)</td>
</tr>
<tr>
<td>• Infrastructure</td>
<td>• Risk assessment, risk mitigation</td>
</tr>
<tr>
<td>• Demand aggregation</td>
<td>• Risk tolerance</td>
</tr>
<tr>
<td>• Fiscal incentives (e.g. VAT waiver)</td>
<td>• Entrepreneurial expertise</td>
</tr>
<tr>
<td>• Non-cash incentives (e.g. approvals)</td>
<td>• Track record for the property type</td>
</tr>
<tr>
<td>• Public support</td>
<td>• Rapid decision-making</td>
</tr>
<tr>
<td>• Policy legitimacy</td>
<td>• Rapid adaptation to events</td>
</tr>
<tr>
<td></td>
<td>• Speed of execution</td>
</tr>
<tr>
<td><strong>Needs</strong></td>
<td></td>
</tr>
<tr>
<td>• Off-budget capital for development</td>
<td>• Site with a good location</td>
</tr>
<tr>
<td>• Outside party to take risks</td>
<td>• Ready-to-build accessibility</td>
</tr>
<tr>
<td>• Credible delivery with accountability</td>
<td>• Reliable offtake</td>
</tr>
<tr>
<td>• Real estate expertise</td>
<td>• Marginal resources to go down-market</td>
</tr>
<tr>
<td>• Property management expertise</td>
<td></td>
</tr>
<tr>
<td>• Intermediation from complaints</td>
<td></td>
</tr>
</tbody>
</table>

• 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)

New SPV 1 ‘BidCo’

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

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

© 2023 Affordable Housing Institute
Affordable Housing Public-Private Partnership: Define eligible developer

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

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’

New SPV 2 ‘DevCo’

Develops, constructs, sells
Affordable Housing Public-Private Partnership: Define government’s role

- **City** (or subsidiary entity TBD)
- **Sponsor** (Large Real Estate Developer)
- **CAPITAL PROVIDER** (Large Lender or Investor)

**New SPV 1** ‘BidCo’
- Provides Equal Capital
- Borrows construction loan
- Conceives development plan in full
- Tasks specific and general risks
- Manages development phase

**New SPV 2** ‘DevCo’
Develops, constructs, sells

- Land
- Guarantees
- Pre-closing commitments

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

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

Legal entity formed under country’s PPP Act; governance, economic sharing defined by City; specific elements negotiated with winning BidCo
Affordable Housing Public-Private Partnership: Require professional team

- City (or subsidiary entity TBD)
- Sponsor (Large Real Estate Developer)
- CAPITAL PROVIDER (Large Lender or Investor)

New SPV 2 ‘DevCo’

Develops, constructs, sells

- Land → Guarantees
- Pre-closing commitments

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

New SPV 1 ‘BidCo’

Hires & supervises key development professionals

- ARCHITECT
- ENGINEER
- GENERAL CONTRACTOR
- SALES AGENT
- FACILITIES MAIN ORG

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

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

Legal entity formed under country’s PPP Act; governance, economic sharing defined by City; specific elements negotiated with winning BidCo
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’?
Affordable Housing Public-Private Partnership: Establish offtaker/owner

- Land
- Guarantees
- Pre-closing commitments

City (or subsidiary entity TBD)

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

Hires & supervises key development professionals

ARCHITECT
ENGINEER
GENERAL CONTRACTOR
SALES AGENT
FACILITIES MAIN ORG

New SPV 2 ‘DevCo’

Develops, constructs, sells

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

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

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

Contributes land into SPV at agreed value, could be sold at offtake or evidenced by ground lease
After offtake, properties must be asset-managed
Facilities maintenance, common areas, capital reserves, property rules,

- 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
    - Housing co-operative)
    - Employer-assisted or co-owned
  - Intentional landlords
    - University, hospital, or other entity needing dormitory-style accommodations
    - Mission-oriented landlord (e.g. faith-based group)
  - Government

- What about ‘rent to own’?
Affordable Housing Public-Private Partnership: How it all fits together

City (or subsidiary entity TBD) → Land → Guarantees → Pre-closing commitments

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

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

Hires & supervises key development professionals

ARCHITECT
ENGINEER
GENERAL CONTRACTOR
SALES AGENT
FACILITIES MAIN ORG

Develops, constructs, sells

New SPV 2 ‘DevCo’

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

New SPV 3 ‘OwnCo’

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

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

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

→Land
→ Guarantees
→ Pre-closing commitments

→ Land
→ Guarantees
→ Pre-closing commitments

→ Land
→ Guarantees
→ Pre-closing commitments
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