MALDIVES
RENT-TO-OWN PROGRAM
UNIQUE HOUSING MARKET CONSTRAINTS

Limited Land Access

- Severe lack of available land
- Most land allotted for free in atolls for housing, as per Land Law.
- Land reclamation and allocation to address land scarcity in Greater Male area

Inadequate Housing Supply

- Affordable housing supply is small. Cheapest 2-bedroom homes start at USD 120,000
- Construction finance is costly and difficult to access. Highly dependent on imported materials.
- Lack of supply resulting in 73.9% of rental in Malé. Over-crowded conditions severe in Malé.

Small mortgage market

- Small mortgage market (7% of GDP)
- Three active mortgage lenders (BML, MIB, and HDFC)
- Housing finance products on the market are out of reach for lower earning households
- Non-existent capital markets
HOUSING PROVISIONING IS A LONG-TERM GOVERNMENT POLICY

Strategic Action Plan for Housing 2019-2023
Develop 20,000 social housing units: 60% in Greater Male and 40% in atolls

Criteria for Social Rent-to-Own Allocation

• **Eligibility Criteria:** Point-based on (i) length of living in Male; (ii) Number of children; (iii) ownership of land; (iv) current living conditions (overcrowded)

• **Volume Quota for Hiyaa Project:**
  1. Employment type: civil servant, police, doctors, nurses, teachers (38%)  
  2. Male residents and others (38%)  
  3. Priority sector: single parents, handicapped (10%)  
  4. Young population – married between age of 18-35 (14%)

➢ No income / capacity-to-pay criteria
RENT-TO-OWN DEVELOPMENT TREND

• Hulhumale Phase 1 – started in 2014
  o Low-rise verticals,
  o Small project size, 4 phases,
    ~2000 units in total

• Hiyaa Project launched in 2022
  o Most ambitious project to date
  o High-rise vertical, 16-tower, 25-story
    with ~6500 unit
RENT-TO-OWN PRODUCT: MALDIVES VERSUS INTERNATIONAL

**Maldives Rent-to-own Contract**

Year 1

Low, Middle and High-Income Households
Same Rental Payment of ~USD 500

Year 25

**International Rent-to-own Programs**

1-5 years

To gauge capacity to pay

Used by Governments to support low-income segment with questionable capacity to pay

1-5 years

Mortgage product designed to match capacity-to-pay

Rental Contract

Mortgage Contract
As a 100% SOE company, HDC undertakes the financing, building and operating of the Hulhumale 1 and Hiyaa rent-to-own projects.
**RISK RELATING TO PROJECT DESIGN & IMPLEMENTATION**

There is a mismatch between debt service repayments and rental revenues to HDC

- Outflows (principal), USD mn
- Outflows (interest), USD mn
- Rental payments

There is a cost related to implementation process

**Rental delinquency:** On average, ~40% of rental payments are delinquent on the Hulhumale 1 and Hiyaa projects.

**Lack of residency enforcement to prevent sub-leasing** leads to housing subsidy going to the wrong consumer target.

World Bank analysis based on estimates from Ministry of Finance received on 24 February 2021.

Chart exhibits the six guaranteed debt HDC contracted in 2017-2018 with short grace and maturity periods (2 and 3-13 years, respectively), while the rental payments are over a 20-year term.
RTO PROGRAM FROM HOUSEHOLD PERSPECTIVE

25 years Rent-to-Own Contract

Positive Aspects

• RTO rental rate is 15-40% of market rate

• No consequence for being delinquent/default on RTO contract

• Sub-lease possible, though contract prohibits

• Poor payment performance does not preclude from eventual ownership

Negative Aspects

• Housing needs and preferences change over time, but households must stay with contract

• No ability to monetize equity built on rental payments

• No ability to buy, sell, transfer unit until the end of RTO contract

The RTO property is perceived as government housing, not market housing
REFORM NEEDED: CHANGE EVERYTHING THE PUBLIC PERCEIVES

1. From Government → To Privately Owned
2. From Rental → To Ownership, in Steps
3. From No Upside for Paying → To Visible Upside for Paying
4. From No Downside for Not Payment → To Serious Downside for non-payment
5. From Strong Tie with Government → To NewCo & private-sector operated
DISENGAGING GOVERNMENT FROM OWNERSHIP AND OPERATION

- Shifting Rent-to-Own Contracts to Housing Finance Contracts
- Council rental housing for households with no capacity-to-pay
REFORM CAN ACCELERATE GOM PLANNED TARGETING POLICY

Income Decile = Capacity to Pay

D9-10

High Income

D7-D8

Middle Income

D5-D6

Affordable Housing¹

D1-D4

Council Housing¹

Government Support

Low

High

Private sector Engagement

Commercial Mortgage (D8-D10)

Mortgage/Housing Finance Products + Gov. support (D5-D8)

Home Improvement / Self-Construction Support
Public Rental Support (D1 – D4)

(1) Terminologies used based on Draft Maldives National Housing Policy (2019)
Key Learnings

• Public sector cannot address affordable housing needs by itself. There is a role for the private sector – lenders and builders.

• There is a need to align incentives of the government, the private sector (banks, developers) and the people for affordable housing