

MALDIVES RENT-TO-OWN PROGRAM

May 31, 2023

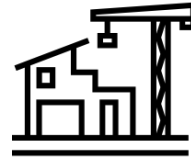


UNIQUE HOUSING MARKET CONSTRAINTS



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 starts 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. Overcrowded 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

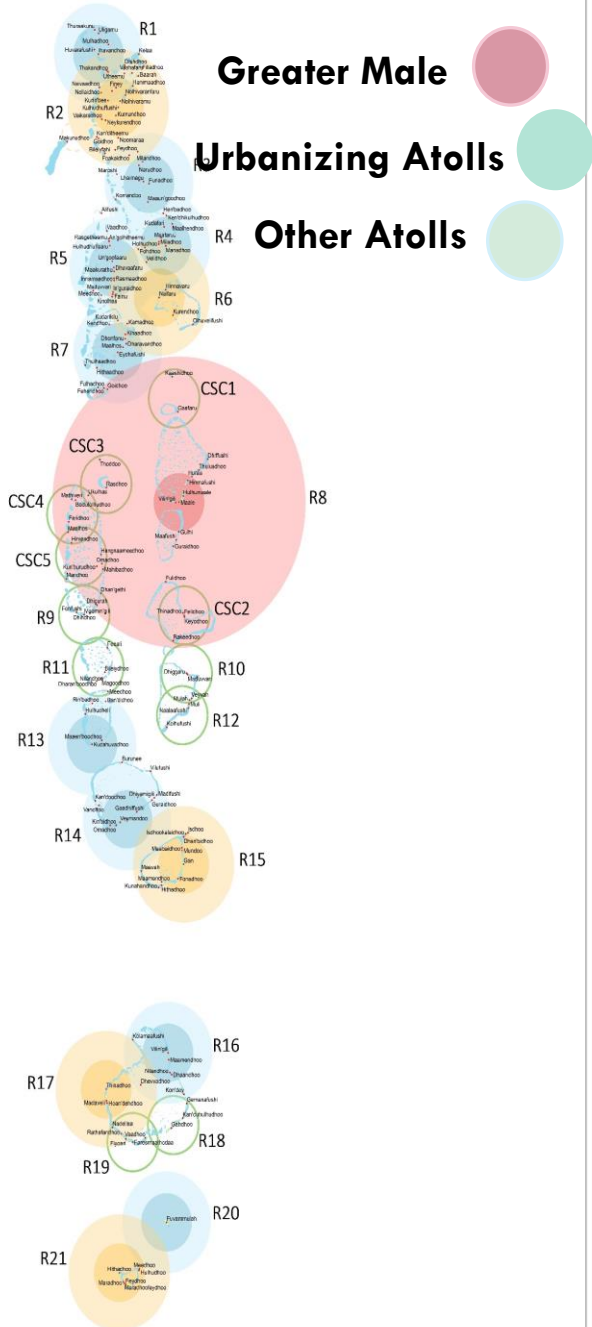
HOUSING PROVISIONING IS A LONG-TERM GOVERNMENT POLICY

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
 - Low-rise verticals,
 - Small project size, 4 phases, ~2000 units in total



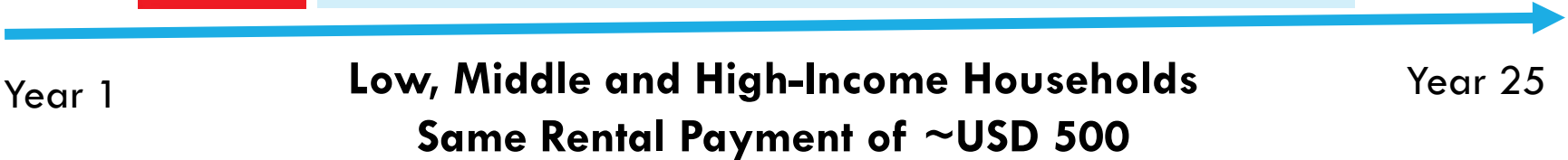
- **Hiyaa Project** launched in 2022
 - Most ambitious project to date
 - High-rise vertical, 16-tower, 25-story with ~6500 unit



RENT-TO-OWN PRODUCT: MALDIVES VERSUS INTERNATIONAL



Maldives Rent-to-own Contract

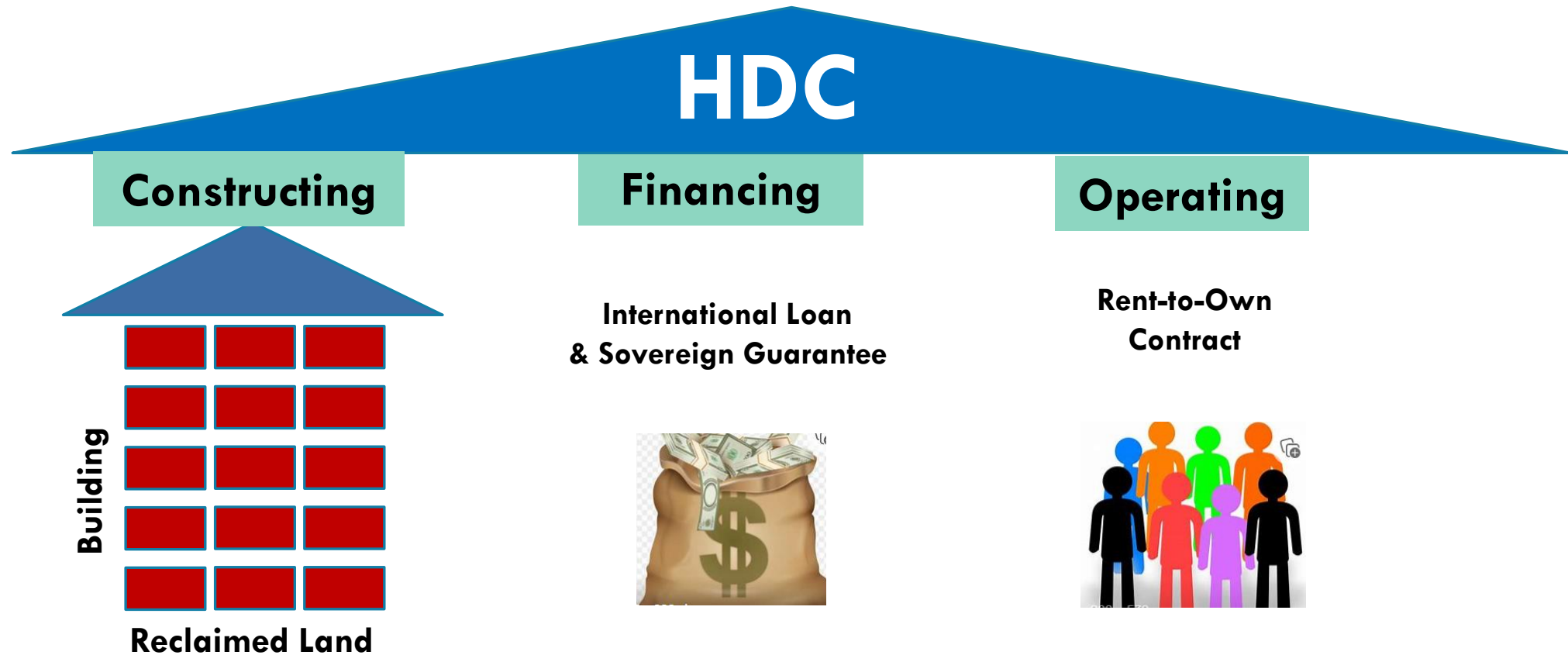


International Rent-to-own Programs

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



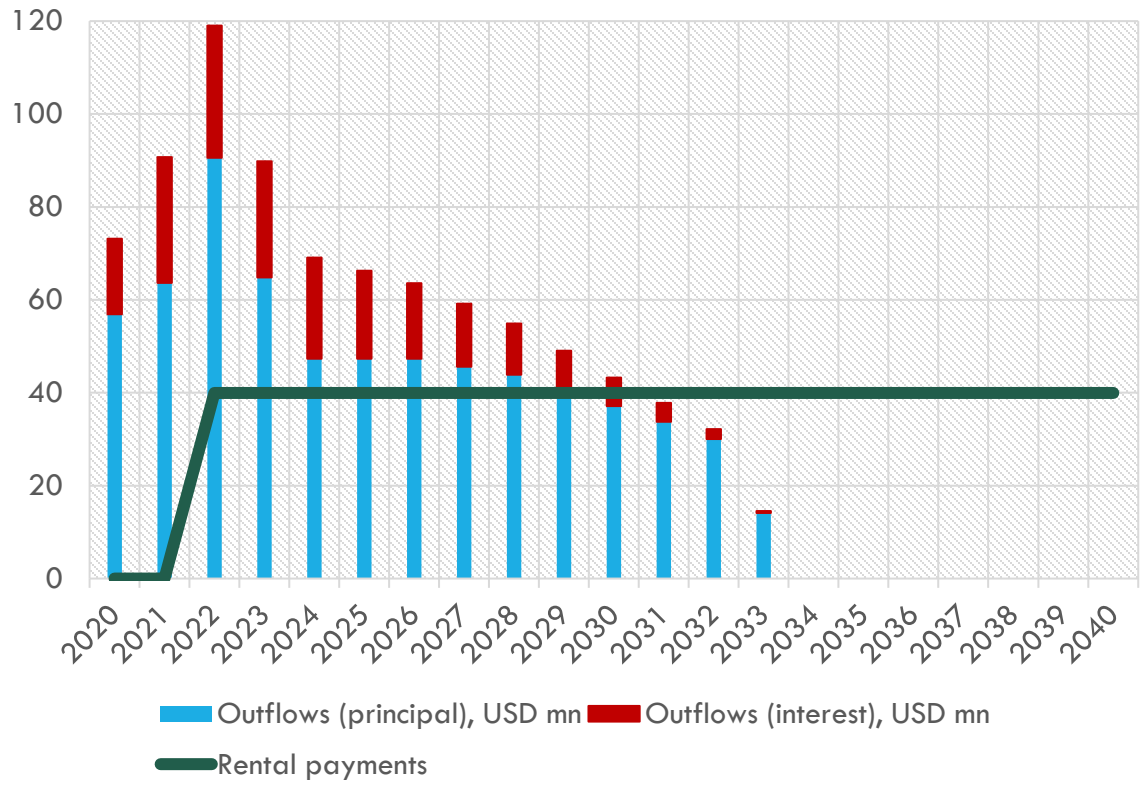
RENT-TO-OWN GOVERNMENT LED MODEL



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



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

Renter

Owner

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

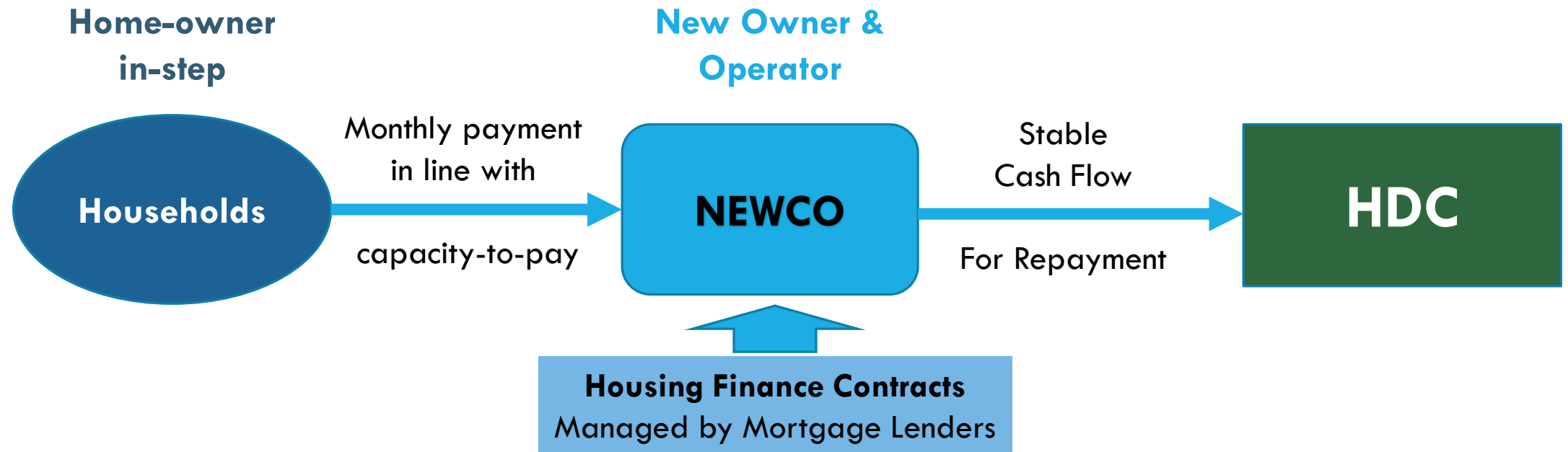
4. From No Downside for Not Payment

To Serious Downside for non-payment

5. From Strong Tie with Government

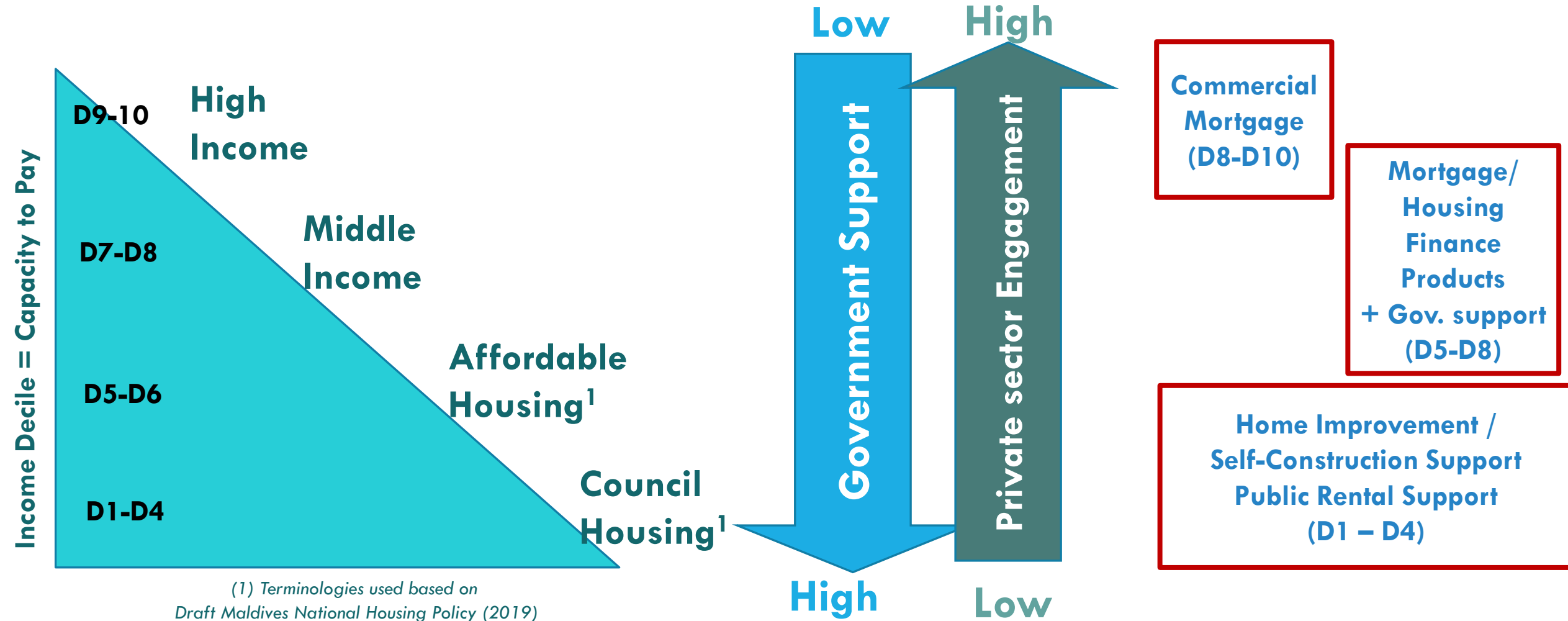
To NewCo & private-sector operated

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



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