



Public-Private Partnerships
for Investment and Delivery of

Affordable Housing

in Emerging Market Economies

**9th Global
Affordable Housing
Conference**

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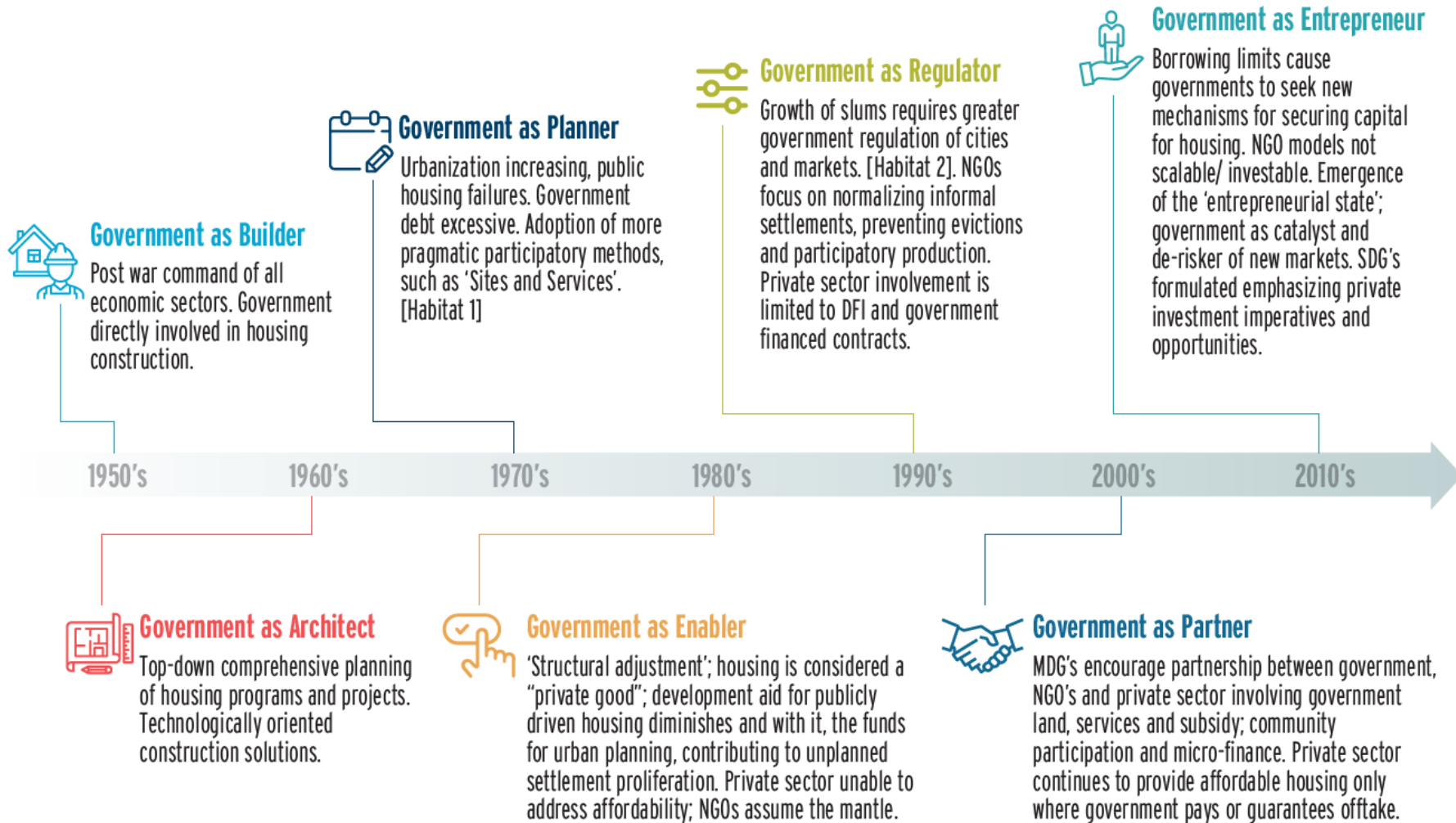


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Why Housing PPP?

1. **Why Housing PPP?**
2. **Defining Housing Public Private Partnerships**
3. **Complexities and Models**
4. **What Have We Learned so far?**

Evolution of Government Approaches to Affordable Housing



Premise:
Housing is essentially a private good that is best provided by the market



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Defining Housing “Public-Private Partnership”

HOUSING PPP - WORKING DEFINITION

“ A partnership between the public and private sectors established through a *contractual relationship* which seeks to access private sector finance, design, construction, commercialization, maintenance or operational management for the delivery of affordable housing and, in some cases, ancillary services.

The public sector contribution can be provided in the form of cash or equivalents such as **land, development rights, revenues (rents/tariffs) generated from land, infrastructure and building assets, taxation relief and/or a share in the equity generated over a fixed period**. The private party's remuneration is significantly linked to performance.”

THREE DIFFERENTIATIONS

1. Differentiating affordable housing PPPs from government contracting private firms as builders (who take no financial or commercial risk).
2. Differentiating **transaction-based, contractually governed** PPPs (i.e. “strictly defined” PPPs), from broadly defined housing P-P-P agreements which include a host of mechanisms to incentivize the market players to increase supply of affordable housing units.
3. Differentiating affordable housing PPPs from large scale infrastructure PPPs.

Broadly Defined PPPs

Programmatic, sector wide,
national/sub-national levels

- **Regulatory instruments**
 - Planning and Development Controls (usage, density bonus, TDR, Inclusionary zoning...)
- **Administrative instruments**
 - Planning and building permits
 - Licensing
- **Fiscal instruments**
 - Subsidy in the form of grants, subsidized loans, or guarantees
 - Tax incentives
- **Infrastructure investments**

Affordable Housing Development on Private land

VS

Strictly Defined PPPs

Contractual, transaction-based,
site-specific

- **Optimal risk sharing** between public and private entities
- **Competitive selection of the bidder (private developer)**
- **Partnership governed by defined PPP contract**

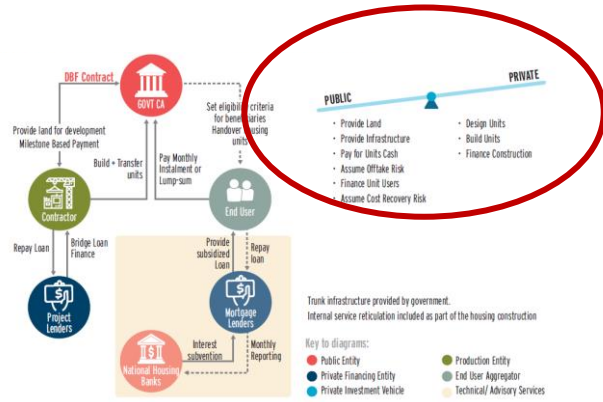
Affordable Housing Development on Public land via a transaction with private developer

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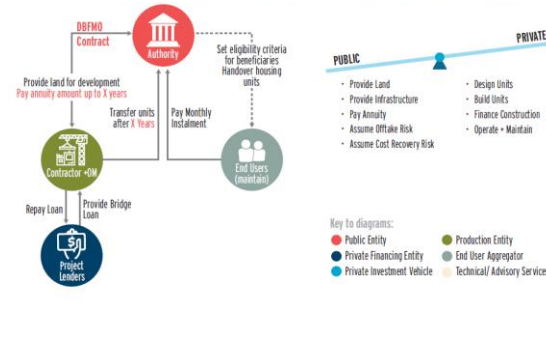
Affordable Housing PPPs: Complexities and Models

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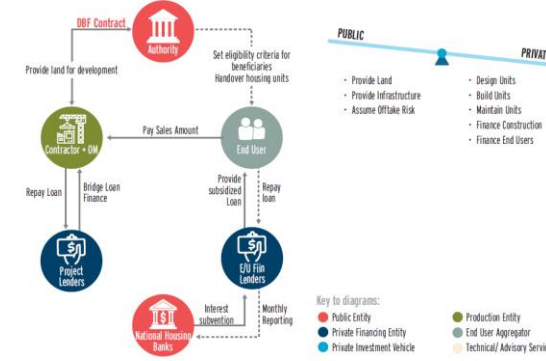
Strictly Defined PPPs



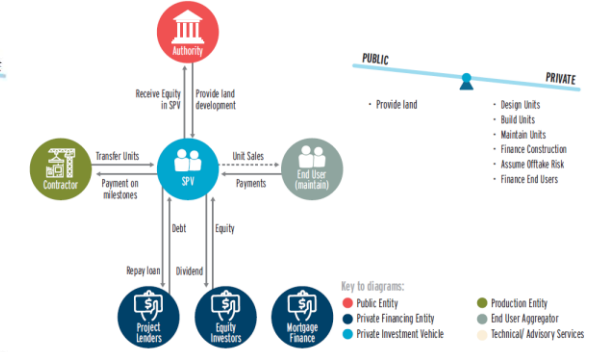
Govt Offtake/Govt Pays with Cash [Ownership]



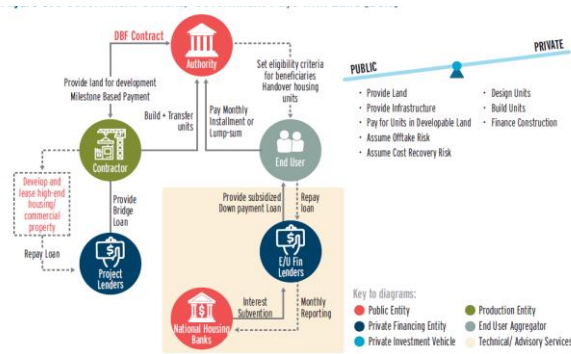
Govt Offtake/Govt Pays Annuity [Rental]



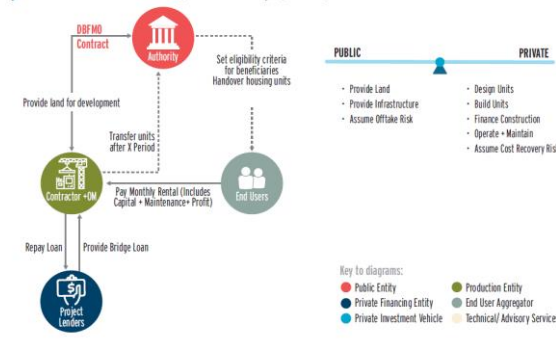
Govt Offtake/End-User Pays [Ownership]



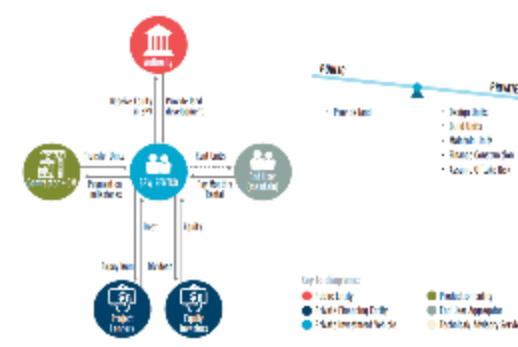
Market Offtake/End-User Pays [Ownership]



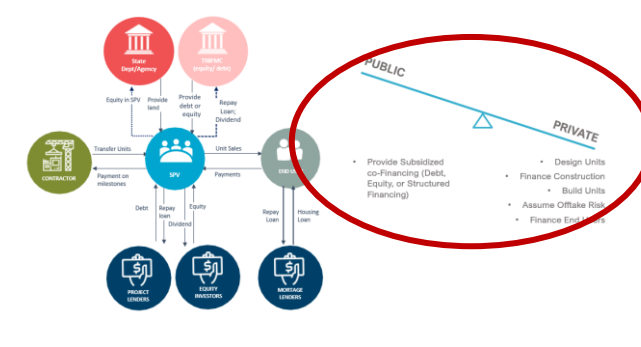
Govt Offtake/Govt Pays w Land [Ownership]



Govt Offtake/End-User Pays [Rental]



Market Offtake/End-User Pays [Rental]



Market Offtake/End-User Pays [Ownership]

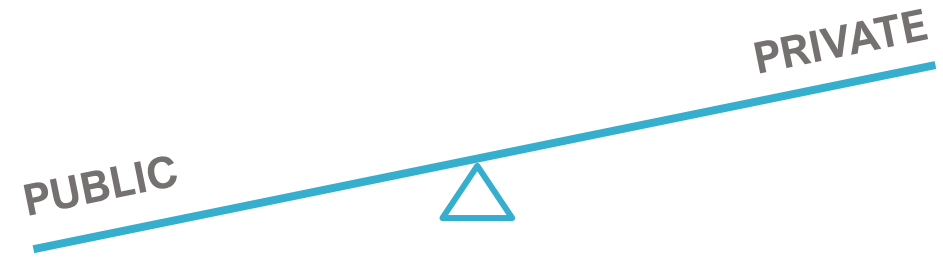
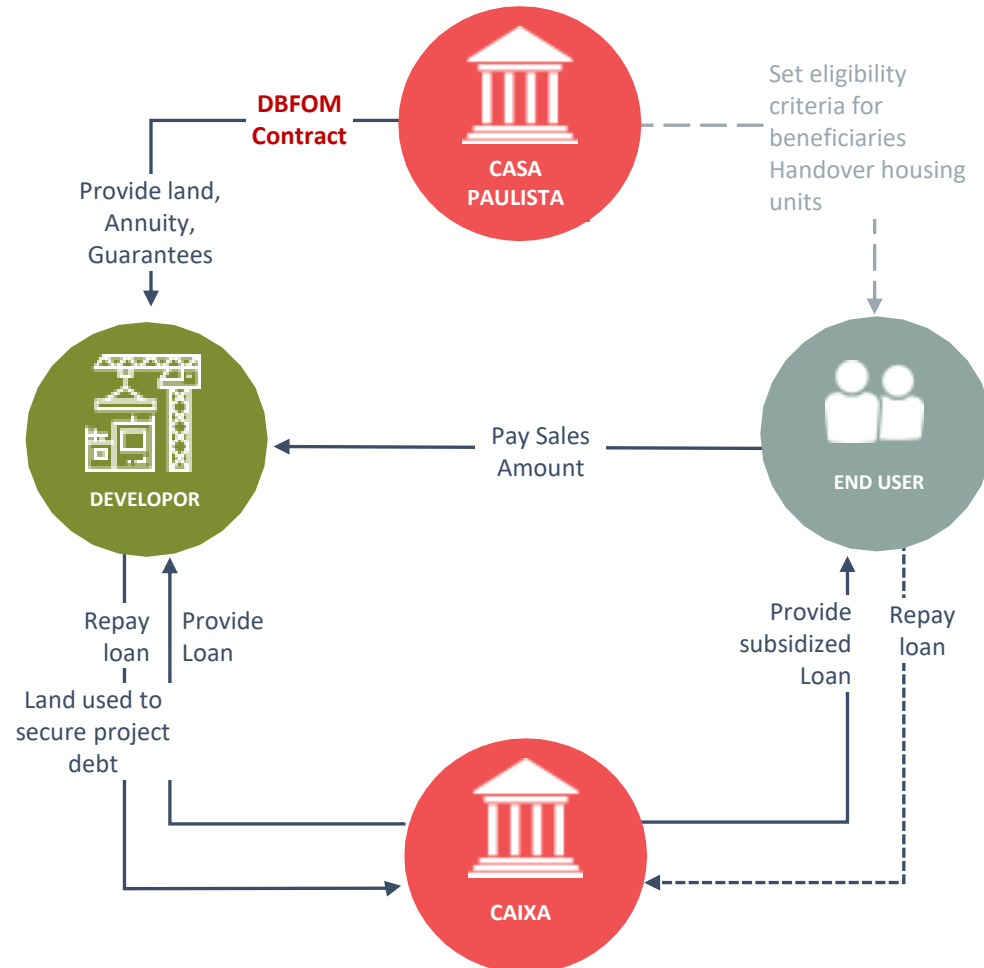
Case Studies



| CONTEXT | | Brazil [Casa Paulista Program] | India [Bhubaneswar A/H Project] | Kenya [Naivasha A/H Project] |
|--|--|---|---|---|
| MODEL | | | | |
| Brief Description | | Required to develop 3,638 housing units at Lot1, with 62% dedicated to families earning the equivalent of between one and six minimum wages, and the remainder to those earning the equivalent of between six and 10 minimum wages. | Required to produce 2600 specified residential housing units for EWS beneficiaries [341 sq. ft, G=4 units] on 13.71 acres of affordable housing land. | Required to develop 2400 housing units on 22.38 Ha site for 70% affordable household incomes (between \$75-1500 pm), and 30% market housing (>\$1500 pm). Site also allows for 20% commercial development use |
| What structure for Private Sector Participation has been used? | Structures | | | |
| | Risk Distribution (How much risk is retained by Government, and what risks are shifted to the Private sector?) | | | |

Government Offtake/ End-user pays [Ownership]

Brazil [Casa Paulista Program]

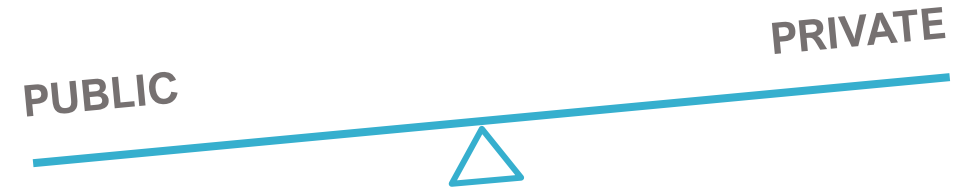
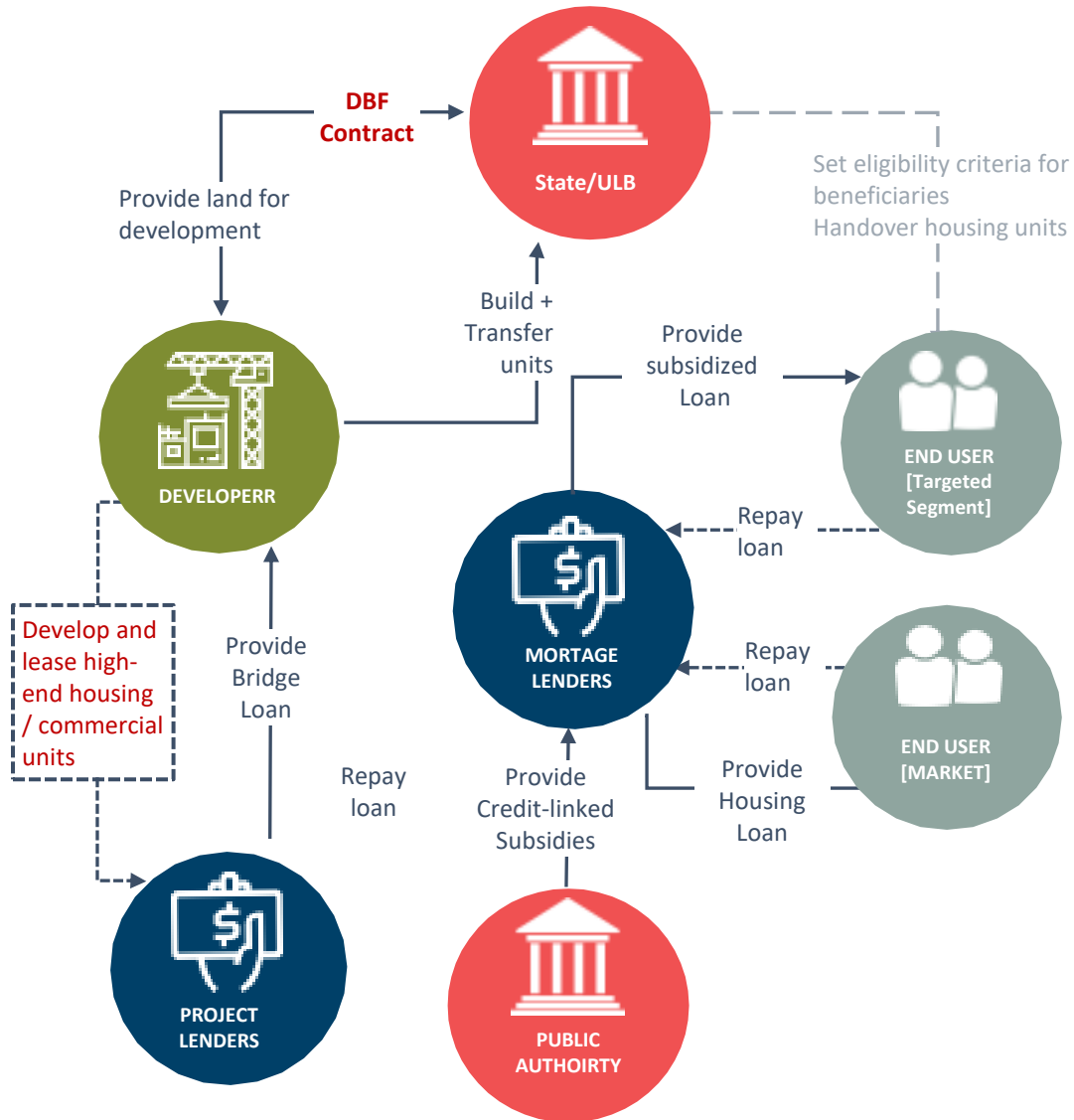


- Provide Land
- Curate Beneficiaries
- Set Design Standards
- Guarantee Offtake
- Finance Construction Partially
- Pay Annuity
- Provide Subsidized Mortgages
- Design Units
- Build Units
- Maintain Units
- Finance Construction Partially
- Provide Social Services

Open bidding. Bidders compete on a discount basis. Canopus was a single bidder and provided a 1.5% discount.

Government Offtake/ End-user pays [Ownership]

India [Bhubaneswar A/H Project]

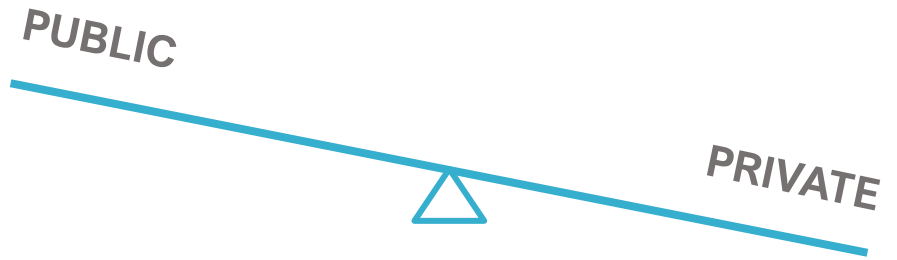
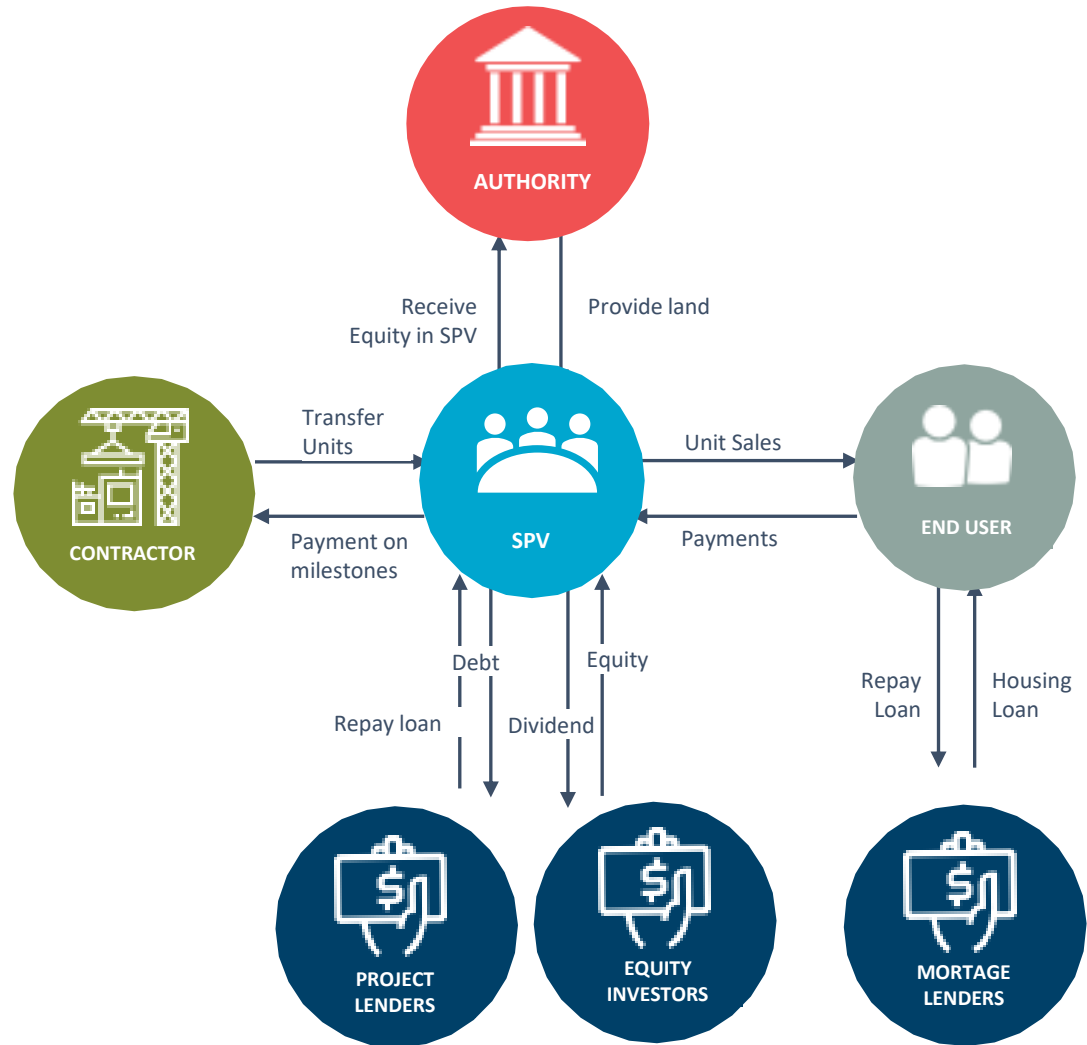


- Provide Land
- Provide Infrastructure
- Curate Beneficiaries
- Set Design Standards
- Guarantee Offtake for EWS only
- Provide mortgage-linked subsidies
- Design Market Rate Units
 - Build Units
- Finance Construction
- Contribute to O&M

Developers/ investors competed based on lowest requirement for subsidy or highest premium they are willing to offer.

Government Offtake/ End-user pays [Ownership]

Kenya [Naivasha A/H Project]



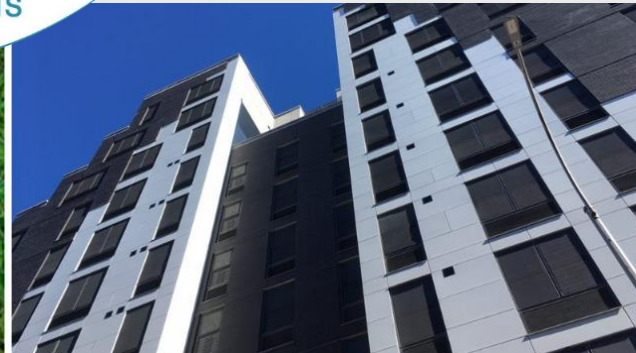
- Provide Land
- Set Design Standards
- Curate Beneficiaries
- Assume Offtake Risks
 - Design Units
 - Build Units
 - Maintain Units
- Finance Construction
- Assume Offtake Risk
- Finance End Users

Investors compete on (1) residual valuation of the land, (2) housing affordability mix, (3) equity: debt leverage and (4) development program.



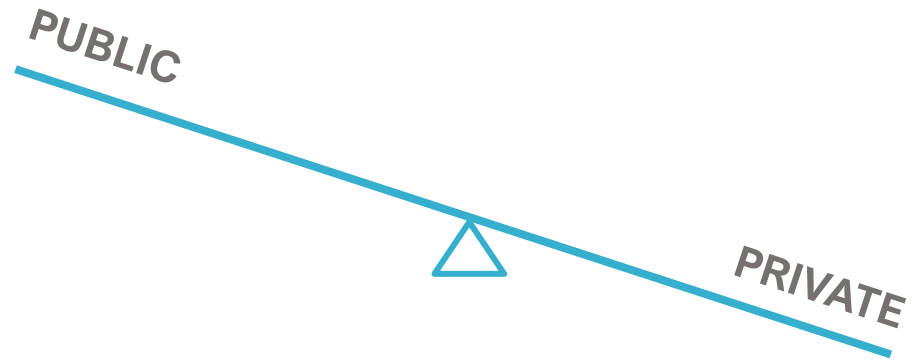
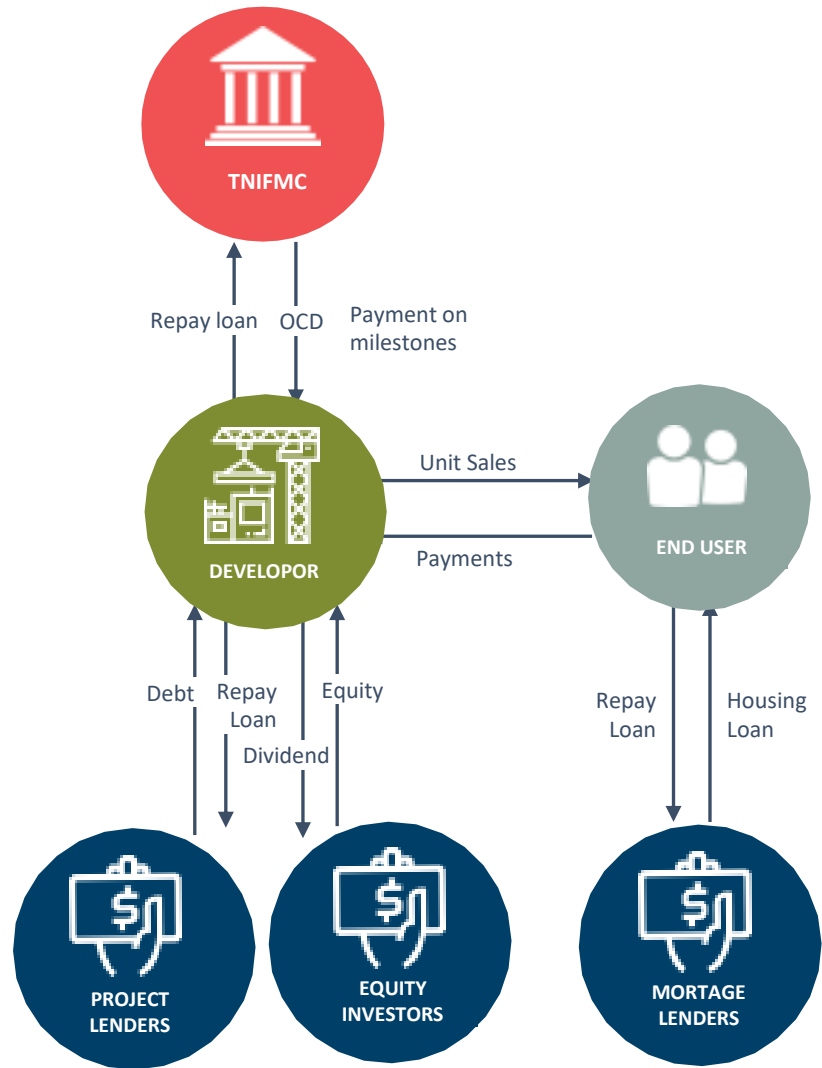
Tamil Nadu Shelter Fund

A unique Impact fund for Affordable, Green and Sustainable Housing



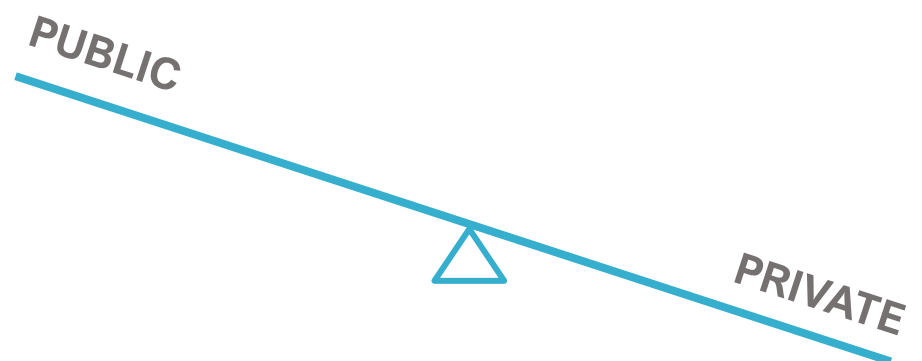
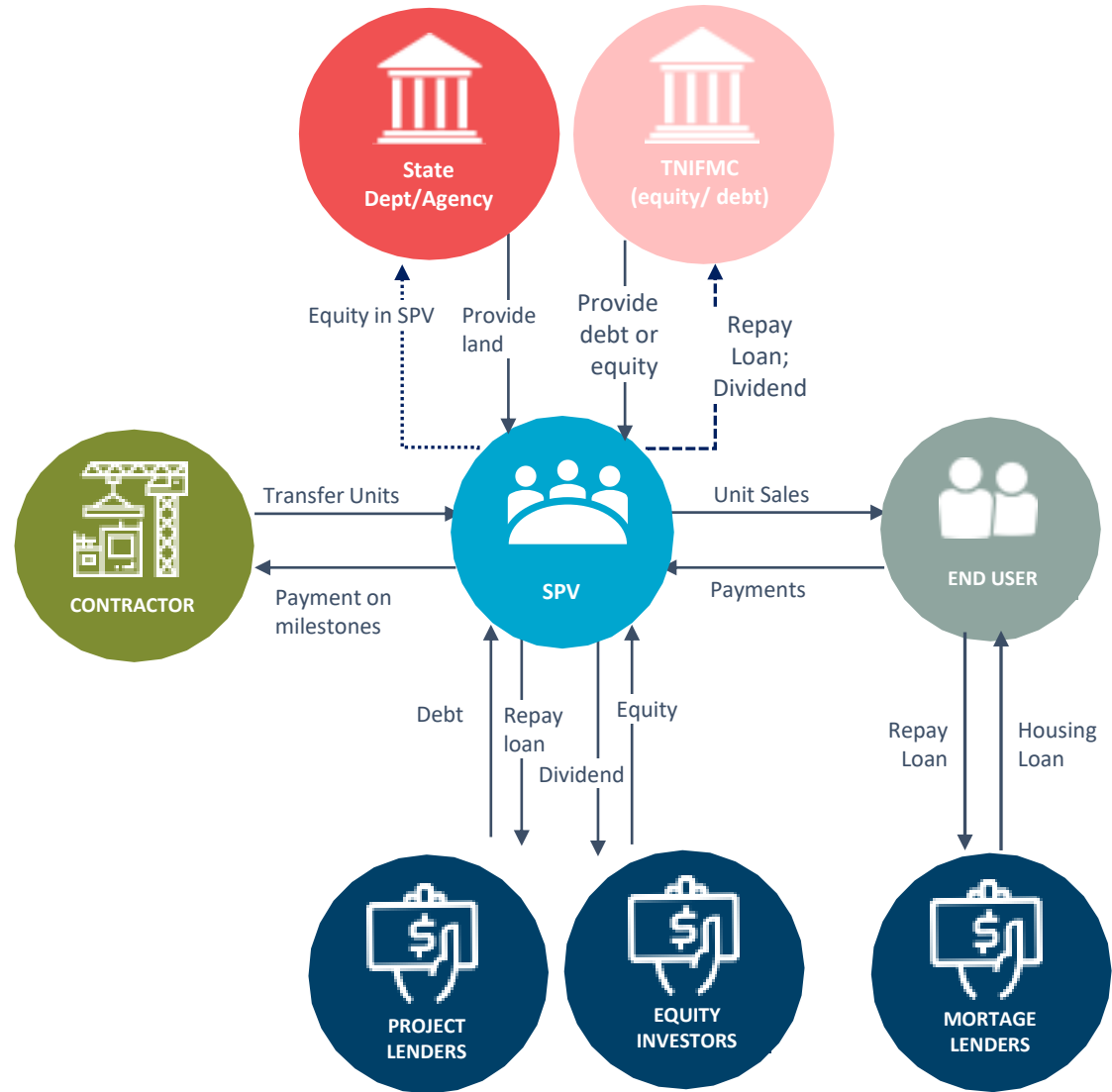
Market Offtake/ End-user pays [Ownership]

India Tamil Nadu Shelter Fund



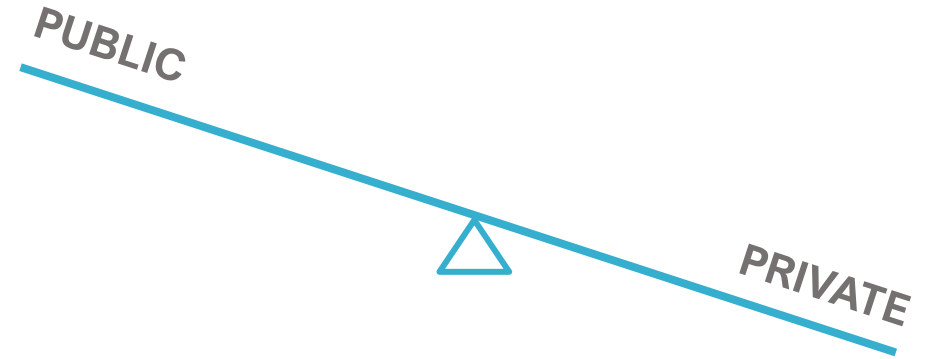
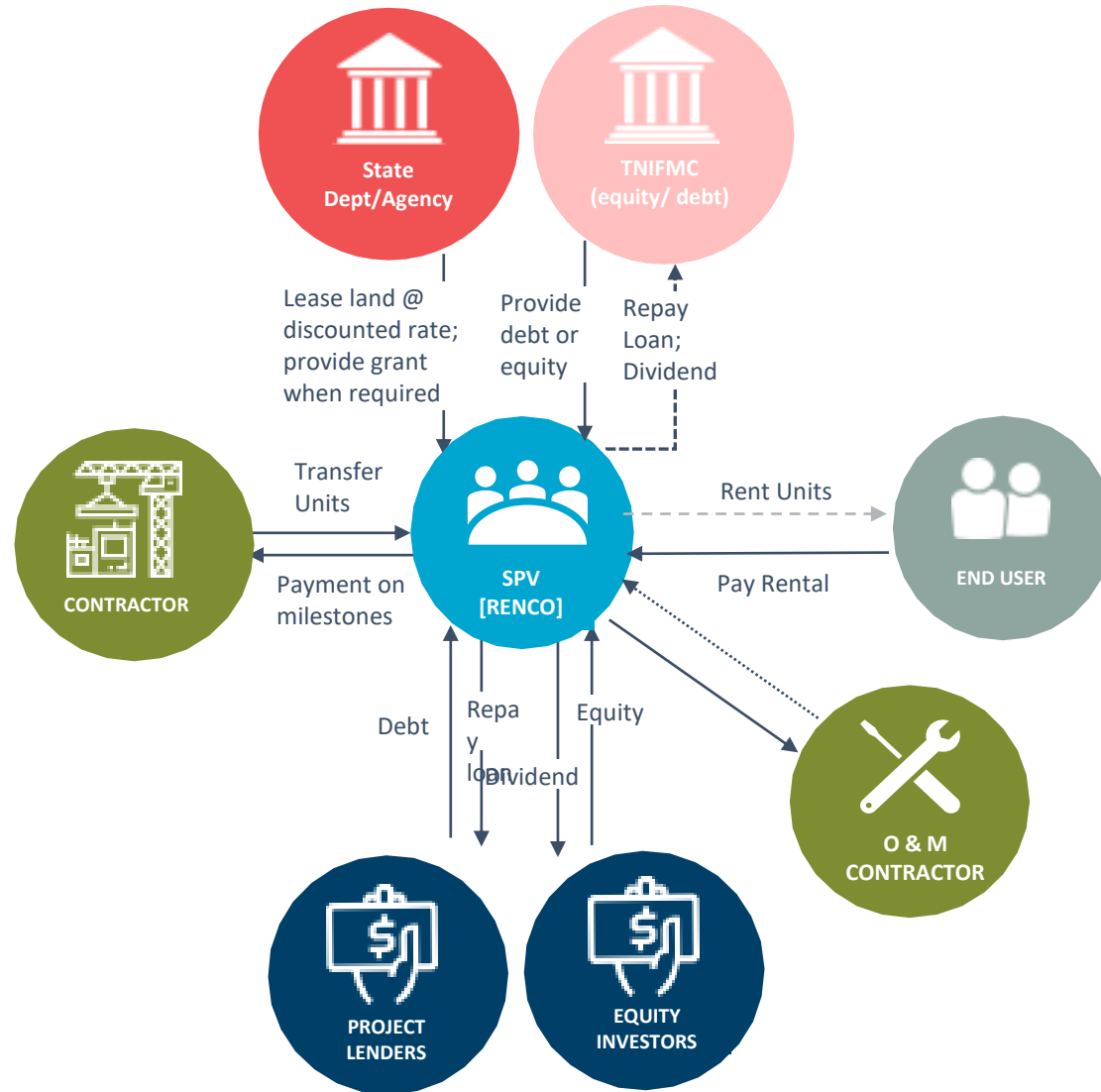
- Provide Subsidized co-Financing (Debt, Equity, or Structured Financing)
 - Design Units
 - Finance Construction
 - Build Units
 - Assume Offtake Risk
 - Finance End Users

Market Offtake/ End-user pays [Ownership]



- Provide Subsidized co-Financing (Debt, Equity, or Structured Financing)
 - Design Units
 - Finance Construction
 - Build Units
 - Assume Offtake Risk
 - Finance End Users

Market Offtake/ End-user pays [Rental]



- Provide Land
- Provide construction grant (when required)
- Provide Subsidized co-Financing (Debit, Equity, or Structured Financing)
- Design Units
- Build Units
- Operate and Maintain Units
 - Finance Construction
 - Assume Offtake Risk



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*What
have we
learned
so far?*

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Typical Challenges to Affordable Housing PPPs in Emerging Economies

- Real estate industry underdeveloped and unregulated;
- Non-competitive domestic market dominated by a few developers;
- Few private sector investor/developers able to assume risks;
- Weak public sector capacity to appraise, monitor administrative processes;
- Limited public/private capacity to design, structure, complex transactions;
- Lack of trust in public sector to honour commitments;
- Lack of access to mortgage financing and construction financing



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KEY TAKE AWAYS

1. PPPs are not a panacea: a wide range of outcomes and no clear formula for success
2. It remains critical not to lose sight of **improving housing sector fundamentals, strengthening the institutions and removing constraints** that can enable and inhibit private sector investment
3. PPPs require that appropriate legal structures be in place, and that the various parties be competent to perform their assigned tasks under the model
4. It is important to initiate an **incremental shift of investment and risks to the private sector** in affordable housing



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THANK YOU

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What have we learned so far?

1. **Partnership takes time:** each party needs to learn how to work as partners
2. **No silver-bullet** – each project requires its context specific structuring
3. **Affordable housing PPPs require sufficient capacity on both partners**
 - Both: Undertake local market dynamics (targeted income segment, affordability, predicting demand over time);
 - Public: project appraisal (including value for money analysis), contract management (including negotiating with developers);
 - Private: willingness to work with the government, an understanding of affordable housing specific rules, regulations, and incentives, and appreciation of the targeted “consumers.”

What have we learned so far?

4. **Delay in provision of trunk Infrastructure** is one of the most common barriers to a successful PPP
5. **Need for enhancing the capacities of the implementing agencies at the state/city level** to enable them to effectively implement PPP projects
 - a. **Technical**
 - Developing a shelf of bankable projects
 - Formulating tender document and legal agreement
 - Fair compensation structures via innovative cross-subsidization models, subsidies and incentives like 'additional FSI', 'Transferable Development Rights', etc.
 - **Flexibility/ re-negotiations in contract document** - flexibility in contracts document with provisions of requisite institutional mechanism for reviewing contracts terms and conditions and suggesting a course of correction.
 - b. **Organizational culture of implementing authorities**