



Infrastructure Development Bank of Zimbabwe

National Growth Builders

FINANCING MODELS FOR HOUSING PROJECTS

Presented to

NATIONAL HOUSING CONFERENCE

By

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PRESENTATION OUTLINE



OUTLINE

1. Housing Sector Landscape

2. Financing Options for Housing Delivery

3. Pre-requisites for Housing Project Financing

4. IDBZ's Housing Sector Interventions

1. HOUSING SECTOR LANDSCAPE

- Supply side of serviced stands and housing units remains constrained.
- The **challenges to housing delivery are multi-dimensional.**
- Major challenges in housing sector delivery include:
 - slow land delivery by local authorities (for new projects)
 - limited institutional capacity at all levels of housing development
 - Lack of affordable housing finance: interest rates, down payments, etc
 - High unemployment and low salary levels (limited offtake capacity)
 - Undeveloped land too expensive (affects overall project cost)
 - Cost of housing construction too high.
- **Affordability remains a major deterrent to home ownership.**
- Addressing the housing challenge requires balancing the short term profit motive with sustainability and the social objective of reducing the swelling number of slum dwellers.

2. FINANCING OPTIONS FOR HOUSING DELIVERY

- Housing can be financed through a number of formal/institutional or informal sources.
- Institutional sources include direct Government funding, commercial banks, mortgage houses (building societies), pension funds, private sector real estate developers and state housing corporations.
- Informal sources mainly take the form of cooperative societies.
- Public funding for direct investment in public housing is very limited, but **public sector agencies can play a key role in providing affordable land** for development by private sector players.
- Available **funding options** include:
 - (i) **Public Funding** – budgetary allocations towards housing developments (very limited).
 - (ii) **Joint Ventures** on housing project developments (PPP or private sector players only).
 - (iii) **Capital market option** - issuance of long term securities in order to raise capital for investment in housing.
 - (iv) **Property Unit Trusts** – this funding mechanism entails mobilizing funds from different small scale investors to invest in housing properties and projects.
 - (iv) **Co-operatives** – these are a result of limited provision of **affordable** institutional finance in housing development for **low income groups**.

3. PRE-REQUISITES FOR HOUSING PROJECT FINANCING

- Major challenge is **bankability of projects** – major pitfall is projects not being properly packaged (i.e. rushed to the market).
- For projects to be successfully funded and implemented through the capital markets and/or private sector investment there are certain pre-conditions:
 - (i) **Proper project feasibility study** – technical and legal aspects, land title, market demand and affordability analysis, project financial viability, etc.
 - (ii) **Adequate project documentation** – full project write-up including project scope, topographic surveys, development plans, feasibility study report, etc.
 - (iii) **Approvals in place** – development permits, approved layout plans and designs, Environmental Impact Assessment (EIA) certification, etc.
- **Capital market investors prefer projects that are ring-fenced** i.e. packaged in a way that separates project cash flows from the promoting institution's general cash flows – this is **normally achieved by warehousing the project in a Special Purpose Vehicle (SPV)**.
- For **public sector developers** (e.g. Local Authorities), key issues for successful project financing include land title, pricing of the undeveloped land and compliance with Procurement Regulations and the Joint Venture Act (*Chapter 22:22*).

4. IDBZ'S INTERVENTIONS IN THE HOUSING SECTOR

- **Housing is a primary focal area for the Bank** alongside other key sectors such as Energy and power supply, Transport, Water and Sanitation and ICT.
- The Bank's strategy in the Housing Sector is towards addressing the capital intensive bulk infrastructure which is the major bottleneck to housing delivery, i.e. on-site and off-site infrastructure such as roads, water and sewerage facilities, electricity and ICT backbone.
- The Bank seeks to partner public and private players who complement its efforts on basic infrastructure by delivering the required superstructures.
- The Bank has developed capabilities in housing project appraisal and packaging, project management, implementation monitoring and project financing.
- The Bank **can deploy its expertise in structuring Infrastructure Bonds and Project Finance to package funding solutions** and undertake housing development projects jointly with public and private sector players. The **Bank's offering includes managing project implementation and disposal processes.**
- In the recent past, **the Bank has entered into Joint Venture arrangements** and mobilized funds to develop affordable housing projects in partnership with the Ministry of Local Government, Public Works & National Housing, Harare City Council, Kwekwe City Council and developers in Masvingo, among others.
- The Bank **has also provided project management services** on various housing projects (including student accommodation for 3 universities) with a combined value of **US\$73million.**

4. INTERVENTIONS IN THE HOUSING SECTOR (Cont...)

- The Bank is currently undertaking two housing projects that will benefit 1,042 households (New Marimba – 338 residential stands; Clipsham – 704).
- The Clipsham project in Masvingo is being implemented through a joint venture with a private property developer.
- The projects are funded through a Housing Bond issued by the Bank in December 2015.
- The Bank will be issuing additional tranches of up to US\$15million of the Housing Bond in 2016 to fund various housing projects currently under preparation once they are ready for implementation.
- The Bank has authority from the Ministry of Finance to issue Housing Bonds of up to US\$100million – the bond issuances will be underpinned by bankable projects that demonstrate offtake potential and financial viability.

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**THANK YOU
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