



DEBT FINANCING OF SOCIAL HOUSING PROJECT

Presentation
KZN PSC: 19 August 2020

LAYING STRONG FOUNDATIONS FOR TOMORROW'S SUCCESS



CONTENTS

1. INTRODUCTION:
 - 1.1 THE NHFC
 - 1.2 NHFC MANDATE
 - 1.2 WHAT IS SOCIAL HOUSING
- 2 WHAT IS CONSIDERED A BANKABLE PROJECT
 - 2.1 KEY COVENANTS TO SOCIAL HOUSING INSTITUTIONS (SHI's) – PROJECT LEVEL
3. CHALLENGES TO FINANCE A PROJECT - NEW PLAYERS
 - ☐ GOOD PRACTICE AND ADVICE
 - ☐ OTHER RELEVANT INFORMATION
 - ☐ PICTURES

THE NATIONAL HOUSING FINANCE CORPORATION (NHFC)

- ❖ **Established:** 1996
- ❖ **Type of Organisation:** Development Finance Institution (DFI)
- ❖ **Ownership:** State Owned Company (SOC), 100% SA government
- ❖ **Funding Status:** Self sustaining, pays income tax
- ❖ **Main business:** Broadening and deepening access to affordable housing finance for the low- to-middle income SA households
- ❖ **Geographic activities:** National

NHFC MANDATE

The **National Housing Finance Corporation SOC Ltd (NHFC)** is a state owned Development Finance Institution with a principal mandate to **broaden and deepen access to affordable housing finance** for the low- and middle-income households.

- Providers of housing (SHI's, developers) to the low- to middle-income housing market which is any South African household with a regular **monthly income between R1 500 and R15 000.**
- The **market segment** is able to contribute towards its housing costs, but unable **to access housing finance from Financial Institutions.**

WHAT IS SOCIAL HOUSING?

Social Housing

This is subsidised rental housing that is more affordable than Private/Commercial Rentals and is provided by Social Housing institutions which are companies not for profit

Players in Social Housing:

Social Housing Institutions:

Nationwide

Social Housing Regulatory Authority and Provincial Government:

Consolidated
Capital Grants


National Housing Finance Corporation:

Debt Funding

WHAT IS CONSIDERED A BANKABLE PROJECT?

PROJECT LEVEL IDEAL MODEL

NHFC Viability Modelling Parameters



Description	NHFC Guideline
Average rent per unit	R 4 100 pm
Rent Escalation	5,0%
Cost Escalation	4,0%
Vacancy and Default	13%
Interest Rate (NHFC)	Prime + 2%
Moratorium (NHFC)	18 months
Operating Expenses	R 1 673 pu.pm
Monthly Average Take up Allowance (In accordance with Market Study interpretation) (Period)	12 months
Cost per unit Benchmark (Including Land)	R 461 998
Cost per unit (Excluding Land)	R 419 998

- These are parameters utilized to determine feasibility and therefore **Resultant Average Rental Required**
- Based on these parameters, to get to DSCR of 1.1 in Year 3 Average Rentals would have to be **R 4 100**
- Current **Regulated Rentals** are at average R 2 800

WHAT IS CONSIDERED A BANKABLE PROJECT?

PROJECT LEVEL IDEAL MODEL

NHFC Viability Modelling Parameters

Assumptions		
Number of units	100	%
Capex Required: R461k x 100 units	R 46,1 Mil	100%
SHRA Grant: R 155k x 100 units	- R 15,5 Mil	-33%
Provincial Grant: R 116k x 100 units	- R 11,6 Mil	-25%
Debt Balance:	R 19,0 Mil	42%

Interpretation: Realistic parameters therefore erode grant contribution and therefore increase level of debt as the only dependent variable in the cost structure.

NHFC Ideal Model Cash Flow Projections

NHFC IDEAL MODEL CASH FLOW PROJECTIONS																
YEAR	1	2	3	4	5	6	7	8	9	10	15	16	17	18	19	20
CASH INFLOW																
Gross Rental	R4 920 000	R5 166 000	R5 424 300	R5 695 515	R5 980 291	R6 279 305	R6 593 271	R6 922 934	R7 269 081	R7 632 535	R9 741 263	R10 228 327	R10 739 743	R11 276 730	R11 840 567	R12 432 595
Vacancy and default	R639 600	R671 580	R705 159	R740 417	R777 438	R816 310	R857 125	R899 981	R944 981	R992 230	R1 266 364	R1 329 682	R1 396 167	R1 465 975	R1 539 274	R1 616 237
Net Rental / Inflow	R4 280 400	R4 494 420	R4 719 141	R4 955 098	R5 202 853	R5 462 996	R5 736 145	R6 022 953	R6 324 100	R6 640 305	R8 474 899	R8 898 644	R9 343 576	R9 810 755	R10 301 293	R10 816 358
CASH OUTFLOW																
Loan Repayment	R2 180 944	R2 182 108	R2 182 108	R2 182 108	R2 182 108	R2 182 108	R2 182 108	R2 182 108	R2 182 108	R2 182 108	R2 182 108	R2 182 108	R2 182 108	R2 182 108	R2 182 108	R2 182 108
Other Loan	R0	R0	R0	R0	R0	R0	R0	R0	R0	R0	R0	R0	R0	R0	R0	R0
NHFC Loan	R2 180 944	R2 182 108	R2 182 108	R2 182 108	R2 182 108	R2 182 108	R2 182 108	R2 182 108	R2 182 108	R2 182 108	R2 182 108	R2 182 108	R2 182 108	R2 182 108	R2 182 108	R2 182 108
Operating Expenses	R2 007 600	R2 087 904	R2 171 420	R2 258 277	R2 348 608	R2 442 552	R2 540 254	R2 641 865	R2 747 539	R2 857 441	R3 476 514	R3 615 574	R3 760 197	R3 910 605	R4 067 029	R4 229 710
Net payments / Outflow	R4 188 544	R4 270 012	R4 353 528	R4 440 385	R4 530 716	R4 624 660	R4 722 362	R4 823 973	R4 929 647	R5 039 549	R5 658 622	R5 797 682	R5 942 305	R6 092 713	R6 249 137	R6 411 818
CASH INFLOW / (OUTFLOW)																
	R91 856	R224 408	R365 613	R514 713	R672 137	R838 335	R1 013 783	R1 198 980	R1 394 453	R1 600 756	R2 816 278	R3 100 962	R3 401 271	R3 718 042	R4 052 156	R4 404 539
NET CASH FLOW																
	R91 856	R316 264	R681 877	R1 196 590	R1 868 727	R2 707 062	R3 720 845	R4 919 825	R6 314 278	R7 915 034	R19 435 073	R22 536 035	R25 937 306	R29 655 348	R33 707 504	R38 112 043
DSCR	1,0	1,10	1,17	1,2	1,3	1,4	1,5	1,5	1,6	1,7	2,3	2,4	2,6	2,7	2,9	3,0
LTV	42%	41%	40%	39%	38%	36%	35%	33%	32%	30%	18%	15%	12%	8%	4%	0%

KEY COVENANTS APPLICABLE TO SHI'S – PROJECT LEVEL

Standardised Covenants for Monitoring Social Housing	Collections, Bad Debt, Occupation Rates, Vacancy Rates, Cost to Income, DSCR, Director's emoluments, Staff Costs
Collections Rates	>95%
Bad Debts	<5%
Vacancy Rates	<5%
Cost to Income (excl Vac, Def, Interest cost)	<50%
DSCR	1.1 in Year 3
Staff Costs & Directors fees	<30% of Operating Overheads

CHALLENGES TO FINANCE PROJECTS – NEW PLAYERS

- Unknowledgeable management wrt:
 - managing project implementation and
 - property management;
- Management not committed in the SHI (eg, no suretyship of some sort), therefore making it easier for them to walk away if business is not performing;
- Poor technical project execution resulting in cost over-runs;
- Primary market income band (all those earning **below R5 500 pay rentals from R650 - R1 200**), therefore adversely affecting the viability of the project;
- Subsidies not adjusted annually with inflationary linked escalations. The recommended escalation rate for the sector is $CPI + 1.6\%$; and
- Lack of annual escalations result in insufficient positive cash flows to meet the debt service requirements, as construction and operating costs increase in line with inflation leading to significantly reduced operating margins.

GOOD PRACTICE AND ADVICE

PROJECT LEVEL IDEAL MODEL

Management & Governance of the SHI

Vetted by NHFC with relevant experience and requisite skills in Financial, Legal, Construction and/or Property Management.

Management & Governance of the SHI

Board and Management– As a condition, the board of SHI's and ODA's must have the relevant experience and **requisite skills** and competencies in the following areas:

- **Financial** – A Registered Accountant with **demonstrable track record**
- **Legal** – A legal professional also with demonstrable track record for oversight on contracts and navigating regulations
- **Construction** – A Built Environment professional to provide oversight on construction related matters
- **Property Management** – A Property Management skills set to provide property management oversight.

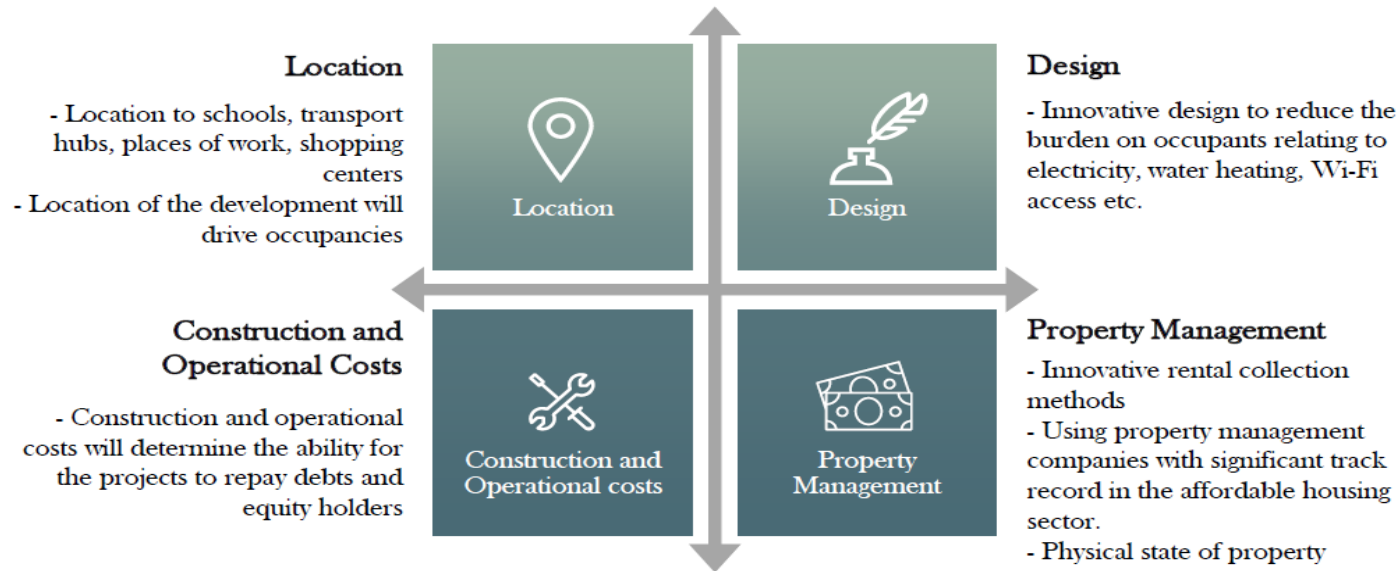
NHFC to vet and approve all the appointments.

GOOD PRACTICE AND ADVICE

Management & Governance of the SHI	Vetted by NHFC with relevant experience and requisite skills in construction and property management as well as Financial and Legal aspects.
Property Management Company & Operational management of SHIs	NHFC vets and approves key service providers
Construction Company and Professional Team and Contracting Arrangements	NHFC vets and approves – Only built environment professional contracts e.g PROCSA or equivalent to be entered into by consultants to provide arms length contracting with no related parties executing multiple roles permitted.
Cost Structure	Cost structure to be in line with NHFC researched parameters and benchmarks. Low costs approved by the Regulator, must be accompanied by a SHRA cost overrun fund to the value of the variance as a risk sharing mechanism.
Contractual contracts and obligations during construction	A fixed price JBCC building contract and undertaking by Project Manager/Principal Agent

GOOD PRACTICE AND ADVICE

Recommendation: An Operational Model that will consider some of the following **elements**



Location – Approve projects by suitable Location supported by independent market research

Design – Project Level – Efficiency in design – (Sector Level - Advocate for Removal or redesign of Primary)

Construction & Ops Costs – Thorough analysis of all costs at screening against NHFC benchmarks before SHRA approval

Property Management – Only appoint Property Managers with demonstrable track record

OTHER RELEVANT INFORMATION

➤ **STEP 1 - Information required at applying: Preliminary Checklist (BDM)**

- ☐ High level synopsis;
- ☐ Market study;
- ☐ SHRA approved QSC;
- ☐ Company documents;
- ☐ Directors' information (Certified ID not less than 3 months, Abridged CV, Municipality account less than 3 months)
- ☐ Directors' resolution authorising the application;
- ☐ BEE compliance certificate;
- ☐ Annual Financial Statements not older than 12 months and management accounts; and
- ☐ SARS Tax clearance certificate.

➤ **STEP 2 - Submit information as per Detailed Checklist (CRM)**

➤ **NB: The NHFC conducts Credit and World checks on all Board Members.**

Visit our website @ www.nhfc.co.za for the process of applying

PICTURES



THANK YOU