



Centre for Affordable
Housing Finance
in Africa

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Residential REITs (Real Estate Investment Trusts) and their potential to increase investment in, and access to affordable housing finance in Africa.

Call for Proposals

1 Introduction

The Centre for Affordable Housing Finance in Africa (CAHF) is a not-for-profit company with a vision for an enabled affordable housing finance system in countries throughout Africa, where governments, business, and advocates work together to provide a wide range of housing options accessible to all. CAHF's mission is to make Africa's housing finance markets work, with special attention on access to housing finance for the poor. We pursue this mission through the dissemination of research and market intelligence, supporting cross-sector collaborations and a market-based approach. The overall goal of our work is to see an increase of investment in affordable housing and housing finance throughout Africa: more players and better products, with a specific focus on the poor.

Our work covers four main areas: (1) understanding the housing market, (2) monitoring housing sector performance, (3) exploring innovation in housing finance, and (4) supporting housing finance market development.

Since its formation, the CAHF has come to be known as the most comprehensive and up to date source of information on housing finance in Africa. Its research and other material is regularly used by investors, lenders, pension funds, and other financiers; legal practitioners, researchers and academics; policy makers and other housing finance practitioners to scope and pursue the opportunities for extending access to housing finance across Africa. As a thought leader in the sector, CAHF is a respected advocate for financial inclusion in housing finance in Africa. Our work is available on our website: www.housingfinanceafrica.org. CAHF is also secretariat to the African Union for Housing Finance – see www.auhf.co.za.

CAHF wishes to appoint a service provider to undertake a study to investigate the potential of using residential REITs as a vehicle to increase investment in and access to affordable housing across Africa. This study will form part of our theme; 'Innovation in Housing Finance', and will contribute to CAHF's broader programme of work.

2 Background

Africa's housing backlog is growing considerably; especially in urban areas where urbanisation rates are rapidly increasing. This demand is coupled with limited supply and unsophisticated housing and housing finance markets. A key challenge facing investors has been the inability to find investment targets in the residential real estate space that are sufficiently substantial to warrant their attention. International and local institutional investors generally seek large investment targets where they can place their money and realise a steady return that isn't drained by the administrative and organisational weight of multiple projects. With the exception of South Africa, African housing markets lack the capacity to receive big money. Developers haven't the capacity to build housing at scale and municipalities haven't the capacity to receive large scale housing developments. In some cases, there is perceived risk in investing in affordable housing in Africa.

Some investors are noting a change, however: investment in large scale infrastructure – roads, energy, even telecommunications – clears the way and reduces some of the transaction costs associated with housing developments. Given this, investors have been looking for innovative ways to make the connection between their capital and potential investment opportunities. The introduction of Real Estate Investment Trusts (REITs) is perhaps the most significant of these – these create a vehicle that investors understand and can trust, aggregating diverse sources of funding from international and institutional investors through to households, and targeting them into a portfolio that extends beyond the limitations of individual projects. There appear to be various types of REITs, including Equity REITs, Mortgage REITs and Hybrid REITs. Equity REITs are REITs which derive an income from rentals; Mortgage REITs buy mortgages and mortgage backed securities; and Hybrid REITs are a mix of the former two REITs.

REITs are new in Africa – having developed through the promulgation of legislation and issuing of regulations only in the past three years, in South Africa, Nigeria, Tanzania, Kenya, Ghana, Morocco, Rwanda, Uganda, and Zimbabwe. Initially used for the retail and commercial real estate sectors, residential REITs are now also emerging. The first residential-only REIT in South Africa, Indluplace, listed on the Johannesburg Stock Exchange in June 2015. Promoted by Arrowhead Properties, which has been bringing residential properties into its REIT portfolios since 2013, Indluplace focuses on affordable rental.

In some jurisdictions, the REIT legislation allows for a housing development focus. This was a Kenyan innovation, which allows for the Development REIT (D-REIT). Investors take some of the project risk, so the regulations limit D-REITs to professional investors. A D-REIT can be converted into an Income REIT (I-REIT) (an Equity REIT) which realises returns through rental cash flows, when the bulk of the assets have completed the construction phase and rentals begin to flow. In Tanzania, the Capital Markets and Securities Authority (CMSA) approved Watumishi Housing Company REIT in early 2015. WHC-REIT aims to mobilise funding for the development of low-middle income housing, both for sale and for rent, and the development of commercial properties. WHC-REIT was created explicitly to target public sector workers' housing demand, and the Public Service Pension Fund, Government Employees Provident Fund, PPF Pension Fund, LAPF Pension Fund, National Security Authority, National Health Insurance Fund, and National Housing Corporation are the unit holders. Over time, WHC-REIT intends to float units on the Dar es Salaam Stock Exchange to allow members of the public to also invest.

As listed groups – REITs and others – explore the affordable property sector, investors can begin to develop an understanding of this market opportunity through their arms-length relationships with developments that their investment in the REITs facilitate.

3 Overview and Scope of the Study

Given these developments, this study aims to understand and explore the potential for residential REITs as a means to increase investment into affordable housing in Africa by exploring the implementation of the concept in African countries thus far. The research should build a case for residential REITs as a mechanism in supporting affordable housing finance and increased investment in affordable housing in the continent based on specific, yet varying, contexts. The work will feed in to CAHF's 'Exploring Innovation in Housing Finance Theme', and CAHF's Investors Programme. This project is part of CAHF's wider effort to encourage and stimulate the financial sector to develop and explore innovative products that explicitly target affordable housing.

The study should define the REIT mechanism in all of its variations as might apply to residential (and specifically, affordable) in the African context. A comprehensive literature review should identify key components of the structure, its financial architecture, its legal and tax arrangements, and how it works in practice across the continent.

The study should seek to clarify the following:

- How does the REIT structure work in various African contexts – in detail, what are the financial, legal, tax and other parameters that make it work? Who can invest in a REIT, does policy align to international legislation, how has it been adopted to the local situation, respective funding models, financial proposal and efficiency of approach, etc.
- How is a Residential REIT different from any other REIT structure, and is this pertinent for investors?
- What variations exist in residential REITs (new build, rental, resale / affordable, high value / civil servants, students, elderly, etc. / etc.) and where do they work in practice?
- What are the challenges and barriers to growth of the residential REIT sector across Africa?
- What led to the establishment of residential REITs and have they achieved their purpose in the contexts where they've been implemented?
- What sort of track record has been achieved to date? Are there any lessons from existing practice?
- How might a residential REIT engage with the complexities of housing affordability across Africa – is this a feasible model for extending access to investment capital for affordable housing? Might it become an option for driving scale housing delivery, whether for ownership or for rent?
- Are investors interested? Is this across the board or only in specific countries? What are their concerns, and what opportunities are they seeking? What is the profile of investors who are currently engaged? What are their preconditions for investing?
- Are developers, governments and other housing sector stakeholders responding?
- What interventions might be undertaken, whether by governments, the private sector, or the DFI sector, to support the potential of residential REITS in the affordable housing market in Africa? Is there any low hanging fruit for immediate attention? What sorts of longer term interventions might be useful and feasible? What should CAHF do?

A database of African examples of residential REITs, and case studies of selected REITs currently in existence (and illustrative of the potential) should comprise part of the study outputs. We expect the service provider to also provide an analysis of the debates underway in contexts where the structure is being considered. Interviews with key stakeholders – regulators, investors, housing development practitioners, and so on – will provide useful insights into the potential of the model to support increased investment in affordable housing in Africa. Service providers should not restrict their investigation to REITs in Anglophone Africa, but should consider whether such exist in Francophone or Lusophone countries as well.

4 Project Output

The service provider is expected to provide the Centre for Affordable Housing Finance with

- a succinct but comprehensive report that responds to the issues set out in these terms of reference and ultimately responds to the central study question: what is the potential of the residential REIT model to support the affordable housing sector in Africa?
- a slide presentation of around 20 slides that conveys the core messages arising in the report
- a map / database of stakeholders and initiatives in the residential REIT sector in Africa.

5 Project Management

The consultant will report to Sireena Ramparsad, Research Specialist at CAHF.

5.1 Timeframe

The project will commence on the 28th of March 2016. The anticipated timeframe of the project is 8 weeks with interim submissions. Proposals should set out a detailed timeframe.

5.2 Budget

The maximum budget available for the project is ZAR 350 000 including VAT. This amount covers all expenses associated with the project. A financial proposal should be submitted, providing a detailed costing for the scope of work and deliverables described above. Costs should be broken down into professional fees and expenses – including any travel and accommodation. Payment will be aligned to the submission of deliverables based on the financial proposal received.

6 Contents of Proposal

Proposals to undertake this project must include:

- a. Technical proposal responding to ToR.
- b. Financial proposal and costs estimate, indicating the basis of calculation of fees.
- c. Statement of qualifications of firm(s) (if no previous work record CAHF).
- d. Name and CV of staff members responsible (i) for overseeing the work; (ii) for undertaking the work. A consortium of consultants is welcomed.
- e. Capacity building and black economic empowerment are key objectives of CAHF. In rendering the service the consultant must endeavour to achieve these goals. South African consultants must report on their BEE accreditation. Other capacity building efforts can also be proposed, such as the use of students to support the research process, or workshop methods to engage with a wider stakeholder sector in each country. The focus of such capacity building would be on the use of data to consider and understand the role of housing in national economies. The proposal must comment on the manner in which the consultant intends to give effect to the capacity empowerment objective.
- f. Familiarity with the Centre for Affordable Housing Finance in Africa's work is important. See www.housingfinanceafrica.org.

7 Proposal Assessment

Proposals will be assessed according to:

- Relevant, demonstrated competence and track record of firm in this area: 25%
- Demonstrated expertise of key individuals to be involved in this Project: 25%
- Content and quality of proposal: 30%
- Affirmative action scorecard (if South African firm) or use of local service providers: 10%
- Financial proposal (indicating efficiency of approach): 10%

8 Submission

Proposals and accompanying documents should be sent to Miss Sireena Ramparsad. The deadline for submission is 17h00 on 21 March 2016; submissions should be sent by email to sireena@housingfinanceafrica.org. Selection and appointment will be made by 28 March 2015. Once the selection process has been completed, CAHF will issue a contract confirming the appointment of the service provider.