



Development Bank  
of Southern Africa



# Presentation to the Financial and Fiscal Commission Public Hearing

October 2011



# Structure of the Presentation

- DBSA Role
- DBSA Affordable Housing Portfolio
- Factors Impacting Implementation
- Success Factors For Effective Implementation
- Considerations for the Sector Participants

# DBSA Role in Affordable Housing Finance

- DBSA plays the role of Financier, Advisor, Partner, Implementer & Integrator in Infrastructure Finance;
- Within housing finance, DBSA strives to be a “Project Maker” that is instrumental in unlocking delivery of large-scale, high impact developments;
- Successful implementation of this Project Maker function is dependent on close collaboration with all stakeholders, particularly Government institutions.

## **Project Maker** → **Proactive**

- ❖ Involved from Project Planning Stage
- ❖ Instrumental in coordinating funding at various delivery stages
- ❖ Strategic area of focus is Government’s Priority projects
- ❖ High level of interaction is with Government in planning funding structures

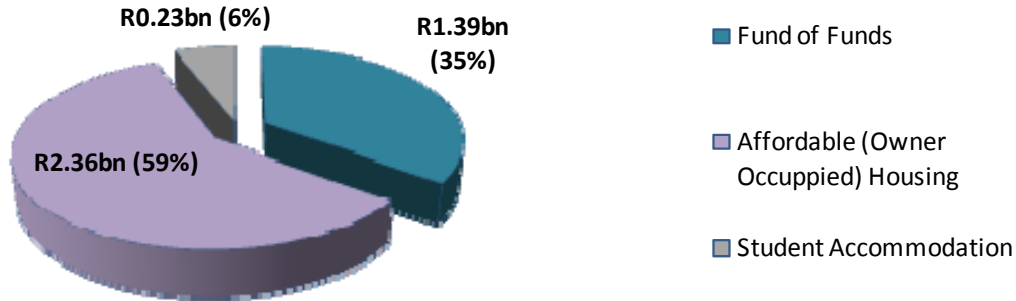
VS

## **Project Taker** → **Reactive**

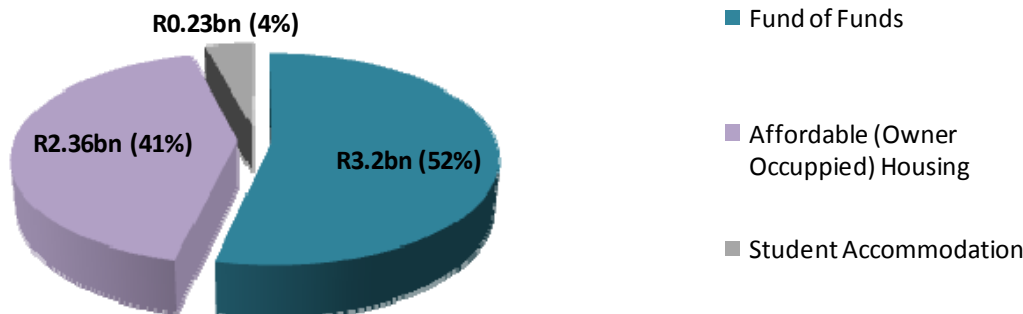
- ❖ Involved only as Financier at Bankable stage
- ❖ Transacting on a reactive, project by project basis, instead of strategic portfolio planning
- ❖ Interaction occurs mostly at project level, with property developers

# DBSA Affordable Housing Portfolio Overview

## Current Exposure

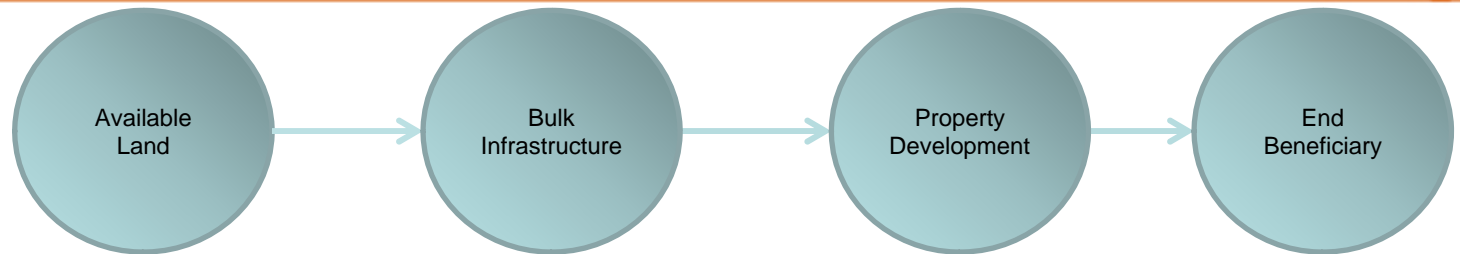


## Future Exposure



- ✓ Total Current Exposure of R3.98bn
- ✓ Expected Future Exposure of R5.79bn
- ✓ Fund of Funds exposure in HIFSA and IHS expected to grow to R3.2m
- ✓ Geographical exposure to different provinces achieved through the Fund of Funds structures
- ✓ Student accommodation plays an increasingly important role in affordable housing sector, hence DBSA participation in a University of the Western Cape project

# Factors Impacting Implementation



|   |   |   |  |   |
|---|---|---|--|---|
| <b>Implementing Agent</b>                   | <ul style="list-style-type: none"> <li>▪ Muni's, agencies &amp; private land owners</li> </ul>  | <ul style="list-style-type: none"> <li>▪ Contractors &amp; engineers</li> </ul>   | <ul style="list-style-type: none"> <li>▪ Property Developers</li> </ul>  | <ul style="list-style-type: none"> <li>▪ Financial Institutions</li> </ul>  |
| <b>Value add</b>                            | <ul style="list-style-type: none"> <li>▪ Land availability, Leasehold or Usufructs</li> <li>▪ Joint ventures</li> <li>▪ Plan and design infrastructure</li> </ul>   | <ul style="list-style-type: none"> <li>▪ Land purchase and bulk infrastructure development</li> </ul>   | <ul style="list-style-type: none"> <li>▪ Property &amp; internal reticulation services development</li> </ul>  | <ul style="list-style-type: none"> <li>▪ End user funding</li> </ul>  |
| <b>Key Challenges for DBSA as Financier</b> | <ul style="list-style-type: none"> <li>▪ Institutional bottlenecks in making land available for development</li> <li>▪ Institutional bottlenecks in issuing development rights</li> <li>▪ Landowners with no development experience or equity to develop</li> <li>▪ Equity to get projects to bankable stage</li> </ul> | <ul style="list-style-type: none"> <li>▪ Bulk infrastructure recoveries accrue to municipality</li> <li>▪ Difficult to fund municipalities on-balance sheet</li> <li>▪ Funding at project level results in transactions being financially unviable</li> </ul> | <ul style="list-style-type: none"> <li>▪ Construction of integrated developments within available subsidies</li> <li>▪ Long lead times on tender processes for integrated developments</li> <li>▪ Insufficient cash equity</li> <li>▪ Delayed subsidy payments</li> <li>▪ Verification of tender procedures</li> </ul> | <ul style="list-style-type: none"> <li>▪ Mortgage Affordability constraints</li> <li>▪ Acceptable pre-sale levels cannot be achieved</li> <li>▪ Limited end-user funding solutions</li> </ul> |

# Success Factors for Effective Implementation

- Strong partnership with National Treasury/Provincial Government to endorse proposed funding instruments (through guaranteed off-take) prior to partnering with municipalities.
- Stronger partnerships with Residential and Infrastructure Commissions, as well as the Housing Development Agency.
- Increasing release of large tracts of land owned by various spheres of Government.
- Centralised procurement plan for development on government owned land and communication of this plan to DBSA.
- Adequate capacity within municipalities to unlock development potential of projects (issue of LAAs, EIAs, Clearances, Zoning rights, etc).
- Understanding by DBSA of planned budgets for flagship projects across Provinces.
- Strong buy-in from municipalities to honour future commitments with investors.
- Recoveries for bulk infrastructure must be speedily quantified and modelled, and innovative structures investigated with private sector developers.
- Compliance with the relevant municipal legislations and PFMA supporting value propositions.
- Increased densification development models to optimise existing infrastructure, allow better access social facilities and employment opportunities, and address mortgage affordability.
- Leverage other end-user products including Housing Micro-finance and Employee Schemes.

# Considerations for addressing the Housing Backlog

## Bulk Infrastructure

- ❖ Development of infrastructure and topstructures has been concentrated in fully subsidised market
- ❖ GAP market, which is underserved, holds much revenue generating potential for municipalities thus requires a lot of focus.

## Alternative Technology

- ❖ Inconclusive evidence on why approved technologies are taking a while to take off
- ❖ Cost Savings must be passed onto end-users
- ❖ Seed funding required for factories, otherwise no scale
- ❖ Increased usage on higher-income buildings may change market perceptions

## Transportation

- ❖ Plays a huge role in development planning e.g. increased activity around Gautrain station nodes
- ❖ Better transportation can create Inclusionary cities, thus addressing migration patterns

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