Timor-Leste’s PPP Projects: Affordable Housing PPP

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Project Location

Country: Timor Leste
City: Dili

Population:
Timor Leste: 1.3 Million
Dili: 245,873

GDP: USD 1.6 Billion
PROJECT PROFILE

Objectives
- Provide affordable housing to very low and middle income households who are currently not served by the market
- Build capacity of private sector developers to deliver large-scale housing projects
- Spur interest among international investors and developers (to enter Dili’s housing market)

PPP Options
- Different PPP options will be explored as the project is still at the FS stage
- Offtake mechanism and Operation & maintenance

Financial analysis
- Three project configurations provided: G+2, G+3 and G+4
- There will be a capital subsidy of USD xxxx provided by GoTL to the private sector developer to cover project development costs
- 20% equity IRR
OVERVIEW

Hera Project site – Total Land 15 ha

Affordable Housing Area (AHA)

- 35% of site area = 5.25 ha
- 3 potential configurations assumed for analysis: G+2, G+3 or G+4.
- G+2 comes as a base case for analysis

Developer Area (DA)

- 65% of site area = 9.75 ha
- 800 market-rate type unit (G+1) targeted at high-income households
- Housing considered as an illustration, but the developer could undertake commercial development (based on site potential)

Estimated Number of Housing Units

- AH: G+2 (1,019 units); G+3 (1,314 units) and G+4 (1,655 units)
- Premium housing: 800 units for each of 3 configurations
Hera project site = 15 ha

Affordable Housing Area (AHA)
35% of site area = 5.25 ha

- **Type 1** (targeted at very-low and low-income households) and **Type 2 units** (targeted at middle-income households) envisaged
- **3 configurations** (depending upon number of floors) assumed for analysis – G + 2; G + 3; G + 4, with G+2 as base case

Developer Area (DA)
65% of site area = 9.75 ha

- **800 market-rate Type 3 units** (G+1) targeted at high-income households
- Housing considered as an illustration, but the developer could undertake commercial development (based on site potential)

Mixed-income development to prevent creation of pockets of concentrated poverty

### Estimated number of housing units

<table>
<thead>
<tr>
<th>Units</th>
<th>G+2</th>
<th>G+3</th>
<th>G+4</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Type 1</strong></td>
<td>586</td>
<td>773</td>
<td>944</td>
</tr>
<tr>
<td><strong>Type 2</strong></td>
<td>433</td>
<td>569</td>
<td>711</td>
</tr>
<tr>
<td><strong>Type 3</strong></td>
<td>800</td>
<td>800</td>
<td>800</td>
</tr>
</tbody>
</table>

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<tr>
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<th>G+2</th>
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<th>G+4</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Affordable housing</strong></td>
<td>1,019</td>
<td>1,341</td>
<td>1,655</td>
</tr>
<tr>
<td><strong>Premium housing</strong></td>
<td>800</td>
<td>800</td>
<td>800</td>
</tr>
</tbody>
</table>
MULTITUDE OF HOUSING SECTOR INTERVENTIONS

Different strategies for different income segments

- **High**
  - Currently targeted by developers
  - > USD 1,200
  - No intervention required

- **Middle**
  - USD 700 – 1,200
  - Down payment assistance
  - Low interest-rate mortgages
  - Public-Private Partnerships (PPPs)

- **Low**
  - USD 500 – 700
  - Rental housing
  - Micro-mortgages

- **Very Low**
  - < USD 500
  - Slum upgrading/redevelopment
  - Housing microfinance

Population distribution by monthly household income

- **Low Income Categories**
  - Vulnerable populations (e.g.: homeless and slum dwellers) with no capacity to pay

- **Middle Income Categories**
  - Bulk of effective demand – households that have capacity to pay, but due to lack of market-rate options, live in self-built housing

- **High Income Categories**
  - Currently targeted by developers

DEVELOPMENT COSTS - G+2 CONFIGURATION

- GoTL will provide free land & trunk infrastructure
- TDC (exc. Land acq. & trunk infrastructure)
- High development costs reduced with GoTL providing free land and trunk infrastructure
Slum redevelopment and social housing provide safe, sanitary, and affordable housing to those who have little/no capacity to pay (typically cross-subsidized by market-rate dev. in active housing markets) while the proposed project would cater to the requirements of those at the bottom of the pyramid, in an established market, i.e. active transactions and several capable stakeholders, more program(s) could be launched.

**SEQUENCING HOUSING SECTOR INTERVENTIONS**

Currently targeted by developers

- **Stimulate the market** by first targeting those with capacity to pay and launching projects to develop stakeholder capacity

Pilot housing PPP project will combine public and private sector resources to deliver quality affordable housing to currently underserved households, including subsidized units for very low income households.

No intervention required

- **>USD 1,200**
- **USD 700 - 1,200**
- **USD 500 - 700**
- **<USD 500**

Slum redevelopment and social housing provide safe, sanitary, and affordable housing to those who have little/no capacity to pay (typically cross-subsidized by market-rate dev. in active housing markets).
**Estimated Costs**

- Viability Gap Funding (VGF) from GoTL: **USD 24.5 M**
- Other costs to the GoTL: **land and trunk infrastructure**
- Costs incurred by developer (Total Development Cost excl. land acq. and trunk infrastructure):
  - Developer Area, DA (Type 3 units): **USD 58.6 M**
  - Affordable Housing Area, AHA (Type 1 and 2 units): **USD 33.7 M**

**Estimated Revenue**

- Revenue to the developer (from sales of premium housing @100k/unit: **USD 80M + VGF** (ensuring 20% required return)
- Revenue to the Government (from sales of AH @10k/unit-Type 1 and @45k/unit – Type 2): **USD 25.3M**
**KEY CHALLENGES**

**Context: Housing ecosystem in Timor-Leste**

Housing stock primarily consists of single story, self-built units
- Low-income households self-build housing using temporary materials, often in informal settlements
- Middle-income households self-build more permanent homes on individual land parcels
- Few formal housing developments, mainly targeting high-income households; priced between USD 100,000 and USD 200,000 for 100-150 sq.m. size units

**General Challenges**
- Housing sector is at its infancy, challenge in attracting private sector investment
- Lack of Urban Master Plan for Dili

**Demand Challenges**
- Majority of households unable to afford homes in the formal market
- No residential mortgage products/ Low loan penetration
- No housing subsidies (cash or non-cash)

**Supply Challenges**
- Land: Lack of formal land titles, land use plans, land valuation.
  - Land Law passed in 2017 yet to be implemented (awaiting finalization of regulatory framework)
  - National Land Registry underway
- Non-availability of existing trunk infrastructure
- Real estate developers with risk capital are scarce

Picture: Aitarak Laran, Dili
Risk Factors & Risk Mitigation

Risk Factor
- Absence of land law creating delays and legal complications
- Resettling low income population out of slum areas into affordable housing units
- Demand risk for premium houses
- Operation and maintenance

Risk Mitigation
- Land made available should be Government Land
- Resettling low income population – Government Responsibilities
- Mortgage schemes and relative flexibility for development of Developer’s area
- Separate O&M account with contribution from developer, minimum monthly contribution from unit owners.

Picture: Dili Light House
Socio Economic Benefits

- High economic return from an active housing sector
- Further development of housing industry in the country
- Socio-economic benefits in the form of better built environment in Dili
- Socio-economic benefits for low income population through better housing facilities

Socio-economic benefits (cont’d):
- Development site is right by future inter-district bus terminal ensuring high potential for mixed-used (commercial and residential) development on Developer’s Area
- Other potential sites are within developed urban areas in Dili along the main transport corridor connecting east and west sides of Dili (Becora and Comorro)
THANK YOU

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For further information, please visit: www.mof.gov.tl