

Governments can help second-tier developers boost affordable housing

Kuala Lumpur (April 3, 2019): Public-private partnerships (PPP) are practical approaches for local or middle-tier developers to tap into the affordable housing sector.

Brick Eagle Chief Executive Officer, Rajesh Krishnan said in India for example, there was interest by local developers to provide affordable housing to the market, but they tend to face multiple barriers to entry such as difficulty in securing land permits, building approvals and access to capital.

He also said local developers lack the financial muscle compared to corporate developers or large-sized construction firms to kick-start such projects.

“With government assistance for instance, local developers may be able to ease construction cost and cut down on construction time as well,” Rajesh said.

He was speaking at a panel session called *Innovations in Financing Affordable Housing Construction* at the final day of the Affordable Housing across Asia conference. The event was organised by Cagamas Berhad and the World Bank Group.

PPP was a practical strategy for India, he added, because the country needed USD20 to USD40 billion of project financing each year to achieve the ‘Housing for All’ goal set by the government.

Rajesh also said with advantages of being part of PPPs, local developers have the ability to scale up and produce 5,000 to 10,000 affordable houses every year. In addition to that, local developers could work with small business owners to build up communities and ecosystem surrounding the affordable housing estate.

These PPPs are generally defined as a tool that helps governments leverage on the efficiency and expertise of the private sector to spur development and raise financing.

International Finance Corporation PPP South Asia's investment officer, Sumeet Shukla said the success of a PPP model depended on several factors.

First was the availability of land that should be within city limits so those who need affordable housing have access to infrastructure and amenities. This land scarcity is a challenge in many countries in the Asia Pacific region.

“The second is the availability of construction finance that can support such PPPs, in the absence of a robust banking system in emerging markets,” he said.

He also said without a strong banking system, it would be a challenge to find guarantees for loans and that affects interest rates. The final factor that could challenge PPPs was the question of how beneficiaries would be able to purchase these homes.

“Some of these beneficiaries have never taken a loan that is more than USD10,000. So what this means is that there is a need for stakeholders to come together and offer creative products to cater to them,” he said.

Sumeet said replication of PPP could be done in markets such as Myanmar or Malaysia, with slight tweak to local practices in the construction business.

He also said governments could assume role of enabler, regulator, and provide incentives, to meet the demand of affordable housing.

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The Cagamas model is well regarded by the World Bank as the most successful secondary mortgage liquidity facility. Cagamas is the second largest issuer of debt instruments after the Government of Malaysia and the largest issuer of AAA corporate bonds and sukuk in the market. Since incorporation in 1986, Cagamas has cumulatively issued circa RM319.1 billion worth of corporate bonds and sukuk.

Cagamas' corporate bonds and sukuk continue to be assigned the highest ratings of AAA/Stable/P1 by RAM Rating Services Berhad and AAA/MARC-1 and AAA_{IS}/MARC-1_{IS} by Malaysian Rating Corporation Berhad, denoting its strong credit quality. Cagamas is also well regarded internationally and has been assigned local and foreign currency long-term issuer ratings of A3 by Moody's Investors Service Inc. that are in line with Malaysian sovereign ratings.

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