



# **DRAFT / WORKING DOCUMENT**

## **SHELTER AFRIQUE/REDAN WORKSHOP**

**WORKSHOP THEME:**            **ACCESSING SHELTER AFRIQUE PRODUCTS AND SERVICES FOR HOUSING AND REAL ESTATE DEVELOPMENT IN NIGERIA: PROCESSES AND MODALITIES**

**DATE:**                            **27<sup>TH</sup> JULY, 2016**

**VENUE:**

**YAR'ADUA INTERNATIONAL CENTRE, CENTRAL  
BUSINESS DISTRICT, ABUJA**

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# SHELTER AFRIQUE/REDAN WORKSHOP

## CONCEPT NOTE

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<b>DATE:</b>	<b>27<sup>TH</sup> JULY, 2016</b>
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### Background

This Workshop is intended to provide Participants and Members of the Real Estate Developers Association of Nigeria (**REDAN**) with an intensive overview and clear understanding of key considerations that **SHELTER-AFRIQUE** looks into while making investment decisions in real estate projects across its Member States in general and in Nigeria in particular.

### Objectives of the Workshop

**SHELTER-AFRIQUE** opened its Regional Office in Abuja in 2014 and has continued to provide its suite of products and services to stakeholders in the real estate sector in Nigeria since then. However, as part of its evaluation processes, notable gaps in application packages have been identified, making the transaction review process lengthy, cumbersome and sometimes discouraging to valuable applicants.

This Workshop seeks to breakdown **SHELTER AFRIQUE's** processes and procedures to participants and members of **REDAN**.

By the end of this Workshop, participants will be able to:

- Understand the History, Constitution and Mandate of **SHELTER-AFRIQUE**;
- Understand **SHELTER-AFRIQUE's** main Products and Services;
- Understand **SHELTER-AFRIQUE's** Credit Review Process – From Application to Post-Implementation;
- Understand **SHELTER-AFRIQUE's** information requirements for Credit Decision Making – Construction Finance and Lines of Credit;
- Have a clear understanding of **SHELTER AFRIQUE's** Approach to Project Financing with specific reference to Project Budget and the Financing Plan;
- Understand **SHELTER AFRIQUE's** Pricing Framework including applicable transaction fees.

## SHELTER AFRIQUE/REDAN WORKSHOP CONCEPT NOTE

### Workshop Methodology

The Workshop approach shall be by PowerPoint Presentation, with ample provision for Questions and Answers from Participants. At the end of the Workshop, participants will also have an opportunity to give feedback and suggest possible areas of improvements with a view to making **SHELTER-AFRIQUE's** interventions more relevant to the Nigerian Context.

### Workshop Program

Time	Activity
9.00 am – 9:45 am	Arrival and Registration of Participants
9.46am – 10:05am	Welcome Remarks by <b>REDAN</b> President, Rev (Surv.) UGOCHUKWU O. CHIME, fnis
10:06am – 10:15am	
10.16am – 10.30 am	<b>Session 1:</b> <b>Part (a)</b> - About <b>SHELTER-AFRIQUE</b> – History, Constitution and Mandate <b>Part (b)</b> – Our Products and Services
10.31 am – 10.45 am	Questions & Answers
10.46 am – 11.15 am	<b>Session 2:</b> <b>Part (a)</b> – <b>SHELTER-AFRIQUE</b> Credit Review Process <b>Part (b)</b> – Exposition of <b>SHELTER-AFRIQUE</b> Information Requirements
11.15 am – 11.45 am	Questions & Answers
11.45 am – 12.15 pm	<b>Session 3:</b> <b>Part (a)</b> – <b>SHELTER-AFRIQUE</b> Approach to Project Financing <b>Part (b)</b> – Exposition of <b>SHELTER AFRIQUE</b> Pricing & Fees Structure
12.15 pm – 12.40 pm	Questions & Answers
12.40 pm – 1.10 pm	Feedback from Participants
1.10 pm – 1.20 pm	Closing Remarks by <b>SHELTER AFRIQUE</b> Director – Business Development, Mr. Femi ADEWOLE
1.20 pm – 1.30 pm	Vote of Thanks – <b>REDAN</b>
1.30 pm	Lunch, Networking and Participants leave at their own pleasure



Highlight of:



## MEMORANDUM OF UNDERSTANDING

BETWEEN

THE COMPANY FOR HABITAT AND HOUSING IN AFRICA (SHELTER- AFRIQUE)

AND

REAL ESTATE DEVELOPERS ASSOCIATION OF NIGERIA (REDAN)

The **MEMORANDUM OF UNDERSTANDING** was signed on the 1<sup>st</sup> Day of June, 2016

The Parties are desirous of working together and to harness each party's Competencies in ensuring the successful delivery of affordable housing in Nigeria.

### **SCOPE OF UNDERSTANDING:**

Shelter-Afrique and REDAN shall endeavor to fully cooperate with each other towards:  
the realization of affordable housing in Nigeria,  
Capacity Development of Real Estate Developers in Nigeria  
Collaborate in Research to facilitate housing delivery and development and to this end,  
Collaborate in the mobilization of financial resources including the mobilization of domestic financial resources to support projects of mutual interest to both or either of them;

### **Shelter Afrique's Roles**

SHELTER-AFRIQUE shall provide the following services and play the roles:

- a) Provide Advisory Services to REDAN subject to this MOU;
- b) Provide funding either singly or jointly with other lenders through its various products to the Housing Scheme/projects;
- c) Shelter Afrique's provision of the Services shall be subjected to its internal and standard credit requirements and this MOU;

### **REDAN'S Roles**

REDAN shall provide the following services and roles;  
REDAN shall develop suitable pipeline of projects including identification of suitable developers from amongst its members and appropriate sites;

Liaison with appropriate government agencies including the Federal Ministry of Power, Works and Housing, The Federal Ministry of Finance and relevant state Governments and the Legislators to achieve the scope of the collaboration;

REDAN and individual Developers shall also be responsible for securing firm off-take commitments in respect of each project to be financed;

### **Deliverables**

Pursuant to the MOU, the deliverables understood to be:

Creation of a realistic and fundable pipeline of affordable housing projects affordable housing in Nigeria including the execution of the Federal, State and Local Governments housing policies;

Construction loan to each REDAN Member's project by Shelter Afrique under meeting set terms and criteria

## ABOUT REDAN

The Real Estate Developers Association of Nigeria is the principal agency and umbrella body of the organized real estate sector recognized by the Federal Government of Nigeria since 2002 and saddled with the responsibility of facilitating the delivery of affordable mass housing for Nigerians.

With a strong and virile membership, the Association is positioned to meet the expectations of its stakeholders, and serve as an effective pressure group that will drive legislation and processes aimed at providing affordable real estate.

**REDAN** is the first port of call for the Federal, State and Local Governments, NGOs, and private establishments, as well as international partners and investors who wish to draw up a housing programme or participate in housing development in Nigeria.

**REDAN** collaborates and cooperates with all complementary institutions and organizations in the Housing and Real Estate Development Industry. It works in close concert with the Federal Ministry Power, Works and Housing of the Central Bank of Nigeria, Federal Mortgage Bank of Nigeria, Primary Mortgage Banks and Commercial Banks, Nigeria Mortgage Refinance Company, The Infrastructure Bank; to expedite the much needed reform in the mortgage finance sector and thus promote the business interests of its members.

The Federal Mortgage Bank (FMBN) constitute about all that presently exist in the nation's secondary mortgage, funding both developers and PMIs. **REDAN** is currently striving to expand this market through the capital market and foreign sources to ensure steady and hitch free financing towards the actualization of mass housing delivery for Nigerians. It has signed Memorandum of Understanding with Shelter Afrique to provide advisory services as well as finance Members' pipeline of projects and also in discussion with the World Bank/ GEM

The corporate governance principles of the Association are articulated in its constitution, and **REDAN** possesses the requisite executive capacity within its governance structure i.e. the Board of Trustees (BOT), National Executive Council (NEC), Management Committee and other Committees.

Membership is by application, and is only open to cooperate entities. The applicant must be an estate development company, or involved in business related to the housing industry or commercial real estate development including building of residential, commercial or industrial structures, including shopping centres, plazas or other commercial structures.

Consequently, membership of **REDAN** is open to:

Limited Liability Companies,

Registered Societies,

Partnerships, and

Parastatals of State or Federal Governments who engage in real estate development.

**REDAN** also seeks to achieve positive relations with all stakeholders connected with the housing industry including organizations, producers, providers, financiers, institutes and landowners. The association also strives to play an active role in the promotion of research and development of building materials and systems, as well as standard setting for the industry.

#### **Mission Statement:**

To effectively represent the members to achieve their corporate objectives and to effectively carry on their business as agents of development by ensuring public appreciation of the importance of **REDAN** and efforts it is making to meet the housing needs of Nigerians.

Ensuring balanced national legislative, regulatory and fiscal policy to provide the enabling framework and environment for effective housing delivery.

#### **Vision Statement:**

***To be Nigeria's foremost voice in influencing policies and practices affecting the Real Estate Sector***

### Strategic Direction:

The strategy of Real Estate Developers' Association of Nigeria is to provide a forum for all real estate developers to collaborate for the common good of Nigeria.

**REDAN** cooperates with all tiers of government in Nigeria and all their agencies and parastatals connected with land administration, planning, infrastructure development, housing provision and administration.

### REDAN MEMBERSHIP PRIVILEGES, RIGHTS & RESPONSIBILITIES

The privileges, rights and responsibilities accruing to members of the Association shall include but not limited to the following:

Credibility and recognition as Developer

Opportunity to access Estate Development financing from the Federal Mortgage Bank of Nigeria (FMBN) and sell housing units to National Housing Fund (NHF) Contributors under the NHF Mortgage Loan Scheme

Support for land Acquisition, participation in the Public -Private Partnership (PPP) scheme for Infrastructure and Estate Development

Access to finance under the REDAN Real Estate Investment Trust (REIT) scheme, or other local and offshore development loan syndication schemes under the auspices of the Association

Opportunity to access credit finance / materials and equipment at specially discounted rates for members

Access to information on development affecting real estate business

Business linkage and marketing assistance

Access to project preparation consultancy, advisory and support services

Intervention in member's real estate development problems

Participation in capacity building programs local, regional and international trade events, seminars, workshops and exhibitions

Access to to University of Lagos Centre for Housing Studies & other Local training opportunities for capacity development

Access to NAHB resources through REDAN's affiliation with IHA

Access to foreign training programs and other International training facilities

Complimentary delivery of Newsletters, e-newsletter and relevant industry documents and information to members

Easy access to industry news, information and networking through REDAN facebook and twitter accounts.

# **ACCESSING SHELTER AFRIQUE'S PRODUCTS AND SERVICES AN APPLICANT'S GUIDEBOOK**

**DEVELOPED FOR MEMBERS OF THE REAL ESTATE DEVELOPERS ASSOCIATION OF  
NIGERIA (REDAN)**

**BY**

**THE REGIONAL OFFICE,  
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# CHAPTER 1: ABOUT SHELTER AFRIQUE

## Brief History and Some Quick Facts

The Company for Habitat and Housing in Africa, also known as SHELTER AFRIQUE is the only Pan-African finance institution that exclusively supports the development of the housing and real estate sector in Africa.

The company was founded in 1982 when the Charter establishing the institution was signed by founding shareholders in Lusaka, Zambia. Today, the company's shareholding comprises of 44 African Governments, The African Development Bank and the African Reinsurance Corporation.

Table 1 below summarizes some quick facts about Shelter Afrique

Headquarters	:	Nairobi, Kenya
Regional Offices	:	Abuja, Nigeria – Covering Anglo Phone West Africa Market (established in 2014)
	:	Abidjan, Ivory Coast – Covering Franco Phone West Africa Market – (established in 2016)
	:	Lusaka, Zambia – Covering Southern Africa Market – (established in 2016)
	:	Nairobi, Kenya – Covering Eastern Africa Market
Approved Funds as at December 2015	:	USD 1.058 Billion
Total Assets as at December 2015	:	USD 346 million
Authorized Capital	:	USD 1 Billion
International Rating	:	Ba1 – International Moody's Rating

**Table 1: Some Quick Facts about SHELTER AFRIQUE**

## **Our Clients, Products and Services**

Consistent with our mandate which is to support and finance real estate development across our Member States, SHELTER-AFRIQUE's clients include:

### **Private Sector Real Estate Developers**

For housing developers or construction firms, we offer the support and finance you need for the construction and infrastructure components of your project, helping build capacity to provide affordable housing on a large scale.

### **Financial Institutions**

We work with a range of housing finance institutions, banks, primary mortgage banks and other specialized financial intermediaries to promote home building and ownership, or to increase the supply of financing of affordable housing in Africa

### **Public Institutions and Government Agencies**

Shelter Afrique offers technical assistance such as housing policy advocacy and partners with national housing agencies, cooperatives and other public institutions on a range of housing initiatives.

### **Other ancillary institutions that support housing delivery**

We identify and support initiatives carried out by other institutions such as contractors and building material suppliers to enhance their businesses which in turn translate to value addition to the housing supply chain.

## Our Products and Services

Our key products and services available to valuable clients include:

### **Product 1: Lines of Credit**

#### **Brief Description**

Shelter Afrique provides lines of credit, corporate loans and credit guarantees to financial institutions and specialized housing institutions for on-lending, in local and foreign currencies, to developers and individuals for new mortgages, refinancing of existing mortgages, and construction finance.

#### **Characteristics**

Long term funds (up to 10 years)

Grace period on principal repayment of up to 2 years.

#### **Target Clients**

Financial institutions

National Housing Agencies

Cooperatives

### **Product 2: Construction Finance**

#### **Brief Description**

Working with public and private sector developers, we identify, appraise and finance projects for rental and outright sale. We provide support to small and medium size developers and encourage their involvement in housing stock delivery, including student hostels development projects. In addition, we support commercial and mixed-use developments that include office blocks, shopping centres and mining villages. Where the size of the project justifies it, we also have the capacity to raise additional funding through syndication with other financial partners.

#### **Characteristics**

Loans up to 5 years

Grace period on principal repayment of up to 3 years

#### **Target Clients**

Real Estate Developers

National Housing Agencies

Cooperatives

### **Product 3: Social Housing**

#### **Brief Description**

SHELTER AFRIQUE works with development partners, Member States (and their agencies) and microfinance institutions on social housing initiatives that promote access to affordable housing and infrastructure services to low income groups. We particularly favour large-scale projects, which have government support (Public-Private-Partnerships) and are environmentally sustainable.

#### **Characteristics**

Large scale schemes  
Government Participation  
Target market is the low income groups

#### **Target Clients**

Government Agencies  
Microfinance institutions

### **Product 4: Trade Finance**

#### **Brief Description**

Our trade finance help developers and financial institutions involved in the construction sector support the procurement cycle of building materials and equipment. Through our trade finance solutions, we support financial intermediaries, manufacturers and exporting and importing companies, by providing pre-export or import finance, medium term supplier and buyer credits, issuance and confirmation of short term letters of credit and guarantees.

#### **Characteristics**

Supported imports/exports have to relate to housing supply

#### **Target Clients**

Financial institutions  
Real estate developers  
Contractors  
Building materials manufacturers and/or suppliers

### **Product 5: Equity Investments and Joint Ventures**

**Brief Description**

SHELTR-AFRIQUE's direct equity participation in financial institutions catalyzes the development of the mortgage market across Africa through the provision of long term funding.

Investments in joint ventures with developers enable the provision of affordable housing on a mass scale. In addition, we engage with private equity funds set up to invest in real estate development.

Our available investment vehicles include joint-ventures, direct equity, mezzanine financing and fund investment.

**Characteristics**

Expected rate of return is higher than conventional debt.

Possible involvement of SHELTER AFRIQUE in the corporate governance framework of the investee.

Defined exit plan before investment – typically after 5-7 years

Investee must demonstrate exceptional leadership in innovation or ability to have high impact projects/products in the medium to the long term.

**Target Clients**

Limited to housing finance institutions (including banks) providing construction loans and mortgages

Secondary mortgage institutions

Real estate developers

Private Equity Funds

**Product 6: Advisory Services**

SHELTER AFRIQUE offers technical assistance such as housing policy advocacy to our Member States. This includes training and advisory services to structure project proposals, feasibility studies and project management services.

**Target Clients**

Real estate developers

Governments

# CHAPTER 2: THE A-Z OF SHELTER-AFRIQUE CREDIT REVIEW PROCESS

## Introduction

SHELTER AFRIQUE's credit review is rigorous but quite interactive. Our aim is to ensure that our valuable clients' and the transaction teams engage each other in a way that optimizes both parties' understanding of each other's expectations. Further, we seek to pass to our counterparties, knowledge and experience gathered over the institution's many years in the industry across the continent for mutual benefit.

SHELTER-AFRIQUE's project selection and appraisal procedures and processes are designed to ensure that only technically feasible and financially viable projects are recommended for funding and that developers have the necessary capacity and resources to implement the project and would be credible to honor their obligations under the loan agreement.

## The Credit Review Process

### . Stage 1: Inclusion of the Project in the Pipeline

There are three levels involved in deciding to include a project in SHELTER-AFRIQUE pipeline. The stages reflect the level of sufficiency of information on the project provided by the developers.

#### Level 1: Project Enquiries/Ideas

This is where a developer with a piece of land for a housing or related project approaches SHELTER AFRIQUE for necessary information on procedures, project documentation, terms and conditions.

At this stage, an officer is assigned to maintain contact with and provide relevant information to the developers on project preparation and documentation requirements.

For projects that have preliminary information such as location, concept, estimated budget, implementation plan and so on, but feasibility study has not been conducted or there is need for additional information, an officer

is assigned to review the information provided and advise whether the proposal will be eligible for financing and outline any further actions and information needed from the developer to progress the project to the next stage. Projects at this stage could be included in the pipeline under active consideration and records of all documents received are kept.

### **Level 2: Project Brief (PB)**

This is a one page document comprising two parts: the description of the project and the sponsor on one hand and the justification to finance the project on the other hand. The PB is prepared by the Investment Officer, cleared by the direct supervisor for transmission to the Head of Department (HOD). The HOD reviews the PB and makes written comments to be transmitted to MD.

Only the MD or any officer so designated can give the final approval of the PB to be integrated into the pipeline of projects and work programme. Once the Project Brief is approved by the Managing Director, the Investment Officer sends the Borrower Information Summary to the Risk and Compliance Department for the latter to commence its "Know-Your-Customer" (KYC) procedures

### **Level 3: Projects with Complete Documentation/Information**

For projects with full feasibility reports and proposals, and where all the relevant information including technical, legal and financial information is available, such projects will be analyzed in details by the responsible officer and a Project Brief concluded for inclusion in SHELTER AFRIQUE's pipeline and work program.

## **. Stage 2: The Project Information Summary**

Upon approval of a Project Brief by the Managing Director, the Investment Officer proceeds to carry out what we call The Project Information Summary (PIS). This is an in-depth desktop review of all information submitted including testing and taking a view on the financial feasibility, the technical feasibility, the legal viability and the alignment of the project with SHELTER AFRIQUE's own investment criteria.

The PIS is prepared by the Investment Officer and receives input from the Legal Department, the Project Management Department, the Risk and

Compliance Department and the Finance Department of the company. Each of these departments contributes on relevant aspects of the project. For instance, the Legal Department will give a Legal opinion on the land title documents as well as the company's constitution and corporate governance while the Project Management Department will advise on the project's technical viability e.g. the adequacy of the project cost estimates, approval of the project drawings by relevant authorities, the capacity of the proposed implementation technical team e.t.c. Risk and Compliance Department will carry out an independent check on our borrower as part of "Know-Your-Customer" procedures. The team will also give an opinion on the Risk Rating of the transaction.

Risk and Compliance Department collects all the feedback from relevant departments and issues a Risk Opinion with appropriate recommendations to the Managing Director who grants the final decision.

### **The Indicative Offer Letter**

If the Project Information Summary is approved, SHELTER AFRIQUE informs potential Borrowers/Developers of its intention to proceed to the Appraisal Stage of the project and the indicative terms and conditions under which the appraisal will be conducted.

The Borrower indicates acceptance of the indicative offer letter by paying the Appraisal Fees and the Deposit Fees as may be indicated in the Indicative Term Sheet.

Any project in the pipeline should however, reach the implementation stage within two years of identification; otherwise it shall be dropped from the pipeline.

### **. Stage 3: Project Appraisal/The Appraisal Report**

The Project Appraisal Process involves onsite review and evaluation of all information provided to SHELTER AFRIQUE by the Developer/Borrower. It is in most cases carried out by SHELTER AFRIQUE staff and includes but not limited to technical and cost evaluation, assessment of the credibility and capacity of the developer to implement the project, financial, marketing and risk analysis as well as the overall context in which the project is being implemented.

The appraisal process may however be carried out by a consultant familiar with SHELTER AFRIQUE procedures and with the approval of the Managing Director.

The resultant Appraisal Report is examined at two levels:

### **The Working Group**

This is a peer review group comprising of members from the Legal, Project Management, Finance and Risk and Compliance Departments.

Members of the Working Group provide a critical examination of the Appraisal Report both in substance and in form. All technical, social-economic, financial, marketing and legal aspects of the project are examined to ensure that they conform to existing policies.

### **The Loans Committee**

The Working Group determines whether the Appraisal Report is admissible for presentation to the Loans Committee.

The Loans Committee under the chairmanship of the Managing Director meets to mainly to examine policy issues such as project eligibility, proposed loan amount, pricing, terms and conditions, country commitments and limits, risks' pricing and mitigation.

With regards to risks pricing and mitigation, the Loans Committee receives a report from the Risk and Compliance Head on the level of risks assumed and whether the risks have been adequately priced and mitigated/hedged.

The Loans Committee makes a decision whether or not to submit the loan proposal to the Board of Directors. It could also recommend any further actions to be taken to improve any aspects of the project, including scope, loan amount, pricing and tenor.

Where applicable, the Loans Committee shall consider and approve loans as authorized by the Board of Directors.

#### **. Stage 4: Board Consideration and Approval**

All Appraisal Reports cleared by the Loans Committee are presented to the Board of Directors for consideration and approval.

Where the Board of Directors makes any changes to Management's recommendations on any loan, the Borrower is informed and invited for further negotiations on the new terms.

#### **. Stage 5: Final Offer Letter**

SHELTER AFRIQUE informs borrowers of the decision of the Board of Directors through a Letter of Offer stating all the terms and conditions of the Loan as approved by the Board of Directors.

The Letter of Offer is sent together with the draft loan agreement and any other documents that would enable the borrower to give its final acceptance of the loan and signing of the Loan Agreement.

#### **. Stage 6: Execution of the Loan Agreement**

Where the Board of Directors approves the loan without any major changes to the terms and conditions negotiated with the Borrower, the Loan Offer should be accepted within 30 days while the Loan Agreement should be signed within 90 days of loan approval. Further, project implementation should start not later than 180 days after approval.

A re-appraisal or cancellation may be considered where project implementation is delayed beyond 180 days and there is a likelihood of material changes in the information obtained at appraisal.

#### **. Stage 7: Fulfillment of Conditions Precedent to First Disbursement**

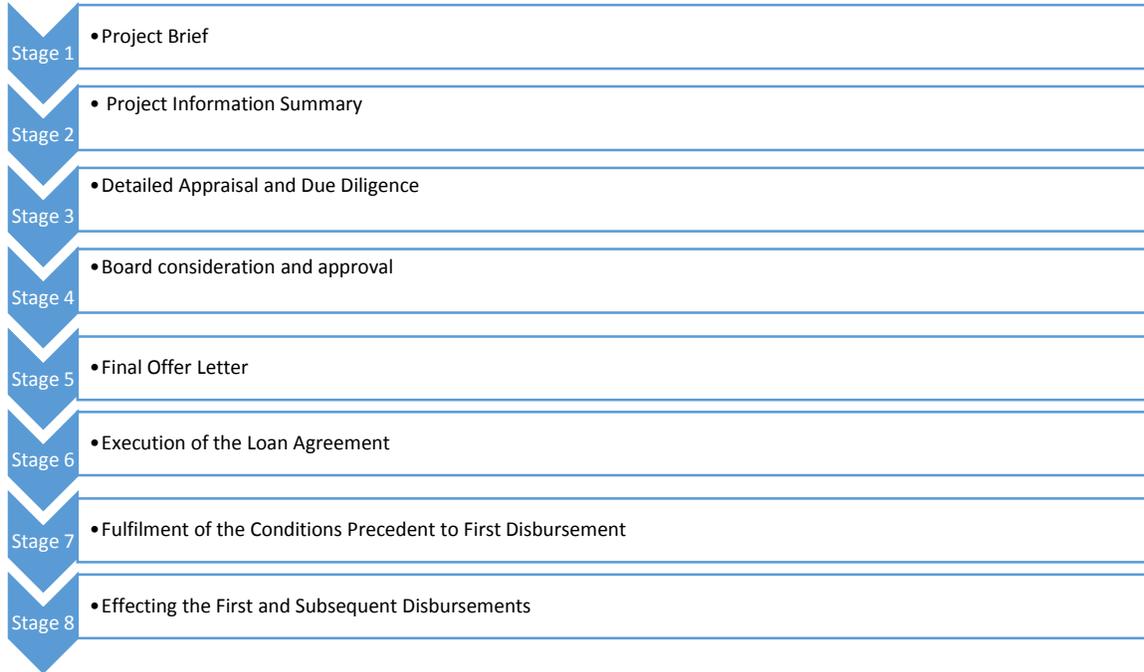
Upon execution of the Loan Agreement, the Borrower proceeds to fulfill all the conditions set as precedent to First Disbursement. These may include but not limited to perfection of all collateral agreed upon as security to the facility, establishment of Escrow Accounts e.t.c.

#### **. Stage 8: First and Subsequent Disbursement**

Upon fulfillment of all Conditions Precedent to first disbursement, the Borrower makes application for first disbursement in the prescribed format. The application is reviewed and disbursements to the project commence.

All subsequent disbursements thereafter follow the pre-agreed implementation program.

## . The Process in Summary



## Other Underwriting Considerations by SHELTER AFRIQUE – QUICK NOTES

### RISK BASED PRICING

SHELTER AFRIQUE recognizes that investment is all about risks and returns. Any risk assumed must be adequately priced, enhanced, diversified and/or transferred to a better risk-bearing entity

All projects are classified according to their overall risk rating – **Low Risk, Medium Risk** and **High Risk**

Projects are structured to an acceptable level of risk based on the significance of the risks and credit elements of the borrower. Only those rated at Medium or Low Risk will be recommended to the Board or Loans Committee

Projects rated as high risk may be considered for financing if proper and solid justification is available, credit enhancement included and pricing adjusted accordingly to accommodate the high risk level.

The risk level and credit rating determines the final pricing of the loan

## **COMMON RISKS INHERENT IN REAL ESTATE PROJECT FINANCING**

Whereas any real estate project is unique in its own right, there are a number of risks that cut across all projects and that any investor (including the sponsor) ought to evaluate before making an investment decision. While this Handbook may not give an exhaustive list of potential risks, attempt is made to highlight just a few hereunder:

### **Implementation Risk**

This is the risk that the developer will not implement the project within time and budget, which will in effect; affect his ability and capacity to repay his debt obligations in a timely manner

### **Marketing Risk**

This is the risk that the developer will be unable to sell off all the housing units proposed in a timely manner, which will in effect; affect his ability and capacity to repay his debt obligations as per the loan agreement.

### **Funding Risk**

This is the risk that the project's financing plan to fund the defined project budget has a funding gap and where the gap is purportedly closed at inception, the possibility that the funds will not be deployed into the project as and when the respective payments into the project fall due.

### **Credit Risk**

This is the risk that the borrower will not be able to repay his debt obligations as and when they fall due.

## . SECURITY

All project loans must be adequately secured and the security shall be executed in a form and manner acceptable to SHELTER AFRIQUE

SHELTER AFRIQUE loans shall have senior or at least equal status vis-à-vis other loans so as to make SHELTER AFRIQUE the dominant or equal creditor in the event of default by the Borrower and to protect SHELTER AFRIQUE from other subordinated or junior debts and creditors

SHELTER AFRIQUE accepts both collateral and guarantees as security and may consider the following as credit support or enhancement:

Prime property/properties

Financial instruments such as treasury bills, bonds, share certificates, debentures and commercial papers;

Insurance policies from acceptable institutions

Guarantees from prime banks or institutions

Letters of Credit from acceptable banks

Government guarantees

Any other acceptable security

**The collateral** should:

Have an unencumbered recourse to specific assets

Cover the Loan with no loss to SHELTER AFRIQUE – The Loan-to-Value (LTV) Ratio will normally not be more than 90% depending on the liquidity of the asset.

Not be speculative

Where the project land is used as collateral, the end value of the project shall be determined

Be liquid and easily disposable without substantial concession on the original price.

Valuation of collateral shall be on both open market and forced sale value. **The forced sale value shall, however, be used.**

Valuation shall be undertaken independently by a firm or person so licensed or registered to carry on the business of property valuations.

The Borrower shall bear all legal and other costs associated with documenting the security

Collateral property must at all times be fully insured with SHELTER AFRIQUE interests duly noted as one of the beneficiaries in the event of loss.

## **APPLICABLE LIMITS ON LOANS**

Total lending to any single borrower is based on the risk profile of the developer (High Risk, Medium Risk or Low Risk) and is also a function of SHELTER AFRIQUE's own capitalization (Equity/Shareholders' Funds)

Total lending is defined as total committed loans (signed loans) less repayments made, less any cancellations.

Lending to any single project shall not be more than **10%** of SHELTER AFRIQUE total equity/shareholders' funds or more than **80%** of the total project costs, whichever is less.

SHELTER AFRIQUE loan SHALL NOT finance the cost of land, professional and other fees. It shall be used entirely to finance **construction costs, infrastructure costs, marketing fees and on a case-by-case basis, some or all financial charges components or any other component as may be approved by the Loans Committee**

The Borrower must have equity in the project of **not less than 20%** of the total costs, including land, which **must be free from any encumbrances.**

SHELTER AFRIQUE financing may not be committed until sources of co-financing and end financing have been confirmed. **Developers may be required to commit their funds upfront or to set them aside in a designated account before SHELTER AFRIQUE loan could be disbursed.**

SHELTER AFRIQUE will normally disburse its loan or equity based on agreed disbursement schedule and progress of the project.

Any foreign exchange risks, where funds are lent in foreign currencies, shall be borne by the Borrower.

# CHAPTER 3: INFORMATION REQUIREMENTS

## Introduction

To enable SHELTER AFRIQUE make a credit decision on any project, the following information shall be required from all applicants at the point of application before the request is considered for admission to the Work Program.

<b>Section 1: General Information</b>	
1.	<b>Application Letter:</b> Stating among other things, a brief description of the project, the total project costs, the amount required from Shelter Afrique, the tenor, sources of the balance between project costs and the loan amount as well as the collateral proposed
2.	<b>Feasibility Report:</b> A well documented Feasibility Report demonstrating the proposed project technical, legal, financial and environmental viability
3.	<b>An Independent Market Report:</b> This should be specific to the Project and type of units proposed, demonstrating among other things, availability of effective demand, affordability, sales strategy, comparative pricing from competitors e.t.c. It should also contain the Sales Projection during and after the implementation period with key supporting assumptions.
4.	<b>Land Ownership:</b> Absolute Land Title/Certificate of Occupancy in the name of the Borrower
5.	<b>Land Search:</b> Independent search report not older than three months old from the date of application, confirming that the Land Title is free from any encumbrances
<b>Section 2: Technical Information</b>	
1.	Approved Site Layout
2.	Approved Architectural Drawings and Building Plans
3.	Civil, Structural, Electrical and Mechanical Engineering Drawings
4.	Bills of Quantities and General Specifications for both the buildings and on-site infrastructure
5.	Program of works for on-site & off-site infrastructure
6.	Environmental Impact Assessment (EIA) Report

7.	Developer's Profile demonstrating track record in successful execution of projects of similar magnitude and scope
8.	Corporate Profile & Track record of the Contractor(s) (if appointed)
9.	Corporate Profile & CVs of all the Project Professionals/ Consultants
10.	Contracts with Consultants/Project Professionals outlining among other information, their scope in the project
11.	Tender documents for the appointment of Contractor (s), Consultants and Suppliers (if already concluded)
12.	Evidence of approval of the project by relevant authorities
<b>Section 3: Know Your Customer/ Borrower's Constitution</b>	
1.	Certificate of Incorporation
2.	Memorandum and Articles of Association
3.	Accurate Board Minutes appointing the Borrower's CEO/Managing Director
4.	Accurate Board Minutes appointing the Chairperson of the Board
5.	Accurate General Assembly Minutes appointing the Board of Directors (if applicable)
6.	Certificate of Incumbency approving specific representatives to act on behalf of the Borrower with regard to the application
7.	The Borrower's Organogram
8.	Any document showing an update/change on the Borrower's management (if applicable)
9.	Duly completed and signed Borrower Information Summary (BIS)
10.	Audited Accounts for at least 3 years plus the latest unaudited Management Accounts
11.	Bank References or any other evidence of financial capability and standing of the Borrower
12.	Profiles/CVs of major Shareholders
13.	Photo IDs of major Shareholders (if individuals)

14.	Description of Physical Permanent Address of major Shareholders
15.	Profiles/CVs of Borrower's Senior Management Team
16.	Photo IDs of Borrower's Senior Management Team
17.	Description of Physical Permanent Address of Borrower's Senior Management Team

**Important Note**

Please note that, upon review of the information submitted, further clarifications may be sought from time to time to help SHELTER AFRIQUE have a better understanding of the transaction's fundamentals.

# CHAPTER 4: BASICS OF OUR APPROACH TO PROJECT FINANCING

## Introduction

This chapter seeks to highlight what SHELTER AFRIQUE considers as a complete Project Budget, how the said project budget is funded and the recognition of any investment by the developer prior to approaching SHELTER AFRIQUE for funding.

## The Project Budget

The table below highlights a typical project budget:

Cost Component	Amount [STATE CURRENCY]	Guiding Remarks
Land costs		Cost price or Forced Sale Value (FSV) upon valuation by a registered and accredited valuer
Preliminary costs		Costs incurred to prepare project designs, bills of quantities, marketing study, development approvals including the EPA certificate e.t.c.
Construction costs		These are strictly defined by the Bills of Quantities
Infrastructure costs		
Professional fees		This will be according to the agreed contractual fees with the building consultants namely Project Manager, Quantity Surveyor, Architect, Engineers and the Environmental Consultants.
Administration costs		This will be part of the administrative expenses to be incurred in monitoring and making the project successful e.g. office costs, stationery, overhead expenditure apportioned etc. These should be reasonably assumed based on past experience
Marketing costs		The agreed marketing expenses. Typically, they add up to approximately 2% of the expected revenues. Relevant assumptions in arriving at the amount should be stated
Legal fees		These are the legal expenses to both the Borrower's Lawyer and Shelter Afrique external lawyers who will handle the security perfection and other aspects of the transaction.

Financial charges		The financial charges incurred during the grace period including both the fees & interest expenses during implementation.
Contingency Provision		This amount is provided for to cater for any cost variations in this budget. The guiding indicator is usually the prevailing inflation rate in the country
<b>Total Project Costs</b>		<b>SHELTER AFRIQUE finances a maximum of 80% of this amount. The funds only go towards the construction costs, infrastructure cost, marketing costs and in some instances [especially where Marketing Risk is fully mitigated by availability of Guaranteed Off takers], some of the financial charges during implementation.</b>

Table 2: Typical Project Budget

### The Project Financing Plan

After arriving at the Project Budget as per the table above, the financing plan is derived as follows:

Who is Funding/Sources of Funding	Amount [STATE CURRENCY]	%
Shelter Afrique (debt financing)	XXX	Maximum of 80%
The Developer's Equity	XXX	Minimum of 20%
<b>Total Sources of Funds<sup>1</sup></b>		100%

Table 3: Typical Financing Plan

### Treatment of Equity Invested Prior to Application

It is expected that, by the time a developer approaches SHELTER AFRIQUE for funding, some cash expenditure must have been incurred, for instance, to purchase land, preliminary expenses e.t.c.

It is helpful for the developer to disclose such expenses for recognition as part of the developer's equity contribution. The table below provides a framework for such disclosure:

<sup>1</sup> Should be equal to the Total Project Costs in the Project Budget Table

	<b>Developer's Contribution (A)</b> [As per Financing Plan]	<b>Invested To Date (B)</b> [Provide Evidence]	<b>Percentage B/A</b>	<b>Balance A-B</b>
Land				
Preliminary Expenses				
Construction Costs				
Infrastructure Costs				
Professional Fees				
Administration Costs				
Marketing Costs				
Legal Fees				
Financial Charges				
Contingency Provision				
<b>Total</b>				

**It is worth noting that, all the figures disclosed above must be the developer's own risk in the project. Any amount spent on any budget lines above and coming from PRESALES PROCEEDS or any other source e.g. debt shall not be considered as Developer's Equity. The objective is to ensure that the developer has a financial stake and commitment in the project**

**Cashflow Analysis**

Real estate investments are all about making decisions today, based on expected future cashflows.

It is therefore necessary to subject the expected future cashflows to conventional investment decision making criteria.

At SHELTER AFRIQUE, we adopt the **Net Present Value (NPV)** and the **Internal Rate of Return (IRR)** decision making criteria. The objective is to admit only projects that have **positive NPV and IRR that is above the project's cost of funds** into our work program.

SHELTER AFRIQUE further subjects the cashflows to a **SENSITIVITY ANALYSIS**, to test the resilience of the project's cashflows against potential adverse shocks such as increase in construction costs, decline in selling prices e.t.c.

The table below shows a generic cashflow format

	2016	2016	2017	2017	2017	2017	TOTAL
	Q3	Q4	Q1	Q2	Q3	Q4	
<b>Cash Inflows</b>							
Equity							
SHAF							
Sales							
<b>Total Inflows</b>							
<b>Cash Outflows</b>							
Land							
Other Preliminaries							
Contractor (s)							
Professional Fees							
Administrative Expenses							
Marketing Fees							
Legal Fees							
Contingency Provision							
Interest payments							
Loan Repayment							
Loan Fees							
<b>Total Outflows</b>							
Bal b/d							
Net movement							
Bal c/d							

**Table 4: Typical Cashflow Template**

# CHAPTER 5: MONEY MATTERS – PRICING FRAMEWORK AND APPLICABLE FEES

## Introduction

The objective of this section is to introduce readers to the pricing methodology adopted by SHELTER AFRIQUE as well as applicable fees to SHELTER AFRIQUE's transactions.

## The Pricing Framework

SHELTER AFRIQUE endeavors to raise funds from different sources with a view to obtaining the best price so that it can pass the same price benefits to potential buyers.

Our ultimate interest rate is derived in a “**cost-plus margin**” model and is therefore a function of a number of variables including:

SHELTER AFRIQUE cost of funds

Return desired by SHELTER AFRIQUE

Repayment Period [Tenor Premium]

The risk assumed on a transaction-by-transaction basis [Risk Premium]

A dedicated Treasury Unit is tasked with the responsibility of determination of and advising the business on variables 1-3 above while variable 4 is ascertained on a case-by-case basis as each transaction risks are determined.

## Applicable Fees

SHELTER AFRIQUE has designed specific fees to be collected with regard to each transaction. The table below highlights the relevant fees, the quantum and the applicable payment date.

**NOTE TO READERS:** It is worthy to note that only four types of fees are mandatory [Standard Fees of SHELTER AFRIQUE] while all the rest are conditional on the occurrence of respective events.

Fee Type		Standard Fees of SHELTER AFRIQUE
One-off Appraisal Fee	:	<p><b>0.5%</b> of the facility amount payable upfront before appraisal.</p> <p><b>NOTE:</b> If after appraisal the facility does not get Board approval, 50% of the Appraisal Fee paid is refunded to the Borrower.</p>
One-off Front-End Fee	:	<b>1%</b> of loan amount upon signing of the Facility Agreement.
Commitment Fee	:	<b>0.85%</b> per annum of any undisbursed loan balance and starts to accrue ninety days after the signing of the Facility Agreement. The commitment fees is payable quarterly.
Loan Management Fees	:	Equivalent to <b>0.50%</b> per annum on any loan amount disbursed and outstanding at the end of each quarter, payable quarterly.
Legal Fees	:	<p>Negotiated directly between SHELTER AFRIQUE external legal counsel and the Borrower; Payable by the Borrower.</p> <p>The external legal counsel representing Shelter Afrique is appointed by SHELTER AFRIQUE.</p>
Conditional Fees		
Cancellation Fee	:	<b>2%</b> of any aggregate principal amount cancelled or not drawn down after the execution of the Facility Agreement.
Termination Fee	:	<p><b>1%</b> of the Loan amount in the event Borrower does not proceed with obtaining the facility after Board/Credit Committee approval.</p> <p><b>NB:</b> The Termination Fee is paid upfront before Appraisal but is converted to Front-End Fee in case the Borrower proceeds to loan signing. If after Appraisal the facility does not get Board/Credit</p>

		Committee Approval, the entire Termination Fee is refunded to the Borrower.
Prepayment Fee	:	<p><b>2.5%</b> of any amount prepaid;</p> <p><b>NB:</b> If the Borrower wishes to make a prepayment, it shall give SHELTER-AFRIQUE thirty (30) days written notice before the date it wishes to designate for the prepayment, specifying the date on which the prepayment is to be made and the amount to be prepaid on that date. The notice shall constitute the Borrower's irrevocable commitment to prepay that amount on that date, and a penalty of Two and a Half per cent (2.5%) together with interest accrued on the amount prepaid.</p>
Waiver Fee	:	US\$ 10,000 for any material changes in the signed Loan Agreement granted by SHELTER-AFRIQUE.

# CHAPTER 6: CONCLUSION

## Introduction

SHELTER-AFRIQUE has a major and noble mandate to support in the financing of real estate projects across its Member States. We however, recognize that we cannot execute the mandate single handedly, and that there is need for effective collaboration with like-minded stakeholders to address the acute housing challenges evident across our geographical reach.

It is hoped that the contents in this handbook will act as a good guide to prospective partners intending to access any of SHELTER-AFRIQUE products and services and that it will help in the management of all parties' expectations.

## Revision of Contents

The contents in this Handbook are issued by SHELTER-AFRIQUE with the aim of answering frequently asked questions by potential partners. SHELTER AFRIQUE, however, reserves the right to vary any contents in this Handbook without prior notice to readers.

## **Highlight of Some REDAN EVENTS 2015 - 2016**

### **Ø WORLD BANK / REDAN WORKSHOP**

Workshop in Abuja, Lagos, Calabar and Kano on: Standardization of Processes and Products in Residential Housing Construction and World Bank Supported Guarantee Fund Scheme for Real Estate Developers in Nigeria

### **Ø A PLATFORM TO INTERFACE ON HOUSING;**

**Housing Stakeholders Interactive Workshop:** REDAN in her bid to actuate the advocacy drive and rejuvenate policy directions and commitment in housing, organized a one - day Housing Stakeholders ' Interactive Workshop on 1st July 2015 at Transcorp Hilton Hotel.

### **Ø REDAN Annual General Meeting & Workshop:** March 9-10, 2016

**Ø REDAN UNVEILED NEW CONSTITUTION:** On Thursday the 10<sup>th</sup> of March 2016, at its Extra-ordinary general meeting, Congress approved / ratified new REDAN Constitution.

**Ø REDAN/ SHELTER AFRIQUE held a two day interactive session:** at this interactive session REDAN members discussed their concerns on accessing finances from the Institution.

**Ø REDAN SIGNED MoU WITH CHS-UNILAG:** To improve and upscale Members' capacity to deliver, the Association signed MoU with Lagos University of Lagos – Centre for Housing Studies on March 9, 2016

**Ø REDAN SIGNS MOU WITH SHELTER AFRIQUE:** At the SHELTER AFRIQUE's 35th AGM held on 1<sup>st</sup> of June 2016 REDAN signed an amended version of its existing MOU with SHELTER AFRIQUE.

**Ø REAL ESTATE INVESTMENT TRUST program:** REDAN collaborating with University of Lagos Centre for Housing Studies to make REITs finance Members' Projects

**Ø REDAN MEETS WITH PERMANENT SECRETARY OF FEDERAL MINISTRY OF POWER, WORKS AND HOUSING:** on June 8, 2016

**Ø REDAN COURTESY VISIT ON THE HONOURABLE MINISTER OF THE FCT:** On Monday July 18<sup>th</sup>, 2016 some members of REDAN National Exco and BOT members, led by the National President paid a courtesy visit to the minister of FCT; Mallam Muhammad Bello.

Ø **REDAN DAY:** At the 10<sup>th</sup> Abuja Housing Show 18-20, 2016, the Day 3 - July 20<sup>th</sup> was christened REDAN Day. The day was dedicated to educating Members and the general Public on the theme: **Mobilizing Resources For Sustainable Real Estate Development And Bridging The Housing Deficit**

The following papers were delivered:

- i. **A NEW PARADIGM FOR FINANCING HOUSING DEVELOPMENT**
- ii. **SHELTER AFRIQUE: FINANCING REAL ESTATE DEVELOPMENT IN NIGERIA.**
- iii. **NMRC: PARTNERING DEVELOPERS FOR AFFORDABLE HOUSING**
- iv. **HOUSING GRANTS: A NEW PERSPECTIVE FOR HOUSING DEVELOPMENT**
- v. **JAIZ BANK: FINANCING AFFORDABLE HOUSING DEVELOPMENT IN NIGERIA.**
- vi. **Achieving Mass and Affordable Housing Development Through Collaboration of Cooperative Societies & the Real Estate Developers**
- vii. **Affordable Housing and the Diaspora Market Opportunities**