

# Innovative Financing Strategies For Real Estate Developments

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**BUILDING COLLAPSE PREVENTION GUILD (BCPG),**  
**LAGOS STATE, IKOYI - OBALENDE AND**  
**LAGOS ISLAND CELLS JOINTLY HOST A WEBINAR**

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  - 🏠 Sourcing Long Term Capital

# 01 Operating Realities



## Real Estate in the face of COVID-19

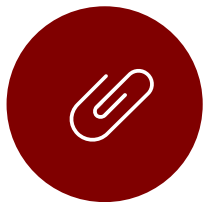
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- The COVID-19 pandemic is now a truly global phenomenon with 2.6 billion people (a third of the world's population) now living under some sort of lockdown quarantine.
- The short-term human and economic impact is undeniable as people stay home, offices and shops close, and production stalls. **Once the risk to human life has reduced** and steps are taken back toward a fully productive economy, it is worth spending some time envisaging **what this 'new normal' might look like.**
- The level of uncertainty in the economy is currently at an all-time high with the trajectory of the recovery difficult to forecast. Although there has been no global joined-up policy response, individual countries have taken major steps to try to **cushion their people and economies through this difficult period.**
- In the real estate sector, we can see that the pandemic has accelerated some trends already in evidence, whereas other trends may reverse. For example, demand for **online shopping has increased and will likely continue, while the ongoing trend for the densification of work and living space is now under scrutiny.**

## Real Estate in the face of COVID-19

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Across sectors these trends differ and have varied implications for real estate demand. We examine each sector to see what their future characteristics may look like in Nigeria.



### Residential

- **Maintain status-quo:** Little or no relocations or take-ups.
- **Defaults:** Construction Payment , Mortgage and Payment Plan Scheme expected Post- Covid19.
- **Rent declines** to match rent-passing and to attract uptake.
- **New Residential Schemes** must now incorporate \*Internet Ready Homes” with extra space/rooms for study and home-office

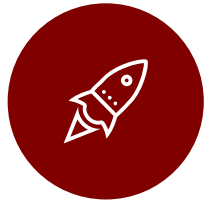


### Office

- **Work From Home** expected to be a **new wave even post-CVD19** further reducing need for office real estate.
- **Covid-19 will test** the business resilience of **co-working operators** and if the lock down extends beyond 2-3 quarters, some operators may not survive.
- **Employees & Employers** have now seen savings on commuting/admin expenses by working from home, which has lead to companies option for touchdown locations instead of full pledge offices.

## Real Estate in the face of COVID-19

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### Retail

- **Purchasing Power and Consumer spending** will become even **more discretionary** reducing the reliance on brick & mortar retail even post covid-19
- Online retail demand will increase and may be more permanent.



### Hospitality

- The first and hardest hit sub-sector, mainly driven by **Airline business and lack of Conferencing Activities**
- The impact on **hospitality will last long after covid-19, may be up to 2 years**
- A number of sub-sector players are projected to go out of business if there is **no bail out**.

## Real Estate in the face of COVID-19

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- The commercial real estate market has been upended by the COVID-19 pandemic and the long-term impacts are still to be written. The fact **is that no one knows how this will play out** but many have provided their views as to which impacts are expected to be short in nature and which ones are expected to have meaningful long-term implications for commercial real estate.
- Human behavior is being altered **every day in the current situation and working from home is** getting used to and these is impacting the office segment.
- The **Residential and Low Cost Housing Market** may still remain resilient and be able to survive the Post Pandemic era. The hotel and retail sectors are the two most impacted corners of the CRE market.
- What sticks and what lingers will determine the winners and losers in the Real Estate Market in Nigeria, but it a really complex situation now.

**In summary we see the Residential as a resilient sector irrespective of the pandemic as housing demand is fluid once the priced right with the right location**



# 02 Building Collapse Commercial Risk Mitigation





## Managing Interests

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**Landowner**



**Developer**



**Contractor**

## Developer must be different from Contractor

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To deliver the promises of the **Building the Developer** must engage with a **Contractor**

**Most times Developers are also the Contractors ...so that creates a conflict of interest. Its best to Contractor to be different from Developer...where a construction contract is signed**

**NIOB/BCPG (and other stakeholders) needs to create a policy for such Developers to still have Third Party Contractors to who can “manage that risk of collapse” even if the also the contractors. They can call them Construction Risk Inspectors . This is because**

1. Construction Contract it is the **largest single component of capital cost** and will absorb, therefore, **most of the project vehicle's capitalization** (at least 70-80%)
2. Completion of **construction and commissioning** by a **specific date** is often a **fundamental condition of the contract**
3. Timeliness, or delay, in **completion of the construction** will impact on project economics.

## Key Provisions for Turnkey Construction Delivery

This is the greatest Risk in every Real Estate Project.

**Completion risks** are those associated with

- (a) failure to **complete the project at all**; or a **construction delay** and/or a **cost overrun**;
- (b) failure of the **project to perform to technical specifications** resulting in shortfalls in expected capacity, output, efficiency, etc.;

Its mitigation measures include:

- (a) seeking performance bonds and or guarantees from third parties covering the performance of the contractor, its suppliers and subcontractors;
- (b) obtaining adequate levels of commercial insurance; and
- (c) negotiating an adequate level of LDs for delays and performance.



## Risk Allocation Principles

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**As a matter of principle, risk should be allocated, by contract or otherwise, to the party that is best able to mitigate or control such risk.**

The **Building contractor** is expected to accept risks that are linked to the construction of the project facilities

The **Developer** is meant to provide financing and co-ordinating the commercial goals of the project



# 02 Alternative Financing Strategies



# Variety of Funding Sources



## Collective Investment Platforms Structuring Types

Collective Investment Scheme are designed as a platform to **pool together resources from diverse investors interested primarily in exploring investment opportunities in a specific asset class** (e.g real estate) but either lack sufficient capital to stand alone or lack the time and /or expertise to act on its own for a profitable management.

The transaction is usually between a **Capital Partner ("Investor")** and a **real estate developer ("Sponsor" i.e Developer )** who want to pursue a series of investments

The following types of Collective Investment Schemes could fit into Developer 's objectives

1. The **Property Investment Partnership** (the "Single-Property Partnership") or ('Club Deals" when involved with more than one person/investor)
2. The **Discretionary Real Estate Fund** (the "Real Estate Fund")
3. **Public Real Estate Investment Trust ("REIT")**



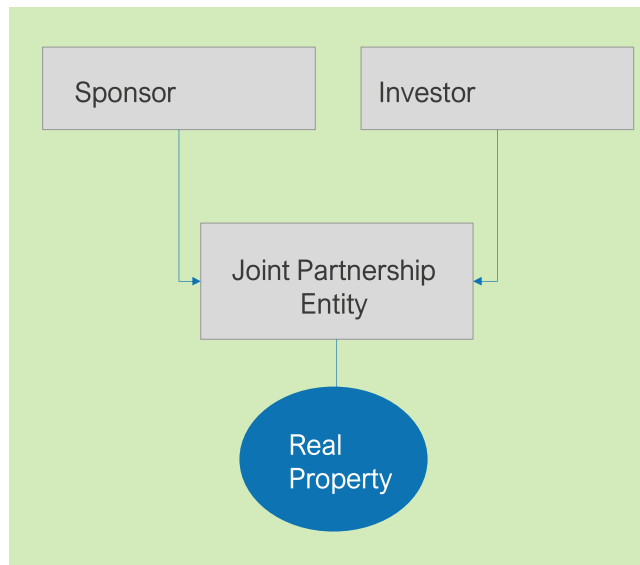
**Options 1, 2 are privately placed transactions** and does not require any SEC Approval expect when seeking more than 50 investors.

**Option 3** is an SEC regulated transaction.

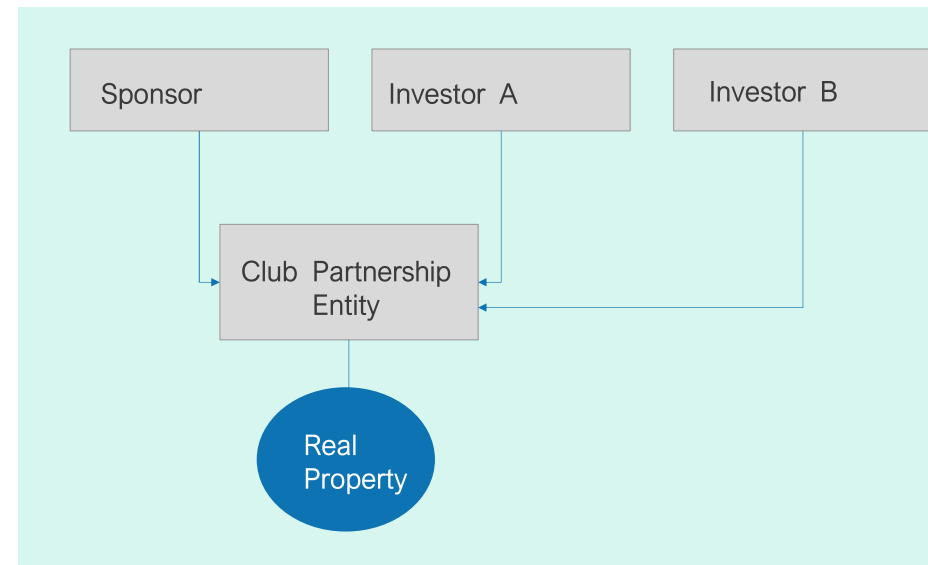
# 1. Property Investment Partnership

Property Investment Partnership involves only a **Single Property** but its called **Club Deal** when its involves more than one person/investor. There could also be an option where the Sponsor Partners with a Co-operative.

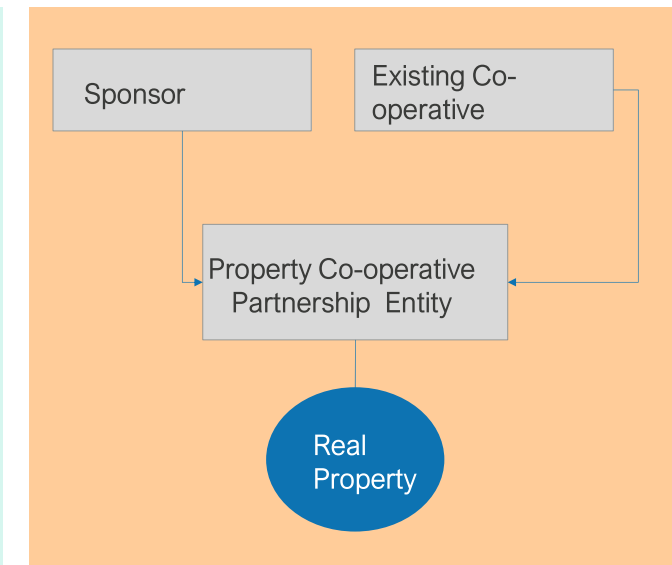
Single-Property Partnership



Single-Property Club Partnership



Single-Property Co-operative Partnership

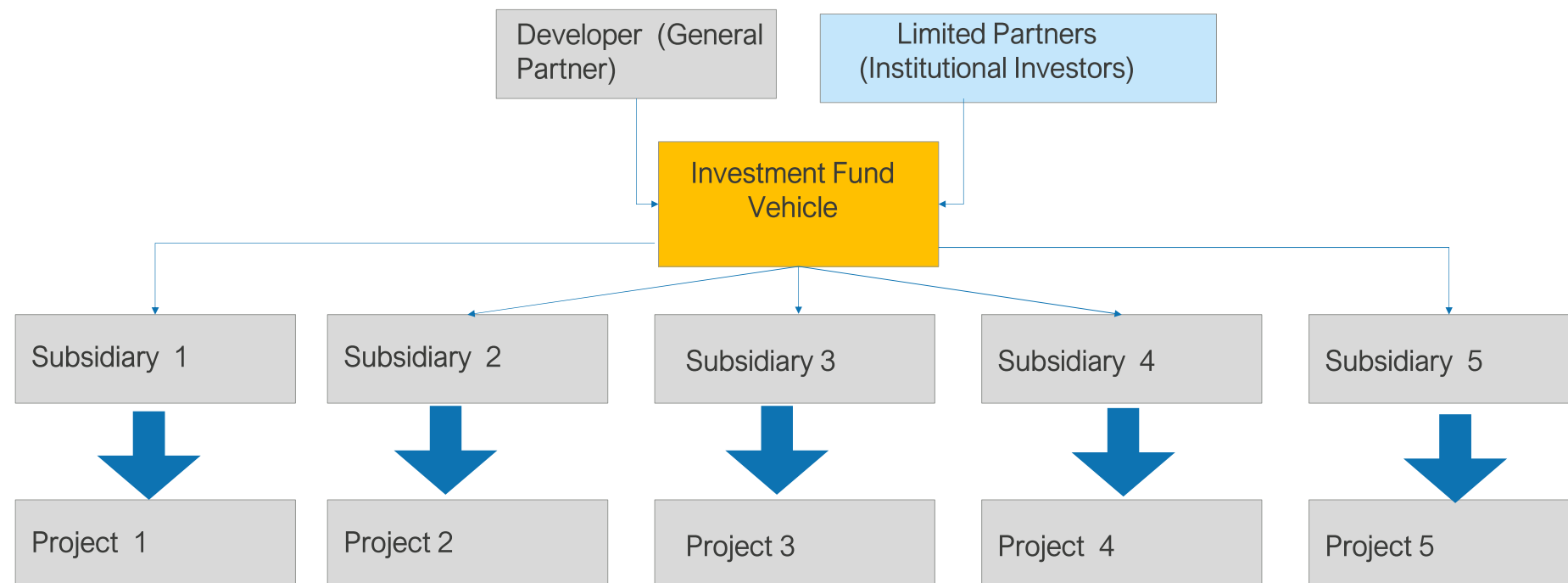


Single-Property Partnership can be executed on a Case-by-Case basis with Retail Investors, looking to get real estate exposure but lack the time and /or expertise to act on its own for land sourcing, deal execution, construction and sales.



## 2. Real Estate Property Partnership Fund

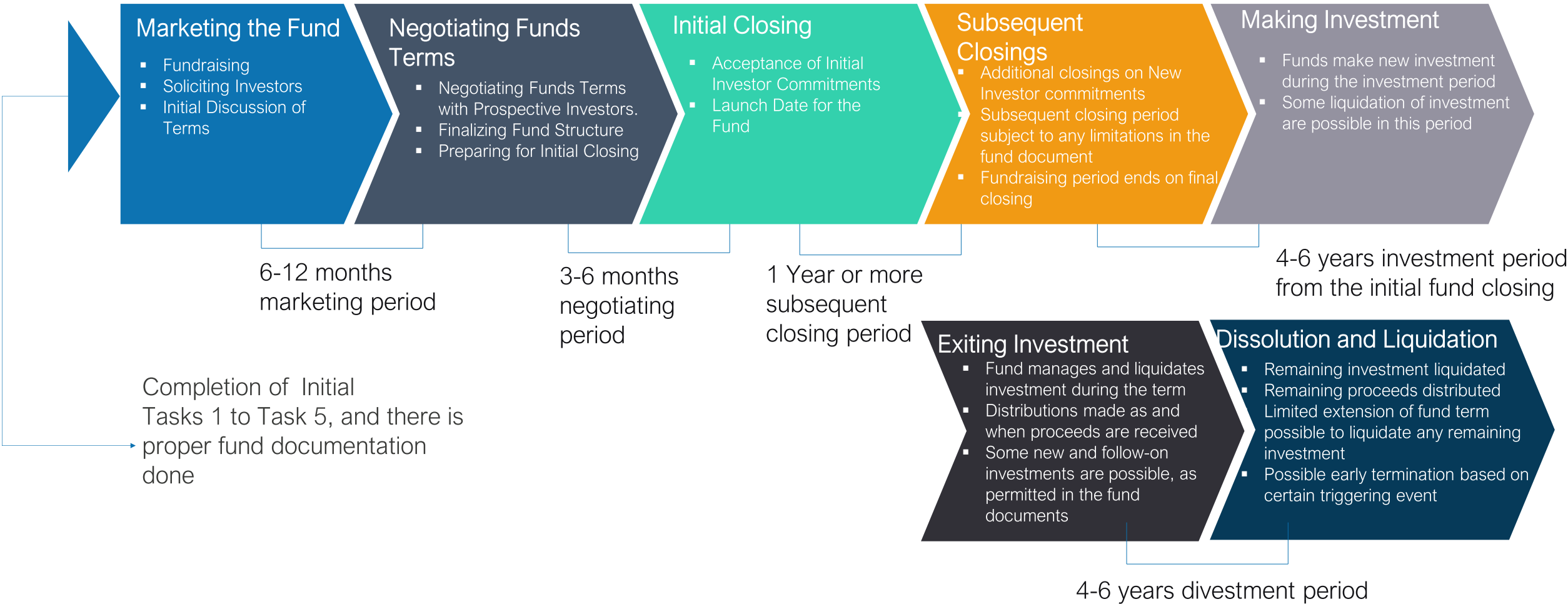
The discretionary Real Estate Property Partnership Fund is where **Institutional investors** (‘typically called Limited Partners’) are involved investing along side with Sponsor (“Developer ”) to various Property Asset Types **under a Single Fund**



Private Equity Property Partnership requires detailed Negotiations and Fund Raising with activities with Wholesales Investors (NOT Retail Investors) .It takes a proper due –diligence process where the General Partners, is well researched to be sure the Funds Under Management can be properly managed to give the right returns.

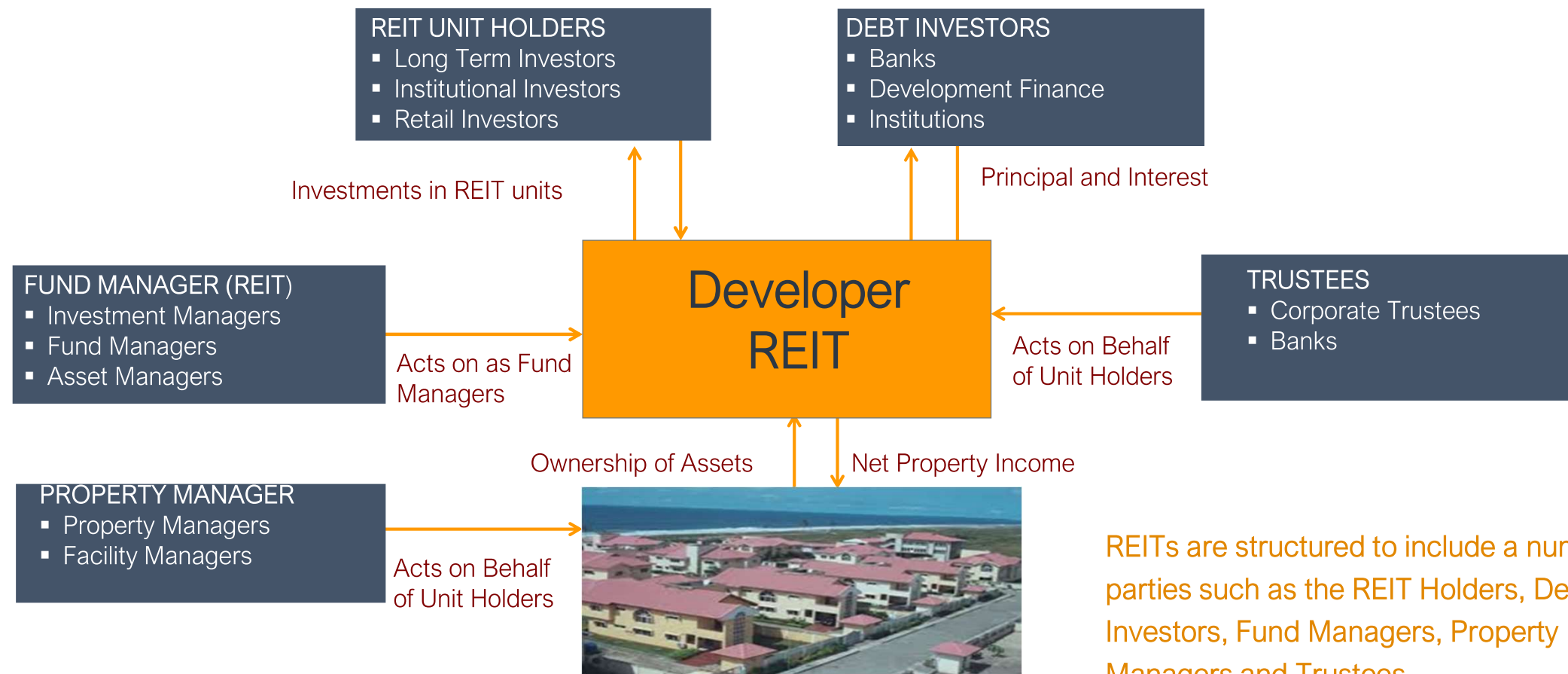
## 2. Real Estate Partnership Fund

Typical timeline showing the typical fundraising period to the initial fund closing could be between 1-2 years for The **discretionary Real Estate Partnership Fund**



### 3. Publicity Listed Real Estate Investment Trust

Developer could also decide to form A REIT, or Real Estate Investment Trust. This is a company that owns or finances income-producing real estate. Modeled after mutual funds, REITs provide investors of all types regular income streams, diversification and long-term capital appreciation.



REITs are structured to include a number parties such as the REIT Holders, Debt Investors, Fund Managers, Property Managers and Trustees

# Summary & Analysis

● Fulfils criterion  
○ Fails criterion

			1 Single-Property Partnership	2 Real Estate Partnership Fund	3 REIT
1	Attracted to Retail Investors	Attracted to <b>Retail Investors</b> ( i.e Typical Individual Real Estate Investors) who would like to con-invest with Developer	●	◐	●
2	Attracted to Institutional Investors	Provides <b>protective liquidity and structured needed sophisticated investors and possibly Pension Fund Administrators (PFAs)</b>	◐	●	●
3	Fit with Developer Organizational Structure	Minimizes disruption to <b>Developer's current structure, staff costs and administrative changes</b>	●	◐	◐
4	Simplicity to Market	Can be easily understood by and communicated to investors Not burdensome for Developer to administer	◐	◐	●
5	Shortest Time to Launch & Close	Can be <b>easily launched and closed within 3 months</b>	●	○	○



Our Experience in Collective Investment Schemes

## Our Expertise: Real Estate & Hospitality

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Our Experience in Collective Investment Schemes

## Our Expertise: Real Estate & Hospitality

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