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RE: Financial Sector Deepening – Kenya (FSD-K) Tenant Purchase Scheme (TPS) MODEL OVERVIEW

The Tenant Purchase Scheme (TPS) structure allows tenants the opportunity to become stakeholders in the properties they inhabit. Traditionally, tenants are limited to paying rent for the duration of their lease, however, this approach allows individuals to convert their monthly rental payments into an investment in the property itself. Over time, a portion of the rent paid goes towards building equity, providing tenants with a tangible stake in their residence.

The FSD TPS Microsoft Excel model is a valuable tool that was developed for evaluating the financial viability of TPS.

1. Introduction to the model

The TPS Microsoft Excel model serves as a comprehensive tool to guide the modalities of a Tenant Purchase Scheme framework by considering various financial aspects and assumptions. This model aids in the decision-making processes and provides clarity on the feasibility and viability of the scheme. By adjusting the various assumptions, users can gain insights into potential returns, cashflows, and overall financial feasibility of the TPS.

2. Overview of Tabs

- **CP Tab:** This is the Cover Page that describes the project title, period of the scheme and developer(s) of the model.
- **Summary Tab:** Provides a brief description of key elements of the project, such as the number of units, development costs, unit details, costings, funding structure and the return rate sensitivity analysis.
- **Explanation Tab:** This shows the purchase price of each unit, their relevant mandatory and non-mandatory charges to arrive at the monthly lease cost.
- **Model Overview Tab:** Denotes the different tabs in the model, and terms and definitions used.
- **Non-Time Based Assumptions (NTBA) Tab:** Captures assumptions that remain constant throughout the scheme's duration, such as interest rates, drawdown period, discount rates, rental increase rates, and frequency, with formulas in place to calculate relevant metrics based on these inputs.
- **Time-Based Assumptions (TBA) Tab:** Incorporates assumptions that vary over time, such as, rental uptake.
- **Workings Tab:** Shows the computations from the inputs in the NTBA and TBA calculated. Users can leverage the outputs from this tab to assess the scheme's financial viability and make informed decisions.

- **Financing Schedule Tab:** Models the financing structure of the scheme. It shows, drawdown, interest, and principal repayments.
- **Quarterly Cashflows Tab:** Projects quarterly cash flows, considering sources of cash inflows and outflows cumulatively.
- **Annual Financials Tab:** Projects annual cash flows, utilizing similar methodologies as the quarterly cashflows tab.
- **Return Calculation Tab:** Calculates various financial returns and performance metrics such as the Investment Return.

Key Tabs Description

The model allows for inputs in the NTBA and TBA tabs **only**, with the subsequent tabs being outputs or consequences of the assumptions made in these tabs.

3. NTBA Tab

The NTBA Tab serves as the foundation for the model, capturing assumptions that remain constant throughout the model's lifespan. Users can input data such as project name, model timelines, number of months, quarters and days in a year, development assumptions such as the number of units, lease prices, unit sizes, requisite deposits, lease assumptions such as rent escalation rate, escalation frequency, lease period, drawdown, the default assumptions and funding assumptions, where the model allows for a switch of Bond, Asset-Backed Security/I-REIT or Equity options. The output shall reflect in the financing schedule and the quarterly and annual cashflows.

4. TBA Tab

In contrast to the NTBA Tab, the TBA Tab accommodates assumptions that vary over time. Here, the assumptions can be manipulated, depending on the insights and expectations of the user. This includes parameters like unit uptake and net rent degradation assumptions, allowing for a more dynamic representation of the TPS scheme's financial landscape.

5. Workings Tab

This shows the computations and serves as the analytical engine of the model, performing intricate calculations to derive key financial metrics. These include, the Total Gross Lease rental calculations, mandatory payments, non-mandatory payments, payment to contractors, default calculations and insurance premium, for the entire lease period.

6. Financing Schedule Tab

The Financing Schedule Tab provides a detailed breakdown of the scheme's financing structure, through either Bond, Asset-Backed Security/I-REIT or Equity. Users can input in the NTBA; loan terms and interest rates, with the model generating schedules for loan payments, interest, and principal repayment which shall be shown in this tab. This tab offers invaluable insights into the financial obligations associated with the scheme.

7. Quarterly Cashflows Tab

This tab projects quarterly cash flows throughout the scheme's duration. It considers various sources of cash inflows and outflows, offering a perspective on the scheme's financial dynamics over time.

8. Annual Financials Tab

Similar to the Quarterly Cashflows Tab, the Annual Cashflows Tab projects cash flows on an annual basis. It provides a broader view of the scheme's financial performance, allowing users to identify trends and patterns that may impact decision-making.

9. Return Calculation Tab

The Return Calculation Tab synthesizes the model's outputs into various financial returns and performance metrics. These include ROI, funding gap, and other indicators of financial success. Users can utilize these metrics to evaluate the attractiveness of the Tenant Purchase Scheme and optimize their strategies accordingly.

This TPS Microsoft Excel model serves as a tool for guiding the modalities of a TPS framework. The model incorporates various tabs dedicated to different aspects of the scheme's financial dynamics, and it is to help users make informed decisions and navigate the complexities of real estate from the lens of a TPS.

Disclaimer: It is important to note that this model is a guide and may require adjustments based on specific project details and user discretion. Users can modify the assumptions in the dedicated tabs to analyze different scenarios.

Yours sincerely,

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