# Case Study

## Trust for Urban Housing Finance (TUHF)

Balancing impact and investor returns for affordable housing in South African cities

**Prepared by:**
Impact Investing South Africa

**Issued in:**
May 2023

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# Summary

Global investment in impact-driven enterprises and sustainable bonds has surged over the past five years, with emerging markets like South Africa expected to lead the way in impact investing in the years to come. And yet, investors are regularly challenged by the new structures, processes and performance indicators that accompany impact investment. Chief among their concerns are the 'greenwashing' of business activities and possible trade-offs between financial returns and environmental, social and governance (ESG) impacts. However, with the maturing of the Johannesburg Stock Exchange (JSE) Sustainability Index, as well as impact measurement strategies, a new field of experienced, profitable and impactful businesses is emerging. One of the most promising examples comes from the **Trust for Urban Housing Finance (TUHF)**, which is filling the finance gap for non-traditional entrepreneurs to develop affordable housing projects in declining urban centres and informal townships. Based in Johannesburg since 2003, TUHF builds strong relationships with entrepreneurs to ensure that their projects are successful and maximise key impact outputs, such as affordability, building efficiency and job creation. It was TUHF's tight connection to its city communities that allowed it to navigate the challenges of COVID-19 and launch South Africa's first social bond, in partnership with Standard Bank, in March 2021. TUHF's history of balancing impact with commercial objectives illustrates how mature companies with intimate market knowledge and astute technical teams can create investment opportunities that are competitive by any metric.

*Janice pama/Shutterstock.com*

## A timeline of TUHf's milestones

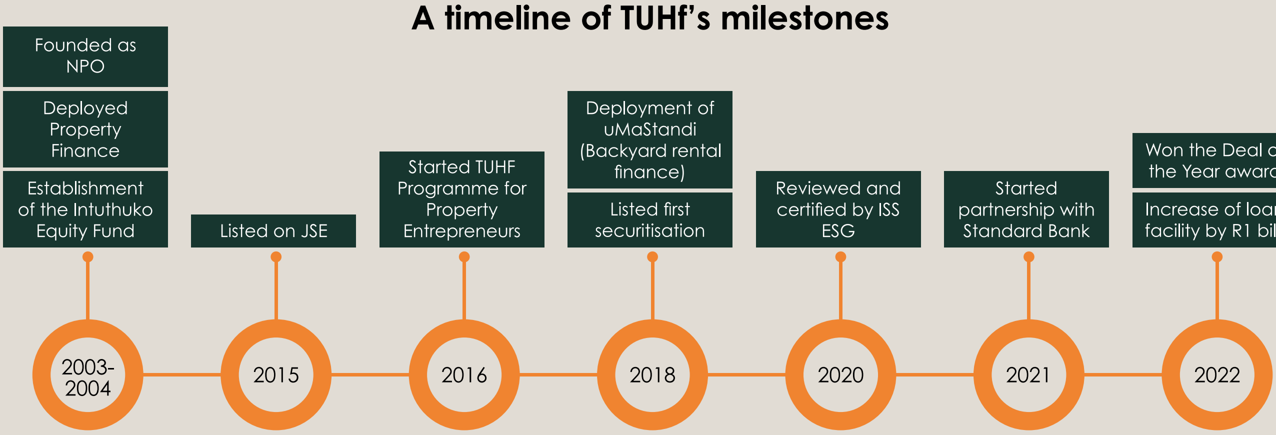


*Figure 1*

## TUHF development impact metrics 2022

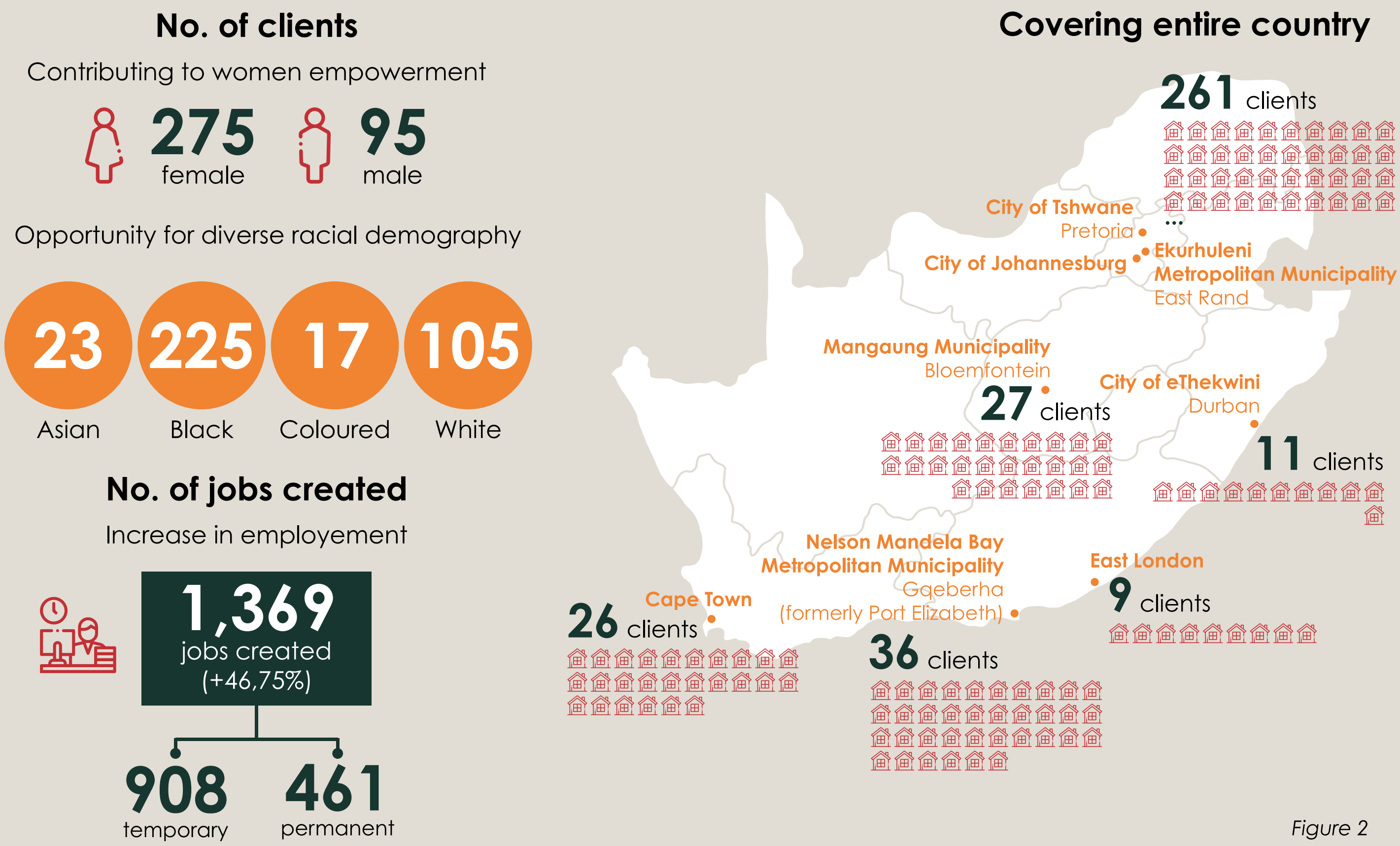


*Figure 2*

## TUHF's loan book and loan facility of Urban Ubomi


*Figure 3*

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# South Africa's first social bond

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### *TUHF roots*

From its head office in the pulsing Braamfontein neighbourhood, located on the edge of the Johannesburg city centre, TUHF was immersed in the reality of urban decline and renewal. The organisation's members lived and worked alongside the aging buildings that held great potential, prospective entrepreneurs with the ambition to transform them, and the people in desperate need of affordable housing options. For TUHF founders Paul Jackson and Nano Makwela, the path to renewal and prosperity was obvious: invest in property entrepreneurs.

"The rejuvenation of a city does not need grand plans and large sums of money thrown at it. What it does need are many small, incremental changes from the ground up," said Jackson, who has served as CEO of TUHF since its inception.[1]

Housing represents one of South Africa's most pressing social issues. While two-thirds of the population live in urban areas, around 20% of these live in informal settlements which lack sufficient access to utilities and services.[2] In the country as a whole, 12% of households do not have access to potable water, 18% lack adequate sanitation, and a further 15% do not have access to electricity.

One of the barriers to securing quality, affordable housing for more South Africans has been housing supply. Affordable housing includes properties valued between R300,000 and R600,000. In spite of state interventions to construct and allocate affordable housing via the Housing Development Agency and the Social Housing Regulatory Authority, in 2021 the housing shortage was estimated to be 3.7 million, and growing at 178,000 annually.[3]

In this context, TUHF has emerged as one of the only non-governmental entities tackling affordable housing, urban renewal and economic development by addressing the finance gap for property development. TUHF began its journey with a direct investment fundraising strategy, which has earned it a loyal base of investors. When TUHF launched South Africa's first social bond on the JSE Sustainability Index in 2021, it marked a major turning point in its sustainability journey. It also created a new opportunity for South African investors to play a bigger role in the rejuvenation of their cities.

[1] **Planting, S. (2021). Funding inner-city growth: Financier TUHF optimistic as R800m capital raising roadshow kicks off. *Daily Maverick.***
https://www.dailymaverick.co.za/article/2021-02-10-funding-inner-city-growth-financier-tuhf-optimistic-as-r800m-capital-raising-roadshow-kicks-off/

[2&3] **Centre for Affordable Housing in South Africa. (2021). *Housing finance in South Africa.***
https://housingfinanceafrica.org/countries/south-africa/


Daniel M Ernst/Shutterstock.com

# Sidebar: TUHF business model

By 2020, TUHF had four key programmes to support its business model for increasing property finance.

| Inputs | Activities | Outputs |
| --- | --- | --- |
| **Financial Capital**<br>The funds available to TUHF, including debt capital, equity funding and the reinvestment of retained income<br><br>**Human Capital**<br>Our team, including professionals who specialise in unearthing inner-city potential in areas, buildings and people<br><br>**Intellectual Capital**<br>We are street smart and know our market niche well. Our character-based lending approach is supported by a robust learning content management system. This process is customised to our market niche and specialisation supported by our IT systems<br><br>**Social and Relationship Capital**<br>Our strong and interdependent relationships with role-players across our stakeholder groups such as ASISA, HSOB, JPOMA, JICBP, NASHO and National Treasury's Jobs Fund | **What we do**<br>• Finance SMEs for inner city property investment<br>• Offer experience, knowledge and expertise on property entrepreneurship<br>• Connect entrepreneurs to our greater network of role-players.<br>• Induct, train and mentor starter and emerging entrepreneurs<br>• Offer value-added services such as events where industry experts share industry and market-related trends and information on challenges close to inner city property entrepreneurship | **Our product**<br>Mortgage bonds finance for mixed-use developments, of which the largest component should be residential<br><br>**Property finance**<br>• A single mortgage loan facility over 15 years for acquisition and development<br>• Prime-linked interest rate<br>• Once-off raising fee<br>• No monthly service fee<br>• Financial structuring, such as grace periods to accommodate the property development and tenanting stages |

*Figure 4: TUHF business model*[4]

## TUHF's fund and service offerings:

**TUHF Property Finance** offers a 15-year single loan facility for entrepreneurs to finance property purchase, construction, refurbishment and conversion, or refinance.

**uMaStandi (a product – no difference between this and TUHF Holdings, it's now a company that's going to be absorbed into the TUHF Group)** provides financing to developers who aim to develop affordable rental units in township areas. Entrepreneurs who already own an investment property in a township area and can contribute at least 20% of the total project cost are eligible to apply.

**The Intuthuko Equity Fund (IEF)** provides equity financing for emerging entrepreneurs who lack the access to capital necessary to enter the property development market. Once entrepreneurs have obtained a mortgage loan for their project through the uMastandi or TUHF finance programme and prove that they can commit some of their own money to the project, they are eligible to apply for a subordinate concessionary loan through the IEF.

**The TUHF Programme for Property Entrepreneurs (TPPE)** (a supporting programme) is a training and mentoring programme for TUHF's clients. The six-day course, delivered over six months in partnership with the University of Cape Town, equips entrepreneurs with information about critical aspects of their business, including property law, property finance, construction management and sustainability.

In addition to its activities that target social impact, TUHF also strives to create environmental impact through green building and ensuring that clients use energy and water-saving approaches in their construction. Its **Luhlaza** initiative defines TUHF's approach to creating residential projects that create additional value for developers through energy-efficient building.

[4] **TUHF Integrated Annual Report 2021.** https://www.tuhf.co.za/wp-content/uploads/2021/12/TUHF-IAR_2021_V2.2-WEB.pdf

### *Journey to impact*

"We've always said we want to be a good business doing good," said Sqiniseko Mbatha, TUHF's Financial and Development Impact Analyst, as he reflected on its impact philosophy in April 2022.

Impact has been central to TUHF's mission since its founding as a non-profit entity in 2003, long before environmental, social, and governance (ESG) principles had been formalised as a framework for corporate sustainability practices. But it was only in the 2010s that TUHF began turning its attention to impact investing. TUHF's primary vehicle is the Intuthuko Equity Fund (IEF), which supports non-traditional, micro, or emerging entrepreneurs with equity financing for property development. Although there is no other fund like IEF in South Africa to address the dire housing situation, TUHF struggled in its early years to secure enough capital to sustainably fund clients.

As the chief author of TUHF's Sustainable Bond Framework, Mbatha was a champion of impact investing within the firm. He has spent the past eight years on the development finance team helping to drive TUHF toward the capital markets. He was there when TUHF became a publicly listed company on the JSE in 2015 and as it listed its first securitisation in 2018. And when TUHF set an ambitious target of growing its loan book to R10 billion by 2021, he and his team were tasked with shaping the sustainable bond strategy.

Sustainable bonds are a relatively new investing strategy which largely grew out of the global concern about climate change in the late 2000s. They comprise a range of instruments that use different mechanisms to create impact in one or other domain of ESG (see *Sustainable bonds: A primer* on page 12 for more). Among investors, impact investing is most often associated with green bonds, in which issuing companies use the proceeds to fund projects that create positive environmental outputs. These outputs, or impacts, are most often mapped to the 17 UN Sustainable Development Goals (SDGs), which create a common language for investors to identify the different areas in which positive change can be effected.

## LARGEST IMPACT INVESTING MARKETS IN AFRICA

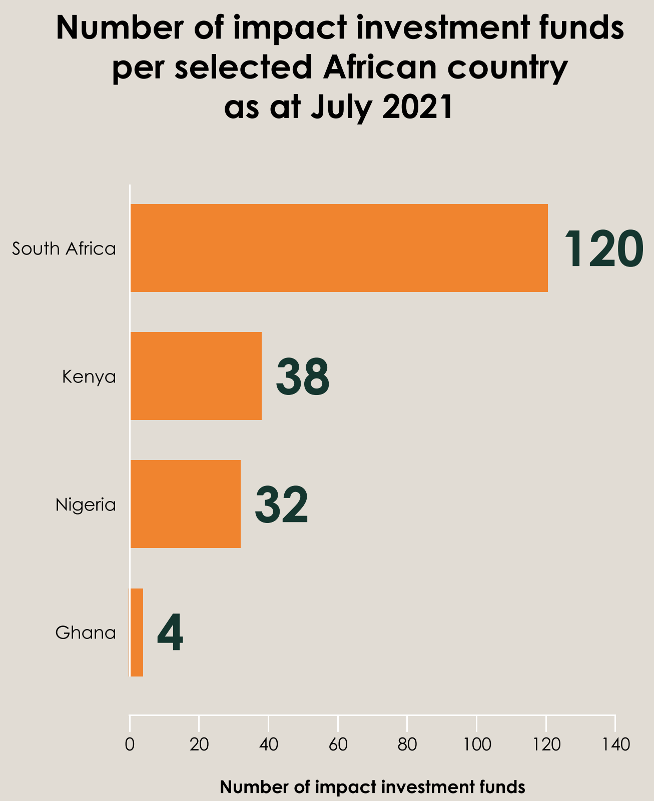



*Figure 5: Impact investing markets in Africa.*

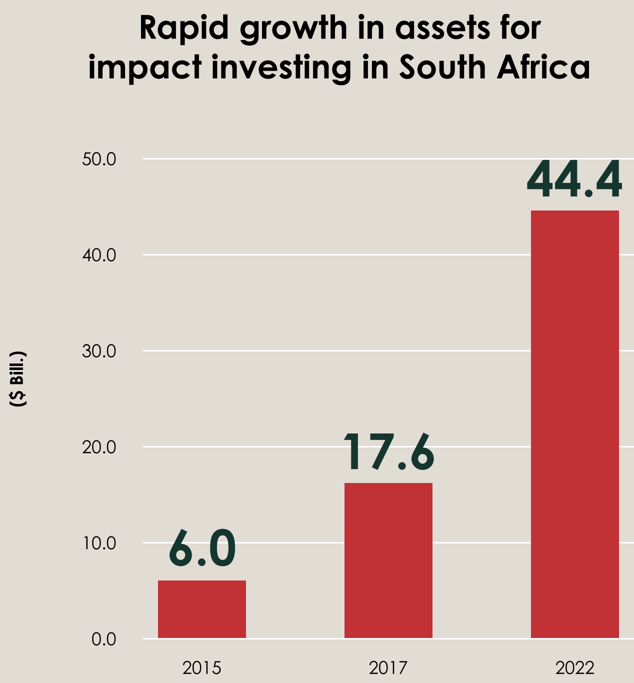



*Figure 6: Impact investing assets under management.*

SOURCE: *Riscura and Bridgewater Analysis*

TUHF is intentional about its SDG alignment as well as alignment to other development frameworks. TUHF aligns specifically to SDGs 7, 8, 9, 11 and 13, with a particular focus on SDG 11, contributing to building sustainable cities and communities.

Another key objective for TUHF is financial inclusion and providing financial opportunities for previously marginalised individuals. The organisation's hope is that providing finance for property entrepreneurs in inner cities will help empower them to become thriving entrepreneurs who further contribute to their communities. Tebogo Moseamedi, TUHF's Treasury Specialist, advised other investors, "It is important to integrate the SDGs from the inception of the fund and not consider them as secondary and later on try to force your fund onto them."

Nationally, TUHF is conscious of the impact it makes in alignment to South Africa's National Development Plan, which states that a core element of social security is access to housing, as well as economic participation. As an impact-first organisation, TUHF has ensured that the manner in which it operates speaks to the impact it would like to create. Put simply, impact is at the heart of TUHF's credit policy, and TUHF will not approve a project that does not show any positive social and/or positive environmental impact.

Similar to sustainable bonds, social bonds work in the same fashion for social outputs, although green bonds are the most popular among South African investors by bid representation, with 62% of bids going to green bonds, followed by 43% toward sustainability-linked bonds (SLBs).[5] SLBs, which promote better corporate ESG more than impact creation, remain the most popular by value, with SLBs representing R8.7 billion of the R15.7 billion in sustainable bonds issued in 2021.

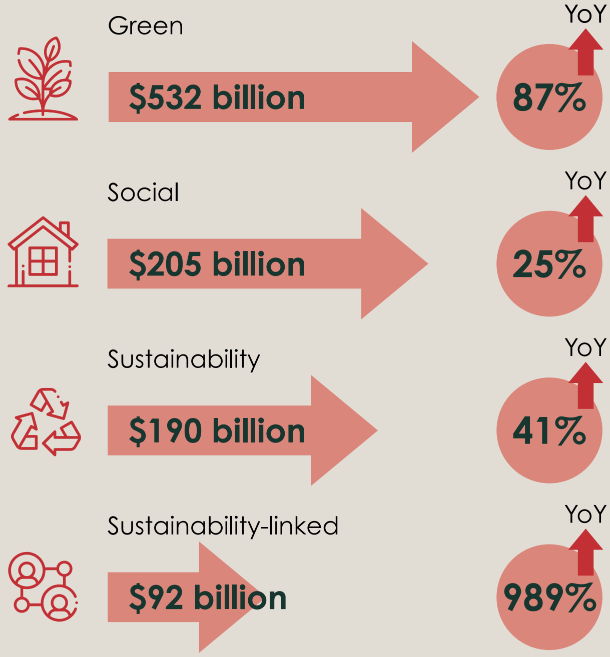
| | **Sustainable Bonds**[6] |
|---|---|
| **Use of Proceeds** | **Green Bonds** are used to finance activities that support new or existing projects or activities that promote positive environmental outcomes, such as renewable energy, green buildings, or climate change response. |
| **General Corporate Purpose** | **Social Bonds** are used to finance new or existing projects that promote positive social outcomes, such as food security, socioeconomic advancement, or affordable infrastructure.[7]<br>**Sustainability Bonds** can be used to finance projects that promote a combination of positive green and social outcomes.<br>**Sustainability-linked Bonds** are used to encourage companies to make sustainability commitments by structurally linking the coupon to the achievement of key performance indicators, such as the UN SDGs. |

[5] **Beck, N. (2022). Listed ESG bonds getting greener, but lag rate of global issuance. RMB.** https://www.rmb.co.za/news/listed-esg-bonds-getting-greener-but-sa-adoption-is-slow

[6] **PIMCO. (nd). Understanding green, social and sustainability bonds. PIMCO.** https://europe.pimco.com/en-eu/resources/education/understanding-green-social-and-sustainability-bonds

[7] Note that there is a difference between a *social bond* and a *social impact bond* (SIB), which functions differently than a traditional bond. SIBs are considered a higher-risk instrument as payment depends not just on interest rate and term but on the project achieving its established objectives. SIBs serve to foster public-private partnerships to achieve key social outcomes. See **De la Peña, I. (nd). A primer on social impact bonds. ECLAC.** https://www.cepal.org/sites/default/files/news/files/wp_pena_2.pdf

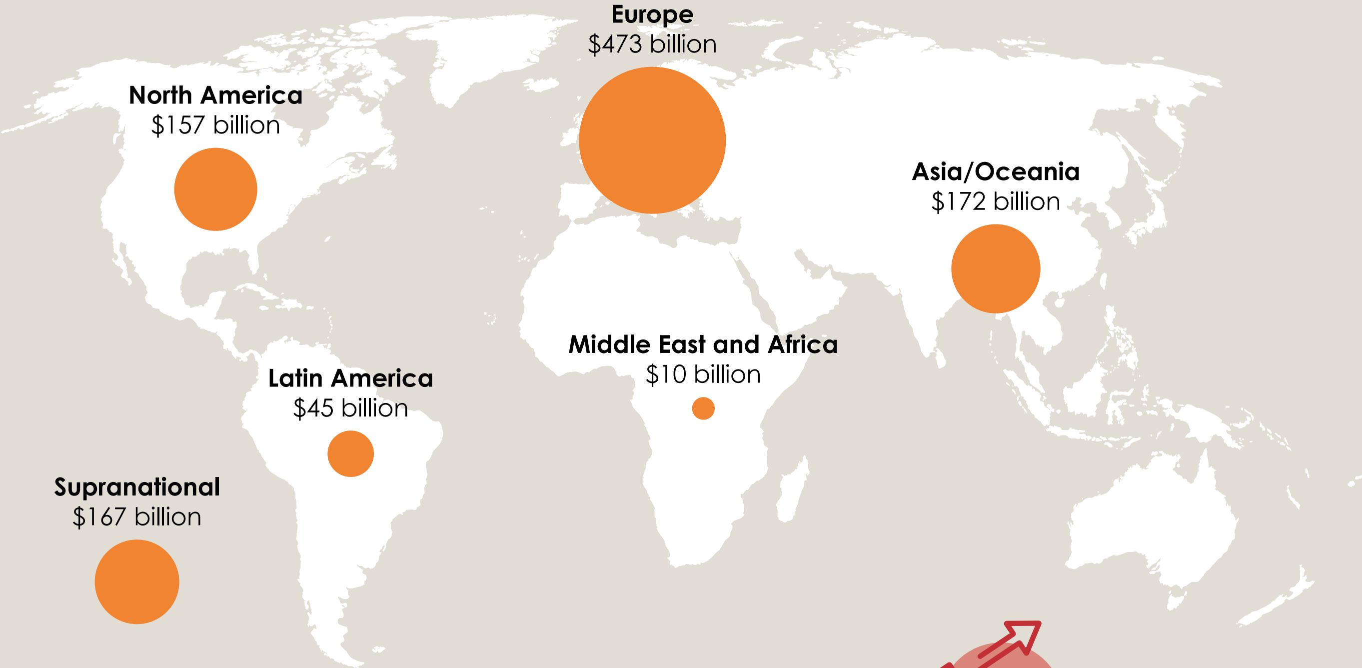
## Sustainable bond growth by bond category*

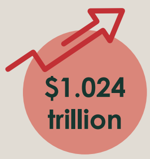



By 2019, government agencies were the largest issuers of sustainable bonds globally at 45% (followed by financial institutions at 30%, corporates at 13%, with supranational and municipal organisations making up the balance).[8] However, in 2020, the socio-economic impact of the COVID-19 pandemic resulted in an unprecedented rise globally. By 2021, corporates were taking the lead, issuing 37% of sustainable bonds globally. Meanwhile, the issuance of social bonds reached $188 billion, a ten-fold increase from 2019 (Figure 6).[9]

[8,9 & 10] **Singh, P. (7 February 2022). Global sustainable bond issuance to surpass $1.5 trillion in 2022. S&P Global.** https://www.spglobal.com/ratings/en/research articles/220207-global-sustainable-bond-issuance-to-surpass-1-5-trillion-in-2022-12262243

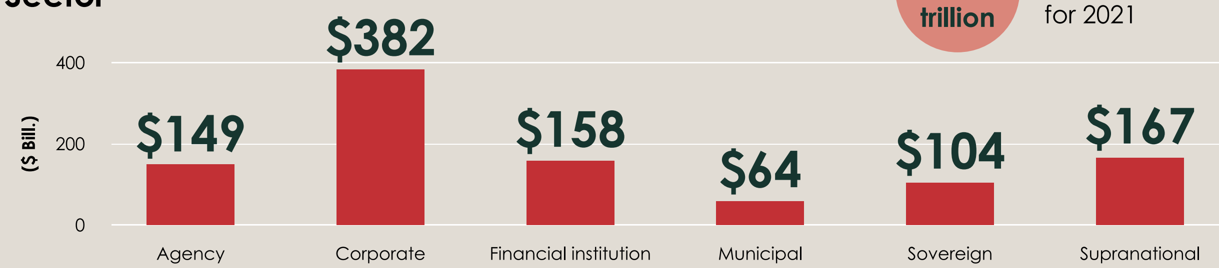
## Sustainable bonds issued in value by region



Total issuance for 2021

## By Sector




SOURCES: *Total 2021 global sustainable bond issuance also includes about $6 billion from other sustainable bond types. Bond values may vary slightly due to rounding. As defined by the Environmental Finance Bond Database, financial institutions are companies engaged in the business of financial and monetary transactions, corporates are private-sector issuers that do not fall under the financial institution category, agencies are governmental agencies and government-sponsored enterprises.
Sources: Environmental Finance Bond Database, S&P Global Ratings.
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*Figure 7: Global sustainable bond issuance in 2021 by the numbers.*[10]

The upward trend with sustainable bonds extended to the South African market, where public-private partnerships and impact-minded corporates were looking to counter the adverse impacts of the pandemic. By the end of 2021, social bond issuance in the South African market neared R4 billion.[11] TUHF was at the forefront of this mission, spurred on by the blows of COVID-19.

- By 2020, TUHF had operations in eight major metros, a loan book of R3.8 billion, and 44,000 total units financed across the country (Figure 8). It was on the rise. However, when the COVID-19 pandemic arrived, it depressed loan repayment rates and tempered TUHF's goal of having a R10 billion loan book by 2021. The pandemic also gave TUHF an opportunity to develop its Treasury team and position itself to take its impact to the next level by issuing South Africa's first social bond, the R2.5 billion Urban Ubomi 1, in March 2021. The Urban Ubomi 1 securitisation was a milestone transaction for TUHF. It was South Africa's first Social Bond ABS structure listed on the JSE's Sustainable Bond Index issued in terms of TUHF's Sustainable Bond Framework and verified by the analytics firm ISS ESG.

# TUHF BY THE NUMBERS


*Figure 8: Scope of TUHF's operations as of 2022.*

**R3.8 billion** loan book

**14%** average loan book growth over 15 years

**R40.3 million** operating profit

**44,400** units financed since founding

**5,926** short-term jobs created since 2015

**2,729** permanent jobs created since 2015

**58%** of clients are previously disadvantaged

[11] **RMB. (20 April 2021). Social bond issuance to hit R4bn in SA within year. RMB.** https://www.rmb.co.za/news/social-bond-issuance-to-hit-r4bn-in-sa-within-year

PIXEL to the PEOPLE/Shutterstock.com

"What has been crucial over the past three years is our relationship with Standard Bank. First they provided a warehouse facility arrangement, and then they were our arrangers for raising capital," said Moseamedi.

As the arranger and sustainability agent for the social bond, Standard Bank ensured that one of the senior notes achieved a AAA rating, a first for TUHF. Standard Bank has been leading the way with use-of-proceeds bonds in South Africa, issuing a R1.4 billion green bond for renewal energy projects in the same year.[12]

"Partnering with Standard Bank has been key to our ability to steer the organisation through the events of the past two years and to continue to raise funding going forward," said Ilona Roodt, TUHF's CFO.[13]

The partnership with Standard Bank, particularly the debt capital raising team, began when TUHF approached Standard Bank to be an arranger on the securitisation. This began with TUHF drafting a value proposition for Standard Bank. Standard Bank then took the approach of familiarising itself with TUHF and understanding the organisation's journey. Standard Bank gave TUHF a R1 billion warehouse facility, which was used to generate new assets. TUHF now has the capacity to generate R1 billion annually.

When sharing the experience of working with Standard Bank, the TUHF team shared that, "Standard Bank was an incredible partner for us, because they firstly believed in what we were doing, but secondly they were nimble and flexible with us; particularly when it came to dealing with the data, it helped that they were not a rigid partner." The TUHF team advised funds seeking to take a similar route, "Be clear about what you want to do. Oftentimes banks are not just going to help you or tell you what to do if you don't have a clear direction for your fund. It is important to demonstrate a clear value proposition to the bank. Banks are still quite risk-averse, and they want to be comfortable that you would pay them back. There must therefore be a good chance that you're going to grow."

By June 2021, Urban Ubomi 1 had raised R609 million and opened TUHF up to a new pool of investors.

[12] **Burger, S. (13 December 2021). Standard Bank issues green, social bonds to finance renewable housing projects in South Africa. *Engineering News.***
https://www.engineeringnews.co.za/article/standard-bank-issues-green-social-bonds-to-finance-renewable-housing-projects-in-south-africa-2021-12-13

[13] **CFO South Africa. (15 February 2022). TUHF and Standard Bank social bond wins 2022 Deal of the Year award.**
https://cfo.co.za/articles/tuhf-and-standard-bank-social-bond-wins-2022-deal-of-the-year-award/


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# Sidebar: Sustainable bonds: A primer

As an asset class, sustainable bonds are comprised of a range of debt instruments (Figure 9). Green bonds, social bonds, and sustainability bonds form a sub-class of "Use of Proceeds" bonds, which use the bond proceeds to directly fund sustainability oriented projects. Meanwhile, sustainability-linked bonds are considered "General Corporate Purpose" bonds that encourage the issuing companies to set and achieve sustainability goals at the corporate level.

| Type of Bond | Issuer's Focus | Key Market Guidelines | What can be (Re)financed? | Issuer's Commitment |
|---|---|---|---|---|
| Use of proceeds | Green | EU Green Bond Standards | Portfolio of EU taxonomy-compliant activities | Allocate and report |
| Use of proceeds | Green | KMA Green Bond Principles | Portfolio of green activities | Allocate and report |
| Use of proceeds | Social | ICMA Social Bond Principles | Portfolio of social activities | Allocate and report |
| Use of proceeds | Sustainability | ICMA Sustainability Bond Guidelines | Portfolio of green and social activities | Allocate and report |
| Use of proceeds / General Corporate Purposes | SDGs | Relevant ICMA Bond Principles or guidelines | Portfolio of activities contributing to SDGs or Strategy contributing to SDGs | Allocate/achieve and report |
| Use of proceeds / General Corporate Purposes | Transition | No commonly recognised guidelines available yet | Portfolio of activities supporting transition *and* Transition strategy and associated targets | Allocate/achieve and report |
| General Corporate Purposes | Overall sustainability strategy | ICMA Sustainability-Linked Bond Principles | Sustainability or transition strategy and associated targets | Allocate and report |
| General Corporate Purposes | KPI-linked strategy | ICMA Sustainability-Linked Bond Principles | Topic-specific strategy and associated targets | Allocate and report |

*Figure 9: Breakdown of sustainable bond structure.*[14]

[14] **Mishra, S. (2020). Going beyond "use-of-proceeds" to reach international sustainability targets. Harvard Law School Forum on Corporate Governance.** https://corpgov.law.harvard.edu/2020/06/29/going-beyond-use-of-proceeds-to-reach-international-sustainability-targets/

Prior to 2020, green bonds were consistently the most popular instrument in the class by far (Figure 10).

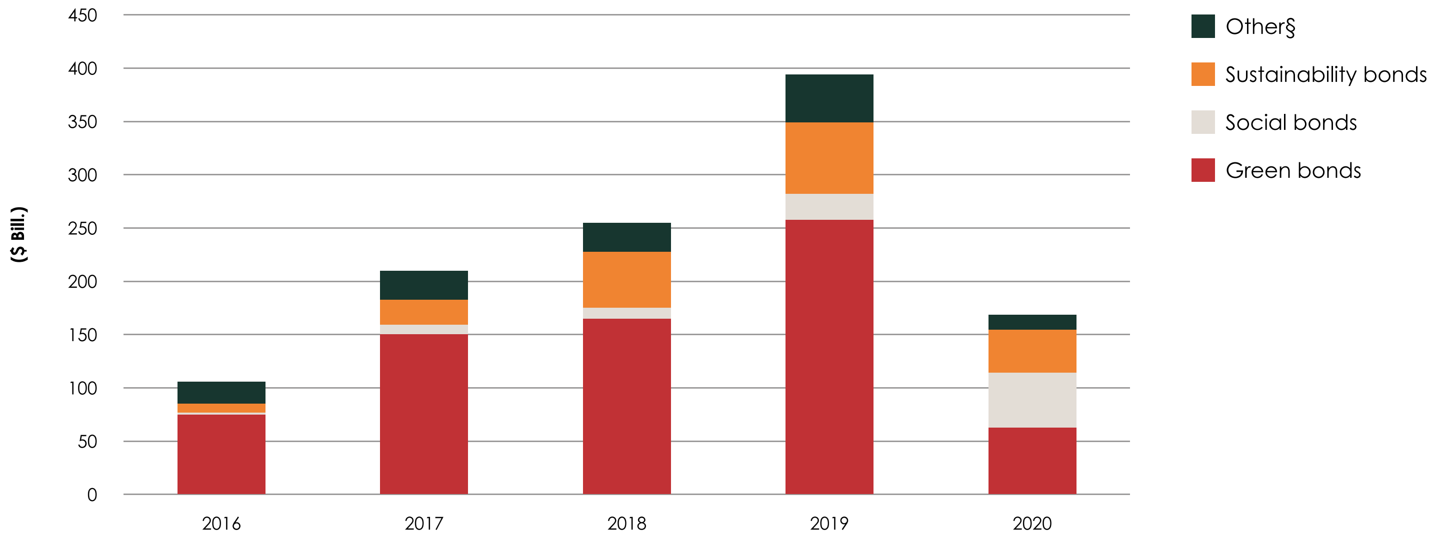


*Figure 10: Global sustainable bond issuance by type.*

### *A brief history*

The first green bond was issued by the European Investment Bank and World Bank in 2007 in the wake of a UN report that linked human activity to global warming, driving concern for investment in environmental sustainability projects. Meanwhile, the first formal social bond – led by Credit Agricole, Goldman Sachs, HSBC, and Santander – only emerged in 2015 as a vehicle for financing small and medium enterprises (SMEs) in Spain.[15] In subsequent years sustainable bonds grew incrementally in popularity as ESG issues and the UN SDGs became a larger part of government and corporate agendas (Figure 11).

Looking ahead, emerging markets, which face higher risks of climate change exposure and social inequality, are expected to be the strongest drivers of sustainable bonds in the coming years.

[15] **Social Bonds. (2021). What are social bonds? And how are they shaping the global economy? Social Bonds.** https://social-bonds.net/History-of-Social-Bonds/

[16] **Singh, P. (7 February 2022). Global sustainable bond issuance to surpass $1.5 trillion in 2022. S&P Global.** https://www.spglobal.com/ratings/en/research/articles/220207-global-sustainable-bond-issuance-to-surpass-1-5-trillion-in-2022-12262243

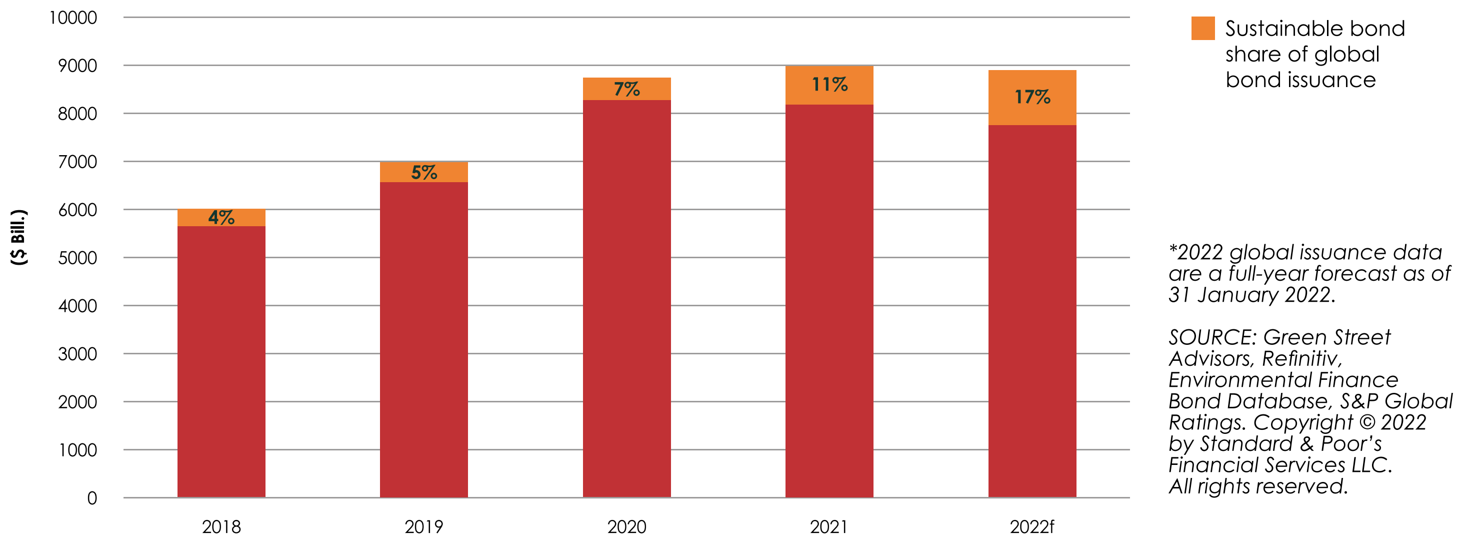


*Figure 11: Global bond issuance.*[16]

### *How sustainable bonds work*

In South Africa, an asset can be traded as a sustainable bond on the JSE if it complies with the Green Bond Principles (GBP), Social Bond Principles (SBP), and Sustainability Bond Guidelines (SBG), which are the globally recognised standards governed by the International Capital Market Association (ICMA).[17] Broadly, these standards have four components that support two key principles: (1) the pre-issuance disclosure of how the proceeds will be used and toward which sustainability objectives, and (2) the post-issuance reporting on the actual use of the proceeds (Table 1).

Issuers of sustainable bonds produce a "sustainable bond framework", which itemises the objectives of the bond proceeds, which impact areas (typically defined by the UN SDGs) that will be targeted, how projects will be selected to align with the objectives, and how impact will be monitored, measured and reported. A second opinion must be provided by a third party to evaluate and certify the sustainable goals of the bond, as laid out in the bond framework.[18]

### *Reaching new investors*

"What sets us apart is that we are able to attract a broader pool of funders who are interested in development or impact, because of our impact history and focus," said Moseamedi, who was responsible for structuring the Urban Ubomi 1 bonds for the capital markets.

[17] **ICMA. (nd). The principles, guidelines and handbooks.** *International Capital Market Association.* https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/

[18] **Doran, M., & Tanner, J. (2019). Critical challenges facing the green bond market.** International Financial Law Review, October/November 2019.

*Table 1: ICMA sustainable bond principles*

| Components | Principle |
| --- | --- |
| 1. Use of proceeds | The use of the proceeds from the bond for eligible green, social, or sustainable projects. |
| 2. Process for project evaluation and selection | The issuer must communicate to investors three key things: (1) the sustainability objectives of the project(s); (2) the process for determining the eligibility of the project(s); and (3) the processes for managing the social and environmental risks associated with the project(s). |
| 3. Management of proceeds | The net proceeds from the bond should be credited to a sub-account, moved to a sub-portfolio, or be otherwise tracked by the issuer. (This can be done per bond or in aggregate in the case of multiple bonds.) |
| 4. Reporting | To ensure transparency, the issuer should maintain up-to-date information on the use of proceeds, made available in an annual report. |


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Moseamedi joined TUHF in 2019, after several years in fund management at ABSA and Standard Bank. After working within these large financial institutions, he understood the mindset of institutional investors and their approach to risk. Impact investing was a nascent investing strategy that involved new ways of thinking about performance and measurement, which could be daunting for investors. But, crucially for companies like TUHF, with long track records of running financially sustainable projects, impact investing did not require investors to think differently about returns.

"When we raise capital, we tend to think of ourselves as a normal company with commercial imperatives," said Moseamedi.

As a result, in the wake of the social bond launch, a huge part of Moseamedi and Mbatha's mission was communicating their reality of 'creating impact without sacrificing returns' to investors. Two cornerstones of their company that have helped them to tell this story are TUHF's impact measurement strategy, and the relationships it builds with its entrepreneur clients.

### *Measuring impact*

Having once stood in the shoes of institutional investors, Moseamedi understood that a common concern for investors was the greenwashing of business activities or projects to appear more impactful than they actually are.

"Issuances on the JSE Sustainability Index have been picking up recently, but often when you look at the underlying impact and assets, the impact is not necessarily front of mind," said Moseamedi.

Sustainable bond frameworks, developed by the issuer and verified by a third party, work to mitigate this risk by giving investors a master plan for how bond proceeds will be used in projects to create impacts that are tied to the SDGs. They also give investors an effortless way of including impact in their own reporting, without having to perform their own monitoring and measurement.

TUHF has a robust Sustainable Bond Framework that uses 32 impact indicators (Figure 11) to monitor the impact of its building projects across six impact areas:

- affordable housing
- financial inclusion
- improved access to funding for SMEs
- green buildings
- renewable energy
- energy efficiency

## Sustainable Bond Framework

**Indicative Impact Indicators**

<table>
<tr><td>Affordable housing</td><td colspan="4">• Number of affordable housing units financed<br>• Number of buildings financed<br>• Number of new permanent jobs created<br>• Number of jobs maintained and supported<br>• Number of new short-term jobs created<br>• Total contribution to local municipalities' property rates and utilities</td></tr>
<tr><td>Financial inclusion</td><td colspan="4">• Number of previously disadvantaged individuals financed<br>• Number of affordable housing units financed<br>• Number of previously disadvantaged individuals (PDIs) trained<br>• Number of loans issued to PDIs<br>• Number of loans issued to female PDIs</td></tr>
<tr><td>Improved access to funding for SMEs</td><td colspan="4">• Number of SMMEs financed<br>• Value of loans issued to SMMEs<br>• Number of loans issued to female-owned SMMEs</td></tr>
<tr><td rowspan="7">Green buildings</td><td colspan="4">• Number of green buildings funded<br>• Total m² of green buildings funded<br>• Number of mortgages provided to green-certified houses/residential projects<br>• Number of tenants housed in green buildings<br>• Number of new permanent jobs created<br>• Number of jobs maintained and supported<br>• Number of new short-term jobs created</td></tr>
<tr><td>Category</td><td>Description</td><td>Indicator</td><td>Timeframe</td></tr>
<tr><td>Energy efficiency</td><td>Energy savings</td><td>kWh</td><td>Annual & lifetime</td></tr>
<tr><td>Water efficiency</td><td>Water savings</td><td></td><td>Annual & lifetime</td></tr>
<tr><td>Renewable energy</td><td>Renewable energy generation</td><td>kWh</td><td>Annual & lifetime</td></tr>
<tr><td></td><td>Installed capacity</td><td>kWp</td><td>End of reporting year</td></tr>
<tr><td>Carbon abatement</td><td>GHG emissions avoided</td><td>$tCO_2e$</td><td>Annual & lifetime</td></tr>
<tr><td>Renewable energy</td><td colspan="4">• Total installed capacity MW<br>• Annual Generated Renewable Power (MWh/year)<br>• Estimated annual $CO_2$ equivalent emission reduction (tons $Co_2eq$/year)<br>• Number of people with access to clean energy services</td></tr>
<tr><td>Energy efficiency</td><td colspan="4">• Estimated annual $CO_2$ equivalent emissions reduction/avoidance (tons $CO_2eq$/year)<br>• Annual energy savings (MWh/year)</td></tr>
</table>

*Figure 12: TUHF's social bond impact indicators.*[19]

[19] **TUHF Sustainable Bond Framework.** https://www.tuhf.co.za/wp-content/uploads/2021/02/ISS-ESG-Second-Party-Opinion_TUHF-Sustainable-Bond-Framework-1.pdf

TUHF's sustainability framework for Urban Ubomi 1 was reviewed and certified by ISS ESG in November 2020. Notably, Urban Ubomi 1, as a social bond, included only the social impact aspects of TUHF's projects, which ISS ESG confirmed made a significant contribution to the relevant SDGs.

"Sqiniseko [Mbatha, TUHF's Financial and Development Impact Analyst] was able to put together this framework quickly because we are already doing everything – it was just a matter of packaging it for the capital markets, and developing strong processes for measuring our impact," said Moseamedi.

TUHF's new processes for impact measurement were built on a strong foundation of internal expertise in both finance and impact creation. It used its formal entrepreneur support channel, the TUHF Programme for Property Entrepreneurs (TPPE), to educate entrepreneurs on the importance of sustainability, impact measurement, and reporting of building performance. Entrepreneurs submit annual reports to TUHF reporting on the indicators directly related to their buildings. For the more indirect indicators, such as the number of jobs created through affordable housing, TUHF has an internal team of analysts who collect data from the surrounding community to estimate the impact of the building project.

By the end of 2021, TUHF's impact assessment on the Urban Ubomi 1 assets was painting a bright picture for affordable housing, job creation, and SME development (Figure 13).

| | |
|---|---|
| **5022** affordable housing units financed | **189** buildings |
| **363** new permanent jobs created | **R46.1 mill** contribution to local muncipalities' property rates and utilities |
| **406** new short-term jobs created | **115** SMMEs supported |
| **R1.15 bill.** of loans to SMMEs | **57%** new loans to PDIs in UU1 Urban Land Reform |

*Figure 13: Impact reporting for Urban Ubomi 1, as of January 2022.*

"By offering investors a framework by which to measure the social and environmental impacts of their investments, we hope to encourage more investors to prioritise these," said Mbatha.[20] "The uptake of our first sustainable bond issuance was extremely encouraging, and we believe investors are clearly realising the value of making sustainable investment choices."

Throughout the process of measuring impact, TUHF experienced various challenges with impact measurement, some of them the same as those experienced by other impact investors. The most common challenge was that there is a lack of measurement standardisation. For example, it was difficult for TUHF to measure the number of jobs it directly supported, particularly for seasonal work. It was also difficult for TUHF to understand what impact to attribute to itself versus considering the impact that would have occurred regardless, as well as what standards would align to investor expectations.

The alignment of the impact measurement approach to best practices – as well as getting second and third opinions – was a factor that assisted TUHF in the development of its Sustainable Bond Framework and its approach to impact measurement overall.

[20] **Mbatha, S. (2021). Tackling SA's challenges through ESG and impact investing. Property Wheel.** https://propertywheel.co.za/2021/11/tuhf-tackling-sas-challenges-through-esg-and-impact-investing/

The best-practice framework that TUHF aligned its Sustainable Bond Framework to was the International Capital Market Association's guidance for: Green Bond Principles, Social Bond Principles and Sustainable Bond Guidelines.

***Empowering entrepreneurs***

The core reason TUHF has been able to maintain a healthy balance between impact and returns is its strong relationships with entrepreneurs. Its local teams, situated in the heart of metro areas, have intimate knowledge of South African cities – the properties, municipal policies and communities. This allows its team to interact directly with business owners and prospective entrepreneurs to identify building opportunities that will maximise returns and impact. Most building projects come to TUHF in one of three ways:

- Entrepreneurs approach TUHF with a specific building in mind;
- TUHF holds networking events with landowners, property agents and potential clients about building opportunities; and
- TUHF portfolio managers "walk the streets" to identify specific buildings for development, and inform the owners or caretakers about TUHF financing.

TUHF follows a Loan Cycle Management Process which is based on commercial property finance best practice. Credit decisions take place within the context of this process. The essence of TUHF's success is its ability to balance three issues, namely: good governance in decision-making; a decision-making process that is based on sound investment; and mechanisms that ensure that the speed in which decisions are made fits the business environment. All these components compete to some degree, and an appropriate balance is sought. TUHF's lending promotes sustainable development, as the projects TUHF finances primarily involve reusing existing building and urban infrastructure.

Since inception, TUHF has prioritised working with entrepreneurs who were from the cities where the development opportunities arose, were new to entrepreneurship, and lacked some of the basic resources to take advantage of development opportunities. Its Intuthuko Equity Fund (IEF), the tool around which the company was founded, is still a resource for qualifying entrepreneurs in need of additional financial backing. More generally, TUHF has a base set of approval criteria for entrepreneurs and projects (Figure 14).

**TUHF entrepreneurs:**

- have equity contribution towards a project
- have an honest and reliable character
- know the inner city
- have the property management skills and network of contacts for their project's size
- can provide good customer service and firm credit control
- are proud of owning well-maintained, clean buildings
- will make sufficient profit
- have the interests of urban regeneration at heart

**TUHF projects:**

- are in major city centres that are in urban decline
- are close to schools, transport systems and places of work
- are economically sustainable – able to generate sufficient income to repay expenses, as well as service the loan and make a profit
- will upgrade buildings in the selected inner city area, providing affordable and decent residential rental units
- have a positive effect on the areas in which they are based

*Figure 14: TUHF approval criteria.*

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Once a viable entrepreneur and opportunity are identified, the road to financing – from appraisal to closing – takes four to five months (Figure 15). An internal Credit Committee comprised of members from the finance, impact and legal teams reviews the projects for a 15-year mortgage loan. This is all made possible by TUHF's team of 40+ analysts, portfolio managers, development finance specialists, and construction and property specialists who work in concert to assess projects from all angles.

When probed on the business rationale for TUHF supporting entrepreneurs in the way that they do, Moseamedi responded, "It is important to be conscious of the country and environment you live in, and the number of previously disadvantaged individuals. Commercial banks are not wired to go the extra mile for previously disadvantaged people like that; it is not their business model. As a result, if it was not for us, many people would not have been able to succeed or have access to finance. The business model is that there is a demand for funding from entrepreneurs, and the way we have structured ourselves, we are in a position to assist them sustainably." Moseamedi added that there is no additional benefit for TUHF in supporting entrepreneurs except for playing a role in contributing to development.

## TUHF's project appraisal and approval process[21]

| | | Credit approval by Board sub-committee | Property registered | Close out |
|---|---|---|---|---|
| **Project phase** | **Origination** | **Appraisal** | **Closing** | **Servicing** |
| **Outcomes** | | **Declined or withdrawn** | **Withdrawn** | |
| **Timeline** | **2 weeks**<br>Signed application with project documents, and company and/or personal information for FICA and NCA | **3 weeks**<br>• Borrower character assessment<br>◦ Hybrid model<br>◦ Credit history<br>• Building assessment<br>◦ Product/market/construction<br>◦ Rights to build and trade<br>• Feasibility/financial analysis<br>◦ Ability to carry the debt<br>◦ Building valuation<br>• Property management | **3 months**<br>Legal execution of loan per minutes of decision<br>Collation, execution and storage of documents<br>Securities register<br>Protection of commercial rights<br>(Rates clearance is often the underlying cause of delays) | **15 years**<br>Construction management<br>Default management<br>Cyclical processes<br>Health & safety<br>Fire certification<br>Lift certification<br>Financial statements<br>Valuations<br>Building inspections<br>Insurance<br>Utilities management |
| **Segregation of responsibility** | **Operations** | | **Legal & compliance** | **Ops/Finance/L&C** |

*Figure 15: TUHF project timelines and process.*

[21] **TUHF. (2022). Urban Ubomi 1 (RF) Ltd.** https://www.tuhf.co.za/wp-content/uploads/2022/01/UU1-Tap-Issue-Presentation.pdf

The strength of TUHF's relationships with entrepreneurs was put to the test when COVID-19 arrived, creating severe challenges for property developers: supply chain shortages for building materials, small business closures and loss of income for tenants. Faced with these threats to loan repayments and project completion, TUHF managed to ease the fallout by restructuring loans until conditions improved. TUHF also offered hands-on support, making site visits to projects that were in progress and helping developers to secure building materials to complete their projects. Another lesson the TUHF team could have learnt, however, is to better collate information about the markets they operate in, and use that data to assist them in making better strategic decisions.

Take the case of entrepreneur Athi Mathinise, who had multiple township-based housing projects funded by TUHF's uMaStandi fund. Many of the tenants in his finished building were employed in the hospitality industry, one of the worst affected by the hard lockdowns.

*Entrepreneur and uMaStandi client Athi Mathinise.*

***"When they lost their jobs they couldn't pay rent, and I knew I had to do something to help them through such a tough time," said Mathinise.*** [22] ***"I worked with each of them to make a plan to pay what they could until they were back on their feet, and uMaStandi supported that by renegotiating my loan payment terms as well, so that I could help them."***

[22] **TUHF. (2021). TUHF Integrated Annual Report 2021.** https://www.tuhf.co.za/wp-content/uploads/2021/12/TUHF-IAR_2021_V2.2-WEB.pdf

*Value proposition for impact investors*

A significant contributor to TUHF's success as an impact fund has been its value proposition for impact investors. TUHF's value proposition can be defined in three key areas.

The first of these is impact. Demonstrating clear and defined impact is critical to impact investors. There is interest from capital markets, but it is important that the fund's impact thesis aligns to theirs. TUHF defines its impact as:

- Increased delivery of quality affordable housing stock in liveable, walkable and well-located urban areas; and
- Sustainable property-based employment, both direct and indirect due to the impact of local economic multipliers, which results in and contributes to employment creation in the areas where TUHF provides finance.

The second area of TUHF's value proposition has been strong financial returns. Impact-first investors will not always expect above-market rate returns. It is important, however, that the return on equity and investment is demonstrable of a sustainable organisation.

As Figure 16 shows, TUHF has provided not only the average return of a social bond, but also a higher return than market rate since 2022.

Lastly, TUHF has shown tremendous growth, and investors expect that to continue. TUHF's overall goal is to have a R10 billion loan book, and investors are confident in the organisation's ability to attain this goal.

TUHF has already set up an office in East London in the Eastern Cape. This is evidence of the types of opportunities available across the country. TUHF also believes there are many opportunities in urban areas – such as Kew and Randburg in Johannesburg – to create impact where TUHF has already commenced some of its deals.

## A comparison of TUHF's Urban Ubomi returns against market returns

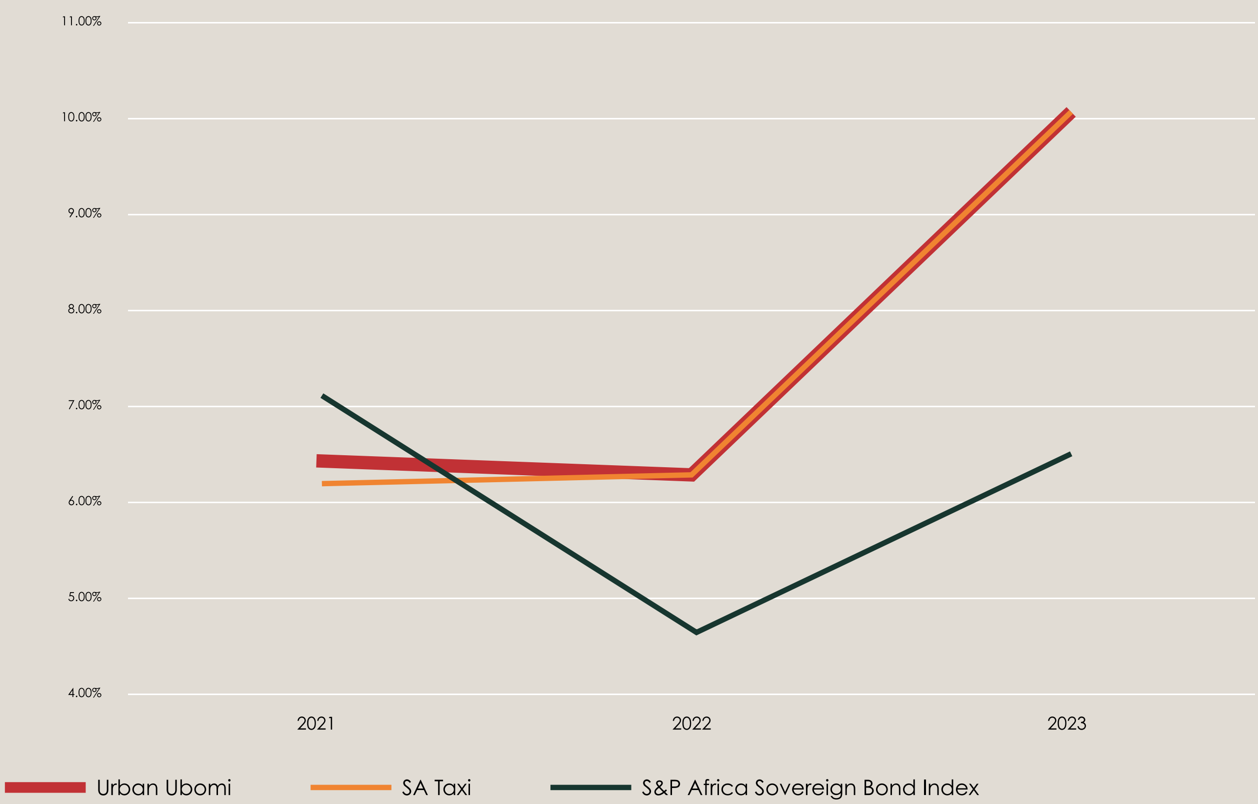


*Figure 16: Comparison of investment return.*

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# Conclusion


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Mbatha and Moseamedi are still working hard to dispel the myth of a trade-off between returns and impact. After years of financing profitable affordable housing projects that create impact in the form of job creation, fiscal contribution and small business growth, they understand that, for companies like TUHF, social and financial sustainability go hand in hand. And there is evidence that others are catching on.

In February 2022 it was announced that Urban Ubomi 1 had won the Deal of the Year award in the GFC Media Group's Bonds, Loans and Sukuk Africa Awards. That same month, Standard Bank announced it would renew TUHF's loan facility for a third time, topping it up to R1 billion via Urban Ubomi 1. The event was a major signal to investors, developers and city residents alike.

"The timing of the increase by Standard Bank coincides with increased deal activity in the rental property market that TUHF services," said TUHF CEO Paul Jackson. "This is further evidenced by the recent increase in our deal flow. Having the support of Standard Bank bodes well for TUHF's ability to maintain healthy liquidity levels, respond to market demand, and grow the business in a challenging economy."

TUHF hopes this vote of confidence from South Africa's leader in sustainable bonds will send a few messages to investors: First, that TUHF is committed to sustainability in every sense of the word. It sees the advantages of sustainable property development over traditional approaches. Second, that its success is a call to action for investors and asset managers to propagate sustainability by rewarding sustainable developers in the marketplace.

"If we were just chasing growth from a commercial perspective, we would be doing deals in Sandton and the likes," said Mbatha. "But we want to see asset managers pricing for the additional value of the impact that green building is clearly creating."

**Further reading**

- ICMA Green Bond Principles 2021
- TUHF Integrated Annual Report 2021
- TUHF Sustainable Bond Framework
- Secondary Party Opinion on Sustainable Bond Framework by ISS ESG
- Standard Bank TUHF Case Study

**Additional materials**

- UHF "Inner City Rejuvenation" video

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# Contact us:


+27 21 406 1033

contactus@impactinvestingsa.co.za

https://www.linkedin.com/company/76088493/admin/

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