



Affordable Housing Program

AHP Delivery Framework Overview

State Department for Housing and Urban Development

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Introduction

- The Government of Kenya has a goal to deliver housing on ownership terms for the Kenyan citizens with an ambition to move from 30,000 mortgages to 1,000,000 mortgages with favorable ownership terms that have monthly payments as low as KES 5,000
- The Government also aims to bridge the annual gap of 250,000 homes by activating projects across the nation
- This ambitious program can be achieved by:
 - Focusing on the pipeline to launch ready projects on both national and county level;
 - Promoting economic recovery by linking MSMEs and Jua Kali sector to these projects; and
 - Making provisions in legislation for cheap and stable financing that will underwrite projects enmasse

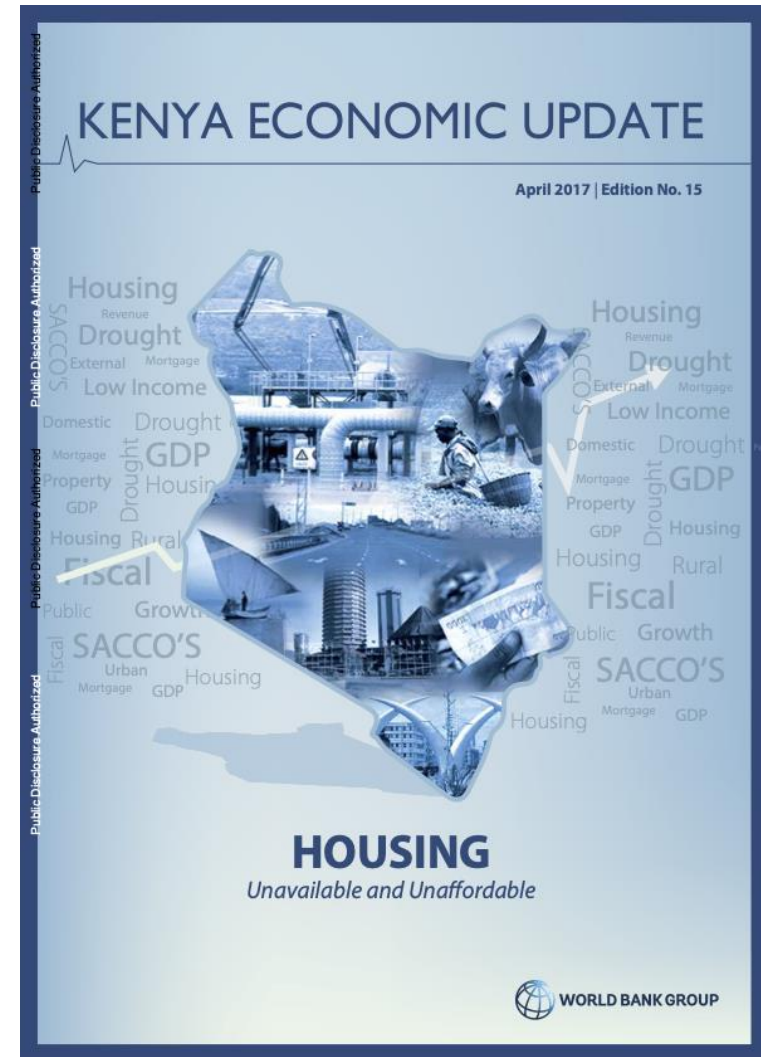


Challenges within the Housing Sector



Unaffordable and Unavailable

- The World Bank Study on Housing in Kenya in 2017 highlighted the consequence of the prevailing Housing Policy in Kenya by captioning housing as unavailable and unaffordable
- At the time, there was almost no supply on the market for a home less than KES 4 million (\$43,956), especially in Nairobi.
- By then the average cost of a home in Nairobi was KES 11 million
- About 6.4M Kenyans were living in slums representing about 56% of the country's urban population.
- 91% of people in Nairobi were renting because home ownership was out of reach





Unaffordable and Unavailable – Case Study of Mukuru



- Congestion is high in slums
 - The Mukuru Special Planning Area (SPA), for instance, comprises three settlements on 689 Acres including Mukuru Kwa Njenga, Mukuru Kwa Reuben, and Mukuru Viwandani
 - An estimated 100,561 households reside in this area under difficult conditions
 - Estimated population is 402,000 representing a density of 146 households per acre



Unaffordable and Unavailable – Case Study of Mukuru



- The poverty penalty in slums and informal settlements is quite high
- Tenancy Arrangements
 - 94% of Mukuru dwellers are tenants in tiny iron sheet shacks with minimal infrastructure
 - Rent payment per dwelling unit is approximately KES 2,500 per month
 - Therefore, about KES 230 million is collected every month in form of rent
 - That translates to about KES 2.8 billion collected in Mukuru per annum in form of rent
- Water and sanitation
 - 172% more per cubic meter of water
 - Pay for every use of toilet facilities
- Electricity
 - 45% - 142% more for monthly electricity



Cost of Construction

- Analysis of the cost of construction by the Center for Affordable Housing Financing in Africa disaggregated costs of construction in 2015/2016:
 - Land Costs – 23.4%
 - Infrastructure Costs – 14.5 %
 - Compliance Costs – 2.2%
 - Cost of Construction – 41.4%
 - Other Development Costs – 18.5%

- This analysis demonstrated that the delivery of affordable housing would have to address land costs, infrastructure costs, and compliance costs which amount to about 40% of costs

- 2021 study by CAHF indicated that land in Nairobi is the most expensive on the Continent

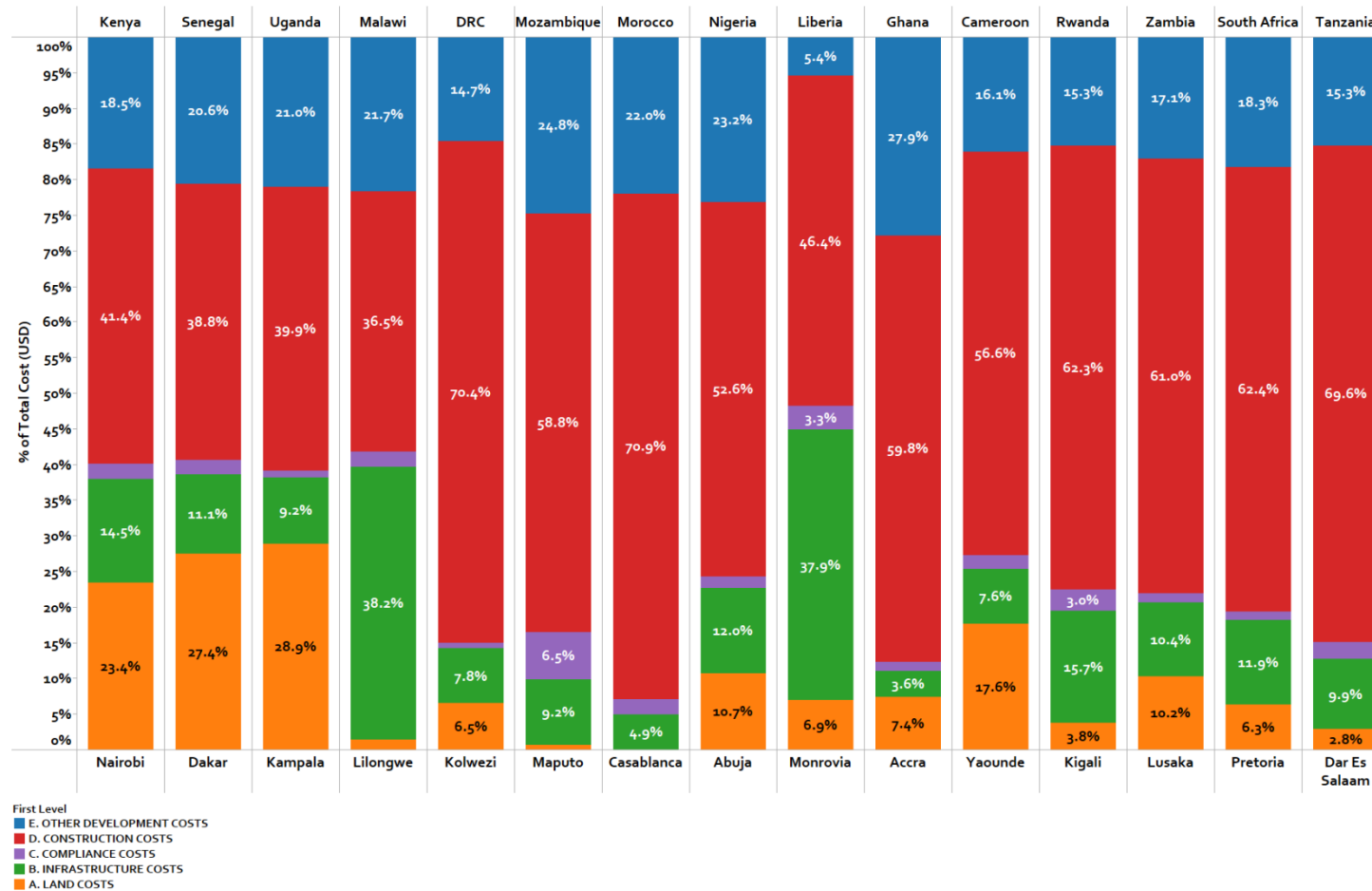


Figure 7: Comparison of Level 1 element costs Source: CAHF Housing Cost Benchmarking data (2016).



Navigating Supply Side and Demand Side Challenges

SUPPLY SIDE

- Developers have limitations on the number of units they can build because there are no guarantees on who will buy
- Developers will cherry pick where they will do developments
- Instead of building thousands of units, they limit their risks and build only limited numbers
- They price the risk because financiers perceive hustlers are a risky bet
- They have to put up more equity upfront and this is more expensive than debt
- They have long delivery periods because they have to match sales with draw downs of funds



- Buyers lack adequate funding to take up units
- They do not qualify for mortgages because of lumpy cash flows
- Existing mortgages are too costly due to high interest rates and short repayment periods
- There is limited supply of affordable units in areas where buyers can be connected to transport corridors and centers of economic activities

DEMAND SIDE



Key Interventions of Government



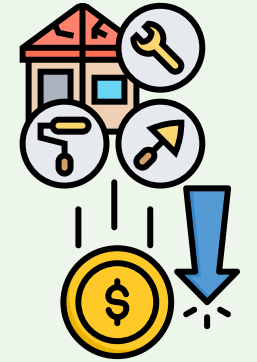
Cost of land zero rated



Cost of infra zero rated



Multiple tax exemptions



Lower cost of financing

The net effect is that the cost of units has significantly gone down
From an average of KES 11 Mn in 2017, we have an average cost of KES 3 Mn

But even at KES 3 Mn, majority of Kenyans cannot afford to own a home

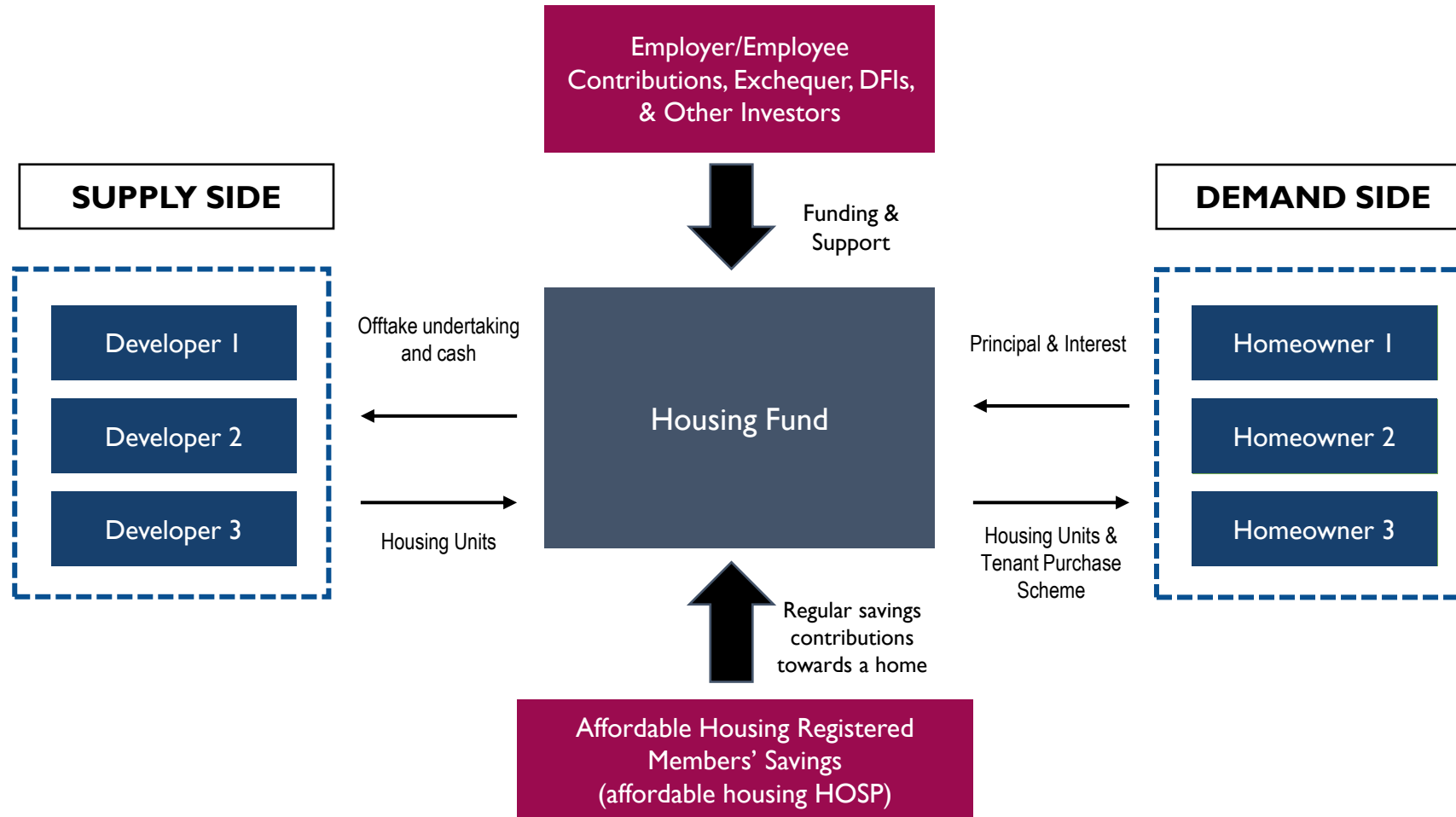
We established the Housing Fund to provide a Tenant Purchase Scheme (or rent-to-own)

Tenant Purchase Scheme under the Housing Fund



Housing Fund Functions in Summary

The Housing Fund will mobilize capital, offer certainty of sales in the form of an off-take undertaking to developers, and provide accessible finance for home buyers through a National Tenant Purchase Scheme or rent to own





Summary of AHP Offering to Kenyans through the Housing Fund

S/No.		AHP	Market
1	Cost of Unit (KES)	3,000,000.00	3,000,000.00
2	Deposit (%)	10%	10%
3	Home Financing (KES)	2,700,000.00	2,700,000.00
4	Interest Rate (%)	5%	15%
5	Tenure (Years)	30	10
6	Monthly Payment (KES)	14,311.49	42,015.98
7			3 x

Challenges and Potential Solutions



Challenges and Potential Solutions



- For the Housing Fund to finance homebuyers through an affordable TPS, we need to get cheap, stable, and regular funding



- Generating support from employers on contributions for employees



- Creating governance structures that promote public trust and safeguard the Fund and its assets



- Through mandatory contributions into the Fund, we can pool resources from employers and employees with provisions for voluntary contributions from the informal sector



- Enacting tax incentives such as a simple double deduction provision to reduce taxes for each contribution made on behalf of an employee



- Establishing professional operations with sufficient oversight
- Engaging stakeholders widely and leveraging political will



Challenges and Potential Solutions



- Managing defaulting risk among low-income buyers



- Maintaining investment grade quality of assets so that portfolio would be attractive to investors in capital markets



- Generating sufficient cashflows to sustain projects that can satisfy demand and promote voluntary contributions



- Introduction of insurance products such as income loss protection
- Setting up partial credit guarantees that protect the Fund and buyers



- Establishment of facilities management guidelines and standards
- Establishment of sinking funds for large capital expenditures especially on maintenance
- Establishment of Housing Regulatory Authority to manage quality of residential spaces



- Modeling and matching liabilities with cash inflows and contributions
- Exploring integration with capital markets



THANK YOU

Disclaimer:

The purpose of this Presentation is to provide recipients with information on proposed program approach for the proposed Housing Agenda. This presentation is subject to change as the development framework is challenged and subjected to stakeholder engagement and market sounding.