Construction financing in Africa’s affordable housing sectors: a critical gap
Testing the assumptions in Kenya’s Affordable Housing Program
Seeta Shah

Executive Summary

Across Africa, governments are tackling the challenge of affordable housing, and where they should apply their efforts. Almost always, the focus of their attention has been on mechanisms to stimulate delivering affordable housing for very low income earners. Whether supply-side subsidies (as offered in South Africa), providing mortgage liquidity through a jointly owned facility (as being pursued in Tanzania, Nigeria, Egypt, the WAEMU region, and now Kenya), directly delivering housing through national housing corporations (for example, in Botswana, Tanzania, Kenya), governments have tried various strategies with varying degrees of success. Complementary demand-side strategies aimed at matching the target population to the housing produced have also been tried. The Affordable Housing Program (AHP) launched by the Government of Kenya in December 2017, with an ambitious target of providing 500,000 housing units over a five-year period, is a recent effort.

This paper reviews the overall AHP framework including demand-side, supply-side and enabling interventions, and then examines the viability of intervention, which seeks to incentivise local developers to participate in the delivery of affordable housing on privately owned land. The paper highlights the problems preventing local developers becoming involved, and gives practical suggestions on how the AHP framework can be expanded to solve them.

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• The analysis finds that the expectations of a program like AHP to unlock delivery of housing without providing construction financing, is misplaced. In Kenya, even where the government is offering a guaranteed offtake, developers are unable to access construction financing because the prevailing cost of debt is too high (and the cost of equity even higher), as financiers benchmark the return required on their funds to the high interest rates offered on relatively risk-free government securities. Further, the plethora of mismanaged projects exacerbate investors aversion to participate in construction delivery. Therefore, unless funds for construction delivery are set aside, and the funds are managed with specific risk mitigation frameworks, the supply bottleneck cannot be unlocked. Providing well managed construction financing will allow developers to achieve economies of scale and further drive down construction costs, and promote other benefits like longer construction warranties.

• The need for construction financing is clearly shown by the “Pangani Project” within the AHP. Here, a developer who has been awarded land by the government into a joint venture to deliver housing, is favouring cash buyers by requiring a 40% payment upfront on signing of a sale agreement, and requiring the balance 60% of the house price, to be paid over 36 monthly instalments during the construction period. This moves delivery and construction risk to individual buyers who are least placed to mitigate against it. Further, at Pangani, the developer has opened up the sale of social units to families earning up to KES 150 000 (USD 1 500), which is 10 times the original defined income limit. This change in income eligibility is aligned to the market of the income group of people who can pay the required deposit and construction financing instalments, and currently do not have access to housing. The paper therefore argues that policy makers needs to recognise that middle and higher income brackets are also underserved in the housing affordability equation.

While the paper focuses deeply on the need for construction financing, the paper also provides a review and suggestions for other interventions for the wider AHP program, which are summarized in Section 5 under “Key Conclusions and Other Considerations.”

Overall, the AHP is an ambitious program which can uplift the lives of Kenyan and stimulate the economy through construction activity while boosting technical and vocational training-led employment opportunities. With deeper engagement with all stakeholders and tailoring the policy by incorporating lessons from the early projects, the AHP can transform the affordable housing landscape in Kenya, and governments across Africa can gain valuable learnings from the program design and implementation.

### Abbreviations

AHP: Affordable Housing Program  
CAHF: Centre for Affordable Housing Finance  
CBD: Central Business District  
C-GIDD: Canbank Global Income Distribution Database  
EPC: Engineer, Procure and Construct (where the developer is responsible to design and deliver the project to high level agreed specifications provided by the client. EPC is often more efficient than traditional delivery methods, as the contractor has all the relevant professionals under his own supervision, and supervision and has previous experience in delivering the product.  
EPC+F: Engineer, Procure, Construct and Finance, (provide full EPC plus financing for the project)  
HH: Household  
IPDU: Integrated Project Delivery Unit  
KMRC: Kenya Mortgage Refinance Corporation  
KPDA: Kenya Property Developers Association  
NHC: National Housing Corporation, a state parastatal mandated with the delivery and management of public housing  
NHDF: National Housing Development Fund  
PPP: Public Private Partnerships  
SDHUD: State Department of Housing and Urban Development  
TPS: Tenant Purchase Scheme  

### Key Source Documents

The key documents outlining the AHP are publicly available online at this link [http://www.housingandurban.go.ke/downloads/](http://www.housingandurban.go.ke/downloads/)

The following key source documents are available on CAHF’s website. See [http://housingfinanceafrica.org/countries/kenya/](http://housingfinanceafrica.org/countries/kenya/)

1. AHP Brief Presentation Feb 2019  
2. AHP Full Presentation Nov 2018  
3. AHP Development Framework Guidelines
Kenya’s Affordable Housing Program

The Affordable Housing Program (AHP) was launched by the Kenyan Government in December 2017, as one of its four pillars of economic growth, together with promoting agriculture and manufacturing, and providing universal health care. The AHP is the responsibility of the State Department of Housing and Urban Infrastructure Development within the Ministry of Transport, Infrastructure, Housing and Urban Development. Article 43 (1) (b) of the Kenya Constitution gives every citizen the right to accessible and adequate housing and to reasonable standards of sanitation. The housing backlog is estimated to be 1.85 million units and the government projects that it will need to facilitate the provision of 200,000 units a year to progressively cater for the shortfall and house new entrants into urban areas. The AHP has an ambitious target of delivering 500,000 houses within five years.

In August 2019, the Principal Secretary for SDHUD, Hon. Charles Hinga, announced at the Affordable Housing Investment Summit that over 260,000 Kenyans had registered on this portal.

Various presentations and documents on the official government website provide information on the AHP, information that raises questions about the viability of the programme, and which are worth reviewing up front.

1.1 Key Interventions

The AHP framework puts in place interventions to stimulate demand and supply as well as broader enablers for the overall housing sector. Because delivering housing is a county government responsibility the national government has to work with county governments to implement the AHP.

The AHP interventions were first summarised in presentations by the State Department of Housing and Urban Infrastructure in 2018 as follows:

![Figure 1: Summary of Key Interventions under AHP](Source: AHP Full Presentation Nov 2018, Page 7)

Since then, the AHP framework has evolved to provide the following interventions:

**Enabling Framework** interventions seek to clear key blockages along the housing delivery value chain, including those relating to land use planning and administration, access to information, delivery of infrastructure and municipal approvals:

1. Provide standardised typologies;
2. Improve efficiencies at the Land Registry;
3. Create a housing portal “Boma Yangu,” to match supply with demand.

In June 2019, an Integrated Project Delivery Unit (IPDU) was also proposed, to manage the housing projects under AHP, coordinate with mass transit and infrastructure and slum clearance projects, pursue economic linkages and manage information dashboards, and house a one stop shop for approvals.

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1. In August 2019, the Principal Secretary for SDHUD, Hon. Charles Hinga, announced at the Affordable Housing Investment Summit that over 260,000 Kenyans had registered on this portal.
2. Source: AHP Brief Presentation Feb 2019, Pg. 24
Demand-side Interventions seek to support access to the housing market through end-user finance arrangements and other financial incentives:

1. Zero-rated stamp duty for first-time buyers
2. Concessional end-user financing, depending on income levels:
   a. Long-term Tenant Purchase Schemes from the National Housing Development Fund for families earning less than KSh150,000 per month
   b. Long-term mortgages for families earning between KSh50,000 and KSh150,000 a month (US$500 – 1,500 p.m.), facilitated by the Kenya Mortgage Refinance Facility

Supply-side Interventions seek to enable the housing supply sector to deliver affordable housing, as defined by the AHP:

1. Promotion of a master planned approach and the development of mixed-use mega cities
2. Infrastructure funding
3. Provision of public land in joint venture models
4. Inclusion of private land and matching with selected developers
5. Guaranteed offtake from developers, where units are bought once completed. This will also be funded from the National Housing Development Fund.
6. Reduction in corporate tax from 30% to 15% for developers who supply more than 100 units of affordable housing a year.

Note: Provision of construction finance is not currently available under the AHP

Table 1: Key interventions under AHP as discussed at various conferences, stakeholder forums

1.1.1 Income bands for different financing eligibility

The income classification was initially demarcated and then revised, as shown below. AHP still caters to the bottom 3 bands termed “social,” “low cost” and “mortgage gap.”

Figure 2: Original income bands under AHP May 2018, Source: Outdated AHP presentations

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3 This law was signed in July 2018, but operational guidelines have still not been provided, and therefore first-time home buyers do not currently benefit from this tax incentive. Recent government remarks seem to narrow this incentive to first-time buyers within AHP-supplied units only.

4 The government presentations require land use for mega cities to be 50% for residential, 25% for utilities, roads, and services, 10% for community facilities and 15% for open space. AHP also emphasises good access and movement; adequate security measures; integrating smart technology and encouraging use of alternative building technologies to shorten the delivery time. While these are excellent principles, it is not clear how well these are being implemented at each project due to lack of publicly shared information.

5 This was previously applicable to developers who have delivered 400 units a year and has been cut to 100 units a year. No private developer affiliated with KPDA has achieved this corporate tax reduction and state it is due to long bureaucratic processes and unclear guidelines, including a lack of clarity on what ‘an affordable house is’, ineligibility of mixed income housing estates etc.

6 Local developers have been pursuing the removal of VAT on construction (Zero-rated VAT) as a key factor to reduce the cost of housing, with no success to date.
In November 2018, the income bands were revised upwards to broaden the bands as follows:

![Image](image_url)

**Figure 3: Revised Income classification under AHP, Source: AHP Full Presentation Nov 2018**

The red ‘X’ in Figure 2, implied that the middle to high income households were not catered for under the AHP, as the expectation was that the private sector already met this demand. The second presentation shows that the mortgage gap bracket has been expanded to a KSh150,000 income ceiling. It also shows that the middle to high income segment, while still not specifically catered for under the AHP, will benefit from the broader improvements in the market. For example, first-time homebuyers may qualify for stamp duty waivers; all homebuyers will benefit from investments in infrastructure, and faster mortgage processing enabled by the KMRC.

It is worth considering the number of households that make up each of the income bands, which has been calculated using the closest aligned C-GIDD (Canbank Global Income Distribution Database):

<table>
<thead>
<tr>
<th><strong>AHP Category</strong></th>
<th><strong>Min monthly income (CAHF band)</strong></th>
<th><strong>Max monthly income (CAHF band)</strong></th>
<th><strong>Total rural HH</strong></th>
<th><strong>Total urban HH</strong></th>
<th><strong>Total HH</strong></th>
<th><strong>%HH</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Social housing (KSH 0-19,999 pm)</td>
<td>KSH 0</td>
<td>KSH 19,792</td>
<td>3,319,391</td>
<td>442,989</td>
<td>3,762,380</td>
<td>34%</td>
</tr>
<tr>
<td>Affordable housing (KSH 20,000 – 49,999 pm)</td>
<td>KSH 19,792</td>
<td>47,500</td>
<td>3,236,443</td>
<td>1,002,925</td>
<td>4,239,368</td>
<td>38%</td>
</tr>
<tr>
<td>Mortgage Gap 1 (KSH 50,000 – 99,999 pm)</td>
<td>KSH 47,500</td>
<td>KSH 91,042</td>
<td>1,037,997</td>
<td>762,765</td>
<td>1,800,762</td>
<td>16%</td>
</tr>
<tr>
<td>Mortgage Gap 2 (KSH 100,000 – 149,999 pm)</td>
<td>KSH 91,042</td>
<td>KSH 158,333</td>
<td>291,577</td>
<td>420,043</td>
<td>711,620</td>
<td>6%</td>
</tr>
<tr>
<td>Middle – High Income (KSH 150,000 pm plus)</td>
<td>KSH 158,333</td>
<td>KSH 3,958,333</td>
<td>229,170</td>
<td>296,615</td>
<td>525,785</td>
<td>5%</td>
</tr>
</tbody>
</table>

| **Total HH**                      | **8,114,578**                      | **2,925,337**                      | **11,039,915**     | **100%**           |

Table 2: Households by Income Classification, Source: C-GIDD 2017 data as sourced by CAHF and presented in the 2018 Housing Finance in Africa Yearbook

The C-GIDD data confirms that most (72 percent) of the population lie in the social and affordable housing bands. The 2.5 million households in the mortgage gap make up another 22 percent of the population. Research has shown, however, that the bottom end of the middle to high income band also struggles to access housing and finance to buy housing. This was noted by government when they broadened the bands in response to public opposition to the National Housing Development Fund.

The financing available to each of these income bands is discussed in section 1.3.3

### 1.1.2 Standardised unit sizes and offtake prices

AHP has defined unit typology sizes and guaranteed offtake prices targeted (Table 3). The National Housing Development Fund levy was initially structured as a mandatory tax on all employed persons, with the benefits geared more towards the lower income brackets who may not contribute to the Fund. Previously the AHP contained affordable 1 and 2 BR units, but recently the government appears to be prioritising these 4 typologies.

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7 Shah, S and Ruparel, R (2019). CAHF, Case Study 13, Delivering Affordable Housing in Kenya, the Case of Karibu Homes Ltd.
8 The National Housing Development Fund levy was initially structured as a mandatory tax on all employed persons, with the benefits geared more towards the lower income brackets who may not contribute to the Fund.
9 Previously the AHP contained affordable 1 and 2 BR units, but recently the government appears to be prioritising these 4 typologies.
<table>
<thead>
<tr>
<th>Unit typology</th>
<th>Category</th>
<th>Size m²</th>
<th>Offtake price KSH (official AHP)</th>
<th>Offtake price KSH (calculated)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Room</td>
<td>Social</td>
<td>15</td>
<td>600,000</td>
<td>40,000</td>
</tr>
<tr>
<td>2 Rooms</td>
<td>Social</td>
<td>25</td>
<td>1,000,000</td>
<td>40,000</td>
</tr>
<tr>
<td>1 Bedroom</td>
<td>Affordable</td>
<td>30</td>
<td>1,500,000</td>
<td>50,000</td>
</tr>
<tr>
<td>2 Bedrooms</td>
<td>Affordable</td>
<td>40</td>
<td>2,000,000</td>
<td>50,000</td>
</tr>
<tr>
<td>3 Bedrooms</td>
<td>Affordable</td>
<td>60</td>
<td>3,000,000</td>
<td>50,000</td>
</tr>
</tbody>
</table>

Table 3: Standard unit sizes and price per square meter, Source: Author’s notes from various conferences

1.2 AHP delivery expectations

The AHP is framed by a series of expectations about the performance of Kenya’s housing delivery value chain. A key determinant of the AHP’s success is whether these expectations are well founded or not. This section considers whether experience on the ground supports the expectations of the AHP on land, infrastructure, construction financing, and the offtake agreement.

1.2.1 Land

Housing delivery in the AHP is defined in terms of two separate points of origin: housing delivery on public land and housing delivery on private land.

Public Land

A high-level inventory of under-utilised public land, at national and county level, together with expectation of private land that will be contributed, has been compiled to show the land available for the AHP, and is shown in the Figure 4.

Figure 4: Project pipeline, Source: AHP Full Presentation Nov 2018, Page 13

On public land, the government is encouraging public private partnerships via a project-specific joint venture, where the public sector contributes the land, and the private sector developer brings the development capacity and finance to deliver the housing. The PPP structure is shown in Figure 5.

Figure 5: Standard Joint Venture model for public land, Source: Figure 7.2 AHP Development Framework Guidelines
The PPP structure allows the developer to sell one-third of the units to the open market and maintain two-thirds of the units within the AHP benchmarked prices. Park Road, which is the first project to be launched under the AHP where the national government is the landowner, appears to have been tendered following this PPP structure.

Nairobi County government has also entered into PPP negotiations for the redevelopment of housing estates it owns. The PPP model pursued by the county involves the County contributing the land and obtaining 20 percent of the finished units in return. Existing tenants will be provided alternative accommodation during construction and get a first preference to buy a unit, potentially on concessional long-term financing via the county. The county has selected developers for six projects namely Technofin for Pangani, Green Erdemann for Ngong Road, Green Prestick for Old Ngara, Stanlib for Uhuru and Directline Assurance for Suna estates.

A review of high profile projects launched under the AHP namely Park Road (on national government land), Pangani (on Nairobi County land), Habitat Heights (on UN Habitat land), and River Estate (on private land), are discussed in Section 3.

**Private Land**

For private land, the government held two requests for proposals which closed on February 14 and April 30, 2019 respectively, asking landowners to come forward and contribute land. Approximately 3,000 acres of land were submitted in Window 1.

It is expected that the private landowners will be matched with private developers and both parties will negotiate a mutually suitable joint venture agreement. It is unclear what return private landowners will get, and whether the landowners will be willing to take the risk to work with an unknown developer and get a first preference to buy a unit, potentially on concessional long-term financing via the county.

A key question is whether the government’s offtake proposal is feasible as currently structured, due to the low offtake price relative to delivery costs and lack of construction financing. This is the subject of the analysis in Section 2 of this Paper. The conclusions reached here are supported by several private landowners who have development capacity.

1.2.2 Infrastructure

The need for coordinated infrastructure delivery both for utilities and transport is key to unlocking the housing program. Presentations have been made at several conferences about how additional infrastructure can be delivered via PPPs and how capital markets and pension funds can be accessed to do this, however, nothing tangible has yet been seen. Further, county level management of infrastructure complicates collecting data to confirm the project demand and supply and what infrastructure is needed.

The great shortage of infrastructure was underscored in a Karibu Homes affordable housing development in Athi River, on the peri-urban fringe of Nairobi and a key target geography for affordable housing. The development highlighted the following infrastructure challenges faced by developers in Kenya:

- While water is theoretically available, as the developer had obtained all approvals for connecting to the county water supply, in reality the water pipes from the county run dry. Karibu Homes provides boreholes at its own cost to overcome the lack of water from the county pipes, residents still have to buy water for drinking and cooking, as the borehole water is not potable.
- Residents of peri-urban locations spend a great deal of time and money travelling to key nodes of work including the CBD and Westlands. Interviews with owner occupiers at Karibu revealed that adults spent an average of KSh20,000 (US$200) a month on fuel commuting 2-4 hours a day. They prefer to use their own cars as rail options are few and minibus taxis take even longer.

1.2.3 Construction Financing

The promise of “affordable developer financing” in the AHP framework (Figure 1) has not been fulfilled. The expectation is that developers’ financing costs will be reduced through (1) the use of alternative building materials to shorten the duration of construction and (2) the availability of a guaranteed offtake for completed units decreasing exit risk. This expectation is not in line with market realities. Section 2 explores this in more detail.

1.2.4 Offtake Agreement

The key incentive offered by the AHP to encourage developers to participate is the “guaranteed offtake agreement.” The model for the offtake agreement is as follows:

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10 The county owns over 16,000 housing units in approximately 35 different well located estates, which are ripe for redevelopment.


• The developer and the government’s parastatal, the National Housing Corporation (NHC), enter into an offtake agreement prior to construction
• The offtake price is currently set at KSh40,000 or $400/m² for social units and KSh50,000 or $500/m² for affordable units. This price applies to the sellable square meter (net internal m²), not the gross built area (or plinth area)
• The developer will build 70 percent of the units to the AHP specifications, and 30 percent to market specifications.
• The developer must engineer, procure, construct and finance the units, and then sell the units to the NHC upon completion.
• The developers must provide a cash collateral or letter of guarantee of KSh100 million (US$1 million) to enter into the offtake agreement.

The payment process detailed in the offtake agreement envisages the developer being paid all he is owed almost two years after completion of the project. This is broken down as follows:
• Upon project completion, the developer is to give 120-day notice to the offtaker, the NHC.
• Thereafter, the NHC has 180 days to verify the project and make payment.
• If there are any disputes, there is a lengthy process of approximately 3.5 months for an expert determination (14 days to agree an expert, 42 days to make submissions, 21 days for counter submissions, a further 21 days for oral representations, and 14 days for determination).
• Once the NHC is satisfied, it will pay the developer 90 percent of the project cost and the balance of 10 percent after one year of occupation (the completion of the defect warranty period).

Developers are not enticed by the offtake agreement in its current form. They cite the difficulty of procuring construction finance and the poor credit rating of the government locally – the government has a reputation for being a late and unreliable payer. Also, the offtake agreement misunderstands development realities. For example, that 30 percent of units can be built to market specifications in mixed developments is expected to sweeten the deal for developers. However, it only applies to high land-value parcels, particularly centrally located land in big cities. The arrangement does not benefit developers in peri-urban land where the market for higher end housing is low due to distance from jobs and the lack of other amenities. It also does not take account of the recent weakness in the Kenyan economy, which has softened considerably since 2017, resulting in declining off-plan sales and diminished speculative interest in the residential real estate sector.

The proposed AHP offtake model differs markedly from the current developer financier model, where the developer uses cashflows from buyer deposits to fund as much of the development as possible. Cashflow financing results in the clear differentiation between “cash outright,” “cash instalment” and “mortgage” pricing of units for sale on the market but is aligned to market realities where accessing construction finance is a key barrier to delivery.¹³

These challenges are further explored in Section 2 of this paper.

1.3 End User Financing

The financing framework under the AHP is summarised below. The two key interventions are the creation of a National Housing Development Fund (NHDF) and a Kenya Mortgage Refinance Company (KMRC).

1.3.1 National Housing Development Fund (NHDF)

The NHDF has been set up as one of the financing sources for the AHP.¹⁴ All formal sector employees and employers make mandatory contributions of 1.5 percent of their salaries. Informal sector employees are encouraged to contribute a minimum of KSh100 (US$1) per month. In time, it is expected the NHDF will access the capital markets for additional funding.

The contributions from the formal sector alone are projected to generate approximately KSh55 billion (US$550 million) a year from both the employers and employees. Cytonn, a real estate developer and asset manager, reports that the employers’ contributions will be used to fund completed houses supplied by developers under the offtake agreements.¹⁵ Contributions from employees will be monitored in each employee’s personal Home Ownership Savings Plan, and will be used towards the purchase of a house. If an employee does not

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¹² The CAHF Karibu Homes Case Study showed a price differential of 11% between Cash Outright and Mortgage pricing at launch of the project, and a 5% differential at project completion (the latter due to delays in registration, which also resulted in delays in obtaining the financing from the mortgage bank for the buyer).
¹⁴ The Housing Fund was established under the Housing Act 2018 Section 6 (1), under the control of National Housing Corporation (NHC) as provided for in the Housing Act Cap 217
purchase a house, his contribution will be refunded after whichever comes first, 15 years after first contributing or when the employee retires. Employees may be able to access their savings under the NHDF earlier via application for a loan towards a house outside the AHP.

Applicants for the AHP must have made six months uninterrupted contributions to NHDF, and register on the portal, providing a range of metrics including household size, number of children, household income, if they belong to any special work group such as the police force, and the location and housing unit they desire.

These metrics will first be used to place the applicants in groups, from which a lottery draw will be conducted to select who gets available housing units. The intention of the grouping is to balance applicants with the most need to suitable housing units and create diversity within housing communities. While the intention of the lottery is to have a transparent and non-biased process with no human interference, it has been viewed with great public scepticism.

If selected, an eligible family will have to pay a deposit of 2.5 percent, and to provide additional funding of 10 percent during construction. They will receive financing for the balance of 87.5 percent during their Tenant Purchase Scheme (TPS) tenor. The interest rate for the TPS varies according to income band, as summarised in Table 4.

The mandatory contribution to the NHDF has been the subject of a legal challenge by COTU-K for over a year now. While the government is framing this as a consolidatory tax, where Kenyans come together to support the less vulnerable, there are still too many questions on how it will work, how corruption from the funds will be minimised, and so on. Opposition from formal sector employees has highlighted that, even if the government manages to deliver the target of 0.5m houses under the AHP, the best case scenario for formal sector workers is to deliver the target of 0.5m houses under the AHP, human interference, it has been viewed with great public scepticism.

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Refinance Company, in April 2019. Cytonn concludes that the KRMC is a positive step towards lowering Kenya’s housing deficit by bringing in additional capital and lengthening tenors of mortgages, but found it was still not clear how KMRC would provide concessional interest rates once the initial concessional loans were used up and KMRC had to access capital markets.

### 1.3.3 Summary of end-user financing eligibility

The eligibility of end user financing is dependent on the income of the household and is summarised below. As discussed under Section 1.3.1, the eligibility does not guarantee the availability of the finance package under the long-term concessional rate Tenant Purchase Schemes.

It is not clear whether the income banding is by total household income or by the highest income earner in the household. This distinction is clearly important, particularly with double income households.

<table>
<thead>
<tr>
<th>Terminology</th>
<th>Revised Income range per month</th>
<th>Financing eligibility</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social Housing</td>
<td>KSh0 – 19 999</td>
<td>20-25-year Tenant Purchase at 3 percent fixed from NDHF</td>
</tr>
<tr>
<td>Low Cost</td>
<td>KSh20 000 – KSh149 999</td>
<td>20-25-year Tenant Purchase at 5 percent fixed from NDHF</td>
</tr>
<tr>
<td>Mortgage Gap</td>
<td>KSh50 000 – KSh149 999</td>
<td>20-25-year Tenant Purchase at 7 percent fixed from NDHF, and long-term mortgages at concessionary rate of less than 10 percent from Primary Mortgage lenders facilitated by KMRC</td>
</tr>
<tr>
<td>Middle to High Income</td>
<td>KSh150 000 and above</td>
<td>Will borrow at market rates (currently 13.5 percent), but KMRC will enable longer tenors</td>
</tr>
</tbody>
</table>

Table 4: Criteria and terms of end-user financing under the AHP, Source: Government remarks at conferences

### 2 Testing the AHP assumptions – a Case Study

This section looks at the viability of a local developer participating in the AHP by undertaking a feasibility study of a hypothetical project on a private parcel of land that is actually available for development.

Three credible local developers, who have a track record of delivering between 300 to 1 000 units each, were also interviewed in depth and their perspectives mirrored the conclusions from the analysis of the pilot project.

#### 2.1 Case Project description

The case project concept is to build two-bedroom (2 BR) apartments on a well-located parcel of land to determine if a private developer can viably participate in the AHP program using privately owned land. The components of the case study are outlined below:

<table>
<thead>
<tr>
<th>Feature</th>
<th>Rationale</th>
</tr>
</thead>
<tbody>
<tr>
<td>2 BR typology</td>
<td>The 2 BR typology is chosen as it is suitable to a wide spectrum of occupiers including married couples, small families, elderly couples with one adult child, or unrelated adults who choose to live together and pool their incomes. Two BR units are also cheaper to deliver per square metre, compared to 1 BR and studio units, as all three typologies require one kitchen and one bathroom, which are the most expensive components of a house. Hence the smaller the housing unit, the higher the per square metre cost of delivery. Therefore, a studio or 1 BR, would be more expensive per square metre than a 2 BR unit. Finally, providing a single typology, will simplify the designs and construction, as it is managing a single procurement stream and supervising a single construction typology, repeated over the number of units.</td>
</tr>
<tr>
<td>Gross built up area of 46m² per 2 BR unit</td>
<td>The concept uses the government standardised 2 BR unit measuring 40m² net. As common areas like corridors and staircases have to be provided, an efficient ratio of 1.15 for gross built up area to net internal area, results in a gross built-up area of 46m² per 2 BR unit.</td>
</tr>
</tbody>
</table>

---


22 Initially, this income bracket was categorically excluded from AHP interventions, however, the government has now stated that all income brackets can participate, and it is the financing package that will vary.
Planned density: 150 units an acre

The planned density results in a floor area ratio (total built-up area / total land area) of 1.7. Using a block typology of ground floor plus three upper floors, this means that half the land will have housing units built on it, while the other half will be used for circulation and roads, green space and communal space like playing fields, etc. While it can be argued that the project could be made denser to allow more profit to be made from the land, the proposed density is appropriate for this location and available utilities. Increasing the density to 8-15 stories would only be feasible after heavy investment in public transport and off-site bulk infrastructure. Also, once a development goes above ground plus four stories, it requires a lift which increases construction and operational costs significantly.

Commercial facilities

No commercial facilities are provided as part of this development, as it is abutting an existing well trading shopping centre which also has offices, leisure and food outlets.

Government’s offtake agreement: 70 percent for AHP

The government states that the developer should build 70 percent exclusively for government offtake, and 30 percent for the “market.” The expectation is that the developer will extract greater profit from the market units rendering the overall development more viable. However, this distinction does not hold true in practice for peri-urban privately-owned land, as the market for higher end units in such locations is over-supplied, as seen by several unsold developments around the subject site. Therefore, the purpose of this viability is to test whether a developer can contribute to the AHP using the government’s offtake arrangement, the only intervention being provided to private developers.

---

2.2 Case Project financials

The case project key assumptions are the listed below:

<table>
<thead>
<tr>
<th>Land Size</th>
<th>1 acre</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land Value</td>
<td>KSH20 million or $200 000 per acre, all services available to boundary</td>
</tr>
<tr>
<td>Housing Units</td>
<td>150 units of 2 BR each, measuring 40m² net internal area</td>
</tr>
<tr>
<td>Gross to Net area</td>
<td>An efficient gross to net area of 1.15 is used, resulting in total buildable area of 6 900 m², and total sellable area of 6 000 m².</td>
</tr>
<tr>
<td>Density</td>
<td>Apartments arranged in ground floor plus 3 stories configuration. 1.7 Floor Area Ratio (total built up / total land area) leaving adequate space for road circulation / parking / communal play / green space etc.</td>
</tr>
<tr>
<td>Onsite infrastructure</td>
<td>KSh6 million or $60 000 per acre</td>
</tr>
<tr>
<td>Construction cost</td>
<td>KSh1500/m² or $15/m² excluding VAT</td>
</tr>
<tr>
<td>Soft costs</td>
<td>12 percent of hard construction and infrastructure cost before VAT. This includes professional fees, marketing costs and approval costs.</td>
</tr>
<tr>
<td>Finance Cost</td>
<td>14 percent interest rate plus 1 percent fees</td>
</tr>
<tr>
<td>Debt to Equity mix</td>
<td>Debt funds 60 percent of construction and infrastructure cost including VAT only. Equity funds the balance of 40 percent of construction and infrastructure cost including VAT, land, soft costs, and interest on the debt.</td>
</tr>
<tr>
<td>Project timing</td>
<td>The project timing is as follows: Months 1 – 3: Developer contributes land, finalises designs Months 4-6: Developer obtains approvals and financing Months 7 – 24: Construction over 18 months Months 27: First offtake payment of 90 percent Month 39: Second offtake payment of 10 percent Based on comments by the SHDUD on the willingness to negotiate the offtake agreement, the payment metrics contained in the draft offtake agreement are NOT used. Instead, the tighter payment timeframe shown above is used.</td>
</tr>
<tr>
<td>Developer returns</td>
<td>Local developers require an internal rate of return (IRR) of over 25 percent, commensurate to the risk they are taking and alternative opportunities to deploy their capital in other sectors and markets. The IRR has been derived from a monthly cashflow created to reflect the inflows and outflows of the different project sources and uses.</td>
</tr>
<tr>
<td>Sensitivities</td>
<td>Sensitivities have been run on the offtake price, VAT on construction, and finance cost, to show how the necessary developer return can be achieved.</td>
</tr>
</tbody>
</table>
The resulting financials of the Case project are shown in Table 7:

CURRENT METRICS: 15% CONSTRUCTION INTEREST RATE, DEBT TO EQUITY: 50:50
16% VAT ON CONSTRUCTION, OFFTAKE PRICE KES 50,000 PSM

Table 7: Project Financials for 150 unit x 2 BR Case Study Project, Source: Author calculations using prevailing market costs

<table>
<thead>
<tr>
<th>Project Costs</th>
<th>150 units</th>
<th>1 unit</th>
<th>1 sqm</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land value</td>
<td>20,000</td>
<td>133.33</td>
<td>333.33</td>
</tr>
<tr>
<td>Infrastructure cost</td>
<td>6,000</td>
<td>40.00</td>
<td>1,000</td>
</tr>
<tr>
<td>Construction @ KES 31,500 psm</td>
<td>217,350.00</td>
<td>1,449</td>
<td>36,275</td>
</tr>
<tr>
<td>VAT on Infra + Construction</td>
<td>35,736.00</td>
<td>258</td>
<td>5,956</td>
</tr>
<tr>
<td>Total Hard Costs</td>
<td>259,086.00</td>
<td>1,727.40</td>
<td>43,181</td>
</tr>
<tr>
<td>Soft Costs (Prof / Mk/f/ Appr)</td>
<td>26,802.00</td>
<td>178.680</td>
<td>4,467</td>
</tr>
<tr>
<td>Interest on debt @ 15%</td>
<td>13,757.466</td>
<td>917.16</td>
<td>2,293</td>
</tr>
<tr>
<td><strong>Total Project Cost</strong></td>
<td><strong>319,645.466</strong></td>
<td><strong>2,130,970.274</strong></td>
<td><strong>53,274.100%</strong></td>
</tr>
</tbody>
</table>

**Financed by**
- Debt: 155,451.600
- Equity: 164,193.866

**Total Sources**
- 319,645.466

**Offtake price offered by AHP**
- 300,000.000

**Required offtake price for viability**
- 390,000.000

<table>
<thead>
<tr>
<th>Key Conclusions:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Developer Equity required per unit: KES 1.15m (USD 11,550)</td>
</tr>
<tr>
<td>Not viable to participate unless offtake price increased to KES 65,000 (USD 650) psm</td>
</tr>
</tbody>
</table>

The key issues and sensitivities derived from the Case project financials are as follows:

- **Cost of land**: The cost of land contributes 6 percent of the unit cost. Despite common belief, this is no longer the limiting factor due to high densification.
- **Cost of infrastructure**: The onsite infrastructure contributes 2 percent of the unit cost. This is due to high densification, and because only onsite infrastructure is required for the pilot as the land is serviced to the boundary. As some serviced land is available on the peri-urban boundaries of major cities and in satellite towns, the cost of infrastructure is not a limiting constraint either to the provision of affordable housing on these well located parcels.
- **Cost of Construction**: The cost of construction is the key limiting factor for delivery of affordable housing. In the pilot, it accounts for 66 percent before VAT, and a further 11 percent for the VAT itself, resulting in 77 percent of the total cost. While several alternative building technologies have entered the Kenyan market, they are yet to be able to drive down costs further (partly because they rely on expensive imports, and partly because they have not reached scale themselves). Box 1 decipheres the high cost of construction for local developers in Kenya.
• **Interest on debt:** The interest on debt equates to 4 percent of the unit cost, which is acceptable. However, it is the amount of debt and equity the developer must raise that makes these projects challenging. This is discussed in more detail in Section 4.1.

• **Delivery cost and returns:** The delivery cost in the pilot is KSh53,274/m² (USD 532/m²) which is 6 percent more than the offered offtake price of KSh50,000/m² (USD 500/m²). The offtake price would need to be increased to KSh65,000/m² to be viable to local developers. This is a similar price to the prevailing market sale price for developers like Karibu Homes.  

The key variables including the cost of construction debt, the availability of construction debt, the offtake price and VAT are stress tested in Section 4.2 to derive to the ideal scenario where local development can be stimulated with the lowest cost.

### 2.3 Understanding Construction Costs in Kenya

A benchmarking study that compared construction costs of housing across 30 cities in Africa, ranked Nairobi as the most expensive city in which to deliver housing. The high cost of construction is a key component to this high delivery cost overall, particularly where density has now brought down the land and infrastructure contribution per housing unit.

In Kenya, the size of developer and the product has a big bearing on cost of construction. Large and small developers exist in parallel universes in Kenya, due to different product typologies, cost of capital and regulatory constraints. The construction cost, and sale price per square metre, of large developers is almost double that of small developers. This divergence is explained in the box below.

<table>
<thead>
<tr>
<th>Developer Size</th>
<th>Product</th>
<th>Construction Methodology</th>
<th>Volume</th>
<th>Capital injection</th>
<th>Average construction cost per sqm</th>
<th>Average sale price per sqm to market</th>
<th>Examples of local developers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small</td>
<td>Bungalow (1 storey)</td>
<td>Buys materials and hires labour on a daily basis, acts as developer and contractor</td>
<td>&lt; 50 units pa</td>
<td>Limited capital from developer, projects funded largely by purchaser instalments</td>
<td>Ksh20,000</td>
<td>Ksh35,000</td>
<td>Mahiga, Banda, Sierra</td>
</tr>
<tr>
<td>Large</td>
<td>Apartments (4 stories +)</td>
<td>Employs a contractor for delivery of project</td>
<td>&gt;100 units pa</td>
<td>Raises significant equity and debt in addition to purchaser instalments</td>
<td>Ksh36,000</td>
<td>Ksh65,000</td>
<td>Karibu, Suraya, Greenspan, Unity, Riruta, Chigwell, Natureville</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>Factor</th>
<th>KSH per m²</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base construction cost for small developers</td>
<td></td>
<td>KSH 20,000</td>
<td>Input resulting in average sale price per m² of KSH 35,000</td>
</tr>
<tr>
<td>Structure</td>
<td>25%</td>
<td>KSH 25,000</td>
<td>Additional steel, etc., for building high rise versus single storey</td>
</tr>
<tr>
<td>Labour</td>
<td>5%</td>
<td>KSH 26,250</td>
<td>Pay all regulatory dues on labour (NSSF, NHIF, PAYE)</td>
</tr>
<tr>
<td>Margin</td>
<td>20%</td>
<td>KSH 31,500</td>
<td>Add profit margin for contractor</td>
</tr>
<tr>
<td>Area adjustment</td>
<td></td>
<td>KSH 31,500</td>
<td>Resulting cost per buildable m² from contractor to large developer</td>
</tr>
<tr>
<td>VAT</td>
<td>16%</td>
<td>KSH 42,021</td>
<td>16% VAT is an additional tax on final contractor price</td>
</tr>
<tr>
<td>Corresponding construction cost for Large Developers</td>
<td></td>
<td>KSH 42,021</td>
<td>Input resulting average sale price per m² of KSH 65,000</td>
</tr>
</tbody>
</table>

---

23 There is a seesaw equation that makes the current sale price of KSh65,000/m² viable as the offtake price. In the current market the financing cost borne by the developer is less than under the AHP, as the developer obtains some purchaser instalments along the delivery cycle.

The input construction cost of KSh 31,500 per built square meter has been achieved and applied in the case presented in this paper. This input meets the government’s own target to reduce construction costs from KSh 44,754/m² to KSh 31,328/m², as shown in Figure 6.

However, the actual construction cost per square meter increases due to the gross-to-net built-up area, and the VAT applied on the construction contract. Therefore, the actual construction cost component per sellable square meter for large developers is approximately KSh 42,000/m².

Even if large developers have a vertically integrated contractor, this will not remove the requirement for the profit margin for the contractor, as each cost centre will need to raise its own capital and require its own return. In Kenya, contractors typically require a 20 percent margin (as the expectation is they will be paid as the work is done), and large developers require a minimum of a 25 percent IRR as they are undertaking greater risk in assembling the project, raising debt and equity and undertaking delivery and sales risk.


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**Box 1: Divergence of construction costs between small and large developers**

It is surprising that the offtake price is being benchmarked at KSh50,000 (US$500/m²) without construction financing when a review of the high profile projects under Section 3 show that even these projects are not meeting the benchmarked price.

### 3 Review of high profile projects launched under the AHP

Park Road, Pangani, Habitat Heights and River Estate are four high profile projects which have been launched under the AHP and are reviewed here.

#### 3.1 Park Road

The Park Road project, was the first project to break ground under the AHP in September 2018, and appears to be negotiated under the PPP structure described in Figure 5. It is located on a 7.9 acre land parcel located in Ngara, a central neighbourhood of Nairobi near the CBD. The project will deliver 1,500 housing units on a 7.9 acre, in Ngara, a central neighbourhood of Nairobi near the CBD. The density equates to 190 units an acre. The national government is the landowner and has selected China State Construction Engineering Corporation Limited (CSCEC) as the EPC+F contractor. A condition of the project is that the developer involve the local informal artisan industry, known as the “jua kali” sector, to supply the doors and windows worth US$2 million, in expectation that this will lead to the standardisation of products supplied by them and boost the development of this manufacturing sector.

The government will buy the units built upon completion, and then on-sell to qualifying buyers in terms of the AHP. The first 200 units are almost complete as at October 2019, with the balance units expected to be delivered by October 2020.

The sale price of the units advertised on the Boma Yangu portal comply with the required offtake price of KSh 500,000/m² (US$500/m²), accept for the 3 Bedroom, 60 m² unit which is priced higher at KSh 592,000 (US$592/m²). This typology (3 Bedroom, 60 m²) comprises 40% of all the units delivered.

---

25 EPC+F stands for Engineer, Procure, Construct and Finance
The plinth area, also called the built-up area, is the entire area occupied by the building: the sellable area is that of the apartment itself, excluding common areas such as staircases and corridors.

Figure 7: Sale prices for units at Park Road, Source: advertised on Boma Yangu portal

- **Contractor:**
  - China State Construction Engineering Corporation Limited (CSCEC) with local partners: Sketch Studio; Metrix Integrated Consultancy; LINX Consulting Engineers; BECS Consultancy

- **Procurement Details:**
  - Tender advert: 14/9/2018
  - Tender closing: 12/11/2018
  - Award: 8/12/2018
  - Contract signing: 27/12/2018
  - Site handover: 05/02/2019

- **Other Project Contract Details:**
  - Contract price is KES 4,986,008,192/-.
  - Construction cost per SQM (all inclusive) of KES 44,822
  - Revised development cost per plinth SQM is KES 62,461.27/-.  
  - Tallest residential building is 14 floors
  - No. of parking spots provided is 1,065 (ratio 1:0.78)
  - Kindergarten, Parking silo, and commercial Centre provided
  - Total construction period is 23 Months
  - First set of units: August 2019

- **Unit Typologies Details:**
  - Total number of units: 1,370
  - Category 1 Units:
    - 2 BR (60 sqm): 228; 3 BR (80 sqm): 260
  - Category 2 Units:
    - 1 BR (30 sqm): 84; 2 BR (40 sqm): 252; 3 BR (60 sqm): 546

Figure 8 gives some details of the Park Road project, as set out in the Delivery Framework Report published by the government in February 2019. The developer is following the rule of one-third of the units to market (488 out of 1,370 units) and two-thirds to the AHP specifications (882 out of 1,370 units). The project will not deliver any social housing units, but will provide affordable housing 1, 2 and 3 BR units, at the specified AHP sizes, and slightly bigger 2 and 3 BR units, all at competitive prices around as discussed above Figure 7.

While it is not clear what is contained in these budget figures, the extract in Figure 8 makes it difficult to support an offtake price of KSh50 000/m$^2$ (US$500/m$^2$) on the following rationale:

- The extract shows a total revised cost per plinth$^2$ sqm of KSh62,461 (US$624), which is higher than the benchmarked offtake price of KSh50 000 (US$500)/m$^2$ sellable area.
Further, the “construction cost/m² all in” is stated as KSh44,822/m² (US$448), – and even if it is likely to apply to sellable area (although it is likely to apply to plinth area), it leaves too little margin for developers to be able to sell at KSh50,000/m² (US$500/m²) after building in the land, finance cost and profit for developers.

### 3.2 Pangani

Pangani, is the redevelopment of a five acre site owned by Nairobi City County, also in the central neighbourhood of Ngara. It currently houses 48 units and will be redeveloped to provide 1,434 units by Technofin, equivalent to 290 units an acre. The project appears to be in partnership with Stima Investment Cooperative Society, as all buyers are required to be members of the Cooperative.

The sales information for Pangani, was recently launched in October 2019, and is detailed in Table 8 and shows that the smallest unit size will not be provided, the 2 Bedroom unit will be bigger at 50 m² (compared to 40 m² per AHP guidelines), and the “social” and “affordable” bands are being merged.

<table>
<thead>
<tr>
<th>Unit Types</th>
<th>Size m²</th>
<th>Purchase Price (KSH)</th>
<th>Price / m² (KSH)</th>
<th>Deposit (KSH)</th>
<th>Deposit %</th>
<th>Balance Purchase Price (KSH)</th>
<th>36 monthly instalments during construction (KSH)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 BR social</td>
<td>25</td>
<td>1,000,000</td>
<td>40,000</td>
<td>400,000</td>
<td>40%</td>
<td>600,000</td>
<td>16,667</td>
</tr>
<tr>
<td>2 BR social</td>
<td>50</td>
<td>2,500,000</td>
<td>50,000</td>
<td>1,000,000</td>
<td>40%</td>
<td>1,500,000</td>
<td>41,667</td>
</tr>
<tr>
<td>3 BR social</td>
<td>60</td>
<td>3,000,000</td>
<td>50,000</td>
<td>1,200,000</td>
<td>40%</td>
<td>1,800,000</td>
<td>50,000</td>
</tr>
<tr>
<td>3 BR premium</td>
<td>90</td>
<td>7,500,000</td>
<td>83,888</td>
<td>3,000,000</td>
<td>40%</td>
<td>4,500,000</td>
<td>125,000</td>
</tr>
</tbody>
</table>

Table 8: Pangani Housing Project Details

The purchase pricing is structured as a **40 percent deposit** upon booking and the balance of **60 percent** to be paid in 36 monthly instalments **during the three-year construction period**. This shows that construction financing is also required where government contributes the land and a high-profile contractor has been selected.

The eligibility criteria limit social units being sold to families earning less than **KSh150,000 per month**, and families earning more than KSh 150,000 per month for the premium units. All buyers are required to show three months certified payslips to qualify to apply. The social eligibility is a ten-fold increase from the original AHP requirement on the social units being restricted to families earning less than KSh15,000 per month (per Figure 3), and is likely a reaction to the stalling of the National Housing Development Fund, which would have provided funding for the long-term tenant purchase schemes. This resetting of income eligibility is aligned to the market of the income group of people who can pay the required deposit and construction financing instalments, and currently do not have access to housing. (This and other key takeaways of the Karibu Homes Study are discussed in Section 4.4.)

The central location is a drawcard and families will likely be attracted to buy the units. However, the delivery risk is being transferred to individual buyers, who are now paying for the construction. Buyers would be banking on such a project of national interest being well delivered, but it is still a risk individual buyers should not have to bear.

### 3.3 Habitat Heights

The Habitat Heights development is a joint venture between UN Habitat’s Habitat Housing Cooperative Society, that has contributed the land, and Singapura Developers from Singapore. The project will deliver 8,800 units and other complementary uses over 77.5 acres as summarized below:

The sales information for Habitat Heights is contained in Table 9:

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29 Shah, S and Ruparel, R (2019). CAHF, Case Study 13, Delivering Affordable Housing in Kenya, the Case of Karibu Homes Ltd, shows the challenges of first time home buyers whose average incomes household incomes for single family households was KES 137,000 (USD 1,370).
30 Source: Habitatheights.co.ke
Table 9: Habitat Heights Project Details

<table>
<thead>
<tr>
<th>Unit Type</th>
<th>Size m²</th>
<th>No of units</th>
<th>Purchase Price (KSH)</th>
<th>Price / m² (KSH)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Studio A</td>
<td>22</td>
<td>324</td>
<td>1,980,000</td>
<td>90,000</td>
</tr>
<tr>
<td>Studio B</td>
<td>28</td>
<td>252</td>
<td>2,480,000</td>
<td>88,571</td>
</tr>
<tr>
<td>1 bedroom</td>
<td>44</td>
<td>972</td>
<td>3,400,000</td>
<td>77,270</td>
</tr>
<tr>
<td>2 bedroom</td>
<td>75</td>
<td>2,912</td>
<td>4,800,000</td>
<td>64,000</td>
</tr>
<tr>
<td>3 bedroom</td>
<td>95</td>
<td>4,368</td>
<td>5,800,000</td>
<td>61,000</td>
</tr>
<tr>
<td>Total units</td>
<td></td>
<td>8,828</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The prices above are from the website and are much higher than the offtake price set by the government. It is unclear if any long term financing option is included at this price, but it is unlikely to be the case. UN Habitat has owned the land in Lukenya for quite some time, and hopes to arrange part of the offtake with a group of SACCOs. However, it is understood that Singapura Developers will also sell to the open market. The unit sizes adopted are all larger than what is advocated for in the AHP.

The developer is Erdemann Properties, a well-established and well-funded Chinese developer, which has been active in Nairobi since the early 2000s. The project does not seem to validate the offered offtake price to private developers. At Pangani, the units are being sold before construction has started and are being financed by high end-user deposits and monthly payments instalment. At Habitat Heights, the units are larger and sold at higher prices than AHP guidelines, potentially funded by customer deposits. River Estate is also priced to attract 100% cash deposits from customers.

In addition, private local developers wishing to participate in the AHP will face higher delivery costs as the high profile developers reviewed here face as:

- Private developers may acquire the land for development incurring upfront cost

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32 The densities are not directly comparable as we do not have the full details of the volume of each unit typology. The author estimates the FAR to be in the range of 10+, given the large unit sizes and high densities.
33 The details of the financial agreement between the private landowner and Erdemann are unknown. However, the steep discount for 100% upfront sales could imply that Erdemann is likely to be collecting funds for the payment of the land to the landowner under an agreed timeframe. The upfront sale price of KSh40,000 (US$400/m²) could be readily achievable due to various factors including no cash outflow for land at start of project, no approval costs, and Erdemann likely enjoys VAT and import duty exemptions and favourable corporate taxation.
34 This is in line with sales prices in much more affluent locations of Nairobi, and a key demand question is whether Nairobi is ready for such expensive residential skyscrapers.
• The land is likely to be located in peri-urban areas, where infrastructure is minimal and upfront investment is required.

• The location of land in the peri-urban areas makes it difficult to obtain a ‘higher market price’ for some units to provide the cross-subsidization the government is expecting to occur.

• The large high profile developers, particularly with foreign links, may benefit from import and customs duties, that will bring the cost of construction down, and are not available to local private developers.

• Private local developers wishing to scale up do not yet have strategic partnerships and deep pockets to fund the construction.

4 Recommendations: Construction Financing and Viability

The AHP depends heavily on the participation of private developers if the government is to realise its goal of 500,000 affordable housing units delivered within five years. Lack of clarity on the detailed provisions in the AHP, as well as questionable interventions that do not engage with the realities faced by developers large and small, threaten to undermine the success of the programme. If the AHP is to realise the outputs that have been promised, detailed attention needs to be paid to particularly to construction finance, risk management, measures to improve viability and the subsidy arrangements that need to be applied.

Any solutions offered for affordable housing need to provide an alternative financing mechanism to the upfront cash / cash instalment mechanism which is the prevalent funding mechanism in the market currently, and one of the key barriers to the delivery of large scale affordable housing projects.

4.1 Construction Finance

Construction financing is critical to enable housing to be delivered under the AHP. This is because the volume of construction capital needed is too high for local developers to access independently. Further, local banks have no incentive to provide debt, and developers have no incentive to provide equity, to finance affordable housing projects, especially when they have the option of investing in government bills and bonds at attractive rates, and there is an interest rate cap limiting what margin banks can take. At the same time, the construction financing needs of large- and small-scale developers differ. Construction financing can be provided via two routes:

• Making milestone payments within the offtake agreement itself.

The 18-month construction timeframe set out in the case project program could be achieved with milestones based on construction progress. Payment would be made on verification of completion of each milestone. This is similar to the current practice of cashflow financing, but with milestone payments being financed by the fund, the risk of delivery will be borne by the fund, which is better placed to manage it than individual homebuyers.

• Setting up a separate construction financing body.

In this example, an independent body would provide the financing during construction, with the expectation that the government (or alternative vehicle) would provide the offtake upon completion. An example of an affordable housing construction financing vehicle is the Reinvestment Fund explained in Box 2.

Both routes need to institute similar rigorous risk management frameworks and procedures.

35 Refer to CAHF Working Paper Series 1, “Lowering the high interest rate cost of housing finance in Africa,” by Michael Fuchs dated June 2018, which explains how the high level of the “risk-free” interest rate on government borrowings sets a benchmark for market interest rates, and until this benchmark is systematically reduced, the interest rate for delivery of housing would need some kind of assistance (e.g. in form of a subsidy).
Reinvestment Fund in USA (reinvestment.com) was founded in 1985 as a non-profit lending agency focusing on reviving distressed neighbourhoods. The fund was formed on the basis of the Community Reinvestment Act (CRA), which requires banks to lend in all neighbourhoods they take deposits from. Since commercial banks do not have expertise or appetite to undertake such lending, many banks opted to fulfil their CRA obligations by lending to intermediary vehicles like the Reinvestment Fund. It is a good comparable case study for a construction financing vehicle.

Reinvestment Fund also acted as an intermediary between state governments allocating tax credits and developers of affordable housing. Projects that received private construction funding from Reinvestment Fund were also eligible for state-allocated tax credits. The two sources of funding (construction debt finance and tax credits) enabled projects to be delivered to the market.

The Fund has also been successful in raising additional capital through impact bonds issued to individuals in denominations of $1,000. The Fund now has an AA- S&P Rating, with over 880 investors, and manages $2 billion in capital. The Fund’s lending portfolio has expanded from housing to include schools, supermarkets, commercial facilities and renewable energy.

The Fund’s success is based on:

(i) Strong market knowledge and local networks
The Fund invested in collecting data in-house, to guide its internal lending decisions, but was increasingly sought by external policy makers and other investors as an effective decision-making tool. This proprietary data has now been created into a GIS mapping platform, which is a separate revenue-generating arm (policymap.com)

(ii) Skilled workforce and investment oversight
The workforce is highly skilled and qualified to work at alternative employers like investment banks, but choose to work at the Fund due to mission fit. The lending staff could identify and provide technical assistance to borrowers to ensure the project was well structured. All lending decisions are approved by a competent Investment Board comprising leaders from commercial banks and local stakeholders.

(iii) Risk alignment
Lending Officers are responsible for the entire lending chain from sourcing, underwriting, closing and deployments of funds till repayment. Loans are booked on the Fund’s own balance sheet, and not sold or transferred to another entity. This ‘on-book portfolio’ ensured that the loans originated were supported by macroeconomic principles, as evidenced in how little the 2008 financial crisis affected the Fund. For emerging markets, this is a much more tried and tested approach to effective risk management than siloing responsibility between sourcing, underwriting and portfolio management.

Further, construction payment experts were investors in the fund itself, and hence vested in the mission and critical to ensuring milestone payments were made when due, and construction was of good quality and on time.

(iv) Strong Commercial discipline
The commercial discipline of the Fund is demonstrated by their timelines including (a) average timeframe from sourcing to closing a deal is 90 days, (b) Milestone-based construction debt disbursements are managed with great diligence and speed with an average timeframe for processing disbursements of five business days.

Box 2: Reinvestment Fund, USA, an intermediary lending facility

4.2 Risk Management

All recommendations to support the supply mechanism of affordable housing entail stringent risk management. This is a learnable skill specific to each geography and market. A high-level risk management framework is summarised below. Each risk can be identified and understood in more detail and mitigated, based on the project and delivery team.
Developers will not take part in the AHP if the viability is not improved. This includes attention to the offtake price, interest rates associated with construction finance, and the impact of VAT.

### 4.3.1 Offtake Price, Construction Finance Interest Rate and Zero-Rated VAT

The target IRR rate for developers to participate is 25%. As shown in Table 11 and 12 below, the viability of the project for private local developers to participate on private land can be improved by increasing the offtake price, reducing construction costs, primarily via Zero-Rated VAT and increasing the availability and affordability of construction debt.

---

36 Performance bonds are usually for between 10-20% of the construction contract sum and the cost to the contractor of the bond is between 1-2% of the contract sum. Performance bonds are less effective in Africa than in Europe due to difficulties in enforcement.

37 A retention amount of 5-10% is typical.

38 The least risky investment in Kenya is government Treasury bills and Bonds. Long-term government bonds funding infrastructure offer a yield of 12% and are tax free. This sets a high benchmark for the opportunity cost of debt and equity capital in the country, particularly as the government has a heavy borrowing appetite.
Table 11 shows that the offtake price needs to be increased from the KSh50 000 (US$500/m²) currently offered to KSh65 000 (US$650/m²) to be viable for local developers to participate in the AHP. Reducing the interest rate on the debt to developers helps boost the IRR marginally but not enough to cut the required offtake price significantly.

Table 12 runs the same sensitivity analysis as Table 11, but assumes that VAT on construction has been removed and affordable housing delivery is now Zero-Rated for VAT. With Zero-rated VAT, developers can viably meet their 25% hurdle at a 15% interest rate and a KSh57 500 (US$575/m²) offtake price.39 Again, slashing the construction interest rate to 9% can reduce the required offtake price to KSh56 000/m² (US$575/m²). Zero-Rated VAT should apply to all housing delivered for less than KSh5 000 000 (US$550 000), as this will help supply housing to the underserved middle and upper middle income groups.

From a recent stakeholder workshop with developers in August 2019, it appears the government is considering reducing VAT on affordable housing from 16% to 6%. While this is helpful, the administrative burden of processing VAT leads to more challenges in implementation (particularly if it is a rebate that can have long processing delays and cashflow implications). Zero-rated VAT, even for a fixed period, would stimulate delivery more effectively. The positive multiplier effect of investment in housing should cater for loss of VAT income in the medium- to long-term.

Table 13 shows that increasing the availability of debt capital helps reduce the equity injection per housing unit and hence the ability of local developers to participate. As the debt equity mix increases, the interest rate is also more important. In Scenario 4, the required offtake price can be reduced to KSh56 000 (US$575)/m², by (i) providing a zero-rated VAT environment and (ii) providing a concessional interest rate at 9% instead of the prevailing 15% and (iii) increasing the amount of debt in the project from 60% of hard construction and infrastructure costs to 80% of hard construction and infrastructure costs, which changes the overall debt equity mix from 50:50 to 60:40.

It is vital to make the construction debt capital available in local currency as the local developer

### Table 13: Equity per unit and offtake price required to meet developer IRR of 25% in different scenarios of VAT, interest rate and debt:equity mix

<table>
<thead>
<tr>
<th>Scenario</th>
<th>VAT</th>
<th>Interest Rate</th>
<th>Debt: Equity</th>
<th>Equity required KES, per 2 BR unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1, Current</td>
<td>16%</td>
<td>15%</td>
<td>50:50</td>
<td>1 155 770</td>
</tr>
<tr>
<td>2</td>
<td>0%</td>
<td>15%</td>
<td>50:50</td>
<td>1 039 390</td>
</tr>
<tr>
<td>3</td>
<td>0%</td>
<td>9%</td>
<td>50:50</td>
<td>986 679</td>
</tr>
<tr>
<td>4, Proposed</td>
<td>0%</td>
<td>9%</td>
<td>60:40</td>
<td>715 235</td>
</tr>
</tbody>
</table>

Table 13 shows that increasing the availability of debt capital helps reduce the equity injection per housing unit and hence the ability of local developers to participate. As the debt equity mix increases, the interest rate is also more important.

39 Zero-rated VAT is better than VAT Rebates: rebates have a cashflow implication in that developers have to pay VAT and then apply for a rebate based on the affordability criteria achieved. The duration and uncertainty of the rebate process add significant risk to developers. ‘Leakage’ of this incentive to ‘non-affordable projects’ can now be more easily confined using technology, eg. barcodes, that allow developers to buy the right amount of materials for the selected housing projects. This system has been used in Venezuela.

cannot be expected to take hard currency and mitigate the risk of currency volatility as their cashflows are in local currency. Just as government is taking exchange risk on the KRMC, either government or another development organisation is best placed to take on currency risk in the construction lending arena.

A development appraisal of Scenario 4 is shown in Table 14, and a comparison of the current metrics (Scenario 1) and proposed metrics (Scenario 4), is shown in Table 15.

INCENTIVES: 9% INTEREST RATE, DEBT TO EQUITY 60:40, ZERO RATED VAT, OFFTAKE PRICE KES 55,000 PSM (USD 550 PSM)

**Key Conclusions**

Developer Equity input per unit: KES 715,000 or USD 71,500
Viable at offtake price of KES 55,000 (USD 550 psm)

Table 14: Development Appraisal for Scenario 4, achieving viability at KSh55 000 (US$550)/m2 offtake price

<table>
<thead>
<tr>
<th>Project Costs</th>
<th>Scenario 1</th>
<th>Scenario 4</th>
<th>Key Changes</th>
<th>% saving</th>
</tr>
</thead>
<tbody>
<tr>
<td>LAND value</td>
<td>133 333</td>
<td>133 333</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>Infrastructure cost</td>
<td>40 000</td>
<td>40 000</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>Construction @ KES 31,500 psm</td>
<td>1 449 000</td>
<td>1 449 000</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>VAT on Infra + Construction</td>
<td>32 845</td>
<td>32 845</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td><strong>TOTAL HARD COSTS</strong></td>
<td><strong>238 240</strong></td>
<td><strong>238 240</strong></td>
<td><strong>0</strong></td>
<td><strong>0%</strong></td>
</tr>
<tr>
<td>Soft Costs (Prof / Mkg/ Appr)</td>
<td>178 680</td>
<td>178 680</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>Interest on debt @ 9%</td>
<td>15 813 180</td>
<td>15 813 180</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td><strong>TOTAL PROJECT COST</strong></td>
<td><strong>410 785</strong></td>
<td><strong>410 785</strong></td>
<td><strong>0</strong></td>
<td><strong>0%</strong></td>
</tr>
<tr>
<td>Sale price</td>
<td>330 000</td>
<td>2 200 000</td>
<td><strong>95 000</strong></td>
<td><strong>30%</strong></td>
</tr>
<tr>
<td>Developer IRR</td>
<td>715 235</td>
<td>715 235</td>
<td>0</td>
<td>0%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Project Costs</th>
<th>Scenario 1</th>
<th>Scenario 4</th>
<th>Key Changes</th>
<th>% saving</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>LandSystem</strong></td>
<td>133 333</td>
<td>133 333</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>Infrastructure cost</td>
<td>40 000</td>
<td>40 000</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>Construction @ KES 31,500 psm</td>
<td>1 449 000</td>
<td>1 449 000</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>VAT on Infra + Construction</td>
<td>32 845</td>
<td>32 845</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td><strong>TOTAL HARD COSTS</strong></td>
<td><strong>238 240</strong></td>
<td><strong>238 240</strong></td>
<td><strong>0</strong></td>
<td><strong>0%</strong></td>
</tr>
<tr>
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<td>178 680</td>
<td>178 680</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>Interest on debt @ 9%</td>
<td>15 813 180</td>
<td>15 813 180</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td><strong>TOTAL PROJECT COST</strong></td>
<td><strong>410 785</strong></td>
<td><strong>410 785</strong></td>
<td><strong>0</strong></td>
<td><strong>0%</strong></td>
</tr>
</tbody>
</table>

**Financed by**

| Debt                              | 1 094 626  | 715 235    | **379 391**  | **-35%**  |
| Total Equity                      | 2 200 000  | 1 906 435  | **244 535**  | **-11%**  |
| Required offtake price            | 2 600 000  | 2 200 000  | **400 000**  | **-15%**  |

**Table 15: Comparison of Scenario 1 (current) and Scenario 4 (proposed): by providing the incentives described the equity requirement comes down by 35%, and the offtake price by 15%.**
The key takeaway from Table 15 is that by providing a supply-side subsidy equivalent to KSh224,535 (US$2,234) per unit, the unit price will fall by KSh137,000 (US$2,120). This equates to a 2.3 times lower housing unit price, as the beneficiary household will pay off the housing unit. An NPV calculation is not applied to the demand-side subsidy, as the funds are being derived from the National Housing Fund.

The additional benefit of the supply-side subsidies is that funding will be recovered upon sale of the housing and can be recycled after every development and resale cycle. Assuming there is a 2.5 year *reinvestment time frame (assuming a 1.5 year project construction timeframe and 1 year repayment process), the same KSh224,535 (US$2,234) provided to a developer for a Project in Year 1, can be recycled 10 times by the time the first TPS repayment in 25 years is repaid. This will result in a total subsidy multiplier of 23 times \((2.3 \times 10)\).

### 4.4 Appropriate subsidy design

The key takeaway from the sensitivity analysis and subsidy impact analysis, is that the Kenyan Government should consider both demand and supply subsidies to ensure an effective roll out of the AHP. Both demand and supply subsidies need proper systems and monitoring to avoid abuse.

If demand side subsidies are too deep, they are likely to result in ‘flipping’ of the housing unit to a higher income household, as the beneficiary household will use the ‘liquidated cash’ to pay for more urgent essentials.

The CAHF Karibu Homes study shows families earning more than KSh137,000 (US$2,120) a month are also greatly underserved. In this survey, 22 owner occupiers (of whom 20 were first-time buyers), conveyed their challenges and risks in obtaining their “dream of homeownership.” The challenges included voluntarily quitting good jobs to access pension contributions, liquidating all their savings to invest in the house, commuting two hours a day each way at an average cost of KSh20,000 a month or US$200 a month in fuel. And because their jobs were far away, they sent their young children to boarding school as they could not get back home in time to be there for the day scholars. The average after-tax monthly declared income for the surveyed households was much higher than anticipated, at KSh137,000 (US$2,120) a month for single-income households, and KSh212,000 (US$2,120) for double-income households. The single-income households in this study therefore fail in the "mortgage gap 2" income band, but the double-income households would fall in the "middle to upper income" band. The present AHP policy framework has limited provision for improving the access to, or affordability of, housing for middle to higher income bands, and hence it is highly likely that families in the "mortgage gap" bracket will flip their housing to families in the higher income bracket. For example, the formal housing built next to Kibera for some of the most vulnerable families is anecdotally now occupied by higher income families, with the original beneficiaries returning to live in slum conditions within Kibera itself.

<table>
<thead>
<tr>
<th>Scenario 1</th>
<th>Ref</th>
<th>Type</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Sale Price</td>
<td>KSh2 600 000</td>
</tr>
<tr>
<td></td>
<td>A</td>
<td>Market end user financing rate</td>
<td>14%</td>
</tr>
<tr>
<td></td>
<td>C</td>
<td>Concessional end user financing rate</td>
<td>7%</td>
</tr>
<tr>
<td></td>
<td>E</td>
<td>Tenor</td>
<td>25 months</td>
</tr>
<tr>
<td></td>
<td>G</td>
<td>Monthly repayment at market rate</td>
<td>KSh27,986</td>
</tr>
<tr>
<td></td>
<td>L</td>
<td>Monthly repayment at concessional rate</td>
<td>KSh16,979</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>Change in monthly repayment</td>
<td>KSh11,306</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Monthly repayment saving due to lower house price</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Total saving over tenor of demand subsidy</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Supply subsidy given</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Subsidy multiplier</td>
<td></td>
</tr>
</tbody>
</table>

Table 16: Comparison of existing supply metrics and proposed supply metrics, and subsidy multiplier

<table>
<thead>
<tr>
<th>Scenario 4</th>
<th>Ref</th>
<th>Type</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Change in delivery price of KSh2,000</td>
<td>KSh2 200 000</td>
</tr>
<tr>
<td></td>
<td>C</td>
<td>Prevailing market interest rate</td>
<td>14%</td>
</tr>
<tr>
<td></td>
<td>D</td>
<td>Concessional rate for ‘Mortgage Gap’ band</td>
<td>7%</td>
</tr>
<tr>
<td></td>
<td>E</td>
<td>Extended tenor under TPS</td>
<td>25 months</td>
</tr>
<tr>
<td></td>
<td>H</td>
<td>Derived by Q x 25 years x 12 months</td>
<td>KSh23,372</td>
</tr>
<tr>
<td></td>
<td>M</td>
<td>Derived by G x 25 years</td>
<td>KSh13,605</td>
</tr>
<tr>
<td></td>
<td>P</td>
<td>Derived by R / S</td>
<td>KSh9,567</td>
</tr>
</tbody>
</table>

Case Study Series November 2019
5 Key Conclusions and Other Considerations

The key conclusions from this paper are the AHP could closer align to market realities by providing the following supply side interventions:

- **Construction finance**, either through milestone payments or a construction financing vehicle, for up to 80% of hard costs for construction and infrastructure. The construction finance must be in local currency, as neither the developer nor the target market for affordable housing can hedge hard currency risk, particularly with the long durations of housing projects. Provision of construction finance is required for developers to reach scale which will in turn reduce construction costs through greater negotiating power for input materials and the ability to invest in alternative building technologies.

- Providing affordable housing developers zero rated VAT will reduce the cost of the house substantially and hence reduce the financing required by the buyer. While governments are hesitant to provide developer incentives (due to the high budgetary requirement for government), well designed incentives will be a net positive into the economy, as houses are not currently delivered to scale. The government is currently pursuing a 10% rebate on VAT from 16% to 6%, however, this is likely to be difficult to implement due to the administrative challenges. The author estimates that the provision of developer incentives including zero rated VAT, import and customs concessions, would entice private developers to build houses that are currently not being built. The delivery of 200 000 new houses would result in a net gain of KES 425 billion ($4.25 billion) into the Kenyan economy.

- A higher offtake price to give developers a viable return of 25% IRR. The required offtake price will depend on amount and interest rate of construction finance made available, and whether zero-rated VAT is allowed.

Other considerations for both the Kenyan government, and other governments across the continent to consider, in setting up housing programs, are discussed below.

- **Setting up a coordination agency takes time**: In Kenya, an Integrated Project Delivery Unit (IPDU), set up as part of the AHP, to coordinate infrastructure delivery and promote a one stop shop for development approvals and promote faster registration, is a welcome initiative. However, almost two years after the launch of the AHP, it is still unclear what infrastructure projects are earmarked for delivery, and obtaining development approvals and registrations continue to be a challenge, particularly due to the multi-level of government operation at national, county and municipality level. The government has recognized what a mammoth task is required of the IPDU, and in October 2019 invited selected companies to bid on a Terms of Reference to assist the IPDU implement its various mandates.

- **The need for stakeholder engagement**: A project of the scale of AHP would likely succeed with at least a significant year of stakeholder engagement. A key example is the creation of a national housing fund, which all industry experts agree is needed to fund the housing deficit. However, the government’s efforts to implement the housing fund has been caught up in legal challenges by the trade unions. Deeper stakeholder engagement at the start could provide the platform for the various parties to agree on the benefits of a fund and an acceptable structure. A suggested equitable structure is one where contributors are assured that they will receive their own (plus where applicable their employers’ contributions) with a defined interest rate after a defined period, the maximum administrative fee that the fund will use is defined, and concessional, fixed rate, long term financing end user subsidies is redesigned to more market-oriented structures like an interest rate buy down, to allow recycling of funds to be feasible.

- **Some redesign of the eligible income and concessional financing**, so that deep subsidies to the lowest income brackets with limited assistance to higher income brackets does not result in “off record” transactions and flipping of these units, with a great loss of subsidy to the system. Market mortgage rates will continue to be high as long as Kenya’s heavy indebtedness continues and prevailing interest rates are steep. Therefore considering even a limited concessional mortgage interest rate regime for families earning as much as KSh 3 000 000 (US$3 000) a month, pre-tax, should be considered, as this is likely to represent the true, highly underserved, middle income group. This income band can come down with time as more units are delivered and the middle / upper income is better served.

- **The need for concessions for development of affordable rental housing**, particularly where almost 90% of urban Kenya rents. This will lead to institutionalization of rental housing, bring better conditions to tenants (provision of communal amenities and standards in property
management), assist in the economies of scale for contractors to bring down delivery costs, promote longer term construction warranties and have complementary benefits like developing credit reference bureaus. In Kenya, the author suggests that landlords who provide housing at a gross rent of KES 15,000 (USD 150) per month, should be eligible to a flat tax on gross rental proceeds of 3%.

- Accessing pension contributions for downpayment: Kenyan law was amended in 2009 to allows up to 60% of a pension contributor’s accumulated benefits to be used as collateral for a mortgage. In practice, the uptake has been very low as lender’s view the pension balance as ‘secondary collateral.’ Policy makers can consider allowing the use of up to 20% of the pension benefit to be withdrawn and directly used towards payment of housing, as done in certain mature markets like Canada.

- The need for simplification to allow laws to translate to change on the ground. Examples include:
  
  o Kenyan law exempting first time home owners from stamp duty was passed in July 2018, but is yet to be operationalized as it requires verification of a buyer’s assets. Changing the law to waive stamp duty on all new housing units delivered for less than a certain price may have been a simpler intervention to implement.
  
  o Kenyan policy allows for developers who deliver 100 affordable houses in a year a corporate tax reduction from 30% to 15%. The policy is difficult to access as development timeframes are longer than 1 year. (Even the government’s own Park Rod project, where land was contributed and approvals were provided quickly), has been in delivery for more than 1 year. Simplifying this law to allow houses delivered at the specified ceiling price (without a tight timeframe of 1 year), would be more accessible.

o The definition of an ‘affordable house’ for these various laws is unclear, but is likely to be KES 3,000,000 (USD 30,000) per the house prices under the AHP. Increasing this band to KES 5,000,000 (USD 50,000) may be more aligned to current market conditions, particularly where developers do not have access to land contributed on joint ventures by the government, approval and registration challenges are being resolved, infrastructure is lagging and needs to be provided by the private developer, VAT is still enforced at 16% and where the cost of construction finance is approximately 15% a year. In time, as these macro-economic conditions improve, the house price ceiling can be brought down to the target rates.

With a vibrant developer class already in existence in Kenya, the re-design of incentives can surely lead to the delivery of much needed affordable housing required by the market.
About the Centre for Affordable Housing Finance in Africa (CAHF)

The Centre for Affordable Housing Finance in Africa (CAHF) is a not-for-profit company with a vision for an enabled affordable housing finance system in countries throughout Africa, where governments, business, and advocates work together to provide a wide range of housing options accessible to all. CAHF’s mission is to make Africa’s housing finance markets work, with special attention on access to housing finance for the poor. We pursue this mission through the dissemination of research and market intelligence, supporting cross-sector collaborations and a market-based approach. The overall goal of our work is to see an increase of investment in affordable housing and housing finance throughout Africa: more players and better products, with a specific focus on the poor.

www.housingfinanceafrica.org