KENYA

Affordable housing in Kenya: Market shaping indicators

A HOME FOR HUMAN POTENTIAL
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Centre for Affordable Housing Finance in Africa

KENYA

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See CAHF's yearbook at:
https://housingfinanceafrica.org/resources/yearbook/
View Reall's Data Dashboard at: **https://www.reall.net/dashboard**

Centre for Affordable Housing Finance in Africa

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[1] This report is an extension of the profile for Kenya prepared for CAHF's 2020 Housing Finance in Africa Yearbook. Beatrice Wacuka Mwangi was the original author of the profile. David Chiwetu has extended the report further, providing additional detail. http://housingfinanceafrica.org/resources/yearbook/

KENYA

Affordable housing in Kenya: Market shaping indicators

1. Introduction

The Centre for Affordable Housing Finance in Africa has been operating as an independent think tank in South Africa since May 2014, pursuing its mission of making Africa's housing finance markets work.[2] Supported by the French and UK governments, as well as other funders and partners, CAHF's work extends across the continent. CAHF brings information to the market place to enable stakeholders in the public and private sector to make policy and investment decisions in favour of improved access to affordable housing. CAHF's emphasis is on the role that finance plays in realising this, and champions market intelligence—data, market analytics and research—to stimulate investor interest and to support better policy. CAHF is highly networked and engages with stakeholders at the local, national, regional, continental and global levels to support the realisation of investment towards affordable housing in Africa.

CAHF monitors the progress and performance of African housing markets, and publishes this in its flagship publication, the Housing Finance Yearbook, every November [3]. The production of the Yearbook is an intensive effort and draws on the participation of local, in-country consultants, who track and present the current state of their local housing markets in short profiles, one for each of the continent's 54 countries. As part of our overall Housing Finance Data Agenda for Africa, presented by Reall under the Market Shaping Indicators name[4], CAHF partnered with Reall to develop extended reports for six countries, reflecting the fruits of more focused data gathering[6].

Supported by the UK and Swedish governments, Reall is a market innovator and impact investor in affordable housing for the bottom 40 percent of the income pyramid in Africa and Asia. Headquartered in the UK and possessing over 30 years' experience in the sector, Reall's priority focus is in Kenya, Nigeria, Uganda, India and Pakistan, with a wider footprint that includes Ghana, Mozambique, the Philippines, and Zimbabwe. Reall and its network of in-country partners specialize in affordable housing and end-user financing solutions, while also tackling systemic political, regulatory, and financial barriers through strategic brokering interventions. By evidencing the cross-cutting developmental impact of housing (contributing to 16 of 17 SDGs) and demonstrating the commercially viable investable opportunity, Reall leverages private sector actors and resources to transform markets and accelerate delivery at scale.

The driving principle behind the Data Agenda is that market intelligence and data is fundamental market infrastructure for the housing finance sector. A key constraint undermining private sector participation and good policy engagement in affordable housing finance is the availability of data and market intelligence to facilitate risk-taking and decision-making. By providing market intelligence that makes the case for investment in underserved markets, we can support a better policy environment and increased private sector activity in affordable housing markets. In this way, we catalyse scale interventions.

This report highlights the progress and performance of Kenya's affordable housing market in 2020. One of Reall's priority countries, Kenya is also a country in which CAHF has engaged substantially. This report extends the original profile for Kenya with data collected through the Data Agenda/Market Shaping Indicators process, and the experiences of Reall's work in the country. The original text, as published in the 2020 Yearbook: Housing Finance in Africa, was written by Beatrice Mwangi.[7] David Chiwetu has extended the report to include additional information.

THIS REPORT HIGHLIGHTS THE PROGRESS AND PERFORMANCE OF KENYA'S AFFORDABLE HOUSING MARKET IN 2020

[2] See CAHF's website: https//www.housingfinanceafrica.org
[3] See http://housingfinanceafrica.org/resources/yearbook/

KENYA

Affordable housing in Kenya: Market shaping indicators

One of NACHU's Reall-funded affordable housing projects in Nairobi

2 CAHF in Kenya

CAHF has been working in Kenya for some time, primarily through the publication of case studies that have explored the challenges and opportunities involved in delivering and financing affordable housing. Working very closely with the FSD Network in Kenya, CAHF recently facilitated the development of an affordable housing strategy for the FSD Network, which is currently being championed by FSD Kenya. CAHF is working with FSDKenya in support of this effort. The three-year programme focuses on four sub-markets: informal settlements, incremental housing, small landlord rental housing, and housing delivered by the private sector. In this next year, CAHF is working with FSD Kenya, FSDAi and Reall in promoting an Affordable Housing Investment Alliance for Kenya, which will support market development through an Open Source initiative. CAHF's research and work with local partners is an important input into the broader Data Agenda work in Kenya - identifying key gaps in housing market data that would help create a better understanding of the housing ecosystem, for more targeted interventions and policy.

3 Reall in Kenya[8]

A priority country, Reall has been active in Kenya since 1991, and has pursued a more commercial approach since 2005. The majority of Reall's work in Kenya has been in partnership with the National Cooperative Housing Union (NACHU), an umbrella for over 800 affiliated housing co-operatives. Operating in 38 of Kenya's 47 counties, NACHU promotes improved shelter and quality of life for their 19,000 low-income members through community mobilization, capacity development, housing delivery and financial solutions. NACHU is a fully integrated housing operation: acquiring land; building houses and services infrastructure; and providing end user finance under the same organisational roof. With support from Reall, NACHU has delivered 1,800 affordable urban homes targeted at the bottom 40% of the income pyramid (see below for further information).

Reall's partnership with NACHU has significantly impacted on the lives of thousands of Kenyans living on low incomes, while generating important market learnings and expertise. Going forwards, Reall is scaling up its operations and investments in Kenya through an enlarged and more diverse pipeline of housing developers and their projects. This new strategic approach embraces a wider range of typologies and delivery models, with a focus on commercial climate-smart affordable housing developers and engaging with government-backed mortgage providers and commercial banks to broker end-user financing solutions. In addition to NACHU, Reall's Kenyan developer partner network now includes:

- BuildX Studio – a social enterprise developer, with strong focus on climate and social impacts. Reall's first investment in BuildX will pilot 155 affordable apartments in Nairobi. The project will facilitate bulk end-user finance offtake by an external party, to then administer an innovative Tenant Purchase Scheme targeted at the 30-50% income percentile range.
- Centum Development Kenya – a subsidiary of Centum Real Estate (RE). A commercial developer, Centum RE has historically focused on high value propositions but is now moving down-market to deliver affordable staff homes with Reall support and partnership.
- Kwangu Kwako – a social enterprise developing a low-cost, cement panel-based building material that is fire resilient and can be deployed in a variety of settings. Kwangu Kwako is actively scaling up with Reall's support and partnership. Reall further amplifies the impact of these housing investments through strategic 'non-build' interventions to address systemic market bottlenecks.

[4] The Data Agenda for Africa is a joint initiative of CAHF and its partners 71point4 and Reall. For more detail, see http://housingfinanceafrica.org/projects/a-housing-finance-data-agenda-for-africa/ and https://www.reall.net/dashboard/msi
[5] See Reall's website: https://www.reall.net/
[6] The Data Agenda for Africa is a joint initiative of CAHF and its partners 71point4 and Reall. For more detail, see http://housingfinanceafrica.org/projects/a-housing-finance-data-agenda-for-africa/
[7] See https://housingfinanceafrica.org/authors/beatrice-wacuka-mwangi/
[8] Reall (2020). Reall in Kenya Dashboard. https://www.reall.net/data-dashboard/kenya/. (Accessed 20 December 2020)

KENYA

Affordable housing in Kenya: Market shaping indicators

In Kenya, Reall is committed to:

- Expand end-user housing finance solutions to 2.5 million previously excluded low-income and informally employed borrowers by 2025, primarily through the testing and rollout of innovative alternative credit scoring systems and tools. This work is currently being supported by the UK Government's Foreign, Commonwealth and Development Office (FCDO) IMPACT Programme.
- Address critical governance, policy, standards and regulatory barriers that impede the market, achieving positive change for 1.5 million people by 2025.
- Resolve data voids and evidence gaps that have inhibited more effective solutions for affordable housing and people on low incomes, enabling stakeholders to make inclusive policy and investment decisions.

BOX 1 - National Cooperative Housing Union (NACHU)

NACHU launched in the early 1980s and promotes the cooperative housing model through the establishment of housing cooperatives and by supporting their activities. Over the years, NACHU has evolved its strategy and its approach to fund-mobilisation (including commercial loans, guarantees and increased member savings) to improve attractiveness to potential financiers so that the organisation can respond adequately to the high demand for finance from its members. NACHU's micro-mortgage scheme enables low income households to have access to finance, with households committed to saving monthly to raise a 20 percent deposit and a loan repayment period structured over a maximum of 10 years.

Reall has partnered and supported NACHU by providing concessional construction and end user finance to deliver over 1800 homes. The majority of beneficiaries of homes (96 percent) were in the bottom 40 percent of the income pyramid. NACHU's housing estates comprise of stand-alone starter homes that allow for incremental construction, and are fully connected to water, sanitation and electricity. With investment totalling over KSh 1500 million (US$ 13.7 million), Reall and NACHU have partnered in 26 projects that have constructed 1800 homes, creating 9000 jobs and housing 7000 people, the majority of which are in the Nairobi area (with a smaller number located in Nanyuki, Mombasa and Kisumu).

NACHU's loan portfolio performs within industry standards, and they have been critical for enabling thousands of low-income families to access quality housing assets and improve their life chances and opportunities. A thorough impact evaluation of NACHU housing by Reall in 2020 evidenced the transformative impacts that moving into new affordable housing has had on their clients, demonstrating significant improvements in wellbeing and quality of life. These impacts were transformative for women, children, and young adults.

WITH INVESTMENT TOTALLING US$ 13.7 MILLION, REALL AND NACHU HAVE CONSTRUCTED 1800 HOMES

KENYA

Affordable housing in Kenya: Market shaping indicators

4 Overview - Kenya's housing sector in 2020

Housing is a backbone of Kenya's real estate sector, which contributed approximately 5.3 percent of gross domestic product (GDP) in the third quarter of 2020.[9] Championed by the government's Big 4 Agenda, which established the Affordable Housing Programme (AHP), activities by both the private sector and government have increased to resolve the housing deficit that stands at two million and grows annually by approximately 200 000 housing units.

For the financial year 2020/21, the housing sector recorded a decline in budget allocation, attributed to constrained fiscal space by the government as it grapples with economic effects of the pandemic, which means reduced development of affordable housing. The Kenya Mortgage Refinancing Company (KMRC) was established to support the affordable housing programme. The facility offers primary lenders cash for onward lending to households at an interest rate of five percent, thus enabling lenders to extend home loans capped at KSh4 million (US$37 565) for property within Nairobi Metropolitan Area and KSh3 million (US$28 174) elsewhere, at seven percent.[10]

Financial access (formal and informal) is high in Kenya, having expanded to 89 percent in 2019 from 26.7 percent in 2006. This is attributed to the introduction of mobile financial services and increased partnerships and innovations such as mobile banking.[11] Private and public sector market players need to be leveraged to access and centralize data that would help improve segmenting the demand side and tracking housing supply. Mortgage uptake has remained relatively low with the number of mortgage accounts at 27 993 at the end of 2019, representing an increase of 1 806 accounts from December 2018.

MORTGAGE UPTAKE HAS REMAINED RELATIVELY LOW, WITH THE NUMBER OF MORTGAGE ACCOUNTS AT 27993 AT THE END OF 2019

[9] Kenya National Bureau of Statistics (2020). Quarterly GDP Report – First Quarter, 2020. https://www.knbs.or.ke/?wpdmpro=quarterly-gross-domestic-product-report-first-quarter (Accessed 15 August 2020). Pg. 11.

[10] Business Daily (2020). State to offer mortgage at 7pc. Business Daily. 11 August 2020. https://www.businessdailyafrica.com/economy/State-to-offer-mortgage-at-7pc-in-Sept/3946234-5607018-m0hbr9z/index.html (Accessed 15 August 2020),

[11] FinAccess (2019). 2019 FinAccess Household Survey. April 2019. https://www.centralbank.go.ke/2019/04/03/2019-finaccess-household-survey-report/ (Accessed 14 September 2020). Pg. 8.

5 Macro-economic context

The Kenyan economy recorded a 5.7 percent growth at the start of 2020, ranking as one of the fastest growing economies in Sub-Saharan Africa.[12] The first COVID-19 case in Kenya was reported in March 2020, leading to unprecedented actions locally including border closures, curfews, quarantining and cessation of movement in and out of selected cities for approximately 180 days. Following the outbreak of COVID-19, the economy has contracted in two consecutive quarters, leading the country into recession.[13] Rising inequality (Gini Index of 48.5) in Kenya is likely to be exacerbated by the pandemic while 69.3 percent of the population are estimated to be below the poverty line **(Table 1).** The contraction of the economy arising out of the lockdown has contributed to the rising unemployment, with the youth representing the highest proportion of the unemployed. The Kenya National Bureau of Statistics estimates that 1,716,604 Kenyans lost their jobs in the period between April and June 2020.[14]

Table 1: Enabling and economic related indicators:

Indicator	Value	Year	Source
GDP per capita in current local currency units - National	KES 173 272.3	2018	World Bank
Gini Coefficient	48.50	2017	United Nations Development Programme
Ease of doing business index rank: Global - National	56/190	2020	World Bank
Corruption perceptions index rank: Global - National	75/180	2020	Transparency International
Percentage of individuals over 24 that have not worked in the past 12 months - B40	30%	2014	Demographic & Heath Survey, World Bank
Percentageof population below national poverty line - National	69.3%	2017	World Bank

In response to the pandemic, the government introduced monetary and fiscal policies to minimise economic and social consequences. As has been the case across the continent, the Covid-19 pandemic and the associated lockdown policies have put severe pressure on Kenya's economy. Kenyan policymakers have responded, in part, through the financial sector:

- The cash reserve ratio was lowered by one percentage point to 4.25 percent to increase the available cash for on lending;
- The Central Bank Rate was reduced to 7.25 percent from 8.25 percent thus reducing the cost of borrowing;[15]
- The Central Bank of Kenya (CBK) extended the maximum tenor of repos to 91 days to enable banks to accommodate customers for longer periods:[16]
- The Treasury introduced a 100 percent tax relief for persons earning up to KSh24 000 (US$225) monthly.[17]

[12] World Bank (2020). The World Bank in Kenya. Overview. https://www.worldbank.org/en/country/kenya/overview (Accessed 12 August 2020).
[13] Nyambura. H and Herbling,D (2021).Kenya in First Recession Since at Least 2000 on Virus Curbs.28 January 2021 https://www.bloomberg.com/news/articles/2021-01-28/kenya-economy-slumps-into-recession-on-third-quarter-contraction (Accessed 28 January 2021).

[15] Central Bank of Kenya (2020). Monetary Policy Committee Meeting Press Release. https://www.centralbank.go.ke/uploads/mpc_press_release/495753587_MPC%20Press%20Release%20-%20Meeting%20of%20April%2029%202020.pdf (Accessed 12 August 2020).
[16] Central Bank of Kenya (2020). Credit Survey Report March 2020. https://www.centralbank.go.ke/uploads/banking_sector_reports/814487954_Credit%20Survey%20Report%20for%20the%20Quarter%20ended%20March%202020.pdf (Accessed 24 August 2020). Pg. 21.
[17] The National Treasury (2020). FY 2020/21 Budget. https://www.treasury.go.ke/component/jdownloads/send/208-2020-2021/1580-budget-highlights-fy-2020-21.html (Accessed 24 August 2020). Pg. 2.

6 Demographic context

Kenya's population is estimated to be 52 573 973 and is growing at 2.27 percent per annum. Thirty-two percent of Kenyans are urbanised, but urban populations are growing at an estimated 4 percent per annum (Table 2). It has been suggested that Kenya's land sector is a binding constraint to urbanisation leading to urban growth that continues to put pressure on existing infrastructure (including water and sanitation) and informality across Kenya's urban areas.

Table 2: Demand related indicators:

Indicator	Value	Year	Source
Population size - Nairobi	4 697 274	2017	Kenya National Bureau of Statistics
Population growth rate - National	2.3%	2018	World Bank
Number of households - National	13 926 946	2019	FSD Kenya
Number of urban households - B40	1 271 515	2019	Reall PMD
Average urban household size - National	3.9	2019	Kenya National Bureau of Statistics
Average urban household size - B40	4.07	2014	Demographic and Health Survey

In 2019, Kenya had an estimated total number of households of 13 926 946 and over the last 10 years, the size of an average household in Kenya has decreased from 5.1 to 3.9. This has been attributed to decreasing fertility rates, lifestyle changes and increasing literacy rates. However, the average urban household size for the Bottom 40 population is slightly higher at 4.07 **(Table 2)**.[18] The affordability problem has been exacerbated by the ongoing pandemic which has resulted in job losses as organisations restructure their business models. This has affected households' ability to cater for their housing needs, with approximately 21.5 percent of both formal and informal renting households unable to pay rent.[19]

THE AFFORDABILITY PROBLEM HAS BEEN EXACERBATED BY THE ONGOING PANDEMIC

[18] The Bottom 40 are defined as the bottom 40 percent of a country's income distribution.
[19] The National Treasury (2020). Speech by Hon. (Amb.) Ukur Yatani, EGH, Cabinet Secretary, The National Treasury and Planning, During the Launch of the Report of the Survey on Socio-Economic Impact Of COVID-19 on Households. 19 May 2020. https://www.treasury.go.ke/media-centre/news-updates/722-launch-of-the-report-of-the-survey-on-socio-economic-impact-of-covid-19-on-households.html (Accessed 14 August 2020). Pg. 3.

7 Land & infrastructure

In Kenya, property ownership rights exist as freehold, leasehold and community-owned land. Freehold gives the holder absolute ownership of land for life. For leasehold, property rights are transferred from the lessor, usually the government, to lessee for a maximum of 99 years.[20] Once the period lapses, the lessor can either renew the lease or land reverts back to the government. Land is communally owned where there are unwritten land ownership practices, and the land rights are held in trust by community leaders or by the county.

Kenya has risen five places to 56th position out of 190 economies in the World Bank's 2020 Ease of Doing Business index. This is an improvement compared to 61st position in 2019. Notably, Kenya strengthened access to credit by introducing online registration, modification, and public online searches of its collateral registry. Kenya currently ranks 4th in accessing credit and 1st in protecting minority investors. The country is still lagging in registering properties, with a rank of 134 out of 190. Bureaucracy and slow approval processes continue to hurt the housing sector, an example being the pandemic bill drafted by the Senate aimed at introducing socioeconomic measures to cushion borrowers and tenants. Despite being drafted in April, the bill is yet to be adopted by Parliament and is thus unlikely to achieve its intended purpose. In addition, although the Ministry of Housing established the Integrated Project Delivery Unit as a single point of regulatory approval for developments, infrastructure provision and developer incentives, to date the unit is pending operationalisation, which is a setback for the Affordable Housing Programme.

According to the National Lands Commission, Kenya has 4 060 000 residential properties registered with a title deed (Table 3). The Lands Ministry has commenced the conversion of land parcels from the previous legal regimes to the current Land Registration Act (2012) to strengthen property rights and centralise the land registration process.[21]

Access to basic services is a major challenge in Kenya, which has broader implications for preventing the spread of COVID-19 and other infectious diseases, and the well-being of households particularly in the Bottom 40 of the income pyramid. It has been widely acknowledged that informal settlements in Nairobi have inadequate housing and little access to clean water, sanitation, health care, schools, and other essential public services. Almost all (99 percent) of households in the Urban Bottom 40 of the income pyramid are without access to basic electricity. 88 percent of households in the Urban Bottom 40 have no access to basic sanitation services while over half have no access to drinking services. In response to the pandemic, county government initiatives have increased access to water to informal settlements. These efforts have been complemented by private sector players and the World Bank, which approved credit of KSh16.0 billion (US$150 million) intended for improvement of informal settlements.[22]

BUREAUCRACY AND SLOW APPROVAL PROCESSES CONTINUE TO HURT THE HOUSING SECTOR

[20] Ministry of Lands (2009). Sessional Paper 3 of 2009 on National Land Policy. http://extwprlegs1.fao.org/docs/pdf/ken163862.pdf (Accessed 24 August 2020). Pg. 18.
[21] T Mwangi,D. (2020). Govt Announces Mass Cancellation of Title Deeds. https://www.kenyans.co.ke/news/61052-govt-announces-mass-replacement-title-deeds (Accessed 14 January 2021)
[22] World Bank (2020). Kenya receives $150 million to Improve Living Conditions for 1.7 Million Residents in Urban Informal Settlements. Press Release 7 August 2020. https://www.worldbank.org/en/news/press-release/2020/08/07/kenya-receives-150-million-to-improve-living-conditions-for-17-million-residents-in-urban-informal-settlements (Accessed 24 August 2020).

KENYA

Affordable housing in Kenya: Market shaping indicators

Table 3: Land and infrastructure related indicators:

Indicator	Value	Year	Source
Regulated minimum size of a residential plot in urban areas in square meters - Urban	500	2004	Nairobi County Zonal Guide
Total number of residential properties with a title deed - National	4 060 000	2018	National Lands Commission
Number of procedures to register residential property – Partner	1	2019	NACHU
Name of residential property registration procedure that takes the longest to complete - National	Receive site inspection by a government valuer and obtain a valuation report	2020	World Bank
Percent of residential development projects where developers are paying for bulk infrastructure or the building of roads - Partner	100%	2019	NACHU
Transport as a % of household expenditure - National	9.7%	2020	Kenya National Bureau of Statistics
Percent of households without access to basic drinking water services (National)	41%	2017	World Bank
Percent of households without access to basic sanitation services (B40)	65%	2014	Demographic & Health Survey
% of households without access to basic sanitation services - National	70%	2017	World Bank
Percent of households without access to basic sanitation services (B40)	88%	2014	Demographic & Health Survey
Percent of households without access to basic electricity (National)	25%	2017	World Bank
Percent of households without access to basic electricity (B40)	99%	2014	Demographic & Health Survey

The supply of affordable serviced land is inadequate amid soaring prices in urban areas, with Nairobi recording an eight-year compounded annual growth rate of 13.5 percent,[23] leading to increased development costs that challenge achieving affordable housing. For example, NACHU is paying for bulk infrastructure or the building of roads for the majority of their residential projects. To alleviate this, the government is undertaking land swaps and has established a land bank to access strategically located land for investors and other government housing projects. The Ministry of Lands has digitised its land records for transactions such as searches, applications for registration of documents, transfer of ownership or lease, caution and withdrawal of caution in Nairobi City. This has minimised human interference, saving time through eased processes, boosting land transactions and reducing delays experienced by developers during the pre-construction period. Transactions have been further simplified though the Stamp Duty Regulations through which permits for valuations may either be processed by a government valuer or a private valuer appointed by the Chief Government Valuer, thus speeding up the land and building transfer processes.

[23] Cytonn Investments (2020). Nairobi Metropolitan Area Land Report. https://cytonnreport.com/research/nairobi-metropolitan-area-land-report-2020-cytonn-weekly#nairobi-metropolitan-area-land-report-2020 (Accessed 22 August 2020).

8 Housing construction & investment

The Affordable Housing Programme (AHP) is a government initiative under the Big 4 Agenda, aimed at delivering 500 000 affordable housing units by 2022. The government is working with several Chinese companies as developers and continues to lobby for partnerships with local strategic partners in implementing the projects. AHP has introduced incentives such as a 50 percent corporate tax break for developers of over 100 units and exemption of VAT on importation and local purchase of goods for the construction of houses under the scheme. At the end of 2020, 1 730 completed units in the Park Road were officially handed over through the Boma Yangu portal.[24] Next in the AHP Pipeline are the Shauri Moyo and Starehe projects comprising 5 300 and 3 500 units respectively.[25]

Current hurdles to the supply of affordable housing include high costs resulting from the housing construction value chain with key drivers being land and titling; bulk and internal infrastructure provision; inefficient planning; zoning and land registration systems; land speculation that continues to restrict access to well-located land for development; lack of project finance as investors hold back monies amid market uncertainty; and reduced revenue inflows and disruption of supply chains due to the pandemic. In interventions that help to cushion developers, the government reduced the standard VAT rate from 16 percent to 14 percent,[26] and reduced the corporate income tax rate for resident companies from 30 percent to 25 percent.[27] Institutions have continued to invest in the sector, such as Shelter Afrique partnering with Karibu Homes, a large-scale affordable housing developer.

The incoming supply of housing units stands at approximately 50 000 housing units a year with only two percent of this being for the low income market against an annual demand of 250 000 units. However, the value of residential buildings approved in the first two months of the year increased to KSh63.2 billion (US$593.5 million) from KSh20.8 billion (US$195 million) for the same period last year, attributed to the clearing of the backlog created in 2019 due to delays with the Nairobi City County technical planning committee.[28]

The government has made commendable progress in driving housing supply, however, to accelerate this needs encouraging the use of alternative building materials to lower construction costs and thus achieve affordable houses; reviewing the public private partnership framework to enhance effectiveness; fast-tracking incentives; investing in urban planning to enhance sustainability; and providing infrastructure, the lack of which is due to limited budget allocation to local governments that has crippled the opening up of areas for development.

THE GOVERNMENT HAS MADE COMMENDABLE PROGRESS IN DRIVING HOUSING SUPPLY

[24] Otieno,B (2020). Affordable housing raises Sh536m from first Nairobi project. Business Daily.
[25] Government of Kenya (2021). Affordable Housing Programme Pipeline. https://bomayangu.go.ke/Ahp/pipeline (Accessed 23 March 2021)
[26] World Bank (2020). Economic Update April 2020: Turbulent Times for Growth in Kenya – Policy options during the COVID-19 pandemic. http://documents1.worldbank.org/curated/en/683141588084127834/pdf/Kenya-Economic-Update-Turbulent-Times-for-Growth-in-Kenya-Policy-Options-during-the-COVID-19-Pandemic.pdf (Accessed 27 August 2020). Pg. 27.
[27] Kenya Law (2020). Tax Laws Amendment Act No. 2 of 2020. http://kenyalaw.org/kl/fileadmin/pdfdownloads/AmendmentActs/2020/TaxLaws_Amendment_Act_No.2of2020.pdf (Accessed 15 August 2020). Pg. 24
[28] Kenya National Bureau of Statistics (2020). Leading Economic Indicators June 2020. https://www.knbs.or.ke/?wpdmpro=leading-economic-indicators-june-2020 (Accessed 26 August 2020). Pg. 38.

KENYA

Affordable housing in Kenya: Market shaping indicators

8.1 Construction financing

Construction finance is limited and expensive. Bank loans make up 95 percent of all construction finance, while the remaining five percent is sourced from equity or debt investment from development financial institutions and structured products. The funding is expensive (with interest rates up to 18 percent per annum) and depends on land title having been secured – a condition not often in place at the start of a development. As a result, most developers offer cash payment options, incentivising these with discount rates. Buyer deposits and progress payments have thereby become an affordable form of construction finance, and a way to overcome the time delays caused by slow land titling. Not costed in this arrangement, however, is the risk that buyers then take that a developer will fail to complete the obligation – the incidence of failed projects and cash buyers losing their deposits is regularly reported. In part as a result of these inefficiencies, the supply of housing units is constrained, and the associated high development costs are passed on to the end buyers, compromising housing affordability.

There are 2-3 people per sleeping room with a higher average (2.93) being reported for the Bottom 40 of the income pyramid living in informal dwellings. At the national level, the number of households living in dwellings built using durable building materials (2 466 384) is a small proportion relative to the reported total number of national households (13 926 946). According to the 2020 KNBS Economic Survey, the combined number of completed private and public residential buildings in Nairobi City County for 2019 was 12 332. There is huge demand for well-located low cost housing and not enough supply to meet it with almost half (46.5 percent) of the urban population living in slums, informal settlements or inadequate dwellings **(Table 4)**.

Table 4: Construction and investment related indicators:

Indicator	Value	Year	Source
Percent of population living in slums, informal settlements, or inadequate dwellings - Urban	46.5%	2017	World Bank
Number of people per sleeping room in formal dwellings - Urban	2.35	2014	Demographic & Health Survey
Number of people per sleeping room in informal dwellings - Urban	2.45	2014	Demographic & Health Survey
Number of people per sleeping room in formal dwellings - B40	2.41	2014	Demographic & Health Survey
Number of people per sleeping room in informal dwellings - B40	2.93	2014	Demographic & Health Survey
Number of households living in dwellings built using durable building materials (walls and roof) - National	2 466 384	2019	Central Bank of Kenya, Kenya National Bureau of Statistics, FSD Kenya
Number of dwellings completed annually - National [28]	12 332	2019	Kenya National Bureau of Statistics
Cost of standard 50kg bag of cement in local currency units - National	KES 650	2020	Bamburi Cement, Mombasa, Savannah and Blue Triangle

[28] This is the only publicly available figure that we could find accounting for the number of dwellings completed. It is not nationally representative, and should therefore be taken as indicative only for Nairobi County. It would be worthwhile for the KNBS to collect and aggregate the figure for all counties to fully represent the figure.

9 Sales, transfer and rental

At the national level, 61 percent of households own their homes while 38.7 percent are renting **(Table 5)**. However, in urban areas, home ownership and rental rates stand at 21.3 percent and 78.7 percent, respectively.[29] Low levels of home ownership in urban areas are attributed to the unaffordability of housing units in the wake of spiking house prices, resulting from the high cost of land, construction costs and others, such as the professional costs that developers must recover. Nationally, the rental market lacks formal supply with 88.5 percent being supplied through individual investors.[30] The bulk of the rental stock is characterised by low quality and low levels of compliance, aimed at minimising development costs and enhancing affordability. According to the Kenya Gazette, there are only 421 formal estate agents facilitating transactions in the property market.

9.1 End user financing

Formal financial inclusion has improved from 26.7 percent in 2006 to 82.9 percent in 2019.[31] This has been attributed to the accelerated uptake of mobile money. The 2019 repeal of the interest rate cap notwithstanding, banks continue to operate under tight underwriting standards, coupled with the one-third rule.[32] In addition, despite 83 percent of total employment being in the informal sector,[33] this portion of the population lacks access to mortgage loans due to insufficient credit risk information for meeting the criteria set in the mortgage products. In 2020, the cheapest newly built house in Kenya is Tsavo Real Estate's 88 m² unit costing KSh 2 700 000 (US$24 590). It is estimated that, using standard financial products, the maximum dwelling price affordable to Bottom 40 households would only be KSh 1 142 991 (US$10 410). At current financing rates, it is estimated that the Tsavo Real Estate house would only be affordable to 12.34 percent of urban households **(Table 5)**.

Households finance their housing mainly with regular income and personal savings, with formal credit below 10 percent. The World Bank estimates that as much as 90% of Kenya's housing finance has been supplied by SACCOs and housing cooperative networks. Mortgage uptake has remained relatively low with the number of mortgage accounts at 27 993 at the end of 2019, representing an increase of 1806 loan accounts from December 2018. The mortgage to gross domestic product (GDP) ratio stood at 2.21 percent in 2020.[34] This is attributed to relatively high interest rates and unavailability of long tenors making the terms unfavorable for the majority of households, amid low-income levels. There were 31 institutions extending mortgages at variable interest rates for different loan periods in 2019, a decrease from 33 in 2018.[35] The number of mortgage defaulters has also continued to rise through the pandemic, as is evidenced by Kenya Commercial Bank's deteriorating ratio of non-performing mortgage loans from 8.3 percent in Q1 2020 to 10.3 percent in Q2 2020,[36] attributed to constrained income levels.[37]

29 Kenya National Bureau of Statistics (2020). 2019 Kenya Population and Housing Census Report. http://housingfinanceafrica.org/documents/2019-kenya-population-and-housing-census-reports/ (Accessed 15 August 2020).

30 Kenya National Bureau of Statistics (2020). 2019 Kenya Population and Housing Census Report. http://housingfinanceafrica.org/documents/2019-kenya-population-and-housing-census-reports/ (Accessed 15 August 2020).

31 FinAccess (2019). 2019 FinAccess Household Survey https://www.centralbank.go.ke/wp-content/uploads/2019/04/2019-FinAcces-Report.pdf (Accessed 22 September 2020). Pg. 8

32 According to Kenyan Laws, every employee should take home at least 1/3 of his basic salary. This is after deduction of all statutory obligations and other deductions i.e the net salary/take home should be at least 1/3 of the basic salary.

33 Kenya National Bureau of Statistics (2020). Economic Survey 2020. https://www.knbs.or.ke/?wpdmpro=economic-survey-2020 (Accessed 25 August 2020). Pg. 44.

34 Centre for Affordable Housing Finance (2020). Housing Finance in Africa Yearbook: 11th Edition – 2020. http://housingfinanceafrica.org/resources/yearbook/

35 Central Bank of Kenya (2019). Bank Supervision Annual Report 2019. https://www.centralbank.go.ke/uploads/banking_sector_annual_reports/197965474_BSDANNUALREPORT2019%20.pdf (Accessed 5 January 2021). Pgs. 24-25.

36 Central Bank of Kenya (2020). Press Release by the Monetary Policy Committee. 29 July 2020. https://www.centralbank.go.ke/uploads/mpc_press_release/603807985_MPC%20Press%20Release%20-%20Meeting%20of%20July%2029%202020.pdf (Accessed 30 August 2020). Pg. 1.

37 KCB Group (2020). KCB Group PLC Investor Presentation (Q2 2020) https://kcbgroup.com/wp-content/uploads/2020/08/KCB-Group-PLC-Q2-2020-Investor-Presentation.pdf (Accessed 22 September 2020). Pg. 25.

KENYA

Affordable housing in Kenya: Market shaping indicators

Table 5: Sales, transfer and rental-related indicators:

Indicator	Value	Year	Source
Ownership/ Rental			
Percentage of households that own their dwelling – National	61%	2019	Kenya National Bureau of Statistics
Percentage of households that own their dwelling – B40	59%	2014	Demographic & Health Survey
Percentage of households that rent their dwelling - Urban	78.7 %	2020	Kenya National Bureau of Statistics
Affordability			
Price of the cheapest, newly built house by a formal developer or contractor in an urban area (local currency units)	USh125 million	2020	Edermann Property
Percentageof households that can afford the cheapest, newly built dwelling by a formal developer or contractor - Urban	12.34 %	2019	Central Bank of Kenya, Kenya National Bureau of Statistics, FSD Kenya
Maximum dwelling price affordable to B40 households based on market mortgage finance terms - B40	KES 1 142 991	2019	Reall
Maximum dwelling rent affordable to B40 households - B40	KES 14 933	2019	Reall
Transactions			
Number of formal estate agents- National	421	2020	The Kenya Gazette
Finance			
Does a mortgage refinancing company exist? - National	Yes	2020	The National Treasury
Does a foreclosure policy exist? - National	Yes	2008	World Bank
Mortgages as a % of properties - National	Yes	2018	Central Bank of Kenya; National Land Commission
Value of residential mortgages outstanding as % of GDP – National	Yes	2020	Central Bank of Kenya; World Bank

The Kenya Mortgage Refinancing Company (KMRC) was established in 2018 to support the affordable housing programme and commenced operations in 2020. The facility, which has raised funds from financial institutions, also plans to issue bonds in the capital markets. The KMRC lends to financial institutions at 5 percent, who onward lend to qualified borrowers at 7 percent for up to 20 years, representing a significant reduction in interest rate and increase in loan term length. Mortgage firms have shied away from writing housing loans, mainly due to a lack of long-term deposits in the industry to match them. KMRC will thus feed the lenders with long-term funding, boosting housing finance.

The National Housing Development Fund was expected to provide guaranteed offtake to developers and enable end-buyer uptake through a long-term subsidised Tenant Purchase Scheme and low interest rate mortgage loans. Unlike the initial structure, which involved a mandatory levy, the fund has since been restructured allowing individuals to voluntarily save a minimum of KSh200 (US$1.9) monthly towards home ownership.[38] This has crippled mobilisation of adequate funds and compromised the affordable financing plans.

[38] Central Bank of Kenya (2020). Press Release by the Monetary Policy Committee. 29 July 2020. https://www.centralbank.go.ke/uploads/mpc_press_release/603807985_MPC%20Press%20Release%20-%20Meeting%20of%20July%2029%202020.pdf (Accessed 30 August 2020). Pg. 1.

KENYA

Affordable housing in Kenya: Market shaping indicators

In the wake of strict underwriting rules by banks, especially when lending to informal sector, KMRC is expected to partially resolve this by lending at a subsided rate to Kenyans earning below KSh150 000 (US$1 409) monthly, through primary lenders such as cooperatives. The loans will be directed towards home purchase, thus boosting housing affordability.

The government has supported housing affordability through policy reforms such as expanding individual tax rate bands and increasing the individual annual personal relief by 70 percent to KSh28 800 (US$270) with the aim of increasing disposable income, part of which is for meeting household needs.[39] In addition, banks are restructuring housing loans to ease the financial burden on borrowers. A bill was also drafted by the Senate proposing a loan and mortgage moratorium, preventing lenders from imposing penalties or credit reference bureau listings for borrowers unable to meet their monthly payment obligations, and a directive for landlords to enter into tenancy agreements with tenants unable to meet rent obligations until after the pandemic.[40] However, the bill is yet to be enacted and is thus unlikely to achieve its intended purpose.

9.2 Property markets

The real estate sector (residential and non-residential) grew by 4.3 percentage points in Q1 2020, 0.5 percentage points lower than Q1 2019, attributable to a decline in activity amid a tough financial environment.[41] House prices contracted by 0.08 percent in Q3 2020 representing a slight improvement from 0.20 percent in Q2 2020.[42] Apartments accounted for 43 percent of the concluded sales, attributed to affordability, with detached units accounting for 54 percent. Rental prices declined in Q2 2020, attributed to pressure on landlords to offer discounts amid reduced disposable income.[43] In September 2020, the value of residential building approvals for Nairobi stood at KSh 3 302.22 million compared to KSh 24 801.96 million in February. This may be attributed to the effects of the lockdown on the construction industry and building plan approval process.[44]

The overall impact of the pandemic on the property market will be determined by how long it lasts, and the impact of government intervention through fiscal policies. Constrained income has led to homebuyers and renters having less to spend on housing, leading to slow uptake, lower home prices and market rents. Institutions will remain cautious through the current economic uncertainty. Developers are opting for alternative sources of finance such as bonds, partnerships with foreign investment institutions, and local pension funds for projects within both the upper and affordable housing markets. In the short term, the slowdown in construction activities will accelerate movement of existing property inventory, facilitating a demand-supply equilibrium in the upper market. However, for the affordable housing market, this is expected to increase the existing housing deficit.

FOR THE AFFORDABLE HOUSING MARKET, THE PANDEMIC IS EXPECTED TO INCREASE THE EXISTING HOUSING DEFICIT

[39] Kenya Law (2020). Tax Laws Amendment Act No. 2 of 2020. http://kenyalaw.org/kl/fileadmin/pdfdownloads/AmendmentActs/2020/TaxLaws_Amendment_Act_No.2of2020.pdf (Accessed 20 August 2020). Pg. 22.

[40] Republic of Kenya (2020). Kenya Gazette Supplement Senate Bills 2020. The Pandemic Response and Management Bill, 2020. http://www.parliament.go.ke/sites/default/files/2020-04/Pandemic%20Response%20and%20Management%20Bill%2C%202020.pdf (Accessed 12 August 2020). Pgs. 80-83.

[41] Kenya National Bureau of Statistics (2020). Quarterly GDP Report (2020). https://www.knbs.or.ke/?wpdmpro=quarterly-gross-domestic-product-report-first-quarter (Accessed 15 August 2020). Pg. 11.

[42] Kenya Bankers Association (2020). Housing Price Index Q3 2020. https://www.kba.co.ke/downloads/KBA-HPI%202020_Q4%20(003).pdf (Accessed 15 January, 2021). Pg. 1.

[43] Hass Consult (2020). Q2 2020 House Price Index 2020. https://hassconsult.co.ke/real-estate/images/HassPropertyIndexQ2.2020.pdf (Accessed 16 August 2020).

[44] Kenya National Bureau of Statistics (2020). Leading Economic Indicators October 2020. https://www.knbs.or.ke/?wpdmpro=leading-economic-indicators-october-2020 (Accessed 26 December 2020). Pg. 38.

10 Maintenance & management

Many people in Kenya (45 percent) live in informal or inadequate dwellings and 83 percent of households are without access to basic waste collection services **(Table 6)**. There is scope to improve municipal management, infrastructure delivery and alternative housing finance options. Households allocated just under 4 percent to dwelling improvements in Kenya and this is largely attributed to the lack of access to affordable credit. There were 14 microfinance providers and the value of microfinance loans increased from KSh 44 179 million in 2018 to KSh 46 652 million in 2019, though this does not specifically refer to housing microfinance **(Table 6)**.

Table 6: Maintenance and management-related indicators

Indicator	Value	Year	Source
Number of microfinance providers	957	2019	Kenya Property Developers Association
Number of microfinance providers	3.7%	2020	Kenya National Bureau of Statistics
Number of microfinance providers	165,000	2017	Nairobi City County
Number of microfinance providers	83%	2016	Kenya National Bureau of Statistics
Number of microfinance providers	14	2019	Central Bank of Kenya
Value of microfinance loans (local currency units)	KES 46 652 000 000	2019	Central Bank of Kenya

Between January and June 2019, there were 957 approved building permit applications in Nairobi for improvements to residential properties. There are a number of home improvement products in the market, such as the Nyumba Smart Loan, provided by the Kenya Women Microfinance Bank (KWFT), with support from the Terwilliger Center for Innovation in Shelter, Habitat for Humanity. This enables low income women to acquire quality building materials for home construction or improvements.[45] In 2018, it was reported that KWFT made about 1 600 Nyumba Smart Loans a month.[46] Similarly, Reall's partnership with NACHU projects has positively impacted the ability of over 7 000 beneficiaries to have access to improved water and sanitation services through housing.[47]

[45] Chetty,K. (2019). Opinion: How housing microfinance in Africa can improve quality of life. 7 March 2019. https://www.devex.com/news/sponsored/opinion-how-housing-microfinance-in-africa-can-improve-quality-of-life-93964 (Accessed 5 January 2021).
[46] Chetty,K. (2019). Opinion: How housing microfinance in Africa can improve quality of life. 7 March 2019. https://www.devex.com/news/sponsored/opinion-how-housing-microfinance-in-africa-can-improve-quality-of-life-93964 (Accessed 5 January 2021).
[47] Reall. (2020). Reall in Kenya Dashboard. https://www.reall.net/data-dashboard/kenya/ (Accessed 5 January 2021)

11 State of housing data

The assessment of data availability and quality in Kenya's housing sector has highlighted a number of gaps and limitations regarding available data. Data gaps along various components of the housing value chain affect the ability to accurately measure investment in Kenya's housing sector, the contribution of housing to Kenya's economy and access to finance and affordability. The majority of the macroeconomic (inflation, GDP and interest rates) and financial data gaps can be closed through the disaggregation of existing data to allow for the analysis of the housing sector.

Private and public sector market players need to be leveraged to access and centralize data that would help improve segmenting the demand side and tracking housing supply. An important step is to develop an institutional data engagement approach to lobby and engage key market players on their important roles in collectively improving Kenya's housing data landscape.

Kenya's Central Bank is attentive to the need to collect and share housing finance data. A review of data gaps found that the provision of disaggregated budget, government expenditure and high-level mortgage data would address the main data gaps. For example, by disaggregating GDP data to provide figures for residential real estate and residential real estate construction, it would allow for high-level analysis of housing sector investment and its economic impact. Another important data gap is the value of development finance institution funding invested in residential real estate in local currency units which hinders tracking of investment in Kenya's housing sector.

11.1 Policy and regulatory framework governing data for housing

The review of Kenya's housing data landscape matched legislation and regulations with the specific market players to which they apply, identifying 22 pieces of legislation and regulations that apply to developers/ builders, banks, funders and other lenders, the estate agency sector and government.

- There are eleven pieces of legislation that are most relevant to government sector players. These include the Land Registration and Regulation Act of 2012, Sectional Properties Act of 1987, Land Control Act of 2012, Land Act of 2012, National Land Commission Act of 2012, Physical and Land Use Planning Act of 2019, Housing Act of 1953, National Housing Policy of 2016, Public Finance Management Act of 2012, Urban Areas and Cities Act of 2011, and the Retirement Benefits Act of 1997. While some laws have no significant data dissemination requirements, laws such as the National Housing Policy (2016) encourage the collection and public dissemination of housing-related data.
- There are 8 pieces of legislation that are most relevant to banks, funders and other lenders. These include the Banking Act of 2015, Capital Markets Act of 2012, Civil Servants (Housing Scheme Fund) Regulations of 2004, Capital Markets Acts, The Central Bank of Kenya Act of 2014, Investment Promotion Act of 2004, Microfinance Act of 2006 and the Sacco Societies Act of 2008. The Banking Act of 2015 and Microfinance Act of 2006 provide the Central Bank with regulatory authority to manage the banking and microfinance sectors and to collect relevant financial sector data.
- There are two pieces of legislation that are relevant to developers/builders. These include National Construction Authority Act of 2011 and Architects and Quantity Surveyors Act. There are no significant data dissemination requirements for the regulation and registration of contractors, architects and quantity surveyors.
- The Rent Restriction Act of 1959 is relevant for the estate agency sector. The Act makes mandatory the keeping of rent books by landlords. This is a significant step towards being able to effectively track and monitor Kenya's rental market.

12 Looking forward

The housing investment opportunity lies in the affordable market segment supported by the growing demand for affordable housing options, positive demographics and the expanding middle class. Pockets of value are in satellite towns such as Ruiru, which act as Nairobi's dormitory, supported by availability of land in bulk at affordable prices, improving infrastructure and availability of amenities.

At present, lockdowns and social distancing will see developers continue to adopt technology to differentiate their products and remain competitive. This includes using virtual reality to enable customers to tour pre-developments or ready units remotely. To enhance housing affordability for potential buyers, developers will need to adopt building technology such as prefab building materials and expanded polystyrene panels. In addition, lending by KMRC will also boost the mortgage market.

THE HOUSING INVESTMENT OPPORTUNITY LIES IN THE AFFORDABLE MARKET SEGMENT

KENYA

Affordable housing in Kenya: Market shaping indicators

Further reading:

CAHF Mortgage and Housing Affordability Dashboard **http://housingfinanceafrica.org/documents/calculating-mortgage-and-housing-affordability-in-africa/**

Central Bank of Kenya **https://www.centralbank.go.ke/**

Cytonn Investments **https://cytonn.com/**

Demographic Health Survey Programme **https://dhsprogram.com/**

Hass Consult **https://hassconsult.co.ke/real-estate/**

Kenya Bankers Association **https://kba.co.ke/**

Kenya National Bureau of Statistics **https://www.knbs.or.ke/**

Housing Finance Company of Kenya **https://www.hfgroup.co.ke/**

NACHU **https://www.nachu.or.ke/**

National Treasury **https://www.treasury.go.ke/**

National Housing Corporation **https://www.nhckenya.co.ke/**

Reall Data Dashboard – Market Shaping Indicators **https://www.reall.net/dashboard/msi/**

Reall Data Dashboard – Reall in Kenya **https://www.reall.net/data-dashboard/kenya/**

Transparency International **https://www.transparency.org/en/cpi/2020/index/nzl**

World Bank Ease of Doing Business **https://www.doingbusiness.org/en/rankings**

Central Bank of Kenya (2020). Banking Circular No. 3 of 2020. 27 March 2020. https://www.centralbank.go.ke/uploads/banking_circulars/1400484618_Banking%20Circular%20No.%203%20of%202020%20-%20Implementation%20of%20Emergency%20Measures.pdf (Accessed 21 August 2020)

Ernst & Young (2020). Kenya enacts Tax Laws (Amendment) Act, 2020. 28 April 2020. https://www.ey.com/en_gl/tax-alerts/kenya-enacts-tax-laws-amendment-act-2020 (Accessed 14 August 2020)

Machira, A. (2020) Pandemic – Potential Impact of the Covid-19 Pandemic in Kenya. Tax Justice Network Africa. 17 April 2020. https://taxjusticeafrica.net/pandebtmic/ (Accessed 30 August 2020)

Reall (2021). Kenya Impact Summary Brief. https://www.reall.net/wp-content/uploads/2021/01/Kenya-Impact-Summary-Brief.pdf (Accessed 6 February 2021).

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