500,000 Affordable Homes Program

Project delivery and finance framework overview

May 2018
<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
</tr>
</thead>
<tbody>
<tr>
<td>ABS</td>
<td>Asset Backed Securities</td>
</tr>
<tr>
<td>AGPO</td>
<td>Access to Government Procurement Opportunity</td>
</tr>
<tr>
<td>ASK</td>
<td>Agricultural Society of Kenya</td>
</tr>
<tr>
<td>CAPEX</td>
<td>Capital Expenditure</td>
</tr>
<tr>
<td>CS</td>
<td>Cabinet Secretary</td>
</tr>
<tr>
<td>DFI</td>
<td>Development Finance Institution</td>
</tr>
<tr>
<td>DP</td>
<td>Deputy President</td>
</tr>
<tr>
<td>GoK</td>
<td>Government of Kenya</td>
</tr>
<tr>
<td>HE</td>
<td>His Excellency, the President</td>
</tr>
<tr>
<td>HQ</td>
<td>Headquarters</td>
</tr>
<tr>
<td>HUD</td>
<td>State Department of Housing and Urban Development</td>
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<tr>
<td>IPDU</td>
<td>Integrated Project Delivery Unit</td>
</tr>
<tr>
<td>JV</td>
<td>Joint Venture</td>
</tr>
<tr>
<td>KMRC</td>
<td>Kenya Mortgage Refinance Company</td>
</tr>
<tr>
<td>MoITD</td>
<td>Ministry of Industrialization and Trade Development</td>
</tr>
<tr>
<td>MoU</td>
<td>Memorandum of Understanding</td>
</tr>
<tr>
<td>NHC</td>
<td>New National Housing Corporation</td>
</tr>
<tr>
<td>NHDF</td>
<td>National Housing Development Fund</td>
</tr>
<tr>
<td>NLC</td>
<td>National Land Commission</td>
</tr>
<tr>
<td>NSSF</td>
<td>National Social Security Fund</td>
</tr>
<tr>
<td>NT</td>
<td>National Treasury</td>
</tr>
<tr>
<td>NYS</td>
<td>National Youth Service</td>
</tr>
<tr>
<td>PPDA</td>
<td>Public Procurement and Disposal of Assets Act</td>
</tr>
<tr>
<td>PS</td>
<td>Principal Secretary</td>
</tr>
<tr>
<td>SACCOs</td>
<td>Savings and Credit Cooperative Organizations</td>
</tr>
<tr>
<td>SME</td>
<td>Small and Medium Sized Enterprises</td>
</tr>
<tr>
<td>ToRs</td>
<td>Terms of Reference</td>
</tr>
<tr>
<td>TPS</td>
<td>Tenant Purchase Scheme</td>
</tr>
<tr>
<td>WB</td>
<td>World Bank</td>
</tr>
</tbody>
</table>
The process of conceptualizing the program began in August 2017

Several meetings have been held with key stakeholders
- Housing Cooperatives on 27 September 2017
- KPDA in March 2018
- Financial Institutions and Insurance Companies in April 2018
- Pension scheme managers in April 2018
- County Governments in April 2018 (Devolution Conference)
- Relevant Government Ministries and Departments etc.

Consequently we have been adjusting the development framework
Over the next five years and founded on social impact, the Government of Kenya will implement the big four agenda targeting four priority initiatives:

- **500,000 affordable homes**
- **20% of GDP from the manufacturing sector**
- **100% Food and Nutrition Security**
- **100% Universal Health Coverage (UHC)**

<table>
<thead>
<tr>
<th>Job creation at scale</th>
<th>Infrastructure investment</th>
<th>Competitive utility costs</th>
<th>Governance</th>
<th>Security</th>
<th>Technology innovation</th>
</tr>
</thead>
</table>

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To enhance program segmentation we have defined four levels of housing types with only three (3) being the focus of the program:

- **Income Range: KES 0 – KES 14,999**
  - Share of Formally Employed: 2.62%
  - **✓**

- **Income Range: KES 15,000 – KES 49,999**
  - Share of Formally Employed: 71.82%
  - **✓**

- **Income Range: KES 50,000 – KES 99,999**
  - Share of Formally Employed: 22.62%
  - **✓**

- **Income Range: KES 100,000 +**
  - Share of Formally Employed: 2.85%
  - Private Sector will meet this demand
  - **✗**
To resolve the housing challenge in the low income segment, GoK will implement the 500,000 affordable homes programme which is part of the Big Four agenda.

- **500,000 homes**
  - Affordable: 400,000
  - Social: 100,000
  - Total: 500,000

- **Real estate & construction sector contribution to GDP**
  - 2017: 7%
  - 2022: 14%
  - Total: 100%

- **350,000 jobs**
  - Direct jobs: 225,000
  - Indirect & induced jobs: 125,000
  - Total: 350,000

Country wide coverage
Delivery of the 500,000 homes programme will be defined by supply, demand and an enabling environment.

Ensuring that the houses are built based on a proven demand master plan and mega city approach (along an identified segmentation), mixed use developments with provision of social infrastructure, affordable developer financing, and in the right economic and political nodes (achieving equity). Maximise use of private-sector financing with government support on land, bulk infrastructure and other incentives.

Critical interventions are made to ensure affordability (lowering cost of build and ownership of homes). Includes lowering cost of inputs (scale contracts), tax breaks e.g. zero rating stamp duty for first time home owners.

Provide a mix of long term Tenant Purchase Schemes (TPS) and affordable Mortgages. Need to set up a user verification system ensuring houses built get to qualifying Mwananchi.
Achievements to date

We are crystallizing the development framework

The Kenya Mortgage Refinancing Company has been registered and currently the regulations are being drafted. It will be launched in February 2019

Discussions with the National Treasury are ongoing on the establishment of a National Housing Development Fund to address supply

Several sites have been identified for the flagship projects (Park Road, Starehe, Shauri Moyo and Mavoko) and lease documents are ready.

We are working with ICTA to develop a housing Portal where people register to buy houses

We are evaluating building materials and technology providers for a housing building materials and technologies exhibition (Coops can benefit from the exhibition)

We have signed MOUs with 7 County Govts for development of at least 2000 housing units in each county and are still pursuing the other Counties

The review of the Sectional Properties Act is now complete and awaiting tabling in Parliament
AFFORDABLE HOUSING PROGRAM

Project pipeline

Master planner to support with identification of locations for the funnel projects and development of implementation schedule

- Lot 1
  - Park road (1,640)
  - Makongeni (20,000)
  - Muguga Green (900)
  - Shauri Moyo (5,300)
  - Starehe (3,500)
  - Mavoko (5,500)
  - Social housing (15,000)
  - Counties (48,000)
  - Nairobi County (67,800)

- Lot 2
  - NSSF Land Mavoko (50,000)
  - Portlands Athi River 1 (50,000)
  - Mombasa 1 (50,000)
  - Eldoret 1 (30,000)
  - Cooperatives 2 (20,000)
  - Private developers 2 (20,000)
  - Civil Servants 2 (10,000)
  - Police 2 (10,000)
  - Nairobi Regeneration (20,000)
  - Other Counties (50,000)

- Lot 3
  - Nakuru 1 (30,000)
  - Kisumu 1 (30,000)
  - Eldoret 2 (30,000)
  - Portlands Athi River 2 (50,000)
  - Cooperatives 3 (20,000)
  - Private Developers 3 (20,000)
  - Civil Servants 3 (10,000)
  - Police 3 (10,000)
  - Redevelopment of Nairobi Old Estates 2 (20,000)
  - Counties (50,000)

- Lot 4
  - Nakuru 2 (30,000)
  - Kisumu 2 (30,000)
  - Mavoko (12,500)
  - Cooperatives 4 (20,000)
  - Private Developers 4 (20,000)
  - Civil Servants 4 (10,000)
  - Police 4 (10,000)
  - Redevelopment of Nairobi Old Estates 3 (20,000)
  - Counties (50,000)

- Lot 5
  - Mombasa 2 (30,000)
  - Cooperatives 5 (20,000)
  - Private Developers 5 (20,000)
  - Civil Servants 5 (10,000)
  - Police 5 (10,000)
  - Redevelopment of Nairobi Old Estates 4 (20,000)
Lot 1 projects are further grouped into four categories representing a total development program of 167,640 units.

- **Lot 1A: Flagship Projects**
  - Park Road
  - Muguga Green
  - Starehe A & B
  - Shauri Moyo A, B, C, D
  - Makongeni
  - Mavoko
  - Total Units: 36,840

- **Lot 1B: Flagship Social Housing Projects**
  - Transitional housing
  - Kibera B C, D
  - Mariguini
  - Kiambiu
  - Total Units: 15,000

- **Lot 1C: Counties and Towns**
  - 22 Counties and Towns
  - 8 signed counties
  - 14 counties in advanced negotiations
  - Total Units: 48,000

- **Lot 1D: Nairobi County Projects**
  - Bahati
  - Maringo
  - Ziwani
  - Jericho
  - Lumumba
  - Gorofani
  - Bondeni
  - Shauri Moyo
  - Total Units: 67,800
Lot 1A: Flagship projects

These projects are intended to build investor confidence and create momentum for the program. These projects are at advanced stages of master planning and urban designing. Park Road will break ground in July 2018.

<table>
<thead>
<tr>
<th>Area</th>
<th>No. of units</th>
</tr>
</thead>
<tbody>
<tr>
<td>Park Road</td>
<td>1,640</td>
</tr>
<tr>
<td>Makongeni</td>
<td>20,000</td>
</tr>
<tr>
<td>Mavoko</td>
<td>5,500</td>
</tr>
<tr>
<td>Shauri Moyo</td>
<td>5,300</td>
</tr>
<tr>
<td>Starehe</td>
<td>3,500</td>
</tr>
<tr>
<td>Muguga Green</td>
<td>900</td>
</tr>
<tr>
<td>TOTAL</td>
<td>36,840</td>
</tr>
</tbody>
</table>

Lot 1B: Flagship social housing projects

These projects are intended to improve informal settlements and slum upgrading.

<table>
<thead>
<tr>
<th>Area</th>
<th>No. of units</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kibera</td>
<td>4,300</td>
</tr>
<tr>
<td>Kiambiu</td>
<td>2,700</td>
</tr>
<tr>
<td>Mariguini</td>
<td>4,000</td>
</tr>
<tr>
<td>Transitional housing</td>
<td>4,000</td>
</tr>
<tr>
<td>TOTAL</td>
<td>15,000</td>
</tr>
</tbody>
</table>

Lot 1C: County projects

These projects are based on MoUs signed with Counties which will receive support from National Government on the development of infrastructure for land that will be made available for housing developments for 2,000 units per year. Signed counties have identified land and are awaiting master planning for urban centers. Counties in advanced negotiations are reviewing the agreement while identifying suitable land.

<table>
<thead>
<tr>
<th>Signed Counties</th>
<th>No. of units</th>
<th>Advanced Counties</th>
<th>No. of units</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kibera</td>
<td>6,000</td>
<td>Kitui</td>
<td>2,000</td>
</tr>
<tr>
<td>Kiambu</td>
<td>2,000</td>
<td>Makueni</td>
<td>2,000</td>
</tr>
<tr>
<td>Mariguini</td>
<td>4,000</td>
<td>Taita Taveta</td>
<td>2,000</td>
</tr>
<tr>
<td>Meru</td>
<td>2,000</td>
<td>Bungoma</td>
<td>2,000</td>
</tr>
<tr>
<td>Nyeri</td>
<td>2,000</td>
<td>Murang’a</td>
<td>2,000</td>
</tr>
<tr>
<td>Tharaka Nithi</td>
<td>2,000</td>
<td>Laikipia</td>
<td>2,000</td>
</tr>
<tr>
<td>Uasin Gishu</td>
<td>2,000</td>
<td>Narok</td>
<td>2,000</td>
</tr>
<tr>
<td>West Pokot</td>
<td>2,000</td>
<td>Kirinyaga</td>
<td>2,000</td>
</tr>
<tr>
<td>Embu</td>
<td>2,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kisumu</td>
<td>2,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kakamega</td>
<td>2,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trans Nzoia</td>
<td>2,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mandera</td>
<td>2,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Isiolo</td>
<td>2,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td>20,000</td>
<td>TOTAL</td>
<td>28,000</td>
</tr>
</tbody>
</table>
Lot 1D: Nairobi county projects

These projects initiated in Nairobi County Government using county land and represent primarily proposed re-development of county estates.

<table>
<thead>
<tr>
<th>Area</th>
<th>No. of units</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bahati</td>
<td>14,000</td>
</tr>
<tr>
<td>Maringo</td>
<td>13,400</td>
</tr>
<tr>
<td>Ziwani</td>
<td>5,100</td>
</tr>
<tr>
<td>Jericho</td>
<td>14,500</td>
</tr>
<tr>
<td>Lumumba</td>
<td>10,000</td>
</tr>
<tr>
<td>Gorofani</td>
<td>840</td>
</tr>
<tr>
<td>Bondeni</td>
<td>960</td>
</tr>
<tr>
<td>Shauri Moyo</td>
<td>9,000</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>67,800</strong></td>
</tr>
</tbody>
</table>
DEVELOPMENT FRAMEWORK
DEVELOPMENT FRAMEWORK

Key design principles

- Open Space
- Access & Movement
- Smart Technology
- Safety & Security
- Creating Communities
- Building Technology
Design principle: open space
Design principle: access and movement

- Access & Movement
- Treelined Avenue
- Pedestrian Friendly
- Green Verge
- Cycling Path
Design principles: safety and security
Design principle: community facilities
Design principles: smart technology

- Telecommunication
- Gas Reticulation
- Renewable Energy
- Transportation
- Waste Management
- Water
- Payment System
Typical land breakdown

- Residential: 50%
- Utilities, Roads, and Services: 25%
- Open Space: 15%
- Community Facilities with Retail: 10%
Typical site master planning
Modular design approach

DEVELOPMENT FRAMEWORK

Type | 1BED | 2BED | 3BED | TOTAL UNITS
-----|------|------|------|-------------
G+2  | 6    | 12   | 6    | 24          
G+3  | 8    | 16   | 8    | 32          
G+4  | 10   | 20   | 10   | 40          
G+5  | 12   | 24   | 12   | 48          

Plan
elevation
Range of apartment building typologies
Range of apartment finishes

Studio Unit
GFA: 20 sqm
Selling Price: KES 800,000
Range of apartment finishes

One Bedroom Unit
GFA: 30 sqm
Selling Price: KES 1,000,000

LIVING ROOM
BEDROOM
KITCHEN
TOILET
Two Bedroom Unit
GFA: 40 sqm
Selling Price: KES 2,000,000
Development Framework

Range of apartment finishes

Three Bedroom Unit
GFA: 60 sqm
Selling Price: KES 3,000,000
Modular and traditional construction

**Structural Frame & In-fill**
- Structural slab, columns / beams;
- Block in-fill with traditional stone;
- Mix of off-site and on-site construction methods;
- Maximise local content and contractors engagement.

**Pre-Cast Frame**
- Reduced wet works trades on site;
- Created in factory conditions for increased quality;
- Logistical opportunities through just in time principles;
- Standardisation principles reflected in design.

**In-Situ System**
- Most widely used in current supply chain;
- Relatively low skill labour required;
- Programme takes longer than alternatives;
- More demanding for on-site logistics;
- Multiple trades linked on delivery.
FINANCING FRAMEWORK OVERVIEW
### Overview of the financing framework

<table>
<thead>
<tr>
<th>Principle</th>
<th>Description</th>
</tr>
</thead>
</table>
| National Housing Development Fund (NHDF) as an aggregator | - The National Housing Development Fund is the bulk housing aggregator and off-taker. Undertaking for off-take will be provided by the NHDF  
- The online housing demand portal will mitigate developer market risk, which would significantly boost the supply of housing units at scale and lower developer financing costs  
- The sale of homes by the National Housing Development Fund to buyers will take three forms: a tenant purchase scheme, cash and mortgage buyers. |
| Housing purchase options/developer exit      |                                                                                                                                              |
| Bulk housing off-take                        | - Through the NHDF, pension funds and institutional investors will mobilize long term local and international pension funds and institutional financing for bulk off-take of houses and/or investment in issued securities. |
| Off-shore lending for developer finance      | - Sizable construction finance from offshore lenders for onward lending to project developers will be mobilized.                             |
| Role of local banks                         | - Local banks will maximize their development, home loan lending, construction finance and custodial services businesses and capabilities in the delivery of affordable housing at scale. |
| Leverage limited government finance          | - The programme will leverage the Government’s limited financial support without further increases to government debt.                     |
Long term financing structure relies on the housing fund

**FINANCING FRAMEWORK**

**SUPPLY**
- BANKS
  - Construction Finance
- DEVELOPERS
  - Development Cost
- BANK SYNDICATED FACILITY
  - Wholesale Funding
- OFFSHORE BANKS
- EXPORT CREDIT AGENCIES

**NATIONAL HOUSING DEVELOPMENT FUND**
- BANK
  - Offtake Agreement
- NATIONAL HOUSING DEVELOPMENT FUND
  - Tax Credits
  - Funds
  - Coupons
  - Custody Services
- HOME OWNERSHIP SAVINGS PLAN
- HOUSING BOND (ABS)
- INVESTORS
  - GOK & Multi-Lateral Bond Support

**DEMAND**
- MORTGAGE BUYERS
  - Home Loans
- TPS BUYERS
  - Payments
- CASH BUYERS

**MORTGAGE REFINANCING**
- BANKS
  - Mortgage Refinancing
- KMRC
  - Wholesale Funding
- INVESTORS, BANKS & DFIs
  - Wholesale Funding

**BANKS**
  - Construction Finance

**Home Loans**
  - Home Loans
<table>
<thead>
<tr>
<th>Financing model</th>
<th>Description</th>
<th>Precedent</th>
<th>Timelines</th>
</tr>
</thead>
<tbody>
<tr>
<td>Developer led</td>
<td>Select top 10 developers who are backed by a financing institution/own financing</td>
<td>South Africa where municipalities selected champion developers to build momentum for the programme</td>
<td>3 – 6 months</td>
</tr>
<tr>
<td></td>
<td>Agree on delivery timeline for a project based on which payment milestones are met (year 2, year 4)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Governments assures essential off-take and gives undertaking to off-take houses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Housing Bond/TPS based</td>
<td>Housing bond is raised in the capital markets targeted at patient capital investors (pension funds, insurance companies, etc)</td>
<td>USA where Mortgage Revenue Bonds (MRBs) and Multifamily Housing Bonds, have made first-time homeownership possible for over 3 million lower income families, approximately 100,000 every year.</td>
<td>6 – 9 months</td>
</tr>
<tr>
<td></td>
<td>Funds raised are used to finance TPS buyers through the NHF.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Investors are repaid via the monthly cashflows from TPS buyers (asset backed security).</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>GoK provides sinking fund for cases where rent collected falls below bond payment demands.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
The National Housing Development Fund will mobilize capital and offer certainty of sales in the form of an off-take undertaking.

**Principle**

- **Capital mobilization**
  - The Housing Fund will mobilize capital from Government, Development Finance Institutions, Contributions from the Home Owners Saving Plan (HOSP) and Local Banks to fulfil its mandate.

- **De-risking developers**
  - Offer certainty of sales in the form of an off-take undertaking that will allow the developers access construction financing.
  - Purchase the housing units for cash once construction is complete to allow the developers to recycle their capital and develop more units.

- **Enabling homeowners**
  - Allow ordinary Kenyans to save for an affordable home via and the Home Owners Savings Plan which they can use as a down payment towards their affordable house.
  - Offer home buyers the ability to purchase their homes via an affordable 25-year Tenant Purchase Scheme.
  - Allow home buyers the ability to purchase affordable houses nationwide through the Housing Fund.
Kenya Mortgage Refinance Company

**FINANCING FRAMEWORK**

<table>
<thead>
<tr>
<th>Principle</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Objective of the company</td>
<td>▪ KMRC’s objective is to help Kenya grow its mortgage finance market for affordable housing by providing medium and long-term liquidity to mortgage lenders.</td>
</tr>
<tr>
<td>Legal structure</td>
<td>▪ The KMRC has been incorporated as a Private Limited Company owned by commercial banks and Sacco's.</td>
</tr>
<tr>
<td>Bulk housing off-take</td>
<td>▪ Initially KMRC would be financed through the Multilateral investments, credit lines and Government of Kenya equity investment.</td>
</tr>
<tr>
<td></td>
<td>▪ Subsequently KMRC would combine the Multilateral investments with equity investments from local banks, and with market funding as the company starts to issue bonds.</td>
</tr>
</tbody>
</table>
Mobilizing government contribution

How to support Big 4

Industry specific initiatives to increase access to power and reduce cost

Systematic reduction in cost of power from 17.6 KES/kWh today

Manufac- tur- ing

Food security

Housing

Universal health coverage

2018 priority actions

1. Develop new tariff structure, incl.
   - Power policy/incentive for high use industrial manufacturers
   - Lower time of use tariff (ToU) to 3.55-4.60 KES/kWh (half of the original rate for commercial and industrial customers, on additional units compared to last period)
2. Provide transmission and distribution for key commercial and industrial consumers
3. Reduce duration of outages to improve reliability of power
4. Ensure the Rabai Malindi-Garsen line passes through Galana to support the irrigation scheme
5. Agro-processing to benefit from ToU (50% reduction in energy tariff)
6. Distribution lines to new housing complexes
7. 3-phase power provided/ upgraded at 46 hospitals

Input needed from other ministries

- Volume growth projections for key industrial manufacturers (what will MOIED commit to?)
- Absorption capacity of KAM member entities: 12 sectors, incl. textile, apparel, cotton, agro-processing, O&G, construction, mining (incl. iron & steel), ICT and fish processing – e.g. Athi River industrial sheds
- Volume growth projections for areas with industrial manufacturers and energy-intensive users
- Industrial park plan details
- Timeline and prioritization for priority housing complexes, for example Mavoko 55 acres
- List of top ten hospitals, as well as second wave hospitals from longer list of 46 new hospitals

Universal health coverage

Food security

Housing

ILLUSTRATIVE: ENERGY CONTRIBUTION TO HOUSING

Government contribution will also be achieved through corresponding spend by enabler ministries

May-18

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LEGAL FRAMEWORK
Principles of legal framework

Framework Agreement (For Developers / Contractors)
• Shortlisting and prequalification of Developers/Contractors, subject to competitive tender under relevant procurement rules and regulations
• Agreement between SDHUD and the Contractor/Developer to govern the development of housing sites

Off-take Agreement
• Ensure off-take of housing units constructed through the National Housing Development Fund

Early Works Agreement
• For the performance of early works on selected sites in collaboration with suitable government agencies such as NYS, etc.
Q&A

Thank you