Case Study Series 13

April 2019

Centre for Affordable Housing Finance in Africa

Challenges in Delivering Affordable Housing in Kenya: The Case of KARIBU Homes Ltd

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CONTENTS

1. KARIBU HOMES

KARIBU was founded in 2009, with the vision of "transforming the provision of housing in Kenya by setting the standard for the development of affordable, thriving communities for hard working families."[1] The company was founded by two entrepreneurs, Irfan Keshavjee and Nick Gilodi-Johnson, who established the concept and were then joined by a third entrepreneur, Ravi Kohli.[2] Together they set out to assemble a strong team of experienced professionals who shared the passion for delivering affordable housing using commercial solutions. Their core values included "to bring affordable, safe, dignified housing as far down the income ladder as is commercially possible" and "using commercial disciplines and strategies to create social impact." The Riverview Development (RIVERVIEW) in Athi River is the company's first project.

[1] http://karibuhomes.com

[2] http://karibuhomes.com/about-us/team/

KARIBU has been recognized for its efforts. The company was awarded Winner of Best Development in Sub Saharan Africa at the African Property Investment awards in 2017,[3] and is included in the London Stock Exchange group of "Companies to Inspire Africa" in 2019.[4] KARIBU is in the process of initiating other housing development projects.

1.2 WHY THIS CASE STUDY

Kenya has a significant housing gap. The World Bank, in its Kenya Economic Update entitled Housing – Unavailable and Unaffordable (April 2017), estimated that the housing deficit was 2 million units and was growing at 50,000 units per year. [5]

The Kenyan housing market has seen a significant transformation over the last 15 years. In Nairobi, investment in residential real estate started with high income townhouse and apartment developments in neighbourhoods closer to the city. The development boom pushed up land prices and drove developers to promote developments at the city's edge. However the total number of units built per annum has been quite small. [6] And most of these developments have targeted middle and upper income buyers. [7]

The RIVERVIEW project was selected for this case study as: (i) the founders of KARIBU are committed to creating affordable housing with a focus on homeownership (ii) KARIBU was willing to make time available and share their data (iii) the learnings from this project are applicable to the Affordable Housing Programme (AHP) and are likely to be useful to policy makers and implementers of the AHP.

The Kenya Government's "Big Four" Agenda includes the provision of affordable housing as one of the four key pillars. Under the Affordable Housing Programme (AHP), the Kenyan government is committed to providing 500,000 units of affordable housing from 2018 to 2022. The AHP includes various initiatives such as: (i) providing state-owned land for free or at low cost to developers through a joint venture model (ii) developing or subsidizing bulk infrastructure for identified development sites (iii) coordinating and expediting statutory approvals from authorities and utility providers (iii) creating a Housing Fund with mandatory contributions which will allow Kenyans to save for housing and be used to provide offtake undertakings to developers (iv) creating an environment that mobilises private sector resources and (v) promoting the Kenya Mortgage Refinance Facility which will provide long term financing to banks and SACCOs to enable them to provide more fixed rate, longer term mortgages.

Figure 1: Overview of the Affordable Housing Programme

Source: Ministry of Housing Presentations at stakeholder workshops

1.3 APPROACH

The Case Study was prepared for the Centre of Affordable Housing Finance in Africa by Seeta Shah[8] and Ravi Ruparel [9] [10]. The authors reviewed documents provided by KARIBU and also conducted numerous interviews with the Directors and staff. The authors also undertook a survey of a sample of households.

The RIVERVIEW development process is described in Section 2. The results of the survey are summarized in Section 3. The lessons learned are discussed in Section 4.

[3] https://apievents.africa-newsroom.com/press/winners-for-africas-top-real-estate-developments-announced-at-the-africa-property-investment-api-summit-and-expo-2017?lang=en

[4] https://www.exchange.co.tz/london-stock-exchange-pinpoints-companies-to-shape-africa-in-2019/

[5] World Bank , Kenya Economic Update April 2017 – Housing: Unaffordable and Unavailable http://documents.worldbank.org/curated/en/988191491576935397/pdf/114115-REVISED-PUBLIC-KenyaEconomicUpdateFINALFINALMay.pdf

[6] In 2013 only 15,000 housing units were planned in Nairobi http://hassconsult.co.ke/images/Q42013/Press%20Release%20KPDA.pdf

[7] In 2013 the average asking price for apartments in Nairobi was KES 12 million : Haas consult state of development report 2013

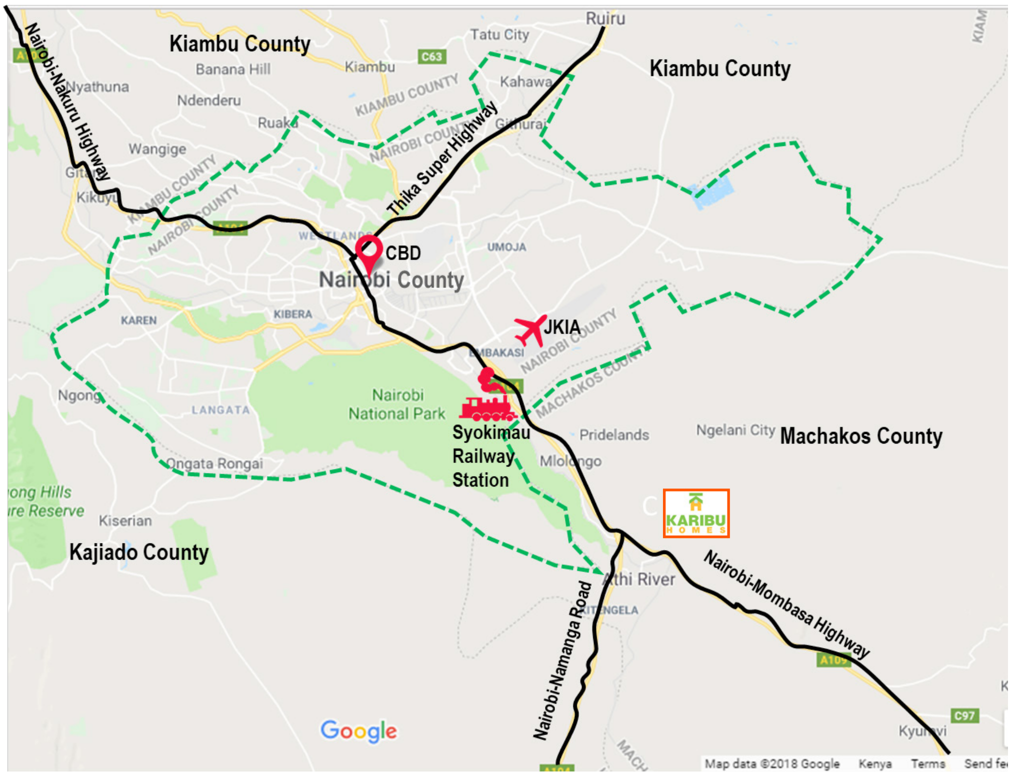
[8] Seeta Shah is a Housing Finance specialist having worked as a construction lender for Reinvestment Fund in USA and contributed to policy in Kenya including the Kenya National Housing Survey and the Nairobi Housing Policy. She has an MBA in Real Estate Finance from The Wharton School and a BA in Land Economy from Cambridge University and is a qualified Chartered Surveyor / Property Valuer.

[9] Ravi Ruparel is an international development advisor with over thirty years' experience in thirty countries. He has worked on housing finance issues with the World Bank and the Financial Sector Deepening Trust. He is a member of the Board of Directors of the Central Bank of Kenya.

[10] The authors have previously published a Case Study on Housing Finance Group in Kenya, which is available at http://housingfinanceafrica.org/documents/case-study-7-the-transformation-of-the-housing-finance-company-of-kenya/

2. DEVELOPER'S PERSPECTIVE

The Riverview development is located in Athi River, south east of Nairobi, off the main Nairobi-Mombasa Road and close to Athi River. The location is 28km from the central business district, 14km from the Syokimau Railway Station and 8km from the Athi River EPZ. Most of the residential development in the Mlolongo and Athi River area has taken place in the last ten years. The developments have consisted primarily gated estates with several apartment blocks accommodating 100-300 units .



Riverview Location

KARIBU's initial aim was to serve as wide a segment of first time home buyers as possible. The concept was based on a principle of cross subsidization. Essentially their plan was that higher profits from higher priced units, would subsidize the lower profits from lower priced units; but overall the development would be commercially viable. KARIBU's research showed that developers generally only served the top 10% of Kenyan households by income bracket. They focused their efforts on giving access to households in the 40th to 90th percentiles at a price point lower than was prevailing in the market.

The development timetable involved three broad stages (Figure 2). Construction began a full three years after the initial detailed, market research and feasibility analysis, and Phase 1 (287 units) was completed in 22 months. Construction of Phase 2 (285 units) began in September 2016 and was targeted for completion in December 2018 (27 months). However this has been delayed due to the weakened market, partly caused by the prolonged election cycle of 2017. Phase 2 was completed in January 2019. Future phases – 3 and 4 are expected to have an additional 516 units.

Early research (undertaken part time) 2009 – 2011	Undertook detailed market research and feasibility analysis
	Developed overall concept
	Finalized Business Plan
Startup (full time operations) 2012 - 2013	Identified and purchased land
	Finalized masterplan and unit specifications
	Obtained regulatory approvals
	Raised equity financing
	Began predevelopment and infrastructure on land
Build out (full time operations) 2014 - 2016	Closed on debt financing
	Launched Phase 1 sales
	Began construction of Phase 1 (October 2014)
	Completed Phase 1 (August 2016)

Figure 2: RIVERVIEW Development Timetable

The full development value chain involved nine steps from project planning through to sales and registration. These are outlined below:

2.1 PROJECT PLANNING

The masterplan brief was focused on creating cohesive and ambient communities. KARIBU's research and focus groups highlighted the following key attributes that were factored into the design:

Low Density: The initial research indicated that a density of 50-60 units per acre (and a total of 1,000 – 1,200 units per development) was ideal to ensure enough space for community facilities and assets such as parks and green space. [11]

Security / Ambience / Environment: The importance of security influenced KARIBU's decision to build a stone boundary wall instead of an expanded polystyrene (EPS) wall. Instead of having a series of identical high rise blocks, KARIBU decided to have a mix of 3-storey and 5-storey walk up buildings. They also allowed for green areas and common play areas.

Incremental building: Research showed that many homebuyers preferred incremental building. The team decided to have 2 levels of product: Athi units - apartments with standard / basic finishes (concrete floor, kitchen space only with no cabinets), and Tana units – with superior finish (tiled floor, kitchen counters and kitchen and bedroom cabinets). Buyers of Athi units could improve their finishes on their own over time.

Variety: KARIBU created a variety of unit types (Athi 1Br, Athi 2Br, Athi 3 Br, Tana 2 Br, Tana 3 Br and Tana 3 Br plus), to cater to as wide a household sizes and income levels as possible, as shown in Figure 3.[12]

Target market and pricing: When KARIBU started the project some developers were offering 3 bedroom apartments in the Mlolongo / Athi River area at KES 5-6 million (USD 50-60 000) and 2 bedroom apartments at KES 3-4million (USD 30 000-40 000). KARIBU's aim was to try to offer 3 bedroom apartments at KES 2.7 million (USD27 000), 2 bedroom at KES 2 million (USD 20 000), and 1bedroom at 1.3 million (USD 13 000) on a commercial basis – without any subsidies. KARIBU's research showed this would be affordable to families between the 40th and 90th income percentile, with monthly household incomes ranging from KES 35 000 to KES 80 000 (USD 350-800).[13]

2.2 LAND IDENTIFICATION & PURCHASE

KARIBU identified three possible locations on the peri-urban fringes of Nairobi. These locations were (i) along Mombasa Rd between Mlolongo & Athi River, (ii) along Namanga Rd near Kitengela (iii), and along Thika Highway between Juja and Thika. Through their local networks, KARIBU eventually identified an ideal 20 acre parcel in Athi River, which was being sold by a private individual. The plot is rectangular shaped (not too narrow) and only one kilometre off the main Mombasa Road. Access is via an all-weather murram[14] road. The plot was already serviced by a main sewer line and has a relatively flat terrain with a very gentle slope towards a river on one boundary. At the time of purchase, land in the area was trading at KES 7 million (USD 70,000) per acre. [15]

Unit Type	Size (sqm)	Finishes
Athi 1 Bedroom, 1 bath	30	Standard finishes including plastered and painted walls, tiles to wet areas only, other rooms screed floor, limited kitchen cabinets, no wardrobes in bedrooms.
Athi 2 Bedrooms, 1 bath	55	
Athi 3 Bedrooms, 1 bath	71	
Tana 1 Bedroom, 1 bath	38	Enhanced finishes including tiled floors, fitted wardrobes in bedrooms and additional kitchen cabinets
Tana 2 Bedrooms, 1 bath	63	
Tana 3 Bedrooms, 2 bathrooms	91	
Tana 3 Bedrooms, 2 bathrooms, extra balcony	95	

Figure 3: Unit Typologies and sizes

[11] Most competing developments were designed to provide higher densities of 80-100 units an acre, and KARIBU are unique in choosing a lower density model to realize their vision of building communities.

[12] This wide range of typologies and pricing also helps to create stronger communities, by attracting diverse occupiers and an 'aspirational ladder', that is, occupiers from lower priced units aspire to the lifestyle of higher priced units.

[13] We have used 1USD: KES 100 for benchmark conversion at the time of writing this case for the period 2015 to 2018.

[14] Murram is "graded and compacted selected local rock and gravel"

[15] With the increased demand for land in the area, both for housing, industrial and commercial developments, land now trades at significantly higher valuations.

Land in Kenya has traditionally been held on either a Freehold or Leasehold basis, under five different acts: the Indian Transfer of Property Act, the Government Land Act (GLA), the Registered Land Act (RLA), Registration of Titles Act (RTA) and the Land Titles Act. These acts were repealed in 2010, and a new Lands Act was adopted in an effort to streamline land ownership and registration across the country. Legal title processing continued under the repealed acts as the guidelines for registration under the new Lands Act were not issued till 2017. There has also been a concerted effort to allow freehold title only for agricultural land owned by citizens, and convert the rest of the land, particularly urban land, to leasehold, following the adoption of the new Constitution in 2010.

KARIBU purchased the land for RIVERVIEW as freehold agricultural use property under the Registration of Titles Act. When it applied for a change of user to a residential development it was required to surrender the freehold title when in exchange for a 99-year lease.

KARIBU then provided sub-leases to owners of the individual units, for 99 years less the last 10 days. The last 10 days are transferred to an "Estate Reversionary Company" in which all home owners have a share. Towards the end of the 99 years, the Estate Reversionary Company would apply for an extension of the lease from the government, and then grant extensions to the sub-leases (owners of the individual homes.

The common spaces including driveways and green spaces are transferred to a Management Company , which will oversee their maintenance. In most instances, both these roles are combined in one company, however, KARIBU created two different companies.

With the sub-lease regime, no land reverts to the county government . If the landowner instead opts to sub-divide land into different parcels, then the county government may require that the internal roads be surrendered to the county government under the County Government Act, as read with a slew of other relevant Acts.

The Sectional Properties Act, was created in 1987 to specifically cater to condominium developments. It requires all buyers deposits to be held in escrow as opposed to being used to fund construction, and was designed for relatively small housing developments (say 20 units) compared to large scale mixed use developments. The Act has been seldom used and is now being revised. The legal and developer industry has provided comments on the Act.

Figure 3: Land Tenure in Kenya and the rights of different interests

2.3 PROJECT FINANCING

KARIBU was successful in raising sufficient equity financing due to the strength of their business plan coupled with the team's own networks from previous projects. The 3 founders had put in some cash equity of their own, so they had "skin in the game." By 2012 they had raised a total of USD3 million in equity from three international sources, including a UK developer (who wishes to remain anonymous), an Indian developer (MDHI[16]) and a US based social impact investment fund (Blue Haven[17]). The project's equity model was based on expected returns of 20% IRR after tax and a cash multiple [18] of three times. Part of the equity capital was used to secure the land. The team then began to look for debt finance from local banks and DFIs. In 2014, they closed on a local currency (KES) construction loan, equivalent to USD 5.4 million with Shelter Afrique, a pan African financier. The loan was for a 6 year term with a 3 year moratorium on principal (longer than what was available in the market at that time). The loan was secured by project land and project cashflows only and Shelter Afrique did not require personal guarantees. The loan covered 40% of the construction and infrastructure hard cost only and prevailing rate at start was 16%. Soft costs like third party professional fees and the developer's administration costs had to be covered by developer equity and buyer's deposits. Shelter Afrique were the only DFI to offer longer terms than what the local banks would offer.

2.4 INFRASTRUCTURE INVESTMENT

KARIBU believes that paying more for land that was close to the main road and easy to service was a good decision due to the challenges of providing access and connecting to utilities. KARIBU also obtained advice from the Arup Foundation, the development arm of a

[16] MDHI, is a large housing developer in India, and could see the potential of Athi River to grow, similar to how Gurgaon, which was a suburb of Delhi, grew to become a city of its own.

[17] Blue Haven is a family office focusing primarily on impact investments across all asset classes. Bluehaveninitiative.com

[18] This is calculated as total cash returned to investors divided by cash invested.

large international engineering firm. Arup's suggestions included providing for wide storm water drains and internal roads paved with concrete blocks. This approach has meant that during heavy rains RIVERVIEW has stayed relatively dry while neighbouring estates experienced flooding.

2.5 BUILDING CONSTRUCTION

Within each phase, the delivery of units was staggered. This was carefully worked out with the contractor such that its workforce was utilised efficiently whilst allowing for a delivery of units that more closely matched market demand. At tender this also allowed for a larger phase which brought with it economies of scale. This approach helped reduce overall construction cost.

A careful analysis of the most efficient block footprints to save costs included:

- maximising the gross internal area of a block (the effective space being sold to customers) relative to its gross external area (the built area paid for by KARIBU); and
- minimising space wastage such that the mix of block typologies would allow for a block pattern that met density requirements whilst maximising the sense of space across the estate.

KARIBU's building design used a load bearing wall structure as opposed to column and beam structure. This eliminated the need for a more costly steel framework without compromising on structural integrity.

Figure 4: A typical courtyard within the estate at RIVERVIEW

2.6 MARKETING

KARIBU has a comprehensive marketing strategy, from participating in Property Shows open to the public, to having regular open days that are widely advertised, and making presentations at companies and government offices either directly or through mortgage providers. KARIBU also invested in a Customer Relationship Management (CRM) system to allow it to track interactions with customers and prospects.

2.7 PRICING & FINANCING

KARIBU had developed six different unit typologies between 30 and 95m^2. At launch, the pricing of these units ranged from approximately KES1.5 million to KES5.5 million, depending not only on the unit size and finish, but also on the mode of payment. The differentiated pricing strategy is described in Figure 5.

KARIBU offered three payment options - Cash Outright , Cash Instalment or Mortgage. As is common practice in Kenya, KARIBU offered a discount to early purchasers, particularly those paying by Cash Outright or Cash Instalment. Figure 6 and 7 show the differentiated pricing, for Athi 2 BR and Tana 2 BR units, at launch in September 2014 and on completion in August 2016. In 2014, the Cash Outright pricing was about 6% cheaper than Cash Instalment, and 11% cheaper than Mortgage. As development and sales milestones were met, KARIBU was able to increase prices to increase revenue and recover the additional debt financing cost. Even when construction was complete there was a price differential between the cash and mortgage payment options, with Cash Outright pricing being 3% cheaper than Cash Instalment pricing and 5% cheaper than Mortgage pricing.

KARIBU's pricing also involved cross subsidization between Athi and Tana units. At launch, the Athi price was 16% lower per square meter (on average) than the Tana price (Figure 6 and 7). This was done to stimulate the market to buy Athi units, which constituted approximately two thirds of total units built.

It is quite common for developers in Kenya to have a differentiated pricing strategy depending on the financing method and the stage of construction. Units that are purchased for cash and "off plan" before construction starts have the lowest price. And units that are sold on mortgage have the highest price. There are two main reasons for this:

- The developer's high cost of debt construction financing effectively rewards early purchasers for providing upfront cashflow to fund construction and take on 'development risk'. Kenyan banks invest heavily in government bills and bonds, which are relatively risk free. As a benchmark, the yield on 5 year Treasury Bonds in June 2014 was 12% (FXD2/2014/5). Infrastructure bonds, which are tax free, yield even higher – and while they are longer term, the secondary market is very liquid. Therefore, banks require significant margin over these rates to take on the risk of construction financing.

- The inefficiencies in the mortgage market. Mortgage pricing assumes the purchaser pays 20% upfront equity, with the balance provided by a mortgage on completion. Developers are not keen to mortgage financing because it can take several months to register a mortgage and receive the funds from the bank mean that developers prefer, and therefore incentivise, cash payments.

In addition to the purchase price it is common to have additional payments. These include the estimated stamp duty, legal fees for the vendor's lawyers (as is common practice in Kenya), deposits for connections to water and electricity providers, an agreed lumpsum towards a sinking fund for maintenance and repairs, and a service charge for the first year of the property operations.

Figure 5: Differentiated Pricing Strategy

Unit Type and Sq m	Financing Method	2014 Launch Price		2016 Completion Price	
		KES m	Price per Sq m	KES m	Price per Sq m
Athi 2 BR 55 sq m	Cash outright	2.31	42 000	2.85	52 100
	Cash instalment	2.44	44 300	2.96	53 800
	Mortgage	2.57	46 700	3.00	54 500
Tana 2 BR 63 sq m	Cash outright	3.06	48 800	3.45	55 100
	Cash instalment	3.23	51 600	3.56	56 900
	Mortgage	3.40	54 300	3.62	57 700

Figure 6: Indicative differential pricing for 2 BR Athi and Tana Units at launch and completion - KES

Unit Type and Sq m	Financing Method	2014 Launch Price		2016 Completion Price	
		$	Price per Sq m	$	Price per Sq m
Athi 2 BR 55 sq m	Cash outright	23 100	420	28 500	521
	Cash instalment	24 400	443	29 600	538
	Mortgage	25 700	467	30 000	545
Tana 2 BR 63 sq m	Cash outright	30 600	488	34 500	551
	Cash instalment	32 300	516	35 600	569
	Mortgage	34 400	543	36 200	577

Figure 7: Indicative differential pricing for 2 BR Athi and Tana Units at launch and completion - USD

2.8 SALES & REGISTRATION

The sales and registration process is quite cumbersome and involves the steps outlined in Figure 8. Due to the cumbersome registration process, KARIBU would wait to group buyers and process their paperwork in 'batches' of between 10 – 30 purchasers.

Step 1 : Booking
• Interested buyer signs a "buyer interest form" indicating the type of unit, mode of payment (Cash Outright, Cash Instalment or Mortgage) and agreed price. • KARIBU prepares a "Letter of Offer" which the buyer signs and places a deposit within 7 days to secure the housing unit. The deposit is typically 20% of the purchase price, but can be as low as KES 50 000 (USD 500) for Mortgage buyers. The buyer provides his / her Identification documents, Tax Pin Number and proof of funds. • Mortgage buyers are given 21 days to provide a "Letter of Intent" from a bank for the mortgage portion of the purchase price.
Step 2: Sale Agreement
• KARIBU and the buyer enter into a "Sale Agreement," which is a legal contract. The Sale Agreement is stamped at the Lands Registry.
Step 3: Agreement for Lease
• KARIBU's lawyers prepare the "Agreement for Lease" which is an ownership document and which is signed by the purchaser.
Step 4: Construction Completion
• KARIBU's architect provides a "Certificate of Completion". • The County staff inspect the unit and provide a "Certificate of Occupation." [19]
Step 5: Finalize payments and prepare for registration
• Cash Outright and Cash Instalment purchasers pay balance of purchase price and additional payments before the registration process is triggered. • Cash Outright and Cash Instalment purchasers can obtain occupation of the unit at this stage – even before the remaining registration steps are completed.
Step 6: Submit Registration documentation
• KARIBU obtains a "Partial discharge" for a batch of units from the construction financier - Shelter Afrique- to allow them to lodge the registration documents. • KARIBU submits the Partial discharge plus the signed Agreements for Lease for registration. For Mortgage buyers a signed mortgage charge between the purchaser and the mortgage provider is also submitted.
Step 7: Stamp duty valuation
• The Lands Office send their public valuers to ascertain stamp duty, which is then duly paid, by KARIBU's lawyers. An individual valuation is done for each unit – even though the units are identical.
Step 8: Registration
• Once the Agreement for Lease is registered, the legal ownership has now passed to the Purchaser. For Mortgage buyers the charge document is registered simultaneously after which the mortgage provider releases the mortgage funds to KARIBU's lawyers.
Step 9: Occupation
• KARIBU hands over occupation to the Purchaser. A joint inspection is done and any defects which are to be rectified are noted. KARIBU provides a six month warranty period during which it takes responsibility to correct any additional defects noted by the purchaser. [Cash Outright and Cash Instalment buyers obtain occupation on final payment, without waiting for registration.]

Figure 8: Process for registering sales and mortgages

[19] The buyer is not required to sign either the Certificate of Completion or the Certificate of Occupation.

3. BUYER'S EXPERIENCES

Buyers of the Riverview development were both owner occupiers and investors who purchased the property to rent out.[20] While the distribution between these two types cannot be defined, KARIBU did ascertain the intentions of its potential purchasers at the time of booking. About 70% of purchasers declared their motive, and of this set, about 70% had stated they were purchasing for owner occupation vs 30% for investment purposes.

From the units that KARIBU was certain were owner occupied, KARIBU staff helped identify a sample of 22 households who were willing to be interviewed.[21] The sample included 17 respondents from Athi units and five respondents from Tana units. There was good mix of respondents from 1Br, 2BR and 3BR units. Interviews were done using a semi structured, hour-long, interview format. The main observations from the interviews are summarized below. Details of the interview results are contained in Annex 2.

3.1 BUYER HISTORY & HOUSEHOLD CHARACTERISTICS

- *Most of the respondents are long term residents of greater Nairobi.* Many were born and raised in Nairobi. Others came to Nairobi for university and stayed. Only two have been in Nairobi less than 10 years. Some had already been living fairly close by – in Kitengela, Imara Daima or Syokimau. Others have moved from the many estates in the "Eastlands" area such as Buru Buru, Doonholm, Umoja.

- *Most had moved from rental accommodation-* typically two bedroom flats. Only two of the respondents were previously living in their own homes. So for most of the owner occupiers this was their "starter home", and for a few this was their first entry into the real estate market. While 16 respondents owned land (in Nairobi or other parts of the country) for six respondents this was their first real estate purchase.

- *Security, Affordability and Environment were the main factors that attracted the respondents to RIVERVIEW*: Several respondents mentioned security (elaborated further as "a gated community" and "a location close to the main road"). The other key attribute was affordability ("value for money"). And the third attribute mentioned most was environment (elaborated as "buildings well-spaced out", "space for children to play" and "not high rises"). Several had come to RIVERVIEW after challenges with other properties: some had challenges in obtaining proper title to the land; others owned land but had chosen not to build for security reasons; and two respondents had come to KARIBU after they had been let down by developers after putting down deposits.

- *Most of the households are a traditional family unit:* Fourteen of the units were occupied by couples with dependents and four of the units were occupied by a single parent with dependants. The typical household size is 3-4 occupants. Eleven of the households had a live in maid / house help. There were a total of 30 children among the families interviewed in the sample, including seven infants, fourteen who were in day school or university, and nine who were in boarding school and came home on holidays.

- *Most of the respondents are under 45 and highly educated.* The average age of the 22 respondents was 40 years and 19 of the respondents had tertiary level education. Most have "white collar" jobs and good income levels. Fifteen respondents were at middle management level in private companies in various industries. Two were in the public sector and five were self-employed entrepreneurs. Twenty of the respondents were willing to share their estimated monthly household income. For single income households the average was KES 137 000 (USD 1370) and the median was KES 145 000 (USD 1450) after tax. For double income households the average was KES 212 000 (USD 2120) and the median was KES 180 000 (USD 1800) [22] after tax.

- *Many have a long commute to and from work and most use their own car.* Eighteen respondents were working in the CBD, Upper Hill, Riverside or Westlands and had long commute times (45- 120 minutes each way). Nineteen of the respondents said they use their own car as the primary means of transport to and from work despite being close to a main road with public transport. Many respondents

[20] We were not able to ascertain exactly how many units were owner occupied and how many were purchased by investors and then rented out. The authors have suggested to KARIBU that this would be useful information to have in future – both for Phase 1 and subsequent phases.

[21] The initial sample was 24 households. When we undertook the interviews we found that two of the 24 units had been purchased by parents for their adult children. As the titles were in the parents name and the children were effectively occupying the flats rent free, we removed them from the analysis.

[22] The Kenya Property Developers Association categorizes before tax monthly incomes as follows:
(i)Social housing KES 0 – 7,000 (USD 0 – 70), (ii) Low income KES 7,000 – 80,000 (USD 70 – 800), Middle income KES 80,000 – 350,000 (USD 800 – 3,500), (iv) Upper income KES 350,000 plus (USD 3,500 plus).
http://www.kpda.or.ke/documents/Industry-Reports/The%20KPDA%20Affordable%20Housing%20Report,%20June%202018.pdf

said that they had to leave home between 5:15 and 5:45 am in order to reduce commute times. Transport for children's schooling is a major preoccupation for households. The children in day schools nearby get picked up and dropped off by school transport. However, if the household does not have a live in maid and the parent(s) have to leave early for work they have a challenge of where the child should wait to be picked up by the school bus.

3.2 FINANCING CHOICES

- The overall preferred financing method was Cash: Eleven of the respondents chose the Cash Outright option while four chose the Cash Instalments option. Only seven took out mortgages. Most buyers paid a deposit of 20% and used a combination of two sources of financing. The sources included personal savings, assets sales (property or vehicles), pension dues, family loans, personal loans from SACCOs, personal loans from Banks or Mortgages.

- There were an equal number of Equity (cash) Financed and Debt Financed buyers: There were 11 respondents (all Cash buyers) who used equity instruments (personal savings, asset sales and pension dues) to finance their purchase. The other 11 respondents used debt to finance more than 51% of their purchase. These include the seven who took mortgages and four others who had had taken non-mortgage (unsecured) loans from family, Saccos or Banks in order to be able to make a cash purchase.

- The motivation for using equity (cash) only financing varies: Some respondents had enough savings for a cash purchase and did not need debt. Others had assets that they could sell and preferred to do that rather than taking on debt. Most of the equity financed respondents used personal savings. Five of the 11 equity financed respondents used personal savings to finance 90% - 100% of the home. This shows that families have been able to save and are looking for the right product to put their savings into.

- Assets Sales, Pension Savings and Salary Dues were also an important financing source. Three respondents used land sales while two others sold a car or household Items. Three respondents used their pension and salary dues to obtain funds, of which two respondents obtained these funds due to employer prompted changes, while one respondent proactively quit a stable job to access their pension savings.

- SACCO loans are popular and easy to obtain. Two respondents accessed SACCO development loans. The loans were for 3-4 years at interest rates of 10 - 14%. The key advantage cited of the SACCO development loan was how easy it was to access and that it involved no additional costs in terms of legal fees / valuations etc. Only two respondents used personal bank loans: for one it was the primary source of finance, while the other used it to supplement their mortgage.

- The mortgage experience varied among respondents. Two of the seven mortgages were at subsidised rates; one at 3% and the other at 6%. One of these was made possible by the employer having placed a fixed deposit at the bank. In this case the bank did not charge interest – only a 3% administration fee. The interest rate on the other five mortgages ranged from 13% to 15%, which are prevailing rates for market determined mortgages. In two cases there was a memorandum of understanding between the employer and the bank, which did not result in a lower interest rate but led to a quicker and smoother mortgage approval process.

- Most of the mortgage borrowers intend to pay down their mortgages early: Some respondents said that they were paying more than the monthly instalments due. Others said that they were saving money in a Sacco so that they could pay off the mortgage earlier. The desired pay off time for 20-25 year mortgages was 5-10 years.

Overall, the respondents' tenacity and persistence to attain their dream of homeownership was clear, from the risks they had taken to obtain financing, to the sacrifices they were making in terms of commutes.

4. KEY LESSONS[23]

There are a number of lessons from the key lessons from the Case Study which are likely to be useful to developers, policy makers and implementers of the AHP.[24]

A. THE TIME NEEDED TO DELIVER A PROJECT IS LENGTHY

KARIBU took three years, part time, to research the market, define the concept and business plan, and five years full time to raise debt and equity, acquire the land, carry out detailed design, obtain approvals, manage construction and pursue sales. The thorough approach earned KARIBU prestigious awards as mentioned in Section 1.1.

B. SOURCING WELL LOCATED LAND, SERVICED LAND IS CRITICAL

KARIBU'S decision to pay more for well-located and serviced land paid off in terms of time savings and market acceptance. Other developers who have opted to buy cheaper, unserviced land, and pay for servicing, did not fare well due to the time, hidden costs and bureaucracy in accessing services.

The AHP guideline to promote use of idle public and private land will also help increase the amount of available land. The guideline to provide a one stop shop for approvals is also very important and implementation on the ground is required.

In addition Government should consider contributing land at market value into a joint venture vehicle, rather than provide land for free or at low cost. This will provide a basis for equity contributions and share of development profits (in terms of units or return on capital). The provision of adequate infrastructure needs to be provided at a broader level – not just for the near land earmarked for AHP projects.

C. TRANSPORT IS A MAJOR CONSIDERATION

KARIBU ensured that RIVERVIEW was close to a major road and had good access. Despite this many of the residents are spending a lot of time and money commuting to work.

For the AHP to be successful there is a need to invest in city wide transport. Effective and affordable transport systems are "before" affordable housing is critical to delivering affordable housing, as families can live I peri-urban locations and access their work and schools easily.

D. PLANNING AND DENSITIES ARE IMPORTANT DECISIONS

KARIBU paid a lot of attention to facilitating the creation of a community in a secure environment. And based on the interview findings they were successful. However even with their density of 60 units an acre the county water supply was not adequate and had to be supplemented with a borehole.

The AHP guideline to provide masterplanned communities, is attractive to the market. Providing a range of typologies attracts a diverse mix of uses and creates communities, as the occupiers of the lower priced units aspire to the lifestyle of the occupiers of the higher priced units.

The AHP Guidelines focus on 'mega-cities' with high densities of more than 200 units an acre. For these developments to be successful the infrastructure must be installed before the housing itself. Infrastructure like green space, fire response services etc, also must be provided. Furthermore, with a focus on creating developments of 8-12 stories with small units (2 BR of 40 sqm and 3 BR of 60 sqm), there is a risk of creating vertical slums if common areas and green spaces are not provided.

E. CONSTRUCTION COSTS AND PROFESSIONAL FEES ARE VERY HIGH

Costs of construction in Kenya are very high, due to high energy and transport costs, and high taxes including 16% VAT on the contract sum for residential delivery. KARIBU's average cost of construction alone was KES 37 500 psm (USD 375) and this does not include professional fees, development management costs, sales and marketing costs and financing costs.

The target sales price under the AHP is KES 50 000 psm (USD 500). However it is not clear if this target will be achieved. The government should engage in close discussion with leading local developers, with a transparent exchange of development appraisals, to

[23] Several of the key lessons from the developer perspective are articulated in the Kenya Property Developers Association, Affordable Housing Task Force Industry Report, June 2018 available at http://www.kpda.or.ke/documents/Industry-Reports/The%20KPDA%20Affordable%20Housing%20Report,%20June%202018.pdf

[24] The AHP defines four income segments (i) Middle to High income – Monthly income KES 100 000 + (USD 1 000), Mortgage Gap – KES 50 000 – KES 99 000 (USD 500 to 999) (iii) Low income – KES 15 000 – KES 49 999 (USD 150 to 499) and (iv) Social Housing – KES 0 -14 999 (USD 0 to 149). Further details are in Annex 1.

determine if developers can deliver at the offtake price. More thought needs to be given to the proposed concessions. Currently VAT rebates are only available for projects offering 5,000 units. As the case study shows even delivering a smaller number of units is a challenging process.

Consideration should also be given to reducing construction costs by removing or reducing import taxes on raw materials for affordable housing projects.

Another element of the high total delivery costs of units is professional fees. Currently professional fees have to be charged at scale and can end up at 10% of project cost. Consideration should be given to reviewing fees for large scale projects and allowing for lower fees to be charged.

F. OBTAINING CONSTRUCTION FINANCING IS DIFFICULT

Accessing Construction Financing continues to be the most challenging aspect of a development. KARIBU had significant challenges in trying to obtain financing from local banks before they managed to get the funding from Shelter Afrique. Delays in construction debt finance drawdowns also hurt projects. This is clearly seen by the differential in pricing offered on Cash Outright and Cash Instalment units, which provide significant buyer financing during construction, versus Mortgage units in which the buyer financing comes after completion.

For the AHP, while the Housing Fund being created is expected to provide offtake agreements for the developed units, the offtake will only be available a year after construction completion. The developer is still required to find construction finance, which is expensive and difficult to access. Providing lines of credit to financial institutions to enable them to provide construction financing for defined housing sizes and specifications, should be considered as a key priority.

A source of longer term (5-7 years) financing, at a subsidized interest rate of between 8-10%, will unlock the delivery of housing. Currently developers are already putting in their own equity into the project, to attract debt and equity capital – however, the target returns for these sources are not digestible for affordable housing – and hence a subsidy source is required. This pot of construction financing can be revolved as developments are completed.

G. REGISTRATION IS TIME CONSUMING

The length of time required for registration of units varies between four weeks to one year. This delay results in further price differentials for mortgage buyers. The original 'mother title' of the land is still required to be manually passed to several departments in the Lands Registry to obtain the partial discharge of the construction mortgage / the Stamp duty assessment and payment confirmation / the transfer to the new owner and a mortgage charge registration. All these processes grind to a halt if the 'mother title' is "misplaced" within the Land Office.

While there are efforts to digitize the land registry, the current systems are still highly manual and prone to rent seeking behaviours, and are not compatible with transferring several different home units to different purchasers via different lawyers.

In a property transaction the purchaser has to pay "Stamp Duty" which is calculated at 4% of the property value as determined by the government. In 2018, the Stamp Duty Act was amended to waive stamp duty for first time home buyers. This is a welcome move, but policy guidelines are still pending and buyers have not been able to benefit from this incentive.

H. THERE IS A BIG GAP FOR OWNER OCCUPIED MIDDLE INCOME HOUSING

The eventual buyers of KARIBU units had higher monthly incomes than the initial targets. Even families who would be considered middle income with two working adults are first time buyers.

Initially the AHP was not going to include the income segment considered middle / upper income. It was only going to focus on the mortgage gap, low income and social housing. However now the middle income will be included. Even though the specifics have not been defined this is a prudent move as there is a need to address the housing gap at the lower end of the middle income market. If the AHP focuses strictly on lower income category housing, it is highly likely that the housing delivered within this framework will be 'flipped' by the beneficiaries to higher income earners.

I. THE RENTAL MARKET SHOULD NOT BE OVERLOOKED

While the exact numbers of how many KARIBU units are occupied by renters is not available, it is believed that a significant number were purchased by individual investors. And furthermore most of the owner occupiers had moved from rental accommodation.

While government's desire to promote homeownership is noble, the reality is that 90% of Nairobi residents rent their housing – so incentives which encourage delivery of more dignified rental housing will immediately improve these residents' living conditions. These incentives could include:

- A flat rate tax for low end rental housing. (For example, all units rente for KES 15000 (USD 150) per month, or less, could be eligible to a flat tax of 3% per month on gross rental income.
- Increasing the ceiling for the 10% tax on residential housing to include all housing with rents between KES 15,000 to KES 30,000 (USD 150 to USD 300) irrespective of total revenue earned by landlord.[25] This might encourage local and international players to invest in much needed rental housing.

J. THE MORTGAGE MARKET NEEDS GREATER EFFICIENCY

The RIVERVIEW development and the results of the survey highlight the challenges of end user financing. Due to the inefficient titling process and mortgage market potential buyers have a "constrained choice" and are drawn towards the Cash Outright or Cash Instalment financing options. While our sample of survey respondents was small, the interviews still produced some important observations:

- The mortgage market is inefficient and the process takes a long time.
- Many mortgage borrowers benefit from arrangements that their employers have with banks (either in terms of easier access and/or subsidized rates).
- A number of respondents are intending to pay off the mortgages early.

The AHP identifies a "mortgage gap" for housing intended for those in the income range of KES 50 000 to KES 99 999 (USD 500 to USD 999) per month . This income group is likely to face the same challenges as the KARIBU Riverview clientele, so it is important that the inefficiency challenges be addressed if this component of the AHP is to be successful.

A concerted effort could be made to promote Home Ownership Savings Plan – both for the AHP and beyond. At present only 2 banks offer HOSP accounts. Consideration could also be given to allowing SACCOs to operate Home Ownership Savings Plans.

Another consideration is the design of the mortgage instruments. There is often an assumption made that mortgages have to be for long term – at least 20/25 years – in order to keep monthly payments low. But the case study has shown that some borrowers are happy to borrow from SACCOs for 3-4 years while those borrowing from banks would be able to service a mortgage even if it was for seven years. And borrowers are quite savvy – they realize that while a longer term mortgage means lower instalments – it also means a greater amount overall paid in interest.

As the KMRC is likely to require subsidy funding (to make the interest rate competitive), subsidized construction financing should also be considered.

K. THERE IS A NEED TO TAP INTO OTHER FINANCING SOURCES.

In the case study sample a few respondents had obtained financing from SACCOs and Pension funds. Both these sources could be involved more in the AHP and in the broader housing market.

SACCOs: Many respondents in the sample had SACCO accounts both for saving and for borrowing. Some had borrowed from SACCO as an alternative to mortgages. The SACCO borrowers argued that they should get the same tax benefits on deducting interest paid from taxable income, as is applicable to mortgage borrowers. However, all the SACCOs in the sample set were relatively small employer based SACCOs which are not regulated - hence a lot more regulatory infrastructure may need to be in place for such deductions to be considered. Nevertheless consideration should be given to including SACCOs in the AHP.

Pensions : With approximately KES 1 trillion (USD 9.9 billion) in assets under management, pension funds could be a key source of financing for housing. The Retirement Benefits Act allows for pension backed mortgages of up to 60% of accumulated benefits, but take up has been low. The key challenge to its success has been that in practice mortgage lenders are continuing to underwrite the mortgage based on the borrower's income and cashflow and the value of the underlying property - where a pension balance is available, it is taken as 'additional collateral' without any benefit to the borrower (i.e. no reduction in interest rate or increase in mortgage amount). This can be overcome by more education and sharing best practices among mortgage lenders.

Another reason take up of pension backed mortgages is low, is the law allows pension contributors to access up to 75% of their pension balance in cash when they move jobs. As seen in this case this is the preferred route of accessing pension contributions for housing (but unfortunately at the expense of depleting the members pension balance).

Pension funds are also venturing in to development of housing (and commercial real estate) for sale. More engagement with the pension industry is required to devise suitable products to enable pension contributors to access finance for housing, including more attractive terms for pension backed mortgages and the delivery of rental housing and tenant purchase housing.

[25] Currently, all residential housing is taxed at 10% of gross income as opposed to 30% of net income, as long as total rent earned in a year is KES 10 million (USD 100 000) or less.

5. CONCLUSION

The case study provides a good overall picture of the challenges of undertaking an affordable housing development project in Kenya. Due to the willingness of KARIBU to make time available and share their data we were able to gain valuable insights into the development process and challenges. Similarly the willingness of buyers to share their experiences allowed us to understand their motivations and aspirations.

The development process is challenging and lengthy and requires the developer to simultaneously overcome multiple challenges. Sourcing well located, serviced land is critical and transport is a major consideration. Construction costs and professional fees are high. And the registration process is inefficient and time consuming. The non-fiscal measures proposed under the AHP, including a one stop shop for approvals and streamlining the registration process, could help make the development process shorter and more efficient. And a review of the taxes on construction materials and contracts could lead to lower delivery costs.

Developers also struggle to obtain financing, which contributes to the differentiated pricing between the Cash Outright, Cash Instalment and Mortgage financed purchasers. Provision of an off-take agreement, as currently designed under the AHP, does not provide much incentive to local banks to provide longer term funding, or reduce their interest rates. There is a need for a facility that can provide longer term construction financing at slightly subsidized rates to help developers to deliver at scale, and reduce the need to rely on cash instalments from purchasers. The case study also illustrates the pent up demand for well designed, middle to lower middle income housing. All the families interviewed, were undertaking great personal risk and sacrifice to achieve their dream of homeownership. Many buyers who accessed debt were paying down their debt obligations faster than required, which demonstrates that there is a segment of the market that simply needs access to the product and to financing for a shorter duration, and does not need longer term financing options. Unless this market is also served under the AHP, it is likely that the housing units delivered to families in lower income segments will be flipped to this underserved segment.

The case study also higlights the fact that for end user financing buyers have a "constrained choice" that leads to a low uptake of mortages. Mortgage instruments need to be redesigned and the whole mortage process needs to be more efficient. And finally there is also a need to tap into other financing sources such as SACCOs and Pensions.

ANNEX 1: GOK AFFORDABLE HOUSING PROGRAMME

Under the Affordable Housing Programme, the Kenyan government is committed to providing 500,000 units of affordable housing from 2018 to 2022. This goal is enshrined in the Kenyan constitution which states that "Every person has the right to accessible and adequate housing, and to reasonable standards of sanitation."[26] The government's vision is for the housing to be provided across the nation, with 100,000 homes targeted as social housing and 400,000 as low cost and mortgage gap units, targeting specific income brackets as shown in Figure 9.

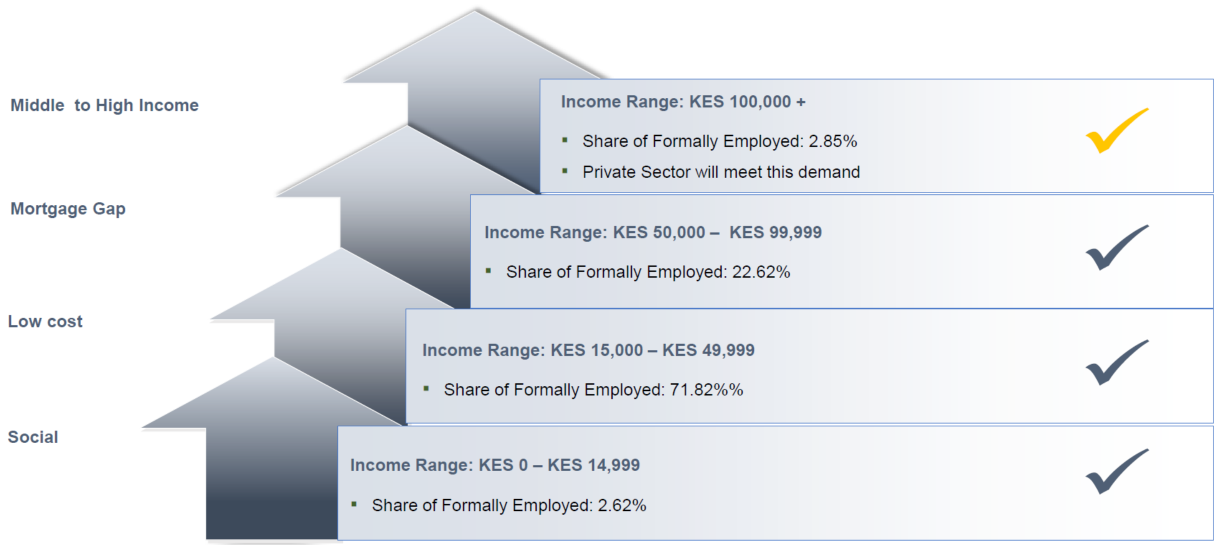


Figure 9: Different segments and income ranges targeted by the govenment's Affordable Housing Programme Source: GoK Presentations at KPDA and other stakeholder workshops dated March 2018 – October 2018

The government's strategy is focused on:

- Providing state-owned land for free or at low cost to developers through a joint venture model. In Nairobi alone, 7,000 acres of county owned land has been earmarked for affordable housing, which is particularly exciting as it is located close to central business districts. The government favours a joint venture approach with private developers to build on this land and current policy states it will provide the land at free or low cost.
- Developing or subsidizing bulk infrastructure for identified development sites
- Coordinating and expediting statutory approvals from authorities and utility providers.
- Creating a housing fund with mandatory contributions which will allow Kenyans to save for housing and be used to provide offtake undertakings to developers.
- Creating an environment that mobilises private sector resources by de-risking projects and encouraging private sector investment and participation
- Promoting the Kenya Mortgage Refinance Company which will provide long term financing to banks and SACCOs to enable them to provide more fixed rate, longer term mortgages.

While the feasibility of delivering on the commitment of 500,000 affordable housing units in the President's term continues to be a subject of debate, the target itself has stimulated activity that will no doubt transform affordable housing for the country.[27] The government has already signed a partnership with United Nations Office for Project Services (UNOPS) to finance the development of 100,000 houses in September 2018. The government expects that housing delivery will create 225 000 direct jobs and 125 000 indirect jobs.

The government has defined its preferred unit sizes and expects the private sector can deliver units at the following price points:

[26] Kenyan Constitution in Chapter 4 under Article 43, sub-article 1 (a)

[27] CAHF, Housing Finance in Africa 2018 Yearbook

Unit typology	Unit size	Target sales price	Target Sale Price psm
Studio	20 sqm	KES 800 000	KES 40 000
1 Bedroom	30 sqm	KES 1 000 000	KES 33 333
2 Bedroom	40 sqm	KES 2 000 000	KES 50 000
3 Bedroom	60 sqm	KES 3 000 000	KES 50 000

Figure 10: Government guidelines on unit size and pricing under Affordable Housing Development Programme, KES

Unit typology	Unit size	Target sales price	Target Sale Price psm
Studio	20 sqm	USD 8 000	USD 400
1 Bedroom	30 sqm	USD 10 000	USD 333
2 Bedroom	40 sqm	USD 20 000	USD 500
3 Bedroom	60 sqm	USD 30 000	USD 500

Figure 11: Government guidelines on unit size and pricing under Affordable Housing Development Programme, USD

The authors understand the guidelines on offtake pricing may be reviewed to make the price psm uniform.

ANNEX 2: SURVEY RESULTS

The study surveyed a sample of 22 households living in owner occupied units in KARIBU's RIVERVIEW development.
A. Buyer History and Household Characteristics

Years	#
0-10	2
11 to 20	4
21 to 30	8
31 to 40	4
Over 40	4

Figure 12 : Years in Nairobi

Property owned	#
Land and Buildings	4
Land only	12
No property	6

Figure 13 : Property Owned Prior to KH

Years	#	Monthly rental	
		KES	USD
1 bed	1	15 000	150
2 bed rented	14	20 000 – 33000	200 – 330
3 bed rental	4	33 000 – 54 000	330 – 540
3 bed own	2	NA	NA
NA	1	NA	NA

Figure 14 : Previous Residence

Household Type	
Couple with dependants	14
Couple with no dependants	1
Single with dependants	4
Single no dependants	3
Total	22

Figure 15: Household Composition (excl Househelp)

School type	#
Home	7
Day (school / university)	14
Boarding	9
Total	30

Figure 16: Children Schooling

Age	
Under 35	8
36-45	10
Over 45	4
Total	22

Figure 17: Age Profile

Level of Education	#
Tertiary (degree)	19
Tertiary (diploma)	2
Secondary	1
Total	22

Figure 18: Education

Employment	#
Private Sector	15
Public Sector	2
Self Employed	5
Total	22

Figure 19: Employment

Work Location	#	Distance (km)	Commute time - one way (minutes)
Home	2	0	0
Athi River/Syokimau/Kitengela	3	3-15	15-30
Industrial Area / South C	4	26-28	30-45
Upper Hill / Ngong Road	6	28-36	45-90
City Center	3	30-32	60-90
Riverside / Westlands	4	32--35	90-120
Total	22		

Figure 20: Transport

- I had put a deposit for a studio – off plan - but the project did not go ahead. I finally got money back after hiring a lawyer.
- I have always wanted to own my own home. I had bought land in Syokimau and was planning to build but I was concerned about security.
- My ambition has been to own home for a long time. We had taken a loan from a SACCO and bought land in Kitengela. But the land had a lot of issues. Then we saved more money and looked for a plot – but we could not find a suitable one.
- I had wanted to move to Athi River to be closer to work. I also wanted to have my own place. I looked for 2 years. I had found an apartment, put down a deposit and had a mortgage approved. But then the valuer found out there was a caveat on the title. I lost a lot of money.
- We have a 1/8 acre plot in Rongai. We thought about building but we were concerned about security. We also wanted a gated place and a community with other children.
- We have 1/8 acre plots in both Rongai and Ruiru but we decided not to build. We may build a bigger house in future.
- We bought an 1/8 of an acre via a SACCO near Athi River. We only received an allotment letter and we are still pushing for title deed 3 years later.

Figure 21: Anecdotes – Buying Land / Apartments

- From Athi River, it is easier to go to Mombasa (which Is 450km east) than it is it to go to Kangemi (which is only 45km west)! That is because going to Kangemi requires navigating through Nairobi which is gridlocked!
- I have to leave home at 5.15 am. It takes me 40 mins to get to Ngong Road. I am lucky that I work flex hours – I can leave by 4pm and be back by 5 pm.
- We leave at 5.20 am and get to work around 6.00 am. In the evening if we leave at 6.00 pm we can be home by 7.30 pm.
- I leave home at 5.45 am. After I drop my daughter at school I can be at work at 7.45. My daughter is still in school in town. I cannot move her to a school nearby as I don't have a maid – and I can't leave my daughter alone at home until 7 am when the school transport comes. I am looking for a boarding school in the area.
- If I take the matatu I have to change at Mlolongo and it still takes me almost two hours.

Figure 22 : Anecdotes – Transport

Timing	#
Early Construction	2
Late Construction	6
Post Construction	14
Total	22

Figure 23: Timing of Purchase

Deposit %	#
1- 19 %	5
20%	11
21-40%	3
Over 40%	3
Total	22

Figure 24: Deposit %

	KES Million	USD '000	%
Equity			
Savings	27.5	275	33%
Asset Sale	12	120	14%
Pensions and Terminal Dues	7.9	79	9%
Sub total	47.4	474	57%
Debt			
Mortgage	21.6	216	26%
SACCO Loan	6.2	62	7%
Family Loan	4.5	45	5%
Personal Bank Loan	3.9	39	5%
Sub Total	36.2	362	43%
Total	83.6	836	100%

Figure 25: Sources of Capital

Primary Financing Method-	#
Personal Savings	5
Asset Sale	3
Pension / Dues	3
Total	11

Figure 26: Equity Financing

Primary Financing Method-	#
Family Loan	1
Sacco Loan	2
Bank Loan	1
Mortgage	7
Total	11

Figure 27: Debt Financing

Respondent	Savings	Asset Sale	Pension / Dues	Sacco Loan	Total
E1	100%				100%
E2	100%				100%
E3	100%				100%
E4	100%				100%
E5	91%	9%			100%
E6	26%	74%			100%
E7	8%	92%			100%
E8		100%			100%
E9	9%		91%		100%
E10	10%		90%		100%
E11	32%		39%	29%	100%

Figure 29: Equity Financing – Source combinations

Respondent	Savings	Asset Sale	Family Loan	Sacco Loan	Bank Loan	Mortgage	total
D1	22%		78%				100%
D2	26%			74%			100%
D3	2%	21%	29%	48%			100%
D4	21%				79%		100%
D5	46%					54%	100%
D6	38%					62%	100%
D7	4%				24%	72%	100%
D8	25%					75%	100%
D9	20%					80%	100%
D10	17%					83%	100%
D11	9%					91%	100%

Figure 30: Debt Financing Source Combinations

Personal Savings

- I have diligently started saving since my first job. I began invested in T-Bills as they are safe and liquid.
- I paid for the house 100% through savings I had accumulated in a SACCO. I saved diligently for 8 years.
- I did not need to borrow. I was able to pay the full amount from my savings from my business. Took me about 3 years.
- I have been saving for many years. I got a small gift when my daughter was born. I put the money into a fixed deposit at my bank and I have managed to grow it with interest and additional savings.

Asset Sales

- I used all the sources of financing available to me – the maximum SACCO development loan, the most I could borrow from my family and my savings. In the end, I sold my car to make up the difference.
- When I got married a long time ago, my family bought me a small piece of land. The land appreciated a lot and I sold it to be able to buy this house and a large piece of land outside Nairobi. I would not be here without that gift from my family.

Pension / Salary Dues

- I had a good job and was desperate to own my house. The only way I could afford it was to quit my job to access my pension and salary dues. So I took the very bold step to quit my job and I used the funds to buy the house at KARIBU, increasing my commute from 30 minutes to 2 hours, and moving my son to a boarding school upcountry.
- I was contributing to the Pension Fund at my previous job. I was putting in 12.5% of my salary and the employer was matching the 12.5%. Over a few years I was able to save enough for a flat. When I left my job I was able to access my pension savings.

Figure 31 : Equity Financing Anecdotes

SACCO Loan:

- Bank financing is expensive and elusive. My SACCO loan was approved very quickly and the interest rate is 10% vs bank interest rate of 14%. Even though the term is only 4 years I am confident I can pay it.
- My SACCO loan was easily accessible – the loan was disbursed within 3 days of my applying. But it does not qualify for interest deduction like mortgage interest does.

Mortgage

- I managed to get a mortgage from Barclays – that was my only option as I had lost significant savings through a fraud. While it took 12 months to register the mortgage and get occupation, it was worth it as here I am – an owner of my own house
- I found the mortgage process very simple. My employer has an MOU with the bank – they came to present and I decided to find a house that would suit my savings and ability to pay. The loan is a 25 year loan, but I am paying down faster and expect to repay in 8 years. The mortgage relief is very useful as an offset against my taxes.
- My employer has a scheme with a bank, where the employer deposits funds which are lent to me at 0% and the bank charges a 3 % admin fee for providing mortgages. So I essentially have a mortgage at 3%. The term is 18 years but I intend to repay in as little as 5 -10 years, by pooling money from other sources.
- I had to wait a whole year for the mortgage to be registered so that I could get possession – even though I had paid a hefty deposit (almost 50%). I took a 7 year mortgage but expect to repay in less than 2 years.
- It was easy to get a mortgage. The only requirement was that we had been customers of the bank for more than 6 months. We got a 25 year mortgage. However, the process took a long time.

Figure 32: Debt Financing Anecdotes

Centre for Affordable Housing Finance in Africa

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