

2011

THE CHALLENGES OF HOUSING DEVELOPMENT FOR THE LOW INCOME MARKET.

Management Research Project.

This research project has been submitted to the School of Management and Commerce, Strathmore University in partial fulfillment of the requirements for the degree of Bachelor of Commerce (Microfinance and Business Administration majors).

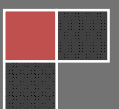


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FOC / 050170 / 07.

4/1/2011



DECLARATION

This project is my ORIGINAL work and has not been presented for a degree in any other University.

SIGNED _____ DATE 1 / 04 / 2011

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This management research project proposal has been submitted for examination with the approval of my University Supervisor.

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MRS. HELEN OTIENO

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ACKNOWLEDGEMENT

I take this opportunity to thank all those who made this Management Research Project a success.

I thank God for seeing me through the whole process up until I was satisfied with the results.

I am highly grateful to my supervisor, Mrs. Hellen Otieno for the guidance and support she gave me from the preliminary stages of building a logical flow of research to the final completion of the project.

I am thankful to my parents Mr. and Mrs. Mungai, for all their support and encouragement throughout my four years of undergraduate study which culminates in this research study.

I also offer my gratitude to my friends and all those who assisted me directly or indirectly in any way to make this project a success.

Special thanks to Jamii Bora Housing, UN Habitat Nairobi, and National Housing Corporation who were part of my respondent population as they provided access to documents and adequate information that was very instrumental in this research.

Thank You.

ABSTRACT

The context of this research study is housing especially for the low income households.

Housing is the provision of shelter; an abode to live in. Shelter should be adequate, affordable and decent. Adequate in that there are enough good quality rental and owner occupier housing units for low income families. Affordable in that total housing costs are affordable to those that have low income. Decent in that it provides a foundation for good physical and mental health, personal development and fulfillment of life objectives.

Affordable housing is however a major problem here in Kenya. Informal settlements and slums have continued to grow and a large percentage of the urban population lives here. The slums are characterized by congested tin roofed and mud houses. There is also poor infrastructure with regards to sewerage system, electricity, clean water and access roads.

The overall demand for housing according to a UN Habitat survey is 150,000 housing units as compared to 35,000 housing units being delivered in the market. The supply shortage has left private developers focusing on highest return market segments which are the upper income class.

It has been cited that the housing problem cannot be solved starting at the bottom because the poor will still be overshadowed. Houses meant for the lower end could still be snapped up by individuals in the higher income class thereby distorting prices and displacing the target market. The solution would be for the government and socially motivated entrepreneurs to offer homes for the bottom end of the market while commercial players and maximum profit driven entrepreneurs take care of the upper income segment (Macharia, 2011).

The research study focused on the challenges faced by housing developers in the low income market. Challenges identified included the high cost of land in urban areas, the complicated land acquisition process, high transaction costs, outdated planning and building regulations, and the lack of adequate infrastructure.

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CHAPTER ONE: INTRODUCTION

1.1 Background Information

Affordable Housing Overview

Housing has a central importance to quality of life with considerable economic, social, cultural and personal significance. Though a country's national prosperity is usually measured in economic terms, increasing wealth is of diminished value unless all can share its benefits and if the growing wealth is not used to redress growing social deficiencies, one of which is housing (Erguden, 2001). Housing plays a huge role in revitalizing economic growth in any country, with shelter being among key indicators of development (Irerri, 2010). The universal declaration of human rights gives one of the basic human rights as the right to a decent standard of living, central to which is the access to adequate housing (United Nations, The Human Rights - article 25, 1948). Housing as a basic human right demands that urban dwellers should have access to decent housing, defined as one that provides a foundation for, rather than being a barrier to, good physical and mental health, personal development and the fulfillment of life objectives (Seedhouse, 1986). The focus of this research is housing for low income households or what is commonly known as affordable housing. Affordable housing is a term used to describe dwelling units whose total housing costs are deemed "affordable" to those that have a median income. A median income refers to the average pay scale level of the majority people in a population which is often low. Although the term "affordable housing" is often applied to rental housing that is within the financial means of those in the lower income ranges of a geographical area, the concept is applicable to both renters and purchasers in all income ranges (<http://www.answers.com>). Low-income housing is aimed at individuals without enough income to provide adequate housing for themselves and/or their families. These families are usually unable to purchase a home because they fail to qualify for a mortgage. Most families choose to rent based on their income and family situation; unfortunately, there may not be enough rental housing or enough good-quality rental housing for low-income families (<http://www.ehow.com>).

Informal Housing in Kenya

Housing is a major problem in Kenya especially in Nairobi city. Millions of people are living in the sprawling slums and also in other informal settlements around Nairobi (UN-HABITAT,

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2008). Informal settlements and slums in Nairobi have continued to grow at an alarming rate in number as well as in population. Table 1.1 shows the growth in informal settlements in Nairobi between the year 1971 and 1995.

Table 1.1 Growth in Informal Settlements in Nairobi.

Year	No. of informal settlements.	Population.	% of urban population.
1971	36	167,000	33
1990	50	200,000	40 – 50
1993	78	789,991	55
1995	134	1,886,166	60

Source: Hassanali, 2009.

“Informal settlements” is a generic and technical term that seeks to capture the many different features of those settlements that house many of the urban poor in developing countries. The name implies the dominant feature of such settlements is their informality – the fact that they develop outside the existing legal and regulatory framework. The informal settlements are sometimes called “unplanned” or “spontaneous” settlements, which is misleading, since many informal settlements are planned, albeit not in a conventional way, and are not all spontaneous (World Bank, 2003). Demand for housing far surpasses its supply in Kenya, especially in urban areas that have for long suffered from poor planning, resulting in an increase in informal settlements with poor housing and little infrastructure services (UN-HABITAT, 2008). The housing market in Kenya has over the years faced a huge supply challenge for both government and private sector players. With availability of about 35,000 housing units in urban areas, the deficit remains huge from a growing demand of 150,000 units every year (Bonyo, 2010).

Housing Developers and Market Players

Despite some attempts at achieving decent housing for Kenyans, Kenya has, on the whole, failed to address the dire housing conditions of her population. The situation has been partially alleviated through the activities of the private sector housing developers, who have been a key supplier of housing, particularly in Nairobi (Hassanali, 2009). In the year 2007, the private sector commenced construction of housing units worth Kshs. 9.8 billion and registered growth of 6.9%

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over the previous year (Statistical Abstract, 2008). But despite intensive overall private-sector activity, these private developers have mainly concentrated in the middle and upper segments of the market with relatively little focus on the low-income market. The low income house units currently constitutes less than 30% of the private development portfolio (Economic survey, 2007), yet this is the segment where the need is particularly acute.

In the past, the government took up the role of housing supplier by controlling planning, land allocation, and development and maintaining housing estates, through the National Housing Corporation (NHC). The NHC is charged with the responsibility of providing subsidized housing and implementing government housing policies and programmes through tenant purchase, mortgages, rental and rural housing loan schemes. The National Housing Corporation was formed as part of Kenya's post colonial housing policy, underscoring the importance of providing decent shelter for all urban workers in the country (Hassanali, 2009). While theoretically this should have been feasible, an acute problem has arisen as central government expenditure on housing has been on a consistent decline, stemming from activities of the parastatals, price controls, inappropriate building regulations and codes as well as a lack of basic planning and provision of services (Otiso, 2003). In 2007, the National Housing Corporation Completed construction of only 309 residential units at an estimated cost of Kshs.507.72 million, with a further 394 units under construction at a cost of Kshs.1,059.9 million. Approved Central Government Expenditure for housing for the year 2007 – 2008 was only Kshs.2.2 billion, compared to private sector investments of approximately Kshs.10 billion (GOK, 2008).

NGO's have come in to fill in the gap in the housing shortage especially for the low income households. Jamii Bora Bank, a deposit taking Micro Finance Institution, provides a wide range of services to the very poor, and is now engaged in a low cost housing development project for its members, providing housing microfinance loans to the families involved. They have begun a very ambitious KShs. 300 million housing project in Kaputei, Kajiado District. The housing scheme will consist of 2000 homes built on 293 acres of prime land. Kaputei will be a model for low-income housing development in Kenya and has already generated a lot of interest and excitement not only among the members but also among the relevant authorities (Jamii Bora, 2006). Habitat for Humanity Kenya and K-Rep Development Agency have also provided limited project-based housing assistance for low income households with less than 500 housing units.

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Other NGO's involved in policy making and assisting developers in this sector include: National Urban Forum (Kenya), African Ministerial Conference on Housing and Urban Development (AMCHUD), UN Habitat and Shelter Afrique. These housing developers focusing on the low income market cannot adequately meet the needs of the market unless more players from the private sector join in.

There are five **models of housing development** for low income housing initiatives (World Bank, 2003):

1. Sites plus development plan and gradual implementation of services – settlements are planned and surveyed, lots allocated and occupied, and infrastructure gradually implemented.
2. Sites and services – mass production of serviced sites in large schemes for resettlement of urban squatters, usually in peripheral land in city outskirts and with basic starter housing units.
3. Comprehensive upgrading of existing settlements – wide range of improvements involving different types of infrastructure according to predefined area plan; this is integrated upgrading but undertaken in one go, usually in a two year time frame.
4. Development of new housing in new settlement – new infrastructure and housing units are built on empty land; or new housing units on available land in existing serviced areas.
5. Redevelopment of degraded existing structures – agreement reached with building landlords for building renovation.

The Rwanda government for example has adopted the model of developing new housing settlements for her population. They have initiated the Imidugudu project. Imidugudu is an 80 household settlement that was set up in 2002, to accommodate refugees who had returned mainly from Burundi. They are grouped settlements modeled along the lines of Israel's Kibbutz. The model is being replicated in the whole of Rwanda to accommodate her population decently (Rwanda Report, 2010).

1.2 Statement of the Problem

Provision of adequate, affordable and decent housing for low income households is clearly in short supply. The players in this industry are too few and there seems to be a minimal interest of other private sector housing developers to provide low income housing units. These private sector developers as by their success in the middle and high income housing markets, implies that they may have the capacity and skill set to supply the low-income housing required to alleviate, at least partly, the housing shortfall in the country (Hassanali, 2009). But they have shied away from the low income market mainly because the profitability margins are lower as compared to housing developments for the other markets.

There are also many other factors affecting the supply of housing from private sector housing developers prominent of which is the cost of production and the opportunity cost to the developer's finite funds in either providing middle income housing or high income segment housing or low income housing. The developers have to consider the rate of return to their investment and how fast they'll realize this. But these are not the only factors affecting the supply of low income housing and the other factors should also be put into consideration. Provision of low cost housing to the increasing number of lower and middle income classes in the country has also been hugely affected by the cost of land and inadequate infrastructure (Bonyo, 2010).

The problem that this research seeks to address is that of the shortage in housing supply for low income households and the challenges faced by both existing and potential developers in this market. Issues to be addressed in this research study include the factors affecting low income housing supply, the motivating factor to existing developers in venturing into this market and the housing models they have adopted in their projects.

1.3 Research Objectives

The purpose of this study is to research on the factors affecting housing development for the low income market. It seeks to achieve the following objectives:

1. To identify the motivation behind existent players in the industry whether profit, social or other.
2. To analyze the housing model that has been adopted here in Kenya by existing housing developers for the low income market.
3. To examine the challenges faced by housing developers in the low income market and hindrances to their efforts.

1.4 Research Questions

The research aims to answer the following key questions:

1. What is the motivation behind existing players of housing development in the low income market?
2. What are the housing development models that have been adopted in Kenya for affordable housing projects?
3. What are the challenges faced by the developers in the low income housing market?

1.5 Importance of this research study

This research study will be of benefit to the following key stakeholders in the housing industry:

Housing Social Enterprises.

Affordable housing is one key area for social enterprises. A social enterprise is any business venture created for a social purpose – mitigating or reducing a market failure – and to generate social value while operating with the financial discipline, innovation and determination of a private sector business (www.business4good.org). This research will highlight key areas of opportunities in Kenya for innovation in any of the inputs to the housing development process such as appropriate low cost housing development models. The research will also highlight

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potential challenges to new social entrepreneurs venturing into this market allowing them early opportunities to overcome these obstacles in order to succeed in the low income housing market.

Developers' Associations and Lobby Groups.

The outcome of this research will highlight key areas where private developers require reform, change or incentives in order to enter the low-income market. With this knowledge, developers' associations such as Kenya Private Developers Association (KPDA) can lobby for change and policy reforms as well as harness the collective strength of their developers to tap into the lower income market.

International Aid Agencies.

An understanding of the challenges faced by developers in the low-income market would allow donor agencies such as UN Habitat and The International Monetary Fund (IMF) to direct funding into projects that would stimulate low income housing supply either directly, through funding of housing development or indirectly, through infrastructure investments. This research study will also inform the sustainability, scalability, and replicability of existent projects.

Academic and Business researchers.

The study of the low income housing market is a very vast one and this research will give rise to key areas of weakness where there will be significant opportunity for further research in an effort to enhance investments in provision of low income housing.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This section provides a review of various housing concepts and previous studies which have focused on the low income housing market. It aims at comparing and contrasting the different authors' views on low income housing, relating this research study to conclusions drawn, highlighting any gaps and summarizing on the specific gap that this research study hopes to contribute to.

2.2 The Low Income Housing Market

Though free markets unleash productivity and innovation, they are still bound by economic laws. The most important law is that market price reflects market demand. Because half of every population is below median income, market-quality housing commands market prices. As a result, markets alone will never satisfactorily house a nation's poorest citizens (Smith, 2006). Thus, whether people buy or rent, housing is typically affordable to only half of the population. Those citizens who flood the world's growing metropolitan areas, however, are overwhelmingly poor: they arrive in cities that were built for smaller populations, and whose formal-sector housing producers can only build housing that these urban immigrants cannot afford. The result is a spontaneous community of self-built or informally built homes—the shanty towns, settlements, and ever-expanding slums that sprout like mushrooms on the outskirts of cities in the developing world. People who move to the city act by impeccable economic logic: they follow the money. Seeking to maximize income, these citizens willingly consume the least expensive space they can, which is often just a room in a larger informal structure. Left alone in the marketplace, the impoverished create and inhabit slums because that is their only available and economically sensible option (Smith, 2006).

The housing market is made up of sub-systems. There is a three tiered structure of housing markets. The first is the small, well-financed upper class market which is an exclusive domain of the private sector and draws its funds from institutional finance systems. The second type is the subsidized market catering primarily for middle class workers and civil servants who benefit from public housing. Finally, there is the large and private incremental housing sub-market with no access to formal financing services and which produces housing which does not generally conform to official building codes and regulations (Renaud, 1987).

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Traditionally, low income housing projects are sited in areas of low land cost and high density building permissibility. This allows reduction of the land cost component of each residential unit, facilitating sale at lower prices. In seeking areas with lower land costs, developers have had to undertake low income housing schemes in locations that are peripheral to urban centers where benefit is gained from the proximity to cities but land costs are significantly lower (Hassanali, 2009). Given the likely scale and location of any low income housing development, embedded infrastructure such as water, sewerage, roads, electricity, social services and security are a vital component of housing provision and are fundamental to the success of any housing scheme. These in turn, will greatly improve the people's economic capacities, health and quality of life in general (Nabutola, 2004).

Studies specific to Kenya suggest that Kenya's outdated 1968 Building Code that is currently in operation does not allow the inclusion of newer construction technology that is instrumental to the provision of low cost buildings. The building code requires contractors to adhere to what is now costly and time consuming building measures that are not in use in developed countries (Macoloo, 1994). Most suggested solutions for low income housing provision center on policy reform to improve the attractiveness of the sector as well as to engage government in direct supply of housing. More focus should be paid to the needs of private sector developers who have the capacity and knowledge to supply housing to the low income market, yet are constrained by market fundamentals and the operating environment, thus reducing their profit taking opportunity (Hassanali, 2009). To understand the role of developers in housing development attention must be paid to the key housing components; land, building materials, finance and construction technologies (Macoloo, 1994).

2.3 Urban Housing Theories and Approaches

A number of thoughts regarding urban housing have been developed during recent decades (1990 – 2000), set within the market economy and socialist contexts (Mittulah, 2003):

a. The Demolitionist Approach.

Developed in the 1950's, this approach of housing viewed spontaneous settlement as parasitic, destroying the beauty and healthiness of cities. The response of planners to this was demolitionist in diminishing of existing housing stock of the urban poor.

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b. The Supportive Approach.

This approach viewed the solution to housing as a consensus between the state and the needs of the urban poor. The approach recommended an integration of state empowerment and the self-help obligation of the urban poor, with a view that housing was not just a shelter to live in but also a means to move upward on the social ladder. However, the housing success depended predominantly on the collective efforts of the community with the state playing merely a supportive role, providing public utilities and initial funding. This approach relied heavily on political will from the state as well as institutional and structural support and thus, faced implementation difficulties in developing countries.

c. The World Bank Approach.

The World Bank implemented the cost –recovery principle based on the view that investment in low-cost housing would accelerate economic development. Under this arrangement, developing countries obtained loans from the World Bank, invested in low- income housing schemes, delivered these units to housing dwellers and converted occupiers to debtors of commercial banks, thus liquidating funds for reinvestment by the government. This was meant to strengthen the market mechanism and minimize the bottle necks of housing delivery. The World Bank approach, however, was criticized for an over focus on market mechanisms, paying little attention to issues of land tenure and infrastructure.

d. The Rod Burgess Radical Approach.

This approach took a structural perspective to housing, arguing that previous approaches emphasized capitalist logic and overlooked the conflict among modes of production. It advocates that political structural transformation would be required with urban communities having the right to organize and self-build their communities.

e. The Collaborative Approach.

This approach emphasized collaboration between the state, the market, non-governmental organizations and the community. It is a set-up that would enhance the capability of the community. Good governance and state support would focus on the well-being of low income communities, using housing as a means of social mobility. The difference from earlier

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approaches was that it sought to merge the community with government interaction and support to obtain practical solutions in the community's initiative.

2.4 The Role of Government and Policy

Each of the housing theories earlier described in 2.3 emphasize on the role of the government in the provision of housing, either as a direct supplier or as a facilitator. The role of government in low income housing is pivotal and national leaders have a legal and social contract to provide services in return for political support. Despite this, many governments are unable to meet these needs because of administrative, financial, and institutional weakness coupled with poor planning and rapid population growth. There is the assertion that lack of sufficient funds is one of the main reasons for the poor housing conditions in urban cities and available national funds are competed for by various sectors of the economy. Often, only the vital and productive sectors are financed and for a long time, the definition of productive sectors has excluded housing provision, particularly for the low income households (Macoloo, 1994).

2.4.1 Government Strategy and Incentives

Some of the dominant strategies for housing and service provision for Kenya's urban poor include slum upgrading and site and service schemes. However, the efficacy of these strategies has been limited by ambivalent government attitude to irregular settlements. These strategies have failed because of a reliance on inappropriate building by-laws and infrastructural standards, and modern designs, construction technology, and conventional building materials that all make housing unaffordable to the poor, even after subsidies. Although there have been calls to government to adopt more suitable alternatives, few changes have taken place, because policy makers view proposed modifications as being too old-fashioned and incongruent with their quest to modernize the country (Otiso, 2002). Thus, government initiatives in providing public housing have proven to be pathetically slow with many of the houses provided being economically and socially irrelevant, this further prompting the rise of informal settlements (Macoloo, 1994).

In April 2007, President Mwai Kibaki launched a US\$12 billion Kenya Slum Upgrading Strategy aimed at improving the lives of 5.4 million Kenyans over the next 13years. In December 2007, Housing Minister Soita Shitanda announced the Governments plan to set aside 250 acres for

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development of affordable houses for low income earners in Mlolongo area in the outskirts of Nairobi (GOK, 2007). Although these are welcome developments, it is likely that plans may not materialize as the number of public housing building plans approved has declined over the years.

More recently, as the Government has taken cognizance of the acute deficit of housing in the lower end of the market, it has planned to improve the situation by encouraging supply; in a move towards becoming facilitator by enabling policy formulation conducive to mobilize the private sector participation in low-income housing (GOK, 1999). Some recent initiatives include the zero-rating of VAT on building materials used in the construction of 20 or more low-income housing units and the discussion of possible tax advantages and tax holidays for developers in the low-cost housing sector (GOK, 2007). Even as Kenya's earlier policy of direct supplier of housing has given way to a more pragmatic strategy of getting other actors involved, the housing situation remains serious. It is evident that there is a widening gap between policy formulation and the implementation process, and the status of low-income housing delivery is far beyond satisfactory. Poor past policy frameworks, uncontrollable urban population growth and current inaction by the public sector have been the key reasons for this (Okonkwo, 1998).

Key areas of challenge that relate to developing country initiatives include rapid urban population growth, the misuse of dwelling funds, the adverse effects of increasing rents for low-income groups, the deficiency of the housing loan system and the increase in luxury houses rather than social houses (Yetgin & Lepkova, 2007).

However, the real challenge for the Government is to create an enabling environment for investment and to remove the impediments that hamper private sector development. These range from functioning labour, capital, and input markets through to an efficient and effective administration process, with an emphasis on showing real progress, building on key successes in market where the private sector already has incentives to invest (Kenya Consultative Group Meeting, 2003). Similar approaches have been successful in other countries where in recognizing their acute housing deficits, Governments have made cognizant efforts towards becoming facilitators rather than hindrances to private sector real estate developers, this done through joint consultative meetings and implementation of a range of incentives for investors (Hassanali, 2009).

2.5 The Role of the Private Sector

Private sector housing is defined as any production which is not connected at all with the actions of the state, neither directly constructed by the state nor financially sponsored by the state, where production is not expected to have a social element (Golland, 1996).

Ambrose and Barlow (1987) have argued that three factors are important in influencing the level of new house building. These are direct capital investment by the state for public housing, state support for production and consumption and changes in the profitability of house builders in the private sector. The private sector can play an important role in housing provision, provided that the state offers sufficient and appropriate incentives to the sector (Mitullah, 2003). In Kenya, the private sector, both formal and informal, remains the largest producer of housing units in the country. Initiatives by the private sector can be both large-scale and deep in impact, contrary to the government initiatives which may be large-scale but usually limited in impact (Otiso, 2003).

The clear motivation that underlies the private sector is profit (or potential profitability) with profit-maximizing options being, in the context of housing, producing and selling more of the product; reducing the cost of production through lower raw material and wage costs (cost per unit or quantity) and finally, increasing the price of the product or service (Hancock, 1998). The private sector is capable of providing living needs to large segments of the urban community if they operate within a well-conceived competitive environment where there is a possibility of charging consumers and making a profit, absence of daunting obstacles such as technology and scale of investment and the presence of competent governments with the capacity to enforce standards, contract fulfillment and service provision (Otiso, 2003). Ball (1996) suggests that the trigger of development activity is an analysis of market opportunities by developers who see demand for new housing, anticipate adequate return on investment, gear their resources towards purchase of land and housing production and then sell these housing units with a view to maximizing profits. Profitability in housing is advocated to be based on three variables: House prices, land prices and building costs, where:

Profit = House Prices – {Land Prices + Building Costs} (Golland, 1996).

Macoloo (1994) defines the key components of housing to be land, finance, building materials and construction technologies, these relating to the costs in the profit model above. In a survey of

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developers, Thalmann (2006) however purports that few market developers actively monitor the market for business and profit opportunities but instead respond to market triggers, such as availability of land. As such, the supply of housing may not respond only to market signals and incentives.

2.6 Conclusion

Studies on low income housing in Kenya have revolved primarily around macroeconomic policy and housing microfinance for purchasers. Explaining housing development and production merely by reference to macroeconomic variables may not be conclusive as there are broader operational factors that need to be transposed into the housing context, for example; Government housing, land and planning policies pursued in any country will determine the most appropriate models of housing productions involving price and cost variables. Government decision-making, even if this is negative or non-decision making, is likely to impact the relationship between private sector housing provision and the macro-economy. Therefore, what motivates private housing production is a mixture of demographic, economic and political factors (Golland, 1996). Under housing microfinance, it mainly focuses on end user financing available for the homebuyers.

Little research has been done on the finance aspects of construction of low-income housing from the perspective of property developers, what motivates them and the challenges they face. This research aims to fill in this gap in study and to provide information to interested housing stakeholders on key areas of opportunity and concern to investors and the business realm that is interested in the low income housing market.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlines how the research study was conducted. It includes the research design adopted, the target population, data collection and analysis of the data.

3.2 Research Design

The research design is the conceptual structure within which research is conducted. It consists of the blueprint for the collection, measurement and analysis of data. As such the design includes an outline of the framework of study, availability of various data, and observations. It means the exact nature of the research work in a systematic manner (Kothari, 2004).

This research study used descriptive research design. This design uses description as a tool to organize data into patterns that emerge during analysis. This is because it is used to identify hypothetical constructs and it can acquire a lot of information through description. There are two categories of descriptive designs: surveys and observational studies. This research was administered through the use of a structured questionnaire distributed among respondents to collect primary data. Additional secondary data was obtained through unstructured personal interviews with representatives of National Housing Corporation, Jamii Bora, and UN Habitat. I also made use of informational documents made available during the course of research. The design was adopted because it allowed collection of large amounts of data from the target population as compared to other methods. This research study also utilized the descriptive approach to research. This is the use of observation in the study. The researcher gathered information about existing low income housing schemes by visiting their sites such as the Jamii Bora Housing Scheme in Kaputei, Kajiado and also the government housing scheme for low income households at Kibera.

3.3 Target Population

The target population for this research study included private property developers, NGOs, and government agencies that have been involved in actual development of low income houses or have facilitated such development. According to the registration rankings of the Kenya Property Developers Association (KPDA), there are 17 institutions within Nairobi who carry out property

development for the low income market. These 17 institutions constituted the target study population. A list of respondents and their response rate has been provided in the appendices.

3.5 Data Collection

Given the sample size, a survey method was best in order to obtain a representative response. The survey instrument of collecting primary data used for this study was a structured questionnaire. The questions were designed to elicit data in accordance with the research questions. Drop and pick later method of data collection was applied. First contact with the respondents was through email. After initial follow up, I, the researcher, visited their offices to drop questionnaires to be filled in for collection later. The respondents filled in the questionnaires individually as they were well designed for self administration.

The research study and data collection was carried out between November 2010 and March 2011. Of the 17 questionnaires distributed, 9 were filled out and returned to the researcher, representing a response rate of 52%. These were considered adequate for the purposes of this research study as the major market players were represented.

3.6 Data Analysis

The data collected was edited for accuracy, consistency and completeness. The data was then coded and cross – tabulated to enable the responses to be statistically analyzed.

Descriptive statistics were used to analyze data by way of percentages, weighted mean and standard deviation. The data collected was largely on the likert scale and was of the ordinal level. The respondents were asked to rate various statements by choosing in one question from “very serious” to “not very serious” and in another from “highly important” to “highly unimportant”.

Data analysis was done using Microsoft excel.

CHAPTER FOUR: RESEARCH FINDINGS AND DISCUSSION

Introduction

This chapter gives an outline of the research finding and a discussion of the various responses gathered from the questionnaire. It is structured following the questionnaire format. The questionnaire was divided into three sections A, B and C. Section A was used to collect information on the company bio data. This addressed the nature of company registration and description, years of operation and the number of housing units constructed targeting the low income market. Section B addressed the housing development model applied by the developers and gives general descriptive statements of various models which the researcher would be able to categorize. Also it included a question on the challenges encountered while venturing into the low income market. The last section C addressed the business factors in housing development for low income households which are of importance to any organization planning to venture into the low income housing market. General comments from the respondents regarding the research subject were also considered.

Therefore this chapter discusses research findings from these three sections;

- i. Company Bio Data
- ii. Housing Development Models
- iii. The Challenges encountered
- iv. Factors affecting housing development in the low income market

Company Bio Data

Regarding the company bio data the respondents were asked to indicate the nature of their company registration, the number of years they have been in operation, the number of employees who work in the organization and the estimate number of housing units constructed during their years of operation.

On the nature of registration, the largest percentages were privately held companies registered under the Companies Act as Limited liability companies. Also included under private companies was a bank that undertakes housing projects through a subsidiary.

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On the number of years that the respondent companies have been in operation, a large proportion has been in the market for between 5 and 15 years. Those that have been in the market longer for more than 15 years are government agencies and a UN Agency. These have the most experience.

On the number of employees who work in the respondent organizations, most private organizations employ few (less than 20) employees. A unique human resource practice adopted by Jamii Bora Bank is one where beneficiary clients are involved in the actual development phases, saving the organization on employee costs.

On the number of housing units constructed over their years in operation, a large percentage has constructed more than 1001 housing units. Jamii Bora in its first project is constructing 2,000 housing units while National Housing Corporation has put up over 43,000 housing units over the past 40 years.

A summary of the findings is as shown in table 4.1 below:

Table 4.1 Company Bio Data

Variable	Frequency (f)	Percentage (%)
Nature of Registration		
Private company	4	44.4%
Non Governmental Org.	2	22.2%
Government Agency	2	22.2%
UN Agency	1	11.1%
Years in Operation		
Less than 5 years	2	22.2%
Between 5 – 15 years	4	44.4%
More than 15 years	3	33.3%
Number of employees		
Less than 20	4	44.4%
Between 20 – 100	2	22.2%

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More than 100	3	33.3%
Housing Units		
1 – 500	3	33.3%
501 – 1000	2	22.2%
1001 and above	4	44.4%

Low income housing development model

The respondents were asked to choose from among various descriptive statements of low income housing development models that have been adopted by different organizations. The respondent had the option of choosing more than one statement. The general descriptive statements have been coded as they describe a specific model. Statements coded 'A' represent the sites plus development plan and gradual implementation of services model. Statements coded 'B' represents the sites and services model. Statements coded 'C' represents the comprehensive upgrading of existing settlements. Statement coded 'D' represents the development of new housing in new settlement model. Statements coded 'E' represents the redevelopment of degraded existing structures model.

Statements in the 'B' and 'D' category had the highest number of respondents agreeing to, representing 88.8% and 77.7% respectively.

Therefore the sites and services model is most preferred with the characteristic that it is located in peripheral land in city outskirts. Also the development of new housing in new settlement model is preferred with the characteristic of new infrastructure and housing units are built on empty land.

A summary of the findings is as shown in table 4.2 below:

Table 4.2 Housing Development Model

Description statement	Code	f	%
Settlements are planned and surveyed.	A	2	22.2%
Plots are allocated to members and occupied	A	0	0
Infrastructure is gradually implemented on the plots	A	5	55.5%

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Site of project and targeted households are located in peripheral land at city outskirts	B	8	88.8%
Basic starter housing units are constructed	B	5	55.5%
Comprehensive upgrading of existing settlements	C	1	11.1%
Improvements involving different types of infrastructure according to predefined area plan	C	4	44.4%
New infrastructure and housing units are built on empty land	D	7	77.7%
Redevelopment of degraded existing structures	E	3	33.3%
Agreement reached with tenant occupier and/ landlord to upgrade existing structures	E	2	22.2%

Challenges encountered in venturing into the low income market

The respondents were given a set of challenges encountered while venturing into the low income market and asked to rate them on a 5-point Likert scale where 1 – 1.7 = Very serious; 1.8 – 2.5 = Fairly serious; 2.6 – 3.2 = Serious; 3.3 – 4.1 = Not serious; 4.2 -5.0 = Not very serious.

The most serious challenge has been the outdated planning regulations which most respondents agreed with (Weighted mean = 1.2 and Standard Deviation = 0.3). This has hindered the adoption of new building technologies which could make cost of construction cheaper and affordable housing more of a reality. It was followed closely by the rising cost of construction material with a weighted mean of 1.4 and a standard deviation of 0.5.

A summary of the findings is as shown in table 4.3 below:

Table 4.3 Challenges encountered

Challenge	Weighted Mean	Standard Deviation
Low Return on Investment	2.9	1.5
Rising cost of Land	1.7	0.9
Rising cost of construction materials	1.4	0.5
Scarcity of Land with infrastructure	1.7	0.9
High interest on capital finance	2.1	1.4
Complex Land acquisition process	1.7	0.9
Outdated planning regulations	1.2	0.3

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Jamii Bora faced a myriad of challenges while venturing into this market. They provided a chronology of events and milestones of their housing development project which has been attached in the appendices.

This is a vivid example of real time events and challenges faced by housing developers in the low income market.

Factors affecting low income housing development

The respondents were given a set of business factors that usually affect housing developers in general. These include the land factor, the financing aspect, building conditions, process requirements and the driving motivation attitude. They were asked to rate these factors to the extent they have affected their organizations while venturing into the low income market on a 5-point Likert scale where 1 – 1.7 = Highly important; 1.8 – 2.5 = Fairly important; 2.6 – 3.2 = Important; 3.3 – 4.1 = Unimportant; 4.2 - 5.0 = Highly Unimportant.

The most important land factor has been the cost of land whether cheap or expensive as it contributes significantly to the total cost of construction. All the other land factors are none the less important.

On the financing aspect, the most important factors are capital requirements and the scale of investments required. This is to ensure sustainability of projects and that funds are available to carry out entire project. The off plan sales is the most unimportant factor in the low income market as it is not possible to sell yet to be constructed houses to low income people just for speculative purposes if property value increases after their construction.

The most important factors on building conditions are new building technologies and the building code of Kenya. All respondents were agreeable to the fact that these two factors affected most the building mode of their projects increasing the cost of construction because of stringent requirements.

The process requirements considered such factors as council approval process and the industry regulations. The council approval process is fairly important. This is quite evident in the attached case study of Jamii Bora. Industry regulation is not an important factor because currently the low income housing market is quite fragmented with no unifying body.

On the driving motivation attitude most respondents are agreeable to a social need motive as their undertaking is a cause to provide decent and affordable housing for all.

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A summary of the findings is as shown in table 4.4 below;

Table 4.4 Factors affecting low income housing development

Factor	Weighted Mean	Standard Deviation
Land		
Cheap Land	1.6	0.5
Expensive Land	1.6	0.5
Availability of land	2.1	1.3
Freehold title deed	2.9	1.4
Leasehold title deed	2.9	1.4
Growth of new areas	2.5	1.8
Finance		
Cost of debt financing	2.7	1.9
Capital requirements	1.4	1.3
Off plan sales	4.8	0.9
Scale of investment required	1.6	1.7
Building		
Cost of construction	1.4	1.7
Availability of materials	1.7	0.9
New building technologies	1.2	0.3
The building code	1.3	0.5

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Process		
Council approval process	2.2	1.1
Industry regulation	4.8	0.9
Motivation		
Max. Profit motive	3.4	1.3
Social need motive	1.9	0.8

CHAPTER FIVE: CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This research study hoped to achieve the objectives of identifying the challenges faced by housing developers in the low income market, the housing models that have been adopted in Kenya and the driving motivation behind existing players in the market.

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From the discussion of the research findings this objectives have been achieved. This chapter will attempt to draw conclusions and make recommendations on the findings.

5.2 Conclusions

CHALLENGES

1. Land for housing development: availability of suitable land at an affordable price in the urban areas has been a major challenge in addressing housing for the low and middle income. The implication of the high cost of land is that the prices of houses have increased significantly.
2. Cost of finance: the cost of financing housing development, both long and short term has been increasing at a very high rate. This has in turn affected the price of housing development. The cost of borrowing long term mortgage loans has also gone too high for the low and middle income earners.
3. Double role of financier and developer: Using the example of National Housing Corporation, it has had to play this double role through the tenant purchase loan programme. This has had the effect of holding development funds at the expense of new developments because NHC is not a deposit taking institution.
4. Low purchasing power as expressed by Habitat for Humanity. The increase in poverty levels in the country has adversely affected affordability of houses.

Respondents in the research exercise gave open views on various factors that would improve the attractiveness of the low income housing market. These are summarized as follows:

- i. Reduced cost of debt financing
- ii. Building policy reviews
- iii. Reduced cost of materials
- iv. Improvement of infrastructure such as roads, electricity, water and sewer systems
- v. Increased availability of funds
- vi. Tax rebates
- vii. Provision of low cost loan facilities by the government

MOTIVATION

On the driving motivation, it could be best explained through Jamii Bora's Social Business Model. This is a for profit business whose mission is to provide a social benefit, not to be a profit maximizing business. Any retained earnings are used to expand the reach and scope of the business.

The importance of affordable housing for low income households as a social incentive cannot be overemphasized;

Housing crisis major poverty factor in Kenya

Many studies addressing the causes and solutions to poverty have come to the conclusion that housing for the poor is of critical importance. When discussing the family problems and the most important factors to bring the family out of poverty, the poor almost always place housing on the top of their list of priorities. World Bank and UNDP reports have also recognized that poverty alleviation has to focus on asset formation and not only on income generation in order to be successful (UN Habitat, 2010).

Health depends on decent housing

The miserable housing condition is one of the major root causes to diseases and premature death among the poor. The poorest households are female headed households with a single mother or grandmother and her many children or grandchildren. If the mother dies or is unable to work because of disease, the children go hungry. In a country without any welfare system, health is the only security to continued income earning capacity (Ibid).

Housing for income earning

Most of the urban poor are petty traders and vendors at street corner "shops". They need to keep any remaining stock in their own house over night. If the roof is leaking and the floor gets flooded by rainwater and sewer then not only their health is at risk but also their stock and livelihood. Some of the urban members are producers; they make shoes, dresses, carpentry products etc. The producers too are using their house as a small factory and the storage for any

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stock of goods produced and ready for sale. Their business depends on a roof that does not leak and a floor that can be kept dry (Ibid).

Housing the biggest expense in the household budget

Most of the urban members are tenants. Even the slum dwellers in their small shacks pay considerable amounts in rent every month. Even though it is the most affordable housing available to them it is expensive per square meter. In fact, the poor pay more in rent per square meter than the rich. But the poor have no choices.

If, however, they can build and own their own house they can pay the same amount of money per month in loan repayment and after a few years own the house. This will be a considerable saving in their household budget and provide options for investment in their businesses and their children's education (Ibid).

Housing is the most effective way to introduce family planning

Experience shows that when a family has their own house, however humble, it results in a new determination to make sure all their children go to school. They have saved for some time to achieve this goal in life and they feel that they have taken a major step out of poverty. Once that decision is taken they need to plan how many children they can afford to bring through school and as a result they easily adopt family planning measures (Ibid).

Plan housing programmes with the poor for step-by-step improvements

Regrettably, very few donors are involved in supporting housing, and those involved are not targeting the poorest people.

The traditional sites and service schemes have failed largely because they did not involve the people in the planning and implementation of the programme. These are expert designed projects starting with the land and expensive infrastructure. By the time the plots are available they are already too expensive for the poor. The priorities are those of the experts. The poor often have other priorities.

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They have to be able to afford the loan repayments on a monthly basis. Otherwise they will be forced to sell to those who are better off and the project ends up in the hands of the middle class, which is exactly what has happened to most sites and service schemes.

The house itself should be designed to allow additions and improvements as time goes by and the family can afford it (Ibid).

5.3 Recommendations

1. Use of appropriate technology to drive supply of housing stocks in a sustainable manner.
2. Develop a framework for public private partnerships between government agencies and the private sector mainly focusing on affordable housing for the low income market.
3. Participation of all stakeholders in the formulation, review, repeal and amendment of the existing legal framework governing operations of the housing sector.

5.4 Limitations of the study

1. The study involved the collection of primary data. There was a low response rate that is related to the collection of primary data. Some of the respondents did not bother to fill in the questionnaire within the specified period and claimed to be too busy to take time and participate.
2. There lacked a credible listing which is comprehensive and up to date of property developers whose focus is the low income housing market.
3. Since the measurement scale of the data collected was ordinal it did not lend itself to more robust methods of data analysis.

5.5 Suggestions for future research

The area of housing for low income households is vast and very little research has been done especially in the Kenyan context.

One area for research would be the success indicators of the current players in reaching out to low income households with their developments.

Another area is the financing aspect, sustainability of projects in the future and their replicability in new developments.

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APPENDICES

1. Work Schedule
2. Questionnaire
3. Copy of Introduction Letter
4. Copy of email correspondence
5. List of Respondents and response rate
6. Jamii Bora Housing case study