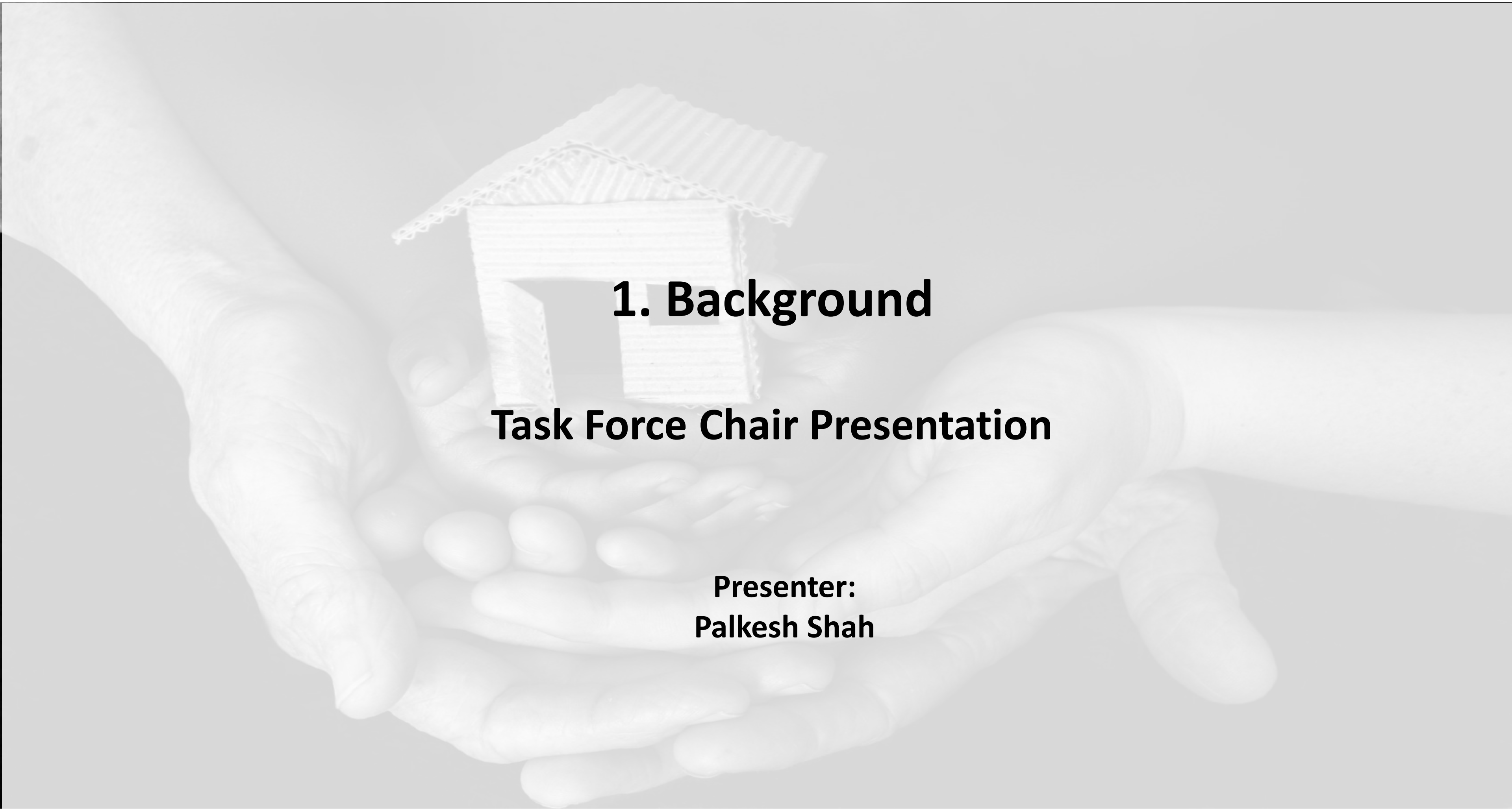
Affordable Housing Investment in Kenya

Building affordable homes and making financial returns

Conference Presentation
June 26, 2018

Report Structure

1. Background
2. Urban Planning, Infrastructure & Policy
3. Design & Construction Technology
4. Innovative Housing Finance
5. Tax Incentives



1. Background

Task Force Chair Presentation

Presenter:
Palkesh Shah

Affordable Housing Committee Milestones & Objectives

CHIGWELL
A better quality of life

KPDA
KENYA PROPERTY DEVELOPERS ASSOCIATION

kZanaka

KCB | Making the Difference

Lantana Homes

iJenga

KARIBU
HOMES

HARAMBEE

Affordable Housing Committee Milestones & Objectives

Investment Cases

- Establish Task Force
- Recruit team
- Develop mandate to investigate investment cases in affordable housing
- Research affordable housing sector
- Develop report & engage sector
- Plan & host conference

Bottlenecks

- Develop thematic sub-committees & recruit members
- Finalize list of challenges
- Select key case study developments
- Define solution to challenges
- Hold engagement meetings with government and private sector
- Develop policy briefs on interventions
- Monitor policy interventions and report

Scaling Up

- Monitor progress of case study projects
- Develop database of potential affordable housing projects
- Engage investors and encourage investment in the sector
- Showcase key projects

2017 | **2018** | **2019/20**

KPDA

Affordable Housing Committee Breakdown

- Sub-Committee Members
- Affiliated Associations & Ministries

KPDA Affordable Housing Task Force

- **Palkesh Shah – Task force Chair**
- Mucai Kunyiha – KPDA Chair
- Hamish Govani – Past KPDA Chair

Urban Planning & Development
David Gatimu

- Planners
- Architects
- Govt.

Innovative Finance
Zoravar Singh

- Banks
- Saccos
- Pension Funds
- Private Investors

Design & Construction Materials
Ravi Kohli

- Architects
- Engineers
- Quantity surveyors
- Contractors
- Developers

Incentives and govt. efficiencies
Caroline Kihara

- Government representive
- Developers
- Industry associations
- Treasury

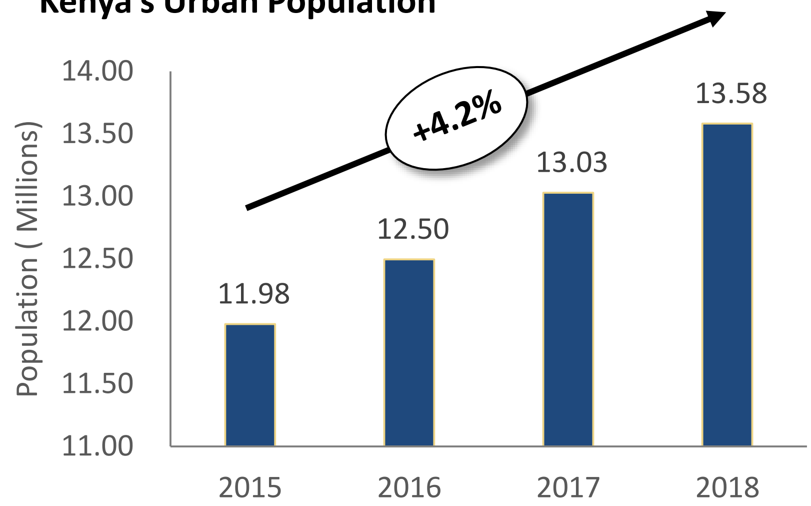
Note: Potential committee members are TBD

Annual housing deficit of 150k units across Kenya, fueled by increased urbanization and the lack of affordability housing units on the market

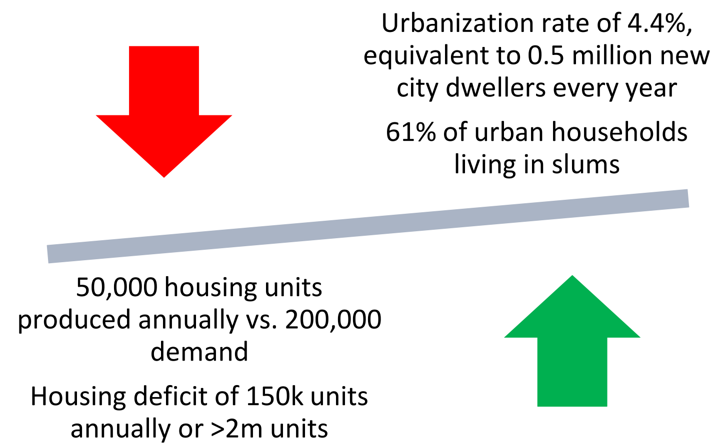
- 22% of Kenyans live in cities, and the urban population is growing at a rate of 4.2% every year.
- It is estimated that the current housing deficit stands at 2 million houses with nearly 61% of urban households living in slums. This deficit continues to rise due to fundamental constraints on both the demand and supply side and is exacerbated by an urbanization rate of 4.2%, equivalent to 0.5 million new city dwellers every year.
- With this level of growth, Kenya requires approximately 200,000 new housing units annually to meet demand, yet only 50,000 homes are built, leaving the housing deficit growing by 150,000 units per year. As a result of this mismatched supply and demand, housing prices have increased by 100% since 2004.

Estimated housing requirement	2 million units
Estimated annual supply	50,000 units
Estimated annual demand	200,000 units
Estimated annual shortfall	**150,000 units**

Kenya's Urban Population



Kenya Housing Demand vs Supply



Source: KNBS - Economic Survey 2017, World Bank Publication 2017: Kenya Needs 2 Million More Low-income Homes: Building Them Would Boost Its Economic Growth

The Affordable Housing sector experiences several challenges that has reduced the supply of housing and buyer uptake of units

Urban Planning	**Unavailability of service infrastructure and proper urban planning:** A significant portion of the land in Kenya is unserviced forcing developers to incur an additional infrastructure cost when constructing. A survey undertaken by CAHF shows that the average land and infrastructure cost in Kenya makes up 10 to 35% of the total cost of construction.
Cost of Construction	**Low supply of quality affordable units:** At 2018 prices, the average price of a 1 to 3 bedroom unit is KES 14m, while a 4 to 6 bedroom property was KES 42m. The supply of affordable houses with prices of KES 3m and below has been low partly due to the high cost of construction with Kenya being ranked as having the highest cost of construction among sixteen African countries.
Construction Finance	**Adverse construction finance terms:** Construction finance loans are adverse to developers given the time taken in converting the construction debt into a mortgage towards the end of construction. Developers incur high financing costs during the period and consequently price this cost in when selling property.
Mortgage Finance	**Unaffordable and inaccessible mortgages:** An average mortgage size of KES 9.1m with an interest rate of 13.5% and a tenure of 12 years translates to monthly mortgage payments of KES 130,700, which is unaffordable to over 90% of Kenyans.
Inefficient processes	**Inefficient Titling Process:** According to the 2017 Doing Business Survey, Kenya has a ranking of 121 out of 190 with respect to property registration. It takes 9 procedures and an average of 61 days to register property in Kenya. The registration process is further complicated by devolution with different counties showing different levels of efficiency.
Incidental costs	**High incidental costs:** An additional 6% needs to be added to the unit cost for incidentals, including stamp duty, legal fees and valuation fees.

Source: iJenga Research, CBK, World Bank, CAHF

Changing macro economic, government and real estate sector dynamics will result in a greater focus on affordable housing in Kenya

Past

Public Sector

- Construction of the pre-fabricated housing factory in Mavoko (2012)
- Slum upgrading project in Kibera (2015)
- Building of affordable houses through NHC (1965 – present)
- Tax incentives to developers (2016 & 2017)

Private Sector

- Densification of key neighborhoods and sprawl of city
- Focus by private developers on the upper income segments
- Rapid increase in the price of land

Current Dynamics

- Over supply of high-end housing
- Focus on housing for the next 5 years under the government's *Big Four Agenda*
- The young, raising middle class has greater disposable income for home ownership

Future

Public Sector

- Development of County spatial plans and urban masterplans
- Proposed tax incentives on stamp duty and tax rebates
- Joint venture/PPPs on public land use
- Formation of a housing fund
- Creation of a mortgage refinance company

Private Sector

- Real estate development in secondary and tertiary cities
- New building and unit design and incremental home purchase strategies
- Increased innovation in housing finance products through banks, SACCOs, and rent-to-buy schemes

Low income households, the majority of Nairobi households, can afford units below KES 4m, while middle income households can afford units above KES 4m

Economics of Home Ownership in Nairobi

Focus of report

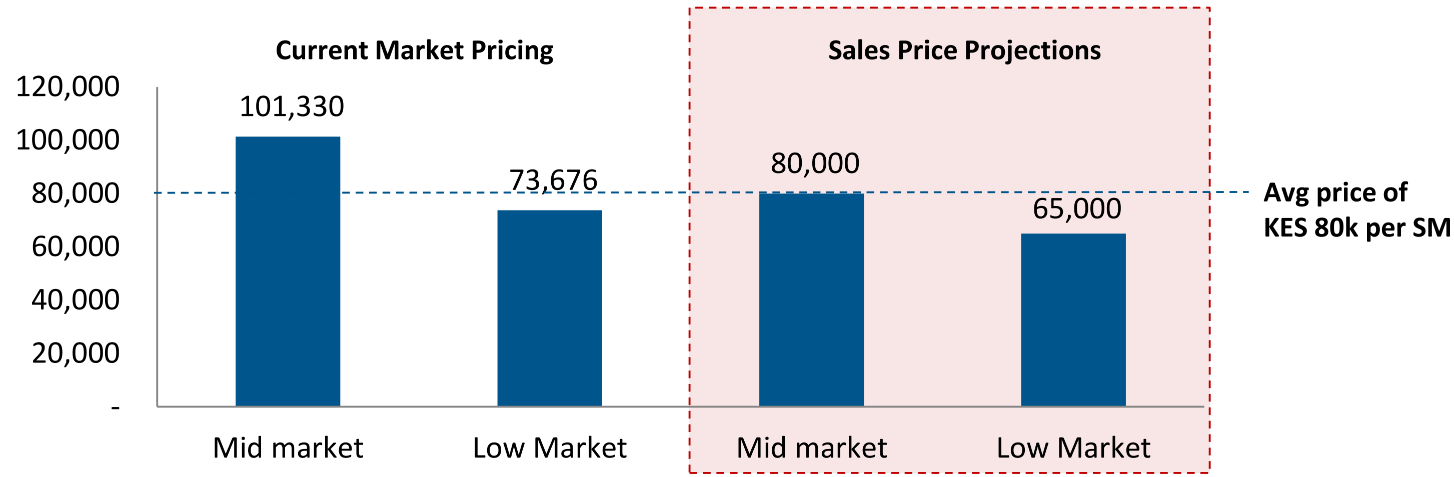
	Income Ranges	Monthly Income	Avg Household Monthly Income	Monthly Mortgage Payment	Avg Unit Price
Upper Income	2m – 350k				
Middle Income	350k – 80k	180k	270k	90k	8.4m
		120k	180k	60k	5.6m
Low Income	80k – 7k	80k	120k	40k	3.8m
		40k	60k	20k	1.9m
		20k	30k	10k	0.9m
Social Housing	7k – 0k				

Notes: Assumes household size of 1.5 people, 15 year mortgage, 14% interest rate and 20% down payment

The average sale price for a 2 bed and 3 bed across varies by neighborhood, building quality, size and unit finishes

Current Price & Future Price Projections per Square Meter

Currency in KES per square meter



Assumptions

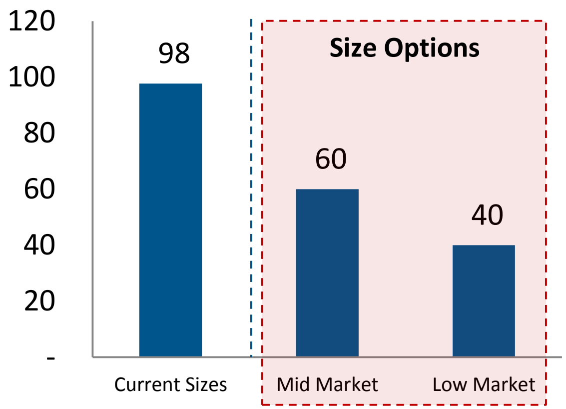
- Over **70** market price data points analysed, approximately **5 data points for each unit type in each target** market neighbourhoods.
- **Mid market** areas include Ridgeways, South B & C, Pangani and Langata.
- **Low market** locations include Dagoretti, Imara Daima, Kinoo, Syokimau, Ruaka and Rongai.

Reducing unit sizes can reduce the per unit price, while maintaining developer margins

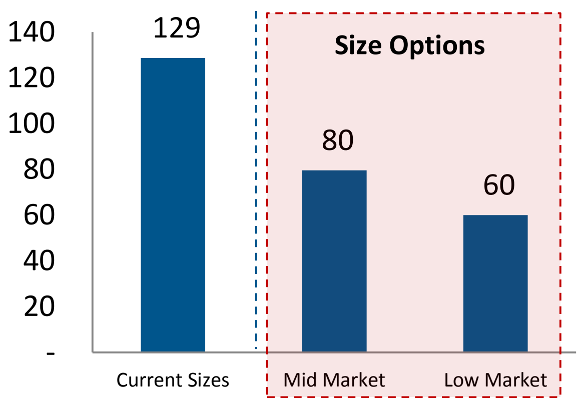
Future Unit Sizes Options

Areas in square meter

2 Bed Unit Sizes



3 Bed Unit Sizes



Observations

- Building smaller units helps reduce unit cost while maintaining per square meter margins
- Project viability is increased by varying the unit mix depending on the market dynamics

Unit Prices

Unit value in KES millions & areas in square meter

Mid market option

Mid market rate	80 K
Unit size	60 SM
Unit Price	**4.8 M**

Low market option

Low market rate	65 K
Unit size	40 SM
Unit price	**2.6 M**

Mid market option

Mid market rate	80 K
Unit size	80 SM
Unit price	**6.4 M**

Low market option

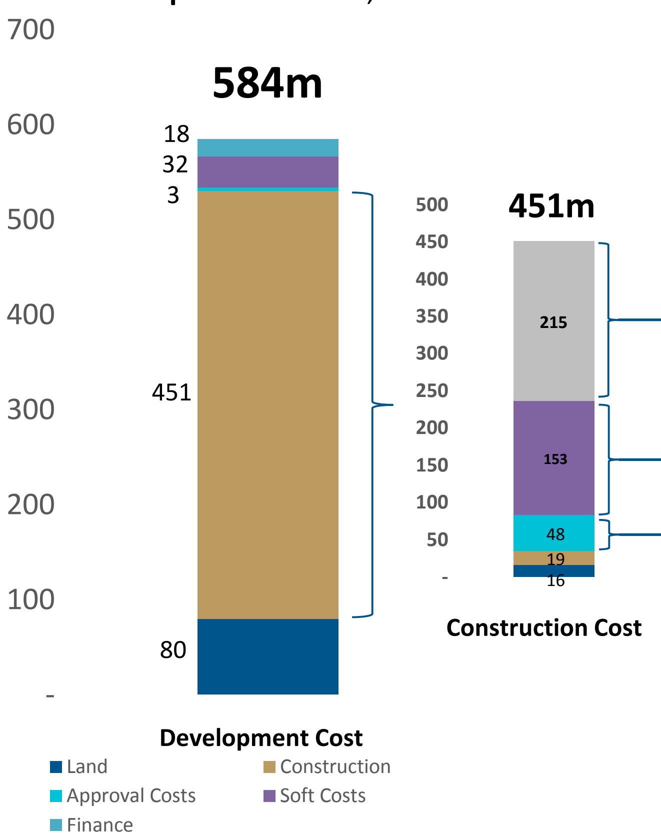
Low market rate	65 K
Unit size	60 SM
Unit price	**3.9 M**

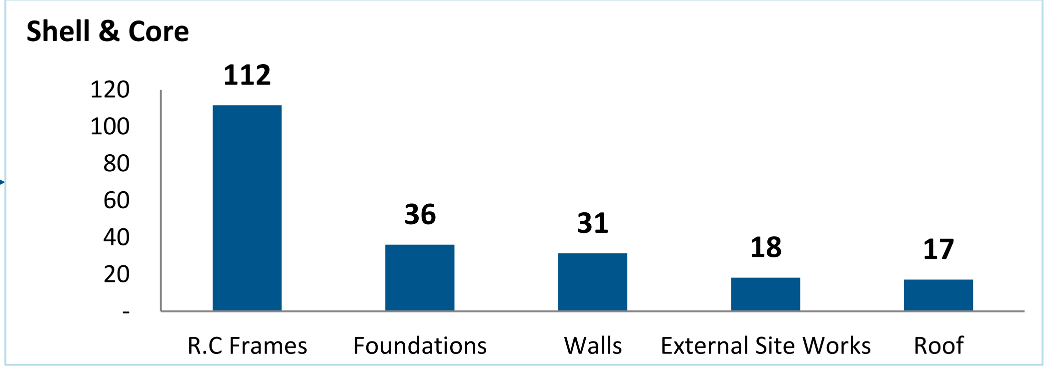
Developers can create options for buyers by selling units with incremental finishes, reducing the unit cost and giving buyers more options

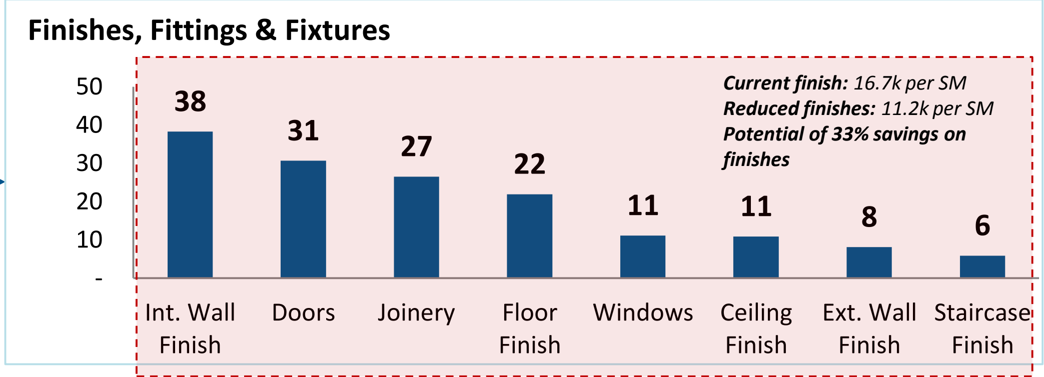
Development Cost Breakdown

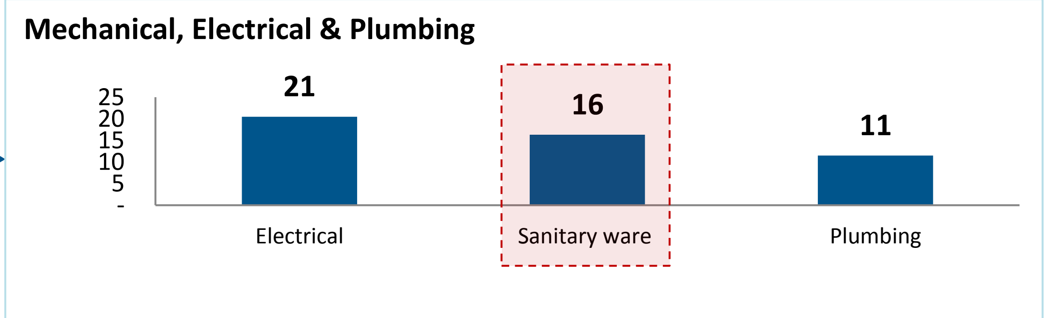
Figures in KES millions

Total Area: 10,115 SM
Cost per SM: KES 68,256









We found two dominant investment cases for the Nairobi mid market – Medium Density and High Density

Assumptions

Pricing	Mid market
Plot size:	1 Acre
Location:	Nairobi & environs
Parking:	0.7x, sale of parking included
Av. Unit Price:	Below 3.5m

Unit Mix

Studio:	15 – 30%
1 Bedroom:	30 – 35%
2 Bedroom:	15– 30%
3 Bedroom:	20 – 30%

Unit Sizes

Studio:	20 SQM
1 Bedroom:	30 SQM
2 Bedroom:	40 SQM
3 Bedroom:	60 SQM

Medium Density Model

Plot ratio:	2.5x
Ground Coverage:	50%
Building height:	5 floors
Parking ratio:	0.7x
% of parking sold:	75%
IRR:	17%
Average # of units:	260
Average price per unit:	KES 2.7m
Average cost per unit:	KES 2.2m
Average price per SQM:	KES 80,380

High Density Model

Plot ratio:	4.0x
Ground Coverage:	50%
Building height:	8 floors
Parking ratio:	0.7x
% of parking sold:	100%
IRR:	16%
Average # of units:	382
Average price per unit:	KES 3.1m
Average cost per unit:	KES 2.6m
Average price per SQM:	KES 81,806

Note: Price per unit does not include parking

Bottlenecks in the sector: Urban planning and development

- Lack of Planning at county level – Spatial, development & master plans.
- Implementation of the above plans through efficient institutions.
- Lack of infrastructure and serviced land near commuter nodes.
- Lack of transparency on Availability of land at county and national level.
- Lack of communication between government & private sector on policy, regulations, planning and lack of engagement on the same.
- Kenyans are unique as in most have rural homes and not all will buy urban homes so we have to cater for investor rental models for the migrant workers.
- Online market portal.
- PPP/JV structures. Details and regulations

Bottlenecks in the sector: Innovative Finance

- High mortgage interest rates from commercial banks due to the government crowding out the private sector.
- Long term duration of mortgage products. Need for 20-30 year term mortgages.
- Non-availability of construction finance. Not attractive sector for the banks due to poor performance of sector and uptake of the units. High interest rates of 14% under the cap and likely to go up with removal of the cap.
- Streamline titling process.

Bottlenecks in the sector: Design & construction materials

- Cheaper construction materials. The government will have to take bold steps on Zero rating VAT, reducing import duties on main imported items for affordable housing e.g. steel, cement manufacturing related imports, e.t.c
- Government will have to support the building industry manufacturers such that they are able to reduce their costing and pricing to the building industry.
- Incentives for new construction technologies.
- Spaces will have to become smaller and tighter to achieve the pricing targets for the affordable homes

Bottlenecks in the sector: Incentives & efficiencies

- Welcome govt. incentives in current budget which await parliament approvals.
- NHDF – National housing development fund. Awaiting policy & regulations.
- Kenya Mortgage Re-finance Company. Awaiting details.

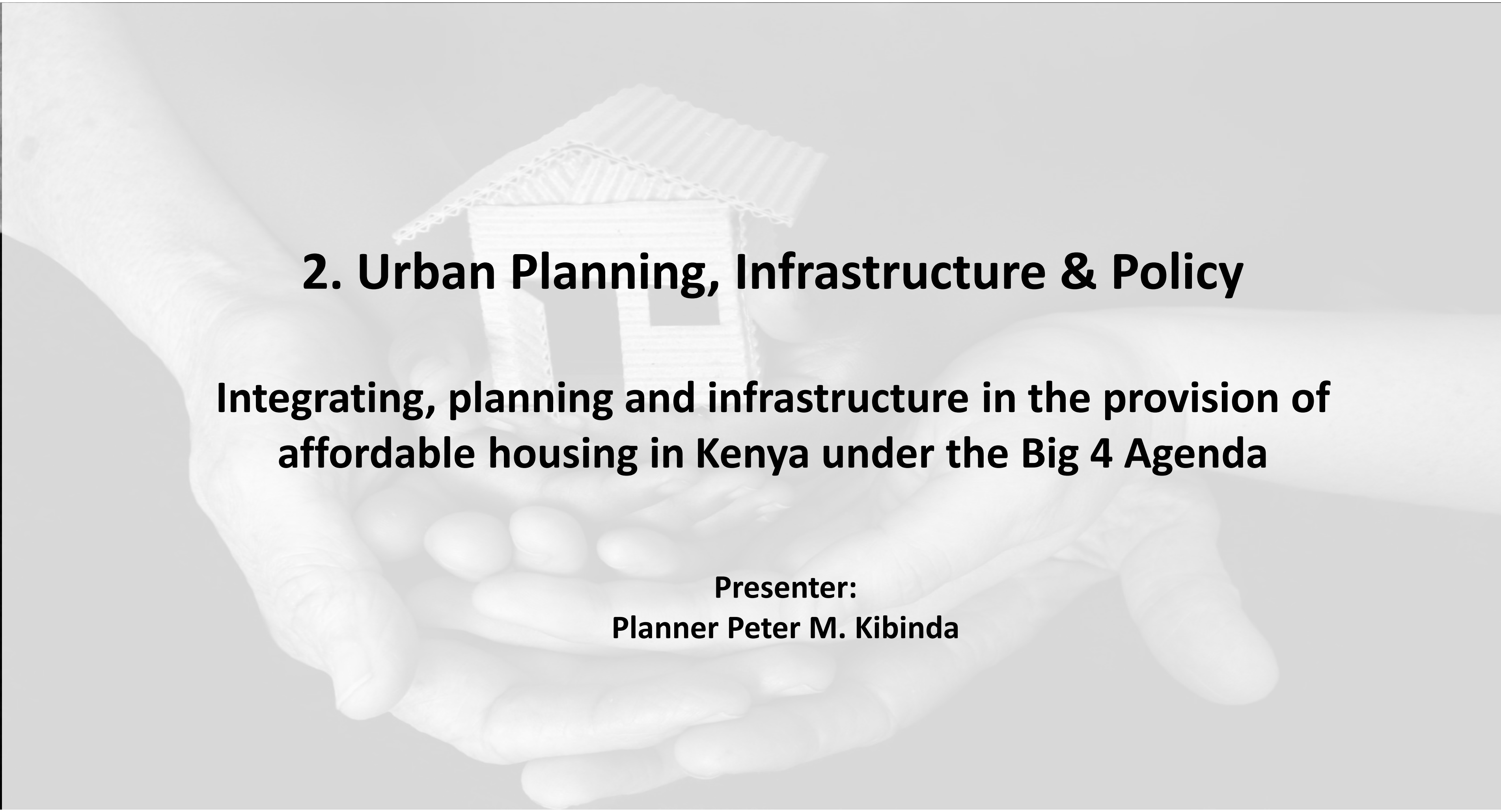
How can Private Developers Engage?

- **Urban Planning**: Engagement on urban design will allow plans to reflect the desires of the home buyers, including finishes, location and amenities.
- **Developer Financing:** Engagement on financing will ensure banks and developers have consistent expectations of capital requirements and considerations.
- **Collaboration:** Private sector collaboration on projects should be encouraged between both local and international organizations.
- **Delivery Unit:** Engagement within the sector should be facilitated by a delivery unit, where developers, consultants, banks and brokers can interact and unlock bottlenecks
- **Mortgages:** New affordable and accessible mortgage products should be developed to ease household financial burdens with the consultation of developers

Conclusion

- While we appreciate the great emphasis on affordable housing from the government, the private sector would like the government to ensure that all policy and regulations are done with an all inclusive engagement with the ministry of housing and all relevant departments of the govt. We look forward to this engagement.
- The private sector will strive to ensure they fulfill their promise within their capacity to help in achieving the affordable housing goals set by the government. We therefore urge the government to understand the needs and capacity of the local developers and formulate policy accordingly.

Report Structure



2. Urban Planning, Infrastructure & Policy

Integrating, planning and infrastructure in the provision of affordable housing in Kenya under the Big 4 Agenda

Presenter:
Planner Peter M. Kibinda

Why integrated Planning?

- The housing question is **INTERCONNECTED** with a complex set of issues revolving around urban growth.
- **PLANNING** allows the stakeholders and the market to confidently respond to economic growth , housing and infrastructure needs, at the right time and right place.

Enhancing Liveability

- Housing as an **ECONOMIC GOOD**. Housing is part of the construction industry that enhances economic growth.
- Housing as a **SOCIAL GOOD**
  - Housing Provides social welfare to citizens of all income levels.
- Housing as a **HUMAN RIGHT**.
  - Every citizen has a right to “Accessible and adequate housing” Article 43 of the Constitution of Kenya, 2010

National Focus on Housing

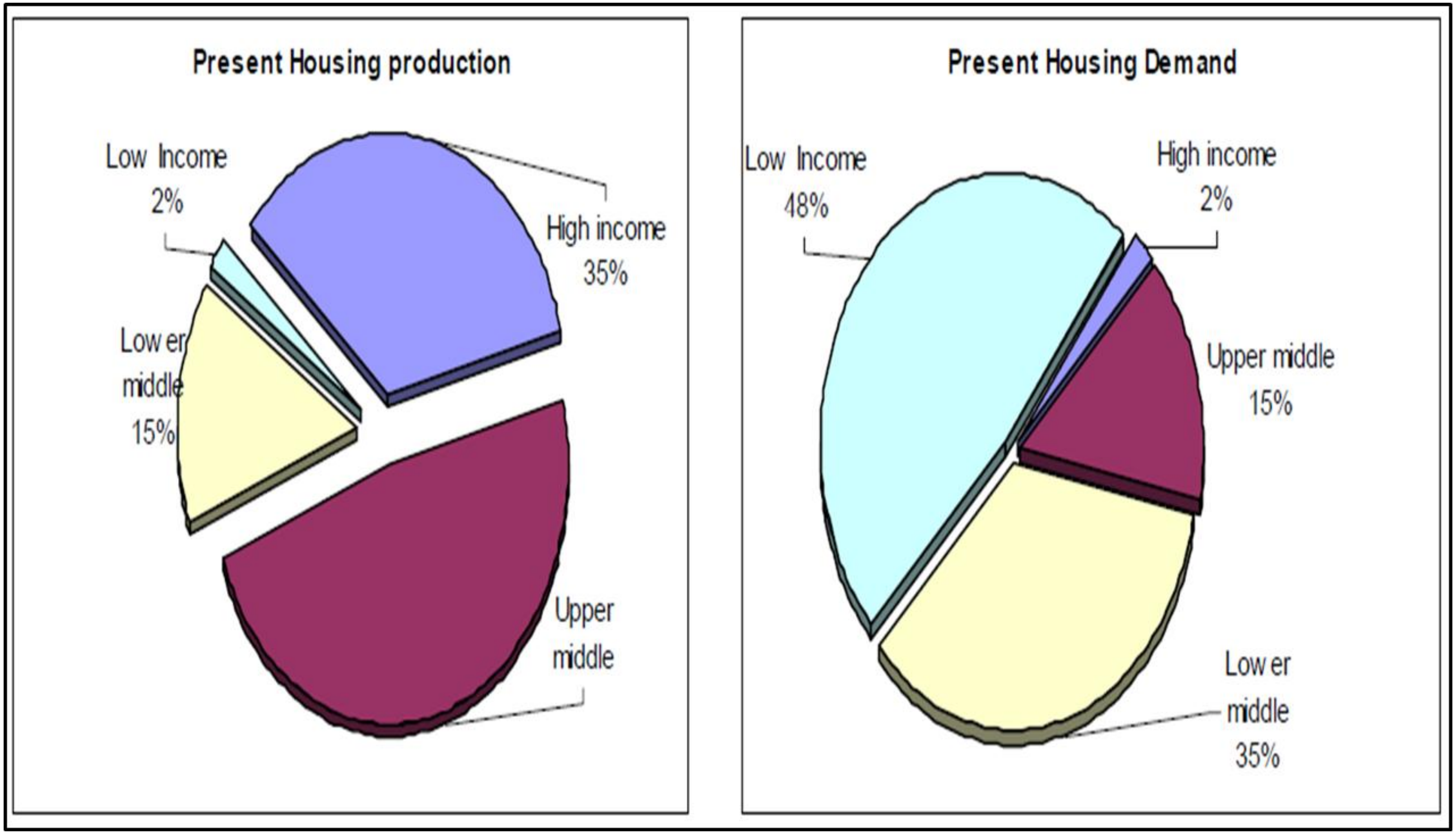
- Initial Intervention: **Session Paper No 10 of 1965** – African Socialism and Its Application To Planning in Kenya **(Section 139: Planning & Control of Resources)**
- First Post Independence Metropolitan Growth Strategy for Nairobi (1970-2000)
  - Housing recommendations (section 143 (a-g)
  - Low-Income Housing Recommendations 143 (h)(i-vi)
    - **Site and service schemes** was conceived
- **District Focus for Rural Development** – 1983
- Prioritizing of planning and budgetary allocation for implementation

National Focus on Housing

- Preceding the Constitution of Kenya (2010) and the Vision 2030 was the National Housing Policy contained in **Sessional Paper no. 3 of 2004**.
- This Paper established the goals that were reflected in both the **Vision 2030** and the constitution by reiterating the need for decent and affordable housing for all Kenyans.

Housing Supply Vs Demand by Categories: Kenya Vision 2030

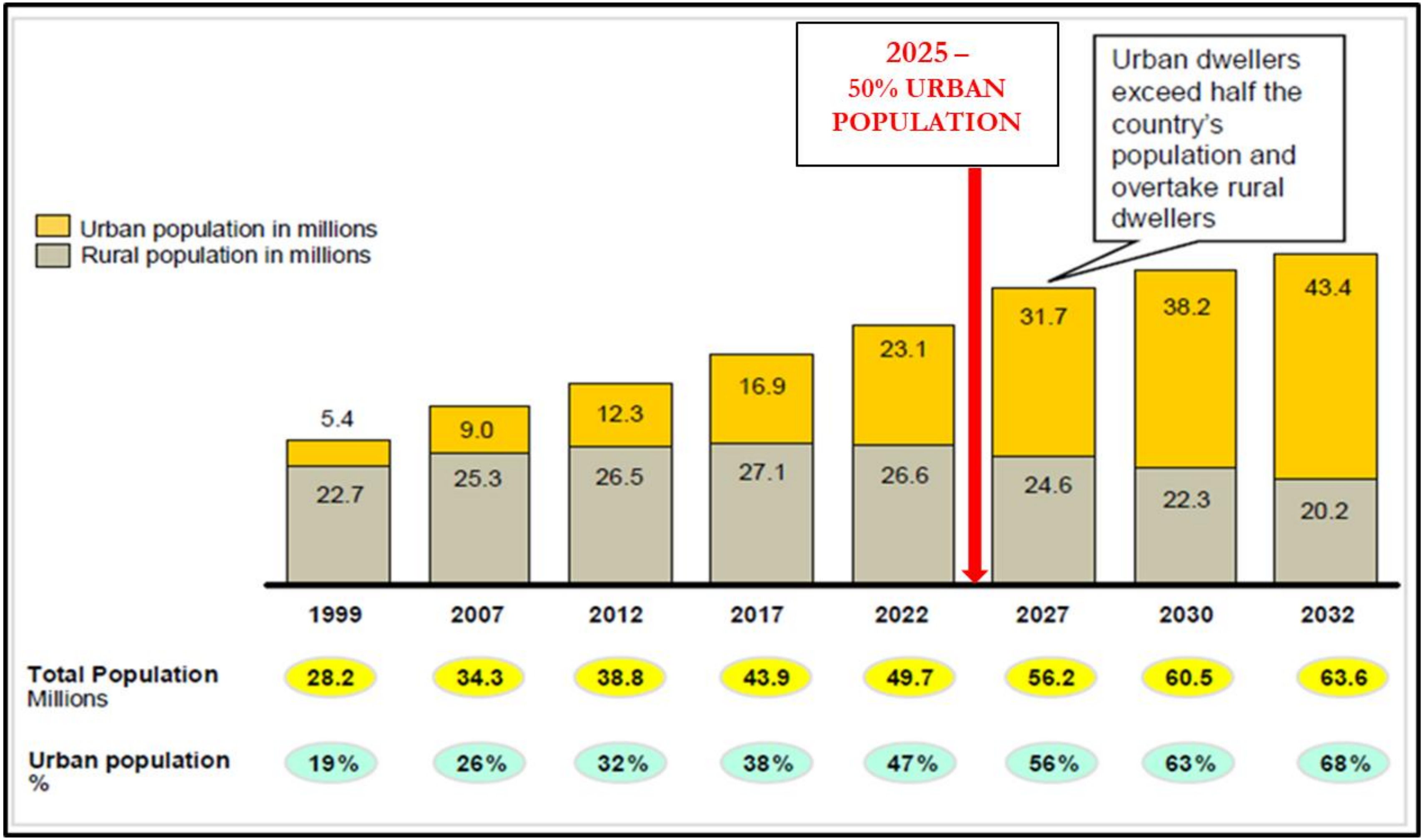
First Medium Term Plan (2008-12)



Future Trends & Drivers

- Urban Growth averaging 5% annually
  - 1963 – 8%
  - 2017 – 38% (equivalent to about 16.9 million people)
  - 2030 projection – 60.5%
  - Underlying Driver – economic growth

Trends & Drivers



Regional Interventions (Physical Planning Act)

Nairobi Metro 2030

Table 2-3: Estimated housing demand in the metropolitan region

Year	Estimated Housing Demand Gap in the Metropolitan (number)			Total Housing Gap		
	High Income	Middle Income	Low Income	Housing Gap (No.)	As a % of Housing Demand	Estimated Construction Cost (Kshs. Billion)
1999	119,313	217,545	256,879	593,737	45.1	1,863
2007	135,547	369,197	418,458	923,202	53.8	2,733
2012	141,644	525,283	484,373	1,151,300	57.2	3,415
2017	150,372	721,666	533,668	1,405,706	60.1	4,229
2022	300,545	839,555	575,548	1,715,648	63.1	5,605
2027	343,459	1,299,359	605,208	2,248,026	71.1	7,516
2030	365,149	1,589,850	540,955	2,495,954	72.0	8,567

Nairobi Metropolitan Region & Components: 2030

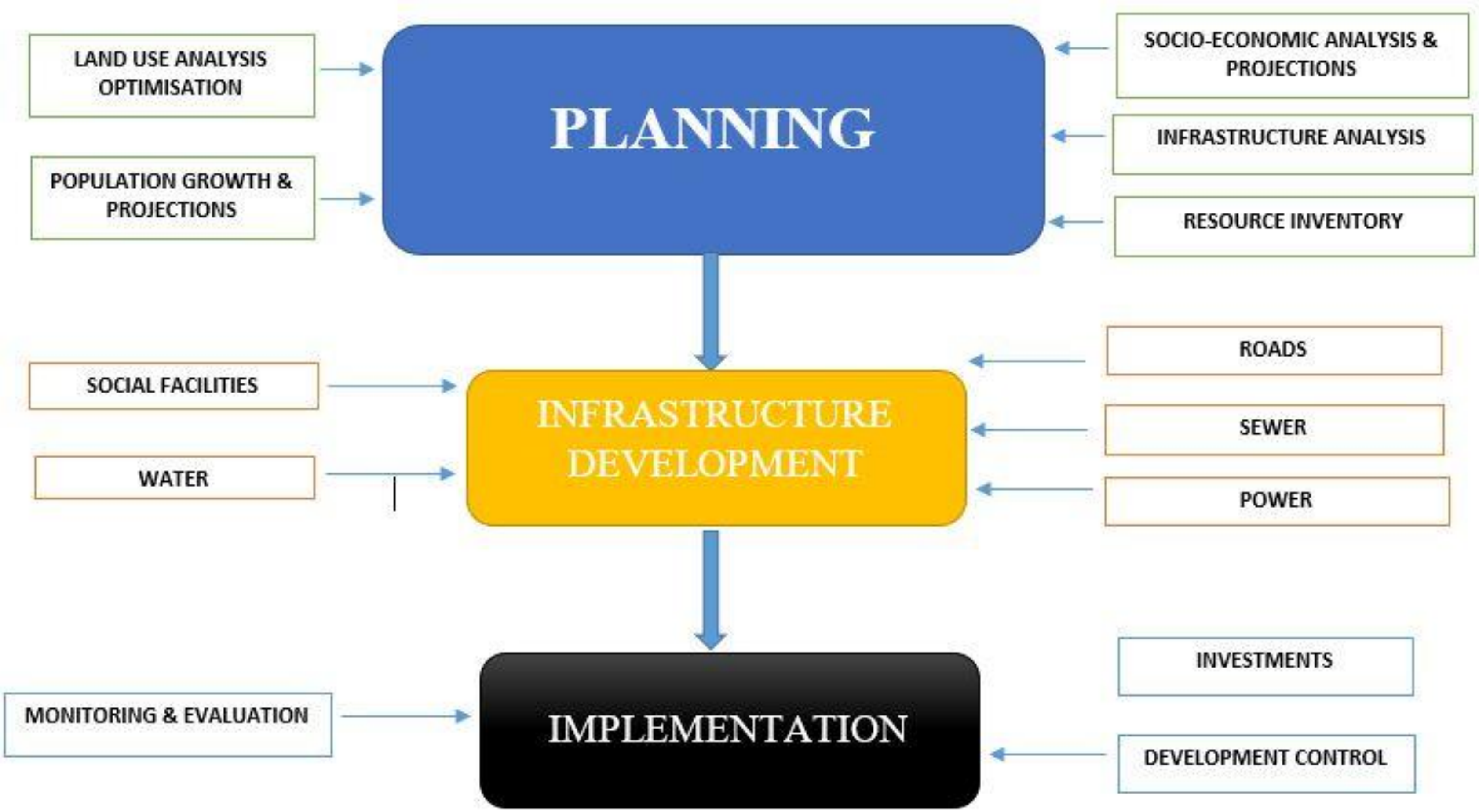
Table 12.2: Housing Demand for Nairobi Metropolitan Region and components: 2030

Spatial Units	Population - 2030	Housing Demand - 2030
NMR	**15,131,435**	**3,782,859**
Urban	13,073,459	3,268,365
Rural	2,057,976	514,494
Nairobi City	**5,212,500**	**1,303,125**
ONMR	**9,918,935**	**2,479,734**
Urban	7,860,959	1,965,240
Rural	2,057,976	514,494
Northern Metro	**4,971,173**	**1,242,793**
Ruiru	960,226	240,056
Thika	562,219	140,555
Limuru	419,221	104,805
Kiambu	357,260	89,315

County Level Approach

- County Government Act
  - County Spatial Plans (Lamu, Kiambu etc)
- Urban Areas and Cities Act
  - Nairobi Integrated Urban Development Plan (NIUPLAN)
  - Mombasa Integrated Urban Development Plan
  - Thika Integrated Urban Development Plan
  - Lokichoggio, Lokichar, Kalokol ISUDP's

Planning as Basis for Development



Recommendations and conclusion

1. Adoption of countrywide plan preparation and implementation by the counties- CSPs, ISUDPs
2. Establishment of land banking for future developments
3. Planning driven urban regeneration programs to optimize on land use
4. Planning driven infrastructure development
5. Establishment of special financial institutions for housing provision
6. Housing development research- Building materials, Housing Demand and Supply, Housing Financing

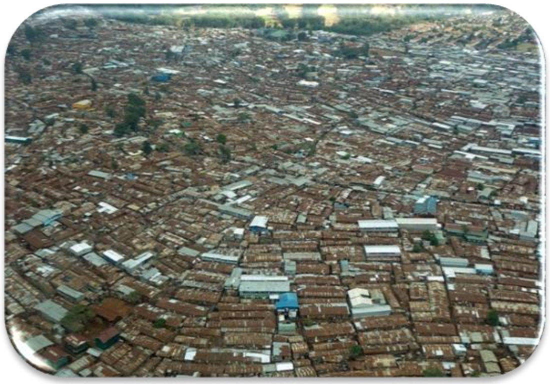
Integrating Planning & Infrastructure in the Provision of Affordable Housing

Infrastructure Financing Options

Mary Chege
EMSI & Associates
June 26, 2018

What We Have Today…

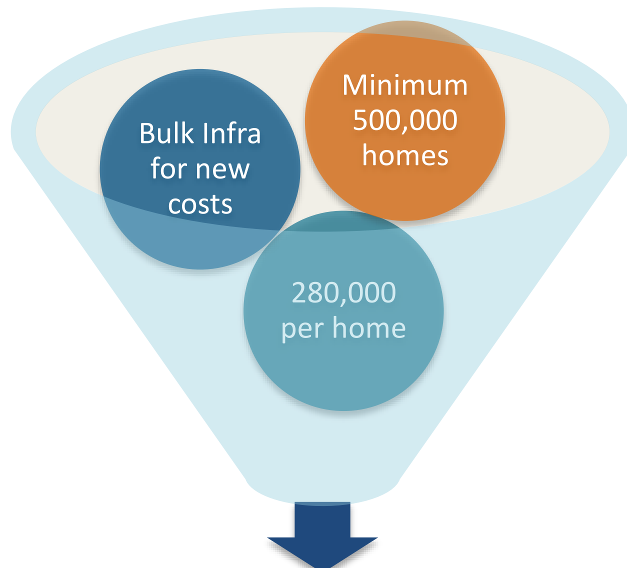
Inadequate capital investment in new infrastructure to accommodate new property developments and connect new areas



Slumification of urban areas and Infra backlog in existing areas

Inadequate O&M investment for replacement, renewal and upgrading of existing assets

The Kes 140 Bn Housing Infra Challenge



Kes. 140 Bn Infra Finance Deficit

Bulk, Link & Internal	Average costs of Kes 600 – 2 M	CAHF estimates 14% Infra Costs

Scope of Infrastructure

Internal	• services **within** the development site boundary to service that development
External Bulk	• services external to the development site boundary servicing **multiple users** at a County-wide scale (new or existing)
External Link	• services external to the development site boundary required to **connect** internal engineering services to existing or proposed bulk engineering services.

Infra Components

Internal Infra

- Internal Roads
- Water Reticulation
- Storm Water Management
- Solid Waste Management
- Sanitation / Sewerage
- Parks & Recreational Areas
- Last Mile Connectivity

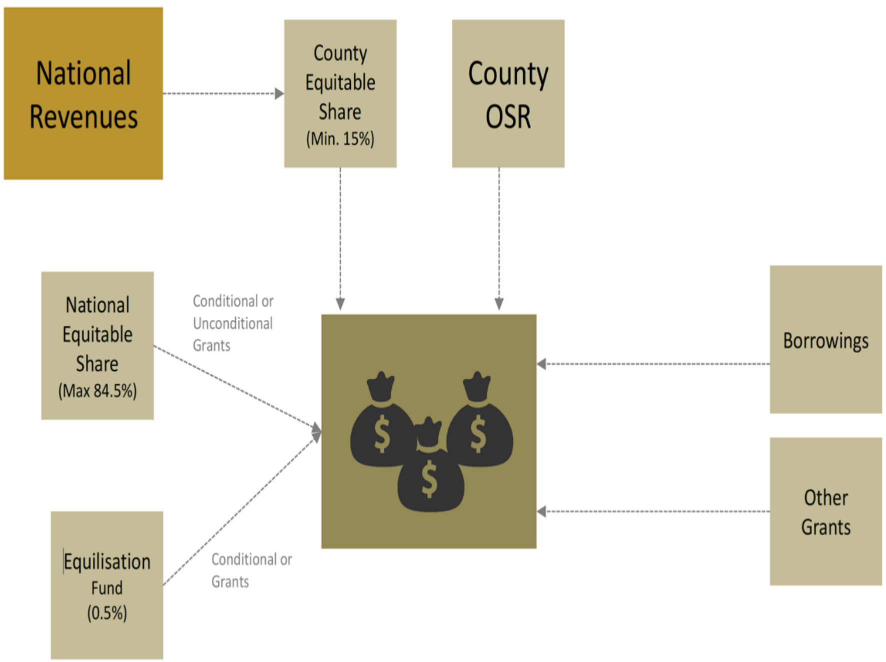
External Link

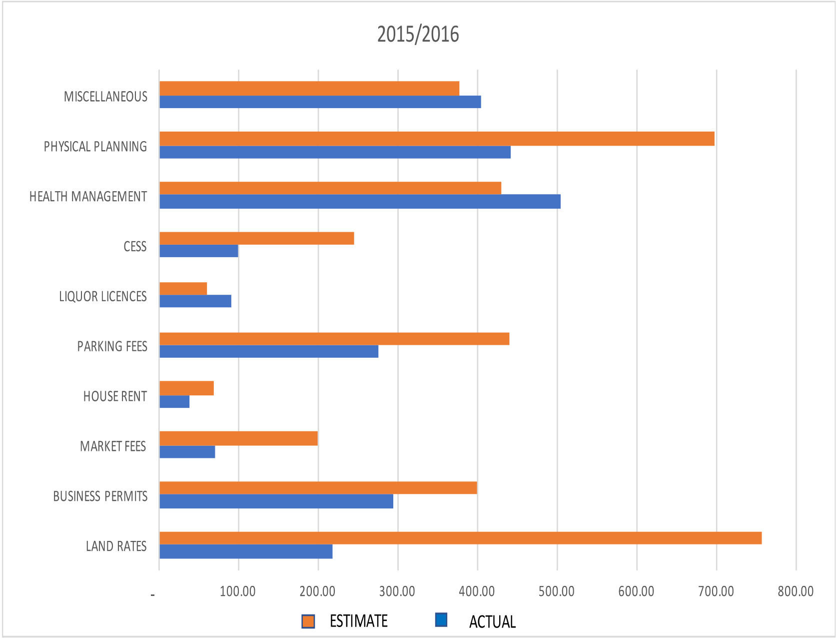
- Sewerage Trunk lines
- Access Roads
- Water Trunk lines
- LV network to Transformer

External Bulk

- Sewerage Plant
- Bulk Water
- Bulk Power
- Solid Waste
- Roads & storm water management
- Public Transport
- Fire Fighting & disaster management

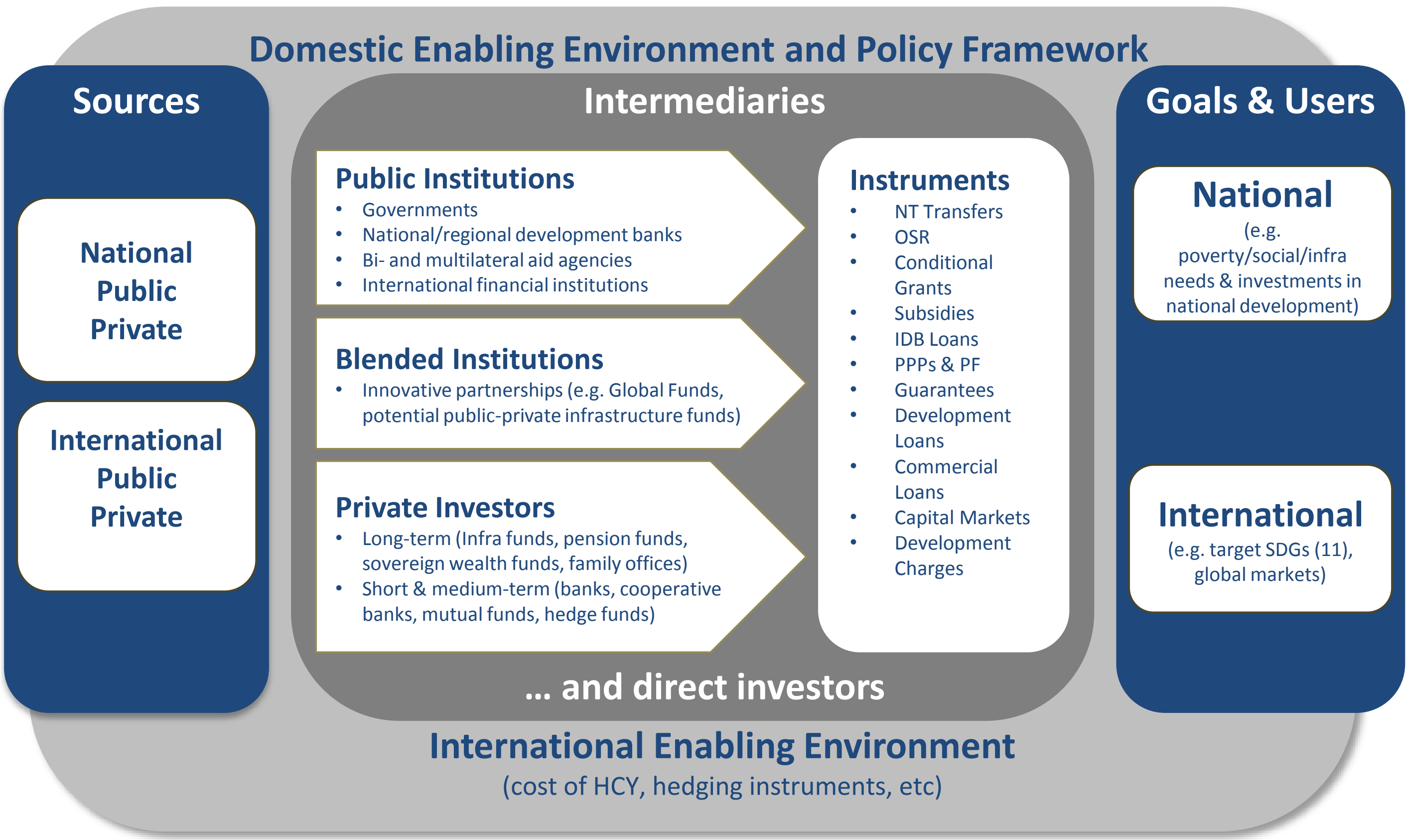
County Funding Sources





The OSR for Counties remains insufficient to meet growing Infra demands
Inefficiencies in collections from Constitutionally mandated – Property Rates
The 70:30 ratio for recurrent and development expenditure inefficient

Expanding Your Funding Sources



Sharing the Infra Responsibility

Identifying the different engineering services within a development is key in **allocating their responsibility correctly** amongst the different players

The Benefits Principle

Main beneficiaries of infrastructure should make an **appropriate and fair contribution** to the cost of the infrastructure

Should not **unduly burden** County’s rate payers **not associated** with that infrastructure

Each new development is associated with the **intensified land use**

Pro rata share of **actual capital costs** to service a particular development is **borne by the persons who will benefit** from the intensified land use

Guiding Legislative Principles

CGA 102(b) **responsibility to future generations**

CGA 113(2)(a) CIDP to provide **clear KPIs** including percentage of households with access to basic services

CGA 120(3)(a) Equitable treatment of users of county services

Art. 43 Constitution accessible & adequate housing … reasonable standards of sanitation & clean & safe water in adequate quantities…”

CGA 120(3)(b) Amount individual users pay for services should generally be in proportion to their use of that service

CGA 120(3)(f) Surcharges on tariff for services

CGA 120(4) Differentiation between users, areas, service standards etc as long as no unfair discrimination

CGA 120(3)(c) Basic services for poor households, subsidies, O&M cost only, Life Line tariffs

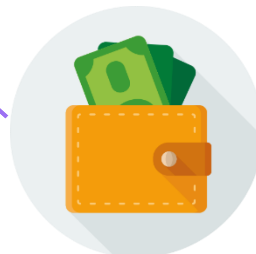
CGA 120(3)(d) Provision of services should be reflective of capital costs as well as costs relating to O&M, administration, replacement & interest charges

CGA 120(3)g) LED promotion through special tariffs for commercial & industrial users

Planning for Your Infra

Average Fixed Cost / Unit

Current replacement cost of installation / construction



20-Year Land Use model

Planned generic land use & densification

Service Master Plan

For each infrastructure sector

Engineering Standards

Minimum National / county Government Human Settlements

20-Year Infrastructure Plan

Levels & standards of service
Replacement costs
Excludes infrastructure backlog

Development Charges in Cape Town

- Land Use Planning Ordinance of 1985 (LUPO)
- National Treasury Policy Framework for Municipal Development Charges
- Model Land Use Planning and Development Conditions Handbook 2014
- Development Charges Implementation Guide 2014
- Development Charge = difference between impact on bulk services between previous and future land uses and multiplied by standard unit cost
- First development of 51 semi-detached units at Riverstone Villas @US$ 1771 / unit
- Social Infra funded through property rates and national transfers
- Electricity charged separately

City Of Cape Town Development Charges Calculator Version 2.0 June 2014

Please complete compulsory information (indicated with *)

Erf Number *	
Suburb *	
Developer/Owner *	
Erf Size (ha) *	
Date (YYYY/MM/DD) *	
Current Financial Year	
Approved Building Plan No.	

Code	Land Use	Unit	Development Parameters	
			Existing Right	Total New Right
RESIDENTIAL				
A1	Single Residential > 1000m² Erf	Dwelling unit		
A2	Single Residential > 650m² Erf	Dwelling unit		
A3	Single Residential > 350m² Erf	Dwelling unit		
A4	Single Residential < 350m² Erf	Dwelling unit		
A5	State Funded Housing	Dwelling unit		
A6	GAP/Affordable Housing	Dwelling unit		
A7	Group Housing >650m² Erf	Dwelling unit		
A8	Group Housing >200m² Erf	Dwelling unit		
A9	Group Housing <200m² Erf	Dwelling unit		
A10	Flat >100m² Unit	Dwelling unit		
A11	Flat <100m² Unit	Dwelling unit		
A12	Second/ Additional Dwelling/Granny Flat	Dwelling unit		
A13	Rural / Undetermined / Agricultural	Dwelling unit		
A14	Rural Intensification / Agri-subdivisions	Dwelling unit		
ACCOMMODATION ESTABLISHMENTS				
B1	Hotel	Rooms		
		m² GLA		
B2	Accommodation Establishments	Rooms		
		m² GLA		
BUSINESS				
C1	General Business	m² GLA		
C2	Office	m² GLA		
C3	Retail/Shop	m² GLA		
INDUSTRIAL				
D1	Warehouse	m² GLA		
D2	Industrial	m² GLA		
INSTITUTIONAL/COMMUNITY				
E1	Early Childhood Development Centres / Home Child Care	Learner		
		m² GLA		
E2	Universities / Schools	Learner		
		m² GLA		
E3	Care / Accommodation (Hospitals, Clinics, Old age home)	Bed		
		m² GLA		
E4	Office/ Consulting rooms (welfare offices, clinics, hospitals & env. facilities)	m² GLA		
E5	Meeting Places (places of assembly, place of worship)	m² GLA		
E6	Open Spaces / Public Open Spaces	m²		
Land uses not reflected on the calculator		Actual Demand	Click yellow button to enter demand	

Is the development located within Public Transport (PT2) zone? Please select

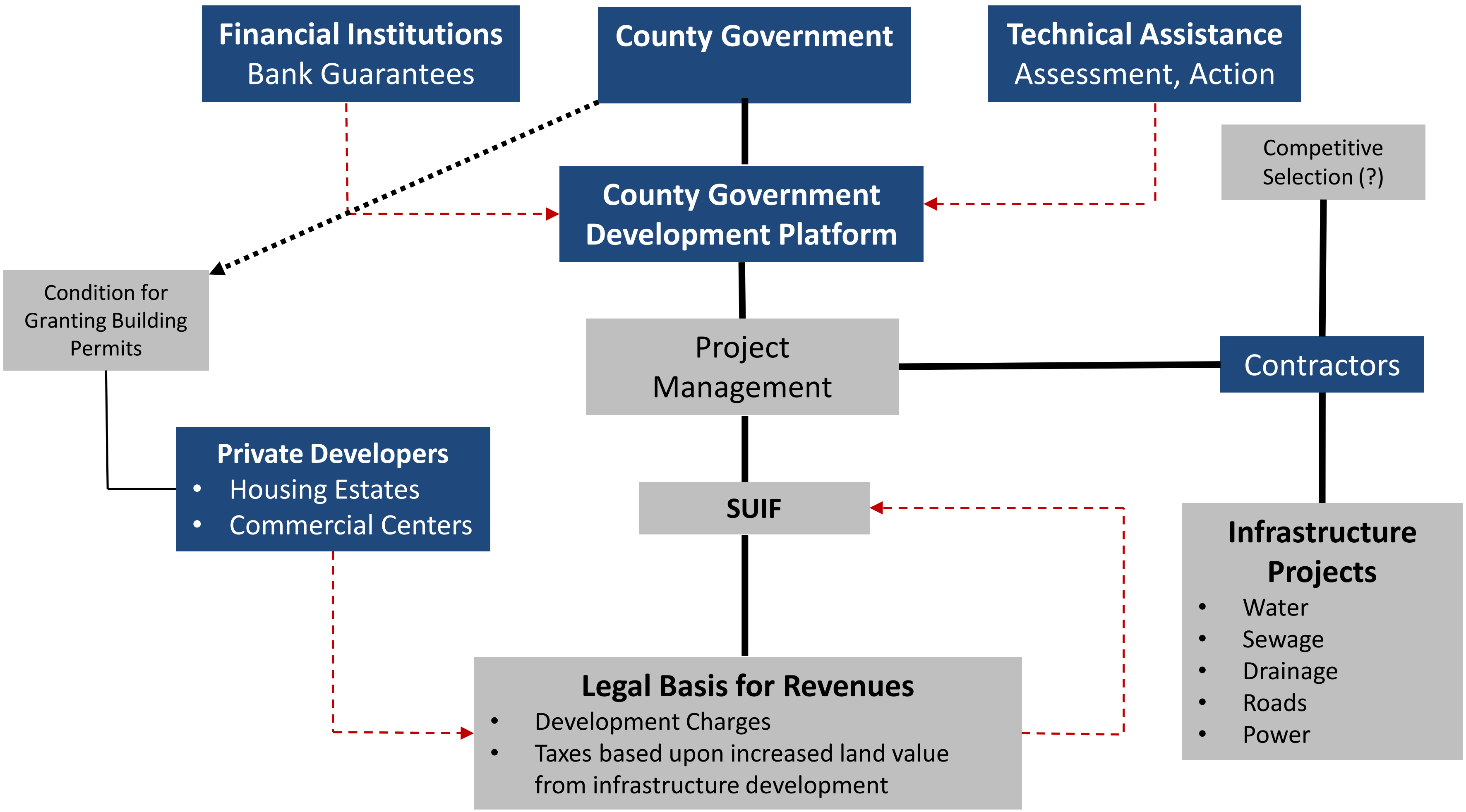
Calculation of bulk engineering services component of Development Charge

Service	Units	Additional Demand	Unit Cost	Amount	VAT	Total
Roads	trips/day	0.0000	R 3,559.74	R -	R -	R -
Transport	pers.trips/peak period	0.0000	R 685.69	R -	R -	R -
Stormwater	ha*C	0.0000	R 135,347.00	R -	R -	R -
Sewerage	kl/day	0.0000	R 13,761.24	R -	R -	R -
Water	kl/day	0.0000	R 1,688.02	R -	R -	R -
Solid Waste	kg/day	0.0000	R 340.58	R -	R -	R -
Total bulk engineering services component of Development Charge payable						R 0.00

City of Cape Town		Developer/Owner	
Calculated :	______	Received :	______
Signature :	______	Signature:	______
Date :	______	Date:	______

NOTE : THIS CALCULATION IS BASED ON THE DEVELOPMENT INFORMATION PROVIDED AND UNIT COSTS APPLICABLE FOR THE FINANCIAL YEAR IN WHICH THE DEVELOPMENT APPLICATION IS MADE. UNIT COSTS ARE ESCALATED ANNUALLY ON 1 JULY WITH THE CPAF AND THE ACTUAL AMOUNT DUE WILL BE BASED ON THE UNIT COST APPLICABLE ON THE DATE PAYMENT BECOMES DUE.

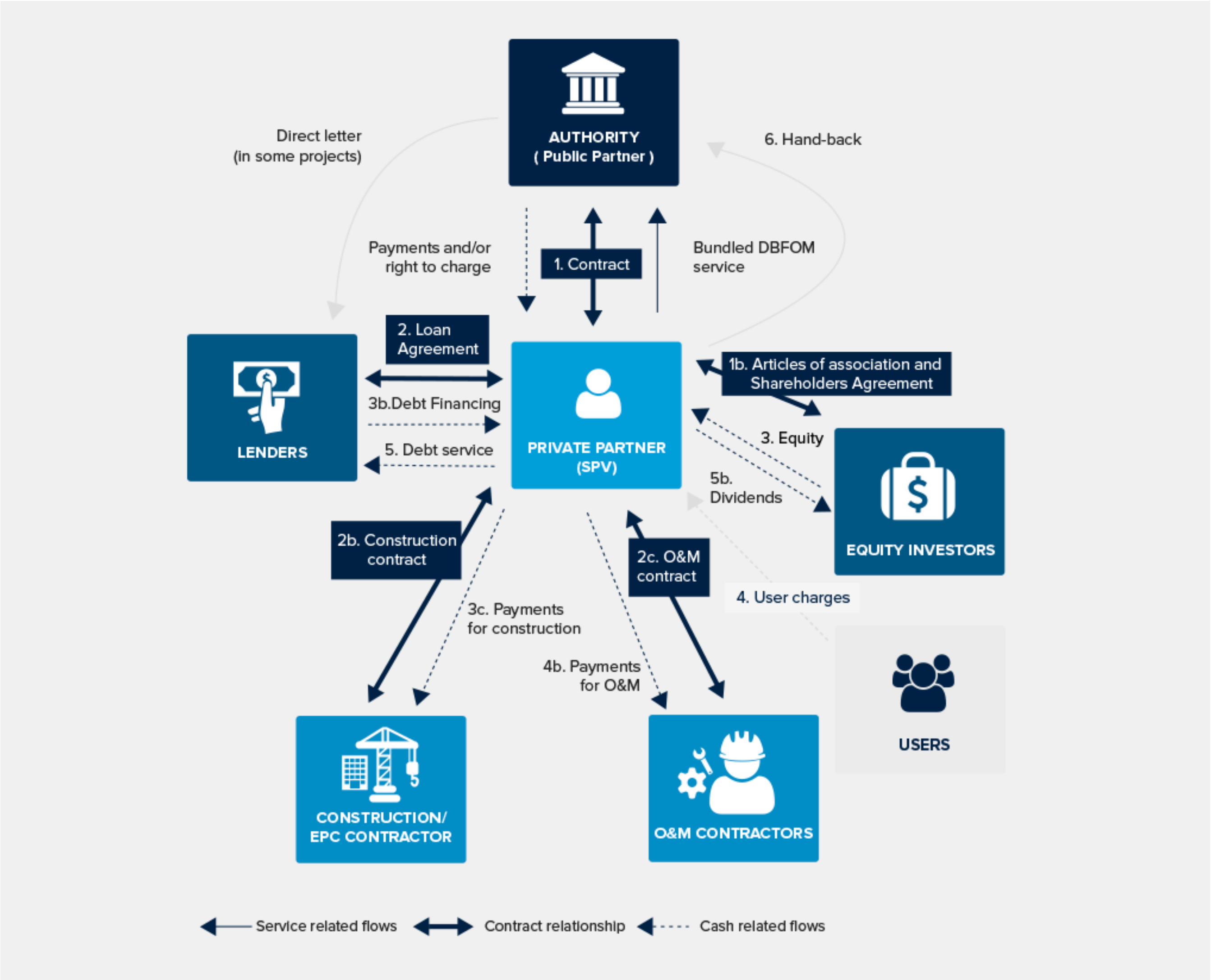
Model County SUIF



Engaging with Private Sector

<table>
<tr><th>Contract Type</th><th>Needs Assessment</th><th>Propose Solution</th><th>Project Design</th><th>Project Financing</th><th>Construction</th><th>O&M</th><th>Ownership</th></tr>
<tr><td>Build</td><td colspan="4">Public Sector</td><td>Private Sector</td><td colspan="2">Public Sector</td></tr>
<tr><td>Design + Build</td><td colspan="2">Public Sector</td><td>Private Sector</td><td>Public Sector</td><td>Private Sector</td><td colspan="2">Public Sector</td></tr>
<tr><td>Design + Build + Finance</td><td colspan="2">Public Sector</td><td colspan="3">Private Sector</td><td colspan="2">Public Sector</td></tr>
<tr><td>Design + Build + Finance + O&M</td><td colspan="2">Public Sector</td><td colspan="4">Private Sector</td><td>Public Sector</td></tr>
</table>

Demystifying the DBFOM Model



THANK YOU

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+254 780 944 410 /11

3. Design & Construction Technology

Presenter:
Ravi Kohli

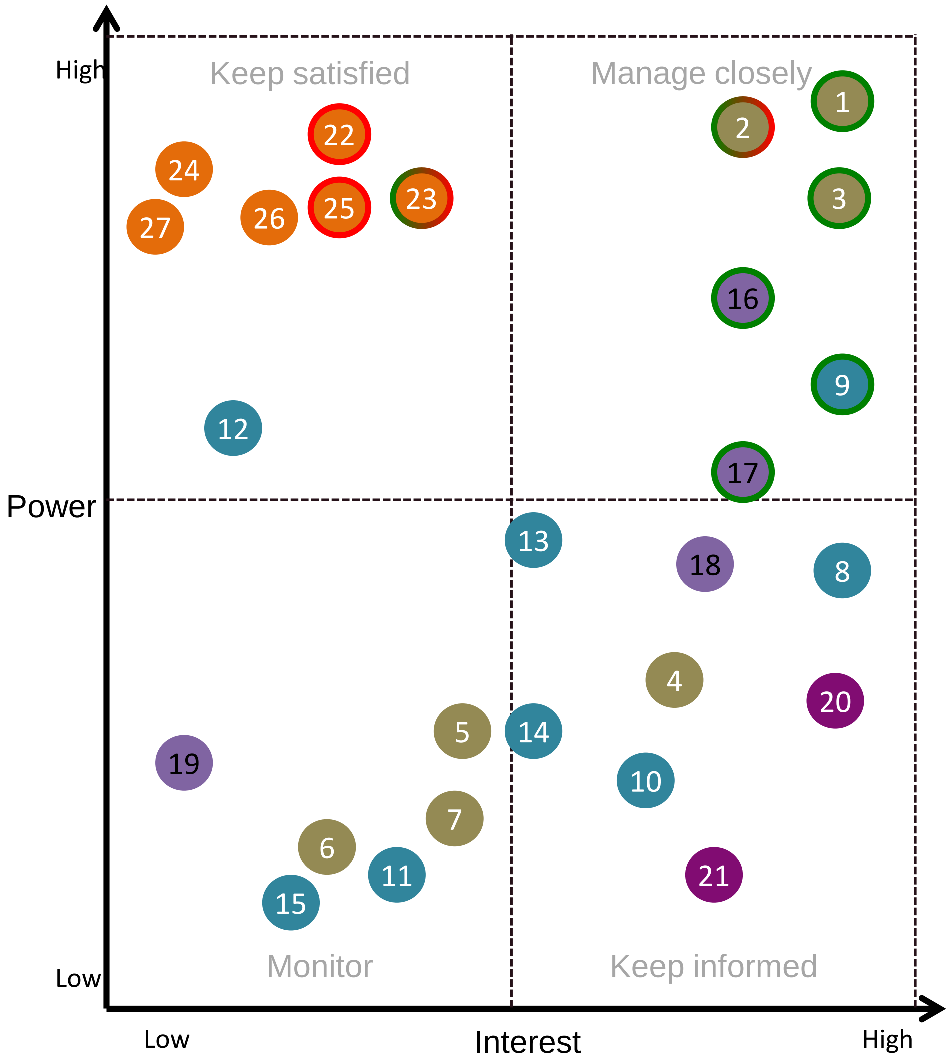
Agenda

1) Panelist Introduction
2) Presentation by the Moderator:
    - Pertinent issues faced by developers and design teams
    - Pain points faced by design teams and developers
3) Presentations by:
    - Costs Consultant,
    - ARUP
    - The Green Building Society

Panel Members

- Moderator: Ravi Kohli (KPDA & Karibu Homes)
- Cost Consultants: Tim Manyuira – Tandem & Stark
- Architect: Felix Lati – Lexicon + Ion
- Infrastructure: Caroline Ray – ARUP International
- Green Building: Adele Charbonneau – Saint Gobain
- Alternative Technology: Mburu Karanja – CEMEX
- National Housing Corporation - Christopher Nyongesa
- Construction - Heri Bomani - Pangani Group

The stakeholders eco-system



Corporate
1. Investors
2. Debt provider
3. Landowner
4. Corporate lawyers
5. Financial advisors
6. Kenya Property Developers Association
7. Affordable housing market (developers & financiers)

Sales
8. Buyers
9. KH sales team
10. Agents
11. Conveyancing lawyers
12. Finance providers
13. PR company
14. Marketing agency
15. Sales materials companies

Build
16. Main contractor
17. Architect
18. Other consultants
19. Utilities

Community
20. Residents association
21. Neighbours

Government
22. Ministry of Lands & Physical Planning
23. Local County Council
24. Kenya Revenue Authority
25. National Environmental Management Authority
26. Politicians
27. Treasury

Champion Either Blocker

Pertinent issues faced by developers and design teams

- Alternative vs. Traditional
- Urban vs. Counties
- Serviced Land – Land Use - Access
- Value Engineering
- Returns to attract capital
- The impact on design – Parking, community vs. density?
- A Kenyan home for Kenyan families
- Enabling Community
- Building trust through building a brand – quality assurance

Pain points faced by design teams and developers

- Land use
- Costs
- Approvals
- Title/Sub-lease registration process
- Incentives
- Smaller developers
- Construction financing

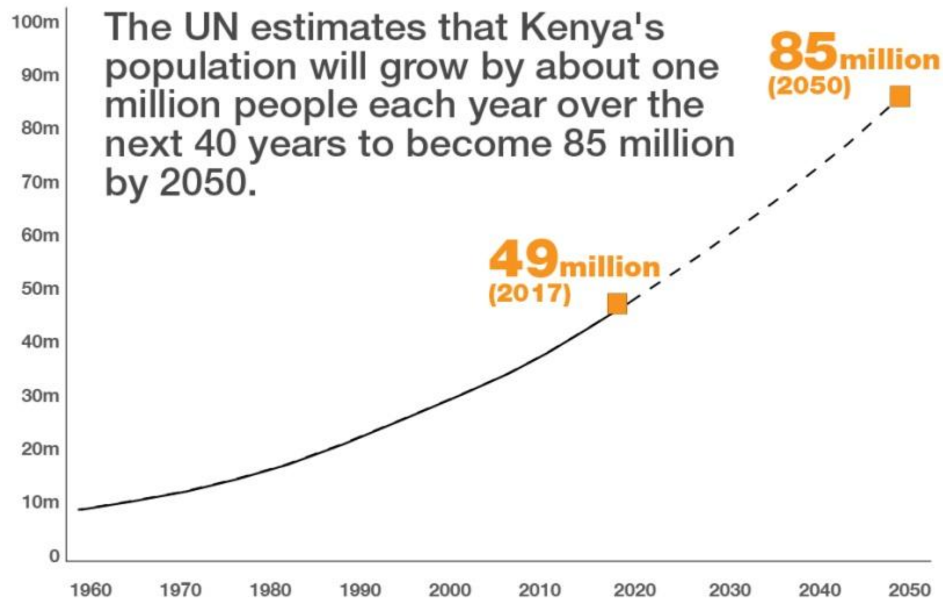
A holistic view of traditional vs. alternative building technology – Tim Manyuira

Green Technology & Affordable Housing – Adele Charbonneau

Green Building

Why does green matter in Kenya?

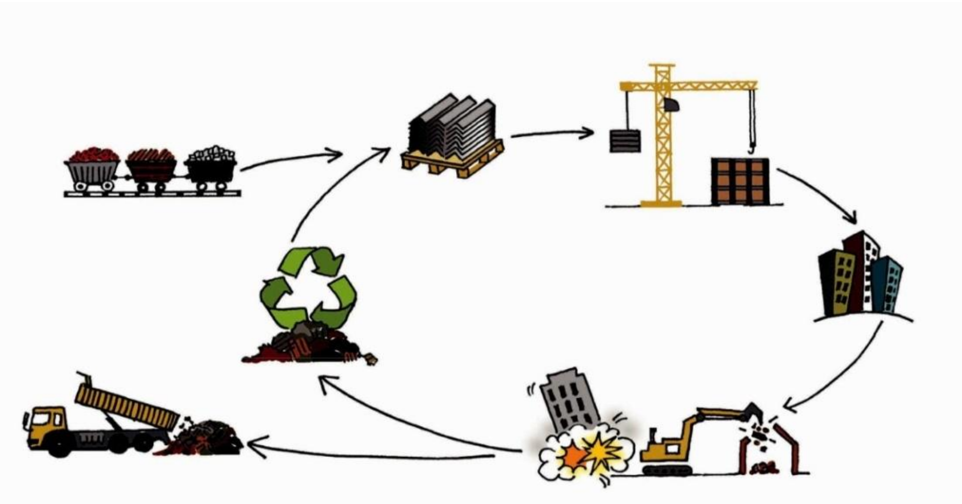
- Population growth
- Energy
- Water
- Raw materials



Source: UN

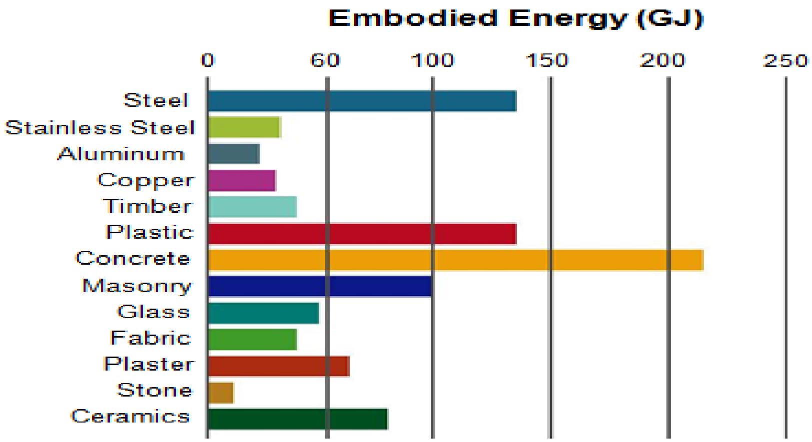
Green Building

What is a green material?



Life cycle assessment:

- ✓ Environmental cost of manufacturing
- ✓ Transportation
- ✓ Installation
- ✓ Utilization and environmental performance
- ✓ Disposing and recycling

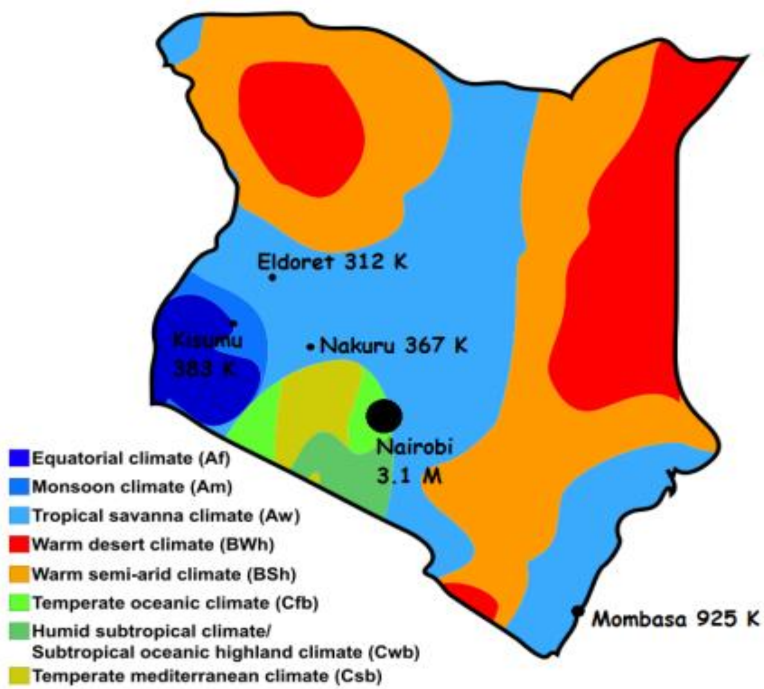


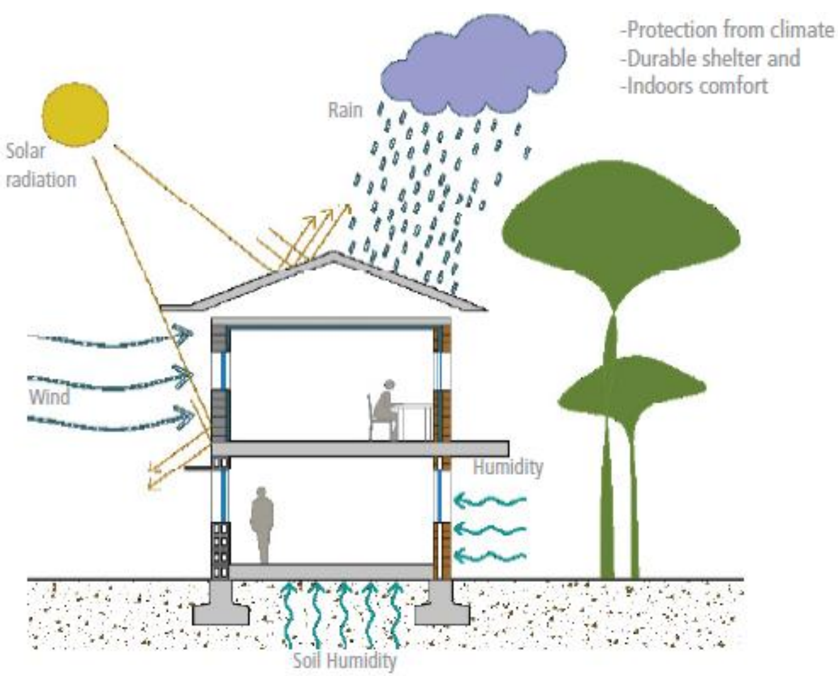
Green Building

Green and Affordable Housing

- Variety of climates
- House components

Kenya map of Köppen climate classification





4. Innovative Finance

Presenter:
Zoravar Singh

Agenda

1) An Overview of Real Estate Finance
2) Background on Housing Finance
3) Titling Process
4) Construction Loans
5) Joint Ventures

AFTER HOURS REAL ESTATE MIXER

6.30PM TUESDAY, JUNE 26TH 2018

RADISSON BLU HOTEL

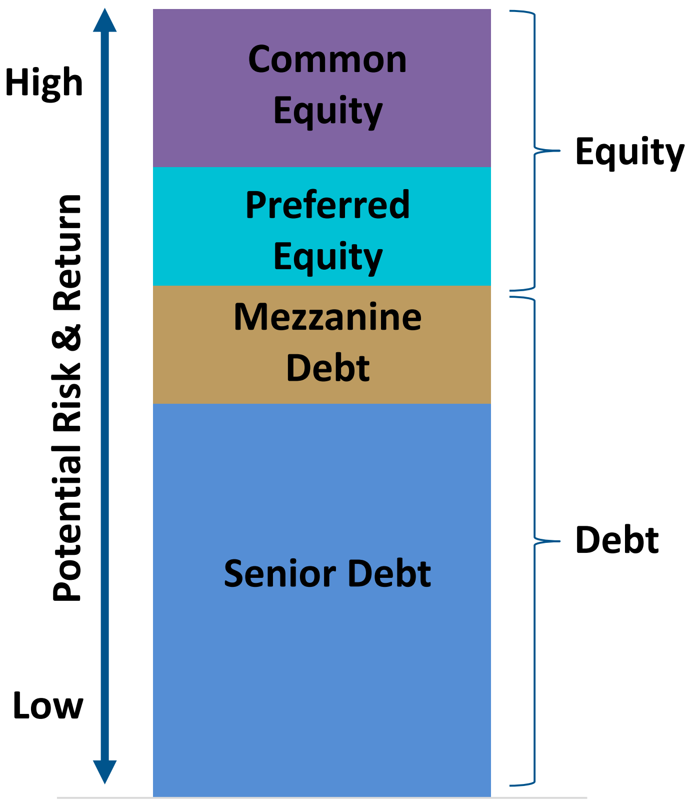
KPDA
KENYA PROPERTY DEVELOPERS ASSOCIATION

2018 KPDA AFFORDABLE HOUSING CONFERENCE

Networking For Real Estate Players

BY THE KENYA PROPERTY DEVELOPERS ASSOCIATION

Definitions in Real Estate Finance



Real Estate Capital Stack

What is the capital stack?

The capital stack refers to the organization of all capital contributed to a real estate project. The capital stack defines who has the rights (and in what order) to the income and profits generated by the property throughout the hold period and upon sale. Perhaps more importantly, it defines who has rights to the actual asset in case of an uncured default.

Senior Debt is more senior to everyone above them in the stack. When the property is sold, it's again the senior debt holders that are paid first, getting their outstanding principal and any accrued interest back. If the property is underperforming and debt service payments are not met, senior debt holders typically have the right to initiate a foreclosure process, take ownership of the property, and liquidate it. Senior debt investors enjoy the lowest return in the capital stack, as they have first access to cash flows and the collateral, putting them at the lowest risk in the stack.

Mezzanine Debt is another form of debt, which is subordinate to senior debt and secured not by the property but by a pledge of the ownership interest. Mezz debt holders enjoy foreclosure rights that are limited as they are subject to agreements with the senior debt holders.

Preferred Equity sits between debt and common equity in the capital stack. Pref holders require a higher return than any debt holders, but will probably enjoy a lower return than common equity holders. Holders of pref, much like mezz, will frequently participate in any upsides on top of the periodic payment they receive.

Common Equity holders have the riskiest position in the capital structure as they are paid last. Therefore, they require a higher return to compensate them for such risk. In fact, common equity holders require the highest return in the capital stack and can potentially enjoy very high rewards. All this reward comes at a price - common equity holders are not guaranteed periodic payments or even their principal back.

Designing affordable mortgages

Assumptions

Mortgage amount = KES 3mn

Household income = KES 70,000

Duration (years):

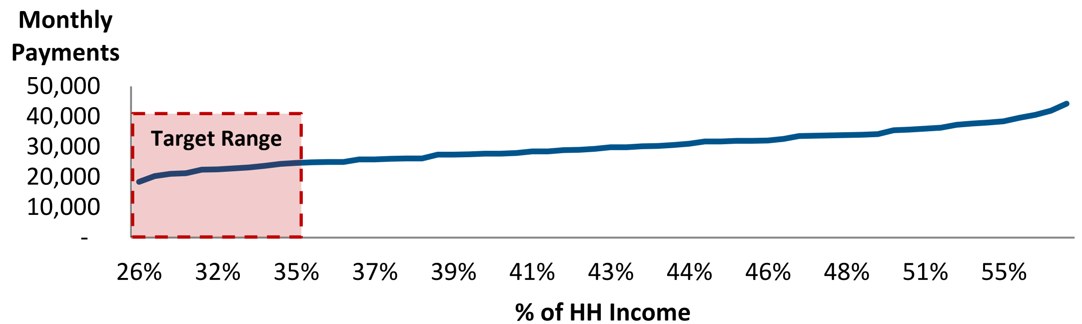
- 10
- 15
- 20
- 30

Interest rates (%)

- 10%
- 12%
- 14%

Deposit rates (%)

- 5%
- 10%
- 15%
- 20%
- 30%



Affordable Mortgages

	Deposit Rate	Down Payment (KES)	Duration (years)	Interest Rates	Monthly Payment	% of HH Income
	30%	900,000	30	10%	18,429	26%
	30%	900,000	20	10%	20,265	29%
	20%	600,000	30	10%	21,062	30%
	30%	900,000	30	12%	21,278	30%
	15%	450,000	30	10%	22,378	32%
	30%	900,000	15	10%	22,567	32%
	30%	900,000	20	12%	22,831	33%
	20%	600,000	20	10%	23,161	33%
	10%	300,000	30	10%	23,694	34%
	20%	600,000	30	12%	24,318	35%
	15%	450,000	20	10%	24,608	35%
Average	**23%**	**681,818**	**25**	**10%**	**22,236**	**32%**

KPDA KENYA PROPERTY DEVELOPERS ASSOCIATION

Key pillars for mortgage product innovation

Credit Scoring

- Occupation income levels for Kenya
- Standardized information
- Credit assessment & scoring

Mortgage Product

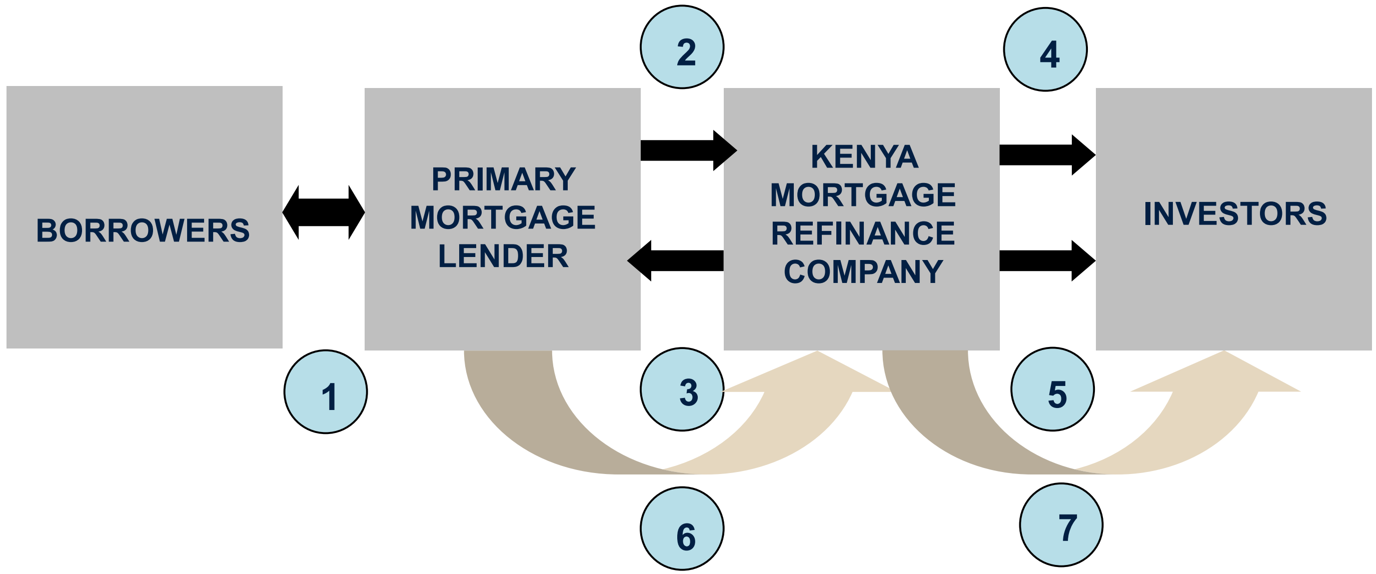
- Product design
- Marketing & customer engagement
- First loss
- Capital stack
- Applications forms
- Customers assessment
- Loan disbursement
- Loan management

Mortgage Refinancing

- Institutional development
- Long term capital sourcing
- Refinancing
- Portfolio management

Key pillars for mortgage product innovation

A Mortgage Refinancing Company is an intermediary between lenders and investors in the bond markets –pass on the terms and conditions of the bonds. It's a private company whose sole purpose is to provide long-term funds to the financial system and lengthen the maturity of mortgage loans



1. Borrowers take out "qualifying" mortgage loans and make monthly payments
2. Primary mortgage lender assign/pledges rights to mortgage loans to Kenya Mortgage Refinance Company (KMRC)
3. KMRC extends term loan (~5 – 7 years) to Primary Mortgage Lender (PML)
4. KMRC issues term notes/bonds to investors or borrows using credit lines
5. KMRC pledges PML loans and collateral to investors
6. PML repays loan with borrowers' mortgage payments
7. KMRC repays notes/bonds/credit lines

Key pillars for mortgage product innovation

Expand housing finance

- KMRC
- Standardization of mortgage contracts
- Stimulate capital market investments into rental

Land/Property registration and enforcement

- Land Acts, electronic land records, electronic conveyancing
- Reduce cost of registering affordable mortgage
- Foreclosure law

Affordable Housing Supply

- Affordable Housing PPPs
- Subdivision of plots
- Provision of serviced land for affordable housing

Sound government debt management to stimulate private investment

Mortgage Refinance Companies in Africa

Tanzania: TMRC (2010)

- # of mortgage lenders increased from 3 to 29
- Mortgage growth of 50%/yr from small base
- Mortgage tenors extended from 7 to 20 years
- TMRC refinanced 13 banks=14.3% of mortgage debt
- Private bond issuance in 2018

West Africa: CRRH (2012)

- Shareholders: 54 commercial banks, IFC, Shelter Afrique and West Africa Development Bank
- 7 bonds issues since 2012 (10 and 12-year). Issues below government bond yields
- Mortgage tenors lengthened to 15 years
- USD 155 million IDA loan to move down market

Nigeria: NMRC (2013)

- 22 investors: 20 lenders 60.3%; MoFI 17%; NSiA 22.7%
- Adopted Uniform Underwriting Standards
- USD $250 million IDA loan for sub-debt
- May 2018: 2nd bond issue of 11 bn N ($31M)- 74 bps above government

The average number of days taken to finalize the titling process is 61 days. However, the process can take up to 84 days to complete

1. Apply & obtain land rent clearance certificate — Duration: Up to 19 Days
2. Apply, pay and obtain rates clearance certificate — Duration: Varies
3. Apply for a search on the tile — Duration: 3 Days
4. Apply & obtain consent to transfer — Duration: 9 Days
5. File transfer instrument — Duration: 4 Days
6. Get site inspection by government valuer & valuation report — Duration: 1 – 30 Days
7. Endorsement of value for stamp duty and its assessment — Duration: 3 Days
8. Payment of Stamp Duty — Duration: 4 Days
9. Lodge stamped transfer document for registration — Duration: 12 Days

- **The entire process of titling can take up to 84 days to be completed.**
- Kenya is currently ranked as 121 out of 190 countries with respect to property registration.
- The titling process is further complicated by devolution which has resulted in inconsistent procedures across different counties. For instance, Mombasa takes 41 days for property registration while Isiolo takes 73 days.

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Progress but also challenges with the digitization of titling processing


REPUBLIC OF KENYA

MINISTRY OF LANDS AND PHYSICAL PLANNING

PUBLIC NOTICE

VALIDATION OF LAND DETAILS FOR ON-LINE PROCESSING

"President Uhuru Kenyatta unveiled the National Titling Centre in Nairobi and flagged off vans to deliver 814,743 titles to counties in Nyanza, the Rift Valley and eastern parts of the country.
The one-stop centre will offer land survey, adjudication and registration services in about 16 days down from the previous 73 days due to electronic connection of key Ministry of Land departments." – **Business Daily (2018)**

"In related news, a Kenyan bar association called the Law Society of Kenya (LSK), which counts "all practicing advocates" in the country as members, has filed a lawsuit to halt a recent government order to move paper-based land title records onto a digital platform and allow people to register land deeds over the internet." – **ethnews.com (2018)**

Challenges with obtaining a construction finance from banks in Kenya

Interest rate cap

- The interest rate cap restricted money to a large number of developers
- Bank's balance sheets were filled with real estate projects

Process changes

- Banks have streamlined their lending processes and tightened their lending practices
- If the interest rate cap is lifted, is it realistic that banks will revert to historical lending practices?

Government securities

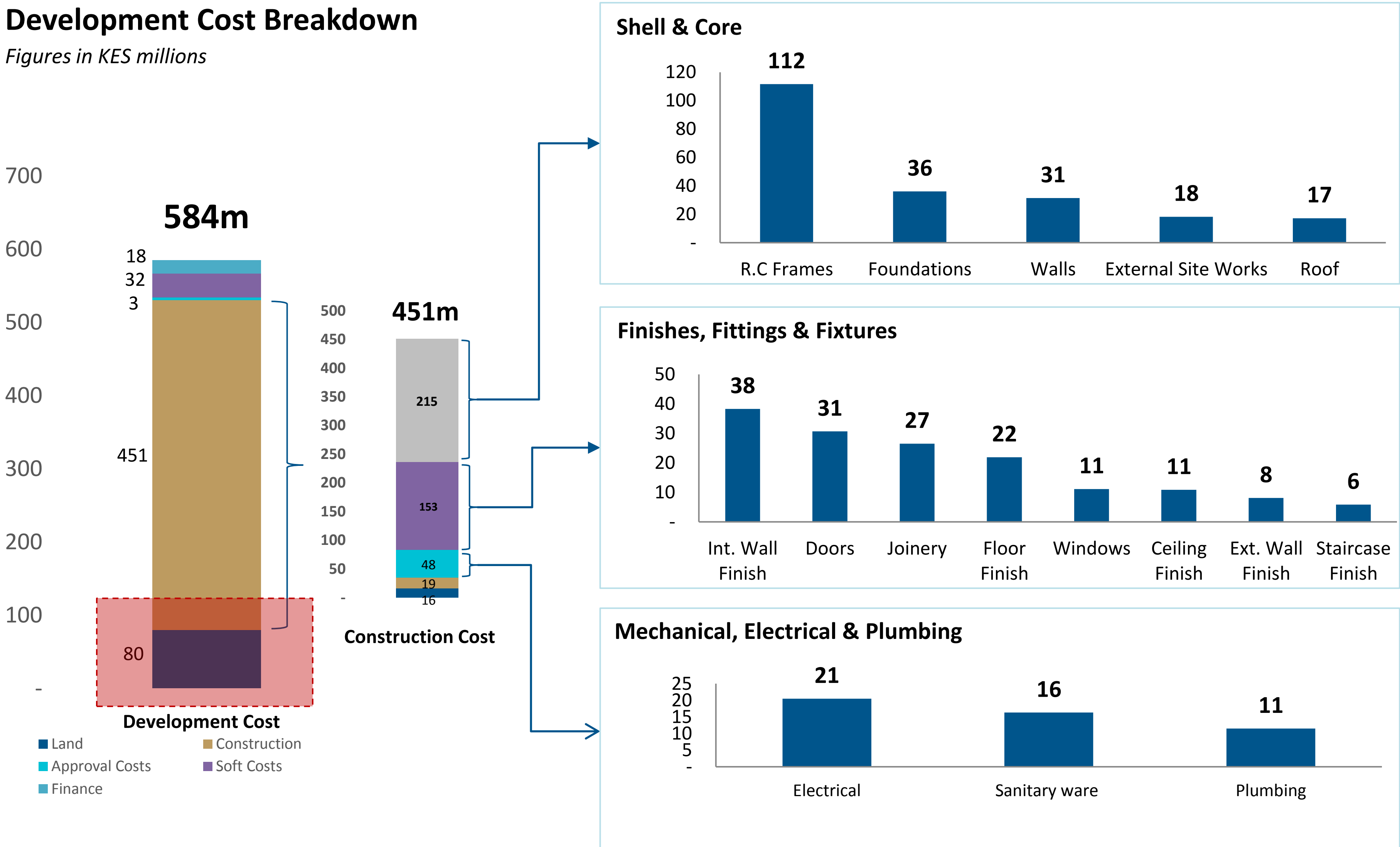
- The past 2-3 years banks have been heavily investing in government securities, given the high yield and the relatively lower risk than corporate securities
- Investment in government securities has crowded out lending to the economy

Reduced lending to the real estate sector has hampered growth in the sector. Developers require more friendly construction loan facilities to access construction finance.

Land cost is incurred at the beginning of a project, dragging down IRRs, and can range from 10% to 35% of a project value

Development Cost Breakdown

Figures in KES millions



Land joint ventures can increase a developer's returns and help land owners monetize their assets

	Purchase	Land JV with Profit Split	Land JV with Units
Description	Developer makes an outright purchase from the land owner	Developer and land owner enter a JV. Land owner receives a proportionate share of the profits upon completion	Developer and land owner enter a JV. Land owner receives units at project end with a value equals to the agreed land value
Valuation	Project IRR remains the same. Return on Equity (ROE) for the developer is low given high equity draws	Project IRR remains the same. Developer earns the highest Return on Equity (ROE)	Project IRR remains the same. Return on Equity (ROE) increases relative to an outright purchase
Due diligence	Land due diligence	Land due diligence SPV Company due diligence	Land due diligence SPV Company due diligence
Legal agreements	Land Sale Agreement Transfer	Land Sale Agreement Share Subscription Agreement Shareholders Agreement	Land Sale Agreement Share Subscription Agreement Shareholders Agreement
Minority rights	N/A	Board representation Reserved matters Veto right	Board representation Reserved matters Veto right
Condition Precedents	Completion of Due Diligence	Completion of Due Diligence Transfer of land to SPV	Completion of Due Diligence Transfer of land to SPV
Risks	Drives up the cash requirements at the beginning of the project	Profit share dilution given the land owners proportionate equity stake	Reduced sales revenue from units given in kind resulting to a lower return on equity for the developer

5. Fiscal and Non Fiscal Housing Tax Incentives

Presenter:
Samuel Kioko

Agenda

1) How the housing sector is currently taxed
2) Tax Incentives available in the housing sector
3) Proposed changes in the recent Tax Bills

a) How the housing sector is currently taxed

How the housing sector is currently taxed

Income Tax	Import Taxes	Value Added Tax (VAT)	Stamp Duty	Other Fees
• Corporates- 30%/37.5% • Individuals- 10%-30%. • Developers of low cost houses- 15%. • Residential Rental Income-10%. • Dividends Distribution- 5%/10% WHT.	• Import duty- 25% • Import Declaration Fee (IDF)- 2.25% • Railway Development Levy (RDL)- 1.5% • VAT-16%.	• At 16% on most building materials. • Cannot be claimed back as residential units are exempt.	• At 4% or 2% depending on the location of the house.	• Government Valuation Fees • Fees for various regulatory bodies; (NCA and NEMA now exempt- not gazetted yet) • Legal fees

b) Tax Incentives available to developers/landlords

Incentives available to developers/landlords

Industrial Building Deduction (IBD)

- Capital expenditure on construction of rental residential buildings in a planned development area approved by the Cabinet Secretary. Rate of 5%.
- 25% where developer provides roads, power, water, sewer etc.
- 10% on a dwelling house. Used to be 2.5% until 2010.
- No guidelines yet.

Incentives available to developers/landlords

Preferential Tax Regimes

Simplified Residential Rental Income Tax	Corporation Tax for Low Cost Housing Developers
• 10% on gross rental income. • Only to resident landlords who earn rental income of between KES. 144,000/- and KES. 10,000,000/- per annum. • Payable at the time of receipt of the rent.	• 15% (instead of 30%) of the net profits. • Developers who construct at least 400 low cost houses in a year. • Subject to the approval of the Cabinet Secretary for Housing.

Incentives available to developers/landlords

Lower Withholding Tax on Housing Development Bonds

- Interest on HDB are subject to Withholding tax at the rate of 10%.
- The amount of interest is caped at KES. 300,000.
- Ordinarily, WHT on interest is 15%.

Tax incentives available to purchasers/tenants

Tax deductibility	Contributions to Home Ownership Savings Plan (HOSP)	Exemption from VAT	Exemption from Capital Gain Tax (CGT)
• Interest paid on money borrowed to purchase/ improve premises is a tax deductible expense. • Caped at KES. 300,000 p.a. (KES. 25,000 pm) • Must be occupied by the taxpayer. • One house.	• The HOSP must be registered. • A deduct of Kshs 4,000 p.m. (on taxable pay) • Limited to 10 years. • No WHT on interest earned from HOSP. (max KES. 3 million).	• Purchase/renting of residential building • Commercial rent/purchase attract VAT at 16%.	• Transfer of a residential house is exempt from Capital Gains Tax where the seller lived in it for at least 3 years prior to transfer.

c) Proposed changes in the recent Tax Bills

Proposed Changes

Tax Laws (Amendment) Bill, 2018	Income Tax Bill, 2018	Finance Bill, 2018
• Increase HOSP limit from KES. 4,000 to KES. 8,000 p.m. • First time home owners under the affordable housing scheme exemption from Stamp Duty. • Supplies imported or purchased for direct and exclusive use in the construction of affordable houses by licensed SEZ Exempt from VAT. ✓ Recommendation of the CS for Housing. ✓ A minimum of 5,000 units to qualify. ✓ Currently, vatable at 16%.	• Withdrawals from HOSP exempt from tax. • Threshold for the low residential rental income regime reduced to 100 units, annually.	• Employers and employees to contribute 1% of the employees emoluments to a National Housing Development Fund. (max. KES. 5,000)

KPDA Affordable Housing Presenters Contacts

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'Infrastructure Financing Options' – Mary Chege

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'Design and Construction Technology' – Ravi Kohli

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'Innovative Housing Finance' – Zoravar Singh

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'Fiscal and Non Fiscal Housing Incentives' – Samuel Kioko

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