Country Report

December 2017

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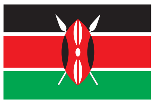
Centre for Affordable Housing Finance in Africa



KENYA
LANDSCAPE OF INVESTMENT

BACKGROUND

The report presents an in-depth analysis of the landscape of investment in Kenya. It provides useful data on existing DFI investors, the type of instruments they use to invest and the investment environment they operate in. The report forms part of The Centre for Affordable Housing Finance's **Investor Programme** which aims at quantify the breadth of investment activity with respect to housing and housing finance across Africa, and to establish a mechanism to track this on an ongoing basis. This project has collected data and highlights gaps and opportunities in the investment landscape. With the aim of stimulating greater investment in affordable housing and connecting investors with potential investments, the report profiles investors and investment instruments with the greatest impact on the housing finance market within the EAC Region.

Growing financial sector experience and increasingly sophisticated financial instruments are driving Investor interest in African real estate. This includes new market opportunities related to a rising urban middle class, an increasingly localized construction material industry and innovations in housing finance such the emergence of Real Estate Investment Trusts and mortgage liquidity facilities across Africa[1].

However, a key barrier to this growth remains the chronic lack of rigorous data on the breadth and character of financial infrastructure investment. This is particularly true for the housing sector as stimulating targeted investments requires highly differentiated data that illustrates market segmentation. In providing market intelligence that makes the case for investment in underserved markets (segmenting and quantifying the demand side; and scoping, understanding and tracking the supply side), we can support a better policy environment & increased private sector activity in affordable housing markets. In this way, we catalyse scale interventions.

Without this data, targeted interventions become challenging and result in unresponsive housing finance packages, the high occurrence of Non-performing loans (NPLs) and poor uptake of new residential developments[2].

The Centre for Affordable Housing Finance in Africa (CAHF) is a not-for-profit company with a vision for an enabled affordable housing finance system in countries throughout Africa, where governments, business, and advocates work together to provide a wide range of housing options accessible to all. CAHF's mission is to make Africa's housing finance markets work, with special attention on access to housing finance for the poor. We pursue this mission through the dissemination of research and market intelligence, supporting cross-sector collaborations and a market-based approach. The overall goal of our work is to see an increase of investment in affordable housing and housing finance throughout Africa: more players and better products, with a specific focus on the poor.

www.housingfinanceafrica.org

1 See the Tanzanian Mortgage Refinancing Company (TMRC) and the Nigerian Mortgage Refinancing Company (NMRC) established under financial sector development projects of the World Bank

2 In late 2016, the DFCU, the third largest provider of mortgage finance in Uganda, hit its cap for the real estate sector of UGX 160 billion (20 percent of the bank's total exposure), and has since halted the provision of mortgages. What triggered the halt was the bank's benchmarks of 8% for the Portfolio at Risk and the Non-Performing Loans of 2%. It is also worth noting that loans that were booked in USD had a major effect on exposure as the dollar appreciated more than the shilling over a period of five years.

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PROFILE OF INVESTORS

The investment landscape in Kenya, constitutes both local and foreign institutional investors. Below is a description of the two categories of investors, including their institutional type, sources of capital, and other parameters that define their investment model.

Local Institutional Investors

Capital markets

Through the Nairobi Stock Exchange (NSE), a reasonable amount of funds have been locally mobilized for the housing sector. This has been achieved through the issuance of bonds and shares by various housing finance lenders. Housing Finance Company Kenya (HFCK), one of the traditional providers of mortgage finance, has a bigger loan than deposit portfolio. The company typically bridges this gap by drawing on a combination of equity and lines of credit. However, this has proven to be an expensive and unsustainable way of funding the mortgage book. Whereas equity provides the cheapest source of funding, the company could not issue new mortgages without careful planning due to the resultant dilution of its existing shares. In addition, lines of credit from international lenders normally come at high interest rates of about 11%, thereby making the final mortgage interest rate unattractive to clients. The Company borrowed from EIB, Shelter Afrique and AfDB. However, the facilities were highly priced and for shorter periods, thereby leaving the funding needs of the mortgage lender unmet.

In addition to HFCK's bonds, several products have been developed through the Nairobi stock exchange (NSE) to mobilize long term finance for mortgage lenders. Notable products include shares in real-estate finance and developer companies as well as Real Estate Investment Trusts (REITs).

Details of HFCK Bond

Since equity and lines of credit were not able to sustainably resolve HFCK long-term funding needs, in 2010, the bank issued a Housing Bond. This hugely successful bond raised Kes 7 billion, against an initial first tranche target of KES 5 billion, indicating a 41% oversubscription. HFCK opted to exercise a "Greenshoe" option, thereby absorbing all the amounts placed by the bond investors.

98% of all subscriptions to the issue were by local institutional investors with the 2% going to individual investors. The second and final tranche was issued in October 2012 with a target to raise Kes 2.9 billion. This was also over-subscribed to realize KES 5.2 billion (US$61.07). Proceeds of this bond which carried a fixed rate of 13% have been used to finance over 8,000 housing development projects in Nairobi city metropolitan areas at an average interest rate of 16.5%.

Source: Key Informant Interviews

Listed lenders such as Kenya Commercial Bank, Equity Bank and I&M Bank have been able to raise long term finance (over US$ 700 million) through the issuance of shares on the NSE. Additionally, several funds including Stanlib Asset Management and Centum have incorporated Real Estate Investment Trusts that are marketed to raise funds for investment in specific housing projects being undertaken by these funds or targeted developers. The FAHARI (Swahili for prestige/pomp) REIT was the first Real Estate Investment Trust to be listed on the Nairobi Stock Exchange in December 2015. Listed by Stanlib, the REIT mobilized Kes 3.6 Billion (US$360M) in funds from both individual and institutional investors for property development purposes with the hope of making a return through capital gains and rental income on property investments.

Another key lender in the sector is Kenya Commercial Bank (KCB), carrying a mortgage portfolio that exceeds 10 percent of its deposit base. With some room to grow, the lender opted for a Kes 15 billion (US$194M) rights issue in 2010 to allow for additional mortgage lending and also fund its expansion in the East African region. However, the issue was undersubscribed as retail and institutional shareholders failed to pick up new shares. The programme only raised Kes 12.4 billion against the target Kes 15 billion. The bank had earlier raised Kes 5.5 billion in 2008 and Kes 2.45 billion in 2004 from the capital markets. The low uptake was, in part, attributed to investors reduced appetite for the equities market coupled with fears of over dilution as the bank was adding 887 million new shares. The injection of a further 887 million KCB shares would increase the total shareholding from the 2.2 billion to Sh3.1 billion. The proceeds of the issue were used to expand the bank's mortgage operations in the region. The overall objective of this fundraising programme was to support the bank's regional (including mortgage loan book) growth with long-term capital. The bank indeed expanded its book.

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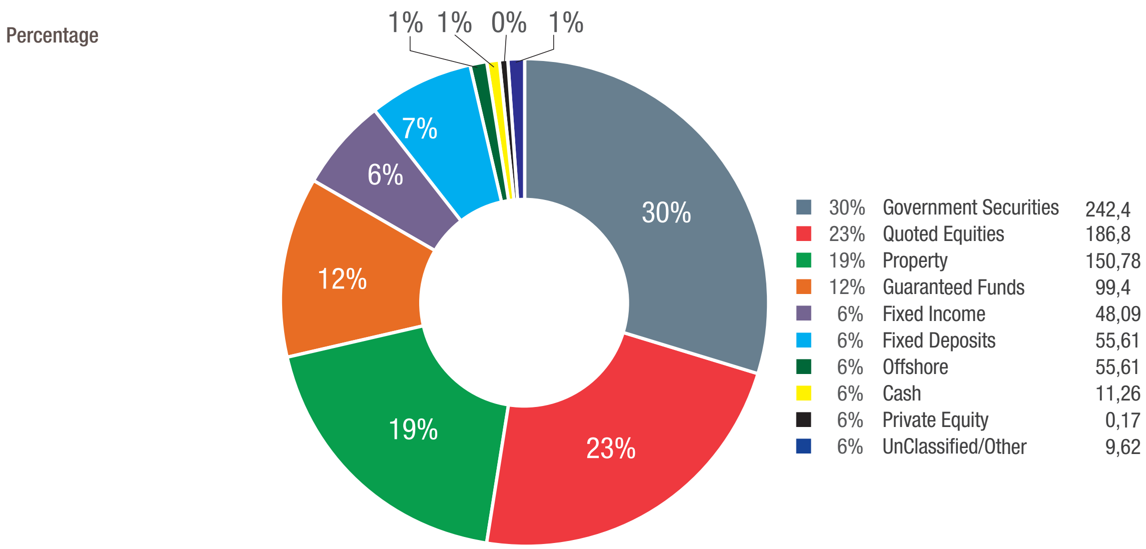
[3] Equities require dividend payments whenever a company makes sufficient profits. Bond holders on the other hand must receive their coupon/interest payments regardless of the company's profit performance. Equities are therefore preferred to bonds.

Pension Funds

Kenya has a vibrant pension sector comprising of 1,350 licensed pension schemes. The sector, the most developed in the East African region, is regulated by the Retirement Benefits Authority (RBA), set up by the Retirement Benefits Authority Act (1997). There are clear guidelines on investment classes for pension schemes, and it is mandatory for all schemes to comply with these guidelines.

Presently, the pension sector holds a portfolio of about Kes 3 trillion, out of which a maximum of 30% is allowed for investments in real estate developments. However, some schemes have not taken full advantage of this upper limit due to the need to remain liquid in preparation for payments to retiring members. Pension sector investments in property are estimated at about Kes 800 billion, 100 billion from full utilization of a maximum of 30% allocated for real estate. Their holdings include undeveloped land, residential estates and commercial plazas within the city and beyond. All investments undertaken by pension funds in the real estate sector, focus on rentals, and target middle and high-income earners, because of their ability to raise constant streams of rental income from such properties. The main focus of these funds is a return on investments, with hindsight of minimal risk. They therefore view commercial rental properties as a quick avenue to meet this objective. Additionally, the funds are not in the business of property trades. They may therefore not be keen on buying, developing and selling off property, since this calls for a lot of market awareness, targeting and involvement.

Exposure of Pension Schemes to Property (Jan 2016)



Source: Based on RBA performance report (2016)

In June 2009, pension backed housing loans were introduced, following the passing of the Retirement Benefits Regulations (2009) by the RBA which included regulations on the engagement between pension funds and the mortgage sector. The law now permits pension scheme savers to use up to 60% of their accumulated pension savings as collateral guaranteeing a housing loan. The rationale for this provision is derived from the reasoning that residential housing is part of social security, a key objective of pensions. The provision here does not grant mortgage loans and one of the teething troubles is in ensuring that the guarantee is used for the purposes of residential and not commercial housing. Since 2009, a number of lenders including Housing Finance Company and CFC Stanbic bank have launched suitable housing products aligned with the above regulatory provision. Stanbic, for example offers up to 105 percent loan to property value for loans backed by pensions. Without such pension asset backing, the loan to value (LTV) ratio would be up to 80%. According to RBA, over KES 1 billion has been considered as collateral (using pension funds/savings) for 208 loans at Housing Finance Company. With over 500,000 pension contributors to 1,350 schemes in Kenya, the uptake of pension backed mortgages is still quite low. This has been attributed to insufficient cash-flows for the borrower (prospective home owners) to finally pay of the loan. Additionally, the prevalently high interest rates (an average of 18%, for the majority of mortgage lenders) constrain affordability, particularly, in honouring monthly installment payments.

Local Savings Schemes

Commercial Banks

Lenders in the formal sector have crafted innovative ways of mobilising savings for financing developments in the housing sector. Banks have created savings groups designed specifically for purchasing and constructing homes. The Kenyan market has several of such schemes, most notable is the 1stHop scheme, offered by HFCK, for first time home buyers. The 1stHop account allows clients to save for as long as 10 years. It is an open scheme without restrictions as long as the account-holder is saving for his/her first property. It targets younger home buyers with regular income and a regular savings capacity. For example, up to KES 4,000 a month can be saved in the scheme and it is exempt from taxes. Savings can accumulate up to KES 3 million with the interest earned, exempt to taxes[4]. The minimum monthly contribution is Kes 1 000.

SACCOs

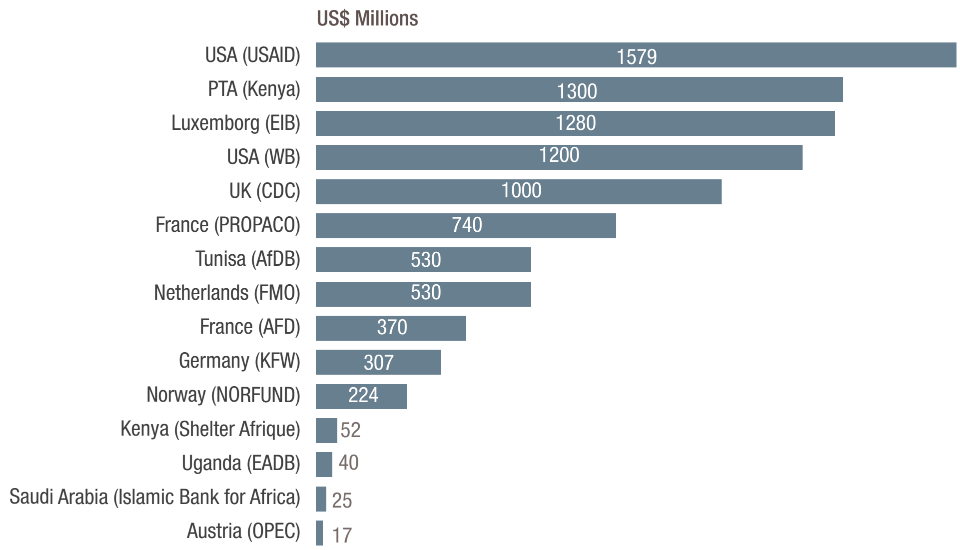
A well-developed network of micro lenders exits in the form of Savings and Credit Co-operative Societies (SACCOs). Since pre-independence times, the nation has had a strong network of co-operatives, largely for marketing and selling agricultural produce as groups rather than individuals. Contemporary co-operatives are engaged in financial intermediation – mobilizing savings from those who have spending surpluses and funding the needs of other members. These structures are also used to finance the purchase and construction of housing. Loans are mainly granted as personal loans rather than being classified as mortgages in the books of SACCOs. However, 10% of over 100 000 personal loans have been used for housing including "construction", "house improvement", or "home development". Interest rates on these loans are normally within the affordable rates, not exceeding 14% per annum for most micro lenders. Interest rates offered by SACCOs are inherently low, because of the way in which they are funded. A number of SACCOs offer medium-term facilities extending to 7 years at interest rates of 1.05% per Kes cent per month, translating into 12.6% annually. The main source of funding is members' savings, rewarded low interest rates of about 5% on deposits.

Foreign Institutional Investors

Kenya is a hotbed for international funding institutions working in the region. Several funders, including EIB, ADB, AFD, have established regional offices in Nairobi to coordinate their regional activities.

All the 15 foreign investors in Kenya are DFIs, collectively mobilizing US$ 12.9 billion, for multi-sectoral programs, in the period 2000 to 2017. From the figure below, China is home to the biggest investor (US$5 billion), followed by Kenya (PTA US$ 1.3 billion), the USA, through its resident DFI, USAID (about US$ 1.6 billion). European Union (EIB), the World Bank and the UK (CDC) follow closely, with investments above US$ 1 billion, during past 18 years. The smallest investments (less than US$ 100 million) where sourced from OPEC, Islamic Bank of Africa, EADB and Shelter Afrique.

Institutional Investor, Location and Total Asset Allocation to Kenya (2000 - 2017)



Source: Institutional Investors' Annual Reports (2000 – 2020)

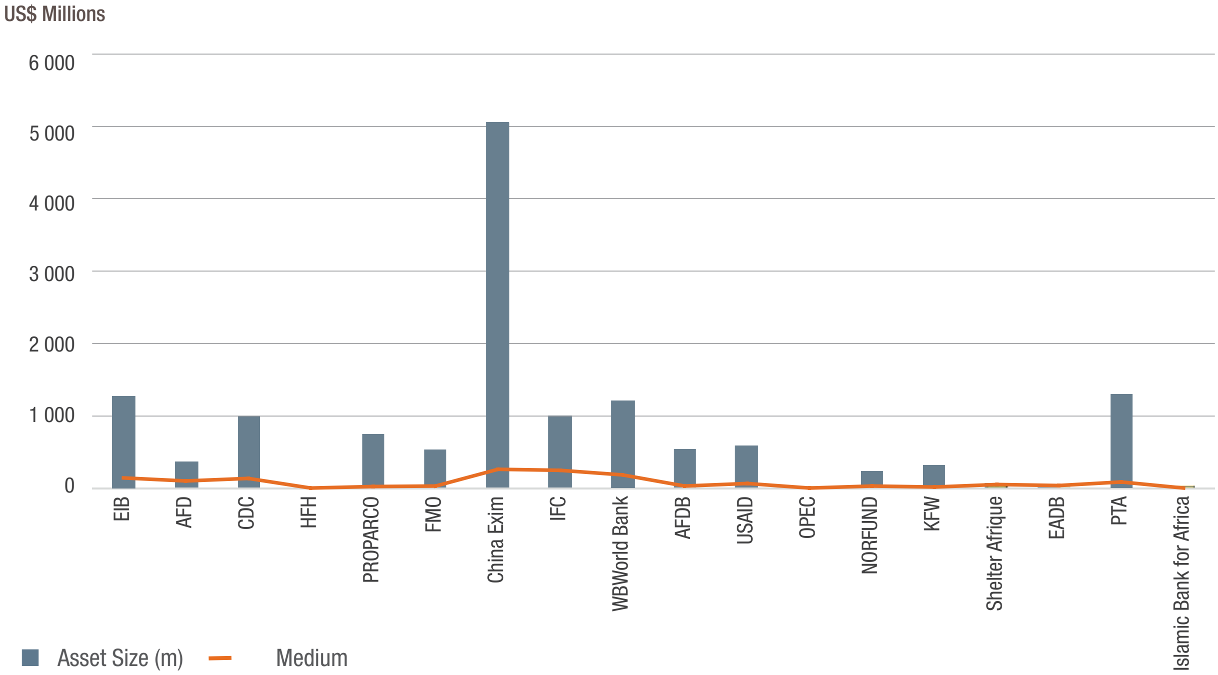
[4] From the regulatory perspective, the Income Tax Law makes specific provisions for a Home Ownership Savings Plan (HOSP), allowing for interest earned on the savings to be tax exempt whereas the amount saved is tax deductible. This represents a significant benefit, particularly when such tax benefit interest is compounded over the years . Withdrawals from the scheme need to be used for housing purchase or construction with 12 months of the withdrawal. Whereas there is great need to lift thcap on the maximum savings allowed per month in order to encourage accelerated savings, the plan still avails lenders with an increased pool of long term deposits that complements funds from demand deposits and capital market funding.

Total Assets versus Assets Allocated to Housing and Housing Finance Related Activities

In the period 2000 to 2017, 9% (US$ 1.7 billion) of the total assets (US$ 19.5 billion) were invested/committed to activities in the housing and housing finance sector in Kenya. The biggest investors in the sector were IFC, EIB, CDC, AFD and WB all with investments above US$ 100 million, in the past 18 years.

With the exception of EIB, other international investors intermediate/extend investments targeting housing and housing finance, to local banks in the foreign currency (US$). Borrowing denominated in US Dollar and the volatility of the local currency, sometimes, make the loan facility expensive. Any hedging tools tend to increase borrowing costs thereby making the final rate to the borrower even higher. When a bank borrows in US$ for on lending in local currency, it creates an obligation to repay its own line of credit in US$ using loan repayments of local currency from its own customers. In an environment of high exchange rate volatility, the gains from the mortgage business can quickly be eroded, and could even turn into losses for the lender. A currency hedge would generally transfer the risk of adverse exchange rate movements from the borrowing financial institution to the hedging institution. However, only 6 to12 months hedging arrangements are available on the interbank market and the costs outweigh the gains from long term lending business.

Total Asset vs. Assets to Housing Allocation to Kenya (2000 - 2017)



Source: Institutional Investors' Annual Reports (2000 – 2020) and Consultant's Estimation

Social investors have not featured in Kenya's investment landscape. It is the government that is raising funds, with support from institutions such as AFD, to upgrade informal settlements and offer housing units at subsidized rates. Social investors would participate directly in building social houses or purchase shares in social housing REITS or even lend to SACCOs at concessional rates.

Investment Activity in Housing

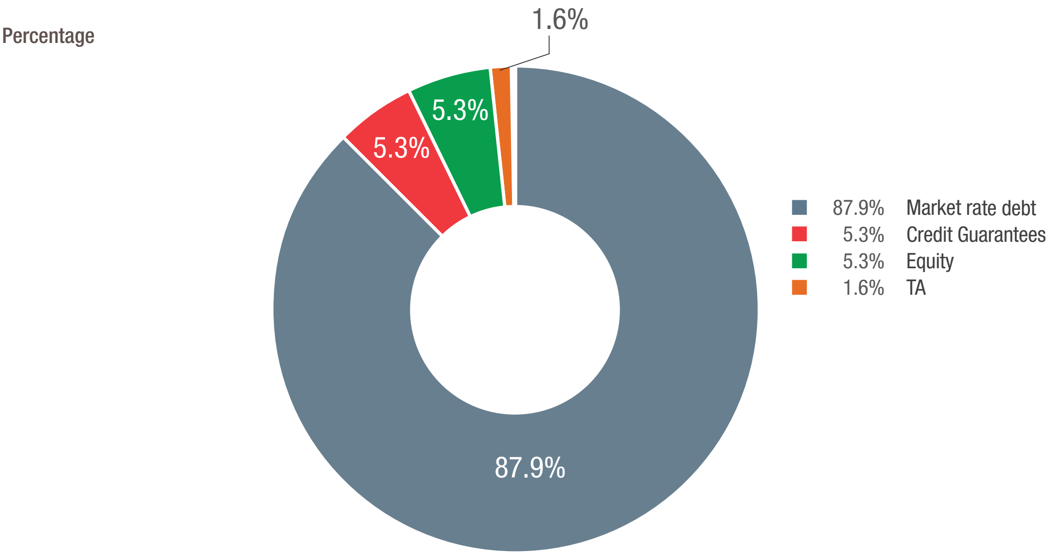
This section analyses the different investment tools targeting the housing and housing finance sector in Kenya, their investment horizon and the period of investment.

Top Performing Investment Tools

Loans and Lines of Credit: Loans and lines of credit dominate (88%) the investment tool used by Institutional Investors, in Kenya's housing market. Housing Finance Guarantee Africa (HFGA) investment of USD 5 million for 5 African countries, including Kenya, is premised on their belief that access to affordable home loans is a major obstacle to economic development for most low and lower middle income families in developing countries. As a result, many families are unable to buy or improve a home because of limited access to finance. This is largely attributed to lender reluctance to enter this market due to the inability of borrowers to provide sufficient down-payments and the resulting perceived default risk. At the same time, few developers choose to build low cost housing because there is no prospect of potential buyers raising finance.

As an intervention, HLGC's business model (that has worked well in South Africa for 20 years) was introduced to the Kenyan market in 2010, in partnership with local insurance firms. Under this partnership, insurance companies assure the bank of repayments relating to the required down-payment in case of lender default. Borrowers are only required to pay a premium to the local insurance company instead of the 30 to 40% usually required as a mortgage down-payment. Additional technical assistance funds were used for a capacity building program with local insurers and banks and to help provide financial literacy training for borrowers.

Top Performing Investment Tools for Kenya's Housing Market



Source: Annual Reports of Institutional Investors

Equity: Proparco acquired USD 10 million stake in I&M Bank Kenya as equity and USD 20 million as a loan in 2007. The loan enabled the bank to boost its footprint in the SME market including small scale developers in the housing sector. However, having gained 125% return on equity by January 2013, Proparco sold off 1.8 million shares (50 per cent of its holding at the time), significantly reducing the financier to a 4.43% shareholder in the Bank. Further still, the remaining shares were sold off to CDC in April 2016.

Subsidies: Subsidies, as an investment tool, have been rare. Notably, subsidies were given for the redeveloped Kibera informal settlement housing units (by the Government). To make the project units affordable, several concessions were given on price, loan interest rate and loan period. Buildings were given as many as 10 floors to increase efficiencies in floor space utilization. Prices were then subsidized to an equivalent of US$6,000 for one bedroom units, US$10,000 and US$13,500 for two and three bedroom units respectively. Ordinarily, the units would be priced at about US$18,000, 23,000 and US$31,000. Additionally, the borrowers were- given lower interest rate loans at 3% per annum and longer 25 year repayment period. These efforts increased affordability for the 822 constructed housing units.

Investment Portfolio, Activity/Tool, Horizon and Period (Timeframe)

The table below summaries investment portfolio, activity/tool, horizon and timelines committed by institutional investors in Kenya's housing and housing finance sectors.

Investment Portfolio, Activity/Tool, Horizon and Timelines in Kenya's Housing Market

Investor	Allocation to Housing (Millions USD)	Investment Activity/Tool	Horizon (Years)	Period (Years)
EIB	145	Funding for SMEs in construction and serviced apartments. TA included	8	2005 - 2017
AFD	100	Funding for residential and commercial real estate developments	5	1997 - 2016
Exim Bank	260	Funding infrastructure projects that have had a direct impact on housing	10+	2012 - 2017
CDC	139	Funding for residential real estate developments	7	2000 - 2017
HFH	7	Funding across business sectors including residential real estate	7	2000 - 2017
PROPARCO	25	Equity, mortgages and TA	5	2010 - 2017
FMO	30	Funding to SMEs, including real estate developments	10	2005 - 2017
IFC	150	Funds for housing and construction sector. As well as infrastructure	7	2008 - 2016
WB	185	Long term funding, boosting the lending ability of banks in housing sector.	10	1970 - 2017
AFDB	31	Mortgage and other term loans to developer companies in Kenya	8	2002 -2017
USAID	70	Funding for long term sector development.	15	2002 - 2016
OPEC	2	Lending institutions to provide credit, to SMEs in housing related activities	10	2011 - 2016
NORFUND	132	Mortgage loan book support and infrastructural developments.	10	2012 - 2016
KFW	107	Funding to both the government and development Finance institutions	10	2011 - 2016
Shelter Afrique	52	Sources from other FDIs and has created a portfolio of assets by lending to other lending institutions; and directly to property developers.	10	2000 - 2016
EADB	40	Equity and debt instruments	10+	2001 - 2017
PTA	15	Project Finance, Corporate Finance, Leasing and Guarantees amongst others		2001 - 2017
Islamic Bank of Africa	5	Lines of credit to support the development of affordable housing and real estate sector	5	2002 - 2017
NSE	150	Equity/Shares in housing finance institutions/instruments	10	2002 - 2017
Pension/REITs	80	Equity/Shares in housing finance institutions/instruments	10	2002 - 2017

Source: KII with Banks and Annual Reports of Institutional Investors

Impact of Investments on Kenya's Housing Industry

The Breadth and Depth of Housing and Housing Finance Products

Mortgages

A major constraint for Kenyan low and middle-income property buyers has been financing. Despite the mortgage market growing at around 30% annually, growth in the overall mortgage portfolio remains modest, at 3.15% of GDP (2015) with the total mortgage book issued by commercial banks being $2.1 billion over the same period. The table below represents the portfolio that has been directly invested in the residential housing and housing finance sector by selected commercial lenders, over 90% of which is sourced from DFIs. A summary of five banks is considered for the number of housing finance loans generated from their portfolio with pricing indications and other key terms of the loan. Most borrowers considered by banks are middle to high-end income earners with relatively stable incomes that guarantee loan repayments over time.

Characteristics of the Housing Finance Market

Bank	KCB	HFC	Co-op	Stanchart	CFC Stanbic	Equity Bank
HF Product	HP, CO, ER & R	HP, CO, ER & R	HP, CO,ER & R	HP, CO, ER & R	HP, CO, ER & R	HP, CO, ER & R
Portfolio Size ('000) USD	47,479	47,581.16	18,183.00	17,290.01	14,716	7,798
NO. of HF Loans	7,007	5,993	643	1,885	1,684	1,612
Average Loan Size (USD)	83,000	40,000	40,000	70,000	50,000	35,000
Max Loan Size	Up to 90% of property value	Up to 105% of property value	Up to 90% of property value	KES 100Mn	Kes 10Mn	Up to 90% of property value
Loan Term	Up to 25yrs	Up to 25yrs	Up to 25yrs	Up to 25 yrs	Up to 20yrs	Up to 15yrs
Pricing	14%	14.5%	19.25%	13.4%	15.5%	CBR+4%
Implied Monthly Income	US$ 2,500	US$ 1,300	US$ 1,700	US$ 2,000	US$ 1,700	US$ 1,100

Source: Banks Annual Reports and KIIs

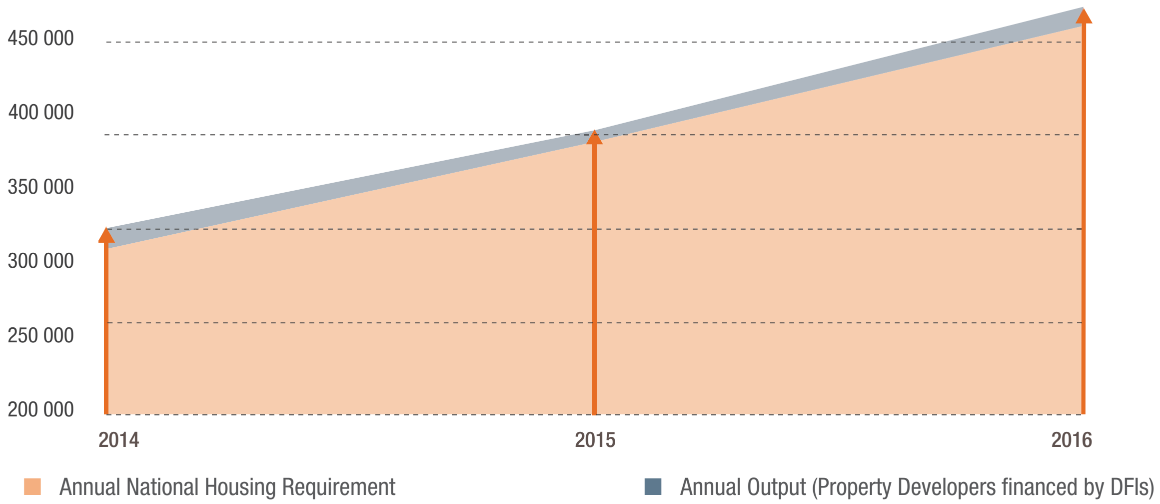
Key: HF- Housing Finance; HP - House Purchase, CO- Construction, ER&R - Equity release & refinancing

Properties

Against an annual housing deficit of 200,000 units, the supply side, has churned out fewer than 50,000 units per annum, as illustrated in the Figure below. Again, the challenge is attributed to the lack of enough affordable construction finance. For example, banks are generally not willing to fund entire housing development projects, irrespective of the scale. Banks are willing to fund up to 70% of the development. Property developers, therefore, have to source complementary funds, from elsewhere, including loan sharks (at rates as high as 22%), to compete projects, especially if the capital outlay is huge. Also, banks are reluctant to finance projects outside Nairobi, where the demand for housing is modest.

Lack of transparency in the construction sector contributes to the low annual output of housing units. It is alleged that developers, often divert borrowed funds for construction, consequently, slowing development. Upon completion, the final price of these units is higher than the going market price, by about 15%. Pricing by some developers is, also monopolistically high, allegedly inflated by foreigners, using laundered money. The units by some developers, can cost as high as US$ 300,000, and yet, the going market price is US$ 100,000. The supply of such highly priced units, has sometimes outstripped demand, forcing developers to convert the units into rentals, as they await customers with the right price tag. The Sucasa Athi Estate is the first large scale project targeting low to middle income earners with prices ranging from US$9 000 to US$28 500 for different sized units.

Output vs. Annual Housing Requirement in Nairobi



Source: Consultant's mini-survey of Property Developers in Kenya. Note: Provision of standard housing units is far below the annual housing need of 200,000 units per annum, growing at a rate of about 20% per year. Figures presented here exclude units constructed for self-occupation. Even when these are added, the deficit remains large, particularly in the affordable housing segment.

Challenges/Opportunities to deepening and broadening the Investment Landscape

Micro Finance Institutions **synergies to promote the down-market push (affordable housing)**

SACCOs have made significant attempts to provide both affordable housing loans and affordable housing units for their members. However, with low savings bases determined by the number and financial strength of the SACCO members, the micro-lenders' capacity to influence housing affordability in the country has been at minimal levels. Partnerships with such institutions could provide an opportunity for institutional lenders to advance the case for affordable housing. For such partnerships to thrive they will need to improve on the mortgage product, standardize the underwriting procedures and improve documentation and document handling processes.

The key challenge for SACCOs as providers of affordable housing finance arises from the sourcing side. Most of the SACCOs rely on member savings to create loanable funds to members. However, these savings most often fall short of the required loan amounts. Borrowing members normally requires twice or thrice as much as their savings to be taken as development loans. There is therefore a funding gap for these housing micro-lenders. This provides an investment opportunity for providers of finance to partner with these SACCOs, particularly the Kenya Union of Savings and Credit Co-operatives (KUSCCO), which brings together several SACCOs and can be used to fund these SACCOs for the housing sector at concessional rates.

From the above overview, it is clear that SACCOS have enhanced access to micro housing finance among modest and low income households (downward market push). It is also important to note that the terms at which institutional investors offer long-term funds can be comfortably met by the SACCOs. However, there is need for the investors to understand the unique operations of these SACCOs. At the very first level, it is important to appreciate the working relationships with their umbrella bodies such as

KUSCCO. This could then provide an entry point for lending through the umbrella body. Indeed, corporate governance issues have been the main undoing for developers with regard to funding by international investors. In most cases, such investors have called for a seat on the BOD of borrowing institutions – a proposal that has not been readily appreciated by local developers. The second level then understands the credit operations of individual SACCOs. Gaps in underwriting, documentation and loan recovery could be identified. Tailored TA programs could be structured to close these gaps.

Other market participants including Private Equity Funds and Fund Managers have been instrumental in concluding funding arrangements for the housing sector through debt instruments and equity sales, such as REITS. Over US$ 10 million has been raised through such arrangements for the housing sector. The challenge with these arrangements has been the high required rate of return by investors in these structured arrangements. The required rate of return is normally the premium charged over the Libor rate, less transaction and administrative charges. The high profit requirement tends to make resultant facilities less affordable by members seeking to develop the affordable housing segment. Charging higher amounts over LIBOR translates into a higher cost of funding for the borrowing mortgage institution. The resultant mortgage is therefore expensive and less affordable to the final borrower.

The overall goal of incorporating the FAHARI REIT, was to raise funds for investments in properties across the real estate sector including retail, commercial, industrial and housing. This objective was achieved, as evidenced by the REIT's investments in a modern shopping mall , offices and a warehouse, using funds raised through stock exchange. A high return on investments plays a critical role in making shares in the REIT attractive to investors. This factor has created a need for the REIT to invest mainly in commercial real estate and luxury rental apartments. There is therefore limited room for investment in affordable housing which could potentially generate very low returns, consequently, diminishing dividends. To cater for affordability in the housing sector, a social REIT could be issued targeting institutional investors with social investment objectives rather than profit motives.