



**MINISTRY OF TRANSPORT, INFRASTRUCTURE,  
HOUSING & URBAN DEVELOPMENT.**

State Department for Housing and Urban Development.



# Kenya Affordable Housing Incentives

*Streamlining the affordable housing tax and other incentives program design, development and management at the State Department of Housing and Urban Development*

**2023 EAPI Conference Presentation**

May 17, 2023

# Project Implementation Partners

## Government Partner

The Kenya Property Developers Association was established in Nairobi in 2006 as the representative body of the residential, commercial and industrial property development sector in Kenya. It is a Business Member Organization, which works in proactive partnership with policy-makers, financiers and citizens to ensure that the property development industry grows rapidly but in an organized, efficient, economical and ethical manner.

The KPDA Affordable Housing Task Force was started in 2017 with the objective of scaling up affordable housing in Kenya. The Task Force has programs in housing Supply, Demand and Policy. This project falls under the Policy program, within the workstream of national policies and incentives.



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## Private Sector Partner

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## Donor Partner

The Financial Sector Deepening Kenya (FSD Kenya) is an independent Trust dedicated to the achievement of an inclusive financial system that supports Kenya's long-term development goals. We work closely with Government, the financial services industry and other partners to develop financial solutions that better address the real world challenges faced by low-income households, enterprises and underserved groups such as women and youth.

FSD Kenya has programs in Affordable Housing and Policy and this project was designed to help enable and unlock supply of affordable housing in Kenya.



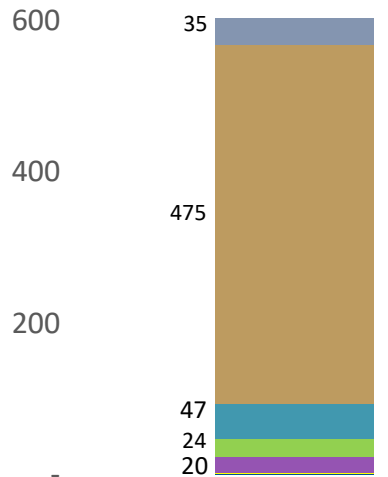
# Income Levels & Type of Housing

	<u>Income Band</u>	<u>Unit &amp; Building Type</u>	<u>Ownership</u>
<p>Middle to High; 2.85% formally employed</p>	KES 100K & Above	<ul style="list-style-type: none"> <li>Large units</li> <li>Central locations</li> </ul>	<ul style="list-style-type: none"> <li>Mix of ownership &amp; rental</li> </ul>
<p>Mortgage Gap; 22.62% formally employed</p>	KES 50K – >100K	<ul style="list-style-type: none"> <li>Mix of small sizes in central locations &amp; larger units in suburban locations</li> </ul>	<ul style="list-style-type: none"> <li>Mix of ownership &amp; rental</li> </ul>
<p>Low cost housing; 71.82% formally employed</p>	KES 15K – >50K	<ul style="list-style-type: none"> <li>Small unit sizes</li> </ul>	<ul style="list-style-type: none"> <li>Predominately rental housing</li> </ul>
<p>Social housing; 2.62% formally employed</p>		<ul style="list-style-type: none"> <li>Dorm style units</li> <li>Small units</li> <li>Hybrid buildings</li> </ul>	<ul style="list-style-type: none"> <li>Rental housing</li> </ul>

# Affordable & Social Housing Requires Incentives

## Returns Prior to Incentives

IRR = 8%



- Profit
- Construction Cost
- Consultant Cost
- Financing
- Land & Infrastructure



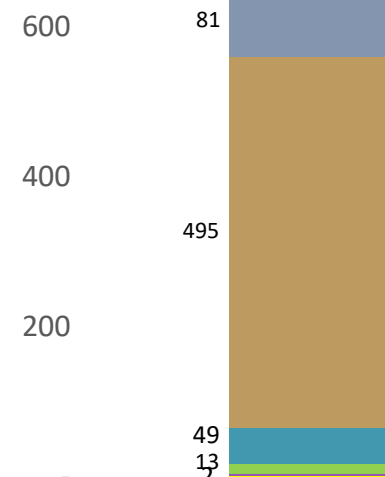
## Government Incentives

- Infrastructure repayment against VAT offset
- Housing incentives (VAT, Corporate Tax, etc)
- Rapid permitting
- ArdhiSasa land
- Water & Sewer Connection
- Power Connection



## Returns Post Incentives

IRR = 15%



- Profit
- Construction Cost
- Consultant Cost
- Financing
- Approvals

## Housing Supply

### Direct Objectives

- Increased quality housing supply at various price levels
- Improved social and economic amenities for residents
- Improved maintenance and management of housing

### Indirect Objectives

- Job creation through increased development
- Lower cost of materials through increased economy of scale
- Lower cost of finance for real estate development and management

**Increased supply and uptake of environmentally sustainable affordable housing with community friendly social amenities**

## Housing Demand

### Direct Objectives

- Increased homeownership through affordable housing finance at banks and Saccos
- Increased access to household savings for down payments and home purchases
- Increase access to affordable, quality rental housing

### Indirect Objectives

- Greater institutional capital available for mortgages and rental housing

# Affordable Housing Incentives - Government of Kenya

No.	Tax Incentive	Description
1.	Value Added Tax	Exemption of VAT on importation and local purchase of goods for the construction of houses under the Affordable Housing Scheme (AHS) upon recommendation by the CS responsible for Housing.
2.	Corporate Tax	Lower corporate tax rate to 15% for developers of over 100 units which would allow for lower unit prices without sacrificing developer target net profit.
3.	Import Levies	Import Declaration Fee (IDF) for goods imported for construction of houses under the affordable housing scheme to remain at 2%. (IDF has increased to 3.5% for other imports).  Railway Development Levy (RDL) remains at 1.5% for affordable housing imports while for other imports it increases to 2%
4.	Affordable Housing Tax Relief	Tax relief of 15% of savings/contribution to drive savings towards home ownership.
5.	Stamp Duty Exemption	Exemption from 4% (urban areas) and 2% (rural areas) stamp duty for first time buyers of houses under the AHS.
6.	Thin capitalization (Interest expenses deduction restriction)	Restriction of interest expense deduction when computing taxable income where a foreign controlled company has a debt to equity ratio exceeding 3:1 No interest restriction for companies undertaking projects under the affordable housing program.

# VAT Exemption Application Process

## Application Preparation

- Gather documents
- Complete forms

## Application Review & Approval

- **Part 1 - Strategic Partner**
  - Developer Strategic Partner application submission for SDHUD review
  - Review & request for information
  - Application approval

### Part 2 - VAT Exception

- Submission of master list, BoQ and designs to Treasury
- Treasury review with KRA
- Application approval and issuance of Exemption Letter

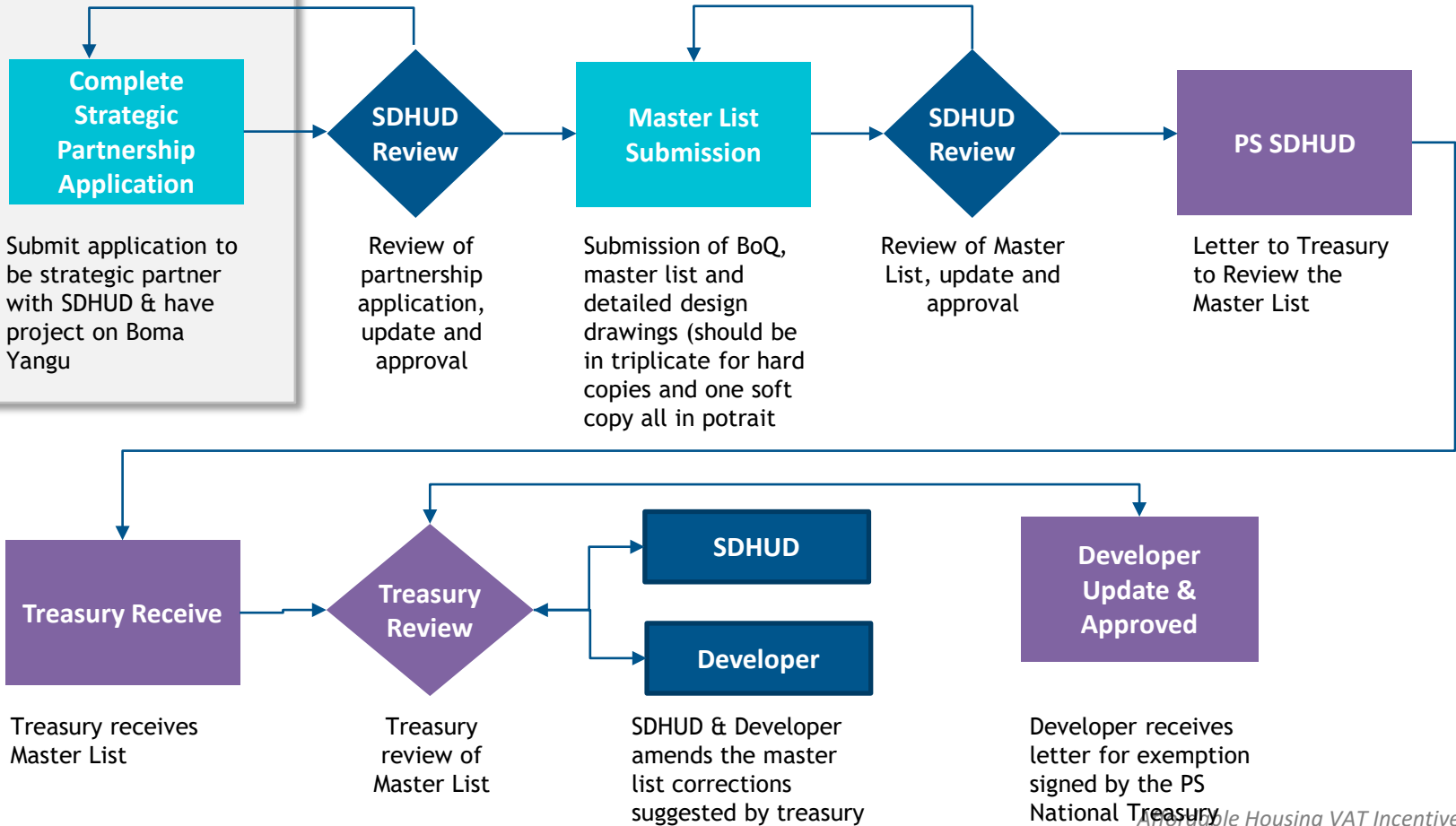
## VAT Exemption Processing

- Monthly VAT submissions
- Annual tax submissions
- Monitoring & Evaluation

# Part 1 - Strategic Partner Application Process

## Strategic Partners Application

- Development Framework Guidelines
- Technical Checklist for AHP on Private Land
- Registration as Strategic Partner on Private Land
- Due Diligence Questionnaire 1
- Due Diligence Questionnaire 2





# Background Documentation Required

## You will require the following information to be shared as part of the Strategic Partnership Application Process

### 1. Company Profile

- Certificate of incorporation
- Income tax registration (PIN) Certificate
- VAT registration (PIN) Certificate
- Tax compliance certificate
- 5 year financial summary/audited accounts
- List of Directors/Shareholders/ Promoter ID & PIN
- Past development experience

### 2. Project Profile

- Project name
- Units typology
- Location of project
- Project Development Plan
- Development cost
- Offtake
- NEMA, WARMA, KeNHA, KURA approvals

### 3. Proposed Land Location

- Title Deed
- Registry Index Maps
- National Land Commission review
- Land review
- Property search

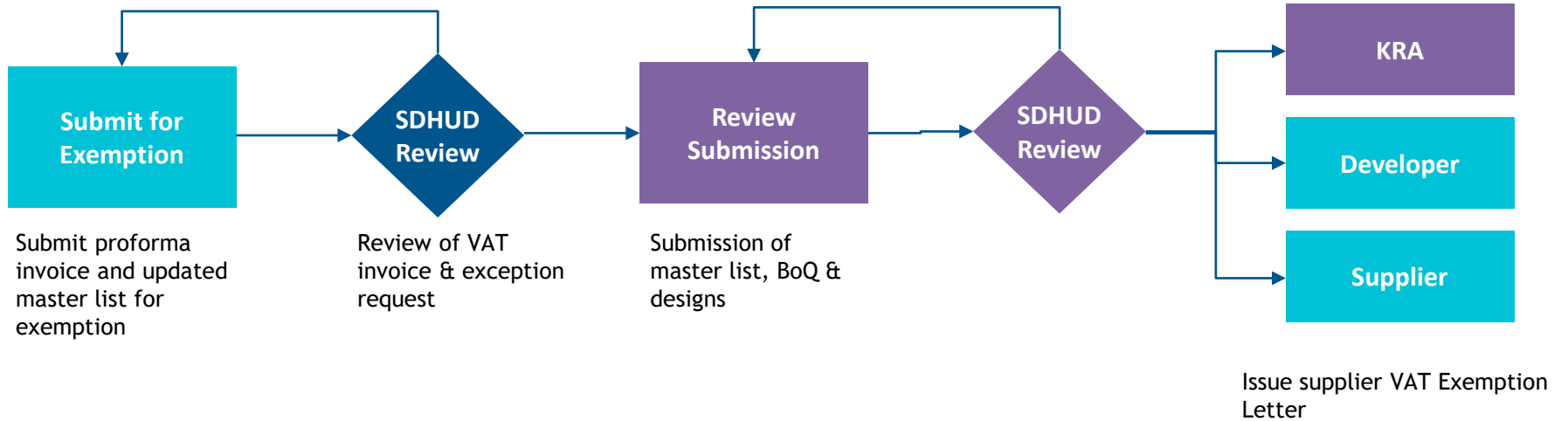
### 4. Development Design

- Scheme design drawings

### 5. Project Financial Structure

- Financial Model
- Proof of funds
- Bank letter

# Part 2 - VAT Exemption Process



# Current Project Pipeline

Location	Units	Value	Application Status
<b>BATCH ONE</b>			
Tilisi - Limuru	350	2 bedroom - 4.55m and 3 bedroom - 6.55m	In Progress
Kiambu	137	1.7m - studios, 2.5m - 1 bedroom, 3.4m - 2 bedroom, 2 bedroom duplex - 3.55m	In Progress
Kiambu	68	studios - 2.3m, studio loft - 3.3m, 1B - 3.7m and 2B - 4.95m	In Progress
Kilifi	28	2 bedroom - 3.6m and 3 bed - 4.9m and 6.4m	Submitted
Riruta	50	bedsitter - 195m, 1B - 3.895m and 2B - 5.5m	In Progress
<b>BATCH TWO</b>			
Tatu City	2,000	Kshs. 4m - 10.6m	In Progress
Uthiru, off Naivasha Road	65	Kshs. 4,500,000	In Progress
Athi River	500	Kshs. 1,438,156,500	In Progress
Athi River	256	3.75M - 6.3M	In Progress
Kibichiku - Kiambu County	60	Kshs. 2.7m - 3.0m - 1 bedroom	In Progress
<b>BATCH THREE</b>			
Syokimau	168	8-9m for 2/3 bedroom	Not Started
Wanyee road	613	Ksh 750,000,000	Not Started
Thindigua	494	Ksh 600,000,000	Not Started
Roysambu	456	Ksh 650,000,000	Not Started
Riruta	272	Ksh 300,000,000	Not Started
Embakasi Fedha	332	Ksh 350,000,000	Not Started
Kamulu Nrb	25	50 M	Not Started
Athi River	26	Kes 7.9- 12.8m	Not Started
Mombasa	1,379	GDC approx. 5b	Not Started
Ongata Rongal	736	Kshs. 3,400,000 - 2bedroom	Not Started
Nakuru	608	Kshs. 1,550,000m - 1bedroom	Not Started
Athi River	4,799	2.0M - 4.6M	Not Started
Mombasa	1,000	1.5M - 4.55M	Not Started
Tilisi	600	4.5 - 7.8M	Not Started
Lukenya	17,154	2.5M - 5.5M	Not Started

# Target Cities for Training on Incentives Program

#	City	County	Type	Population	%Low Income	#low income	%Low Housing Gap	#low population	People per unit	low housing gap	%Social	#Social	%Social Housing Gap	#Social Population	People per Unit	#Housing Gap
1	Nairobi	Nairobi	City	4,525,895	60%	2,715,537	50%	1,357,769	3	452,590	20%	905,179	100%	905,179	3	301,726
2	Mombasa	Mombasa	City	1,244,583	60%	746,750	50%	373,375	3	124,458	20%	248,917	100%	248,917	3	82,972
3	Kisumu	Kisumu	City	742,714	60%	445,629	50%	222,814	3	74,271	20%	148,543	100%	148,543	3	49,514
4	Nakuru	Nakuru	City	587,794	60%	352,677	50%	176,338	3	58,779	20%	117,559	100%	117,559	3	39,186
5	Ruiru	Kiambu	Municipalit	504,824	60%	302,894	50%	151,447	3	50,482	20%	100,965	100%	100,965	3	33,655
6	Eldoret	Uasin	Municipalit	489,987	60%	293,992	50%	146,996	3	48,999	20%	97,997	100%	97,997	3	32,666
7	Nyeri	Nyeri	Munici	335,649	60%	201,390	50%	100,695	3	33,565	20%	67,130	100%	67,130	3	22,377
8	Kikuyu	Kiambu	Munici	333,597	60%	200,158	50%	100,079	3	33,360	20%	66,719	100%	66,719	3	22,240
9	Thika	Kiambu/Mu	Munici	258,949	60%	155,370	50%	77,685	3	25,895	20%	51,790	100%	51,790	3	17,263
10	Meru	Meru	Munici	248,127	60%	148,876	50%	74,438	3	24,813	20%	49,625	100%	49,625	3	16,542
11	Kang'u	Machakos	Town	225,114	60%	135,068	50%	67,534	3	22,511	20%	45,023	100%	45,023	3	15,008
12	Malindi	Kilifi	Munici	213,471	60%	128,082	50%	64,041	3	21,347	20%	42,694	100%	42,694	3	14,231
13	Naivas	Nakuru	Munici	187,425	60%	112,455	50%	56,227	3	18,742	20%	37,485	100%	37,485	3	12,495
14	Kitui	Kitui	Municipalit	160,573	60%	96,344	50%	48,172	3	16,057	20%	32,115	100%	32,115	3	10,705
15	Macha	Machakos	Municipalit	154,542	60%	92,725	50%	46,363	3	15,454	20%	30,908	100%	30,908	3	10,303
16	Mlolon	Machakos	Munici	144,049	60%	86,429	50%	43,215	3	14,405	20%	28,810	100%	28,810	3	9,603
17	Athi	Machakos	Municipalit	143,561	60%	86,137	50%	43,068	3	14,356	20%	28,712	100%	28,712	3	9,571
18	Karuri	Kiambu	Town	133,832	60%	80,299	50%	40,150	3	13,383	20%	26,766	100%	26,766	3	8,922
19	Kilifi	Kilifi	Town	126,586	60%	75,952	50%	37,976	3	12,659	20%	25,317	100%	25,317	3	8,439
20	Gariss	Garissa	Town	123,287	60%	73,972	50%	36,986	3	12,329	20%	24,657	100%	24,657	3	8,219
21	Vihiga	Vihiga	Municipalit	122,257	60%	73,354	50%	36,677	3	12,226	20%	24,451	100%	24,451	3	8,150
22	Wote	Makueni	Municipalit	120,197	60%	72,118	50%	36,059	3	12,020	20%	24,039	100%	24,039	3	8,013
23	Mumia	Kakamega	Munici	119,849	60%	71,909	50%	35,955	3	11,985	20%	23,970	100%	23,970	3	7,990
24	Bomet	Bomet	Municipalit	114,292	60%	68,575	50%	34,288	3	11,429	20%	22,858	100%	22,858	3	7,619
25	Molo	Nakuru	Town	111,040	60%	66,624	50%	33,312	3	11,104	20%	22,208	100%	22,208	3	7,403
26	Ngong	Kajiado	Other	110,404	60%	66,242	50%	33,121	3	11,040	20%	22,081	100%	22,081	3	7,360
27	Kitale	Trans-	Munici	109,373	60%	65,624	50%	32,812	3	10,937	20%	21,875	100%	21,875	3	7,292
28	Litein	Kericho	Town	107,738	60%	64,643	50%	32,321	3	10,774	20%	21,548	100%	21,548	3	7,183
29	Limuru	Kiambu	Municipalit	107,410	60%	64,446	50%	32,223	3	10,741	20%	21,482	100%	21,482	3	7,161
30	Kerich	Kericho	Munici	107,410	60%	64,446	50%	32,223	3	10,741	20%	21,482	100%	21,482	3	7,161
<b>TOTAL</b>				<b>12,014,530</b>		<b>7,208,718</b>		<b>3,604,359</b>		<b>1,201,453</b>		<b>2,402,906</b>		<b>2,402,906</b>		<b>800,969</b>