

The background of the slide is a stylized, semi-transparent representation of the Kenyan flag. It features the traditional colors of black, white, red, and green, with a central white band containing two red stripes. The flag is depicted as if it is waving or draped across the frame.

# TXF Africa 2018

*“Building success: Kenya’s plans for infrastructure growth”*

Charles Hinga Mwaura  
Principal Secretary  
State Department for Housing and Urban Development  
Ministry of Transport, Infrastructure, Housing & Urban Development (MOTIHUD)

3<sup>rd</sup> May 2018



## Background

Affordable homes programme

Opportunities for partnerships

# In the last five years, the government of Kenya made significant investments in foundational infrastructure to support accelerated economic growth

## BIG FOUR AGENDA



- 473 KM of SGR Phase 1**
- 1.0 mn passengers &
  - 0.4mn tonnes moved



- Mombasa port terminal 2**
- 0.55 mn TEUs in additional capacity



- Interconnecting the country**
- 3,728 KM completed
  - 9,303 KM under construction



- JKIA modernization**
- 5 million additional capacity



- Expansion of TTIs**
- 161 new TTIs and 40,963 new training opportunities



- Equipping Health outlets**
- 98 hospitals and 4 referral hospitals targeted under MES<sup>3</sup>

# Over the next five years and founded on social impact, the Government of Kenya will implement the big four agenda targeting four priority initiatives

## BIG FOUR AGENDA

500,000 affordable homes



20% of GDP from the manufacturing sector



100%  
Food and Nutrition  
Security



100%  
Universal Health Coverage  
(UHC)



Jobs  
creation  
at scale

Infrastructure  
investment

Competitive  
utility costs

Governance

Security

Technology  
innovation

To implement the big four agenda, the government will partner with the private sector across the project development value chain including funding and delivery

BIG FOUR AGENDA

“...I welcome the private sector to partner with us on a win-win basis. That partnership will deliver jobs that our youth are looking for; and on your part, you will make a rewarding return on your investment...”





Background

**Affordable homes programme**

Opportunities for partnerships

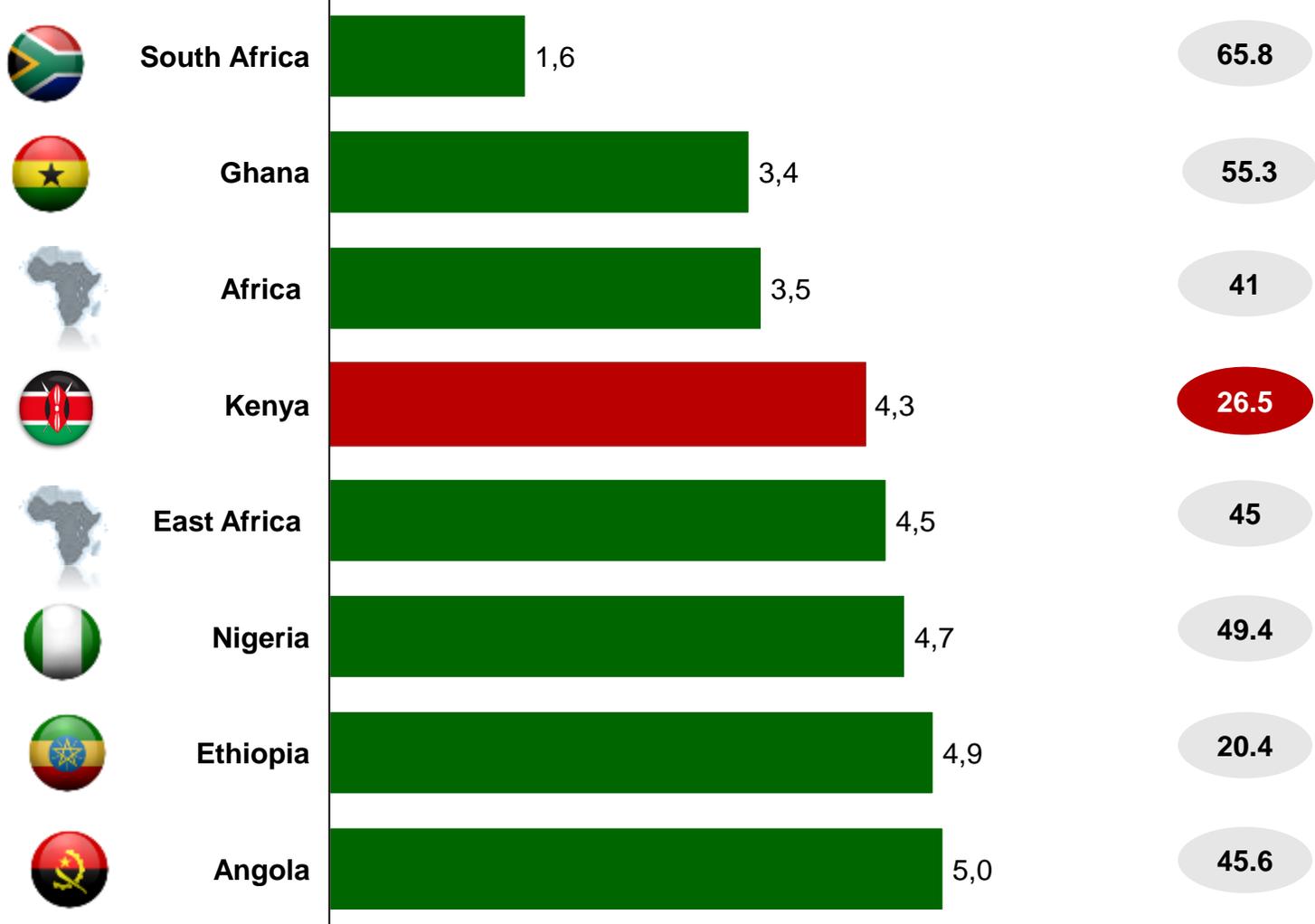
# Kenya is one of the fastest urbanizing countries in Africa at 4.3% above the continent average of 3.5%

Urbanization rates, 2017

%

Percentage of urban population/total pop.

%



## As of 2017, Kenya had an 80% deficit in annual housing supply with developers primarily targeting high end markets

### Annual housing supply vs demand country wide

Number

170.000

■ High end ■ Low end

80.000

49.000

1.000

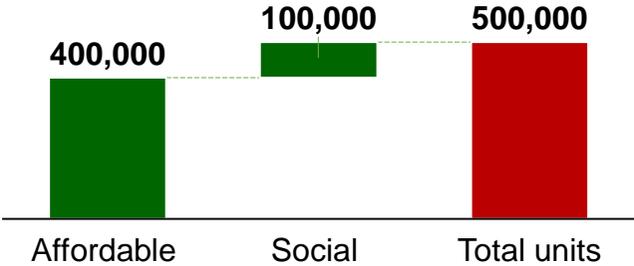
Annual demand  
for housing

Annual supply for housing

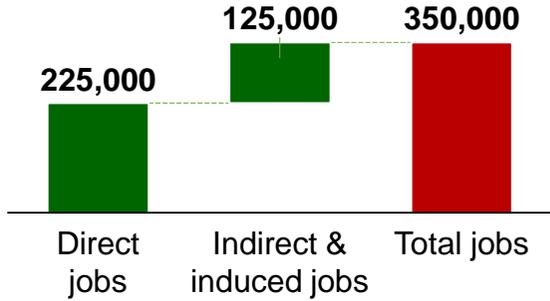
- It is estimated that **Kenya has an annual housing demand of 250,000 annually with an estimated supply of 50,000 p.a** (80% deficit) targeting the high end marketing.
- **In 2010 the demand for urban housing was estimated at around 80,000 units a year**, with demand projected to **increase to nearly 300,000 units a year by 2050**. By comparison, **in 2013 only 15,000 housing construction permits were issued in Nairobi**, where most demand exists and most of these were for high-income apartments.
- **Only 2 percent of formally constructed houses are targeted to the lower income segments** of the market, which account for the largest share of demand.
- **Furthermore, estimates of housing demand are for new housing only and do not speak to the high qualitative housing deficit in Kenya estimated at 1.8 mn.**
- **The high cost of formal housing means that home ownership is out of reach for most urban Kenyans** with vast majority of this population finding housing through rental markets (91% in Nairobi)
- Kenya has an estimated 25,000 mortgages

# To resolve the housing challenge in the low income segment, GoK will implement the 500,000 affordable homes programme which is part of the Big Four agenda

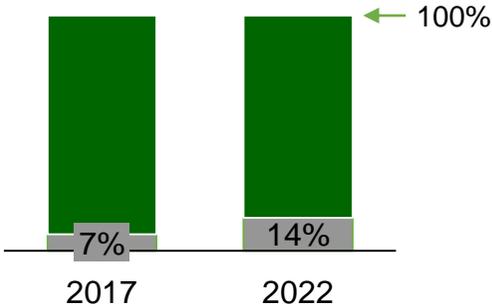
**500,000 homes**



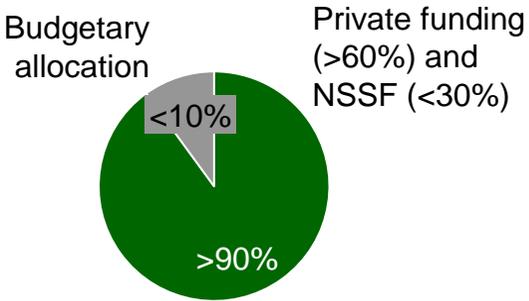
**350,000 jobs**



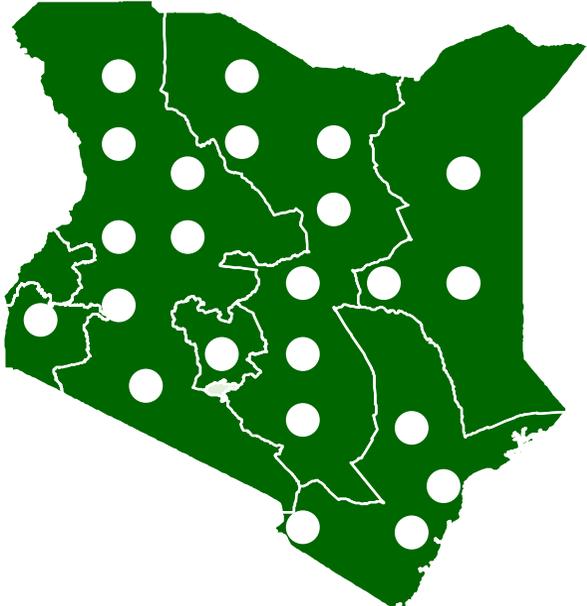
**Real estate & construction sector contribution to GDP**



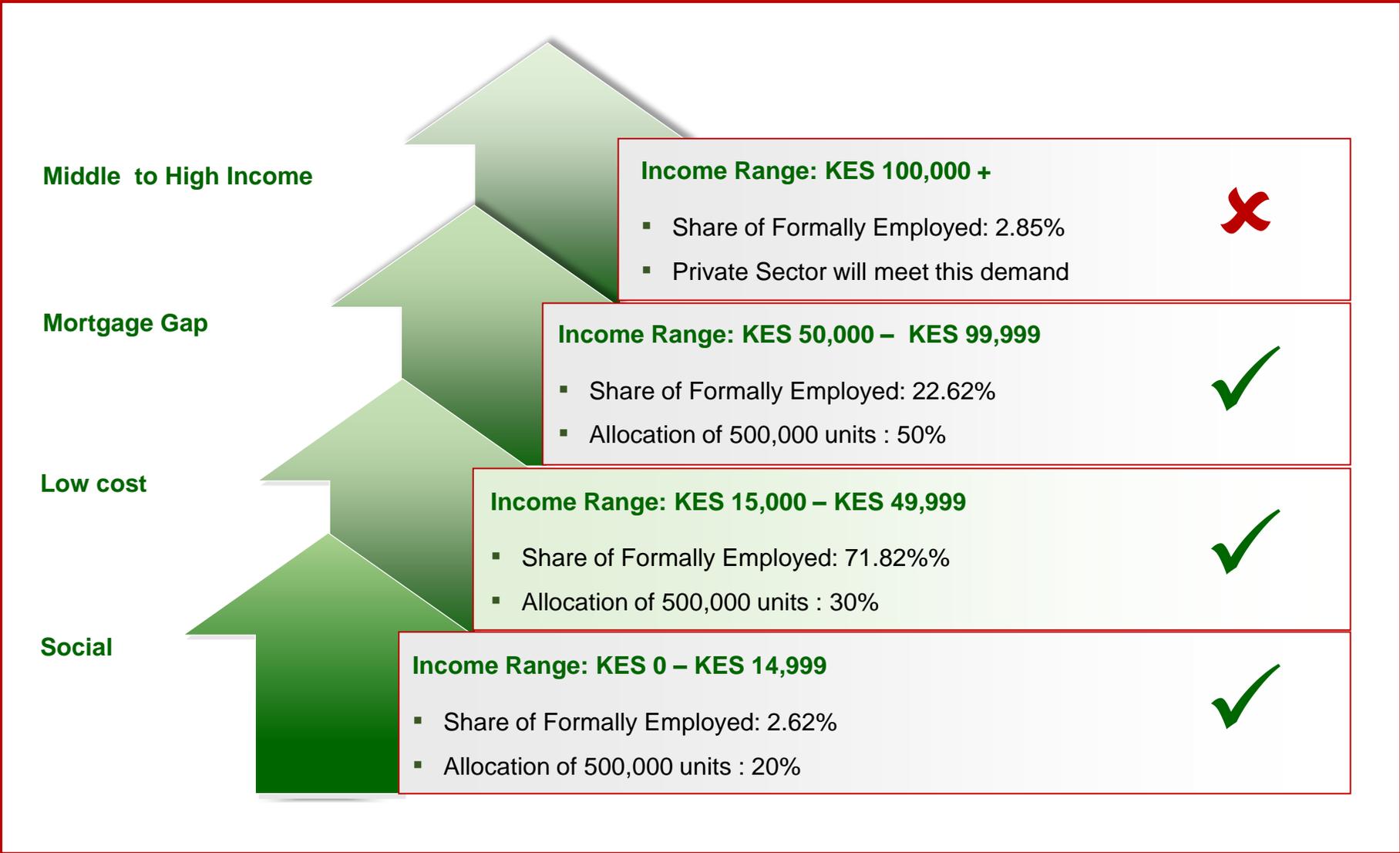
**<10% of funding from budget**



**Country wide coverage**



# To enhance program segmentation we have defined four levels of housing types with only three (3) being the focus of the program



# This affordable housing program must address prevalent challenges on the demand side as well as the supply side

## Demand

- Segmentation of Affordable Homes
- Incentivizes for Financial Institutions who lend towards Affordable Housing
- Government as an Off-taker (Leverage Public Sector demand)
- Tax exempt contributions for First Home Ownership to the Housing Fund
- Kenya Mortgage Refinance Co.

## Supply

- Selection of catalytic flagship projects
- Restructuring of the National Housing Corporation
- Unlock serviced land held by Governmental Institutions & simplify land transfer and ownership
- Development's subsidized by Government should have 100% affordable homes.
- Use of alternative technology & methodology and Industrial construction Techniques

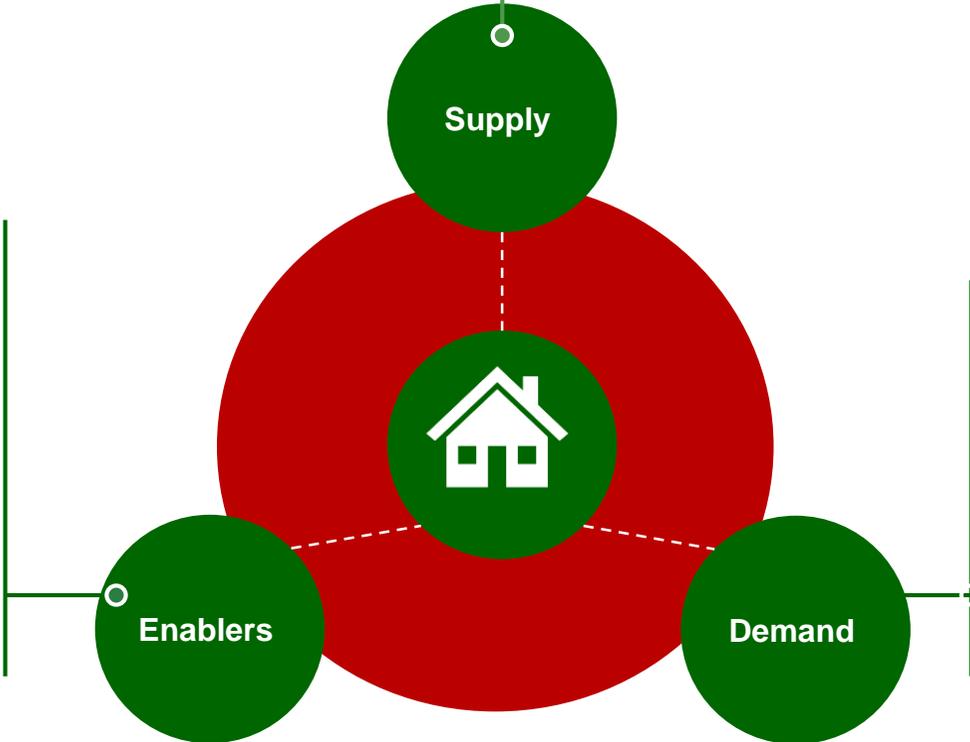
## Enablers

- Formation of an Integrated Project Delivery Unit
- Implementation of the key determinations (legal and regulatory) to deliver quick wins
- One stop shop for permits, approvals at national and county levels

# Delivery of the 500,000 homes programme will be defined by supply, demand and an enabling environment

Ensuring that the houses are built based on a **proven demand master plan and mega city approach (along an identified segmentation)**, **mixed use developments with provision of social infrastructure, affordable developer financing, and in the right economic and political nodes (achieving equity)**. Use PPP to achieve 90% private sector financing and 10% GoK funding (% of Capital Expenditure – CAPEX)

Critical interventions are made to ensure affordability (lowering cost of build and ownership of homes). Includes lowering cost of inputs (scale contracts), tax breaks e.g. zero rating stamp duty for first time home owners

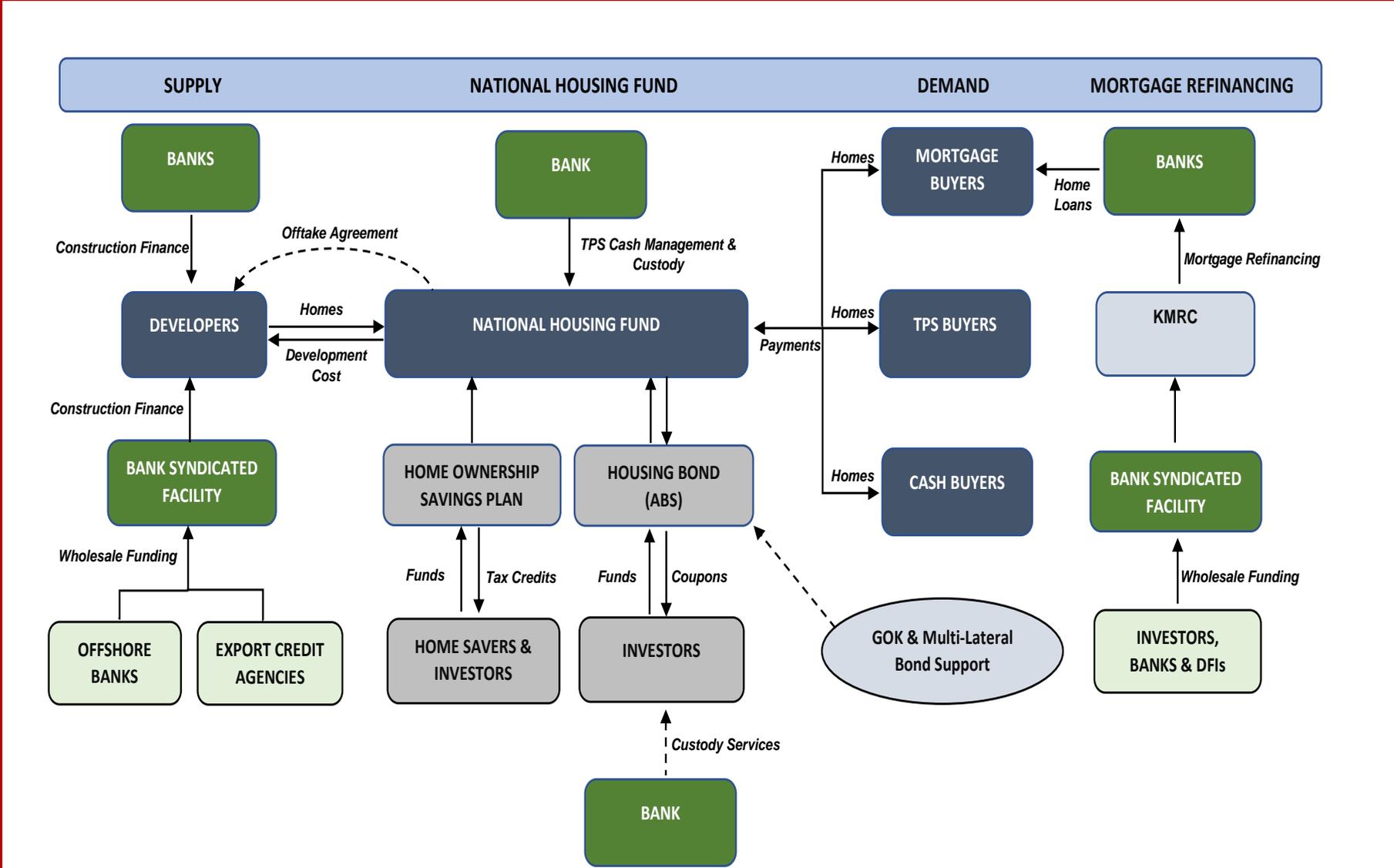


Provide a mix of long term Tenant Purchase Schemes (TPS) and affordable Mortgages. Need to set up a user verification system ensuring houses built get to deserving *Mwananchi*.

# Principals of the proposed financing framework

Principle	Description
<b>National Housing Development Fund (NHDF) as an aggregator</b>	<ul style="list-style-type: none"><li>• The <b>National Housing Development Fund is the bulk housing aggregator and off-taker</b>. Guarantee for off-take will be provided by the NHDF</li><li>• <b>The online housing demand portal will mitigate developer market risk</b>, which would significantly boost the supply of housing units at scale and lower developer financing costs</li></ul>
<b>Housing purchase options/developer exit</b>	<ul style="list-style-type: none"><li>• <b>The sale of homes by the National Housing Development Fund to buyers will take three forms:</b> a tenant purchase scheme, cash and mortgage buyers.</li></ul>
<b>Bulk housing off-take</b>	<ul style="list-style-type: none"><li>• Through the NHDF, <b>pension funds and institutional investors will mobilize long term local and international pension funds and institutional financing</b> for bulk off-take of houses</li></ul>
<b>Off-shore lending for developer finance</b>	<ul style="list-style-type: none"><li>• <b>Sizable construction finance from offshore lenders</b> for onward lending to project developers will be mobilized</li></ul>
<b>Role of local banks</b>	<ul style="list-style-type: none"><li>• Local banks will <b>maximize their development, home loan lending, construction finance and custodial services businesses and capabilities in the delivery</b> of affordable housing at scale.</li></ul>
<b>Leverage limited government finance</b>	<ul style="list-style-type: none"><li>• The programme will <b>leverage the Government's limited financial support without further increases to government debt.</b></li></ul>

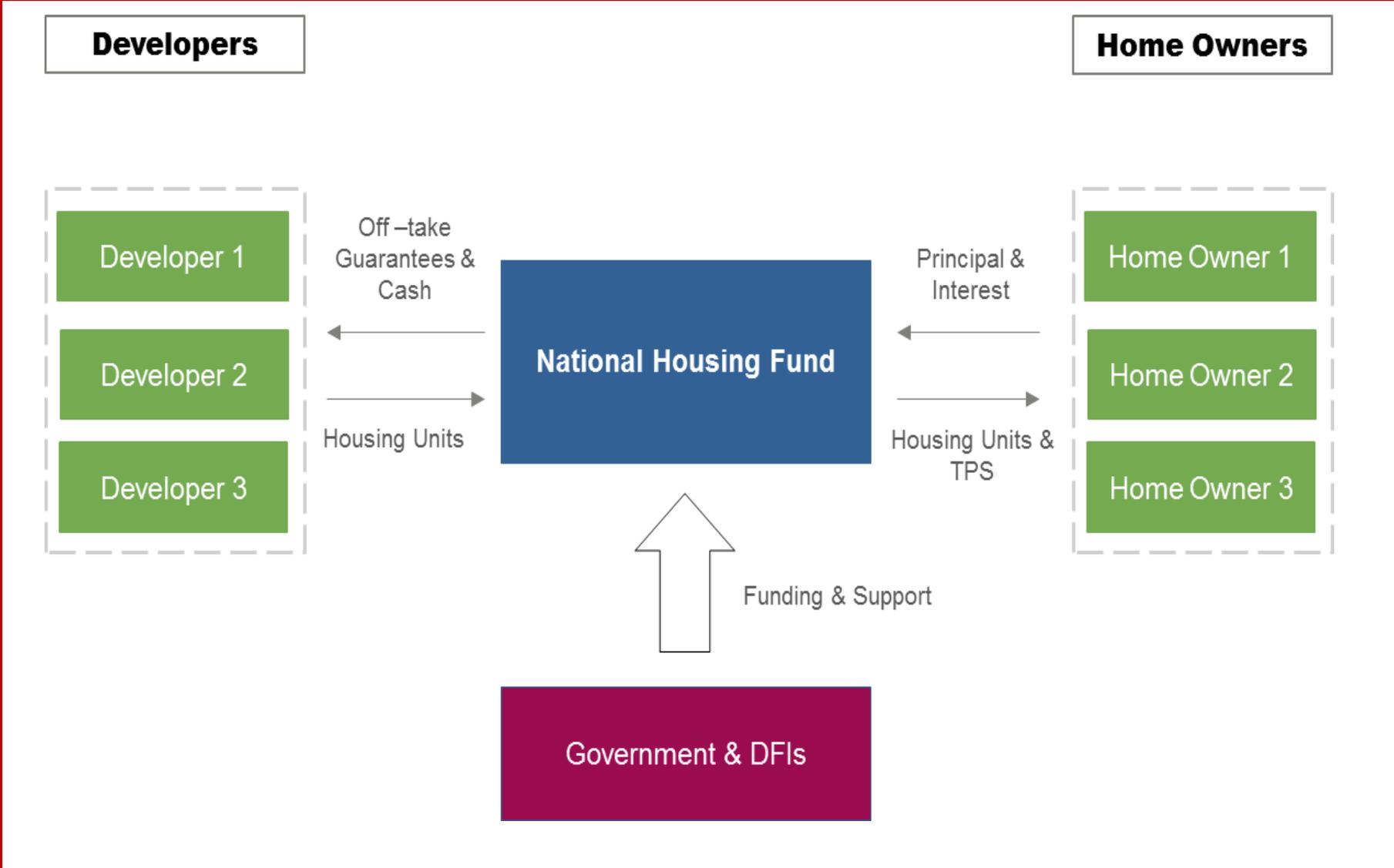
# The proposed financing framework is a full financing value chain linking the supply and demand sides



# The National Housing Development Fund will mobilize capital and offer certainty of sales in the form of an off-take guarantee (1/2)

Role	Description
<b>Capital mobilization</b>	<ul style="list-style-type: none"><li>• <b>The Housing Fund will mobilize capital from Government, Development Finance Institutions, Contributions from the Home Owners Saving Plan (HOSP) and Local Banks to fulfil its mandate.</b></li></ul>
<b>De-risking developers</b>	<ul style="list-style-type: none"><li>• <b>Offer certainty of sales in the form of an off-take guarantee</b> that will allow the developers access construction financing.</li><li>• <b>Purchase the housing units for cash once construction is complete to allow the developers to recycle their capital</b> and develop more units.</li></ul>
<b>Enabling homeowners</b>	<ul style="list-style-type: none"><li>• <b>Allow ordinary Kenyans to save for an affordable home via and the Home Owners Savings Plan</b> which they can use as a down payment towards their affordable house.</li><li>• <b>Offer home buyers the ability to purchase their homes via an affordable 25-year Tenant Purchase Scheme.</b></li><li>• <b>Allow home buyers the ability to purchase affordable houses nationwide</b> through the Housing Fund.</li></ul>

# The National Housing Development Fund will mobilize capital and offer certainty of sales in the form of an off-take guarantee (2/2)

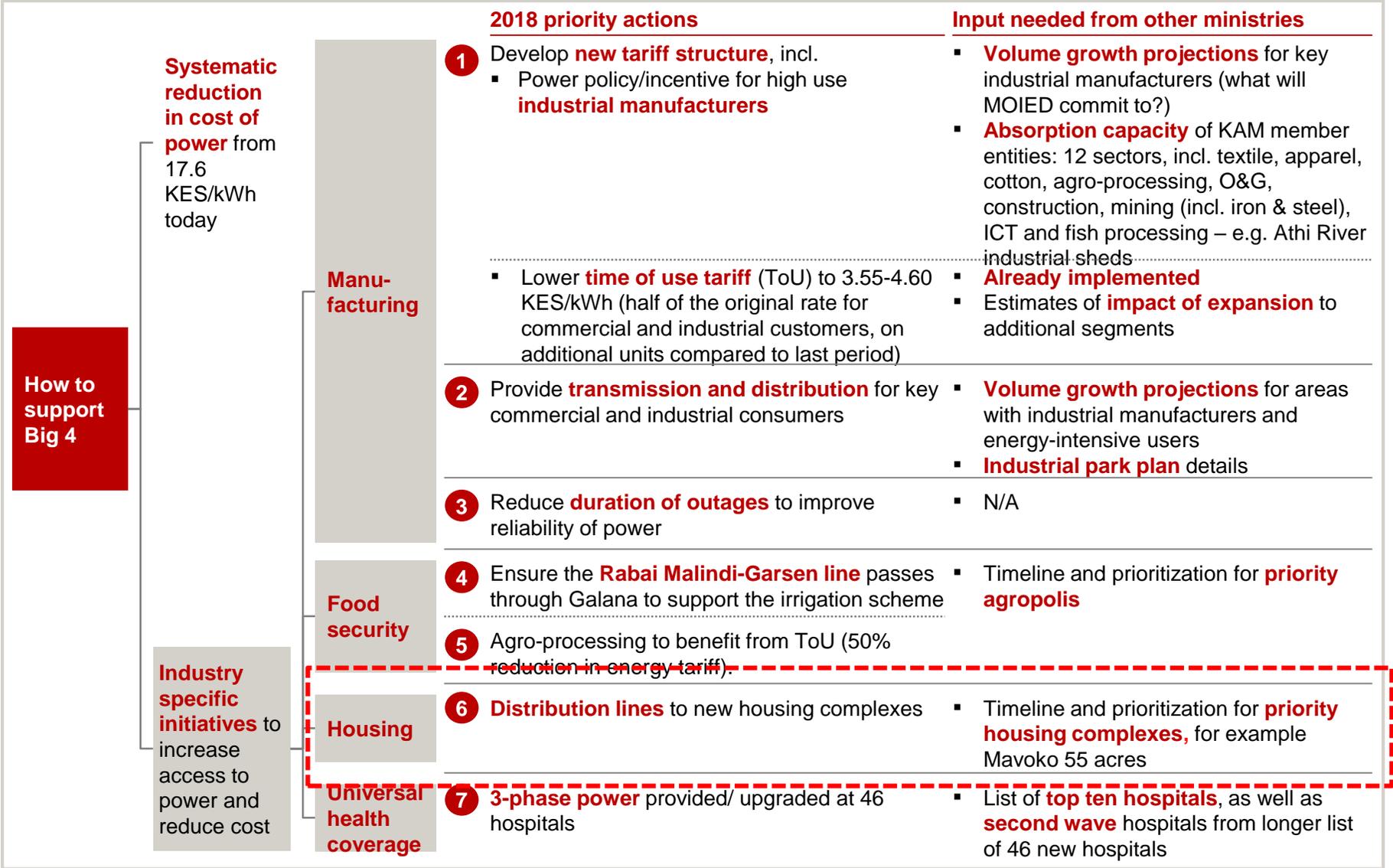


# Overview of the Kenya mortgage refinancing company (KMRC)

Role	Description
Objective of the company	<ul style="list-style-type: none"><li>• <b>KMRC's objective is to help Kenya grow its mortgage finance market</b> for affordable housing by providing medium and long-term liquidity to mortgage lenders.</li></ul>
Legal structure	<ul style="list-style-type: none"><li>• <b>The KMRC has been incorporated as a Private Limited Company</b> owned by commercial banks and Sacco's.</li></ul>
Funding	<ul style="list-style-type: none"><li>• Initially KMRC would be <b>financed through the Multilateral investments, credit lines and Government of Kenya equity investment.</b></li><li>• <b>Subsequently KMRC would combine the Multilateral investments with equity investments from local banks,</b> and with market funding as the company starts to issue bonds.</li></ul>

# The 10% government funding will be achieved through corresponding spend by enabler ministries

ILLUSTRATIVE: ENERGY CONTRIBUTION TO HOUSING





Background

Affordable homes programme

**Opportunities for partnerships**

# The affordable housing program can have an impact on the broader economy beyond the delivery of homes

## Description

### Impact on GDP



- The people who are hired on housing projects increase spending within the surrounding economy and thereby induce further growth in their local areas and ultimately having a direct impact on the GDP
- We estimate that the 500,000 affordable homes programme will double the contribution of real estate and construction to GDP from the current 7% to 14% by 2022. Between USD 1.5 and USD 3 induced in the economy for every USD 1 invested

### Enhanced government collections



- Increased construction activity even has **benefits for government agencies and regulators as it becomes an important source of revenue through processing of permits, approvals, and other related activity**

### Job creation



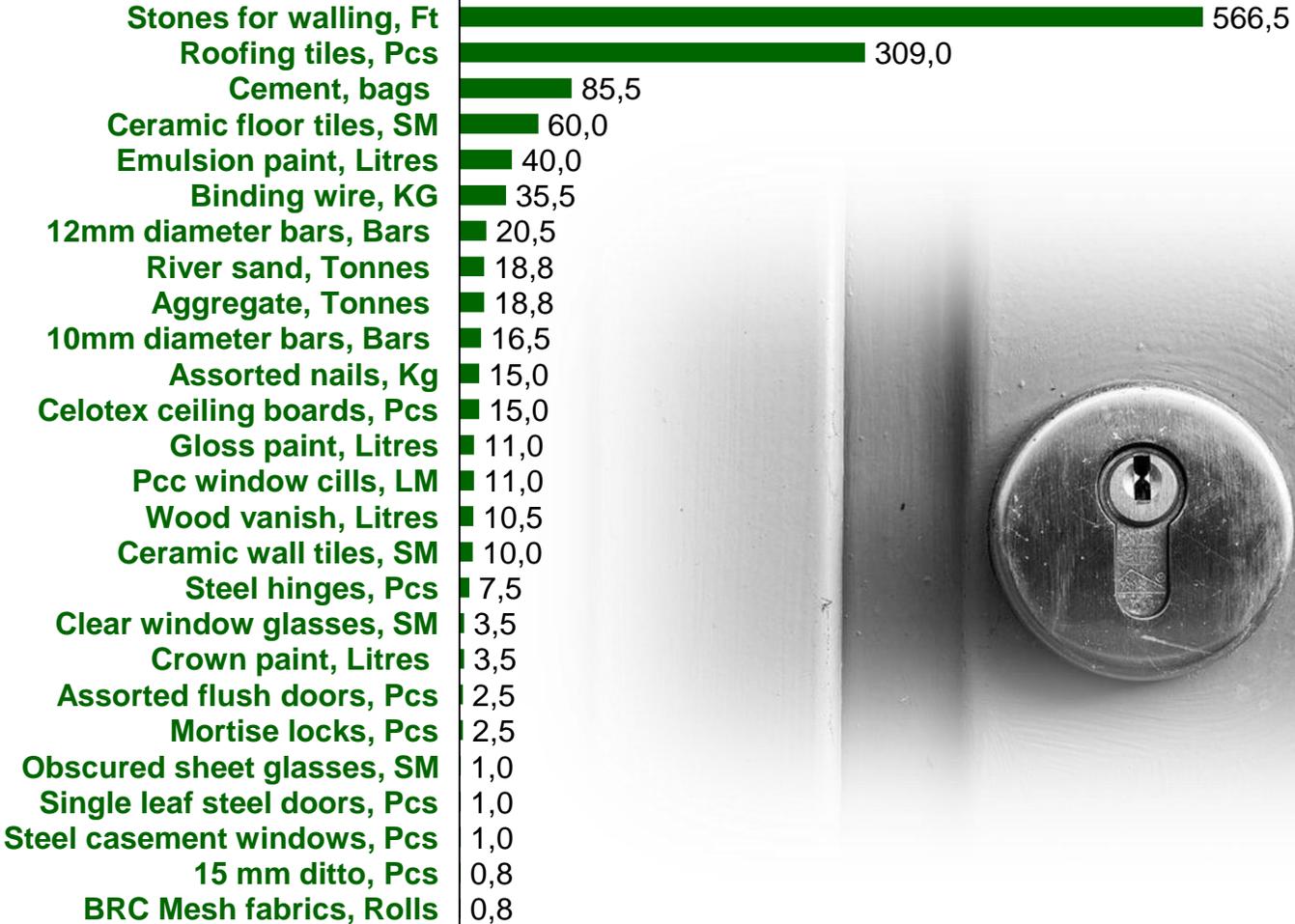
- Affordable housing projects have an **impact on supply chain and workforce by creating new opportunities to hire varied professionals to deliver the programme**

However, these benefits can only be achieved at local level if we provide practical solutions to industry and supply chain participants across both the informal and formal sectors of the economy

# An analysis of material requirement for delivery of the 500,000 affordable homes programme points to extensive opportunities for local industries and labour

## Material requirements for delivery of the 1 million affordable homes programme

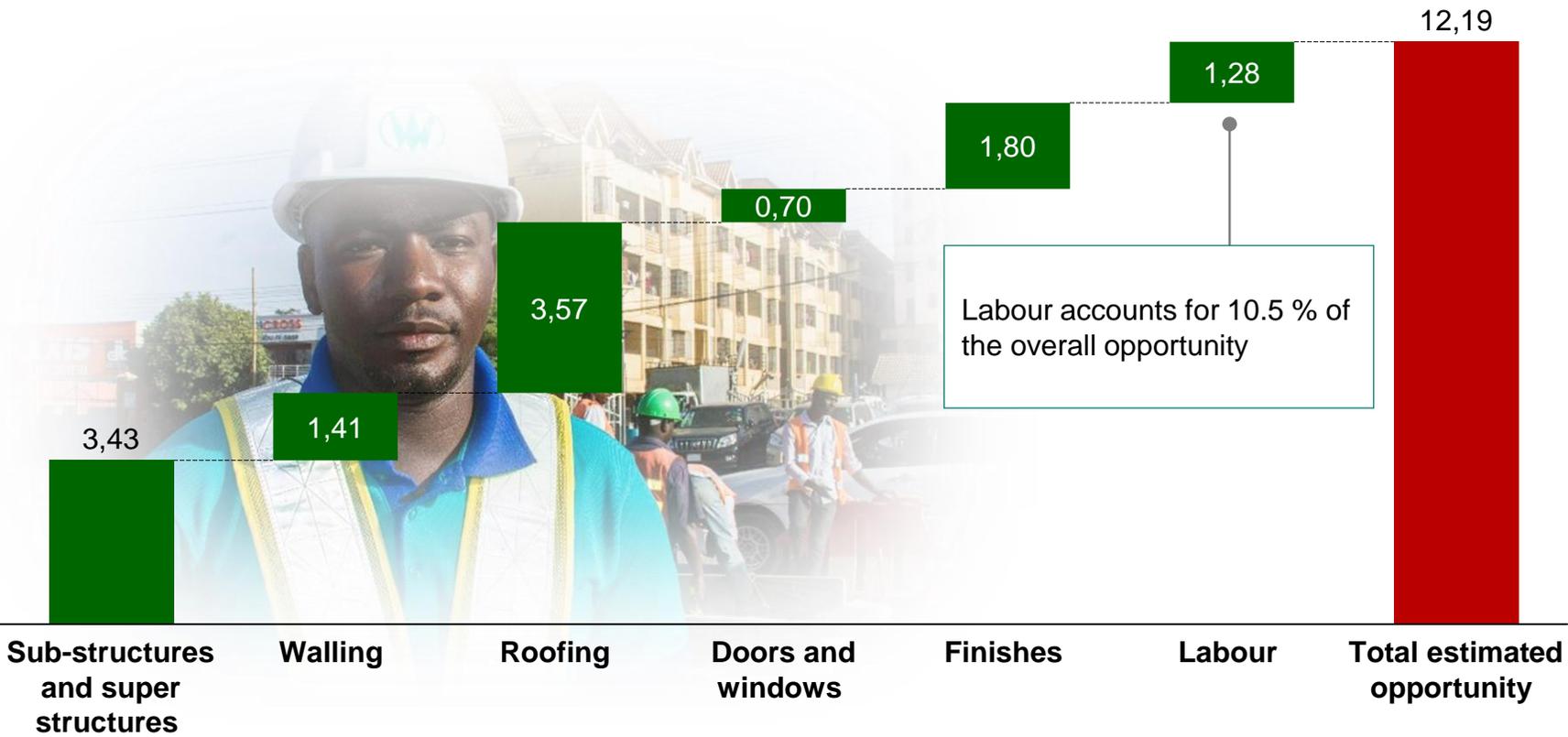
Millions



# The 500,000 affordable homes programme is a USD 12.19 bn opportunity with labour accounting for 10.5 %

## Sizing affordable homes and supply chain opportunities

USD bn



Labour accounts for 10.5 % of the overall opportunity

The housing production process is expected to generate employment for **professionals, skilled and unskilled workers, revenue for the government and opportunities for manufacturers, contractors and suppliers**

# Opportunities for partnership in the development of the 500,000 affordable homes programme over the next five years

NOT EXHAUSTIVE



- **Equity and debt funding** for project pipeline e.g., Park road, Mavoko, Makongeni etc.
- **Opportunity for funders to take up tier 1 and tier 2 equity** at the Kenya mortgage refinancing company
- **Funding and development of transport infrastructure** e.g., BRT (6 corridors in Nairobi alone) and light rail
- **Opportunity to blend KES 50 bn via Kenya Urban Support Programme** with commercial funds
- **Partnership with developers** to develop project pipeline
- **Supply partnerships** for construction materials
- **Human capital supply opportunities**

# Opportunities for partnership in the development of the Railway City development

NOT EXHAUSTIVE



- **Equity and debt funding** for mixed use development including transport infrastructure (light rail, roads, housing – commercial and residential)
- **Development of trunk infrastructure**
- **Supply partnerships** for construction materials
- **Human capital supply opportunities**



