FSD KENYA

AFFORDABLE HOUSING PROGRESS

22 JUNE 2021
“Housing Value chain is long and complex”

Therefore, requires

- Appropriate regulatory support and finance at each step

- Shift in focus away from delivering units, to supporting the transformation of the ecosystem.

*Note: different market segments will engage in different housing processes involving different value chains and different finance moments – this diagram is purely illustrative.

Source: CAHF’s Housing Finance Value Chain
4 distinct sub-markets and value chains – see Synthesis Decks available

Engaging with the four key Kenyan sub-markets:

**Incremental**
- Rural
- Peri-urban

**Informal Settlements**
- Urban

**Small landlord**
- Urban

**Formal**
- Urban

**Key Features:**

**Incremental:**
- Estimated size: 9 million households
- Typical HH Income range: < KES 50,000/month
- Typical tenure: Ownership

**Informal Settlements:**
- Estimated size: 1.6 million households
- Typical HH Income range: < KES 30,000/month
- Typical tenure: rental, absentee landlordism

**Small landlord:**
- Estimated size: 1.1 million HH
- Typical Income range: KES 30,000 - 75,000
- Typical tenure: Rental

**Formal:**
- Estimated size: 360 000 households
- Typical Income range: > KES 75,000
- Typical tenure: Owner (30%), Rental (70% - and enters rental pool inefficiently)

**Key failures which limit access to finance and undermine sub-market performance:**

**Incremental:**
- Poor quality, long time to deliver
- Poor, disjointed, supply value chains
- Poor land title rights for securitization

**Informal settlements:**
- Extremely poor quality
- Contested land rights
- Government / DFI initiatives to date often lead to displacement or take very long to deliver

**Small landlord:**
- Lack of scale, limited amenities
- Variable compliance
- Pressures on municipality infrastructure

**Formal:**
- Long time to deliver and high costs
- Difficulty exit due to land registry challenges
- Mortgage / Rent x 2
- Limited long term in design and management
### What is scale in the Kenyan context?

While Kenya is highly promising:
- Priority national program
- Deep demand
- Availability of land, building materials, developer experience
- Strong regulatory environment
- Deep capital markets
- Technological and innovation hub

However very limited scale:
- Hardly any developer has delivered >1,000 units in total (sale, rental, TPS)
- Supply pricing vs demand affordability mismatch
- Big pipeline with limited track record

#### PUBLIC / PRIVATE TOTAL PROJECTS COMPLETED UNITS ONGOING UNITS

<table>
<thead>
<tr>
<th>Developer</th>
<th>Public/Private</th>
<th>Total Projects</th>
<th>Completed Units</th>
<th>Ongoing Units</th>
<th>Accessed capital markets</th>
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There is a lot to do: Kenya needs $45 - $90 billion over next 20 years

A (very) rough calculation:
Existing deficit: 2,000,000 housing units
Annual requirement over 20 years: + 7,000,000 housing units (350,000 units pa)
Total housing need over 20 years: = 9,000,000 housing units

Assume average house cost: $5,000 or $10,000
Total investment required: USD 45,000,000,000 or USD 90,000,000,000

This scale of investment is more than the capacity of any group of players.

Therefore, what housing needs from the finance sector is:
1. Patient blended finance products
2. Deep regulatory support
3. Mechanisms for local currency capital
4. Market development and investment support
The FSD Network Strategy: underlying principles

Work across the spectrum of housing sub-markets to leverage capacity in support of market transformation for B40.

Investment in rental shifts market delivery standards, promotes affordable options for the >80% of urban Kenyans who rent.

Data sharing and market collaboration a condition of its investments “Open Access”

FSDAi Investment in Formal Housing Offtaker

- **Invest** in formal supply - shift focus from ‘build to sell’ to ‘build for resilience’ incorporating green technologies and ‘life cycle cost evaluation’

- **Promote scale** to drive **affordability**

- **Accurate Demand insights** on affordability, preferences, to tailor better targeted financial products

- By addressing value chain blockages, the **Network will identify systemic issues for wider reform** to enable scale

- **Support investee to exit to capital markets**, bringing in local capital into affordable housing sector
FSD KENYA PROGRAM FRAMEWORK AND PROGRESS

3 components

• Building an enabling ecosystem and promoting coordinated and evidence-based investment making

• Create Demand Side and Supply Side Financial products for both rental and owner occupation options

• Demonstrating and Promoting Greener and more affordable housing and infrastructure technologies
Component 1: Building an enabling ecosystem and promoting coordinated and evidence-based investment making

• Affordable Housing Working Group
  • Data driven advocacy
  • Landlord and Tenant Bill, Electronic Regulations
  • Affordable Housing Investment Alliance: Bring providers and users of capital together

• Digitization of Land Information Management Systems (LIMS)
  • Land as Collateral
  • Reduce transaction cost /time
  • Effective revenue streams

• Aerial Mapping
  • Provide base information for the LIMS, assists effective land management
  • Further map analysis provides information for revenue identification
Component 2: Create Demand Side and Supply Side Financial products for both rental and owner occupation options

• Partial Credit Guarantee

• Transfer of pension assets survey

• Bundled microinsurance fire + other perils product

• Pilot rent relief fund, demand segmentation of tenants and landlords

• Portfolio segmentation for FSPs
Component 3: Demonstrating and Promoting Greener and more affordable housing and infrastructure technologies

Kenya Green Building Society
• Green planning guidelines
• Green Materials and Services Directory
  • link to form
• ABT technologies evaluation

Fusion: EDGE certified urban infill apartment learnings
Kwangu Kwako: Scale uptake of cheapest proven ABT at KES 170k excluding land, including VAT
Questions

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