1. **Investment Partnership for Providing Low-Cost Housing**

Housing demand in Nairobi far outstrips supply. Housing deficit in the residential real estate is approximately at 1.9 million units and growing at 200,000 units annually. In Nairobi, the demand for housing has reached 80,000 units per year. Growth in the county’s GDP, rapid population growth and high urbanization rate impact pressure on the demand for decent housing units.

**Figure 1: Demand and Supply of Housing Units**

### Determinants of Housing Demand

- **Urbanization Rate**: 4.40%
- **Population Growth**: 2.65%
- **GDP Growth**: 5.00%

### Determinants of Housing Supply

- **Access to Mortgage**: 3.50%
- **Access to Land**: 5.00%

**The problem**

Availability of affordable and social housing options in Nairobi Metropolis are few despite the growing urban population. An estimate of 60% of Nairobi residents, 2.5 million people, live in slums, with over 200 settlements on 6% of city land. Tenants in this region spend 33.1% of their income on rent, and the figure increases to 40.8% in Nairobi County. The government and private developers have struggled to keep pace with the demand for low-cost dwelling by the middle income earners. Availability of development land within Nairobi is low resulting to relatively high prices most especially in the city’s suburbs. Land owners in Nairobi Satellite towns such as Ruaka, Rongai, Kitengera, Ruiru, and Kikuyu where land is fairly available and owners are poor thus lack proper financial muscle for real estate development.

**Structural and institutional policies hindering housing development**

- Extended project time frames of commercial housing development,
- The Banking Amendment Act 2015, and
- More stringent borrowing terms by banks limiting credit supply to these land owners.

In Nairobi satellite towns, an estimate of 28% of the potential development land consist of owner-occupied developments and low density commercial units. Barriers to housing development by low income earners include:

- High development costs owing to the high cost of construction materials which constitute to 70% of the total development cost.
- Interest rates on conventional loans are high, on average of 15.8%.
- Conversion of marginal land into farm land by the poor.

**2. Solution: Low-Cost Housing Development Investment Partnership**

**3. Investment Cycle**

- **Minimum investment recoup period**: 10 years.
- **Return on Investment**: From the 3rd year onwards, monthly payback of 75% of the USD 1.875 million to the investor.
- **Total investment amount**: USD 100 million
- **Project investment period**: 2 years
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- **Disbursement**: 50% in year 1 and 50% in year 2
- **Return on Investment**: From the 3rd year onwards, monthly payback of 75% of the USD 1.875 million to the investor.
- **Total housing units**: 15,000 units
- **Annual revenue**: Average USD 22.5 million
- **Project investment period**: 2 years

**Development of the low-cost housing units will be effected in two years. Urban land owners within the 5 identified satellite towns will provide 835, 0.125 acre plots, 500 in high-density area and 335 in low-density areas. A contractual agreement binding to all parties will be signed allowing the development of the land in question by the investor. The investor will fund the entire project cost with direct payments to the contractors in two annual phases of 50% each. Upon completion of the project in year three, standardized rates to be charged on the house units will be determined based on reasonable market price that will ensure achievement of the intended outcomes. The pricing strategy will take into account the level of disposable income for the middle-income earners in these regions, intended capital gain by the land owners, as well as the return on investment to the investor. By the terms of contract, the investor collects a portion of the rent received per month for a period of 10 years, after which the land owners will assume total ownership of the property.**

**Investment Criteria and terms**

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- **Minimum investment recoup period**: 10 years.
Fund Flows to investor with 75% annual gross return and 25% annual rate of return on land

<table>
<thead>
<tr>
<th>Asset class</th>
<th>Real estate development</th>
</tr>
</thead>
<tbody>
<tr>
<td>Time horizon</td>
<td>2 years implementation period, 10 years investment recoup period</td>
</tr>
<tr>
<td>Target geography</td>
<td>Kenya: Nairobi satellite towns (Ruaka, Rongai, Kitengera, Ruiru and Kikuyu)</td>
</tr>
<tr>
<td>Target investment pool</td>
<td>Private investor fund and local</td>
</tr>
<tr>
<td>Target portfolio</td>
<td>15,000 low-cost housing units</td>
</tr>
<tr>
<td>Fund size</td>
<td>KSH. 10,000 million (USD 100 million)</td>
</tr>
<tr>
<td>Fees and incentives</td>
<td>KSH. 12,500 per unit (USD 125) per month</td>
</tr>
</tbody>
</table>

5. Fund profile

6. Returns and Cash flows
The following assumption are made in estimating returns and cash flows for the project:

- Building cost structure: Direct construction costs consist of 75% of the total funding. Indirect costs (real estate taxes, permits, legal fees, insurance, development fees and consulting fees) consist of 20% of the total funding.
- No initial land acquisition payments are made.
- Housing prices/rent ratios are determined by the project’s net operating income, cap rate and the amortization period (10 years).
- Pre-construction costs, warranty, and financing and interest expenses do not exceed 5% of the total funding.

7. Social Impacts
The anticipated benefits of this investment include:

- Provision of quality and affordable housing for the middle income group.
- Adequate utilization of land in the satellite towns to accommodate more housing units per plot.
- Enhanced controlled development.
- Higher earnings for the land owners.

<table>
<thead>
<tr>
<th>Impact metrics</th>
<th>Outcomes</th>
</tr>
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<tbody>
<tr>
<td>New flats constructed</td>
<td>610</td>
</tr>
<tr>
<td>Housing units added</td>
<td>15,000</td>
</tr>
<tr>
<td>Affected population</td>
<td>35,000 people (on average)</td>
</tr>
<tr>
<td>Percentage of income spent on rent</td>
<td>22.98% (decrease by 10.1%)</td>
</tr>
</tbody>
</table>

8. Risk Factors

<table>
<thead>
<tr>
<th>Type</th>
<th>Risk</th>
<th>Mitigation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Development</td>
<td>Insufficient project returns</td>
<td>The developer will provide appropriate project reviews prior to the investment engagement. A realistic evaluation of the developer’s abilities, identification of efficient external suppliers, and comprehensive feasibility analysis of the project will follow to determine the ability of the project to generate expected returns.</td>
</tr>
</tbody>
</table>

9. Scalability
This project will provide adequate and relevant information on the much overlooked field of joint property ventures in the current volatile real estate market. It will provide the necessary information regarding possibility of risk sharing, efficient and safe investment avenue through which both parties, the landowner and the investor benefit, and the long-term value to the land owner is immense.

The project will impact on the land owners in the other 35 sub-markets in Nairobi metropolis who would otherwise not be in a position to develop their land, to be interested in joint venture agreements. This would lead to possibility of a second phase, commencing in year 3, thus addressing the problem of housing deficit and land scarcity co-currently.

The third face would then focus on the major urban centers in the country such as Nakuru, Mombasa, Eldoret, Kisumu and Nyeri. A total of 200,000 decent and affordable housing units per year would be targeted for both middle and low-income groups.

References

