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Affordable Housing Snapshot

NAIROBI
KENYA

H1:2021

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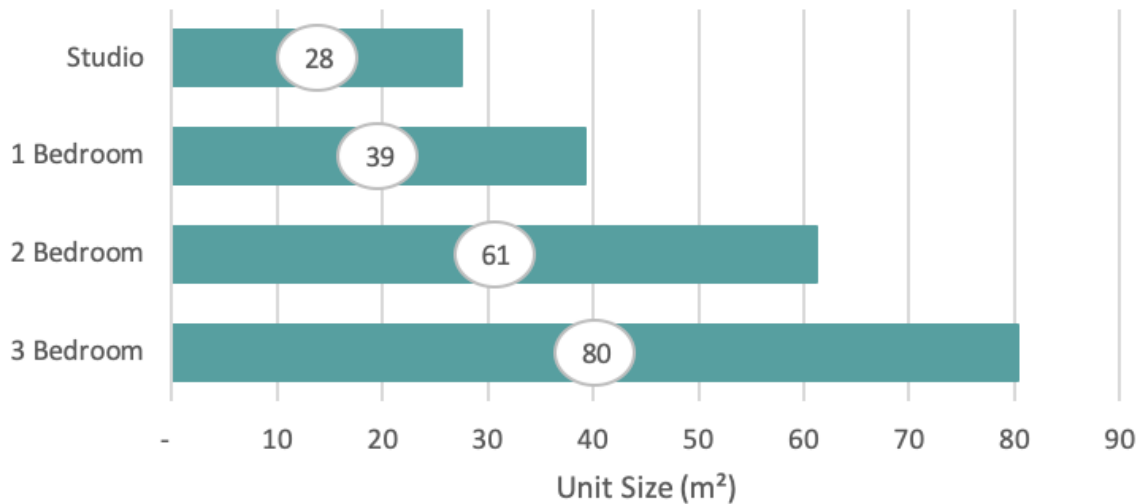
Highlights

- The government of Kenya has made an ongoing commitment to deliver 500,000 affordable housing units countrywide by the year 2022 through the allocation of KSh 13.9 billion as per the 2021/22 Kenya budget.
- Delivery of some 15,000 units in the Nairobi Metropolitan Area is expected within the next three years.
- Larger units are more popular than smaller studios and 1-bedroom units. Two- and three-bedroom units comprise 41% and 44% of the market supply share respectively.
- Average yields range between 7% and 13%, with government projects achieving the highest yields due to low or no land cost.
- The Kenyan government's Affordable Housing Programme (AHP) is viewed as an opportunity for property developers to diversify their portfolios. The government's incentives for developers within the affordable housing realm, such as tax rebates and infrastructure cost subsidies, are expected to attract investment from additional private developers interested in affordable housing.
- This sector has also gained the interest of long-term financiers who are seeking to invest in opportunities that offer a social benefit.
- It is anticipated that this market will accommodate this asset class in securitised real estate vehicles such as Real Estate Investment Trusts (REITs), although it is also expected to be tolerant of non-traditional financing sources, other than banks and mortgages, which will propel demand.

Unit Sizes

In a cost-saving effort, the sizes of affordable housing units are relatively small when compared to other residential projects. The smallest unit is a studio with an average size of 28m², and the largest unit, a three-bedroom measuring approximately 80m².

Affordable housing Average Unit Sizing



Source: Broll Kenya Research

Unit Prices

Prices range from KSh1.9 million for a studio to approximately KSh5.8million for a three-bedroom unit. It is worth noting that studios and three-bedroom units are attracting the highest price per square meter because the bulk of supply is from private developers, hence they are higher than government projects due to inclusion of land cost.

Affordable housing average unit pricing by developer type

Typology	Average Price				Average Price/m ²			
	Government	Private	UN	Average	Government	Private	UN	Average
Studio	n/a	1,900,000	2,230,000	2,065,000	n/a	58,444	89,286	73,865
1 Bedroom	1,266,667	2,900,000	3,400,000	2,522,222	45,000	50,304	77,273	57,525
2 Bedroom	2,500,000	3,735,000	4,800,000	3,678,333	50,000	57,866	64,000	57,289
3 Bedroom	4,310,000	5,166,667	5,800,000	5,092,222	60,625	59,436	61,053	60,371

Source: Broll Kenya Research

We note that government-related projects have neither price appreciation over the construction period (as off plan sale prices are usually significantly discounted compared to project close out sale prices), nor price differentiation by floor level, view or mode of payment. Projects developed by private developers offer price differentiation by floor, price appreciation over the construction period, and price differentiation by mode of payment (such as mortgage prices that are higher compared to cash).

Process to own government AHP units

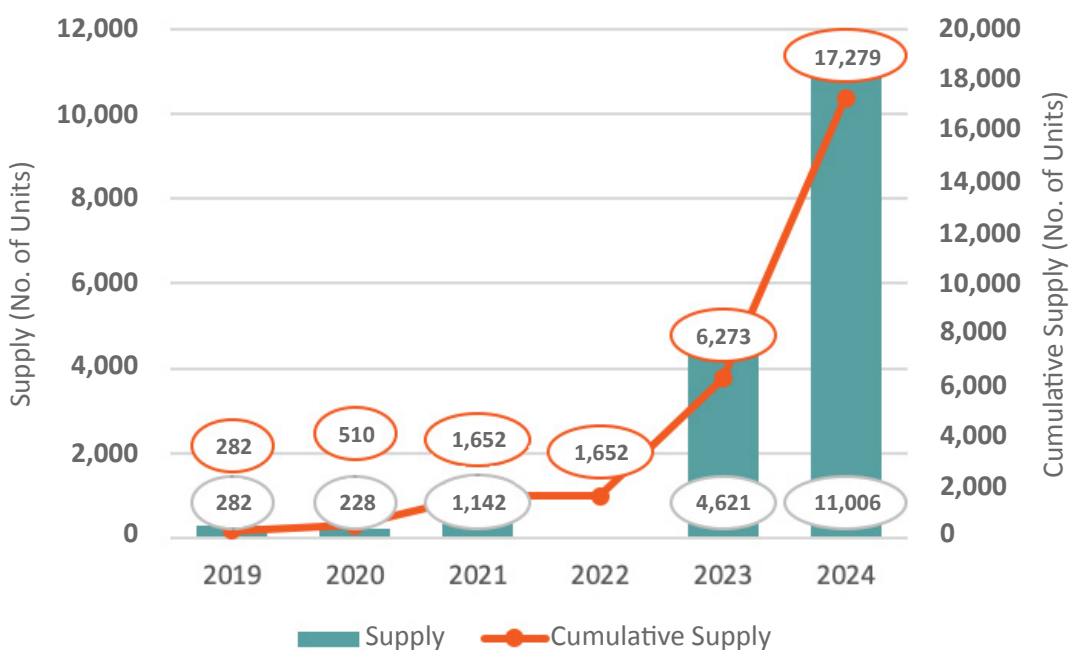
Registration	Registration is through the government's online portal www.bomayangu.go.ke The platform also allows for updating of personal details and the upload of Know Your Customer (KYC) documents
Qualification	Pre-qualification Verification of identity, income, and credit profile Maximum income: KSh150,000 per month
Allocation	Allocation is based on a transparent approach of ballots with no physical interaction. A standard 12.5% deposit on the value of the unit is required.
Occupation	The projects allow for various purchase options including: <ul style="list-style-type: none"> • Tenant Purchase Schemes • Mortgages/Kenya Mortgage Refinance Company (KMRC) • Cash sales.

Source: Boma Yangu

Affordable Housing Supply

Affordable housing supply continues to grow albeit at a relatively slow pace. The AHP has, to date, delivered over 1,600 units cumulatively, including an additional supply of 510 units in 2020. The industry is expected to deliver more than 15,000 units in the next three years. The highest projected annual supply of approximately 11,000 is anticipated during 2024.

AH anticipated supply

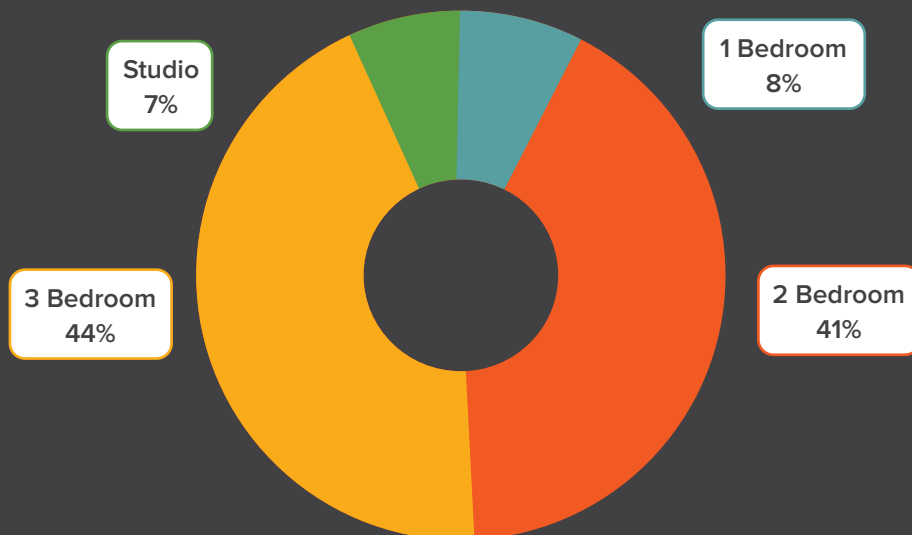


Source: Broll Kenya Research



We have analysed affordable housing projects within the Nairobi Metropolitan, limited to projects offering units for no more than KSh89,500/m² for a studio, KSh77,500/m² for a one-bedroom, KSh64,000/m² for a two-bedroom, and KSh61,100/m² for a three-bedroom unit. Our survey shows that three-bedroom apartments achieve the highest supply market share (approximately 44%) followed by two-bedroom (41% of the total supply). The lowest supply market share is represented by studios and one-bedroom units. The popularity of 3 and 2 bedroom units is attributed to the target market being mature households especially as first-time home owners.

Affordable housing typology popularity



Source: Broll Kenya Research

There has been a limited supply of affordable housing units in the recent past, with government projects holding the largest market share of 83% from 2019 to 2021. This is compared to 17% delivered by private projects. This trend is expected to change in the next two years as private developers become more involved in the delivery of affordable housing with the introduction of innovative building technology. Also, their general development approach is mainly targeted at minimising project cost.

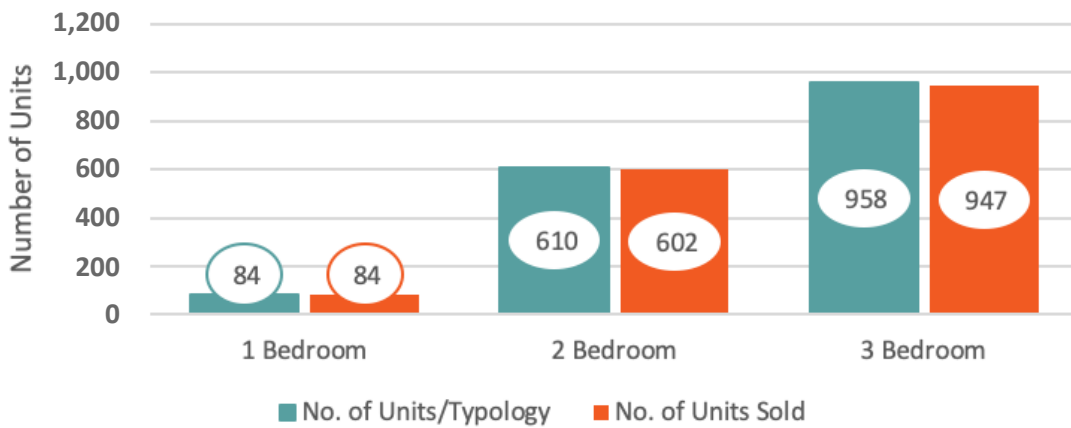
Affordable housing supply by developer type	Supply		
	Government	Private	UN
2019	0	282	0
2020	228	0	0
2021	1,142	0	0
2023	1,562	3,443	0
2024	2,178	0	8,828
Total Number of Units	5,110	3,725	8,828

Source: Broll Kenya Research

Affordable Housing Demand

Occupancy levels are buoyant across various unit typologies, which is mainly attributed to most developers embracing pre-sales, as early as detailed concept development level. Pre-sales levels are mostly at the discretion of the developer, who tends to include presales as part of the project’s capital structure. It is noted that some financiers tend to attribute disbursement of senior debt on a minimum of 10% level of pre-sales as this de-risks the investment. The graph below illustrates demand versus supply for the period 2019 to 2021.

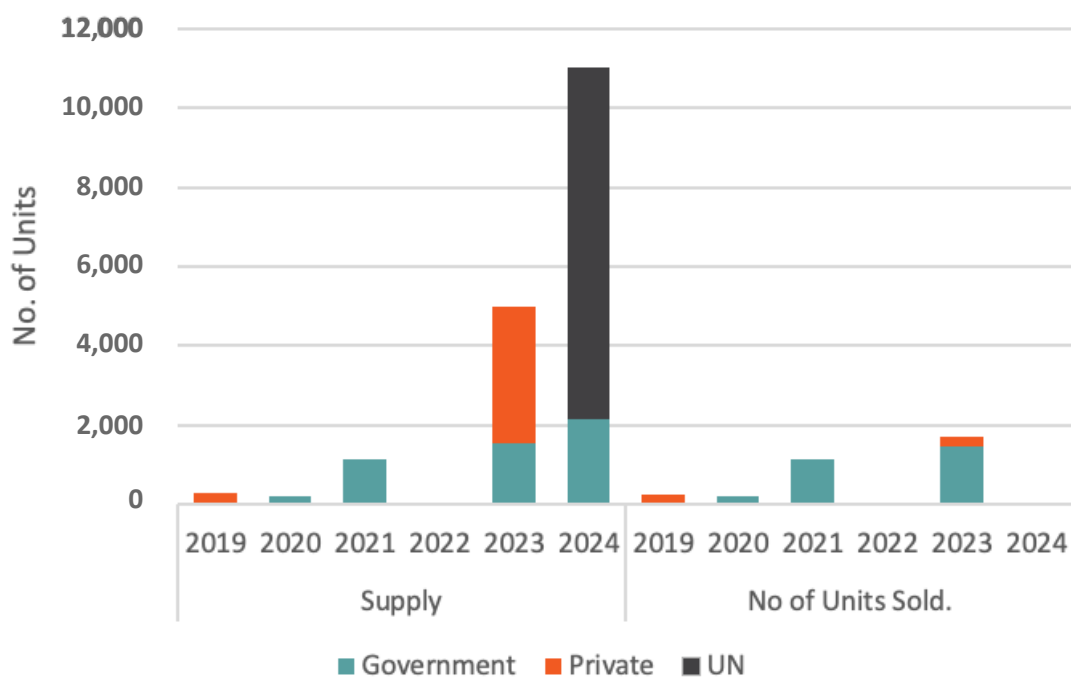
Affordable housing demand per typology



Source: Broll Kenya Research

The average take-up rate ranges from four to nine units per month for private developer projects, and 10 to 20 units for government-related projects, the latter because it has a ready market in both the public and civil servant sectors for projects expected to be delivered within the forthcoming 36 months.

Affordable housing demand by developer type



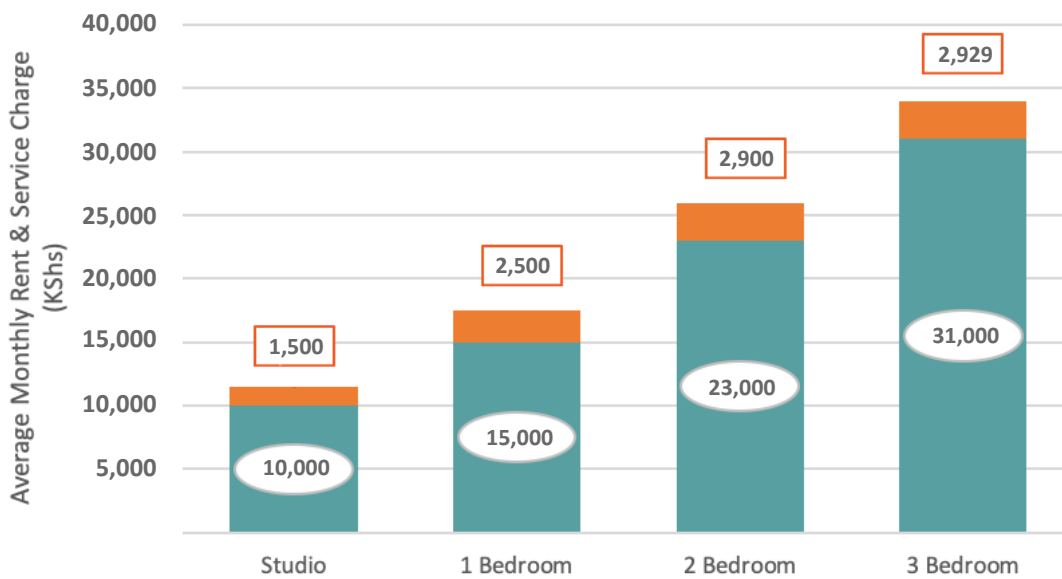
Source: Broll Kenya Research

Rent Analysis

Residential rentals are initially presented as a gross rent inclusive of service charges. The average gross rent ranges between KSh11,500/month and KSh33,929/month across studios to three-bedroom units.

Service charge rates are noted as standard within a specific project across the various typologies, and are between KSh1,500 to KSh3,000/month. Developers require a 12-month deposit for service charges from purchasers, whereas tenant leasing rental rates are usually inclusive of service charge. Service charges depend on the level of amenities and facilities provided within a development. Standard items covered in a typical development include: security; cleaning; garbage collection; repairs and maintenance; insurance; management fees; and utilities for the common areas.

Affordable housing average rent analysis per typology



Source: Broll Kenya Research



Yield Analysis

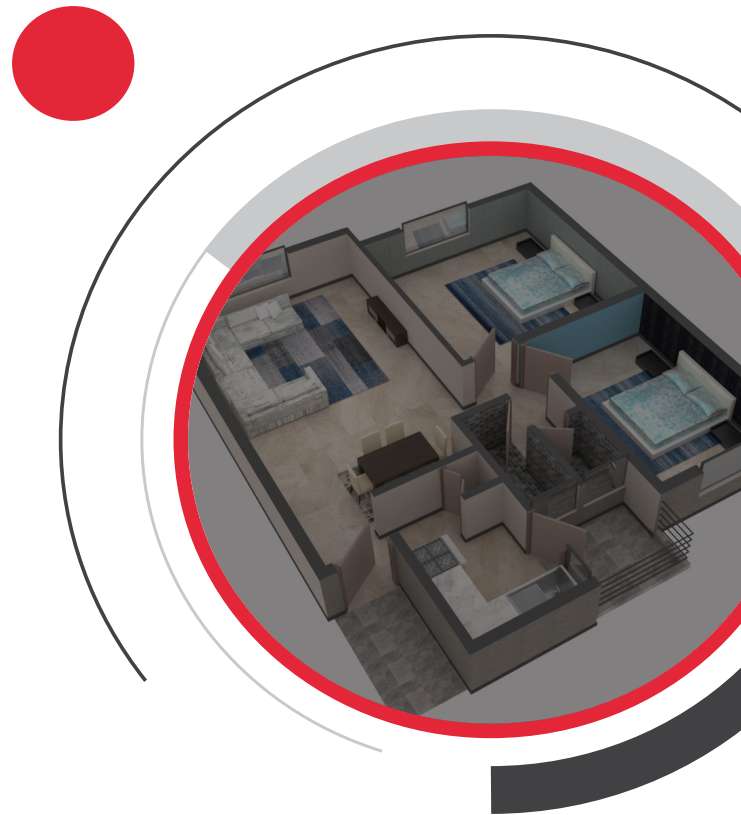
Affordable housing yields in Nairobi range between 7% to 13%. Projects achieving high yields are largely government projects mainly because land in prime locations is easily available, and projects are also highly densified at an average of 240 units/acre thus achieving higher economies of scale.

Affordable housing average density by developer

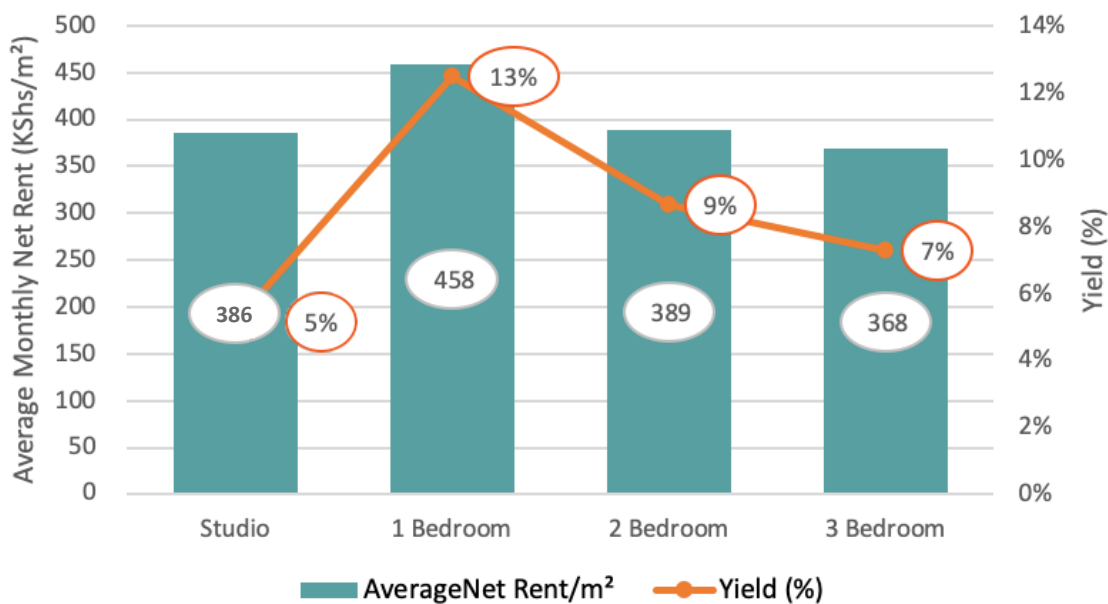
Developer	Average of Density (No. of Units/Acre)
Government	240
Private	216
UN	113
Average	211

Source: Broll Kenya Research

Private developers projects are noted to achieve lower yields, mainly attributed to increased project cost due to the inclusion of land cost coupled with lower densities achieved. Density averages 216 units/acre as most of these developments are located on the periphery of the Metro, offering fewer numbers of floors and lesser ground coverages.



AH average yield per typology



Source: Broll Kenya Research



Market Outlook

The Kenyan affordable housing sector is viewed as an opportunity for property developers to diversify their portfolios. This sector has also gained the interest of long-term financiers seeking to invest in opportunities that offer a social benefit such as: improved health (especially during the pandemic); reduced crime; improved labour market; higher life satisfaction; community cohesion; community support; and training programmes. Additionally, most affordable housing projects present investment opportunities for other complementary users such as retail, office, institutional (for example education), and medical clinics.

We anticipate the market accommodating this asset class in securitised real estate vehicles such as REITs. Other than traditional financiers such as banks and mortgage refinancing companies, the market is also expected to be receptive to non-traditional financing sources such as saccos to propel demand. We foresee long-term financiers such as pension funds, investment banks, insurance companies, and private equity firms, to present more interest in the development of affordable housing.

The government's incentives granted to developers within the affordable housing realm, such as tax rebates and infrastructure cost subsidies, are expected to attract additional private developers to affordable housing investment.

As world economies continue to recover from the effects of the Covid-19 pandemic, coupled with increased national budget allocation, we foresee increased affordable housing activities. The Kenyan government, through the Nairobi Metropolitan Service, has to date launched Phase Two of its AHP in 10 city estates under the Nairobi Urban regeneration project, and others are in the pipeline. National and county governments are working collaboratively to facilitate the roll-out of the AHP. The State Department for Housing and Urban Development, in conjunction with county governments of Nairobi, has partnered with various agencies, including the the Nairobi Metropolitan Service and National Housing Corporation, to implement the affordable housing agenda.

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