

# City for Rent

*A qualitative study on financing  
for shelter in Nairobi city*

13<sup>th</sup> November 2019

Presenter: Mary Kipkemoi

Enablers: Jason Waweru, Steve Mutungi, Sammy Mutinda, Ann Gachoka, Constant Cap, Humphrey, Jack Makau, Baraka Mwau



## Key take away

1. Unravelling the right “financing” question in housing reality of Nairobi today
  - ~~How can we make urban housing affordable to the urban poor?~~
  - How do we bridge the gap of what is affordable and minimum acceptable standards of adequate housing?
2. Institutional banks (Not SACCO's) are the significant and dominant players in all three key sub sectors of the Nairobi housing market - formal, tenement and slums. **All subsectors are collateralizable in some form**
3. Reconsidering One household – One housing opportunity home ownership policy paradigm in Nairobi urban affordable housing. **Lease to Built to Rent option.**

City for Rent

A qualitative study on financing for shelter in Nairobi

# Content

1. Background to study
2. Research objectives
3. Study approach
4. Findings
5. Policy reflections
  - ✓ Enabling market driven institutional investment in Build to Rent low income housing segment.
  - ✓ Reconsidering One household – One housing opportunity home ownership policy paradigm in affordable housing.
  - ✓ Unlocking scale Value Capture Financing in streamlining title and developing infrastructure for urban nodes







City for Rent

A qualitative study on financing for shelter in Nairobi



**City for Rent**  
**A qualitative study on financing for shelter in Nairobi**

## Background: KIHBS, KNBS 2018

Nairobi housing	Nature	% HH
	Owner Occupied	8.1%
	Rented	84.6%
	Pay rent to individual landlord	62.8%
	Single room rented	69.5%
	High density tenements	36%
	Corrugated iron sheet slum	33.5%

City for Rent

A qualitative study on financing for shelter in Nairobi

## Back ground: The “naïve” financing question

- » How can we make urban home ownership affordable to the urban poor? (National governments and Research funding agencies eg IDRC/DFID)
- » Can we design a financing product (mortgage?) that enables the urban poor to own a home in the city? (SDI)
- » Are there innovative building solutions or building standards or financing vehicles that can make urban housing affordable to urban poor? (Mukuru SPA consortium/NCC)

*All paradigms assume a willingness to own and seek to cure the ability to pay*

City for Rent  
A qualitative study on financing for shelter in Nairobi

## Background: The (unadmitted) answer

» There is affordable homes with good occupancy (tenants not squatters!) and highly profitable

Current affordable homes	Desirable affordable homes
Over 90% tenancy	Home ownership (assumes willingness to pay)
Complying with informality and corruption	Complying with standards and regulations
Illegal/Murky/contested/No title	With title (De Soto theory to unlock capital)
Poor drainage and horrible sanitation – virtually no private toilet and very few decent PAYGO toilets	One household One toilet
Illegal water supply using Jericans high likelihood of contamination	Piped treated water
Illegal often dangerous electricity connections	Last mile connection
Highly insufficient public schools and hospitals with demand far outstripping supply	Good hospitals, good schools
High mobility with average residency under 4 years	Strong communities and neighborhoods

**City for Rent**  
**A qualitative study on financing for shelter in Nairobi**

## Back ground: The “naïve” financing question

- » How do we bridge the gap of what is affordable housing and minimum acceptable standards of adequate housing?
- » What can improve the quality of affordable housing for low income groups and keep it affordable to them? – David Satterthwaite, IIED



## Background – legal & constitutional

- **The Constitution of Kenya 2010, Clause 43 (1b)** (*social & economic rights*) *the right 'to accessible and adequate housing, and to reasonable standards of sanitation'*
- **Universal Declaration of Human Rights, Article 25** *'the right to an adequate standard of living'.*
- **Sustainable Development Goals, Target 11.1 Safe and Affordable housing** *'By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums.'*

City for Rent

A qualitative study on financing for shelter in Nairobi

## Research Conceptual Approach

- 'city as system'
- Nairobi housing crisis beyond the slum [and tenement] ecosystem
- Field approach – approaching both formal and informal investors structure owners/home owners/ developers
- Seek to document and not theorize

City for Rent

A qualitative study on financing for shelter in Nairobi

## Why undertake the research?

1. Knowledge-seeking in *understanding the source of financing for housing developments* in Nairobi since the classic financing mortgage model falls short by 95%
2. Contribute to the discourse on housing finance in terms of innovative financing for [*social?*] housing as well as policy direction in private supply of low-income quality housing.

City for Rent

A qualitative study on financing for shelter in Nairobi

## Research Questions

1. How are the different housing developments in Nairobi financed (including acquisition of land, building and access to basic services – water, electricity, sewage, and garbage)?
2. What are the motivations for investing, alternative considerations and challenges faces?
3. What gaps exists in the housing market in the eyes of an investor in Nairobi?

City for Rent

A qualitative study on financing for shelter in Nairobi

## Study approach

- Qualitative in depth one-on-one interviews
- Inductive approach (atheoretical)
- *Analyzed in Atlas.ti 8*
- 21 participants were successfully interviewed. 18 out of 21 interviews were recorded with 3 interviewees' explicitly declining use of a recording device. All interviews were transcribed in verbatim.

City for Rent

A qualitative study on financing for shelter in Nairobi

# Findings



## Findings - Key themes

1. 16 different ways of financing with Formal banking institutions at the top of the housing finance chain
2. Higher returns for investment in low – income [slum and tenement] rental housing
3. Market driven transformation of housing typology and gradual transition into permanent and formal housing
4. Market imperfections hindering larger scale formal investment in low income housing accounting for 70% of the housing market
5. No barriers of access to investing in the housing market based on gender or age
6. Politics plays significant role in land tenure, informal housing market and access to infrastructure especially in low income housing.

City for Rent

A qualitative study on financing for shelter in Nairobi



## City for Rent

### A qualitative study on financing for shelter in Nairobi



## 1. Formal banking institutions at the top of the housing finance chain

*"If you were from Marsabit yes we will and we have invested in Marsabit but I can tell you that we financed the hotel in Marsabit but it was secured by a property in Kileleshwa. For those products are there we call them equity release you see for instance pipeline you give a separate security than where you're going to develop the property. We do not close our eyes to where the actual development is going to happen because talk about illegal developments, I have a case in point because when you access the payment you are seeing these rents from pipeline that will come to service the debt so to the extent that that also affects our own proposal we cannot close our eyes internally. You see even when we are financing that pipeline property are very specific cases we ensured that they have got approvals how they got it we don't know."*

Interview 16 quote 22, Licensed mortgage lender and housing developer

City for Rent

A qualitative study on financing for shelter in Nairobi

## 2. Higher returns for investment in low – income housing

Feature	Mukuru	Kilimani
Type	1 room	2 bdrm 2 bath
Average size of unit	10 SQM	100SQM
Purchase price	80,000 KES	8,100,000 KES
Price per SQM	8,000 KES	81,000 KES
Rental (est.)	2,000 KES	80,000 KES
Payback period	40 months	135 months
5 year implied yield	17.274%	(18.952%)

City for Rent

A qualitative study on financing for shelter in Nairobi

## 2. Recreated cash flows for DBOOT investor in Kawangware

Bank equity release	15,000,000
Interest rate	13%
Term (can access upto 15 years)	3 years
Monthly repayment	(505,410)
Monthly land leasing costs	(30,000)
Term of lease	12 years + 2
Cost of developing 300 units @ 50,000 per unit	15,000,000
Time for development	3 months
Net monthly rental yield @ 3,000 per unit less 10% maintenance and assuming 80% occupancy rate	648,000
Net monthly position in first 3 years of investment	112,590

**City for Rent**  
 A qualitative study on financing for shelter in Nairobi

### 3. Market driven transformation of housing typology and transition into permanent and formal housing

*"The housing typology in Nairobi is slowly transforming with the market forces. The mabati structures are being progressively replaced by tenements albeit poorly constructed and giving way to bigger players like us who can deliver even cheaper units on a large scale."*

Interview 10 Quote 6, Large scale private institutional developer of affordable housing

*"Madam you have to see the market is slowly changing so we do not need to worry about the slums. The issue of human dignity and lack of toilets we can leave to the academicians like you. Things will correct themselves – I can see that happening."*

Interview 8 Quote 17, Kangemi and Utawala private Individual male over 50 years landlord

City for Rent

A qualitative study on financing for shelter in Nairobi

## 4. Market imperfections hindering larger scale formal investment in low income housing accounting for 70% of the housing market

*"Even if you [are]doing a 30 square metre house the cost of the house for the cheapest unit has been claimed to be about 32000 shillings per square foot let's call it 30000 lets take one-bedroomed for 30 square metre house. so that's 900,000 shillings already even if I sell it at a million the mortgage repayment is 15,000 per month.*

*So there's no way I would supply anything that anyone would pay 3000 shillings its virtually impossible. it doesn't add up. The figures do not add up. If I were an investor the prudent way would be to give the money to the bank as a fixed deposit account instead of investing in this space formerly. If you look at the 30,000 per square metre cost price of very cheap house ..... no serious buyer would want to own it. precisely I can never make a mortgage product for a slum dweller in the conditions today. Even if the funding was 0% that unit would cost 5,000 to 6,000 shillings today it would not serve that market. The good thing about numbers is that they don't lie. So 70% of my market is out'*

Interview 16 Quote 25, Licensed mortgage lender and housing developer

City for Rent

A qualitative study on financing for shelter in Nairobi

## 5. No barriers of access to investing in the housing market based on gender or age

Wamechanganyikana sasa, unakuta hata mama amejenga nyumba yake.

***Kuchanganyika meaning wanaume ni wengi lakini kuna wanawake au?***

Eeh, wameanza saa hii sasa, unakuta hata msichana kama wewe bora uwe na pesa utajenga.

**Translation:** “They are now mixed up. You will find even a woman building her own house [tenement]. ***Mixing meaning male are more or women are there?*** Eeh, its relatively recent, you will find a girl just like you, as long as she has money, she can build.”

[Interview 9, Utawala, Quote 22. Male construction worker](#)

## 6. Politics plays significant role in land tenure, informal housing market and access to infrastructure especially in low income housing.

*"Alikuwa anapeana allotment letter ya council lakini wakati tulifanya research inside hiyo tukakuta wale wengi walikuwa wanapewa hiyo mashamba blocks pande hii mingi walikuwa former DC's wengine PC's but none of them walienda kufuata hiyo shamba iko wapi what am I supposed to do so that nipate umiliki wa hiyo shamba."*

*Translation:*

*"He was giving allotment letters from the [city] council[of Nairobi] but when we did our research we found that many allottees were former District Commissioners and others Provincial commissioners but none of them followed up to obtain full title of the plots"* [Interview 3, Maili Saba, Quote 11. Male landlord](#)

# Policy reflections





## Policy reflections

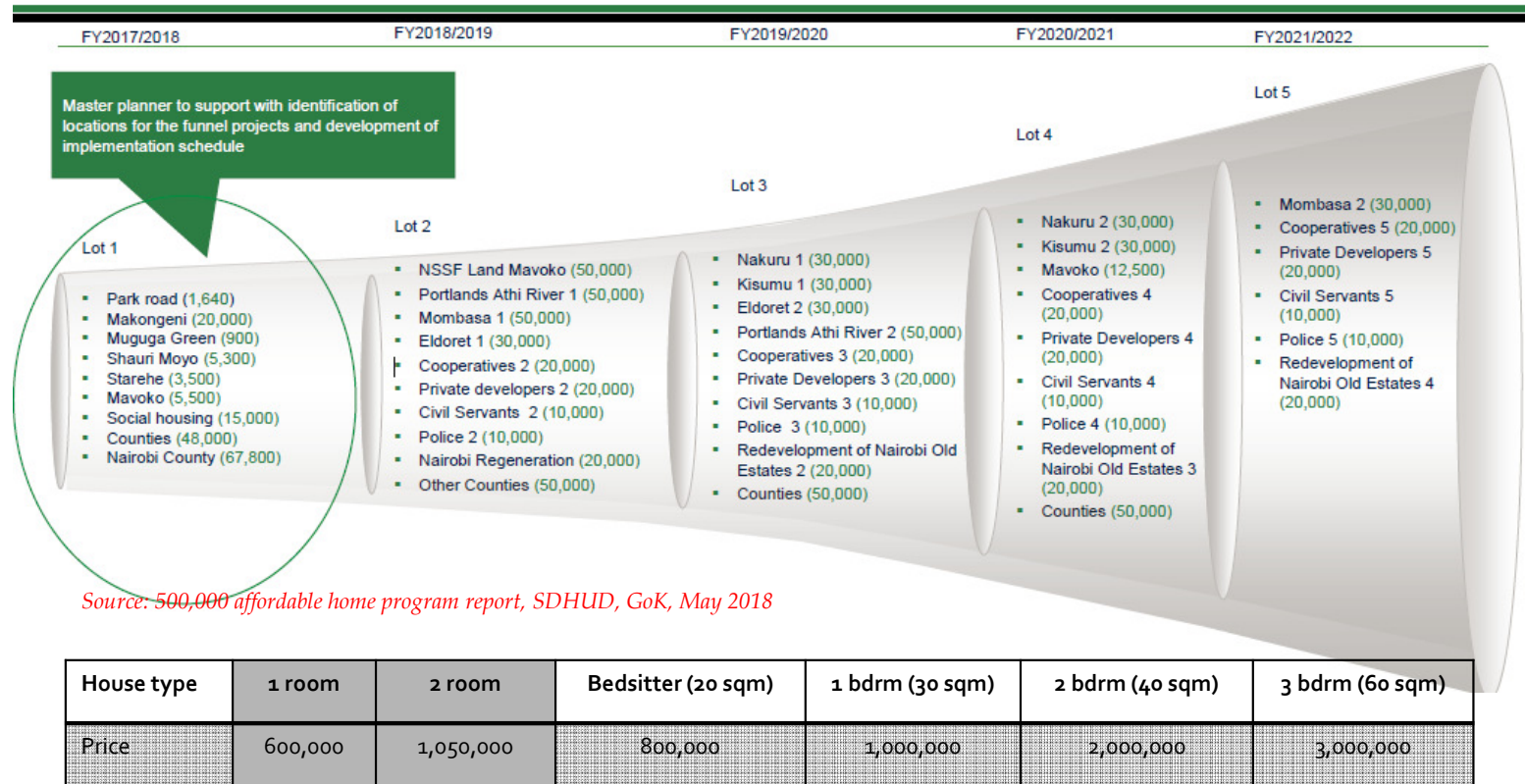
1. Enabling market driven institutional investment in Build to Rent low income housing segment (Poverty penalty/Poverty premium).
2. Reconsidering One household – One housing opportunity home ownership policy paradigm in affordable housing.
3. Unlocking scale Value Capture Financing in streamlining title and developing infrastructure for urban nodes
4. Stabilizing housing market: Land use management policy, Taxing idle land, liquidity matching, subsidies, innovation on planning standards and acceptable building material.

# Big 4 Agenda – 500,000 affordable housing units



AFFORDABLE HOUSING PROGRAM

Project pipeline



Source: 500,000 affordable home program report, SDHUD, GoK, May 2018

## City for Rent

A qualitative study on financing for shelter in Nairobi

## Low income resident Profile

- Young Single under 30; higher proportion of male
- Virtually all have done KCPE; a third done KCSE
- A multi ethnic group but weak integration across groups
- Reside in Mukuru for about 3 years
- Come to Nairobi to “hustle”. Engaged in odd jobs waiting for their “Break” out of Mukuru
- 43% own land with title in another part of [rural] Kenya (KNBS, 2018)
- Strong roots to rural Kenya sometimes leaving nuclear family upcountry



City for Rent

A qualitative study on financing for shelter in Nairobi

## Policy reflection: “One HH – One Housing opportunity”

### Current life hack for “Wafula”

- Wafula on minimum wage as a guard in Nairobi taking home an income of Kshs. 15,000
- Takes out a savings cooperative loan of Kshs. 100,000 for 3 years at 12% per annum
- Builds a two – roomed house with a kitchenette and an external latrine in his rural village using local building materials
- His monthly loan repayment is approximately Kshs. 3,300
- To squeeze the shilling he takes up a one-roomed unit in Mukuru for 3,000 and shares with three other guards. His effective rent falls to Kshs. 750

### Government’s plan for “Wafula”

- lock Wafula into a 15 year monthly repayment plan of Kshs. 4,000 for an improved stone **one – roomed house** in the urban area valued at Kshs. 600,000
- Seems to ignore house utility for an [expanding] family that Wafula will likely have over the 15 years
- Assumes no rent sharing
- Wafula will seek to participate in the hope of becoming a future landlord by renting the space to boost his income



**City for Rent**  
**A qualitative study on financing for shelter in Nairobi**

**Thank You!**



City for Rent  
A qualitative study on financing for shelter in Nairobi