

# City for Rent

A mixed method study on financing for shelter in Nairobi city



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# Content

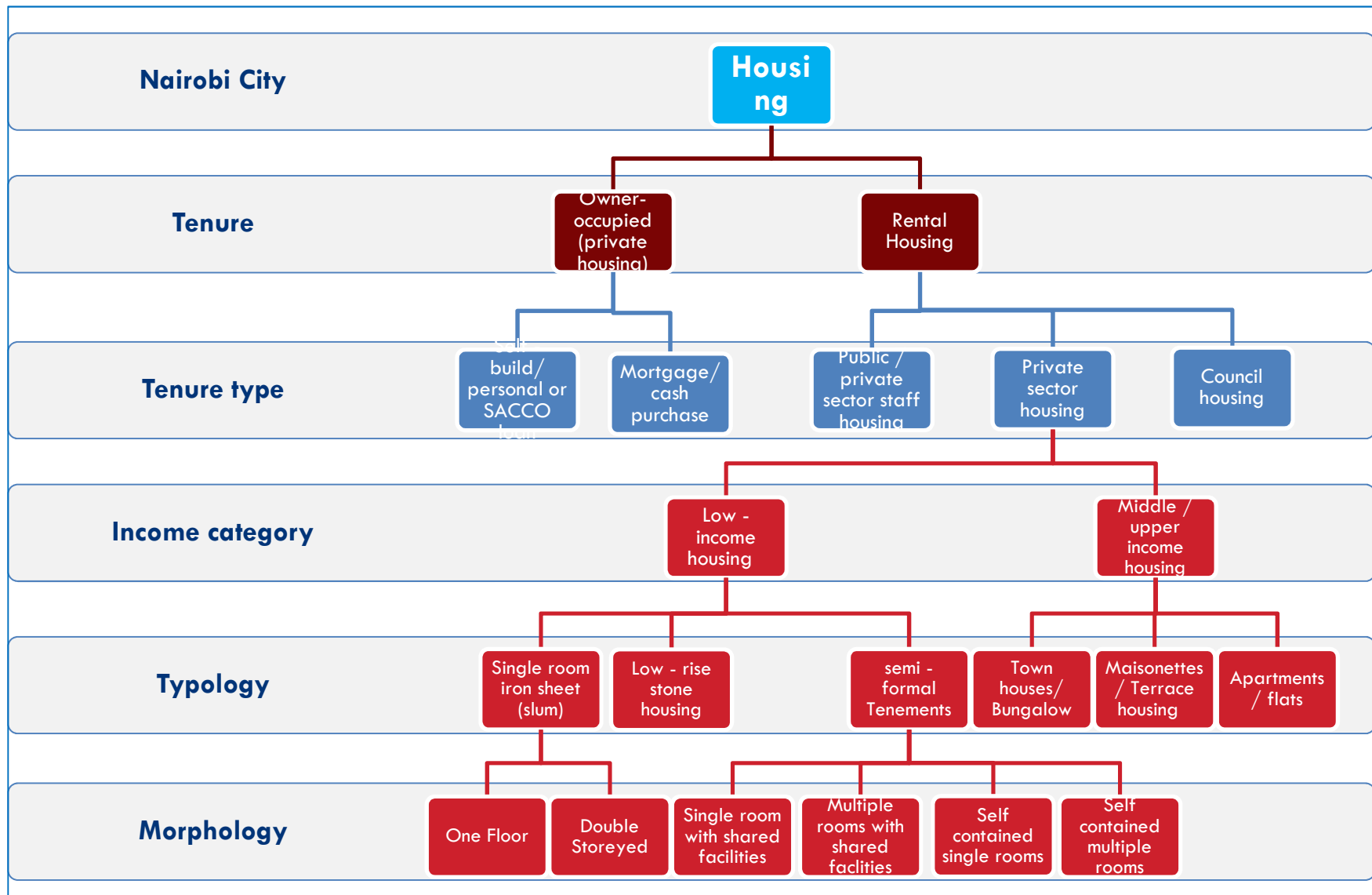
1. Background to study
2. Research objectives
3. Study approach
4. Findings
5. Policy considerations
  - ✓ Mukuru Special Planning Area
  - ✓ Big 4 Affordable Housing Program
  - ✓ A regulated rental market?

# 2015/6 Kenya integrated Household and Budget Survey

	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%



# Nairobi housing chart types. Adapted from (Ondieki, 2012)



# Research progress

1.2.2013 - 1.10.2015

**Improving Access to Justice and Basic Services in the Informal Settlements of Nairobi - IDRC Funding 107292**

- Identification & Quantification of Poverty penalty
- Mutinda, Mary Wanza, and Smith Otieno. "Unlocking Financing for Slum Redevelopment: The Case of Mukuru." *Harvard Africa Policy Journal* 11 (2015): 44.
- Nairobi Special Housing Fund
- Legal case observatory on right to housing

6.5.2016 - 6.7.2019

**Unlocking the Poverty Penalty and Upscaling the Respect for Rights in Kenya's Informal Settlements - IDRC Funding 108242**

- Enumeration of Mukuru HH - 100,561 HH and 301,683 persons
- Large scale socio-economic survey with 4,737 observations
- Declaration of the Mukuru Special Planning Area gazette notice number 7654 dated 1 August 2017
- Hye-Sung Kim\*, Mary Mutinda and Yong Yoon, **Would Land-Tilting Affect Urban Slum-Dwelling in Kenya? A Conjoint Analysis - UNHABITAT (undergoing 2<sup>nd</sup> review)**

1.10.2017 - 28.2.2020

**Shelter provision in East African cities: understanding transformative politics for inclusive cities - EARF Funding**

- **Conceptual approach to 'city as system'** Rather than approaching particular sectors (housing, land, health) or spaces (informal settlements) in isolation
- Part output - **FINANCING FOR SHELTER IN NAIROBI CITY**

# Prior research findings - Mukuru study area

	Findings	Details
1	Tenancy	92% tenants with minimal squatting [corroborating KIHBS 2015/6]
2	Educated youth	Average age of 26 for female and 29 for male with 75% completed class 8 and 38% completed Form 4
3	High mobility	Average stay below 4 years with pathways to other slums/ outskirts of Nairobi
4	Land owners	41.2% of slum dwellers claimed to own land with title in Kenya [corroborating KIHBS 2015/6]
5	Poverty Penalty	Slum residents pay more for services that are inferior to those provided in Nairobi's formal housing estates (Gulyani & Talkudar 2008)
6	Highly profitable slum real estate	High risk - High return Investing in mabati housing upto 5 times more profitable than investing in formal stone housing

# Understanding slum real estate.....

- Conceptual approach to ‘city as system’
- Housing crisis beyond the slum ecosystem
- Field approach - structure/home owners investing in build - to - rent or build - to - sell

Why?

Understanding affordable [*dignified*] scalable solutions to improving the housing reality in Nairobi

# Main players

1. Home developers
2. Land lords
3. Structure owners
4. Housing finance institutions
  - SACCO
  - Banks
  - Micro-finance institutions

# Purpose of 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.

# 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?

# Approach

- Qualitative in depth one-on-one interviews
- Inductive approach (atheoretical)
- *Analyzed in Atlas.ti 8*

# Findings - Key themes

1. Formal banking institutions at the top of the housing finance chain
2. Higher returns for investment in low - income housing
3. Market driven transformation of housing typology and transition into formal housing
4. Housing typology not only driven by price point demand but also perceived security of tenure and basic infrastructure
5. Market imperfections hindering larger scale formal investment in low income housing accounting for 70% of the housing market
6. The role of politics in land tenure, informal housing market and access to infrastructure

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

Housing typology	Personal sources	Cooperative	Banking
Semi- permanent Mabati	<ul style="list-style-type: none"> <li>- Salary</li> <li>- Savings</li> <li>- BOOT*</li> </ul>	<ul style="list-style-type: none"> <li>- Table banking</li> <li>- Work SACCO</li> </ul>	<ul style="list-style-type: none"> <li>- Personal loan</li> <li>- Equity release</li> </ul>
Low rise stone housing	<ul style="list-style-type: none"> <li>- Salary</li> <li>- Diaspora remittance</li> </ul>	<ul style="list-style-type: none"> <li>- Work SACCO</li> </ul>	<ul style="list-style-type: none"> <li>- Personal loan *</li> </ul>
Semi - Formal Tenements	<ul style="list-style-type: none"> <li>- sale of land</li> <li>- Sale of car</li> <li>- Proceeds from other investment</li> </ul>		<ul style="list-style-type: none"> <li>-Equity release</li> </ul>
Stand alone Bungalow	<ul style="list-style-type: none"> <li>- Savings</li> </ul>	<ul style="list-style-type: none"> <li>- Work SACCO</li> </ul>	<ul style="list-style-type: none"> <li>- SACCO guaranteed mortgage</li> <li>- Mortgage on land</li> </ul>
Townhouse/ Maisonettes, Terrace housing	<ul style="list-style-type: none"> <li>- Deposit from saving</li> </ul>		<ul style="list-style-type: none"> <li>- Mortgage on house</li> <li>- Tenant purchase scheme</li> </ul>
Apartments flats			<ul style="list-style-type: none"> <li>- Bridge Capital</li> </ul>



# 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 there we call them equity release you see for instance pipeline you give a separate security then 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*

## 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%)

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

*“What I will get back? ok it depends on the size of the plot is a plot is 50 by 100 ft that is 1/8th you can do 1 storey to accommodate 40 to 45 units depending on their shape of the Land. rent again depending on the location and Kangemi it's a bit high for Mabati 3,500 and 4 stone 4500 shillings. and events goes up but if you go to places like, Kawangware where are the rent is lower 3000 or 2500 shillings. I will Focus on Kangemi when the project is located so if you do 3500 x 40 that about 170000 shillings. the cost of building one unit of mabati give it about 45000 shillings..... so the upfront cost will be about 45000 I rent it for about 3,500 month this means in a year roughly I will have gotten back my money.” Interview 19 Quote 5*

### 3. Market driven transformation of housing typology and transition into 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*
- *“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*

## 4. Housing typology not only driven by price point demand but also perceived security of tenure and basic infrastructure

- *“And today because an investor can see the money to be made they will go to areas with title like Kawangware and offer them money they cannot refuse like 30 million for an acre. Ofcourse the original poor title holder will take this!” Interview 8 Quote 19*
- *“Things are changing from mabati to stone because the land ballots has given more security and in a place like mathare we now have sewer lines/ electricity tokens and water.” Interview 12 Quote 13*
- *“Kangemi is good in location and we have a sewer and metered water making construction relatively easy.” Interview 8 Quote 8*

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

*“Even if you 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 letter one-bedroomed for 30 square metre house. so that's 900000 shillings already even if I sell it at a million the mortgage repayment is 15000 So there's no way out supply anything that anyone would pay less than 3000 shillings to 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 30000 per square metre cost pieces of very cheap house is it can only me rented no serious buyer would want to own it. precisely I can never make a much page product for a slum dweller in the conditions today. Even if the funding was 0% that unit would cost 5000 to 6000 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

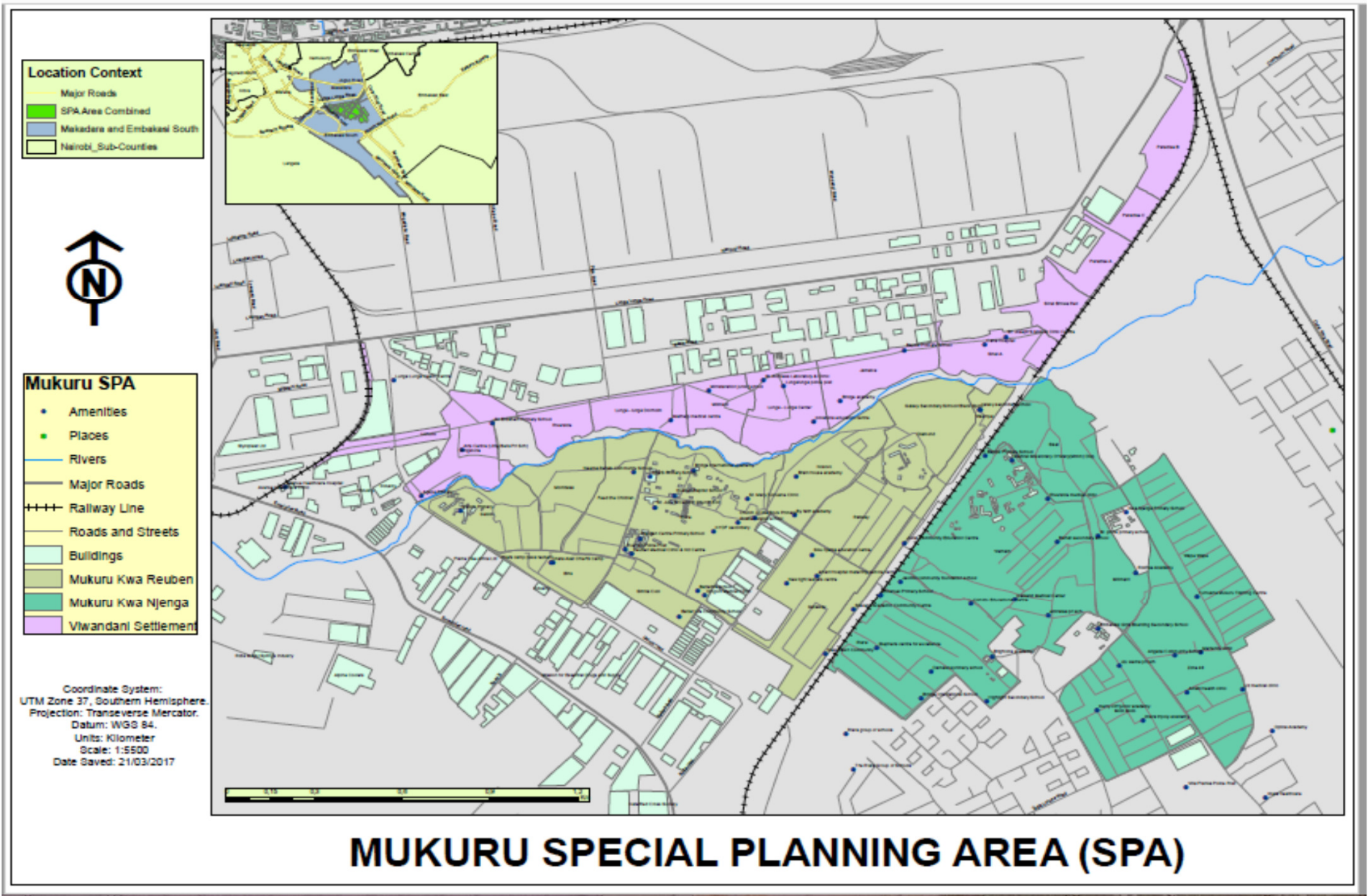
## 6. The role of politics in land tenure, informal housing market and access to infrastructure

- *“Hiyo? Kuna time chief alitumana akapeana ruhusa. Kuna auntie yangu alikuwa na space hapo karibu na rui (river) so akaniambia nikuje nichukue watu wakizubaa.” Interview 11 Quote 9*
- *“These job and political networks are fuelling the growth and persistence - “Kura for Labour”. For instance you see quite a bit of Nairobi now has ODM MP’s. When you have a construction in their constituency they demand to supply their people and even negotiate with you a reasonable price for watu wa mkono at 500/- . The MP then ships his people in and they sort themselves accommodation in these clanism vijiji. Then they are paid in cash 300/- while 100 goes to the MP’s 100 /- for those organizing the labour and the trick repeats itself again every other election.” Interview 8 Quote 21*

## Policy considerations - Mukuru SPA 7654 concept

- The approach to the Special Planning Area intervention in MUKURU is conceptually a **reconfiguration of the plan process** to include formulation of innovative strategic actions targeting solutions to the area's fundamental development challenges of social, economic, physical and environmental dimensions together with **financing strategy** and their embedment on effective implementation trajectory.
- In addition, this project involves **public policy reforms' advocacy** through inter agency/governmental policy dialogue required to support implementation.
- **Participatory Research** and compilation of baseline information for planning purpose

*Source - Tom Odongo Presentation to UN Governing Council 12 May 2017*

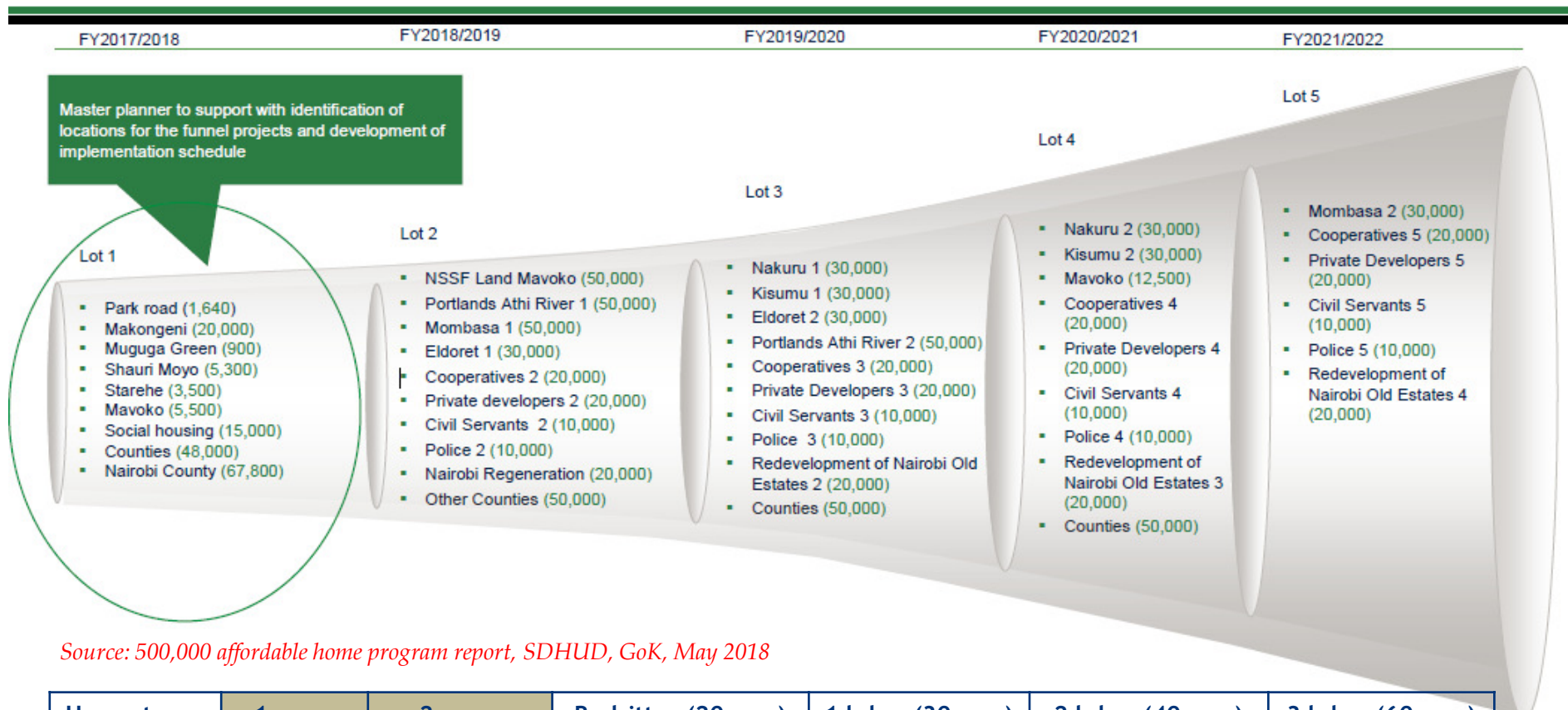


# Big 4 Agenda – 500,000 affordable housing units



AFFORDABLE HOUSING PROGRAM

## Project pipeline



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

House type	1 room	2 room	Bedsitter (20 sqm)	1 bdrm (30 sqm)	2 bdrm (40 sqm)	3 bdrm (60 sqm)
Price	600,000	1,050,000	800,000	1,000,000	2,000,000	3,000,000

# Regulated Build - Rent - Transfer housing framework?

- Findings question Hernando De Soto *Mystery of Capital*
- Departure from one household - one housing opportunity rights approach.
- A strong evidence of choice by Wafula in living in slums when viewed in a cradle - to - grave life cycle highly connected to rural existence
- Stabilizing demand for housing
  - Land use management policy
  - Taxing idle land
  - Liquidity matching
  - Subsidies
  - Innovation on what constitutes formal building material

***Must a slum dweller own a house?***

# Thank You!

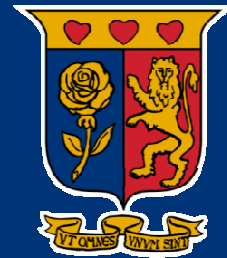


## Further material

<https://www.youtube.com/watch?v=poz3Z9pZbfk&pbjreload=10>

<https://streamable.com/9j3wt>

<https://www.bbc.co.uk/sounds/play/p07304y5>



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