

*Supporting sustainable development through research and capacity building*

## Delivering Affordable Housing in Kenya Requires a Paradigm Shift

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### Introduction

The right to a decent housing by all Kenyans is a constitutional obligation. The 2010 Constitution of Kenya identifies access to adequate housing and to reasonable standards of sanitation as an economic and social right. In its broad sense, decent housing connotes housing that is inclusive of functioning infrastructure, clean and portable water, sanitation and waste management, energy as well as proximity to facilities such as markets, health centres, schools and security posts. As such, housing has significant inter-linkages across sectors that makes it a critical sector in the growth and development process.

Kenya has made remarkable strides in addressing decent housing but more is required for majority of Kenyans to realize this constitutional right. By 2016, more than half of households in Kenya lived in buildings with floors of cement or tiles against 39.3 per cent in 2006, while 89.7 per cent had roofing with either corrugated iron sheets, tiles, asbestos or concrete against 80 per cent in 2006. Though only 42.2 per cent of the households were living in permanent houses (with walls made of bricks, stones, bricks and cement finish) in 2016, this was an improvement from 36.2 per cent in 2006. In addition, by 2016 about 59.5 per cent of the households were living in houses they owned, while the rest rented at a fee or in kind, and this was against 69.6 per cent households who were living in own-occupier houses in 2006. Therefore, though the housing conditions of the population improved between 2006 and 2016, there was an increase in the proportion of households living in rented or squatting conditions.

Housing utilities also improved over the period 2006-2016 with respect to access to water and electricity. The households having access to improved water sources increased from 61.5 per cent to 72.6 per cent while those using electricity for lighting increased from 15.7 per cent to 41.1 per cent in the same period. The number of customers connected to electricity increased from 802,249 to 6,182,282 between 2006 and 2016. However, the country needs to attain universal access to improved water sources and connectivity to electricity in delivering the affordable housing.

### Efforts to Promote Decent Housing

The National government through the National Housing Corporation (NHC) has continued to promote decent housing through schemes such as tenant purchase, outright sale, rural and peri-urban housing loan and rental housing. However, a lot of innovation is required to come up with an appropriate programme that encourages reduction in cost of construction to enable realization of affordable prices and rent. The National government through the Department of Public Works has also undertaken several housing projects, including civil servant housing scheme and slum upgrading projects. However, with the rising population, the widening gap between the developed units and the demand implies there is need for more government and private sector involvement.

County governments have initiated various housing programmes through county public works with an aim of enhancing the housing conditions for staff and residents. However,

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budgetary allocations remain low. These programmes involve construction of new houses and the rehabilitation of existing housing stock which the counties inherited from the Local Authorities.

The private sector has also contributed immensely in reducing the housing deficit. However, the prices of their housing units remain too high and therefore unaffordable to the middle and low-income earners. High interest rates on loans and mortgages makes the home ownership dream untenable. In addition, initiatives by non-governmental institutions (local and international) have supported the affordable housing agenda in Kenya through charity or subsidized housing programmes targeting various communities and individuals, especially among the vulnerable and marginalized population.

The National Construction Authority (NCA), National Building Inspectorate and various educational institutions have also supported the housing sector by encouraging professional ethics among contractors, enforcing building safety and standards, and promoting capacity development and innovation. NCA has enhanced registration, accreditation and regulation of contractors' professional conduct. Though more needs to be done by the Building Inspectorate, it has improved awareness, inspection and enforcement on building safety and standards. Universities and tertiary institutions are also charged with the responsibility of developing

requisite human capacity in various professions and promoting innovation in the housing sector.

The country has renewed momentum to address the ballooning housing deficit, which is estimated at over 200,000 units annually, through the affordable housing initiative in the "Big Four" agenda of the Government of Kenya. This includes the commitment to having 500,000 new home owners in a period of five years. This is expected to translate into increased home ownership, employment creation and improvement in access to essential utilities. Besides home ownership, affordable housing can be achieved through facilitation of affordable rental rates and associated utilities. High rental rates contribute to increased household budgets, reduces household capacity to save, and increases rent-related conflicts between landlords and tenants.

### **Key Challenges and Constraints Hampering Property Development**

Besides the progress made through the various interventions, a set of challenges continue derailing the sector and therefore need to be addressed for the country to make remarkable progress on the affordable housing agenda. These challenges range from access to land, to cost of construction, appropriate technology and ability to pay, approval processes, building safety and standards, maintenance of existing stock, sector funding and access to critical utilities. For instance, though progress has been made in facilitating access to electricity, water, sewerage, transport, security and ICT services, these services are still relatively inaccessible and unaffordable by a considerable proportion of the population.

#### **Access to land**

Affordable housing cannot be achieved without addressing the land question with respect to availability, price and security of ownership. A national land price index and a clean land register is lacking to control land prices and stabilize land ownership. Land is a critical factor that ought to attract government attention. In the absence of a clear land policy to stabilize land prices, then speculation behaviour inflates the prices beyond the reach of majority of Kenyans. Besides, the land register needs to be

cleaned to reduce land ownership uncertainties and associated conflicts. Such uncertainties derail housing investment decisions and wither investor confidence.

The integrated land use approach that provides room for parks, schools, hospital and shops among other economic activities has not been fully utilized in major urban areas in Kenya. There is also sub-optimal utilization of land, where the buildings can only accommodate small populations as opposed to optimal population especially through high-rise buildings. This scenario is experienced across all counties, because most of the public residential and commercial buildings were built in the colonial era, thus such designs have been overtaken by technology.

### ***Appropriate building designs***

There is a mismatch between design of houses and the needs of majority of the population. It is important that the units being developed be matched with the ability to pay, household size and needs. For instance, in the cities and major urban areas across the counties, slums and informal settlements are swelling, an occurrence largely attributable to low payments, high level of unemployment, and limited use of appropriate technology that can encourage low cost of construction. The slow pace in implementing the government-led housing schemes which target low-income social class is a major concern, besides observations that the targeting done in government programmes is not inclusive enough because of the limited planned units for low income class.

### ***Cost of property development***

The cost of construction and cost of credit are critical in the housing agenda. Interest rate on mortgages are high and therefore not affordable to many people. On the other hand, average earnings in the country are still low, besides Kenya being among the lower-middle income economies. Therefore, with enhanced wages and salaries, employees can have ability to access mortgages.

Construction costs can also be attributed to limited innovation that encourages low cost technology especially using local materials. The building code should be supportive of

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such innovations that target low cost property development through structures, designs, materials and sizes that match property with social classes. In addition, there are opportunities in ensuring that counties endowed with various building materials support inclusive development across the country by allowing inter-county supply of materials and technology.

Tax on building materials is also contributing to increased cost of construction. If the tax on building materials such as steel, cement, paints and roofing materials is reduced, this will significantly reduce the cost of housing units. In addition, various levies on sand, timber and quarry stones charged by the counties are notably high and are additional costs that end up making property development expensive.

### ***Ease of doing business - approval process and timelines***

Besides the various fees and charges in approving development plans, the number of processes and respective timelines are a hindrance to sector performance. There is low automation of such processes, which makes them mechanical and unnecessarily long. The human capacity to serve applicants is inadequate, with reported cases of low professional ethics and laxity by some officers. Various institutions and departments from both National and County governments are involved in the approval processes, and this can be efficiently offered under one-roof model.

### ***Fraud in housing schemes***

Public confidence in housing schemes is eroded with increase in cases of fraudulent schemes. To curb this problem, a government institution or a national trustee should be established to manage the accounts of all housing schemes. In this regard, all contributions can be deposited with the institution for transfer to respective investment schemes. Mechanisms to facilitate access to money for property development can be developed, and with guaranteed due diligence the incidences of fraud can be minimized. This will enhance the confidence and unlock the untapped potential of housing.

### ***Maintenance of existing stock***

The existing stock of houses under the ownership and management of county governments are dilapidated and have not used land optimally. The relocation plan of the tenants in the existing houses can be established and all buildings flattened to pave way for buildings that use land efficiently. Inadequate investment in maintenance of public buildings increases depreciation level, thus devaluing the buildings and attracting low rental rates. As a result, such buildings do not attract sufficient revenue from tenants to support further construction and maintenance.

### ***Building safety and standards***

Collapsing buildings have led to loss of lives and property. This indicates that adherence to building standards is low, which therefore compromises the safety and security of buildings. Collapsing buildings are mainly due to shoddy workmanship which is fanned by erosion of professional ethos. Efforts need to be enhanced in inspection of building and

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enforcement of recommended appropriate actions.

### ***Low awareness on investment opportunities***

Investment in the sector is also hampered by limited awareness of housing potential in the country. Lack of a reliable study that ascertains the potential of housing sector across the counties limits investment planning and attracting potential investors (local and foreign). Though investment conferences have been conducted to attract investors, their impact have not been realized. This is largely attributed to lack of clear investment plans and marketing strategies by the governments. In addition, the young employees have not appreciated the need for owning a home early and the advantages of obtaining mortgages when young. This can be attributed to lack of sensitization.

### ***Limited funding***

The level of funding towards affordable decent housing is relatively low compared to demand. Competing needs such as education, health and security make housing less attractive in government plans. The private sector is therefore expected to play a larger role in housing agenda, with the public sector facilitating through creation of an enabling environment. Interest rates on mortgages by banks are high, making borrowing for property development expensive. On the other hand, pension schemes have not fully appreciated the potential in housing as a channel of investment. The savings and credit cooperative societies together with housing schemes have not been fully developed to offer long-term lending products for property development. Domestic savings is also insufficient to boost investment in housing.

### ***Inhibitive policy and regulatory environment***

Efforts to enhance delivery of decent housing have been hampered by policies that limit innovation and partnerships. The building code is not accommodative of innovative materials and designs which can be cost effective and time efficient. Land adjudication and tenure systems allow for multiplicity and duplication of roles by institutions. Requirements in public-private-partnerships especially in the formation

of consortium and the processes of approving projects frustrate faster investment decision making.

### Opportunities to Exploit

Despite the challenges highlighted, strategic opportunities exist locally and globally that can be tapped into to hasten the realization of affordable housing. In terms of funding, the deep local financial markets and pension funds present an opportunity to mobilize financing for affordable housing from domestic savings. This has the added advantage of using local currency and thus overcoming risks associated with fluctuations in the foreign exchange market.

There exists huge potential of viable land in urban areas that can be exploited towards affordable housing. Plot ratios and ground coverage in both public and privately held land as prescribed in the zoning ordinance have not been fully utilized, and this can be harnessed to avail more floor area for affordable housing. For instance, 80 per cent of land in Nairobi is public land of which over 40 per cent is alienated to private and other parties. There are also sections of property that lack clear status of tenure and ownership, which excludes them from the housing market. With effective land administration and secure land tenure, these spaces can be availed for affordable housing.

Provision of affordable housing *en masse* in designated zones exploits the economies of scale and presents opportunities to effectively and efficiently provide other basic utilities such as water, sanitation, electricity, public transport and security. This would allow for an integrated approach to housing development, with efficiency gains and cost control. Large scale property development reduces unit costs per input, thus allowing for affordable housing. It also reduces the requirement for development of main infrastructure to offer critical utilities through increased population and connection densities.

A significant portion of youth in the country are unemployed and underemployed, and if properly equipped, they can provide the manpower required in developing the 500,000 affordable homes in the next five years. Initiatives are already in place by stakeholders to build capacity of the youth in artisanal skills and crafts relevant to the housing sector, as championed

by the National Construction Authority and National Industrial Training Authority.

There are public and private institutions that hold vast experience in housing development across all segments of the housing market, these provide the opportunity for support in scaling up past housing projects to attain the 500,000 target. The opportunities provided cut across from building technology and equipment, professional services, financial services, and materials supply.

Transition from 'market cities' to 'production cities' can be possible where there is high-density settlement supplemented by adequate infrastructure. Firms override on these two components as a source of labour and access to market. Proximity of residential houses to industrial zones enhances availability of labour, access to jobs, and labour productivity through time-use efficiency. Therefore, manufacturing companies can form consortium to develop decent housing for workers near their locations, thereby exploiting the efficiencies associated with production cities. This model has been adopted by schools and hospitals where staff quarters are developed,. The model can work very well around special economic zones and export processing zones.

Successful implementation of urban housing schemes offers opportunity to neutralize social and political decadence. This is because lack of decent housing and utilities results in slums which can steer political and social instability, threatening socio-political fabric of the country. However, if the housing schemes are well planned especially through slum upgrading schemes that encourage home ownership and affordable decent-housing, this can provide political life and promote peace and tranquillity. Integrated and mass housing schemes have potential to break the barriers against cohesion, inclusion and social integration. By integrating

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individuals from diverse cultures and income groups, affordable housing can help reverse the level of segregation witnessed in historical master plans.

### **Strategic Direction for Efficiency and Effective Delivery of the Housing Agenda**

To enhance the investment environment and facilitate affordable housing agenda, the country will have to undertake bold steps. These will be in response to the discussed constraints and emerging opportunities to ensure the country injects a paradigm shift to a more proactive investment incentive environment.

### **Review of policies, laws, regulations and standards**

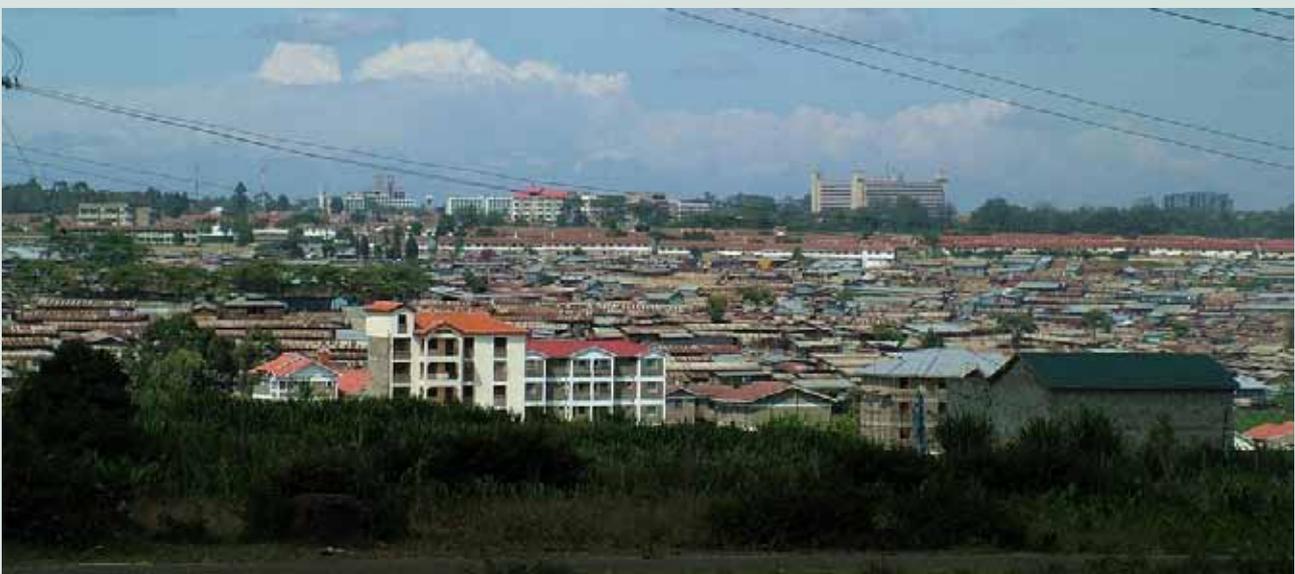
Policy, legal and regulatory reforms are necessary to streamline the housing sector and refocus it on affordable housing. The reforms should address access to land, financing of housing schemes, and building code and standards. County level planning laws, zoning ordinances, approval systems and building codes will need to be reviewed in support of the housing agenda with an aim of reducing bureaucracies and unnecessary charges and encouraging service delivery innovations targeting quality and timeliness. These can well be fast-tracked through intergovernmental coordination.

Further, a housing systems approach can be adopted to coordinate the entire housing sector and allied services to enhance efficiency and

effectiveness. Development densities should be reviewed to ensure optimal and economic use of land. The Land Value Index Bill should also be enacted with a view to effectively manage land prices and enhance affordability. Review of the public-private-partnership framework will be necessary to encourage faster formation of consortium and decision making on investment and contractual agreements. There is also need to revise the building code to capture new models of construction. For instance, precast concrete panels, container and timber are considered cheaper compared to the traditional brick and mortar method of construction that is expensive and takes a lot of time.

### **Resource mobilization**

Domestic savings can be mobilized towards sustainable funding of affordable housing. The financing instruments provided should be designed to avail affordable and long-term credit. To ensure efficiency, scale and sustainability of the funding streams, the unit costs of developing a house will need to be controlled through fiscal incentives and government support. Existing sources of housing financing need to be reviewed with the aim of packaging financial products that fit the affordable credit paradigm for housing and encouraging public-private partnership initiatives. Proper designs of public-private-partnership projects should encourage the population in formal employment to join housing schemes. Further, Savings and Credit Cooperative Societies, Housing Cooperative Societies and Pension Schemes can increase their contribution to property development.



Kenya can also raise funds through diaspora, reconciliation and development bonds that are targeted for infrastructural development. To encourage this, the government can give tax incentives on earnings from remittances targeting the housing sector. The country can learn from Israel, India and South Africa which have adopted such models.

### ***Addressing land constraints***

The government can control the physical development of land and the kinds of uses through zoning. The benefits of zoning is to allow the government to control the demand and price of land in an area. County governments may categorize housing design, sizes and costing to various zones and ensure that approvals are monitored accordingly. This also facilitates proper targeting of supply of housing units with the demand and needs of the population.

Public land for public /social housing will require adjudication and formalization especially in informal settlements to guarantee security of tenure for targeted beneficiaries. The land administration system will need strengthening to serve as a guarantee and reassurance to private investors and financial sector intermediaries on sanctity of tenure. The conditions set out in leasehold property instruments should ensure that land in urban areas zoned for affordable housing is put to productive economic use within a prescribed timeframe. Creation of land banks will be an incentive to private sector funding. This would unlock idle land for development and deter speculative behaviour in the property market.

### ***Target group Approach***

Strategically, provision of housing should be tailored to the situation and needs of the targeted inhabitants. The housing market from the demand side cuts across different income groups and user preference groups such as rental and home owner. One approach to maximize the social impact would be targeting the population with greatest need on minimum standard of adequate and decent housing. This translates to giving priority to the homeless, middle and low-income, and the vulnerable and marginalized Kenyans. The people-centric approach infuses a holistic perspective as opposed to emphasis on physical infrastructure by catering for peoples diverse and dynamic needs. This means the strategic focus would seek to ensure families have access to schools, jobs, hospitals, public transport and recreational spaces. In effect, this would help build a sense of inclusivity and community. The approach could further supplement government efforts where local communities join hands in building their own homes collectively.

Bigger houses are expensive and sometimes sub-optimal to household size and needs. As such, developing slightly smaller but functional houses using fewer construction materials and facilitating development of cheaper houses need to be encouraged. This will contribute to optimal utilization of land.

### ***Reducing construction costs***

Introduction of incentives such as low-income housing tax credit will encourage investors and developers to engage in large scale housing



projects. Reduction of tax on steel, cement, iron sheets and paints among other key inputs will be instrumental. Levies and charges on land approval processes will also encourage cost reduction. This can be extended for a given period until the sector demand and supply forces stabilize.

An integrated housing development and planning approach should be adopted to ensure basic services such as water, sanitation, transport, electricity, and security are availed alongside housing. This would ensure compliance with maxims on adequate and decent human settlements that provide a high quality of life. In addition, integrated planning will require multi-sectoral approach, such that development is inclusive by bringing together various services such as education, health, security, markets and industry to reinforce interdependencies.

In addition, employers will need a holistic approach to enhance labour productivity through facilitation of affordable housing. Through

clustering approach, industries can encourage development of houses for the employees which should be near the workplace and offer incentive for other investors to build schools and health centres nearby by introducing or linking education and health policies to such centres.

### **Capacity building**

The sector needs to scale up capacity building on technical skills, innovation and professional ethics. This can be developed for institutions and individuals. For instance, contractors will need capacity development to respect code of conduct and professional advice. Managers of housing schemes will need to be sensitized on the issues of fraud and their effects to the industry in general, inclusive of slowing down investment and uptake of market offers. The sector will have to be encouraged to enhance self-regulation mechanism by encouraging formation of associations.

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KIPPRA Policy Briefs are aimed at a wide dissemination of the Institute's policy research findings. The findings are expected to stimulate discussion and also build capacity in the public policy making process in Kenya.

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