



HOUSE-IT-KENYA

**COMMERCIAL REAL ESTATE
JOINT VENTURE**



Presented By:

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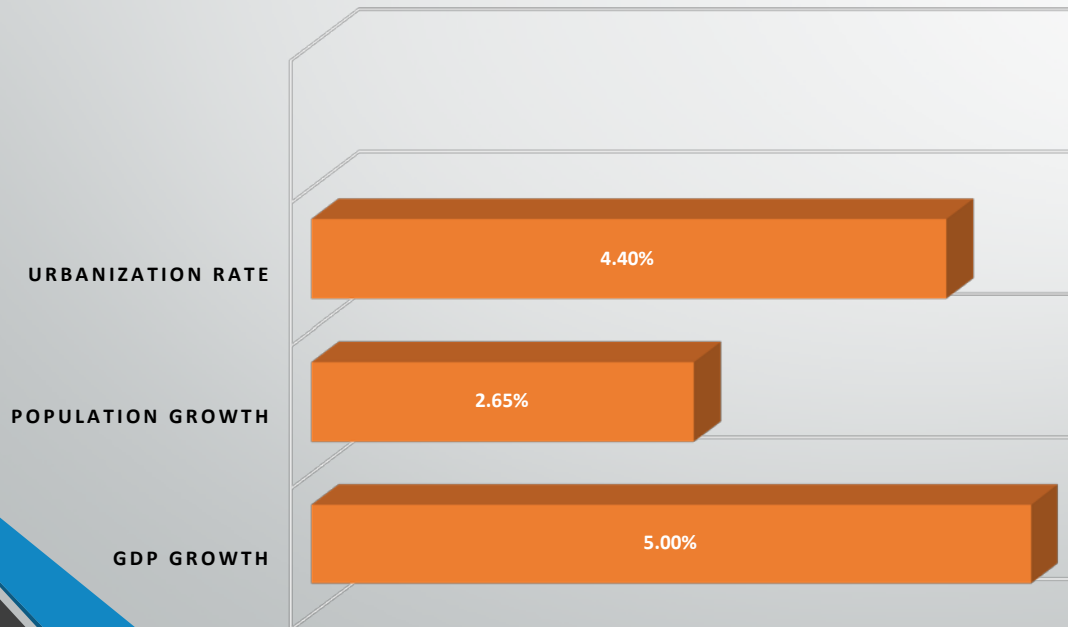
Eunice Keya

Background

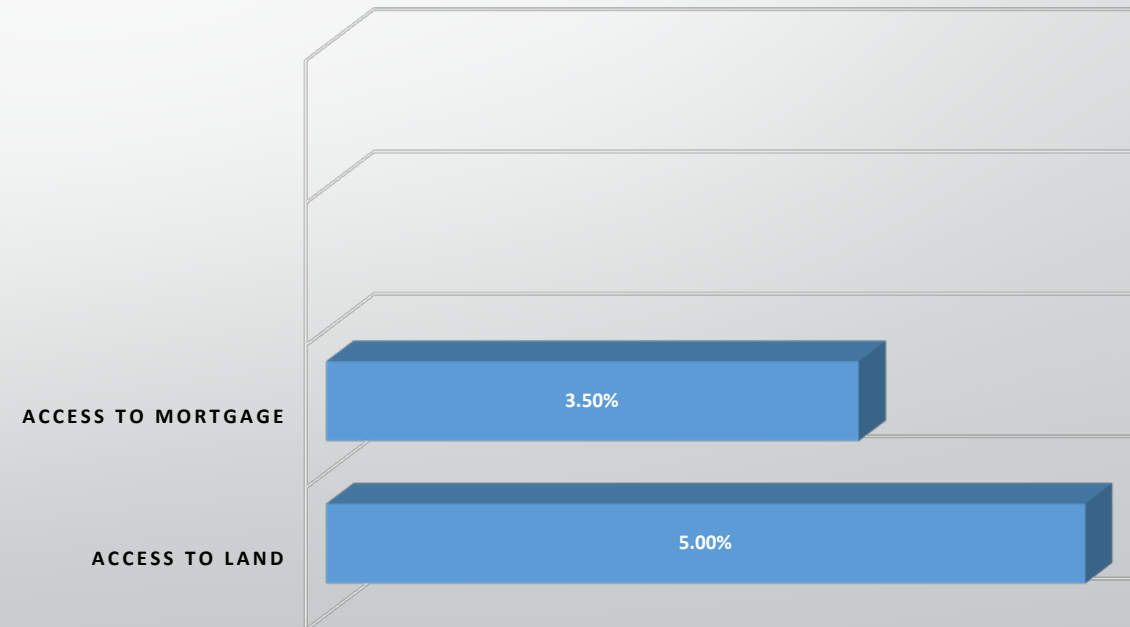
- Housing demand in Nairobi far outstrips supply. Housing deficit in the residential real estate is approximately at 1.9 million units and growing at 200,000 units annually.
- In Nairobi, the demand for housing has reached 80,000 units per year. Growth in the county's GDP, rapid population growth and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

Demand and Supply of Housing Units

DETERMINANTS OF HOUSING DEMAND



DETERMINANTS OF HOUSING SUPPLY

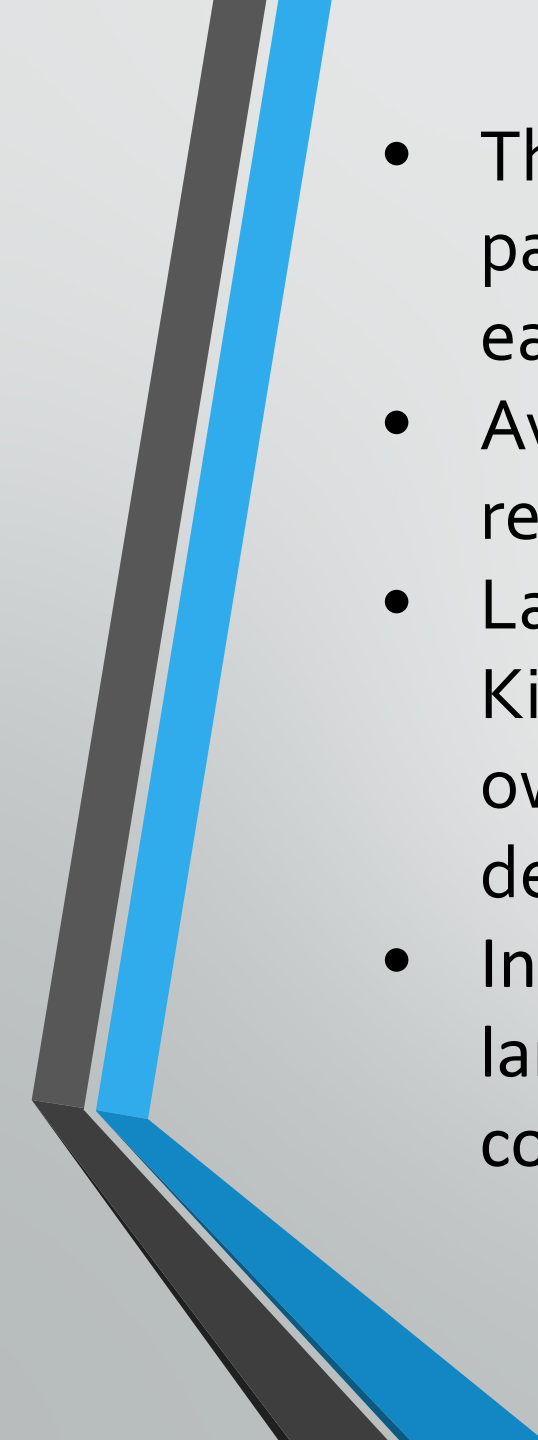


The Housing Problem

- 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.

Low-density housing units in a high-density residential area owing to lack of access to development funds.
Area: Ruiru



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- 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.
 - In these towns, an estimate of 28% of the potential development land consist of owner-occupied developments and low density commercial units



Potential development land within a high-density residential area (in Kikuyu) used for farming and low-density commercial units



Unused land parcel in a highly developed neighborhood. Area: Kitengela



Under developed residential Plots in Ruaka

Structural and institutional policies hindering housing development

Barriers to housing development by low income earners include:

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



The Plan

This investment partnership provides for the development of housing project for: 10,000 low-cost housing units in high density areas.

Fund Profile

Asset class	Real Estate Development
Time horizon	3 years implementation period for first phase, 2 years for second phase, 20 years investment recoup period
Target geography	Kenya: Nairobi satellite towns (Ruaka, Rongai, Kitengela, Ruiru and Kikuyu)
Target investment pool	Private investor fund and local
Target portfolio	10,000 low-cost housing units
Fund size	USD 160 million
Fees and incentives	15% of the fund size
Expected returns	ROI: 9.1655% p.a.

Framework to Reach the Market

- Poor urban land owners in the five satellite towns will provide land for development
- Investment Partner will avail funds for developing commercial housing units in the land in two years
- 20-year revenue sharing plan, after which the land owner will assume total ownership of the entire property

Investment Criteria and terms

- Total housing units: 10,000 units
- Annual revenue: Average USD 21.216 million
- Project investment period: 3 years
- Total investment amount: USD 160 million
- Disbursement: 30% in year 1 and 50% in year 2, 20% in year 3.
- Return on Investment: Initial high incomes followed by reducing incomes.
- Minimum investment recoup period: 20 years.

Investment Project Implementation

- Development of the low-cost housing units will be effected in three years.
- Urban land owners within the 5 identified satellite towns will provide 400 plots in high-density areas.
- Contractual agreement binding to all parties will be signed allowing the development of the land in question by the investor.

Investment Project Implementation Cont'd

- The investor will fund the entire project cost with direct payments to the contractors in three annual phases of 30%, 50%, and 20% consecutively.
- Standardized rates to be charged on the completed house units based on reasonable market price that will ensure achievement of the intended outcomes.

Investment Project Implementation Cont'd

- 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 20 years, after which the land owners will assume total ownership of the property

PROJECT DEVELOPMENT PROCESS

Stage 1
Predevelopment


- Market analysis and feasibility study
- Land acquisition
- Environment assessment, surveys
- Site, development and building plans
- Permitting and arranging construction financing

Stage 2
Construction

- Vertical construction
- Project marketing
- Drawing on construction financing
- Pre-leasing

Stage 3
Operations

- Ongoing marketing and leasing
- Determining a holding strategy
- Ramping up property management
- Achieving stabilization



Impact metrics	Outcomes
New flats constructed	400
Housing units added	10,000
Affected population	35,000 people (on average)

Revenue Flow

	Units	Units per flat	Total revenue p.m	Total revenue p.a
High Density Returns	10,000	25	400	
One Bedrooms	15	18,000	270,000	3,240,000.00
Two Bedrooms	10	25,000	250,000	3,000,000.00
			total KE	6,240,000.00
			Total \$ per flat	62,400.00
			for 400 flats	24,960,000.00
			Less 10% tax	(2,496,000.00)
			Less 5% service charge	(1,248,000.00)
			Annual Revenue (USD)	21,216,000.00

Revenue Income Distribution for 20 years



Returns and Cash flows

The following assumptions are made in estimating returns and cash flows for the project:

- Building cost structure: Direct construction costs consist of 85% of the total funding. Indirect costs (real estate taxes, permits, legal fees, insurance, development fees and consulting fees) consist of 10% of the total funding.
- No initial land acquisition payments are made.
- Housing prices/rent ratios are determined by the market rates.
- Pre-construction costs, warranty, and financing and interest expenses do not exceed 5% of the total funding.

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.



Risk Factors



Main Types of Risks

- Development Risk
- Time and Cost Risks
- Other General Risks



Development Risks

- Land value risk
- Land exploitation risk
- Planning permit risk
- Construction risk



Time and Cost Risks

- Duration risk
- Revenue risk



Other General Risks

- Partner risk
- Legal risk
- Political risks



Risk Mitigation Measures

- Research
- Phasing
- Contracts
- Pre-lease
- Portfolio diversification

Scalability

- This project will provide adequate and relevant information on the 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 sub-markets in Nairobi metropolis who would otherwise not be in a position to develop their land, to be interested in joint venture agreements.
- The subsequent investments would focus on other major urban centers in the country such as Nakuru, Mombasa, Eldoret, Kisumu and Nyeri targeting a total of 200,000 decent and affordable housing units per year.

Thank You
Come Invest in Kenya

