



Effective House Allocation - A case Study of Kenya

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November 14, 2019

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INTRODUCTION

There is a severe housing problem that is experienced in most third world countries, especially in urban places. Most people live in below standard shelters (flimsy shelters) that are faced with problems like poor sanitation and lack of electricity.

"In 2012, about 2 million Kenyans were homeless and the number is steadily increasing by about 200,000 Kenyans per year. About 68% of all Kenyans do not own land and have a higher risk of contracting infections and diseases. They also are susceptible to ticks, jiggers, and fleas due to not having a secure home. In addition to this statistic, about 60% of the urban populations in Kenya live in the slums of cities ("Habitat for Humanity Kenya." Habitat for Humanity Kenya. N.p., n.d. Web. 07 Jan. 2015.)

According to the Kenya Integrated Household Budget Survey (KHIBS) 2015/2016 basic report that was compiled by the Kenya National Bureau of Statistics (KNBS), almost six in every ten households owned the dwelling units they lived in while slightly more than a third resided in rented/leased units. Over 85 per cent of households in rural areas and 26.1 per cent in urban areas were residing in their own dwellings.

The results show that about seven in every ten households in urban areas lived in rented dwellings compared to about one in every ten households in rural areas. As expected, a high proportion of households in Nairobi City (86.4%) and Mombasa (82.2%) lived in rented dwellings. Other counties that had high proportions of households renting or leasing dwellings were Kajiado (59.5%), Kiambu (51.6%), Nakuru (46.3%), Uasin Gishu (44.0%) and Kisumu (42.2%).

HOUSING IN KENYA

LINK: http://erepository.uonbi.ac.ke/bitstream/handle/11295/90808/Mutisya_Urban%20housing%20affordability%20in%20Kenya%20A%20case%20study%20of%20the%20mortgage%20housing%20sector%20in%20Nairobi.pdf?sequence=3&isAllowed=y

Kenya's housing sector has experienced severe housing shortages relative to demand. While demand has been rising consistently over the years, supply has been slow to respond, meeting only approximately between 0.1 % and 2.2 % of the actual demand (Gachuru, 2005).

Since independence, the government of Kenya through designed public housing schemes made efforts to develop houses to boost supply and contain the deficit. As a result, the housing deficit was contained at 60,000 units per year until the 1980's (Chirchir, 2006).

Over the years, the shortfall has cumulatively increased. Currently, an estimated 750,000 and 1,500,000 households in urban and rural areas respectively are in need of housing (Republic of Kenya, 2004).

The estimated current urban housing needs are 150,000 units per year while the production rate of new houses is estimated at only 20,000- 30,000 units annually, giving a housing shortage of over 120,000 units per year.

According to Chirchir (2006), the key factors among many that have contributed to this unprecedented housing shortage include the government's reduced budgetary allocation on public housing and infrastructure development, high rural-urban migration rate that has stretched housing demand in urban areas, high cost of land and building materials and the limited and high cost of housing finance.

The effect of these factors as well as the rapid increase in the urban population of towns and cities in Kenya have further widened the supply/demand gap inevitably leading to high prices and rents being charged on housing.

This has given rise to affordability challenges among urban households in Kenya. Problems of affordability have been exacerbated by the low-income levels of households. Poverty statistics in Kenya show high number of people living below the designated poverty line (Economic Survey, 2014).

In Nairobi, 22% of the population live in poverty (CAHF, 2012). According to the Africa Housing Finance Yearbook 2012, by the Centre for Affordable Housing Finance in Africa (CAHF), only about 11% of Kenyans earn enough to support a mortgage. This means that most households cannot afford an average mortgage necessary to buy an entry-level house. Affordability is currently the main urban housing challenge affecting the urban population in Kenya. While efforts have been undertaken to tackle this challenge, the affordability problem has persisted and is more acute among low and middle-income groups in society.

In order to tackle this problem, there is need to investigate the significant factors that affect housing affordability in Kenya. Further, there is need to determine the contribution of the factors to housing affordability. Knowledge of the significant factors and their contribution to affordability is essential for the development and design of appropriate policies to tackle the serious challenge of housing affordability in Kenya.

Over 70 % of urban households in Kenya experience severe housing affordability challenges. This is seen in the high levels of homelessness, poor human settlement conditions, high price of housing relative to the incomes of households, mortgage delinquencies, defaults and foreclosures (Kieti, Raphael M. 2015).

THE HOUSING ACT (Cap. 117)

Link:<http://www.housingandurban.go.ke/wp-content/uploads/2018/11/LEGAL-NOTICE-HOUSING-FUND-REGULATIONS-2018.pdf>

In Exercise of the powers conferred by section 24 of the Housing Act, as read with section 31A of the Employment Act, 2007, the Cabinet Secretary for Transport, Infrastructure, Housing, Urban Development makes the following:

THE HOUSING FUND

REGULATIONS, 2018

Citation.

1. These Regulations may be cited as the Housing Fund Regulations, 2018. Affordable housing scheme. Cap. 470. 3.

(1) The Housing Fund established under section 6(1) of the Act shall be an affordable housing scheme for the purposes of section 30A of the Income Tax Act.

(2) For the purposes of these Regulations, an “affordable housing scheme” means—

(a) social housing designated for monthly income earners earning between 0 to 14,999 shillings;

(b) low cost housing designated for monthly income earners earning between 15, 000 to 49, 999 shillings; or

(c) mortgage gap housing designated for monthly income earners earning between 50, 000 to 100,000 shillings;

Registration of employer and employee.

(1) Every employer who, under a contract of service, employs one employee or more shall register with the Housing Fund as a contributing employer and shall register his or her employee or employees as members of the Housing Fund.

(2) Every employee who is under a contract of service shall register with the Housing Fund as a contributor employee.

(3) Without prejudice to the provisions of paragraph (1), a self-employed person who wishes to become a member of the Housing Fund may register as a voluntary member.

Voluntary contributions.

(1) Every voluntary member shall contribute to the Housing Fund

(a) a minimum contribution of one hundred shillings designated to cover the costs and operations of the Housing Fund; and

(b) a minimum amount of one hundred shillings per month to accrue as a benefit to the member.

(2) The contributions made under paragraph (1) shall be paid into the Housing Fund and immediately credited to the member's individual account as the Housing Fund Credit provided for under regulation 9.

Mode of payment.

1. Contributions may be paid directly to a designated Housing Fund Account as may be specified by the Corporation.
2. The Housing Fund shall notify the member of the receipt of the contribution as soon as the contribution is received.

Creation of individual accounts for members of the Housing Fund.

The Corporation

1. shall cause to be established and maintained for each member of the Housing Fund, an individual account to be known as the Housing Fund Credit to which shall be credited all contributions made to the Housing Fund by and in respect of each member of the Housing Fund.
2. Each member shall receive from the Housing Fund, at the end of every financial year, an annual benefit statement indicating the Housing Fund Credit.
3. Notwithstanding the provisions of paragraph (3), a member may, upon giving sufficient written notice to the Housing Fund, obtain a benefit statement.

Access to contributions.

Contributions by individuals shall only be accessed for purposes of offsetting housing loans, security for mortgage or housing development after five years of uninterrupted contribution and shall attract such an annual return as may be determined by the Corporation.

Return on investment on savings by members.

The Corporation shall set out the rate of return on investment for the contribution made by the employer and employee.

Return on contributions by members.

The Corporation shall, on an annual basis specify the return applicable on members' contributions into the Housing Fund.

Eligibility criteria for affordable housing scheme.

A person shall qualify for the affordable housing scheme if that person:

- Is a Kenyan citizen of 18 years of age Has proof of registration with the affordable housing scheme
- Has proof of remittance of the contribution and

- Is a first-time home owner under the affordable housing scheme.

GOVERNMENT SOLUTION- (KENYA AFFORDABLE HOUSING PROGRAM)

LINK:<http://www.housingandurban.go.ke/wp-content/uploads/2018/11/Development-Framework-Guidelines-Release-Version.pdf>

The Government of Kenya (GoK) has committed to deliver a series of ambitious social programmes to promote long-term economic development for Kenyan citizens through its Big Four agenda. As part of this vision, the State Department for Housing and Urban Development (SDHUD) has been mandated to deliver the Affordable Housing Programme (AHP) and will manage the delivery throughout the project lifecycle. The Government of Kenya will act as the key facilitator and will perform the following:

1. Provide state-owned land for free or low cost
2. Provide subsidize infrastructure for identified sites that will be part of the affordable housing programme.
3. Coordinate and expedite statutory approvals from authorities and utility approvals.
4. Make provisions to ensure that house units for Kenyan citizens are offered at an affordable price.
5. Create an environment that mobilizes private sector resources de-risking projects and encouraging private sector investment and participation in the affordable housing programme.

HOW GOVERNMENT ALLOCATES HOUSES

Housing Portal

LINK-<http://www.housingandurban.go.ke/wp-content/uploads/2018/11/Development-Framework-Guidelines-Release-Version.pdf>

The National Housing Portal (“the Portal”) will be utilized in the automated management of registration of potential homeowners for the Affordable Housing Programme. Registrations will be ongoing throughout the programme and it will be possible to access the portal through a variety of platforms including USSD, mobile app, mobile web and web portal.

The Portal will allow individuals to see progress towards home ownership and provide a real connection to their aspiration of home ownership.

The Portal will house:

1. The wallets of potential homeowners for payments and contributions;
2. The online national tps allowing homeowners to be allocated homes through a lottery system;
3. Product data from financial institutions on mortgage offers or mortgage support; and
4. Data from property developers on availability of homes.

Primary Functions

The Portal’s primary functions are to:

- Provide details of the projects forming part of the AHP pipeline.
- Register individuals looking for affordable housing – proving demand by aggregating information on their capacity to pay, income ranges, credit profiles as well as desired housing typologies.

- Create an ecosystem that links industry players and stakeholders in the housing sector – including property developers, financial institutions such as banks and SACCO's, as well as the various government agencies supporting the programme
- Interface with the e-citizen portal for verification of applicants';
- Verify income and tax compliance of applicants via an uplink to the KRA for tax compliance and further income verification.
- Create a 'credit profile' of applicants via a credit reference bureau.
- House the online HOSP wallet for acceptance of payments into the Housing Fund.
These are
- The contributions that will be made towards the down payment requirements (where applicable) and will accept payments via mobile money, bank transfers, credit and debit cards.
- Identify social housing beneficiaries (those most in need) in the event that there are more applicants than there are houses available.
- Automatically allocate a house once an applicant has met the given set of criteria via a lottery system.

To that end, the Portal will provide a fully automated online database that can be used to demonstrate effective house demand in all parts of the country.

RECOMMENDATIONS

For this allocation method to be fair and effective, it has to ensure that everyone goes home happy.

The use of the lottery method will not put all factors into consideration. Some of the factors to consider include:

- The contribution of the applicant (All contributions to the fund).
- The income bracket of the applicant.
- The applicant's preferred housing unit in terms of the House design, the size of the housing unit as well as its price.
- The applicants' preferred house location.
- The credit profile of the applicant (The ability of the applicant to pay for the housing unit)

In the event that the demand for houses is greater than the current supply, there is a need to come up with an effective house allocation method that will ensure that all applicants have equal chances of acquiring a house by considering all the relevant factors applicable in the circumstances.

Such a method will thus ensure that all applicants are satisfied that the process is fair and transparent and as a result they will go home happy regardless of the outcome as opposed to the house allocation only benefiting "the most in need social housing beneficiaries".

The implementation of mechanism design in house allocation will ensure optimal, fair and efficient allocation of houses to the applicants across all segments.

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