County Government of Nakuru

WORLD BANK GROUP
Finance, Competitiveness & Innovation

Department for International Development

UNLOCKING SUPPLY OF AFFORDABLE HOUSING IN KENYA

NAIVASHA AFFORDABLE HOUSING PROJECT (NAHP)

"THE NAIVASHA PROTOTYPE"

Business Case Report
Final Report

June 2018
[Revised May 2019]

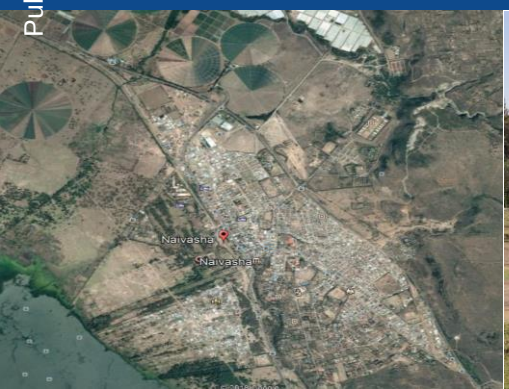

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TABLE OF CONTENTS

1. EXECUTIVE SUMMARY

1.1. BACKGROUND

The County Government of Nakuru, with the support of the World Bank Group (WBG) via grant support from the United Kingdom's Department for International Development (DFID), initiated a project to unlock affordable housing supply within Naivasha sub-county. The aim of this study was to develop a *bankable, affordable* and *replicable* housing delivery model to provide a basis for establishing an affordable housing market, particularly to serve households living at the bottom of the income pyramid. The approach adopted sought to create a prototype scheme that was tested iteratively against new information and data. It is intended that the process of refining the model will continue through implementation.

The conceptualized model seeks to leverage serviced public land to attract private investment in the delivery of around 2,300 new affordable housing units for household income of below KES 150,000 per month, as per the Government of Kenya's (GOK) Affordable Housing Program Delivery Framework. The implementation of the proposed Naivasha Affordable Housing Project (NAHP) requires the County Government to establish a project company/special purpose vehicle – referred to as a "Settlement Company (SetCo)" within this report - in accordance with the Public Finance Management (PFM) Act, 2012 and the PFM (County Governments) Regulations, 2015.

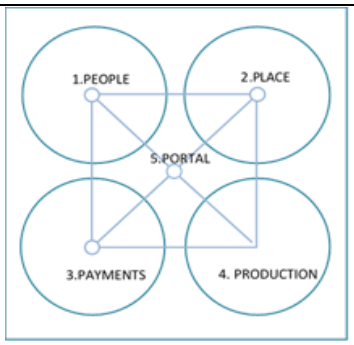
1.2. BUSINESS CASE METHODOLOGY

The primary objectives of the business case analysis was to establish: (i) the end-user market case, and (ii) the investor market case. To structure the prototype, the study employed a "bottom-up" research and design methodology which involved an iterative '6-P' process:

a. People (end user market);
b. Place (the existing and planned physical environment);
c. Payments (project and end user financing, cost recovery, profitability);
d. Production (the method and process for implementation).
e. Portal (the investment and development entity via which the scheme will be delivered); and
f. Procurement (the legal and regulatory mechanism for public procurement of the Portal itself).

Figure 1.2: Business case assembly, illustrates the approach:

FIGURE 1.2: BUSINESS CASE ASSEMBLY

1. END USER MARKET CASE • Verifying that there is an effective market • Verifying that there are end user cohorts ready to take up housing • Verifying that there are finance institutions able/willing to finance end users	 3. DELIVERY + INVESTMENT VEHICLE Bridging end user and investment markets	2. INVESTOR MARKET CASE • Verifying that the ROI/ risks related to the investment meet with investor investment parameters • Verifying that there are investors willing to invest in the vehicle • Verifying that investors are suited to low cost housing investment

A. ANALYSIS COMPONENTS					
[People] End User Market/ Demand Analysis	[Payments 1] End User Finance	[Payments 2] Project Finance	[Place] Physical Planning/ Housing Product	[Production] Sequencing and Phasing	[Portal] Legal/Financial/Management Entity
People Aggregators: Employers, SACCO's, Trade Unions, MFI's Estate Agents	End User Finance Institutions: Mortgage banks, HMFI's, SACCO's, Subsidies others	Project Finance Institutions: Mortgage banks, HMFI's, SACCO's, Subsidies others	County Urban Planning and Management Appraisal	Construction Companies, Sub Contractors, Trades, Facilities Management	Investor Institutions (Local, National, Int'l); Banks/ Pension Funds
Household income, Life stage needs/ Housing adequacy/ affordability	End-user finance products; Mortgages, loans, HIL's	Project finance products; Debt/Equity	Site Identification, Analysis, and Selection	Supply Chain Assessment	SetCo model fit; Investment and management structure options
Effective housing demand	Terms, conditions, liquidity, availability	Terms, conditions, liquidity, availability	Legal, development rights, constraints	Rates of production; titling, underwriting	Debt/ Equity sounding (local, national)
Housing demand by aggregation			Capacity of BE professions and artisans	County pipeline, procurement structures	County legal, procurement, investment evaluation capacity
B. CONTEXT ASSESSMENT					
Economic/ employment context, trends, security and risks	Mortgage Design, MFI and SACCO product innovations and lending tends	KMRC context, banking trends and regulations	Urban policy, planning and infrastructure context	Status of County Construction/ Real Estate Industry and Supply Chains	Current GoK Policy and proposals related to housing, financing, taxation and subsidy
C. DESIGN & MODELLING					
Household profiles, typology	End user housing loan products, rentals	Project equity and debt cashflow requirements	Housing Typology/ Estate concept design and Costing	Development Phasing and Timeline	SetCo Structure and Establishment Process
Household profile and demand, assumptions	End user housing loan assumptions	Project housing, loan assumptions	Design and cost assumptions	Productivity assumptions	Portal assumptions
D. Preliminary Draft integrated product, cost and investment model					DRAFT BUSINESS CASE
E. MARKET SOUNDING					
Household profile and demand, testing/ updating	End user housing loan design testing and refinement	Project housing debt testing and refinement	Typology design and cost testing and refinement	Production testing and refinement	Portal (SetCo) market testing and refinement
F. FINAL INTEGRATED PRODUCT, COST AND INVESTMENT MODEL					BUSINESS CASE

1.2.1.RESEARCH AND ANALYSIS SUMMARY

A. End-User Market Analysis (#1 People):

Naivasha has a fast-growing economy of national and international significance comprising horticultural, geothermal energy, hotel, conferencing and tourism, as well as anticipated investments in highway, rail, logistics and Special Economic Zones development. Despite its economic prospects, the majority of the employees of these industries live in slums and inadequate rental accommodation.

Accordingly, the study engaged directly with major local employers and SACCOs representing some 50,000 people to: (i) establish end-user demand; (ii) mitigate risks related to employee affordability and employment security; (iii) convene meetings with employees, including one-on-ones to obtain information, data and design feedback; and, (iv) secure employer/SACCO mediation, support, investment and local leadership.

B. Physical Analysis (#2 Place)

- The site allocated by the County measuring approx. 22.38Ha, is very well-located to the CBD of Naivasha and is conveniently zoned for affordable housing. It is also well-served in terms of public transport, engineering and social infrastructure (education and health facilities etc).
- The site is relatively flat, has stable ground conditions and is easily developable. It is, however, currently constrained by the encumbrance of an existing Class B government abattoir and three (3) residential dwellings.

C. Project and End User Financing Analysis (#3 Payments)

- Project finance is constrained, costly and discontinuous, and equity requirements exclude most local building contractors from accessing debt sufficient to provide housing at scale. This presents the most significant obstacle to scaling up.
- Local banks expressed interest in Equity financing as this provided a level of control in the development.
- End User finance, whilst available from SACCO's at an average of 12% p.a, is limited both in quantum and loan tenor. Initiatives to improve liquidity and engage SACCO's as mortgage providers through the Kenya Mortgage Refinance Company (KMRC) is critical, in particular, the plan to enhance their yet-to-be-developed mortgage underwriting capacity. Banks, although constrained by the rate cap, will benefit from the refinancing arrangements, and boost of specialist skills required to scale up downmarket.

D. Production Analysis (#4 Production)

- Owing both to the lack of project finance, and the speculative approach to developments, housing output is limited and discontinuous.
- The stop-start nature of housing development constrains capacity and capability. Even when unconstrained, local building contractors in Kenya seldom exceed 360 houses per year.
- Material supply chains capacity will also limit scaling up – particularly in places like Naivasha.

E. Investment and Delivery Vehicle (#5 Portal)

- Kenya's low-income neighbourhoods are poorly planned, implemented and managed. Consequently, there are slums spread across the country. To curb further growth, low-income settlement development requires a lifecycle approach to planning, implementation, financing and management.
- As such, the conceptualized model requires institutional arrangements and a structure that permits both equity and debt participation, short-term and long-term financing to enable financial entry and exit, to ensure operational continuity, and to maintain and enhance the value of the living environment (asset) over time.

F. Procurement Analysis (#6 Procurement)

- The principle of public and private partnership is a key component of the proposed delivery model. However, following a series of reviews, a "Public-Private Partnership (PPP)" – as per Kenya's legal definition - was deemed unsuitable for low cost housing delivery, particularly as there is no service provision obligation on the SetCo (cost recovery is primarily pegged on asset delivery), asset ownership is to the home buyer and not the State, short term engagement (4-5 years), and no single end-user client such as with University Student or Military housing.

1.2.2. PROTOTYPE DESIGN SUMMARY

The approach advanced under the NAHP is to treat the scheme as a prototype that will serve to improve subsequent projects, i.e. to learn by doing. The design thus involved understanding the relationship between, and the integration of all the 6-P determinants, i.e. ensuring the Place (physical design of units) corresponds with People (end-user affordability) and Payments (loan constraints); and that the Place can be produced within the cost constraints of People (affordability), Payments (project finance) and Production (contractor and supply chain capacity). Following this, the design required the determination of a Portal (investment and delivery vehicle) that could coordinate the development and ensure both affordability to end users and return to investors over time. Lastly, having determined the Portal, establishing how such a vehicle would be publicly procured by the county government.

The following is a summary of the main features of the resultant design of the delivery model:

A. End-User Marketing Design (#1 People):

- The scheme can accommodate approximately 9,200 persons (approx. 4 per unit); 70% of which fall within the social and affordable housing categories as defined by the GOK, and the remainder, 30%, are for middle-higher income households of above KES. 150,000. This is to ensure income diversity and business model robustness.
- The SetCo's marketing strategy will be to work with major employers, SACCO's and end-user finance providers to ensure that housing clients are assembled in 'cohorts' to ensure that each phase corresponds with the specific needs/constraints of end users within each cohort, and that loan agreements are concluded prior to the completion of each development phase. This is to avoid speculation and over-production.
- Whilst the marketing strategy will prioritise employees and SACCO members in initial phases (because these groups have the support of employer and SACCO data and documentation), the scheme will open up to the public following the first few phases, once the development and institutional arrangements are more established.

B. Physical Design (#2 Place):

- The sub divisional layout provides a yield of 1,067 plots (excluding commercial), and depending upon typology deployed, approx. 2,300 units. Plots are standardized and permits a range of housing typologies to match profiles – from single storey incremental housing to multi-storey maisonette and apartment options.

C. Financing Design (#3 Payments):

- On the demand-side, KMRC shareholders are to provide mortgages to end users. Existing bank and SACCO loans are to be redesigned to suit KMRC's eligibility criteria.
- On the supply-side, contractors will be supported by the SetCo to access project bridging finance, and house batching and phasing will be structured to maximise local participation of MSME builders and suppliers.

D. Implementation Phasing (#4 Production):

- The site is to be developed in phases of 75-150 units for end-users already identified. No phase should be developed speculatively. Each phase would comprise a mix of units, corresponding to end-user demand and income. This enables the affordability and profitability parameters to be adjusted at each phase. To avoid over production, the scheme would be built out at the pace of slowest supply chain/lower capital demand, which is normally, property titling, or loan underwriting.

E. Investment and Delivery Vehicle Design (#5 Portal):

- The County is to establish an SPV or Settlement Company (SetCo) on a Joint Venture basis. The SetCo will be responsible for planning, sales & marketing, developing and managing the housing estate ensuring long-term sustainability and property value appreciation.
- The land allocated by the County Government is valued, on a residual basis, and exchanged for preference shares, ranging between 20% - 29%, redeemable at a predetermined date.
- On a minimum, equity capital of USD 2million is to be secured, following which the SetCo will raise an additional USD 2.44 million in debt. This total capital requirement is kept low to enable the development of the first cohort of 75-100 units, for which the investment returns from the sale proceeds would be rolled over to minimize debt requirements and to maximise return on equity. The structure of the SetCo will allow for points of investment entry and exit that align with production/sale phases.
- The SetCo's Articles of Association, and Shareholders Agreement will set in place measures to ensure that the County will hold reserve matters which it can enforce to suspend/liquidate the company if the SetCo strays beyond the agreed terms and conditions under which the Company was established.

F. Procurement Design (#6 Procurement):

- The County Government of Nakuru will use its delegated powers under the County Public Finance Management (PFM) Act, 2012 and PFM (County Governments) Regulations, 2015 to establish the SetCo/SPV (of which it will be a minority, preference, shareholder).
- The County will launch a "Request for Investment (RFI)" process applying the "Specially Permitted Procurement Method (SPPM)" provided under Section 57 of the Finance Act, 2017 and Section 114(A) of the Public Procurement and Asset Disposal Act, 2015 ("PPADA") to call for private investment into the project company.
- The SetCo, which is now a private company, will contract an Operations Company that will, on behalf of the shareholders, be responsible for sub-contracting independent entities to undertake the: (a) design and construction of the estate; (b) marketing and sales; and, (c) management of the estate. This operations structure is designed to maximise local participation as there are limited Kenyan companies who encompass the entire 'competency set', but there exist several Kenyan companies competent at managing the individual components.

Overall: Investment Case

The investment model is designed to accommodate a range of interdependent variables, the calibration of which determines the affordability or profitability of the scheme and SetCo. These include: physical design variables such as subdivisions and house types; engineering services; tenure alternatives, financing; production phasing; materials; land costs, etc.

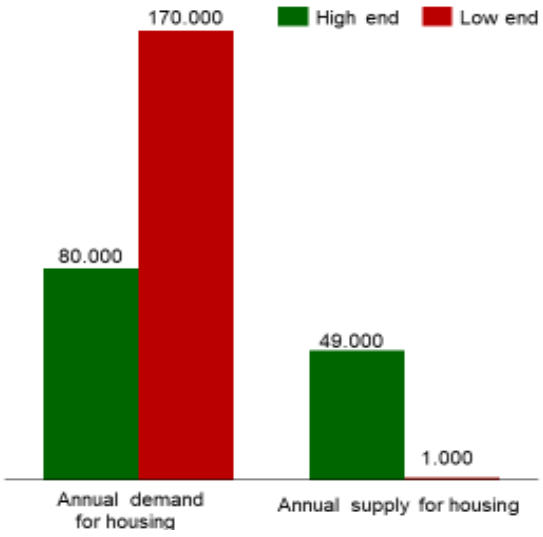
Having stress tested these variables, the model yields an investment deal that can deliver housing that is affordable to end-users and offer competitive returns on investment i.e. baseline achieves a MIRR of 200 basis points above the 10-year treasury bond, and an upper limit of 24% per annum As such, the NAHP prototype design is considered bankable and satisfies the aims of the study, therefore recommended to proceed to market engagement for proof of concept. The deal ticket is contained in Section 4.7 of the report.

2. INTRODUCTION

2.1. PROBLEM STATEMENT

Standing at an accumulated deficit of 2 million units, the affordable-housing segment of the construction sector has long been a tough nut to crack. To close this gap, approx. 244,000 housing units across different market segments must be delivered annually, yet current supply remains below 50,000, with only 2% of formally constructed houses i.e. 1,000 units being targeted to the lower income segments of the market, which account for the largest share of demand.

Figure 2.1(a): Annual housing supply vs demand country wide



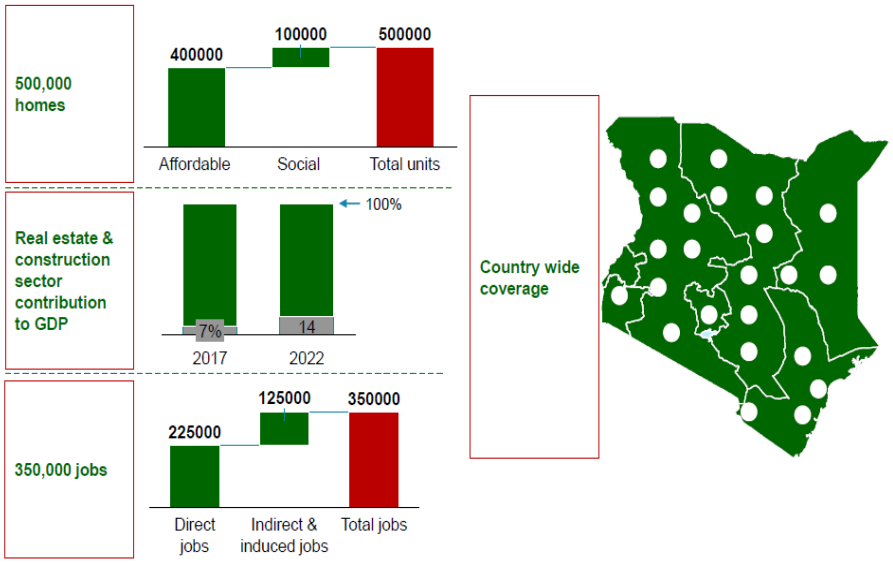
Source: Affordable Housing Program Delivery Framework, State Department of Housing and Urban Development, 2019

This situation is due to several factors: (i) rapid rural to urban migration; (ii) steep land prices; (iii) high property development costs due to structural weaknesses in the construction value chain; (iv) an inefficient property registration system with incidental costs that are much higher than the neighbouring countries - 6% of the property value versus 0.1% in Rwanda ; (v) outdated planning and building regulations with rigid standards on densities, parking spaces, mixed use allocations, etc.; (vi) liquidity and tenor constraints of financial cooperatives (SACCOs) who are estimated to provide almost 90% of the total housing finance in the country; and, (vii) a financial sector ecosystem that is constrained by a high government yield and an interest rate cap that is crowding out the private sector.

Taken together, the totality of the barriers to unlocking access to affordable housing in Kenya is daunting. There is no silver bullet. To make affordable housing a reality, a collective web of targeted solutions is needed.

In this regard, on December 12, 2017, the Government of Kenya (GOK) unveiled the "Big Four" economic transformation agenda which identifies 4 priority initiatives to be implemented between 2018 – 2022, core among them being the delivery of 500,000 affordable housing units in major urban areas across the country (see figure 2.1(b)). In an attempt to achieve this goal, the World Bank Group (WBG) has been supporting the GOK through a deliberate and integrated mix of demand and supply side interventions. Of recent milestone on the demand side is the establishment of the Kenya Mortgage Refinance Company (KMRC) - the first MRC which includes financial cooperatives and microfinance institutions. For the effective use of this innovative facility, a significant pipeline of affordable housing units is essential.

Figure 2.1(b): 500,000 Affordable Housing Program, Kenya



However, fiscal constraints prohibit the Government from raising debt for this purpose or intervening directly in the production of housing. The State Department of Housing and Urban Development estimates the delivery of the 500,000 affordable housing programme at approx. US$21.3 billion. The country's budget for the FY2017/2018 was US$26.2 billion. Solutions, therefore, will need to rely upon private sector finance and delivery.

2.2. OBJECTIVES OF THE ASSIGNMENT

While there is a relatively strong property development community in Kenya, developers have hitherto concentrated on the middle to upper income groups, a market that is now saturated. This is because the gap between what it costs to build the houses and the rents or mortgages that the affordable housing income category can pay is significant. Two factors influence this gap the most. Serviced land. Depending on location, the price of land can go as high as US$5 Million per acre[1], a feature of speculative behaviour. Further, due to government funding gap and competing priorities, the responsibility for servicing the site with key infrastructure utilities such as water, sewerage, electricity, etc. is often transferred to developers who in turn pass the related expense, approx. 30 - 40%[2] of the development cost, onto buyers through higher prices.

The focus of this assignment, therefore, is to test whether serviced public land can catalyse private capital towards the delivery of housing units that meets both the affordability limitations and the adequacy requirements of end-users, while still fulfilling an investor's profit objectives. In summary, the conceptualized model should: (a) be affordable to a range of incomes defined by National Government policy; (b) mobilise private finance in a sustainable, replicable and scalable manner; and, (c) provide an off-balance sheet solution to the county and GOK.

[1] Hass Property - The Hass Land Index
[2] Kenya Property Developers Association (KPDA), National Cooperative Housing Union (NACHU)

To this end, the County Government of Nakuru has allocated land in Naivasha sub-county.

Figure 2.2(a): Nakuru County and Sub Counties, Kenya

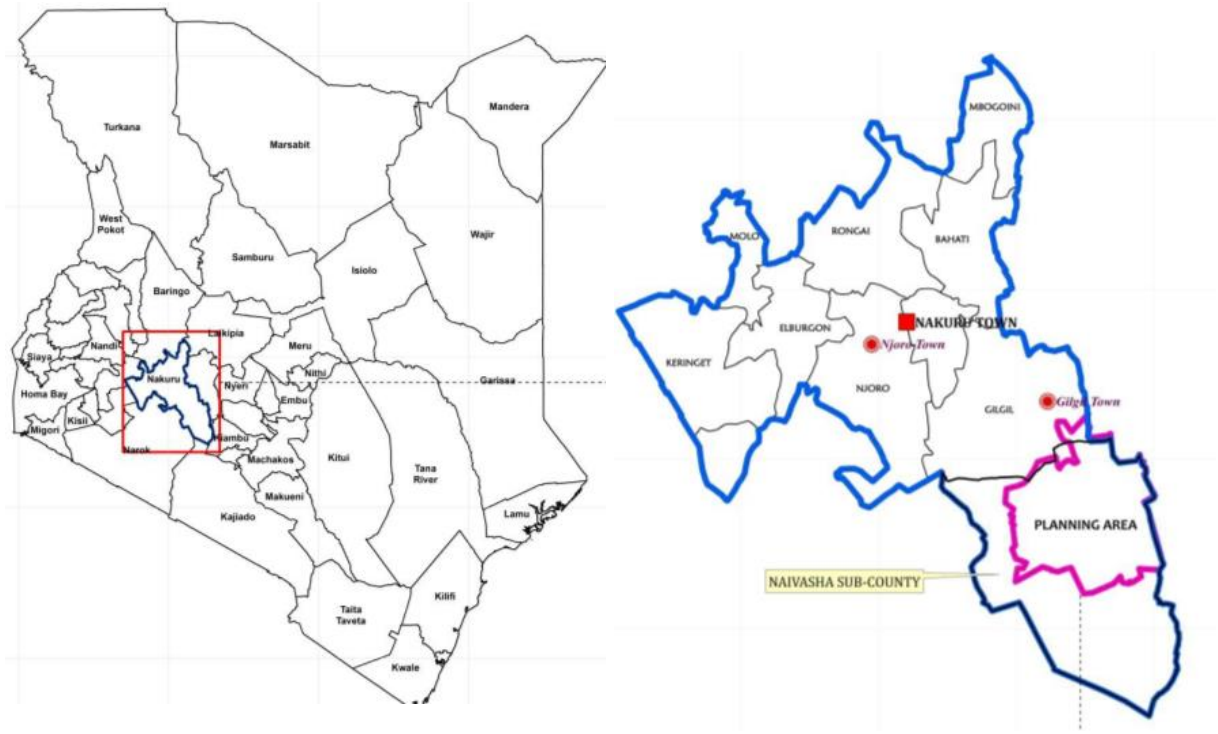
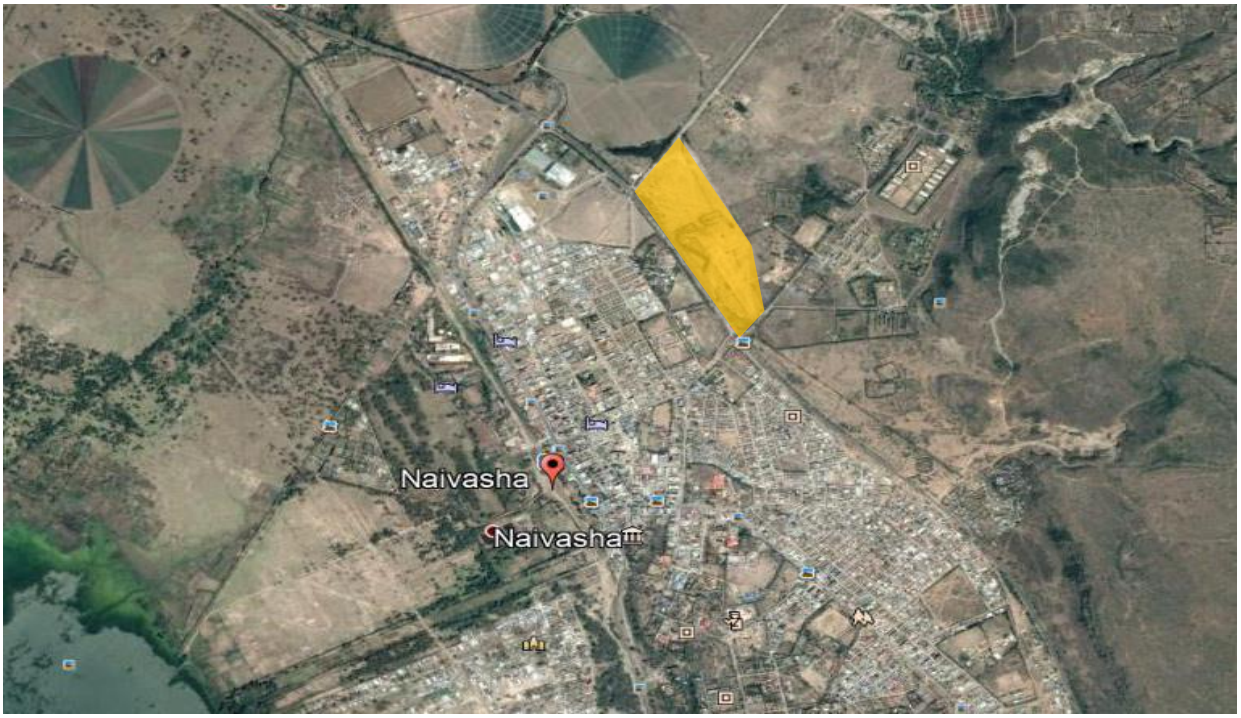


Figure 2.2(b): Naivasha Site Context (Google Earth Photo)



2.3. PURPOSE OF THIS REPORT

2.3.1. Design Modelling

The study on the proposed Naivasha Affordable Housing involved establishing the key determinants of, and risks to housing adequacy and affordability with the purpose of assembling a coherent, bankable and replicable delivery model. Through a "R&D" (research and design) process, the emerging prototype was tested iteratively against new information and data to assess robustness.

2.3.2. Prototyping

It is anticipated that the first version of the delivery model will not be optimal and will be improved in subsequent iterations. Intrinsic to this approach is the notion of (a) 'learning by doing' and (b) improving incrementally through ongoing interaction with the County model. Accordingly, the term "prototype" was adopted at the outset to embed an understanding that design improvements would need to be made incrementally, as the market understanding, systems and supporting institutions develop. Housing adequacy, affordability and bankability will improve as the government's understanding of end-user demand improves, as policy and regulatory systems are made more efficient, and as delivery track record is extended, etc.

2.3.3. Feasibility

Although the initial model is not expected to be optimal, it does need to be implementable, and cognisant of the risks and how to manage them, i.e. the model needs to be feasible for three (3) key stakeholders, which for the purposes of ongoing assessment are articulated as follows:

(a) End-user Imperatives:

- Housing be affordable and adequate[3] in the short and long-term
- Beneficiary selection criteria should be fair and transparent
- Residents be afforded sufficient protection against undue eviction/repossession
- The environment be well managed

(b) Government Criteria:

- The resulting housing and living environment is adequate, affordable and sustainable
- Create a model that advocates for and attracts private capital into affordable housing in a replicable and scalable manner within and beyond the county
- The model addresses targeted income group and remains 'focussed on mission'
- The model nurtures and develops the local micro and small enterprises (MSME) and creates jobs for the area citizens
- That all (short and long term) project risks are identified, mitigated or adequately managed
- That the model serves to address market failures within the affordable housing sector through structural reforms and shaping of institutions, systems, policy and financing mechanisms

[3] UN Housing Adequacy Indicators: (i) Access to water, (ii) Access to sanitation (iii) Sufficient living area, (iv) Durability of Dwelling, (v) Security of Tenure
http://www.un.org/esa/sustdev/natlinfo/indicators/methodology_sheets/poverty/urban_slums

(c) Private Sector Criteria:

- Housing product matches effective (end user) demand
- Guaranteed offtake for the scheme (minimal speculation)
- Provides a competitive return on investment relative to other investments
- Provides a competitive return on investment relative to risks
- Risks are identified, mitigated and managed over development/disposal period

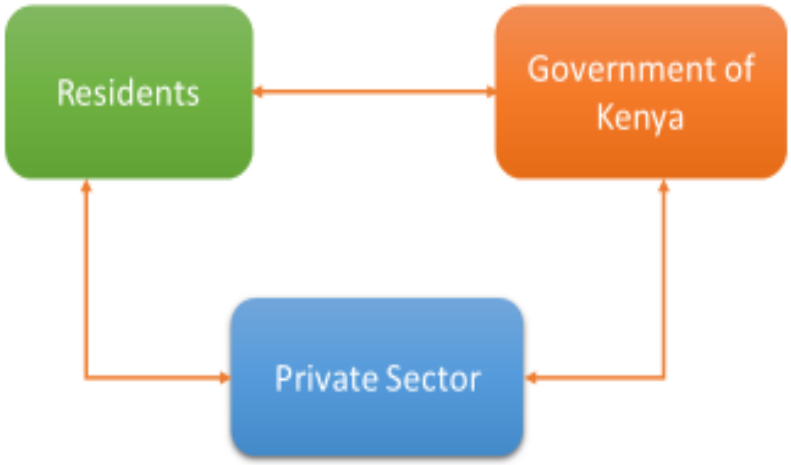


Figure 2.3: Win-Win Concept

Programmatically, the proposed Naivasha Affordable Housing Project (NAHP) forms part of IFC's Kenya Competitiveness Enhancement Program (KCEP) which is grant funded by the United Kingdom's Department for International Development (DFID) and is linked to DFID's Sustainable Urban Economic Development (SUED) Programme that is supporting emerging urban centres in Kenya to put in place sustainable urban economic plans to improve the investment climate and draw in investment for key climate-resilient infrastructure and value chain projects.

2.4. RESEARCH AND DESIGN METHODOLOGY

As with alleviation of poverty, producing housing that is both affordable and adequate is complex. It requires that every element within the housing ecosystem is carefully evaluated: (a) in terms of its characteristics, costs, time and risk; and (b) in relation to other elements and (c) in relation to its context.

The assignment employed the '6-P' Research and Design Methodology[4] - illustrated in Figure 2.4 - to establish the main elements of research and determinants for designing a prototype/model for low-cost housing delivery.

[4] © Urbuntu, 2017

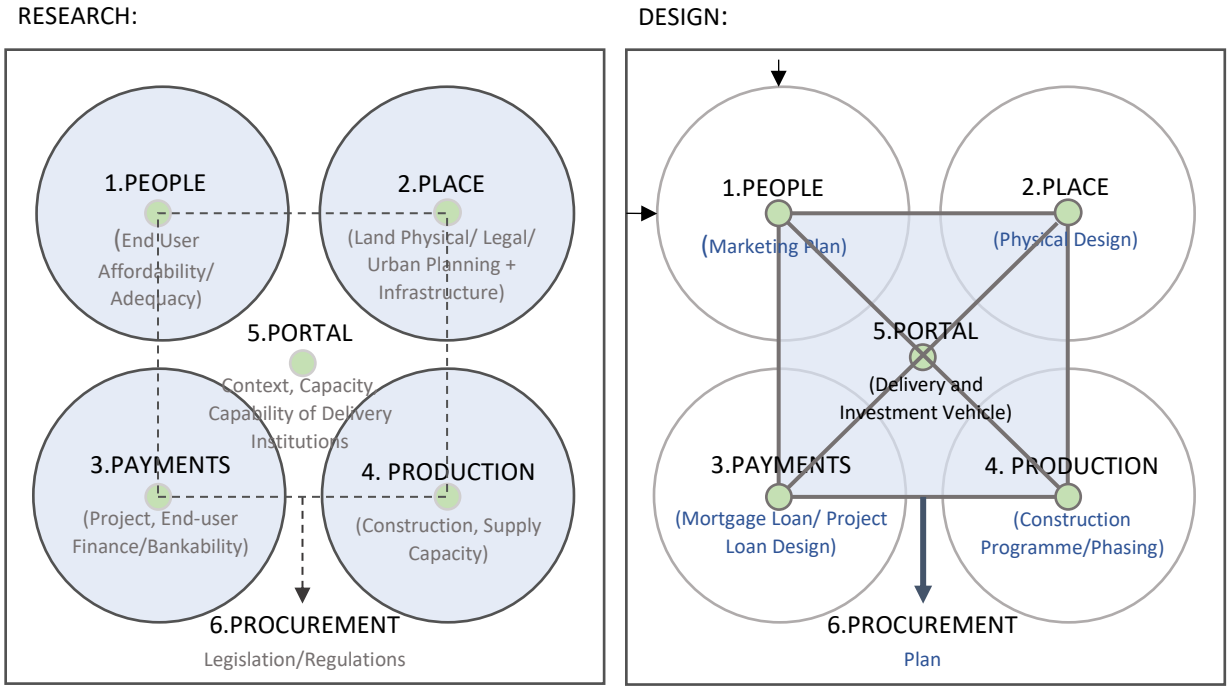


Figure 2.4: 6-P Research & Design Methodology

The elements or components requiring analysis, and which will determine the design determinants of the delivery model are as follows:

P1: People (End-user clients):

- Analysing the potential client group, their housing requirements, their income, savings and ability to repay, security; and the present and future risks related to the client group.
- Developing/designing a Marketing and Sales Plan from client origination to close.

P2: Place (Physical Environment):

- Assessing site characteristics; existing and proposed urban planning and infrastructure; legal aspects of the land allocated by government; and, the time and risks related to planning and legal approval procedures.
- Designing a conceptual estate layout, housing unit typologies, services and social amenities from which to establish costs and scheme phasing.

P3: Payments (Project and End-user finance):

- Establishing the availability of, and the terms and conditions for financing project and end user finance to ensure bankability; and time and risks related to finance approvals and conditionalities.
- Designing end-user mortgage loans corresponding to housing types and income earning constraints; devising capital (equity and debt) requirements suitable for the estate production.

P4: Production (Construction and Supply):

- Assessing the capacity of building contractors, material and labour supply chains; rates of production; rates of titling, rates of mortgage loan closure; and the risks related to each of these.

- Producing a production phasing plan appropriate to capacity levels and rates of production, supply and sales.

P5: Portal (Development and Investment Vehicle):

- Examining the capacity and capability of existing delivery institutions, their arrangements for the financing and delivery of affordable housing, and the legislative and regulatory context in which they operate.
- Designing institutional structure that is able to integrate the above 4P's; into which private investment (equity and debt) can be made; and through which the scheme can be developed and managed during and post construction.

P6: Procurement:

- Assessing the legislative, regulatory and procurement mechanisms for the Government to establish entities permitting private shareholding, and mechanisms for the disposal of state assets, either outright, or in exchange for alternative assets or shares.
- Devising a Procurement Plan for the execution of all 5 P's above.

The above 6 elements provide structure and substance for the Business and Investment Case.

3. ASSESSMENT ANALYSIS

3.1. END USER ANALYSIS [#1 PEOPLE]

3.1.1. Population Growth and End User Demand

Current population of Naivasha is approximately 260,000. This is estimated to grow to about 650,000 by 2034. Most Naivasha employers report a growth trajectory, driven by developments in the geothermal industry, expansions in the tourism and conferencing sector, sustained growth in horticulture industry through major planned interventions such as: the expansion of Nairobi – Nakuru – Mau Summit road; proposed KenGen business park at Olkaria; extension of the Standard Gauge Railway (SGR) line to Naivasha; establishment of a mega industrial park near Mai Mahiu freight exchange centre (dry port). The dry port alone, is expected to generate 60,000 new jobs. In view of all these and its relative proximity to Nairobi, Naivasha is expected to turn into a magnet for investors and their tenants.

3.1.2. Existing End User Data

Data relevant for determining end user housing demand is typically aggregated by country (See CAHF household income table, Figure 3.2 below). For secondary cities, such as Naivasha, which cannot rely upon national averages or disaggregation, specific data is not available.

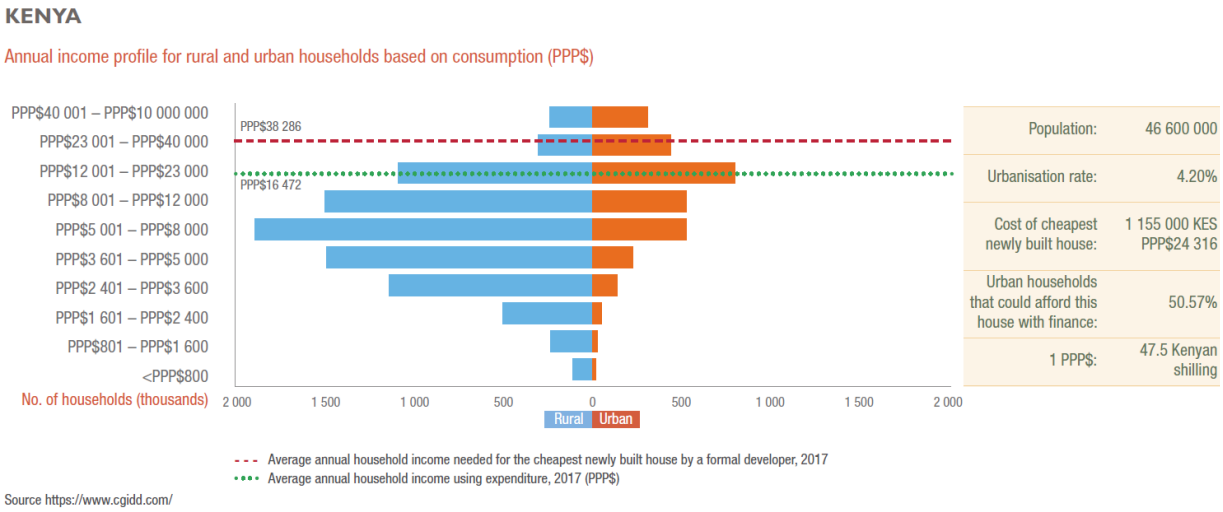


Fig. 3.1.2: Housing Affordability Kenya (Source - Centre for Affordable Housing Finance)

Therefore, instead of undertaking on a general market study of Naivasha to assess end user demand, the assignment chose to engage potential clients directly. A strategy adopted was to work through major area employers, SACCO's and Cooperatives to form an "anchor group" of clients around which the first phase of the scheme would be developed.

3.1.3. Employer/End User Engagement

The housing crisis is a problem for businesses. When employers work with the national and county governments to increase the supply of affordable homes, they are addressing more than just the

housing shortage. By facilitating access to nearby housing, employers can reduce workers' commute times, raise employee morale and improve both the recruitment and retention of employees. When workers are able to live closer to their jobs, local residents benefit from decreased traffic congestion and reduced air pollution. In addition, when residents can spend more time at home, they become more active in their communities, increasing the desirability of the neighbourhood for further investment opportunities. Employer partnerships, thus, have the potential to provide a unique new source of housing supply.

3.1.4. Rationale for Employer Anchor Group focus

The majority of the area's workforce is employed in either the horticultural, tourism, hotel and conferencing, geothermal energy, public sector, brewery, and banking industries, thus providing a captive market for the proposed housing development.

(a) Employers could support employee access to housing through schemes such as payroll deduction, down payment assistance programs e.g. deposit matching, first-time homebuyer mortgage programs, housing allowances, rent guarantees, etc.

(b) Employers (and SACCOs) could potentially invest in housing provision which can in turn help stabilize neighbourhoods, spur revitalization, redevelopment, and increase the economic competitiveness of their businesses.

(c) Employers would provide convening and mediation through which to communicate with employees, employee SACCO's, Fairtrade Groups and Trade Unions.

(d) Employers would provide information concerning risks related to the future growth or decline of the industry (employee risk, housing demand, etc.)

During the period of the assignment, the consultancy team together with the county met with employers representing over 50,000 employees, who confirmed considerable unmet demand, across all levels of management. A complete list of companies, SACCO's and Cooperatives engaged is provided in Appendix 1.

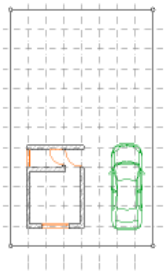
From surveys undertaken, end user profiles were formulated to assist with the design (adequacy) and finance (affordability) modelling. From the same surveys, it is evident that some 80-90% of employees rely on single room rental accommodations, of amounts between KES 3,000 – 8,000 excluding water, sanitation or electricity, within unplanned settlements such as Karagita, Kihoto, Kamere and Kasarani or within overcrowded old company accommodations. Due to these inadequate housing conditions, most employees are forced to reside alone, while their families stay behind in the rural areas, making Naivasha a city of immigrants.

Feedback from employers for de-risking employee housing, through payroll giving, housing allowance support, first-time homebuyer mortgage programs, deposit matching, and block-renting was overwhelmingly positive. See Appendix 8 for sample Letters of Support.

3.1.5. End User Client Profiles

Through employee and SACCO surveys, end-user profiles, illustrated in figure 3.1.5 below, were created to inform unit design and costing. The level of analysis was limited to that required to generate design options - which were used in second round employee engagements. The intention at this stage was to establish the adequacy and affordability requirements of the targeted income group, and thereby avoiding speculation. More detailed engagement, selection, origination and closing process will need to be undertaken between the eventual investors and employee and SACCO member prospects.

Fig. 3.1.5: Employee/Target Customer Profiles[5]



Plot size = 8x12
Plot rea = 96sq.m

1 ROOM	3X3 = 9
1 WC/SHOWER	2X1 = 2
Lobby	1x1 = 1
Total area	**12**

Coverage = 12/96x100% = 12.5%

INCOME PROFILE: Caroline Mwangi

CODE: B40DI5

(BOTTOM 40% INCOME GROUP, 2 X EMPLOYED, 1 x Formal, 1 X INFORMAL, 3 PERSON HOUSEHOLD)

PRIMARY PROFESSION: Cleaner

CURRENT JOB: 2 Years at Hotel

MONTHLY PAYMENT: Ks 8,481P.M.

KS 10,223 SALARY KS 9,210, 2ND PARTNER'S INCOME, KS 2,000 HOUSING ALLOWANCE

CURRENT TENURE: Shack Rental

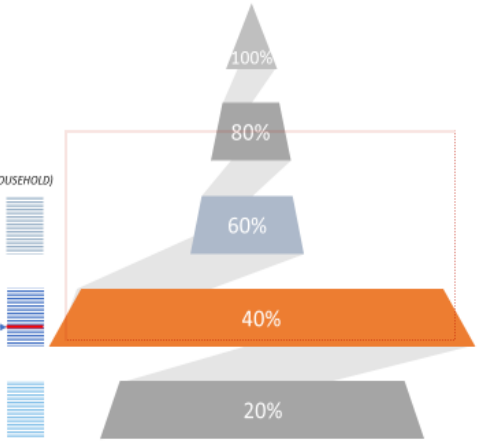
HOUSING NEED: 1R3P+Wet Core

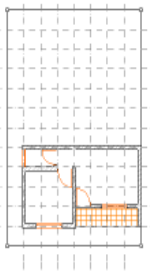
(1 BEDROOMS; 3 PERSON; BATHROOM)

SAVINGS: Ks 65,000

CREDIT SCORE: 3

(PREVIOUS LOANS FULLY PAID OFF, NO CURRENT KNOWN LOANS)





Plot size = 8x12
Plot rea = 96sq.m

1 ROOM	3X3 = 9
1 WC/SHOWER	2X1 = 2
Lobby	1x1 = 1
1 Lounge	4x3 = 12
I Entrance	3X1 = 3
Total area	**27**

coverage = 27/96x100% = 28.125%

INCOME PROFILE: Mary Otieno

CODE: B49DI4

(BOTTOM 49% INCOME GROUP, 2 X EMPLOYED, 1 x Formal, 1 X INFORMAL, 4 PERSON HOUSEHOLD)

PRIMARY PROFESSION: Flower Worker

CURRENT JOB: 5 Years at Panda Flowers

MONTHLY PAYMENT: Ks 8,481P.M.

KS 10,223 SALARY KS 9,210, 2ND PARTNER'S INCOME, KS 2,000 HOUSING ALLOWANCE

CURRENT TENURE: Shack Rental

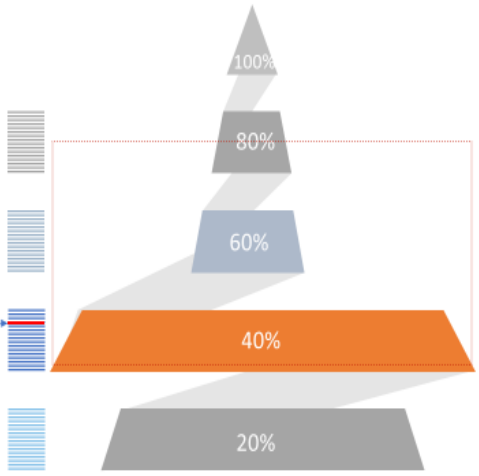
HOUSING NEED: 1R+Wet Room

(1 BEDROOMS; 3 PERSON; BATHROOM)

SAVINGS: Ks 90,158

CREDIT SCORE: 3

(PREVIOUS LOANS FULLY PAID OFF, NO CURRENT KNOWN LOANS)



[5] Photos from photobank, names are entirely fictitious, data is accurate

Plot size = 8x12
Plot rea = 96sq.m

2 ROOM	2(3X3) =18
1 WC/SHOWER	2X1 = 2
Lobby	1x1 = 1
1 Lounge	4x3 = 12
I Entrance	3X1 = 3
Total area	36

coverage = 36/96x100% = 37.5%

INCOME PROFILE: Faith Musau

CODE: B53DI4

(BOTTOM 53% INCOME GROUP, 2 X EMPLOYED, 1 x Formal, 1 X INFORMAL, 4 PERSON HOUSEHOLD)

PRIMARY PROFESSION: Admin Clerk

CURRENT JOB: 3 Years at KCB Bank

MONTHLY PAYMENT: Ks 16,483 P.M.

KS 23,000 SALARY KS 16,100, 2ND PARTNER'S INCOME, KS 3,450 HOUSING ALLOWANCE

CURRENT TENURE: Shack Rental

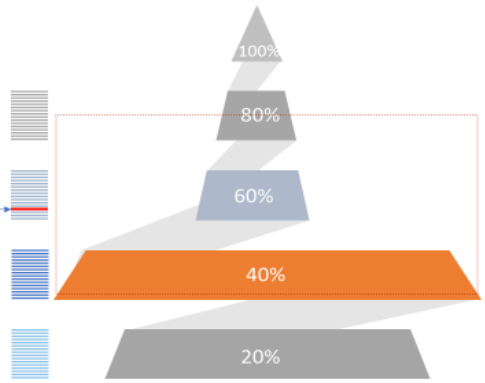
HOUSING NEED: 1BR+BA+K+L

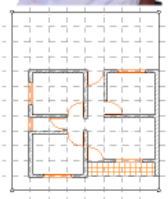
(1 BEDROOMS; 5 PERSON; BATHROOM, LOUNGE, KITCHEN)

SAVINGS: Ks 117,945

CREDIT SCORE: 3

(PREVIOUS LOANS FULLY PAID OFF, NO CURRENT KNOWN LOANS)





Plot size = 8x12
Plot rea = 96sq.m

3 ROOMS	3(3X3) =27
1 WC/SHOWER	2X1 = 2
Lobby	(1x1)+(1x3) = 4
1 Lounge	4x3 = 12
I Entrance	3X1 = 3
Total area	48

coverage = 48/96x100% = 50%

INCOME PROFILE: Dennis Wafula

CODE: B60DI5

(BOTTOM 60% INCOME GROUP, 2 X EMPLOYED, 1 x Formal, 1 X INFORMAL, 5 PERSON HOUSEHOLD)

PRIMARY PROFESSION: Hotel Chef

CURRENT JOB: 6 Years at Golf Club

MONTHLY PAYMENT: Ks 21,639 P.M.

KS 31,6670 SALARY KS 19,100, 2ND PARTNER'S INCOME, KS 4,750 HOUSING ALLOWANCE

CURRENT TENURE: Shack Rental

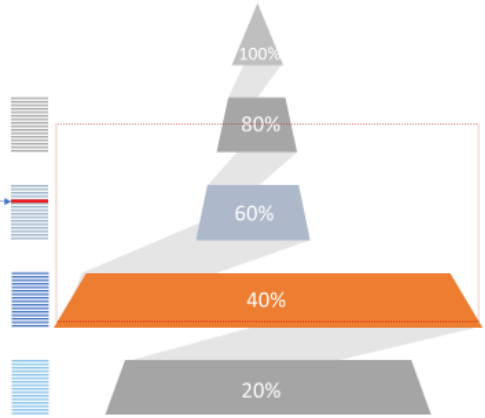
HOUSING NEED: 1BR+BA+K+L

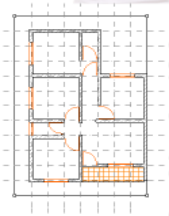
(1 BEDROOMS; 5 PERSON; BATHROOM, LOUNGE, KITCHEN)

SAVINGS: Ks 154,835

CREDIT SCORE: 4

(PREVIOUS LOANS FULLY PAID OFF, NO CURRENT KNOWN LOANS)





Plot size = 8x12
Plot rea = 96sq.m

4 ROOMS	4(3X3) =36
2 WC/SHOWER	2(2X1) = 4
Lobby	(1x1)+(1x3)+(1x1)= 5
1 Lounge	4x3 = 12
I Entrance	3X1 = 3
Total area	60

coverage = 60/96x100% = 62.5%

INCOME PROFILE: Lillian Onsongo

CODE: B60DI5

(BOTTOM 70% INCOME GROUP, 2 X EMPLOYED, 1 x Formal, 1 X INFORMAL, 5 PERSON HOUSEHOLD)

PRIMARY PROFESSION: Accountant

CURRENT JOB: 5 Years at Panda Flowers

MONTHLY PAYMENT: Ks 31,033 P.M.

KS 49,000 SALARY KS 22,500, 2ND PARTNER'S INCOME, KS 7,350 HOUSING ALLOWANCE

CURRENT TENURE: Room Rental

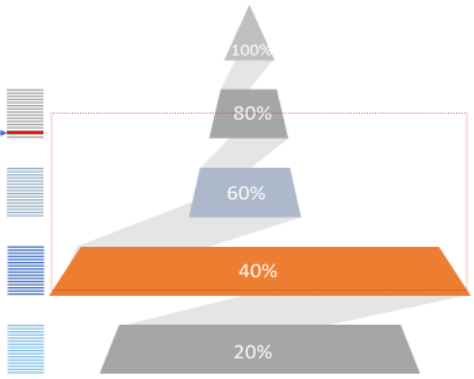
HOUSING NEED: 1BR+BA+K+L

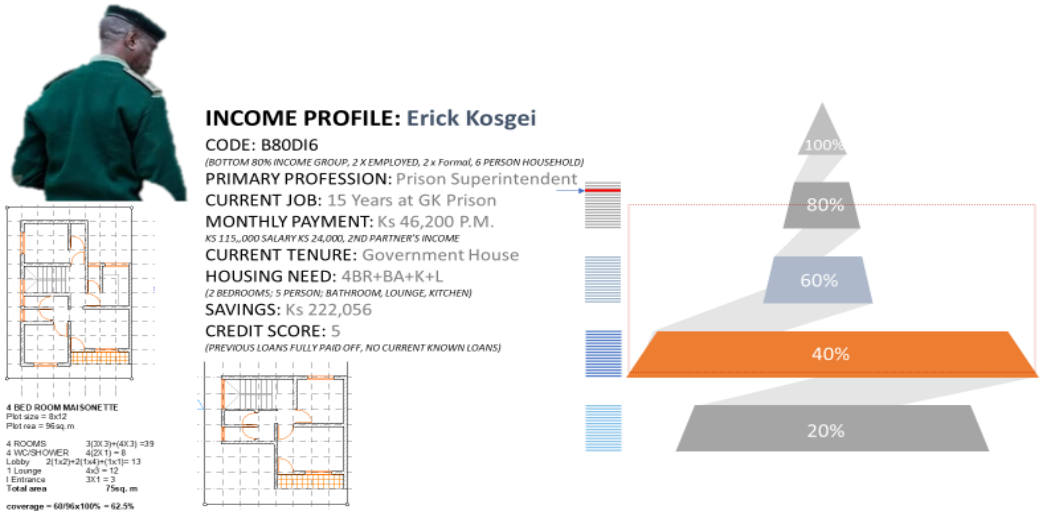
(1 BEDROOMS; 5 PERSON; BATHROOM, LOUNGE, KITCHEN)

SAVINGS: Ks 222,056

CREDIT SCORE: 5

(PREVIOUS LOANS FULLY PAID OFF, NO CURRENT KNOWN LOANS)





3.1.6. Employee Survey Results

The following table summarises the survey by period of employment, no of children, average age and level of income:

Industry	Average of Years in Employment	Average of No of Children	Average of Age	Average of Primary Source of Income
Agriculture	11	3	39	14,588
Government	11	2	35	38,161
Hospitality	4	1	37	31,000
Prison	15	2	36	51,081
Service	3	0	27	13,000
Grand Total	**12**	**2**	**37**	**29,991**

Table 3.1.6(a): Employee Household Income

Most importantly, the table below compares the income levels of the household to the households' ability to service debt under various housing finance conditions.

Income Levels	Count of HH Inc (60%)	Average of HH Inc (60%)	Average of Mrtg Over 7 years (14%)	Average of Mrtg Over 15 years (14%)	Average of MF Loan 7 years (18%)	Average of Mrtg Over 20 years (14%)
10 000 – 20 000	35	7,781	415,184	584,240	370,188	625,688
20 001 - 30 000	14	14,570	777,488	1,094,067	693,227	1,171,685
30 001 – 40 000	12	20,925	1,116,595	1,571,251	995,583	1,682,722
40 001 – 50 000	14	26,561	1,417,349	1,994,467	1,263,743	2,135,963
50 001 – 60 000	8	36,300	1,937,032	2,725,754	1,727,104	2,919,131
60 001 – 70 000	3	38,970	2,079,508	2,926,244	1,854,139	3,133,844
70 001 – 80 000	5	45,821	2,445,079	3,440,668	2,180,091	3,684,763
90 001 – 100 000	1	60,000	3,201,706	4,505,379	2,854,718	4,825,010
Over 110 000	3	94,290	5,031,491	7,080,218	4,486,199	7,582,519
Grand Total	**95**	**21,879**	**1,167,523**	**1,642,916**	**1,040,992**	**1,759,471**

Table 3.1.6 (b): Mortgage Affordability Assessment

3.2. PHYSICAL ANALYSIS [#2 PLACE]

3.2.1. Context

The draft Naivasha town Integrated Strategic Urban Development Plan (ISUDP) of 2014 to 2034 covers the entire Naivasha and part of Gilgil sub counties, an area of 951Km^2. It extends 14km from the Naivasha CBD along the Nairobi – Nakuru highway to Ihindu area as shown in figure 3.2.1 below.

One of the main obstacles to the development of Naivasha is the lack of a physical development plan. This is manifested by the increasing land use conflicts, narrow roads, poor drainage, inadequate public amenities, overcrowding, depreciation of investments, environmental degradation, loss of aesthetics and the general lack of spatial order. Implementation of the ISUDP will be a significant step towards achieving the development vision of Naivasha: to be a *Well-planned Lake City*, providing high quality tourism experiences and world class conference facilities, leading in geothermal energy production and being a centre of excellence for horticulture farming.

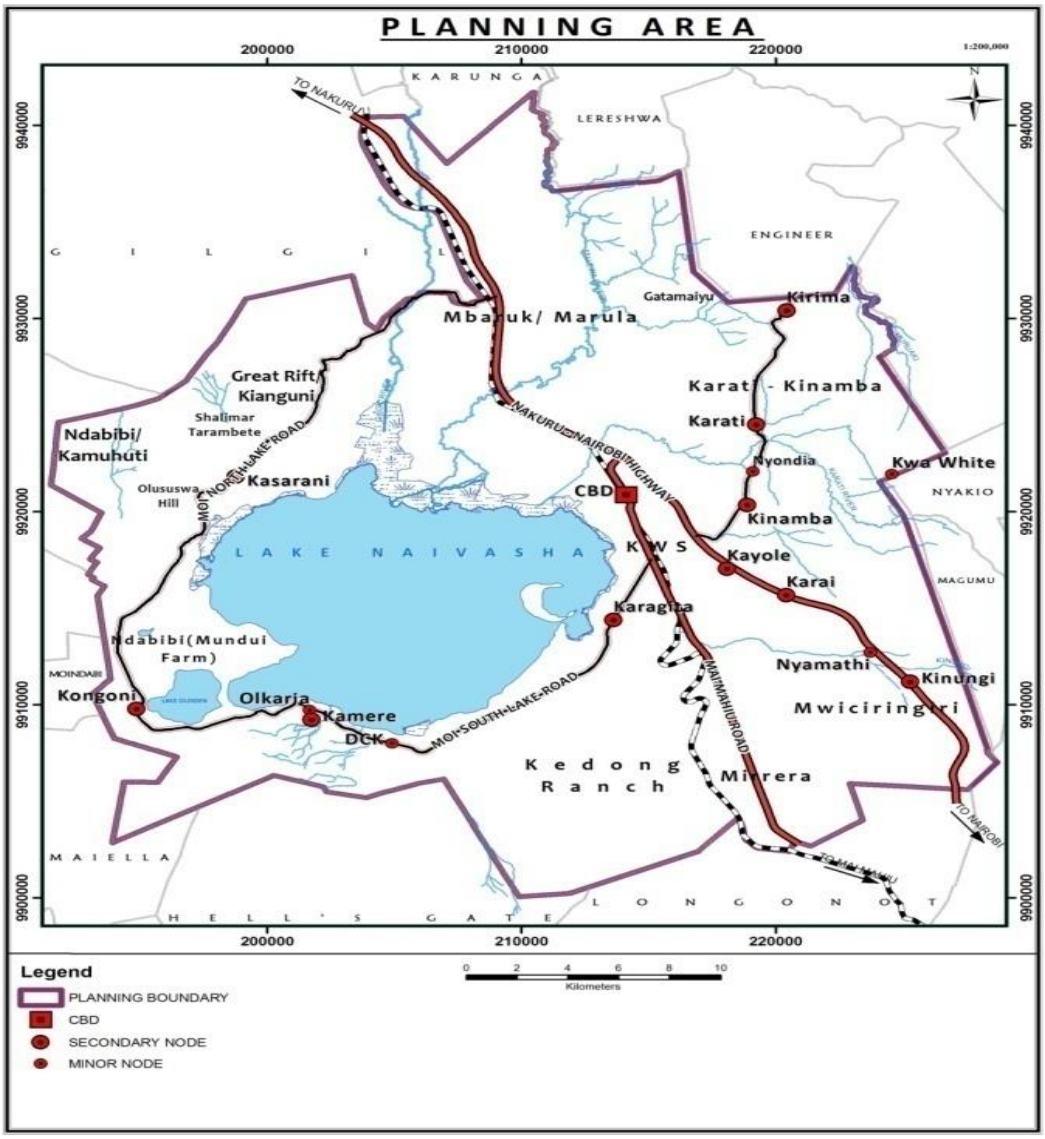


Figure 3.2.1(a): Planning area. Source: Naivasha ISUDP (2014-2034)

The ISUDP categorizes land use into 28 broad zones. This is then further delineated in 155 zones by the detailed land use plan, see figure 3.2.1(b) below.

For each zone, planning regulations are specified indicating guidelines such as permitted land use, type and number of dwelling units, ground coverage, plot ratios and parking areas among others. If passed, these will be critical in the consideration of development applications that will be submitted by a private investor to the county for approval such as building plans, extensions of use, extension of leases, subdivisions and amalgamations of land among others.

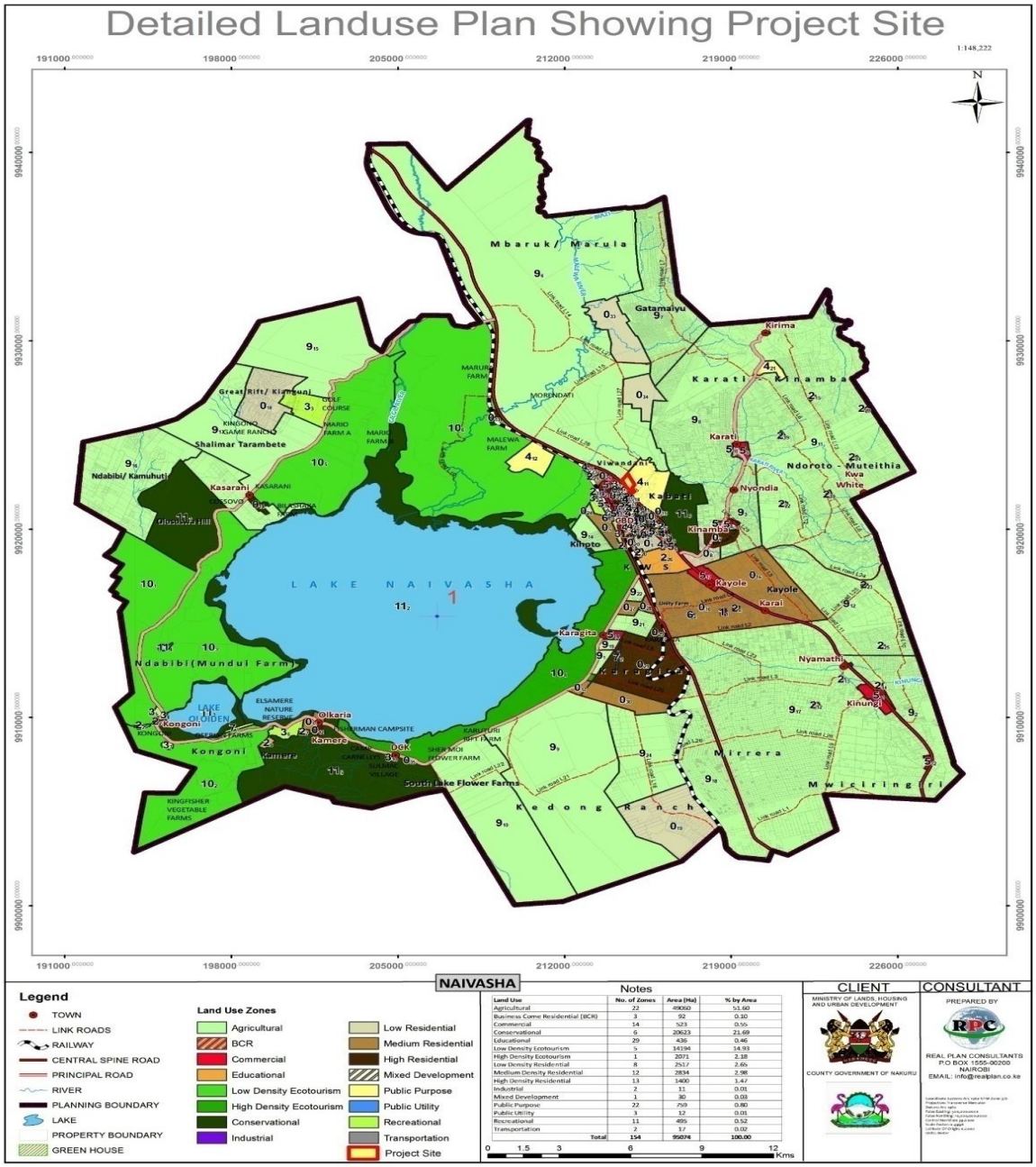


Figure 3.2.1(b): Detailed land use showing project site

3.2.2. Project Site (location, size and physical characteristics)

The project site is located within Naivasha town along the Nairobi-Nakuru highway. From the Nairobi side it is to the right about 600 metres after the Naivasha town turnoff and is sandwiched between the Naivasha GK prison and the Panda flower park. See figures 3.2.2(a) and 3.2.2(b). It is rectangular in shape, with its lengths along the highway and the prison land. The highway frontage is about 1Km while the widths are 320 metres on average. Opposite the highway are Naivasha Boys secondary school and Naivasha boarding school.

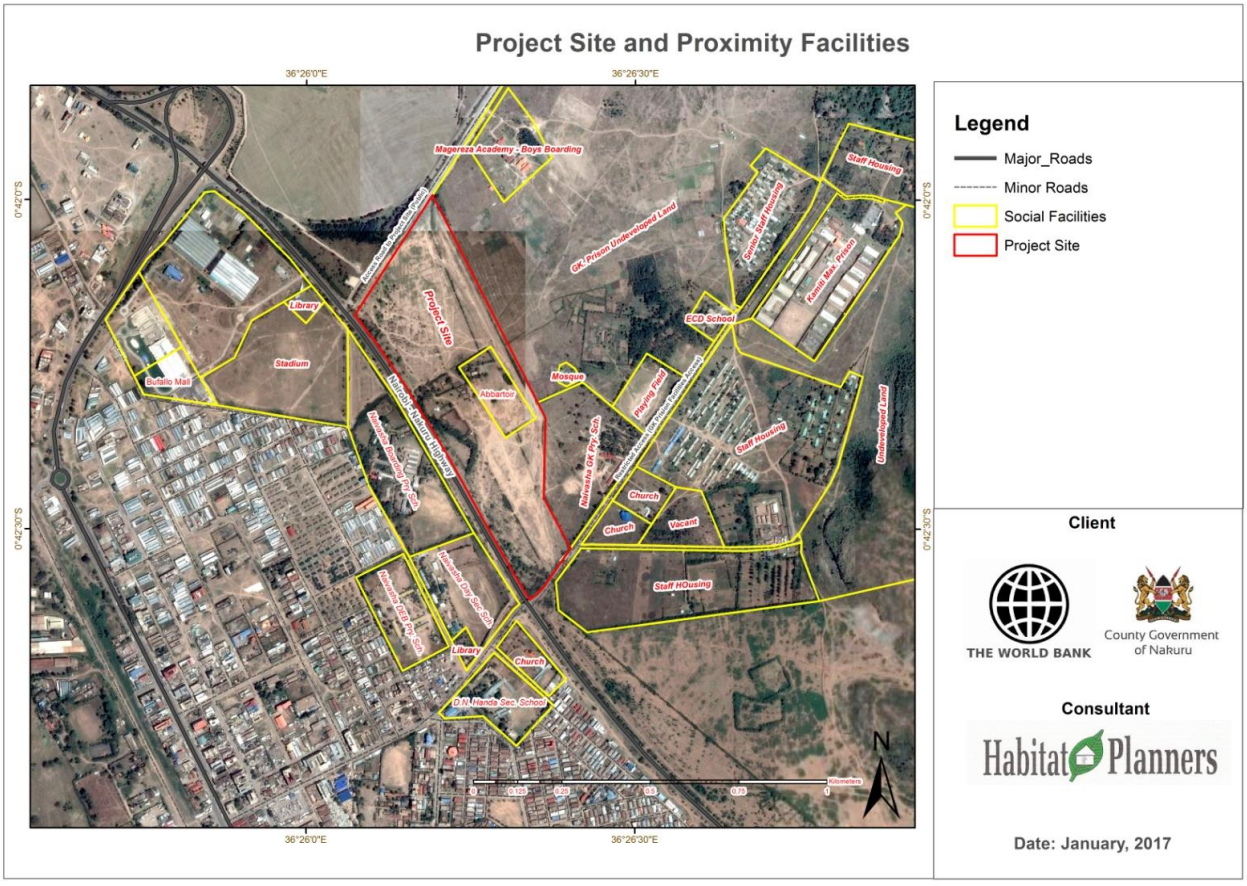


Figure 3.2.2(a): Site Location, Naivasha

Figure 3.2.2(b): Nairobi – Nakuru Highway in relation to the site

The site, which measures 22.4 hectares, is well located to the Naivasha CBD, employment, transport routes, and existing engineering and social infrastructure.

The land was leased to the County Government of Nakuru by the National Government on June 1, 2009 for a period of 99 years – see Appendix 2 for the Certificate of Lease - which requires that "land and the buildings shall only be used for residential purposes".

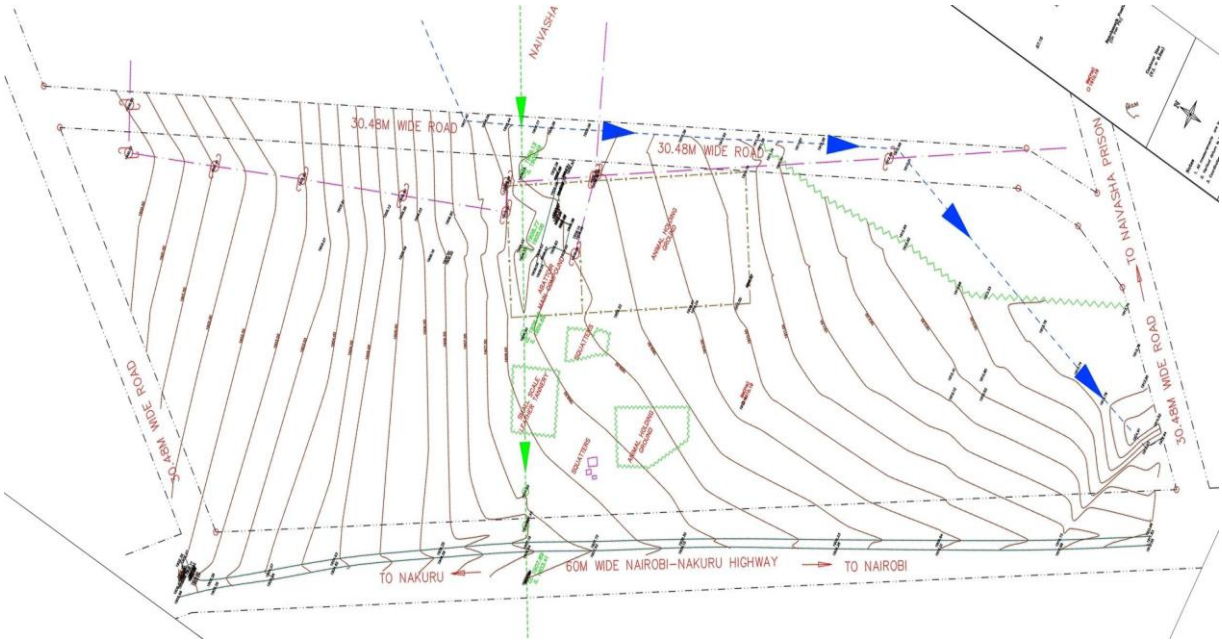


Fig.3.2.2(c). Site Topography: The site slopes gently to the South East

Fig.3.2.2 (e). Site Photo

Fig.3.2.2 (f). Site Photo

The project site has white volcanic soils and some tree species including the thorn cactus, pepper tree, yellow bark acacia and scattered grass, figures 3.2.2 (g), (h) and (i) respectively.

Figure 3.2.2(g) Thorn cactus

Figure 3.2.2(h): Pepper tree

3.2.2(i): Yellow bark acacia

There is an existing county government abattoir on the site and three adjacent dwellings – see figure 3.2.2(j). Built in 1985, the Class B abattoir (within a 40km radius), operates below capacity i.e. while designed to handle 100 heads of cattle and 100 sheep and goats, it currently does only 8 heads of cattle and 15 SHOATS. The abattoir has short-term contracts of 3months with local offtakers e.g. KWS, Prison, NYS, butcheries etc. and employs a total of 5No. county employees. The County has plans to relocate the abattoir and the occupants as part of its contribution to the scheme.

Figure 3.2.2(j): Abattoir

3.2.3. Social Infrastructure

Naivasha town has numerous educational facilities such as middle level colleges, secondary and primary schools. Within the neighbourhood of the project site, the academic institutions marked out are: Magereza academy, Naivasha secondary (mixed day) school, DN Handa secondary school, Naivasha G.K primary school, Naivasha D.E.B primary school, Naivasha boys boarding primary school and an ECD school. Tertiary institutions include the Kenya Wildlife Service Training Institute, Laikipia University campus among others. In total Naivasha sub county has 125 primary schools, 55 secondary schools, 325 ECD's, 3 special schools, and 5 private. An assessment of the absorption capacity of neighbouring schools vis-à-vis the project's impact on the area is provided in appendix 6.

An assessment of the proposed NAHP business concept against the IFC performance standards, 2012 is provided in Appendix 7.

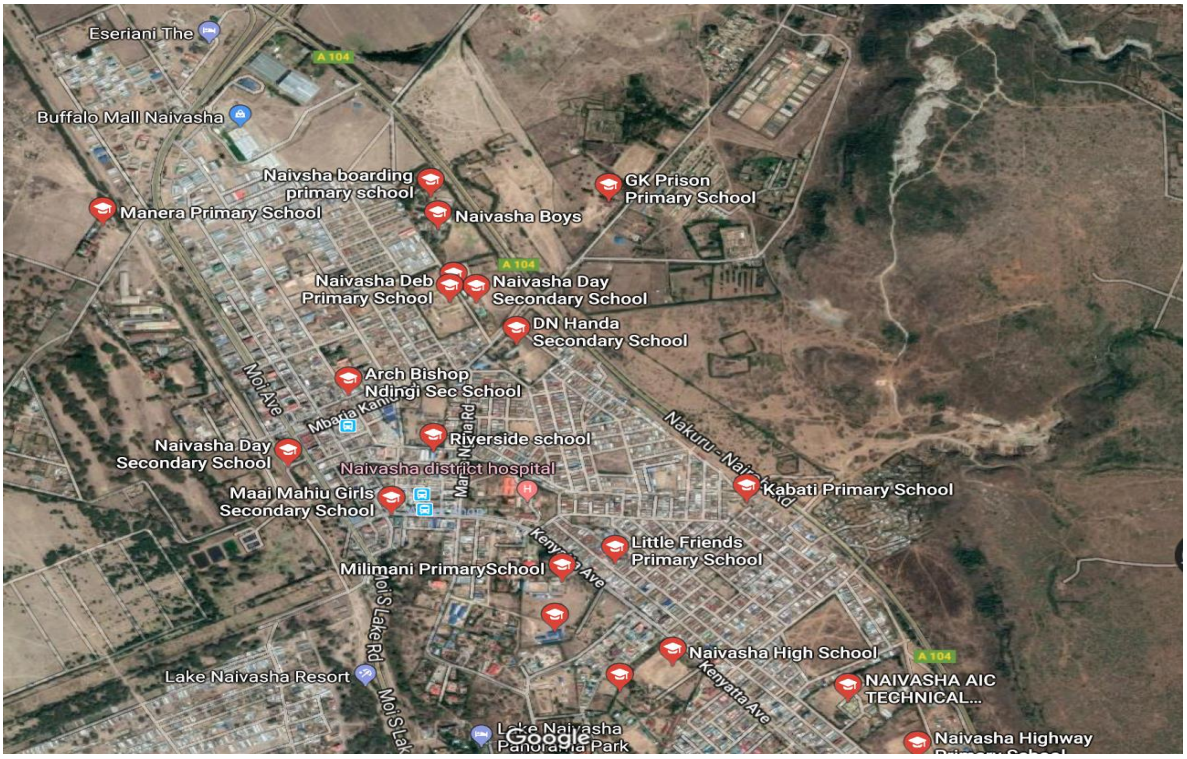


Fig. 3.14: Naivasha Town Schools

There are 95 health facilities (government, NGO's and private). The main referral hospital, the largest in the subcounty, is within walking distance of the site. There are 5 police stations and 16 police posts within Naivasha.

The average distance to the nearest police post is less than 1km.

The town has 1 fire station which also serves Gilgil subcounty. The station is however inadequately equipped for building rescue.

3.2.4. Engineering Infrastructure

(a) Soil Investigations and Site Topography:

- The site has volcanic soils. Information sourced from previous projects undertaken nearby indicate that firm volcanic sand is found at an average depth of 1.2m with an approximate bearing capacity of 120KN/M2.
- Topographical survey plan indicates that the lowest contour is 1900.00m while the highest contour is 1913.33m over a distance of 1079m. The level difference is 13.33m translating to a gentle slope of 1:80 (1.25%).

(b) Construction Materials and Water Availability:

- Several quarries are available within a radius of 10km that supply the area with hand-dressed masonry stones, ballast, gravel, graded crushed stones and quarry wastes. Machine cut masonry stones are sourced from Thika in Kiambu County which is 120km away.
- Good quality sand is sourced from Mai Mahiu (36km) and Suswa (105km).
- Construction water is available on site while a seasonal river is less than 2km from the site.

(c) Water Supply and Treatment:

- The project water demand is approximately 1,000m^3 per day. Naivasha town water consumption average is 10m^3 per month per household.
- There is a Naivasha water supply and sewerage company (NAIVAWASS) pipeline passing near the site. The pipe diameter is 250mm with a flow rate of 3000m^3 per day supplied for a duration of 18-20 hours daily.
- NAIVAWASS is in the process of expanding water supply capacity over a period of three years through construction of Kinja dam in Nyandarua County by the national government. There are also plans to increase water supply capacity by drilling boreholes and a pilot project is being undertaken with desalination and defluorination processes.
- It was noted that water supply is not reliable hence the need to seek alternative water sources for this project by drilling boreholes and installing desalination and defluorination plants for borehole water treatment due to high saline and fluoride content.

(d) Sewer Reticulation, Treatment and Disposal:

- From a previous feasibility study, it is noted that 25% of the project site will not be able to drain into the existing sewer line by gravity due to level difference challenges, hence the need to seek alternative treatment and disposal mechanisms by investigating the use of bio-digesters and dispose treated effluent into the nearby seasonal river.
- Equally, the current sewer system services less than 10% of the town, and the sewerage treat plant in Kihoto is currently strained. The prison hedge occupies the road reserve that is the only channel for discharge and drainage of the treated effluent to the seasonal river.

(e) Road Network and Storm Water Drainage:

- The site is adjacent to the Nairobi-Nakuru highway thereby providing ease of access to the site. Plans have been announced to make the road into a dual carriageway. The highway corridor is 60m. The scheme may need to provide deceleration and acceleration lanes to the approval of Kenya National Highways Authority (KeNHA).
- Storm water will be directed to the highway and towards the seasonal river since there is adequate slope. The prison hedge occupies the road reserve that is the only channel for discharge and drainage of storm water to the seasonal river.

(f) Electricity:

- A 132kv power line runs along the highway adjacent to the site while a line to serve the slaughterhouse crosses part of the site.

(g) County Service Agreements:

- Meetings with the County established that agreements for the provision of bulk services have yet to be confirmed. Onsite provision of water, sanitation, road access, storm water and electricity have therefore been included in the initial cost estimates.

3.3. LOAN FINANCE ANALYSIS (#3 PAYMENTS)

The following section deals with "how the scheme will be paid for" by the builder who needs finance to build the houses, and by the end-users who need finance to purchase the houses. The assessment below is based upon information obtained from individual and group engagements with Bank and SACCO financial institutions:

3.3.1. End User Finance

(a) Bank Lending:

Introduced in September 2016, Kenya's interest rate capping law prohibits banks to price loans at four percent above the Central Bank Rate (CBR). Coupled with the country's high treasury bond rates, the already low provision of mortgages has been constrained to a trickle.

Whilst the formulation of the Banking (Amendment) Act, 2016 - which introduced the rate cap - was motivated by the need to increase credit uptake by facilitating access to loans, particularly for micro and small enterprises (MSME) and households, it has created conditions that favour the upper end of the economy and made it difficult for MSMEs and households parties to access credit with the number of loan accounts dropping by 1.2 million accounts between 2016 and 2017[6].

According to the 2016 Economic Survey by Kenya National Bureau of Statistics (KNBS) on income distribution, majority of the waged employees are low income earners i.e.: 74% earn Kshs 50,000 and below per month, 23% between 50,000 and KES 100,000 per month, while only 2.9% earn above KES 100,000. A recently commissioned joint GOK and WB study on the Housing Finance Market in Kenya revealed the disparity between banks' target market vis-à-vis the monthly household income Kenyan's earn:

	Banks	MFBs	SACCOs
Housing Finance Products	- House purchase - Land purchase - House construction - Renovation / Repairs - Equity release	- House purchase - Land purchase - House construction - Renovation / Repairs - Property development for rental use	- House purchase - Land purchase - House construction - Renovation / Repairs - Incremental construction
Tenor	Up to 25 years	Up to 3 years	12 -72 months
Loan Amount	Majority > KES 8 Million	Majority< KES 3 million	Majority< KES 3 million
Monthly income levels of mortgage product customers	Majority > KES 200k	Majority < KES100k **Affordable housing targets these income segments**	Majority < KES100k

Figure. 3.3.1: Residential Housing Finance Products in Kenya

These statistics inform that even with the possible lifting of the rate cap, going down market will present a challenge for those banks unfamiliar with housing microfinance or micro mortgage underwriting techniques, such as:

- Methods of assessing ability to repay: National Cooperative Housing Union's (NACHU) methodology that base 'ability to repay' on household expenditure rather than income. Lower

[6]https://www.businessdailyafrica.com/economy/Bankers--lobby-KBA-rate-cap-slow-credit-growth/3946234-4146650-h3hsntz/index.html

income earners tend to be less indebted than higher incomes (more disciplined with the little they make) and as such have more disposable income to servicing a housing loan.

- Verification of income: Informal traders tend to manage income and expenditure daily rather than monthly, and do not produce monthly statements, even though their monthly earnings place them in a middle-income bracket.
- Over-relying upon property title as security: Income, rather than disposable income. Concern thus, is that commercial banks may not be unsuited to the affordable housing market.
- Housing loan design needs to match the incremental way lower income households acquire or build out the houses; and explore alternative mechanisms to homeownership such as rent-to-own, shared ownership models.

(b) SACCO Lending:

Savings and Credit Cooperatives (SACCOs) offer access to large numbers of potential clients and are not affected by the interest rate cap law. Their clients can borrow up to three times their savings at an interest rate of 12% p.a. on average.

There are slight variations on the lending offer between competing SACCOs, but in general there seems to be a stable and competing loan offer product available to SACCO members.

SACCO members' ability to buy a new house is, however, limited as the loans are quite small and in multiples of saved amounts which puts a big limitation on the size of the loan. The Kenya Mortgage Refinance Company (KMRC) should in time provide additional long-term funding/liquidity to the SACCOs meeting the eligibility criteria.

(c) Cash Purchase:

Cash buyers able to afford buying a house without any formal financing mainly rely on informal, family lending and remittance sources to gain the funds required to achieve a cash house purchase.

Insufficient data or sources of information exist to accurately determine the size of potential cash buyers for the prototype project. Few people interviewed proved confident enough to admit that they may have the money set aside or arranged for a cash purchase.

3.3.2. Project Finance

Project financing in Kenya is limited, uncertain and discontinuous.

Banks involved in housing development, developers and housing finance guarantors concur that the lack of project finance presents a greater constraint to scaling up housing supply than the availability of mortgage finance. Further the equity requirements placed on developers is seemingly locking out local firms.

Banks interviewed indicated that they:

- Would provide no more than 70% of a project's capital requirement.
- Would require a debt to equity ratio of no more than 2:1

Banks involved in housing developments seek capitalisation to sustain project capital demand. The continuity of capital is as important than the cost of capital, ensuring that housing producers maintain production. Interruptions in production cause loss of key personnel, management capacity, efficiency – factors that contribute to increasing output, and lowering cost.

3.3.3. Equity Finance

Banks indicated that they would be willing to invest in a Special Purpose Vehicle (SPV), and to lead syndicated investments alongside a primary investor. Investment SACCO's and some employers also indicated their interest in providing equity.

It is very likely that 'rent-to-own' and rental forms of tenure will be necessitated to enable end-user affordability. As such, there will be need for asset management vehicles that will require longer term debt and/or equity - which is currently unavailable.

3.4. PRODUCTION AND SUPPLY CHAIN ANALYSIS [#4 Production]

3.4.1. Developer Capability and Capacity:

Few Kenyan developers have produced more than 400 houses a single year. NACHU produced 800 in their best year. Discussions with building contractors revealed that the average rate of production is 20-40 units per month (max 360 per year).

Production is currently limited by the rate of land titling; rate of mortgage origination; rate of sale; rate of building material supply; and, the availability of skilled artisans. From interviews held with Kenya Property Developers Association (KPDA), it became clear that majority of Kenyan developers face liquidity constraints owing to unsold units that were developed speculatively, and difficulties in securing sufficient working and project capital.

There is concern, therefore, that Kenyan developers may not have sufficient balance sheet, or capacity to secure the funding required to deliver a scheme of 2-3,000 houses. Multiple construction contracts or subcontracts may therefore need to be considered, each focused on a different tenure typology, or a different phase – in order to distribute capital requirements, capacity and risk.

3.4.2. Supply chain issues [Naivasha]

As there is no precedent for a project of this scale in Naivasha, the supply chains for building materials, technicians and labour will need to be sourced from Nairobi. To stimulate local supply chains, it is recommended that construction materials and methods to be used throughout the scheme utilise local building materials and methods.

3.5. DEVELOPMENT/INVESTMENT VEHICLE ANALYSIS [#5 Portal]

The "Vehicle" (Portal) is the institutional mechanism into which (a) investment will be made, and through which (b) the assets (housing, infrastructure etc) will be delivered. Such entity must ensure that it satisfies both investment market imperatives (profitability and risk management) at one end, and end-user market (affordability and adequacy) imperatives at the other.

To achieve this will require coordination and management integration of the 4 components [i.e. People, Place, Payments, Production] earlier described.

3.5.1. Delivery Vehicle Requirements:

(a) Planning and Design competence and experience relevant to targeted housing income categories (includes, participatory planning, urban planning, urban design, architecture, civil and structural engineering, cost, project and construction management).

(b) Construction management and local resourcing competence: The ability to manage locally sourced contractors, sub-contractors and supply chains to maximise local SMME's development and to devise the scale and phasing of the project to maximise local participation.

(c) "Bottom of the pyramid" marketing experience and competence: Ensuring management of offtake agreements, client origination, cohort formation, and loan closing to avoid speculation and to build a waiting list.

(d) "Just-in-time" management: Coordinating both construction and marketing processes above to ensure that house production and end user cohort closing are sequenced to align with investment exits and avoid unsold/empty stock.

(e) Facilities management experience and competence: County capacity to maintain the estate is limited and there is therefore need for it to be privately managed. This will encompass internal services, internal roads, parking, public spaces and landscaping, security, including arrangements with bulk service providers.

(f) Management of Rental and/or Rent-to-Own Stock: The scheme will involve a combination of housing for sales, rent-to-own and rental – that will require ongoing facilities management.

(g) Asset Management competence: Ensure property values within the estate are enhanced, and not deteriorate, over time.

3.5.2. Investment Vehicle Requirements:

The vehicle should have adequate:

(a) Mission Purpose: The vehicle should be established to serve the targeted market and develop its business model and governance accordingly.

(b) Liquidity: Sufficient capital to undertake the development without the need to mortgage the land to speed up the development. The vehicle should also be able to roll over investment returns to minimize debt requirements and to maximise return on equity.

(c) Equity: A balance sheet that enables the raising of debt and equity without relying upon sales. It should be possible for the vehicle to slow production if there are delays to property titling, loan underwriting and closing or sales.

(d) Real estate investment competence: At least one of the core investors should have real estate investment experience to provide shareholder leadership to the investment syndicate.

(e) Local oversight: At least one of the investors should be locally located to the development to provide regular oversight.

(f) Monitoring and Modelling competence to regularly recalibrate the business model against changes or impacts upon the scale and pace of production and/or sales

3.5.3. Assessment of Investment and Delivery Entities in Kenya

Following individual and corporate meetings with members of the KPDA, and meetings with Cooperative producers of housing, the following was deduced:

(a) Assessment with respect to Delivery Requirements:

- Existing Kenyan housing developers/contractors have adequate planning, design and construction management competence, although experience with low income target market is

lean. Cooperatives in turn, have experience dealing with low income market, but planning and construction management experience, particularly at scale, is limited.

- Developer competence with respect to the sequencing of marketing and production is weak (e.g. unsold units) and there is limited developer experience holding and managing stock over long periods of time – although there are several (independent) Facilities Management companies exits, which focus on commercial office and upmarket housing letting. Social rental institutions (landlords) are relatively undeveloped, and unregulated.

(b) Assessment with respect to Investment Requirements:

- Market/Mission Misalignment: Apart from non-profit (NACHU) and cooperative providers (SACCO's), there are no private sector property providers that have a business model focused on the bottom of the income pyramid i.e. units below KES 3Mn. Existing "affordable" developers cater essentially to middle and upper incomes.
- Illiquidity: Of concern is that three of the main "affordable" developers have liquidity issues arising from unsold stock.

Owning to the fact that there is no singular Portal (developer) entity that meets with the overall delivery and investment requirements , consultations were held with the State Department of Housing and Urban Development to determine whether the National Housing Corporation (NHC) could be used to fulfil the function of Portal (as it already exists) but, based on the proposed re-structuring of NHC, and private investment concerns, it was deemed more suitable to establish an SPV or greenfield institution be established to serve as the Portal for project.

3.6. PROCUREMENT ANALYSIS [#6 Procurement]

Lacking the ability to raise debt, the government has proposed to use its resources of serviced public land to attract private investment towards the delivery of affordable housing. To do this, the GOK's Development Framework Guidelines establishes that other public-private contractual engagements, beyond traditional Public Private Partnerships (PPP), are necessary to effectively deliver on the agenda.

To this effect, in October 2018, the National Treasury & Planning permitted the State Department of Housing and Urban Development to apply the "Specially Permitted Procurement Method (SPPM)" as provided under the Finance Act, 2017 and the Public Procurement and Asset Disposal Act, 2015. In principle, this collaboration is a joint venture (JV) between government and the private sector to stimulate affordable housing production on a "Built-Transfer" basis. Some of the key characteristics of this JV structure that differentiate it from the classic PPP model are the following:

a) Service vs Asset Provision:

A standard PPP arrangement best suits a project with a long-term requirement to provide a public service under which the private party is generally liable for risks arising from the performance of said service. As remuneration for their investment, as well as for carrying the risk, the private party is only paid when the asset starts to perform as agreed to within the project agreement.

However, in this instance, GOK is seeking to unlock the housing supply and find a scalable solution that will deliver new housing stock, i.e. asset provision for purchase or rent, at an affordable price-point to the market. There is, therefore, no ongoing long-term performance service requirement from the State. This is a critical difference.

b) Cost Recovery:

In a PPP, the 'principle developer' who finances the asset, recovers their costs either through end-user payments, availability payments from the government or through a combination of both. In the case of affordable housing, payments are not related to service delivery, but rather through sale of the housing unit to private households or landlords, who are individually financed through SACCO or Bank mortgage loans.

c) The State is not seeking to own housing stock:

There is no long-term role in owning or managing the asset placed on the SetCo. The intention is not for the State to increase its own housing stock at scale and wish to utilise PPP to build and manage it with some kind of leaseback requirement. Rather, it is the intention to stimulate new houses, built and sold/rented to private households.

The Government is seeking to establish an ecosystem of new actors and institutions that have the requisite capacity, capability and credit worthiness to plan, finance, build, own and manage (rent) affordable housing and housing environments.

d) Contractual flexibility:

The financial viability and affordability is based upon a range of variables that include sub-divisional configuration, density, land use mix, housing typology, tenure, size of unit, height, phasing, pace of sales/construction. To ensure responsiveness to end user demand as each sales cohort is closed, the model may require reconfiguration. This requires that there is ownership and oversight to manage changing variables.

A PPP, particularly in a nascent market such as Kenya, would find it challenging to accommodate the levels of flexibility that will be required over the period of execution. One of the reasons that so many housing units stand empty in Nairobi is that developers had an inflexible model and have gambled on what the market wanted and could afford.

e) Long vs short term engagement:

Discussions with the real estate market players informs that a good majority (both debt and equity) do not favour an engagement beyond 3-5 years. The team thus had to consider a delivery portal that addresses investment entry and exit in accordance with their appetite levels and tenor constraints. A typical greenfield PPP arrangement would require a concession period lasting up to 30 years to facilitate cost recovery and profit margins.

3.6.1.SETCO ESTABLISHMENT PROCEDURE

Rolling up the housing estate into a project company, SetCo, allows the development to be understood in conventional commercial terms, i.e. shareholding; investment entry and exit; balance sheet; a cashflow; profitability, etc.

Considering the constraints of PPP and conventional developer modalities, the assignment had to find supporting legislation in the form of the Public Finance Management (PFM) Act, 2012, sections 182 – 186 (establishment and dissolution of County Corporations and County Government-linked Corporations), and PFM County Regulations, 2015, sections 202 to 208 (guiding principles for the establishment of county corporations). Detailed description on the legal due diligence is provided in Chapter 5 of this report.

4. DESIGN PROTOTYPE

4.1. END USER MARKETING CONCEPT [#1 People]

4.1.1. Marketing Strategy - Aligning Sales and Production

To avoid speculation, minimize risk and foster investor confidence, the settlement is to be constructed in phases – at the same pace as sales. It is recommended that no phase is to commence until the entire end-user cohort has been secured. Each housing phase will comprise approximately 150 households.

Aligning construction production with (sales) offtake lowers the project capital requirement, and reduces the debt to asset ratio, and therefore the project risk. A lower risk profile is more likely to attract investors.

4.1.2. Aggregated Cohort Phasing

The anchor group strategy was further informed by "risk-layering' that would seek to select customer 'cohorts' in the following sequence:

First Customer Cohort: Major employers in the area that could provide contextual information concerning future business growth, job security, and provide employee access to housing support (risk reductions) and potentially as investors etc.

Second Customer Cohort: Members of SACCO's and Housing Cooperatives who whilst unable to provide assurances regarding future income security, can provide extensive information concerning the member's saving and credit track record and are able to extend credit to the members for purchasing housing.

It is envisaged that when around 300 houses are built and occupied, and selection and underwriting techniques are better developed, the scheme will open to qualified applicants outside the Employer/ SACCO/Cooperative filter i.e. informal business sector.

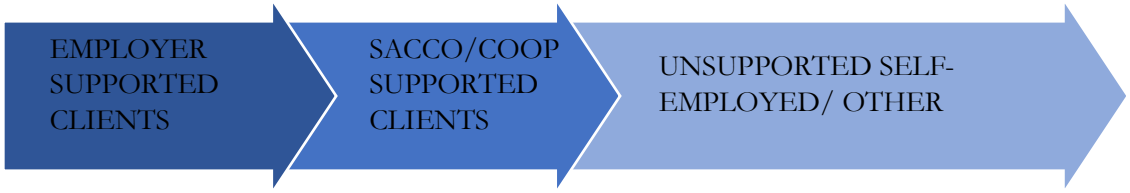


Figure 4.1.2: Housing Client Cohort Marketing Sequence

4.2. PHYSICAL DESIGN CONCEPT [#2 Place]

4.2.1. Precincts/Phasing

In alignment with the proposed sales cohorts, the settlement layout has been divided into 14 phases or precincts of approx. 150 units each. Each phase will be implemented only upon finalization of end-user cohort. Apart from managing risk of non-occupation, the phasing is intended to ensure that:

(a) any changes in unit type or mix can be incorporated;
(b) each precinct intentionally contains a mix of incomes to avoid a 'balkanisation';
(c) that each precinct is 'complete' with its requisite access and services;
(d) that the phasing reduces the project size to enable local contractor and supplier participation;
(e) each precinct can be separately procured ensuring quality control and implantation risk.

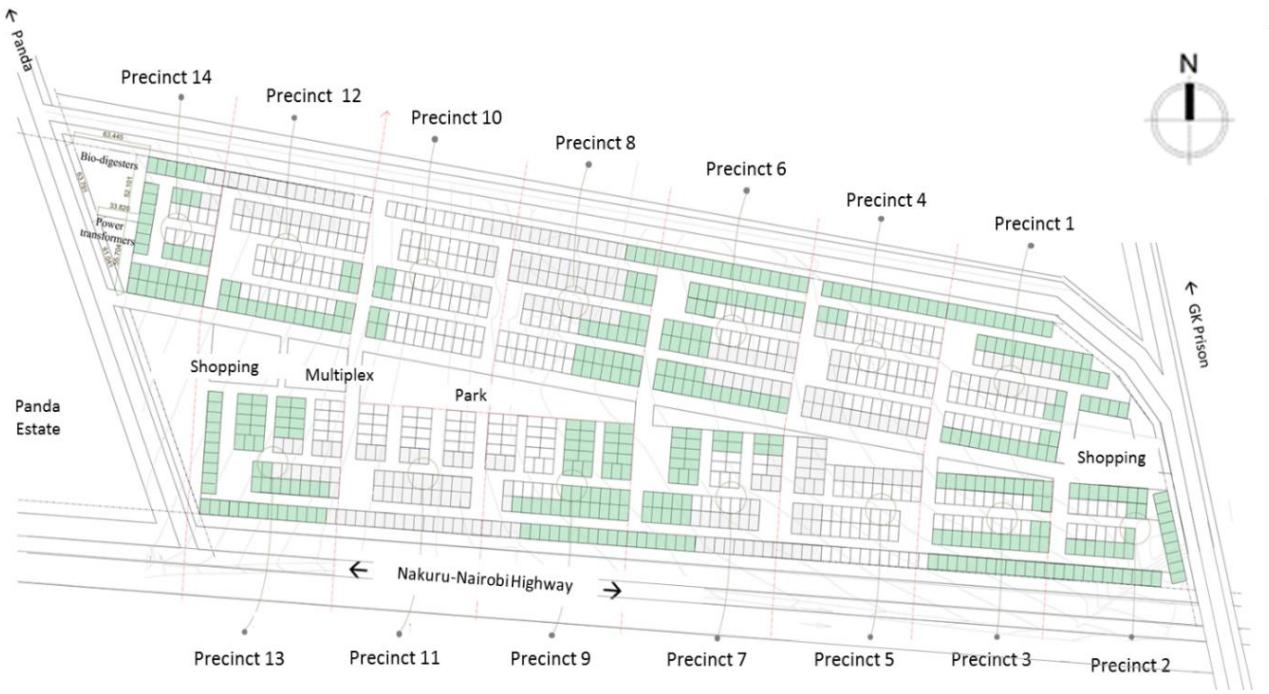


Fig 4.2.1. Site Layout

4.2.2. Modularity

(a) Sub divisional Grid:

The entire site layout is based upon a 4x4m module on which a standard plot size (12x8m) is determined. Road widths are 8m and 12m respectively. This enables changes to be made to roads, infrastructure and precincts without having to redesign the whole layout.

(b) House Types and Plot Size:

All house types are based upon a common plot size (12x8m) whether a single storey 1-5 room incremental house type, maisonette or apartments building (See Figures 4.2.3(a), (b) and (c)). This allows flexibility in the change of house type without affecting the layout. It enables the sales team to adapt to changing user demands in subsequent phases.

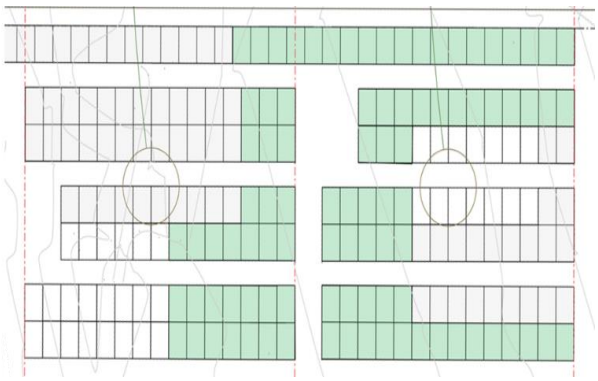
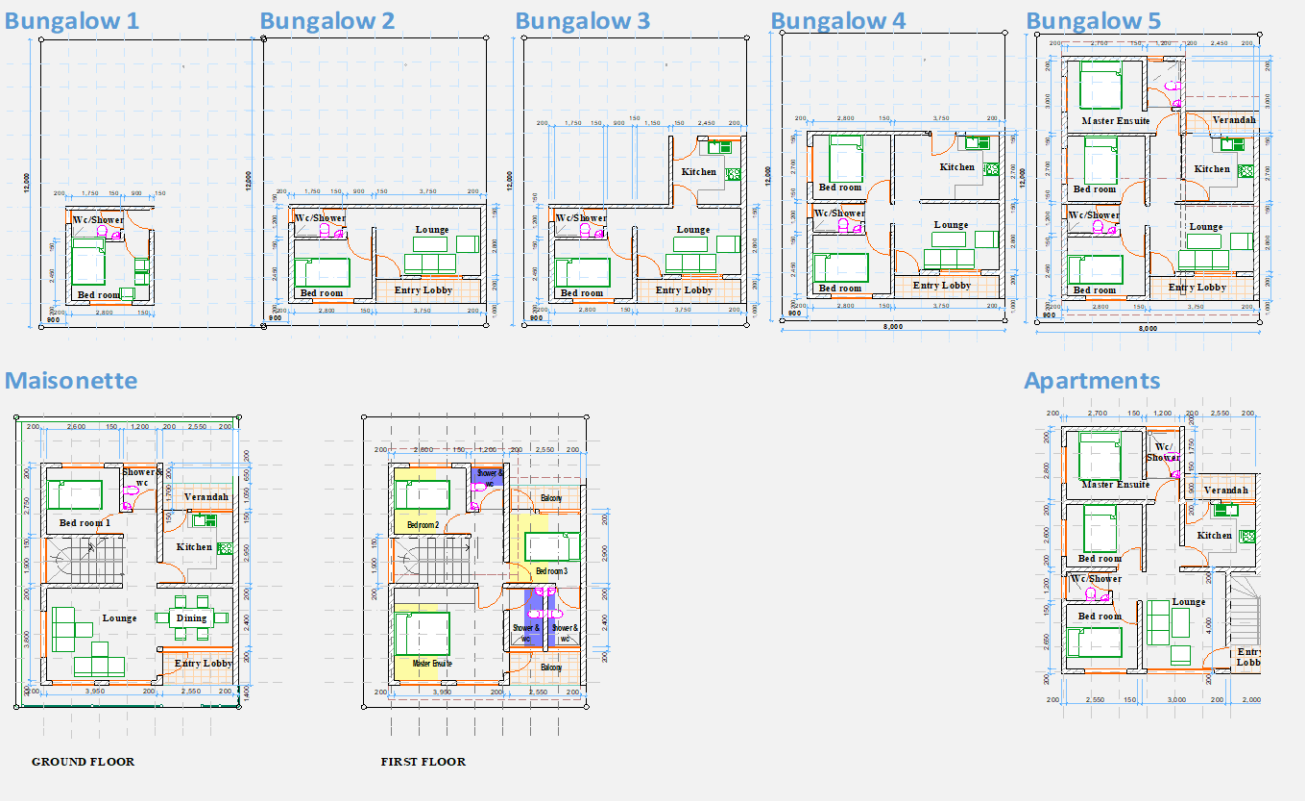


Fig.4.2.2(a) Modular Subdivision Configuration (4x4 grid)

Fig.4.2.2(b) Single Storey Street Perspective

4.2.3. Housing Typologies

Fig. 4.2.3. House Typologies based on Standardised Plot (Subdivision)



- Bungalow 1, shown in figure 4.2.3 provides a room with access to water, sanitation and electricity, is regarded as a starter house allowing households currently renting a single room from an informal landlord, to move out and make a start towards owning their own house. In many instances, this is already an improvement on what the same household is currently renting.
- It is envisaged that such households will soon, once proving their own repayment credibility, seek to refinance their loan to enable them to add an additional room, as reflected in the Bungalow 2 house type. The anticipated upscaling and refinancing could happen as early as 24 months after buying the original Bungalow 1 unit.
- Only 10% of the project is currently allocated towards Bungalow 1 as it land-consumptive, does not share infrastructure costs equitably and does not accommodate many people. i.e. low building density/low population density.
- Bungalow 1 (bedsit), 2 and 3 are deemed to be the most popular typologies. Unit typologies intended towards the bottom end of the targeted affordability are all 'upgradeable' incrementally to the next size up.

(a) Single Storey Bungalow/Incremental Units (1-3 Bed Units)

(b) Maisonette (Double-storey/single owner) Option:

Double Storey/Maisonette Units

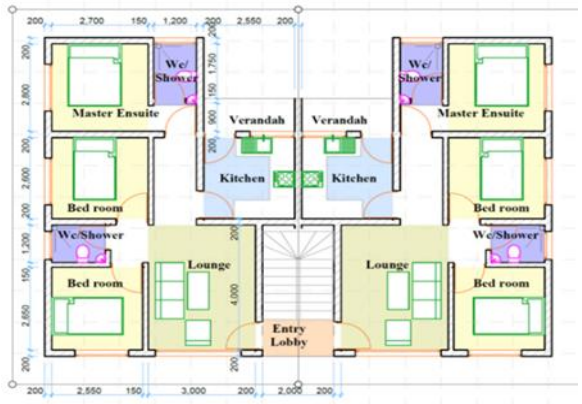
Double Storey Street Perspective

The Maisonette and Bungalow 5-unit types are at the upper end of the 30% threshold (as allowed under the GOK's affordable housing policy). Together, no more than 10% of all the plots are equally divided between these house types.

(c) Apartments (Sale and Rental)

Apartments are 30% of the overall number of plots are for apartments. After consultation, the original 3-storey apartment buildings were increased to 5-storeys. Therefore, 30% of the plots will be high density. It is anticipated that most of the apartments will be rented. Furthermore, that the rented stock will be refinanced over a long-term on an interest only senior debt or bond basis as a portfolio bundle. (More detail below)

The maisonette units are two-storey, all the bungalow typologies are single storey and the apartments, as indicated above are 5-storeys.



Apartment Units - 1-5 Floors (Standard Floor Plan)

Apartment Street Perspective

4.2.4. Matching Housing Type and End-User Affordability [People-Place Integration]

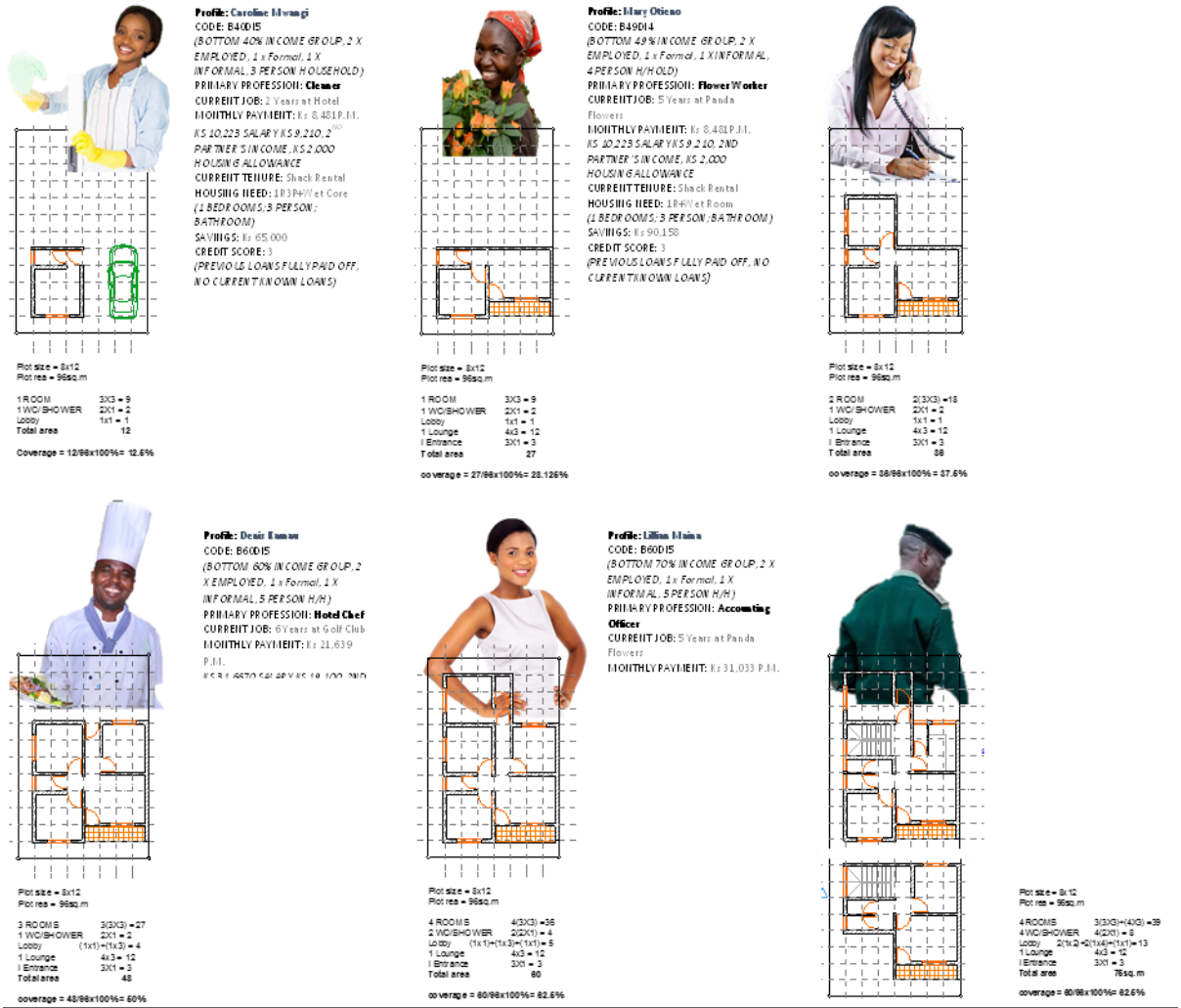
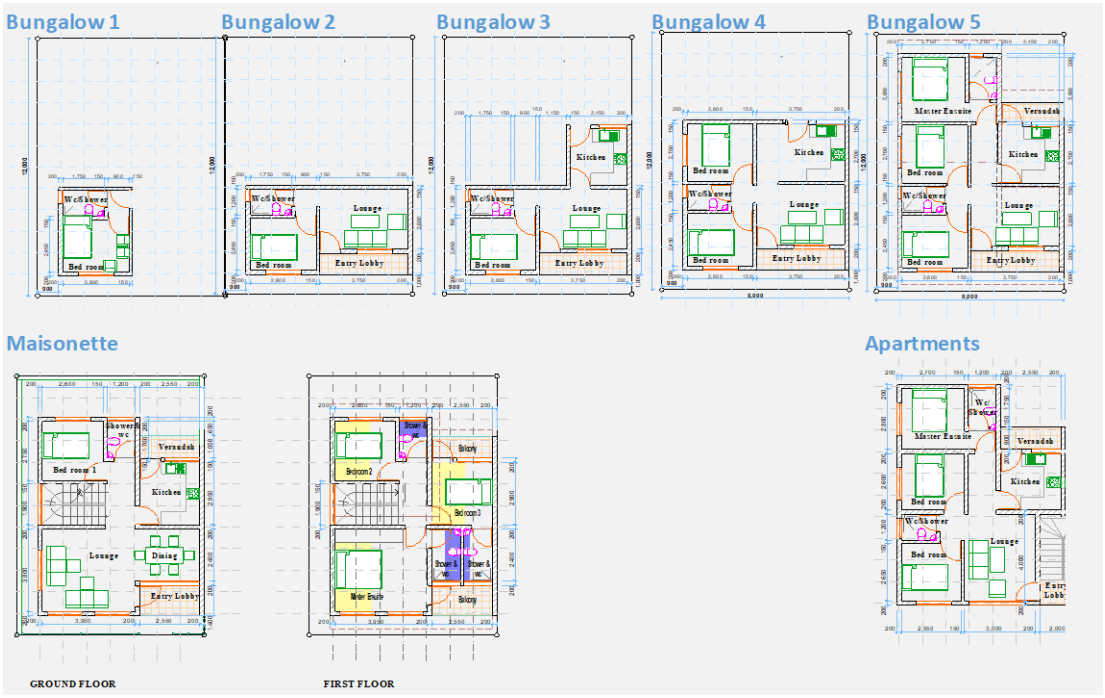


Fig.4.2.4. Matching End User-Unit to Affordability

4.2.5. Physical Design Variables: Model Assumptions

(a) Housing Type Variables (No. each type, No. Floors per type, Coverage)

The current mix is only a proposed example for feasibility purposes achieving 2,316 units over the 22.4 Ha site at a density of 104 du/Ha. The actual distribution of unit types assumed for the model, is listed in Fig 4.2.5. As indicated, the prototype allows for great adaptability. Once the actual sales stage of the project implementation starts, the blend and mix of units will be adapted to fit the demand.



	T	%	m2	Total	Total Area for the Project
Plots				1067	
Batches				32.34	
Storeys				5	
Total Plots	Apartments	30%	60	1,596	95,760
	Maisonette	5%	75	48	3,600
	Bungalow 1	10%	12	102	1,224
	Bungalow 2	20%	27	210	5,670
	Bungalow 3	20%	36	210	7,560
	Bungalow 4	10%	48	102	4,896
	Bungalow 5	5%	60	48	2,880

Total Numbers:	2,316
Total People:	
Total m2:	121,590

Fig.4.2.5(a) Model Assumptions: Housing Numbers/ Type Distribution

(b) Commercial Land Use (Site Area/Floor area/No. Floors)

The project includes a total commercial area of 15,000m^2. Currently, the usages, cost and income of this allocation is excluded from the financial model.

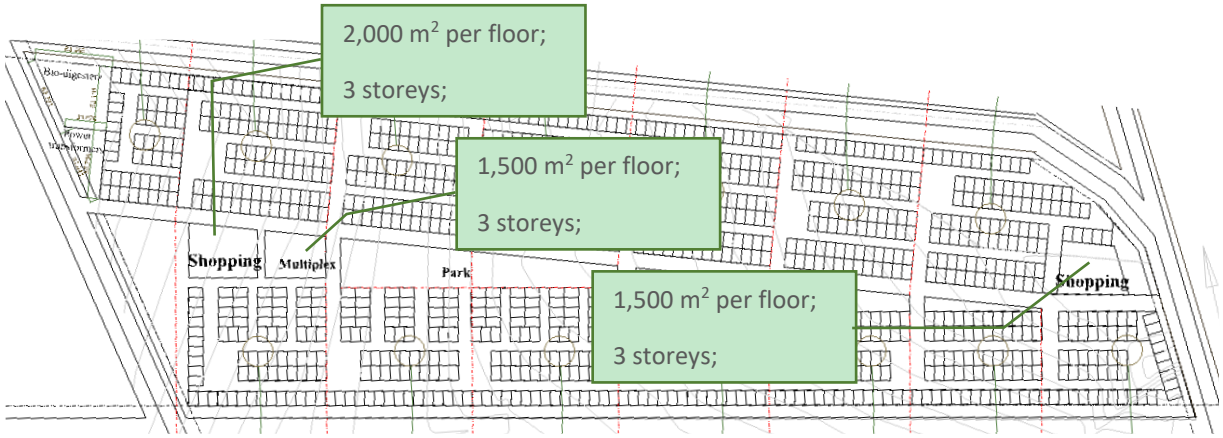


Fig 4.2.5(b) Commercial Areas (Housing above – excluded from model yield)

(c) Building Design Variables:

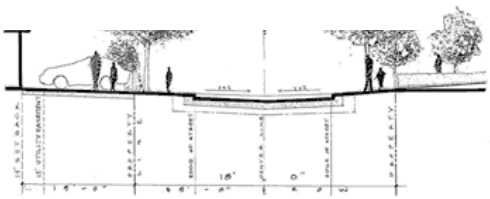
The addition of 2,316 new housing units, based on 2.6 children on average per family, the project will add 6,000 new children to the neighbourhood. This could require:

- Preschool creche places – estimated at 2,000
- Primary school places – estimated at 3,000
- Secondary school places – estimated at 1,000
- Primary health care provision – estimated at 10 health workers

(d) Engineering Service Variables/Options:

i. Road length/width/surface: The road design includes for inverted crown camber. This allows for rain to drain naturally down the road. The topography of the site suits this type of design. The road widths are kept to a minimum, i.e. 6m wide for main arterial roads and 4m for branch roads. Both the above act as natural traffic calming provisions. The estimated total road lengths are:
    - Main estate road: ±1.2 km
    - Secondary branch roads: ±6 km
    - Total paved area: ±30,000 m2

Fig 4.19. Inverted Crown Road



ii. Road Design Specifications: Black top on layering of graduated gravel fill; alternative 60mm thick block paving with permeable blocks, suitable for light-industrial traffic. (Spec. BS7533 Part 1 and 2); Integrated drainage including road edging in concrete.

iii. On-street parking: Parking provision 1 car per 2 units.

iv. Sewage reticulation (type/length):
- The project provides for 10,000m of sewage reticulation, ending in a bio-digestor plant to treat the effluent to WHO discharge quality. The bio-digestor plants are made up by a battery of 5 linked plants, each with a capacity between 500 to 3,000 people per day. This creates an estimated design load to capacity ration of 1:2, therefore a sufficient headroom for peak loads and able to cope with low volumes if required, without damage to the microbial charge.
- Reticulation pipes allowed for range between 150mm to 200mm diameter, benched in concrete and laid to natural falls, including manholes and service access.

v. Water reticulation (type/length/other)
- Two boreholes, one at each side of the site length, will be provided, each with a 150 m3 header tank with gravity towers, feeding into both ends of a ring main of 10,000m with a diameter of 100mm, and with 75mm and 50mm secondary and tertiary branch feeds.
- Pumped water from the boreholes will be filtered, lightly treated for desalination and UV-treated for microbial contamination.

vi. Access and Circulation: Paths (length/width/surface)
- Roads shoulders are extended to provide paved footpaths and cycle access. The total footpath provision within the current design proposal extends to nearly 10km. The paths are 1m wide and either block-paved or tarmacadam surfaced.

4.2.6. Housing Tenure Variables

(a) Ownership

This business case is based upon ownership, whether by purchase of individual units, or purchase of apartment blocks to be rented to others. Regarding the latter, Rental Options have been explored to establish commercial feasibility. See 4.2.7 below.

(b) Rental

Whilst the major focus of the project is housing for sale, a proportion of end-user demand within Naivasha is for rental housing. Accordingly, this project has examined rental options. Rental may be an effective way of ensuring housing inclusion within Kenyan cities. As Kenya does not, as yet, have a regulatory framework sufficiently able to curb the excesses of landlords over their tenants, the NAHP may provide opportunity to develop institutional models and practices that may inform equitable landlord/social rental policy and regulation.

The project allows for rental housing:
- More than a third of the units, mostly the apartments, are suitable as rental stock. The unit design includes all the most desired housing components such as 3 bedrooms, kitchen, lounge, 2 bathrooms and balcony. The design should suit most households.
- The main distinction between the ownership and the rentable apartment design is that the apartments are complete from the start, whereas the ownership models follow an incremental expansion design. Incremental evolution is not in general compatible to a rental model.
- Furthermore, monthly rental, unlike mortgage repayments, can be annually escalated, allowing for a lower initial entry cost level.
- The $60m^2$ rental units could be refinanced or sold by the SPV/SetCo to a longer-term rental specialist sidecar company such as a Rental company, which can continue manage rental stock in perpetuity, beyond the exit of SetCo investors.

(c) Rent to Own:

Rent to own options offer the SetCo the ability to retain the ownership until the last repayment collection completes. This avoids the possibly intractable repossession by legal means through the courts. Evicting a non-paying rental tenant or negotiating a rent restructure plan with any delinquent tenancy will be less complicated and can be made subject to alternative dispute resolution mechanisms, avoiding expensive court action. Rent to own allows for annual repayment increases, something not offered by mortgage companies through any form of adjustable repayment mortgage offers, and not currently on offer in Kenya. The model follows the rental option above for 25 years.

(d) Lease:

Leasehold options follow either mortgage or rent to own models, depending which option suits the household client best. However, the interest rate is 3% higher.

4.2.7. Rental Housing Alternatives: Model Assumptions

Two rental options were explored; the variable assumptions of which are contained tables below:

(a) Rental Option 1: Full Capital Service Model:

Conventional rental based on a ten-year capital service model is shown in the table below. Monthly rent starts at 25% discount of mortgage repayment. After 4-years, rent catches up with mortgage repayment. The 10-year discounted rent book value is calculated as KES 3,450,884.

Start off Rent		28,757
Year 1		30,587
Year 2		32,534
Year 3		34,604
Year 4		36,806
Year 5		39,148
Year 6		41,640
Year 7		44,290
Year 8		47,108
Year 9		50,106
Year 10		53,294
Year 11		56,686
Year 12		60,293
Year 13		64,130
Year 14		68,211
Year 15		72,552
Year 16		77,168
Year 17		82,079
Year 18		87,302
Year 19		92,858
Year 20		98,767
Discounted Rent Book Value	10	3,450,884
P.A Return Cost		6.2%
Compared to Sales		2.3%

(b) Rental Option 2: Apartment rental based on an interest only option

The RentCo will require a special rental commitment and a strong sense of social mission to affordable rental market. The refinancing that enable the RentCo to purchase the rental stock from the SetCo developer, may be best achieved

in a long-term debt structure that intends to service the loan interest only. At the end of the loan term, the loan is refinanced and rolled forward into a new loan. By limiting the debt service to an interest only facility, rental can be kept to a minimum.

In the interest only rental model, the monthly rental is reduced as follow:

Start off Rent (Year 0)	9,569
Year 1	10,178
Year 2	10,826
Year 3	11,515
Year 4	12,248
Year 5	13,027
Year 6	13,856
Year 7	14,738
Year 8	15,676
Year 9	16,673
Year 10	17,735
Year 11	18,863
Year 12	20,063
Year 13	21,340
Year 14	22,698
Year 15	24,143
Year 16	25,679
Year 17	27,313
Year 18	29,051
Year 19	30,900
Year 20	32,866
Year 21	34,958
Year 22	37,182
Year 23	39,549
Year 24	42,065
Year 25	44,742
Year 26	47,589
Year 27	50,618
Year 28	53,839
Year 29	57,265
Year 30	60,909

Rental breakdown includes:

- Interest cost
- Maintenance provision (planned and responsive)
- Insurance costs
- Management costs (rent collection, management operational costs, client services, etc.)
- Marketing and letting costs
- Profit mark-up
- Taxation and compliancy fees (audits, etc.)

Note:

The interest service rental model reduces the initial rent by one third. This brings the rental down to affordable levels and provide a unique offer unknown in Kenya - a 60m² three-bedroom apartment for a monthly rental slightly above the cost of one room informal room rental. The RentCo may opt to sell off some units after 5, 10, 15 and 20-year periods. These units may be offered to the tenants.

4.2.8. Land Valuation

The initial valuation of the land to be provided to the County in exchange for the preference share will be based on international best practice of residual land valuation principles. Kenya does not have sufficient land transactional records and the current market pricing seems to be purely based on a willing-buyer-willing-seller auction. However, this favour land vendors unfairly and generates land speculation.

Residual land valuation takes the current unencumbered market value and deducts the costs of any encumbrances related to the site, or 'site abnormals'. The current identified site abnormals include the proximity of the prison, traffic noise from the highway, lack of bulk services, land contamination from the abattoir spillage, traffic junctions, improvements and provision of any and all social amenities such as schools, healthcare, etc.

For the purposes of the Business Case modelling, a number of calculations have been undertaken to determine an estimated value on which to assess feasibility. This is detailed in Section 4.7

4.3. End User Finance Design [#3 Payments]

Affordable housing requires careful consideration of both the housing product and the corresponding loan product. Preferably, house design and the loan design should be connected. Currently this is not the situation, and there is a misalignment between supply and demand, constraining the development of an efficient and affordable housing market.

This Business Case has been limited to establishing feasible delivery model on the supply side, yet it is evident that there is a gap in the design of mortgage products suited to the targeted clientele. Current loan products from Kenyan Banks and SACCO's, as presently designed, are not suitable for scaling the delivery of, and access to low cost housing. As such, the authors have sought to investigate various options that could meet the requirements of this prototype:

4.3.1. Instalment Purchase Option [Not used for model]:

As a result of mortgage market (capping) constraint, some property developers and clients have financed their housing through a series of fixed instalments/payments. Below is a table illustrating how the proposed Unit Types could be purchased this way:

Gap in Months		Apartments	Maisonette	Bungalow 1	Bungalow 2	Bungalow 3	Bungalow 4	Bungalow 5
2 Payments	6	1,511,078	1,378,551	497,800	673,810	942,909	1,003,156	1,514,713
3 Payments	5	1,047,426	945,356	267,016	402,577	609,832	656,233	1,050,226
4 Payments	4	802,507	724,304	204,580	308,442	467,236	502,787	804,653
5 Payments	3	642,006	579,443	163,664	246,754	373,789	402,229	643,722
6 Payments	2	523,713	472,678	133,508	201,288	304,916	328,117	525,113
7 Payments	1	429,539	387,681	109,501	165,093	250,086	269,115	430,687
8 Payments	1	380,081	343,043	96,893	146,084	221,291	238,128	381,097
9 Payments	1	341,614	308,324	87,086	131,299	198,894	214,028	342,527
10 Payments	1	310,840	280,549	79,241	119,471	180,977	194,748	311,671
11 Payments	1	285,662	257,824	72,823	109,794	166,318	178,973	286,425
12 Payments	1	264,679	238,887	67,474	101,729	154,102	165,827	265,387

Fig 4.3.1(a): Instalment Sale Financing Method

Fig 4.3.1(b). Evaluation of an Instalment Sale Financing Method

Fixed Equal Payments:	% of loan principal	APR
2 Payments	8%	8.1%
3 Payments	12.1%	12.8%
4 Payments	14.5%	15.5%
5 Payments	14.5%	15.5%
6 Payments	12.1%	12.8%
7 Payments	7.3%	7.5%
8 Payments	8.5%	8.8%
9 Payments	9.7%	10.1%
10 Payments	10.9%	11.4%
11 Payments	12.1%	12.8%
12 Payments	13.3%	14.1%

From the table above, the most affordable option for households seems to be seven equal monthly payments. It remains doubtful if many households are able to access the required funds fast enough to make seven successive monthly payments though. Therefore, this is regarded as a theoretical option rather than a practical purchase option.

4.3.2. Mortgage Option:

A number of banks indicated an interest in offering mortgage products to prospective buyers. However, the current rate cap has made this difficult to do so commercially. The KMRC would assist over time in stimulating the mortgage lending activities.

Mortgage loan options considered include:

	Apartment	Maisn'te	Bung 1	Bung 2	Bung 3	Bung 4	Bung 5
Initial Transact'n Costs	560,153	751,043	103,281	230,346	316,180	433,923	582,679
Deposit	**280,352**	**253,032**	**71,469**	**107,753**	**163,226**	**175,646**	**281,101**
Cash / Independent	2,523,167	2,277,289	643,222	969,775	1,469,038	1,580,815	2,529,912
Daily Mortgage	1,258	1,135	321	483	732	788	1,261
Weekly Mortgage	8,832	7,971	2,251	3,394	5,142	5,533	8,855
Monthly Mortgage	38,343	34,607	9,775	14,737	22,324	24,023	38,446
Quarterly Mortgage	115,591	104,327	29,467	44,427	67,299	72,420	115,900
Half Year Mortgage	232,858	210,167	59,362	89,499	135,575	145,890	233,481
Annual Mortgage	472,379	426,346	120,422	181,558	275,028	295,955	473,642

Fig 4.3.2(a). Mortgage Loan Evaluation

From the above it is evident that daily and weekly mortgage repayment option works best for household's dependent on informal income, who may not know exactly how much monthly income it may generate.

Quarterly, half-yearly and annual mortgage repayment options are suitable for SACCO-Bank hybrid lending, described below. Analysis of the above repayment options indicate that there is not any materially significant advantage to any of the options considered.

TOTAL INTEREST PAYABLE		
Mortgage Payments:	% of loan principal	APR
Daily Mortgage	100%	9.10%
Weekly Mortgage	100%	9.11%
Monthly Mortgage	101%	9.14%
Quarterly Mortgage	102%	9.23%
Half Year Mortgage	103%	9.37%
Annual Mortgage	106%	9.63%

Fig 4.3.2(b). Interest Rate Evaluation

4.3.3. Mortgage Finance: Model Assumptions

For the prototype model, the mortgage term has been limited to 11years and from the table below, this shows that at the current 14.5% mortgage interest rate, the capital: interest ratio is 1:1, offering the best deal to the client households. Any change in interest cap policy or other external mortgage risks can be mitigated by adjusting the repayment term upwards.

MORTGAGE SENSITIVITY	BASELINE TERM 11 YEARS						REPAYMENT TERM IN YEARS				
Benchmark Interest Rate:	(%) 14.5	6	7	8	9	10	11	12	13	14	15
-5.0%	9.5	13,061	11,681	10,657	9,869	9,248	8,747	8,336	7,994	7,707	7,463
-4.5%	10.0	13,240	11,865	10,845	10,062	9,445	8,948	8,541	8,204	7,920	7,680
-4.0%	10.5	13,421	12,050	11,035	10,256	9,644	9,151	8,749	8,416	8,136	7,900
-3.5%	11.0	13,603	12,237	11,227	10,453	9,845	9,357	8,959	8,630	8,355	8,123
-3.0%	11.5	13,787	12,426	11,420	10,652	10,048	9,565	9,172	8,847	8,577	8,349
-2.5%	12.0	13,972	12,616	11,616	10,852	10,254	9,775	9,387	9,067	8,801	8,577
-2.0%	12.5	14,159	12,808	11,813	11,055	10,461	9,988	9,604	9,289	9,028	8,809
-1.5%	13.0	14,347	13,002	12,012	11,259	10,671	10,203	9,824	9,514	9,257	9,043
-1.0%	13.5	14,536	13,197	12,213	11,465	10,883	10,420	10,047	9,741	9,489	9,279
-0.5%	14.0	14,727	13,393	12,415	11,674	11,097	10,639	10,271	9,971	9,723	9,518
0.0%	14.5	14,919	13,591	12,619	11,884	11,313	10,861	10,498	10,202	9,960	9,759
0.5%	15.0	15,112	13,791	12,825	12,096	11,530	11,084	10,727	10,437	10,199	10,003
1.0%	15.5	15,307	13,992	13,033	12,309	11,750	11,310	10,958	10,673	10,440	10,249
1.5%	16.0	15,503	14,195	13,242	12,525	11,972	11,537	11,191	10,911	10,684	10,497
2.0%	16.5	15,700	14,400	13,453	12,743	12,196	11,767	11,426	11,152	10,929	10,747
2.5%	17.0	15,899	14,605	13,666	12,962	12,421	11,998	11,663	11,394	11,177	10,999
3.0%	17.5	16,099	14,813	13,880	13,183	12,649	12,232	11,902	11,639	11,426	11,253
3.5%	18.0	16,301	15,021	14,096	13,405	12,878	12,467	12,143	11,885	11,678	11,510
4.0%	18.5	16,503	15,231	14,313	13,630	13,109	12,704	12,386	12,134	11,931	11,768
4.5%	19.0	16,707	15,443	14,532	13,856	13,341	12,943	12,631	12,384	12,186	12,027
5.0%	19.5	16,912	15,656	14,753	14,083	13,576	13,184	12,878	12,636	12,443	12,289

Note:

From the above, each 0.5% increase in mortgage interest rate extends the repayment term by one additional year should the monthly repayment amount be kept constant.

Fig 4.3.3. Mortgage sensitivity based on the Bungalow 1

4.4. Production Planning [#4 Production]

The programming of the development of the estate is dependent upon a number of "supply chains" that need to converge on the date of a unit's completion, to ensure that banks are able to pay for units completed, and that owners and ready to occupy.

4.4.1. Considerations regarding Pace of Production:

(a) Speed of Client identification, cohort formation and sales: The marketing plan is critical to ensure sales happen fast enough to maintain contractor activity on site. Any delays in sales and marketing need to be regarded as critically essential impact on the construction and building deployment. Construction follows sales, not sales construction.

(b) Speed of Loan Origination, Processing and Closing: Speed of client assessment, mortgage underwriting and loan administration – will affect the closing of sale agreements. Mortgage banks in Naivasha may not be efficient as in Nairobi.

(c) Speed of Property Titling: Mortgage lenders will not advance draws without transfer of title. Anecdotal evidence from property developers indicate big backlogs and slow processing of new applications within the centralised land registry.

(d) Speed of Planning Consents: The time taken to obtains planning and building plan approvals will affect the start date of the scheme, and subsequent processes.

(e) Speed of Handover: Unit preparation and handover needs to take place to ensure that completed units are occupied so as to avoid a "ghost town" situation and concomitant security issues.

(f) Speed of construction: Builder construction management capacity and ability to raise project finance will determine the rate of construction. Currently, the local market can start about 30 houses per month, so this, along with the pace of sales, will determine the speed of production.

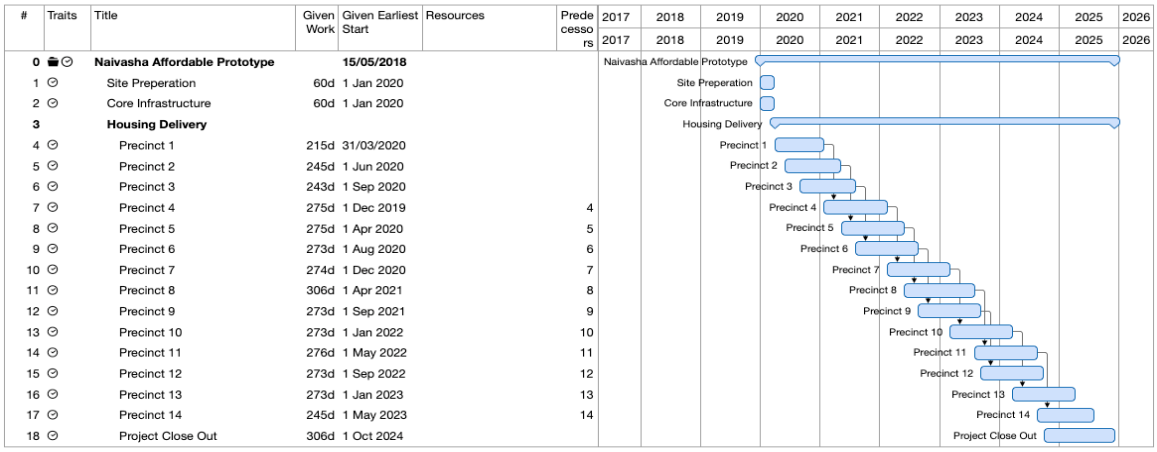
(g) Material Supply Chains: current monthly housing supply in Naivasha is quite limited. The supply chains have not been tested at scale. Local manufacturers and suppliers need time to step up production and the quality of scaled up production needs to be checked

(h) Labour Supply chains; The scale of the anticipated project is without precedent in Naivasha, and thus it is likely that skilled and semi-skilled artisans are in short supply. Additionally, the quality of building work is relatively low, and so training will be required.

4.4.2. Production Consideration regarding Capital Requirements:

(a) Mix and Profitability: To minimise capital requirements, the scheme will seek, as much as is possible, to develop the most profitable units in the initial phases. The marketing mix strategy will need to balance the perceptions of the scheme being either perceived as to upmarket, or too low downmarket.

(b) Project Period: To further minimise capital requirements, the scheme will also seek to spread development over a longer period such that capital returned, is redeployed reducing the need for external capital.



#	Traits	Title	Given Work	Given Earliest Start	Resources	Predecessors
0		**Naivasha Affordable Prototype**		**15/05/2018**		
1		Site Preperation	60d	1 Jan 2020		
2		Core Infrastructure	60d	1 Jan 2020		
3		**Housing Delivery**				
4		Precinct 1	215d	31/03/2020		
5		Precinct 2	245d	1 Jun 2020		
6		Precinct 3	243d	1 Sep 2020		
7		Precinct 4	275d	1 Dec 2019		4
8		Precinct 5	275d	1 Apr 2020		5
9		Precinct 6	273d	1 Aug 2020		6
10		Precinct 7	274d	1 Dec 2020		7
11		Precinct 8	306d	1 Apr 2021		8
12		Precinct 9	273d	1 Sep 2021		9
13		Precinct 10	273d	1 Jan 2022		10
14		Precinct 11	276d	1 May 2022		11
15		Precinct 12	273d	1 Sep 2022		12
16		Precinct 13	273d	1 Jan 2023		13
17		Precinct 14	245d	1 May 2023		14
18		Project Close Out	306d	1 Oct 2024		

Fig. 4.4.2. Indicative Schedule for the Project Delivery

4.4.3. Production Programming: Model Assumptions

PROGRAMMING ASSUMPTIONS:	
Planning Approval Period (including EIA)	2 months
Building Plan Approval Period	2 months
RFI Period	6 months
SetCo Formation	2 Month
OpCo Recruit	2 Month (1m Overlap with SetCo Formation)
Debt Raise	3 months
OpCo D+B/O+M/M+S Sub-contracts	4 months overlaps with Debt raise
CAPITAL STRUCTURE ASSUMPTIONS	
Debt: Equity ratio:	1.22 ($2.44million/$2million)
Preference Share Valuation; (Land Valuation)[7]	$0.70 million (Residual valuation)
	Preference Share to serve as First Loss Guarantee
PROJECT FINANCING ASSUMPTIONS	
Loan Period	Start Month 4/ End Month 24
Interest Rate	15%
END USER FINANCING ASSUMPTIONS	
Deposit	10% of Sale Price
Bank Mortgage Loan Period	11-years
Bank Mortgage Interest Rate	14.5%
SACCO Loan Period [Bank]	1 Year Bank Refinanced
SACCO Loan Interest	12%
SACCO Loan [Coop Supported]	5-7 Year
SACCO Loan Interest [Coop Supported]	12%
SACCO Loan Interest [KMRC]	8%
EQUITY INVESTMENT ASSUMPTIONS	

[7] The value of the preference share is based on the initial land valuation, plus profit share, less senior debt risk guarantee mitigation costs.

Minimum Investment Period	6 years
Modified Internal Rate of Return (MIRR)	15% to 24% per annum
	No exit before debt and preference share settled. Not before 36 Months
CONSTRUCTION INFLATION	
Material Costs	Inflation 5% per annum
Labour Costs	Inflation 5% per annum
Inflation	5% per annum

Fig. 4.4.3. Programming Model Assumptions

4.5. Investment and Delivery Vehicle Design (#5 Portal)

The land/settlement is to be developed through an SPV i.e. the Settlement Company (SetCo). The SetCo incorporated by the County Government as a Limited Liability Company (LLC) – a private company limited by shares incorporated under the Kenya Companies Act of 2015. A SetCo is established to produce, market, manage and dispose of assets within a specific geographic site. After the final disposal of such assets, the ownership thereof transfers to the property owners.

The SetCo business model is based upon the revenues from sale, rental and service provision. Each SetCo will differ in size, location; end-user requirements; land-use mix; level of services - and will attract different shareholders and debt providers.

County Government land will be leased to the SetCo in exchange for preference shares, redeemable following a predetermined period. To de-risk the development, the County's shares are subordinated to debt and equity holders to serve as a 'first loss guarantee' to the SetCo. Preference shares enable the County to benefit from an uplift in value, without assuming any liability (as with ordinary shares).

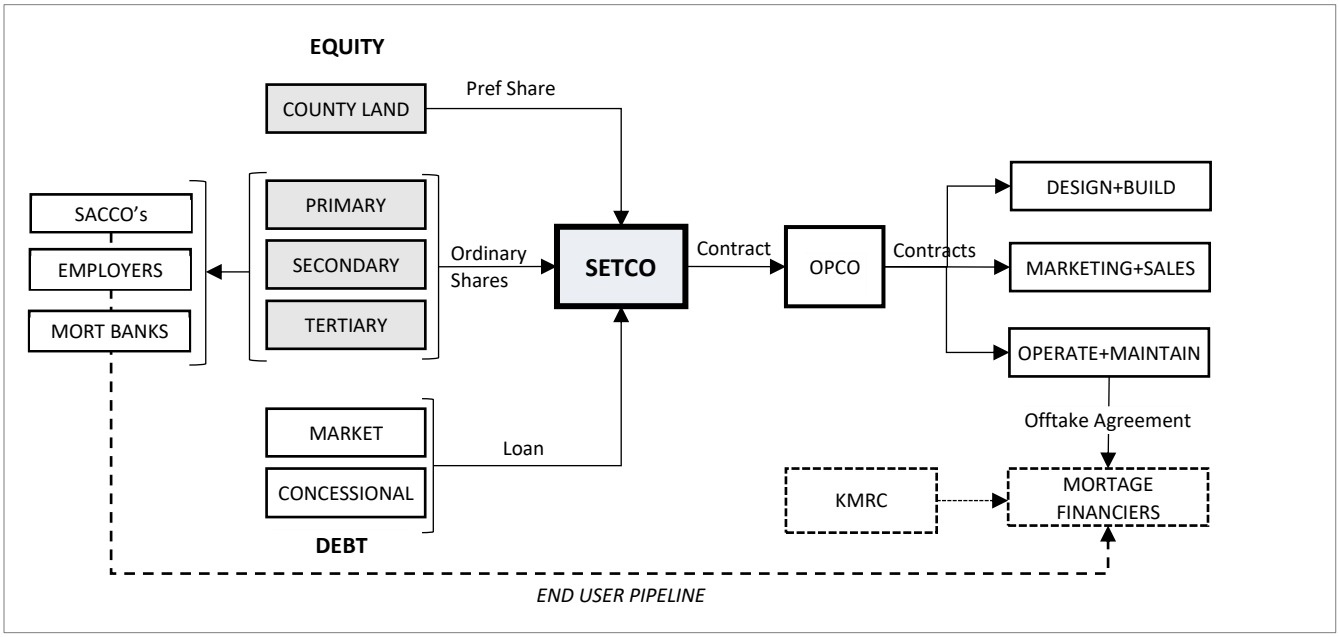


Figure 4.22: SetCo Structure

4.5.1. SetCo Capital Shareholding Structure [Notional]

The proposed shareholding structure aims to attract the following investment mix:

(a) Primary Investor: The intention is that the primary investor is a long-term, low-income focused reputable institution with real estate portfolio experience in the target market, sound track record, and strong balance sheet.

(b) Secondary Investors: Preferably finance institutions with knowledge of the housing finance market in the country e.g. investment SACCOs.

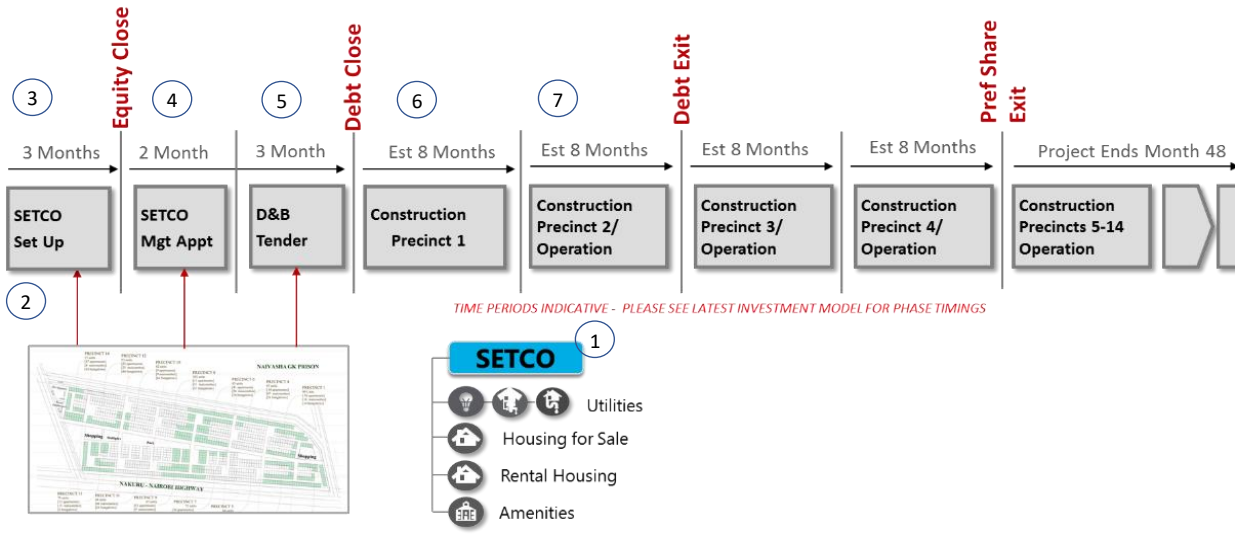
(c) Tertiary Investors are local entities which may include employers, housing cooperatives, etc.

Primary Investor	KES 100 million	
Secondary Investors	KES 50 million	
Tertiary Investors	KES 25m	KES 25m

Figure 4.5.1: Suggested SetCo Capital Structure

By having a representation of local investors, the goal is to create a community of aligned interests within the SetCo hence increasing its chances of sustainability i.e. the owners are the users via their employees, SACCO members, and mortgage applicants.

4.5.2. Settlement Company Development Timeline



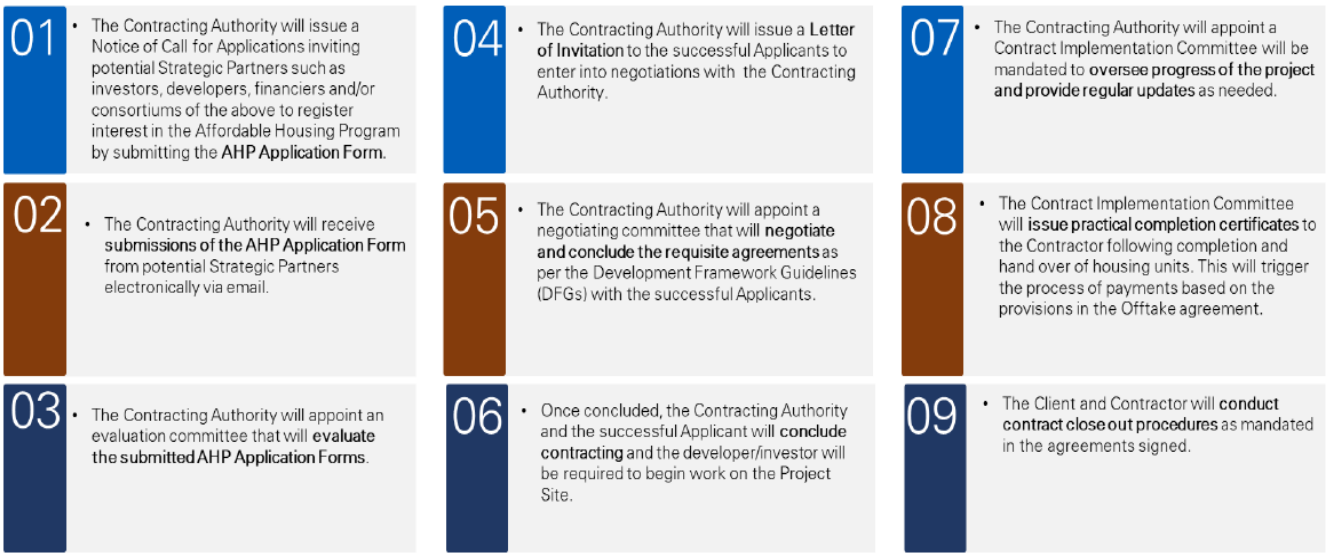
Key:

1. SetCo is incorporated by the County (as a government-linked enterprise) to oversee housing, sales, utilities and amenities.
2. The SetCo is a wholly owned subsidiary of the County with a two-tier share structure, i.e. ordinary and preference shares.
3. The land is valued (residual valuation) and leased to the SetCo in exchange for preference shares. The lease will be exempt from stamp duty since the SetCo will at inception be a wholly owned subsidiary of the county.
4. Via a Request for Investors (RFI) process, the county government calls for investors to purchase ordinary shares of the SetCo. This will dilute the ordinary shares held by the county, making SetCo a majority private sector owned entity.
5. Shareholders appoint an Operations Company (OpCo) to assume operational responsibility for the overall scheme.
6. Shareholders raise additional capital (debt) to execute the project.
7. The Operations Company appoints a design team, and first phase contractor.
8. The Operations Company oversees first and subsequent phases for construction, disposal, facilities management, repayments and investment exits.

4.6. Procurement of the SetCo [#6 Procurement]

In line with the GOK's Development Framework Guidelines (DFG), the county government will apply the "Specially Permitted Procurement Method (SPPM)" as provided under Section 57 of the Finance Act, 2017 and Section 114(A) of the Public Procurement and Asset Disposal Act, 2015 ("PPADA") to call for investors into the SetCo.

Figure 4.6: Specially Permitted Procurement Method



4.7. INVESTMENT CASE

The aim is to ensure affordability to the largest number of households and an investment-worthy proposition to attract the interest of both equity and senior debt sources.

The financial model seeks to ensure the same physical design flexibility in financial and scheduling terms and to be adaptable, flexible and responsive to any risk arising throughout the entire production process. Scenarios and options can be changed to identify the change in financial return directly affected by any change of design or circumstances.

Financial model for this project was developed in two stages:

The first stage focused on the built environment modelling to produce a costed *Bills of Quantities* for each unit type; and capture the assumptions used in measuring and costing the architectural and engineering design components of the project. From this model, detailed costing of each house type is derived which is then used in the second model.

The second stage focused on the financial investment, senior debt costs for unit mix combinations, production rates, and profit margins to produce a *Financial Investment Case*. By altering variables such as production speed, different unit mix, etc. the *Baseline Investment and Upper Ceiling Investment* cases included in figures 4.7.1 and 4.7.2 were generated. The baseline achieves a MIRR on 2 points above the 10-year treasury bond, and the upper limit show a return of 24% per annum.

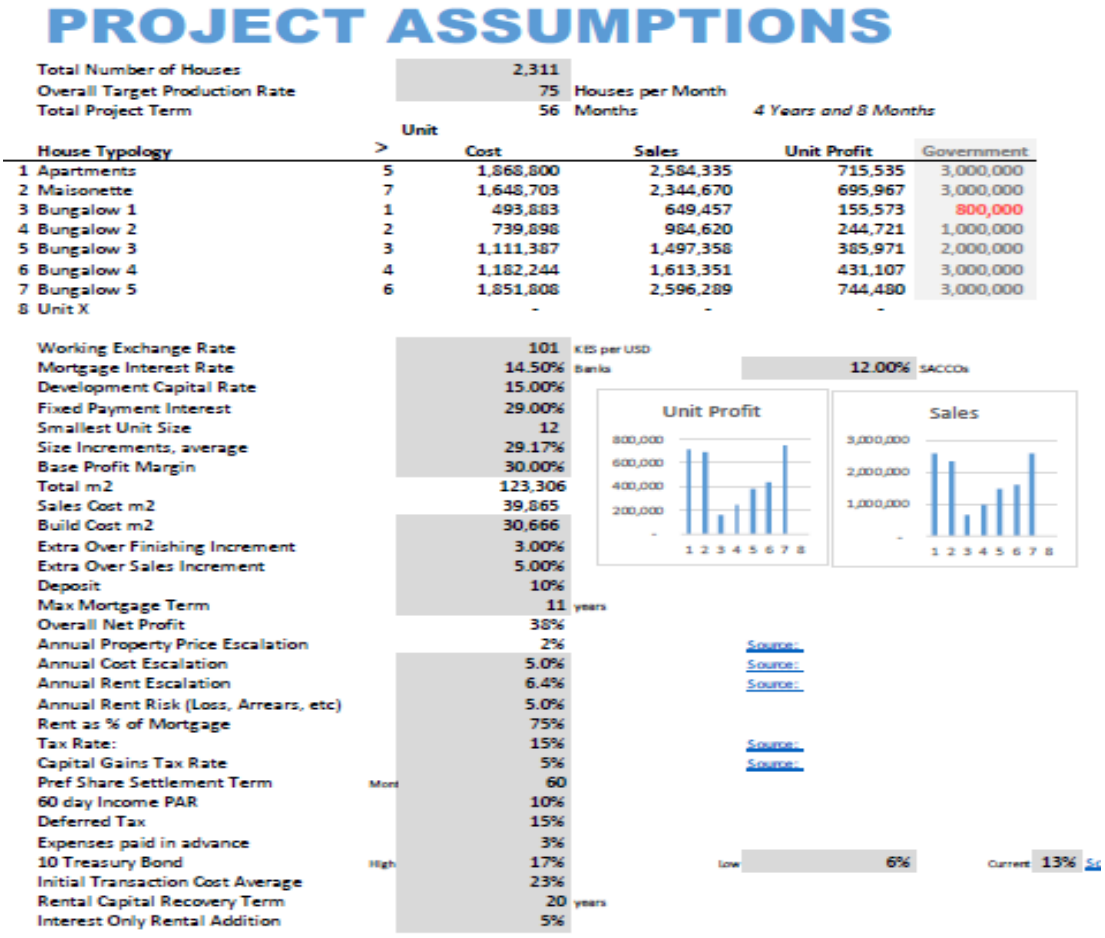


Fig 4.7(a) Project Assumptions

Fig 4.7(b): Investment Case

Headline Figures		High Model	Low Model	Working
			Probability	*60%*
Gross Development Value	KSh	5,215,255,638	5,215,255,638	5,215,255,638
Total Construction Cost	KSh	4,673,850,100	4,996,635,995	4,996,635,995
Cost of Debt	KSh	17,128,661	17,128,661	17,128,661
Gross Profit	KSh	541,405,538	218,619,643	412,291,180
Debt Strategy				
Equity to Debt Ratio:	KSh	444,030,535	444,030,535	444,030,535
		1.22	1.22	1.22
Debt Requirement:	KSh	244,030,535	244,030,535	244,030,535
Senior Debt Terms		15%	15%	15%
Junior Debt Terms		15%	15%	15%
Debt Term Starts:	Month	3	3	3
Peak Capital Month	Month	8	8	8
Investment Deal				
Seed Capital Investment	KSh	10,000,000	10,000,000	10,000,000
Local Investment	KSh	100,000,000	100,000,000	100,000,000
DFI Investment	KSh	90,000,000	90,000,000	90,000,000
Total Equity Investment	KSh	200,000,000	200,000,000	200,000,000
Return on Equity Invested		119%	71%	100%
IRR (Based on 5-year hold)		25%	15%	21%

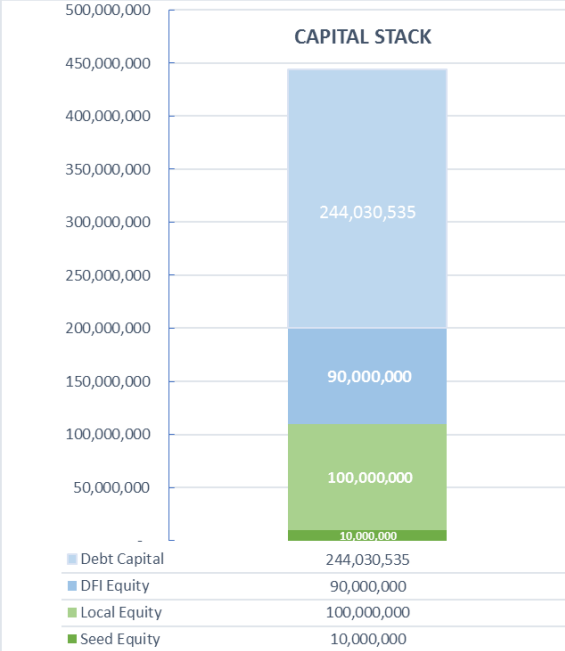


Fig 4.7(c): Capital Stack

4.7.1. Financial Model: Residual Land Land Value (High)

	RESIDUAL LAND VALUATION CALCULATOR					[HIGH]			
1	**Proposed Unit Mix & Total Number of Units**							2,311	
	Unit Type	Number of Units	m2	Total M2	Target Sales Value	Unit Profit Margin	Construction per Month	Construction Lag	Sales Per Month
	Apartments	1,702	60	102,120	2,584,335	38%	34.04	6	34.04
	Maisonette	48	75	3,600	2,344,670	42%	0.96	6	0.96
	Bungalow 1	102	12	1,224	649,457	32%	2.04	3	2.04
	Bungalow 2	210	27	5,670	984,620	33%	4.20	3	4.20
	Bungalow 3	153	36	5,508	1,497,358	35%	3.06	4	3.06
	Bungalow 4	48	48	2,304	1,613,351	36%	0.96	4	0.96
	Bungalow 5	48	60	2,880	2,596,289	40%	0.96	5	0.96
	Unit X	0	0	0	0	0%	0.00	0	0.00
	Unit Type 9			0					
	Unit Type 10			0					
								KES	USD
2	Capital Debt Requirement							- 244,030,535	- 2,416,144
3	Total Projected Sales Income							5,215,255,638	51,636,194
	Less:	Total Projected Profit			%	40%	541,405,538		5,360,451
4	Total Development Cost							4,673,850,100	46,275,744
	Less:	Cost of Borrowing				15%	- 17,128,661	4,656,721,439	46,106,153
	Less:	Direct Cost				8%	- 344,942,329	4,311,779,111	42,690,882
	Less:	Indirect Cost				4%	- 165,837,658	4,145,941,452	41,048,925
	Less:	Construction Cost			m2	30,666	- 3,781,267,086	364,674,366	3,610,637
	Less:	Site Abnormals & Engineering				8%	- 287,376,299	77,298,068	765,327
	Less:	Legal & Conveyancing				1.00%	- 765,327	76,532,740	757,750
	Less:	Cost of Purchase				2%	- 1,500,642	75,032,098	742,892
	Less:	Contingency				5%	- 3,572,957	71,459,141	707,516
5	Maximum Offer Price							71,450,000	707,426
6	Vendor Asking Price				0	-		52,997,669	524,729
7	Difference							18,452,331	182,696
8	**Project Return**							559,857,868	5,543,147
9	Return on Investment							128%	
10	Return on Cost							12%	
11	Breakeven Month				Months			15	
12	Total Project Term				Months			57	
13	Peak Capital Month				Month			8	
14	Land Security Value							22%	
15	Pref Share Redemption Value				2.29	0		121,587,908	1,203,841
16	Annual Land Equity Growth							104%	
17	Equity Growth							438,269,960	4,339,307
18	Debt: Equity Ratio							1.22	
19	Equity Target							200,000,000	1,980,198
20	Return on Equity							119%	
21	Annual Return on Equity							25%	
22	10 Treasury Bond							13%	
23	10 Year Rental MIRR				*(After Tax)*			13%	*Based on Apartments*
24	Houses per Month							75	

Fig 4.7.1: Financial Model: Residual Land Value (High)

4.7.2. Financial Model: Residual Land Land Value (Low)

	RESIDUAL LAND VALUATION CALCULATOR					[LOW]			
1	**Proposed Unit Mix & Total Number of Units**							2,311	
	Unit Type	Number of Units	m2	Total M2	Target Sales Value	Unit Profit Margin	Construction per Month	Construction Lag	Sales Per Month
	Apartments	1,702	60	102,120	2,584,335	38%	34.04	6	34.04
	Maisonette	48	75	3,600	2,344,670	42%	0.96	6	0.96
	Bungalow 1	102	12	1,224	649,457	32%	2.04	3	2.04
	Bungalow 2	210	27	5,670	984,620	33%	4.20	3	4.20
	Bungalow 3	153	36	5,508	1,497,358	35%	3.06	4	3.06
	Bungalow 4	48	48	2,304	1,613,351	36%	0.96	4	0.96
	Bungalow 5	48	60	2,880	2,596,289	40%	0.96	5	0.96
	Unit X	0	0	0	0	0%	0.00	0	0.00
	Unit Type 9			0					
	Unit Type 10			0					
								KES	USD
2	Capital Debt Requirement							- 244,030,535	- 2,416,144
3	Total Projected Sales Income							5,215,255,638	51,636,194
	Less:	Total Projected Profit			%	16%	218,619,643		2,164,551
4	Total Development Cost							4,996,635,995	49,471,644
	Less:	Cost of Borrowing				15%	- 17,128,661	4,979,507,334	49,302,053
	Less:	Direct Cost				8%	- 368,852,395	4,610,654,939	45,650,049
	Less:	Indirect Cost				4%	- 177,332,882	4,433,322,056	43,894,278
	Less:	Construction Cost			m2	30,666	- 3,781,267,086	652,054,970	6,455,990
	Less:	Site Abnormals & Engineering				8%	- 287,376,299	364,678,672	3,610,680
	Less:	Legal & Conveyancing				1.00%	- 3,610,680	361,067,992	3,574,931
	Less:	Cost of Purchase				2%	- 7,079,765	353,988,227	3,504,834
	Less:	Contingency				5%	- 16,856,582	337,131,645	3,337,937
5	Maximum Offer Price							337,130,000	3,337,921
6	Vendor Asking Price				0	450		71,450,000	707,426
7	Difference							**265,680,000**	2,630,495
8	**Project Return**							**484,299,643**	**4,795,046**
9	Return on Investment							204%	
10	Return on Cost							11%	
11	Breakeven Month				Months			15	
12	Total Project Term				Months			57	
13	Peak Capital Month				Month			8	
14	Land Security Value							29%	
15	Pref Share Redemption Value				1.98	893		141,798,687	1,403,947
16	Annual Land Equity Growth							79%	
17	Equity Growth							342,500,956	3,391,099
18	Debt: Equity Ratio							1.22	
19	Equity Target							200,000,000	1,980,198
20	Return on Equity							71%	
21	Annual Return on Equity							15%	
22	10 Treasury Bond							13%	
23	10 Year Rental MIRR				*(After Tax)*			13%	*Based on Apartments*
24	Houses per Month							75	

Fig 4.7.2: Financial Model: Residual Land Value (Low)

5. LEGAL DUE DILIGENCE

The following section provides an overview of the regulatory and legal opinion concerning the:

- Vesting of county land to the SetCo;
- Capacity of the county government to: (i) establish SetCo, and, (ii) allocate public land;
- Shareholding (who will hold the shares?);
- SetCo share structure; and
- Legal issues relating to the entry of private investors.

5.1. Land Vestment within SetCo

5.1.1. Target Property - Title Number Naivasha Municipality Block 2/998

(a) The Target Property is Title Number Naivasha Municipality Block 2/998. Until the year 2009, the Target Property was unalienated public land.

(b) It was allocated by the National Government to the Municipality of Naivasha in 2009 vide a Letter of Allotment dated May 27, 2009 (see Appendix 3).

(c) The Municipality of Naivasha accepted the allotment vide a Letter of Acceptance dated June 23, 2009. They also paid the requisite stand premium (see Appendix 4 for the letter and bank draft).

(d) Pursuant to the Letter of Allotment, the Target Property is a leasehold interest of 99 years from 2009. The head-lessor is the National Government while the County Government is the lessee.

(e) Upon allocation to the County of Nakuru, the Target Property ceased being "unalienated" and became "alienated".

5.1.2. Processing the Title

(a) Upon accepting the terms of the Letter of Allotment, the county government of Nakuru applied for issuance of a title.

(b) The County of Nakuru has processed the title. The Lease and the Certificate of Lease are issued in the name of the County and are both dated April 9, 2019 and were registered on April 9, 2019. The Lease and the Certificate of Lease were signed C.M. Wacuka, Land Registrar No. 234.

(c) A search on the title at the land registry in Naivasha (Appendix 5) confirms the following details-

(a) Form of Tenure: Leasehold. Lease issued and registered on 9th April 2019.	(b) Registration unit: NAIVASHA
(c) Pursuant to: Letter of allotment from the Municipality of Naivasha in 2009.	
(d) Parcel Number: NAIVASHA MUNICIPALITY BLOCK 2/998	(e) Approximate Area: 22.38 hectares
(f) Lessor: National Government (GoK)	(g) Lessee: The County of Nakuru
(h) Term: 99 years from 1st June 2009	(i) Date of registration of Title: 9th April, 2019
(j) Stand premium paid: KES 508,000/=	(k) Annual Rent: KES 101,600/=
(l) User: residential. The allotment was on the basis of low-cost housing (affordable housing)	(m) Conditions apply: the lease was issued subject to various (but usual) development conditions i.e. planning permissions, restriction on plot coverage ratios.

5.1.3. Challenges on the Title

a) *Clarity on the delegated authority*: While the Statute Law (Miscellaneous Amendments) Act, 2018, provide that a lease for private land within the meaning of Article 64(b) of the Constitution shall be issued by the Cabinet Secretary and registered by the Chief Lands Registrar, the Lease for the Project property was issued by C.M. Wacuka Land Registrar No. 234 and registered by F.N. Orare No. 237 for the Chief Land Registrar. This is on the face of it anomalous. The law however allows the Cabinet Secretary to delegate these functions through a gazette notice naming the specific persons to whom the powers have been delegated. There is need for such gazette notice, if available, to be disclosed. Otherwise the Cabinet Secretary needs to publish through a Gazette Notice a list of Land Registrars mandated to sign leases on behalf of the Cabinet Secretary. Until this is done, the Lease signed by C.M. Wacuka may be susceptible to challenge.

b) *Clerical errors on the title documents:* The Lease and the Certificate of Lease provide that the lease is subject to the relevant overriding interests set out in section 30 of the Registered Land Act, Cap. 300 Laws of Kenya. This is in error as this law was repealed. The correct position is that the Lease is issued under The Land Registration Act and The Land Act. The Land Registrar has the power to correct errors on the registry documents. There is need to return the documents for rectification by the Land Registrar who will process a new Lease and a new Certificate of Lease.

5.1.4. Third Party Claims

a) *Persons in occupation:* There are two families occupying some old county houses built on the Target Property and there is an ongoing process to determine their status or claims, if any. Any thirty-party claims based on occupation will need to be resolved using the provisions of the law but also having regard to World Bank Group (WBG) standards for dealing with squatters and illegal occupiers of private or public property. The resolution of such claims may require the County to offer alternative land to the squatters.

b) *Isahakia community claims:* The team's due diligence inform that the Isahakia community has a historical claim on large sections of land in Naivasha including the location of the Target Land. We also understand the matter has been subjected to both political and judicial process. The County of Nakuru has undertaken to follow up on this issue and to provide a solution to this matter. As per the date of the title search, there was no caveat noted on the register to challenge the title held by the County.

c) *Irregular titles:* Prior to the title held by the County, there were three titles which had been irregularly issued on some sections of the Target Property. These titles issued on November 27, 2017 are on their face irregular. The lessor is noted as the County Government of Nakuru while this should be the National Government. The County is itself a tenant of the GoK and had no capacity to issue leases at the time. The County has confirmed that the irregular titles were voluntarily surrendered to the Lands Office for destruction. As per the date of the title search, there was no caveat noted on the register to challenge the title held by the County.

5.2. Capacity of the County Government

The structure proposes for the County to form legal entities and to enter into and perform various contracts with investors. The capacity of the County to carry out these tasks is critical to the proper and efficient implementation of the project.

5.2.1. To Deliver on a Housing Project

(a) Constitution 2010:

The Constitution is the supreme law of the land and its Articles set out the national goals and priorities which other laws must be aligned. The Constitution establishes two levels of Government - National Government and County Government - that are interdependent.

Article 186 and the 4th Schedule of the Constitution provides for the distribution of functions between the National Government and County Governments, but it is recognized that some functions are concurrent and are shared by the two levels of Governments. Part 2 (8) of the 4th Schedule confers on the County Governments the functions of: county planning and development, including housing, as well as land survey and mapping, boundaries and fencing.

Housing is however a concurrent function since the National Government has been conferred the function of "Housing policy; General principles of land planning and the co-ordination of planning by the counties"

(b) County Governments Act (CGA):

Pursuant to Section 5 (1) of the CGA, the County Government is responsible for any function assigned to it under the Constitution or by an Act of Parliament. Accordingly, the County Government is responsible for the functions provided for in Article 186 and assigned in the Fourth Schedule of the Constitution.

5.2.2. To Establish a Company

The County Government of Nakuru has the legal capacity to enter into and perform contracts subject however to any statutory and procedural limitations as may apply from time to time. In particular, Section 6 of the County Governments Act ("CGA") provides for the powers of County Governments. It states that a County Government shall be a body corporate with perpetual succession with all powers necessary for the discharge of its functions. It may enter into a contract, acquire, purchase or lease any land. Counties can enter into partnerships with any public or private organization in accordance with the provisions of any law relating to public or private partnerships for objectives within their jurisdiction.

For legal and operational efficiency, the target land should be vested in a legal entity – a company - separate from the County. In the first instance the company will be wholly owned by the County.

The enabling provisions for establishment of a company are provided under:

a) The County Governments Act (CGA):

In furtherance to the principles of efficiency set out in Article 10 of the Constitution, Section 6 (5) of the CGA obliges County Governments to ensure efficiency in the delivery of services or carrying out of a function for which a County Government is responsible, and in this regard the County Government may: -

- establish a company, firm or other body for the delivery of a particular service or carrying on of a particular function; or
- contract any person, company, firm or other body for the delivery of a particular service or carrying on a particular function.

b) Under the Public Finance Management ("PFM") Act

The PFM provides that the County governments may invest in a (i) county corporation; or (ii) county government-linked company, with the prior approval of the County Executive Committee, which may be given only after taking into account any recommendations of the County Treasury regarding the financial implications of the investment. It is to be noted that-

- County corporations are defined as public corporations within a county established by an Act of Parliament or county legislation.
- County government-linked corporation are defined by PFMA as county corporations in which the county government is a shareholder with *less than fifty percent* of the share capital of the corporation.
- Government owned enterprises are required to operate on *commercial principles* and with defined commercial income streams that substantially support the associated commercial activities.
- The County Committee Member may declare a government owned enterprise to be a county entity by a Gazette notice.
- Government owned enterprises, county corporations and county linked corporations must adhere to public finance management laws.

The Public Finance Management (County Governments) Regulations, 2015 prescribe the criteria and guiding principles for formation of county corporations:

Sub-section (3): In order to establish a county corporation or a subsidiary of a county corporation -

- The responsible County Executive Committee Member shall submit a written business case to the County Executive Committee, with detailed justification for establishing the county corporation or the subsidiary; and
- The business case in paragraph 3(a) shall be informed by a feasibility assessment of the proposed county corporation or the subsidiary for the purpose of ascertaining—
    - *the economic and financial viability of establishing a county corporation;*
    - *whether the proposed activity cannot be conducted through an existing corporation or the parent department;*
    - *whether or not there is need to establish a new corporation;*
    - *the functions and objective that its establishment is supposed to attain;*
    - *how the activities of the proposed corporation will fit in the county department's legislative mandate and medium-term strategy, and aid the realization of the objectives of the programmes associated with that department;*
    - *how the activities of the proposed county corporation will fit in the overall medium-term plan of county government;*
    - *how they impact the fiscal position of the county government; and*
    - *the amount of county government share.*
- Sub-section (4): The feasibility and viability assessment conducted under paragraph (3)(b) of this regulation shall be submitted to the County Executive Committee for approval.
- Sub-section (5): Upon approval of the business case by the County Executive Committee, the necessary establishment processes shall be undertaken by the relevant department as required by a legislation on formation, management and dissolution of County corporations to allow it to perform the functions stipulated in the instruments for incorporation.

- Sub-section (6): The county government entity responsible for investment portfolio management in the County Treasury shall be constantly updated on the progress of a county corporation.
- Sub-section (7): The County Executive Committee Member responsible for investment portfolio management in the County Treasury shall conduct regular review of county corporation to assess the relevance of the mandate and the justification for their continued existence and where necessary make recommendations to the County Executive Committee for the dissolution or merger of corporations.
- Section (6): Upon dissolution of a county corporation, the funds corresponding to county government equity in the county corporation shall be deposited into the County Revenue Fund.

5.2.3. Vesting of Shares

As stated above, County governments are established with corporate personality under the CGA. Accordingly, they have capacity to do all such acts as a corporate body may undertake. To this extent a county government may take shares in a corporate entity in its own name.

5.2.4. Share Structure for the SetCo

The SetCo will be incorporated under the Companies Act, 2015 of Kenya as a private limited liability company. At incorporation it will be a wholly owned subsidiary of the County. The proposed share structure will be as follows:

(a) SetCo will be incorporated with both ordinary and redeemable preference shares.

(b) The company must have irredeemable shares (i.e. ordinary shares in its capital) in issue for it to issue redeemable shares.

(c) Terms and conditions of the issue of the redeemable shares will be determined prior to their issue. These terms and conditions include:

- whether any preferential dividend and rights will attach to the shares; and
- what the conditions of redemption including the time of redemption will be.

The following should be noted with regard to incorporation-

- By virtue of Legal Notice 60 of 2016, there is an exemption from Stamp Duty at incorporation. This exemption however does not apply in the event of increases in capital subject to exemptions for the Government. Additional exemptions on Stamp Duty may be availed to the SetCo under the big four agenda. For this reason, it is prudent to form the company with sufficient room for future allotment of shares.
- Financial and tax analysis on the proposed share structure required to ensure thin capitalization requirements under the Income Tax Act and financial accounting and reporting norms are satisfied.

5.3. Transfer/Allotment of SetCo Shares

5.3.1. Investment Entry

The entry by the new investors can take place either by:

(a) a sale of shares by the county government; or
(b) an allotment of shares in SetCo;
(c) or a combination of the above;
(d) or through debt

Factors to consider in respect of these scenario include:

5.3.2. The Public Procurement and Asset Disposal (PPAD Act)

(a) The PPAD defines "***public entity***" as including: a county government or any organ or department of a county government; a company owned by a public entity and a body that uses public assets in any form of contractual undertaking. Thus, a company formed by a County Government would, at the outset, be subject to the provisions of PPAD;

(b) Section 4(1) of the PPAD states that the Act applies to all public entities with respect to procurement planning; procurement processing; inventory and asset management; disposal of assets; and contract management. Section 53 of the PPAD then declares that all procurement by state organs and public entities is subject to the rules and principles of the Act.

(c) That said, Section 4 (2) of the PPAD excludes the acquisition and sale of shares or securities, fiscal agency by a public entity, investments such as shares purchased by cooperative societies, state corporations or other public entities; from the application of the Act. To this extent then, arguably, a sale of shares would not be a disposal of assets for which procedure under the PPAD would apply.

(d) An allotment of shares to an investor in SetCo by SetCo would also not amount to a disposal as the shares would not be an asset of SetCo and there is no diminution of value.

(e) Section 114A of the PPAD provides for the use by a procuring entity of procurement procedure specially permitted by the National Treasury: -

- where exceptional requirements make it impossible, impracticable or uneconomical to comply with the Act and the Regulations;
- where the market conditions or behavior do not allow the effective application of the Act and Regulations made under the Act;
- for specialized or particular requirements which are regulated or governed by harmonized international standards or practices;
- where strategic partnership sourcing is applied;
- where credit financing procurement is applied; or
- in such other circumstances as may be prescribed.

(f) The procedure for carrying out specially permitted procurement under the section may be prescribed by the Cabinet Secretary. Such prescription is yet to take place since the section came into force in 2017. On 3rd October 2018, the National Treasury wrote to the State Department of Housing and Urban Development permitting it to use a specially permitted procurement procedure for the Affordable Housing Program. Specifically, the procedure will address the on-boarding of strategic partners (developers and financiers) in the execution of the project.

5.3.3. Privatization Act

The Privatization Act defines "privatization" as a transaction or transactions that result in a transfer, other than to a public entity, of the assets of a public entity including the shares in a state corporation

but excludes sale of new shares to existing shareholders through a rights issue or any balance sheet reorganization which may lead to dilution of the percentage of shares held by a public entity.

To the extent that the sale or allotment of shares to a new investor would not comprise a 'balance sheet re-organisation' then the transaction may be subject to the provisions of the Privatization Act.

5.3.4. Tax Considerations

As indicated above-

(a) Specialist tax advice will be required for the transaction.

(b) Highlights of matters to be considered by the tax experts include-
- thin capitalization – particularly where the investor comes in through debt and equity
- comparative tax cost of the transaction.

5.3.5. Debt to SetCo

Any borrowing by SetCo must comply with the requirements of the PFMA and the Public Finance Management (County Governments) Regulations, 2015

6. RISKS

6.1. Risk Mapping Method[8]

With reference to figure 6.1 below, risks are identified, categorised, assessed and managed (mitigated) as follows:

A: Risk area or phase

B: Risk event - that are likely to occur within the work area, or during the phase

C: Risk categorisation - Whether the event presents a financial, reputational, operational continuity or legal risk

D: Risk responsibility - Who is responsible for managing the risk

E: Impact Rating: The severity of the impact (1=low, 5=severe)[9]

F: Probability Rating: The likelihood of the event occurring (1=unlikely, 5=very likely)[10]

G: Combined Unmanaged Risk Result: Probability multiplied by Impact (low 1-4=green; medium 5-14=amber; 15-25 severe=red)[11]

H: Risk mitigation or management strategy to bring risk under control

I: Combined Managed Risk: Probability multiplied by Impact (low 1-4=green; medium 5-14=amber; 15-25 severe=red)[12]

6.2. Risk Areas requiring Management

From the risk map, a severe risk which remains unmanaged include:

A2: Limited County Government capacity to guide SetCo through formation and to develop the SetCo to implementation, is limited.

[8] SetCo Housing Risk Map based on OGC Risk Housing Risk Map Methodology, 2017
[9] Specific impact assessment ratings separately documented [OGC Housing Risk Map Methodology, 2017]
[10] Specific probability ratings separately documented [Housing Risk Map Methodology, 2017]
[11] Specific probability ratings separately documented [Housing Risk Map Methodology, 2017]
[12] Specific probability ratings separately documented [Housing Risk Map Methodology, 2017]

Fig 6.1 SetCo Establishment Risk Map

RISK MAP

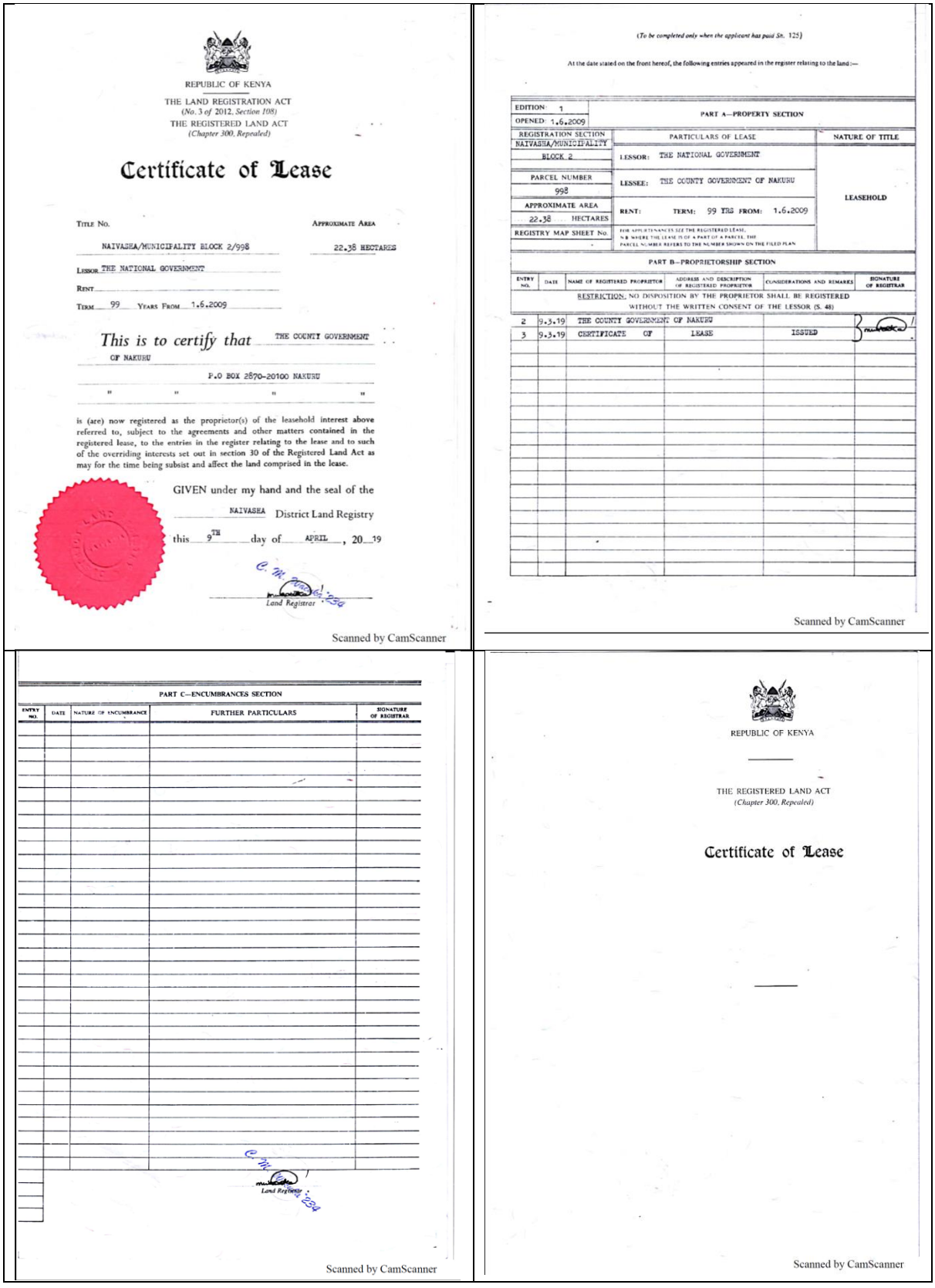
0	External + Contextual Risks	Risk Event	Risk Categorisation				Responsibility	Impact	Prob	Before	Risk Mitigation		After		
			FIN	REP	CONT	LEG		WS#2	WS#3	WS#5		WS#4	WS#5		
	World Bank	Capacity Procure Constraints (Breadth+Depth)	X	X	X	X	World Bank	5	5	25	Hire Consultant	1.5	17	●	
		Aff. Housing - supply-side focus limitations		X	X		World Bank	4	5	20	Hire Consultants/ Outsource	2	10		
		Administrative Procedures Slow	X	X	X		World Bank	4	4	16	Hire Vendor	2	8		
		SetCo Implementation Failure		X			World Bank	5	3	15	Monitoring beyond trasaction	1	15	●	
		Transaction Nature													
	National Government	Political Interference/ Corruption	X	X	X		Relevant Nat Govt Dep	5	4	20	Legal Advice/ Contracts/ Procurement Compliance	4	5		
		Policy Constraints/ Approval Delays					Relevant Nat Govt Dep	5	4	20	Communicate with Govt/ Stay within policy limits	4	5		
		Dysfunctional Institutional Support	X	X	X		Relevant Nat Govt Dep	5	3	15	SetCo/Urbco	1	15	●	Establish U
	County Government	Political Interference/ Corruption	X				County Team	5	3	15	Legal Advice/ Contracts/ Procurement Compliance	2	8		
		Policy Constraints/ Approval Delays					County Team	5	4	20	County Teams/ Design within policies/regulatory limits	4	5		
		Low Level/Inconsistent Tech Capacity	X	X	X		County Team	3	5	15	Establish SetCo's ?	1.5	10	●	
		SetCo Implementation/Investment Failure		X			World Bank				Capacity Building				
A	**SetCo Design and RFI Prep**	**Risk Event**	**Risk Categorisation**				**Responsibility**	**Impact**	**Prob**	**Before**	**Risk Mitigation**		**After**		
			FIN	REP	CONT	LEG		WS#2	WS#3	WS#5		WS#4	WS#5		
	People (End Users)	Demand Uncertainty	X				Marketing Consultant	5	3	15	Marketing Strategy/ Employer Enagagement	4	4		
		Product unacceptabililty					Consultant Architect	5	4	20	Market testing/Redesign	4	5		
	Place (Physical Env)	Land Encumbered	X	X	X		County Team	5	3	15	Remove encumbrance	5	3		
		Land Assembly/Ownership/ Title Perfection	X	X	X		County Team	5	3	15	Perfect title	4	4		
		Infrastructure Servicing Unavailable	X		X		County Team	3	3	9	Arrange Infrastructure Agreements	3	3		
		Land Developability Contraints (StormWater)					Consultant Engineer	2	3	6	Engineer Design	5	1		
		Fail to agree Land Valuation/Transfer					County/Legal Consult	4	3	12	Legal Consultant to finalise	4	3		
		Planning and Design Disapproval					County Team	4	3	12	County to Expedite	3	4		
	Payment (E/U Debt Equity)	Mortg Fin Unavailable/Too costly/ Illiquidity	X		X		WB	4	3	12	Legal Consultant to finalise	3	4		
		Proj Finance Unavailable/Too costly/Illiquidity	X		X		WB	5	3	15	WB Support/ DFI Support	3	5		
		Equity Unavailable/Too costly/ Illiquidity	X		X		WB	4	3	12	WB Support/ DFI Support	3	4		
	Portal (SetCo)	Legal Structure Not Established/Approved			X		County/Legal Consult	4	3	12	Legal Consultant to finalise	4	3		
		Investment variable changes - ROI unattainable	X	X			Consultant	5	3	15	Stress Test Model and Returns	4	4		
	Procurement	RFI Process Illegal	X	X	X		Consultant	5	3	15	Obtain Treasury/Auditor Gen Approval	4	4		
B	**SetCo RFI Period**	**Risk Event**	**Risk Categorisation**				**Responsibility**	**Impact**	**Prob**	**Before**	**Risk Mitigation**		**After**		
			FIN	REP	CONT	LEG		WS#2	WS#3	WS#5		WS#4	WS#5		
	Portal (SetCo) RFI	Failure to Secure Equity Investors	X	X	X		Consultant/County	5	3	15	Inv Sounding+Targeting /RFI Documentation	3	5		
		Investor Undue Control (Takeover)	X	X			Consultant/County	5	3	15	Investor Selection Criteria/ Due Diligence	3	5		
		Equity Investor T+C's Unreasonble	X		X		Consultant/County	4	3	12	Clear Heads of Terms/ Articles of Ass	3	4		
		Failure to Secure Debt Providers	X	X	X		Consultant/County	3	3	9	RFI Docs/ Guarantees Letters	3	3		
											Conditional Debt offer				
	Procurement	Failure to procure Suitable Mgt Agent	X	X	X		WB Cons Lead	5	3	15	SOP Manual/ Comprehensive Tender Documentation	3	5		
C	**SetCo Select/Set**	**Risk Event**	**Risk Categorisation**				**Responsibility**	**Impact**	**Prob**	**Before**	**Risk Mitigation**		**After**		
			FIN	REP	CONT	LEG		WS#2	WS#3	WS#5		WS#4	WS#5		
	Portal (SetCo) Establishment	Inadequate Ownership Leadership Gov'nance		X	X		Consultant	4	4	16	Investor Selection Criteria/ Due Diligence	3	5		
	Ownership Induction	Failure to finalise Articles/Shareholding Agr			X	X	Consultant	4	3	12	SOP Manual/ Comprehensive Tender Documentation	3	4		
		Failure to Properly	X		X		Consultant	5	3	15	Test Induction Process	3	5		
		Failure to select suitable Mgt Agent	X		X		Consultant + County	5	4	20	Pre-Selection Tender Process	3	7		
	Mangement Agent Induction	Failure to Induct MA (Financial Model + SOP)	X		X		Consultant	5	3	15	Test Induction Process	3	5		
	Procurement	Failure to Procure Suitable Contractors			X		Management Agent	5	3	15	Pre-Selection Tender Process	3	5		
D	**SetCo Construction Period**	**Risk Event**	**Risk Categorisation**				**Responsibility**	**Impact**	**Prob**	**Before**	**Risk Mitigation**		**After**		
			FIN	REP	CONT	LEG		WS#2	WS#3	WS#5		WS#4	WS#5		
	Local Government	Sales targets not achieved	X				Management Agent	5	3	15	M&E	2	8		
	People (End Users)	Income target creep (upwards of range)		X			Management Agent	5	2	10	M&E	4	3		
	Production	Contruction Targets not met	X		X		Management Agent	5	3	15	M&E	3	5		
E	**Operational Period**	**Risk Event**	**Risk Categorisation**				**Responsibility**	**Impact**	**Prob**	**Before**	**Risk Mitigation**		**After**		

7. APPENDICES:

Appendix 1: Consultation/Engagement Lists

A. Flower Farms:	**E. World Bank Projects:**
1. Oserian Flower Farm	1. Kenya Affordable Housing Finance Project
2. Maaskant Flowers Limited	2. Kenya Municipal Program (KMP)
3. Finlays Kingfisher Farm	3. Kenya Informal Settlements Improvement Project (KISIP)
4. Wildfire Flowers Ltd	
5. Panda Flowers Ltd	**G. Government Institutions:**
6. Florensis Kenya	1. Nakuru County Government
7. Lamorna	2. Ministry of Industrialization: Naivasha SEZ
8. Nini	3. KenGen
9. De Ruiter East Africa Ltd	4. Kenya Wildlife Service (KWS)
	5. Naivasha GK Prison
B. Local Banks:	
1. Cooperative Bank	**H. International Organizations:**
2. KCB, Naivasha	1. Shelter Afrique
3. FAULU Kenya-Naivasha	2. IFC
4. Cfc Stanbic Bank, Naivasha Branch	3. African Development Bank
5. K-Rep Bank, Naivasha	4. JICA
6. Barclays Bank	5. AFD-French Development Agency
7. NIC Capital	6. FSD Africa
8. Standard Chartered Bank	
9. Postbank, Naivasha Branch	**I. Financial/Developer Institutions:**
10. KWFT, Naivasha	1. Housing Finance Group
	2. Kenya Commercial Bank
C. Local Hotels:	3. Habitat for Humanity
1. Enashipai Resort and Spa, Naivasha	4. Equity
2. Great Rift Valley Lodge Golf Resort	5. Faulu
3. Lake Naivasha-Sopa-Resort	6. KWFT
4. Kiboko Luxury Camp	7. NACHU
5. Naivasha Kongoni Hotel	
6. Simba Hotel	**J. Developers:**
7. Sawela Lodges	1. NACHU
8. Lake Naivasha Country Club	2. Kenya Property Developers Association (KPDA)
	3. Karibu Homes
D. Local SACCOS and Cooperatives:	4. Suraya
1. Stima SACCO	5. Habitat for Humanity
2. Cosmopolitan SACCO	6. Panda Developments (Naivasha)
3. Siraji SACCO Ltd.	
4. Unaitas	**K. Other Industries:**
5. Tower SACCO	1. Keroche Breweries Limited
6. Sulmac Housing Co-Operative Society	
7. Magereza SACCO	
8. NATOCO	
9. Lake Naivasha Fish Workers Sacco	
10. Naivasha Traders Housing Society	

Appendix 2: Certificate of Lease



REPUBLIC OF KENYA

THE LAND REGISTRATION ACT
(No. 3 of 2012, Section 108)
THE REGISTERED LAND ACT
(Chapter 300, Repealed)

Certificate of Lease

TITLE No. NAIVASHA/MUNICIPALITY BLOCK 2/998

APPROXIMATE AREA 22.38 HECTARES

LESSOR THE NATIONAL GOVERNMENT

RENT

TERM 99 YEARS FROM 1.6.2009

This is to certify that THE COUNTY GOVERNMENT OF NAKURU

P.O BOX 2870-20100 NAKURU

" " " "

is (are) now registered as the proprietor(s) of the leasehold interest above referred to, subject to the agreements and other matters contained in the registered lease, to the entries in the register relating to the lease and to such of the overriding interests set out in section 30 of the Registered Land Act as may for the time being subsist and affect the land comprised in the lease.

GIVEN under my hand and the seal of the NAIVASHA District Land Registry this 9TH day of APRIL, 20 19

Land Registrar

Scanned by CamScanner

(To be completed only when the applicant has paid Sh. 125)

At the date stated on the front hereof, the following entries appeared in the register relating to the land:—

EDITION 1
OPENED 1.6.2009

REGISTRATION SECTION: NAIVASHA/MUNICIPALITY BLOCK 2
PARCEL NUMBER: 998
APPROXIMATE AREA: 22.38 HECTARES
REGISTRY MAP SHEET No.

PART A—PROPERTY SECTION

PARTICULARS OF LEASE: LESSOR: THE NATIONAL GOVERNMENT; LESSEE: THE COUNTY GOVERNMENT OF NAKURU; RENT: TERM: 99 YRS FROM: 1.6.2009

NATURE OF TITLE: LEASEHOLD

FOR APPURTENANCES SEE THE REGISTERED LEASE.
N.B WHERE THE LEASE IS OF A PART OF A PARCEL, THE PARCEL NUMBER REFERS TO THE NUMBER SHOWN ON THE FILED PLAN

PART B—PROPRIETORSHIP SECTION

ENTRY NO.	DATE	NAME OF REGISTERED PROPRIETOR	ADDRESS AND DESCRIPTION OF REGISTERED PROPRIETOR	CONSIDERATIONS AND REMARKS	SIGNATURE OF REGISTRAR
		RESTRICTION: NO DISPOSITION BY THE PROPRIETOR SHALL BE REGISTERED WITHOUT THE WRITTEN CONSENT OF THE LESSOR (S. 48)			
2	9.3.19	THE COUNTY GOVERNMENT OF NAKURU			
3	9.3.19	CERTIFICATE OF	LEASE	ISSUED	

Scanned by CamScanner

PART C—ENCUMBRANCES SECTION

ENTRY NO.	DATE	NATURE OF ENCUMBRANCE	FURTHER PARTICULARS	SIGNATURE OF REGISTRAR

Land Registrar

Scanned by CamScanner

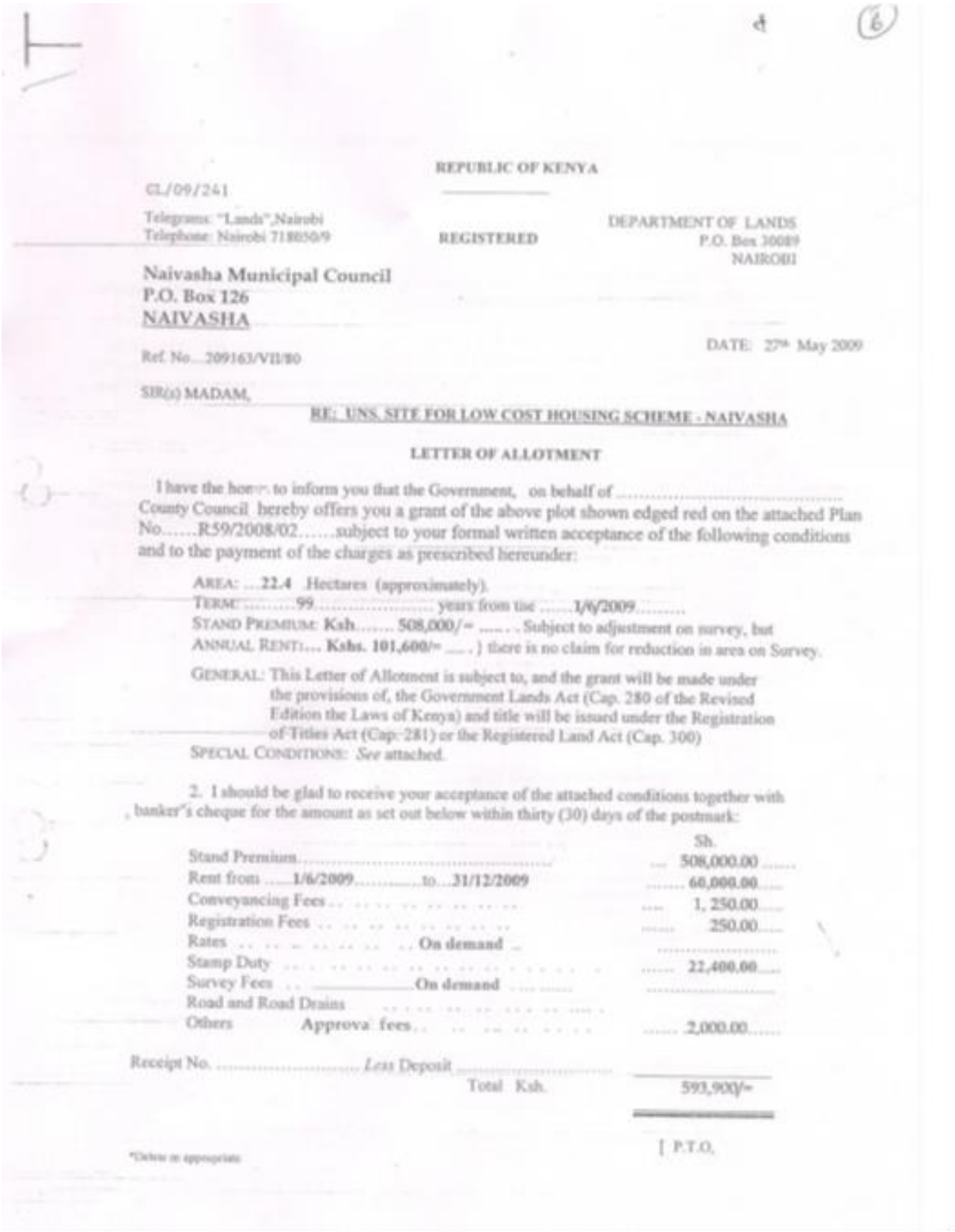
REPUBLIC OF KENYA

THE REGISTERED LAND ACT
(Chapter 300, Repealed)

Certificate of Lease

Scanned by CamScanner

Appendix 3: Letter of Allotment



REPUBLIC OF KENYA

CL/09/241

Telegrams: "Lands",Nairobi
Telephone: Nairobi 718050/9

REGISTERED

DEPARTMENT OF LANDS
P.O. Box 30089
NAIROBI

Naivasha Municipal Council
P.O. Box 126
NAIVASHA

DATE: 27th May 2009

Ref. No. 209163/VII/80

SIR(s) MADAM,

RE: UNS. SITE FOR LOW COST HOUSING SCHEME - NAIVASHA

LETTER OF ALLOTMENT

I have the hon[illegible] to inform you that the Government, on behalf of ..... County Council hereby offers you a grant of the above plot shown edged red on the attached Plan No.....R59/2008/02.....subject to your formal written acceptance of the following conditions and to the payment of the charges as prescribed hereunder:

AREA: ...22.4 Hectares (approximately).
TERM: .....99..... years from the .....1/6/2009.....
STAND PREMIUM: Ksh..... 508,000/= ..... Subject to adjustment on survey, but
ANNUAL RENT:... Kshs. 101,600/= .....) there is no claim for reduction in area on Survey.

GENERAL: This Letter of Allotment is subject to, and the grant will be made under the provisions of, the Government Lands Act (Cap. 280 of the Revised Edition the Laws of Kenya) and title will be issued under the Registration of Titles Act (Cap. 281) or the Registered Land Act (Cap. 300)

SPECIAL CONDITIONS: *See* attached.

2. I should be glad to receive your acceptance of the attached conditions together with a banker's cheque for the amount as set out below within thirty (30) days of the postmark:

	Sh.
Stand Premium	508,000.00
Rent from 1/6/2009 to 31/12/2009	60,000.00
Conveyancing Fees	1, 250.00
Registration Fees	250.00
Rates ... On demand	
Stamp Duty	22,400.00
Survey Fees ... On demand	
Road and Road Drains	
Others Approval fees	2,000.00
Receipt No. ..... *Less* Deposit	
Total Ksh.	593,900/=

[P.T.O.

*Delete as appropriate

If acceptance and payment respectively are not received within the said thirty (30) days from the date hereof the offer herein contained will be considered to have lapsed.

If the above plot is still unsurveyed at the time you commence building you should exercise the greatest care to ensure that any building or other works are contained within the boundaries of the plot for should you inadvertently overstep the aforesaid boundaries the coast of removal and reconstruction must be borne by you.

The issue of the Government grant or lease will be undertaken as soon as circumstances permit.

Your full name (s) in BLOCK LETTERS should be given for the purpose of the grant which will be submitted later to you. The attached special conditions form part of the offer which should be accepted in writing. The Government shall not accept any liability whatsoever in the event of prior commitment or otherwise.

I have the honour to be,
Sir(s) Madam,
Your obedient servant,

Authority: Government – F. 209103/VII/77

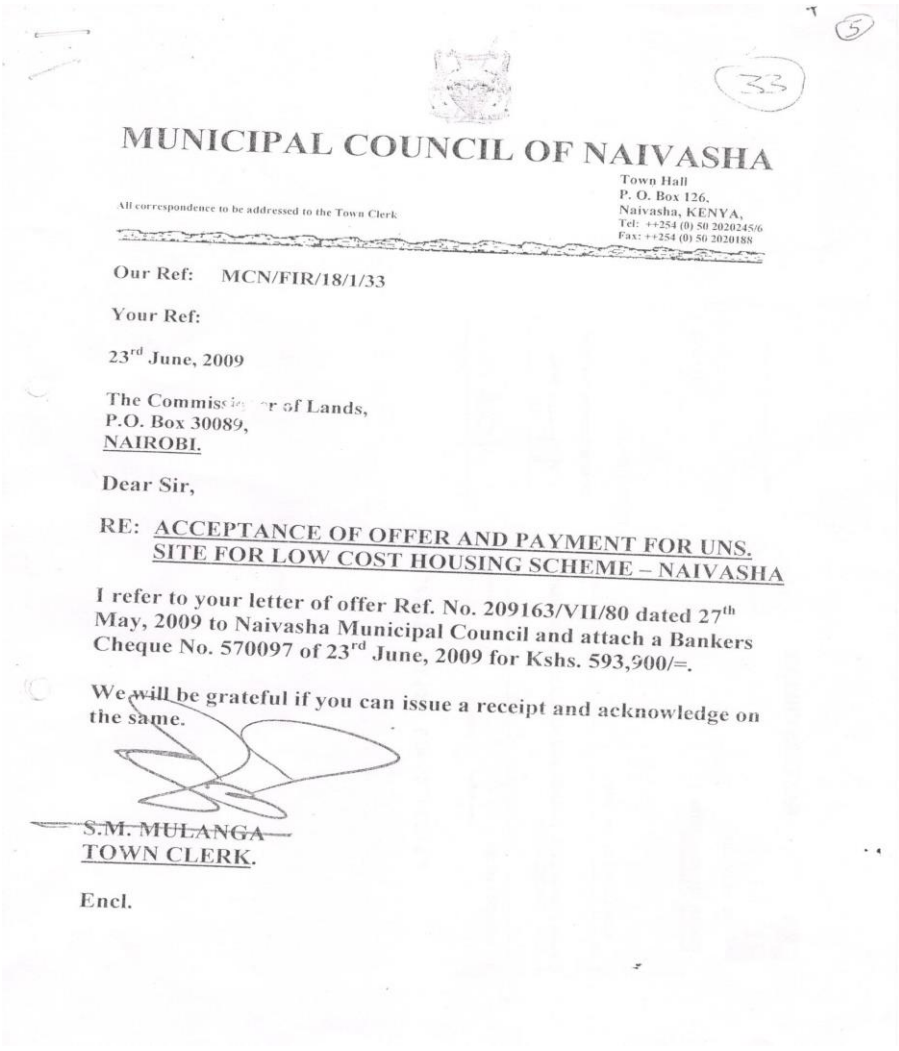
.....P.K. KAHUHO.....
For Commissioner of Lands

ENCL P.S. Min. of Environment and Mineral Resources

Y TO: P/S Ministry of Lands and Settlement, Nairobi
The Director of Surveys, Nairobi.
The Town Clerk. NAIVASHA
The Clerk to the Council, County Council of .....
The District Commissioner NAIVASHA
The Director of Physical Planning, Nairobi
District Land Officer NAKURU
Rates Assistant.)
The Accountant.)
O/C Records.) All to note.
Senior Plan Records Officer.)
Plot File.)

GPK (L)

Appendix 4: Acceptance Letter and Bank Draft



MUNICIPAL COUNCIL OF NAIVASHA

All correspondence to be addressed to the Town Clerk

Town Hall
P. O. Box 126,
Naivasha, KENYA,
Tel: ++254 (0) 50 2020245/6
Fax: ++254 (0) 50 2020188

Our Ref: MCN/FIR/18/1/33

Your Ref:

23rd June, 2009

The Commissioner of Lands,
P.O. Box 30089,
NAIROBI.

Dear Sir,

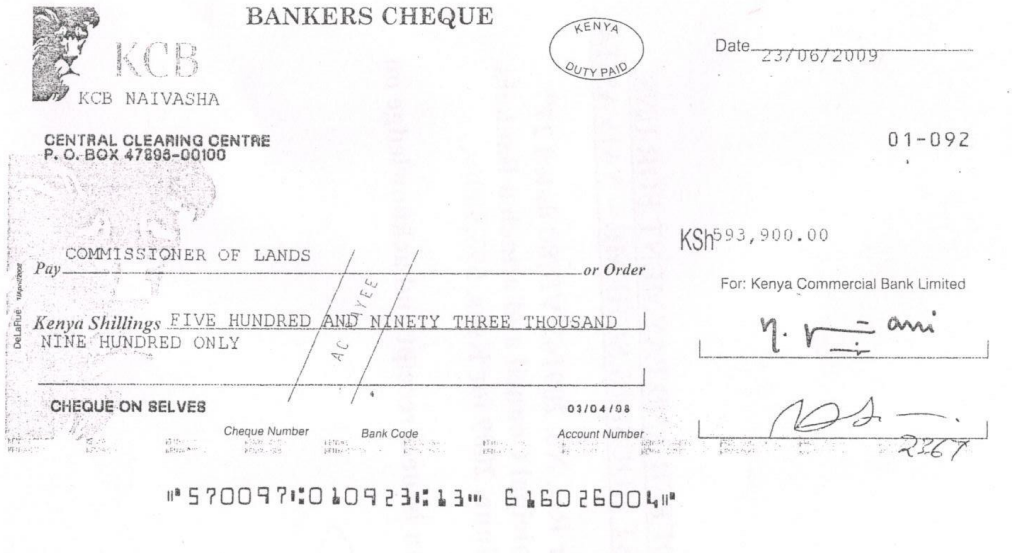
RE: ACCEPTANCE OF OFFER AND PAYMENT FOR UNS. SITE FOR LOW COST HOUSING SCHEME – NAIVASHA

I refer to your letter of offer Ref. No. 209163/VII/80 dated 27th May, 2009 to Naivasha Municipal Council and attach a Bankers Cheque No. 570097 of 23rd June, 2009 for Kshs. 593,900/=.

We will be grateful if you can issue a receipt and acknowledge on the same.

S.M. MULANGA
TOWN CLERK.

Encl.



BANKERS CHEQUE

KENYA DUTY PAID

Date 23/06/2009

KCB
KCB NAIVASHA

CENTRAL CLEARING CENTRE
P. O. BOX 47898-00100

01-092

KSh 593,900.00

Pay COMMISSIONER OF LANDS or Order

Kenya Shillings FIVE HUNDRED AND NINETY THREE THOUSAND NINE HUNDRED ONLY

A/C PAYEE

For: Kenya Commercial Bank Limited

CHEQUE ON SELVES

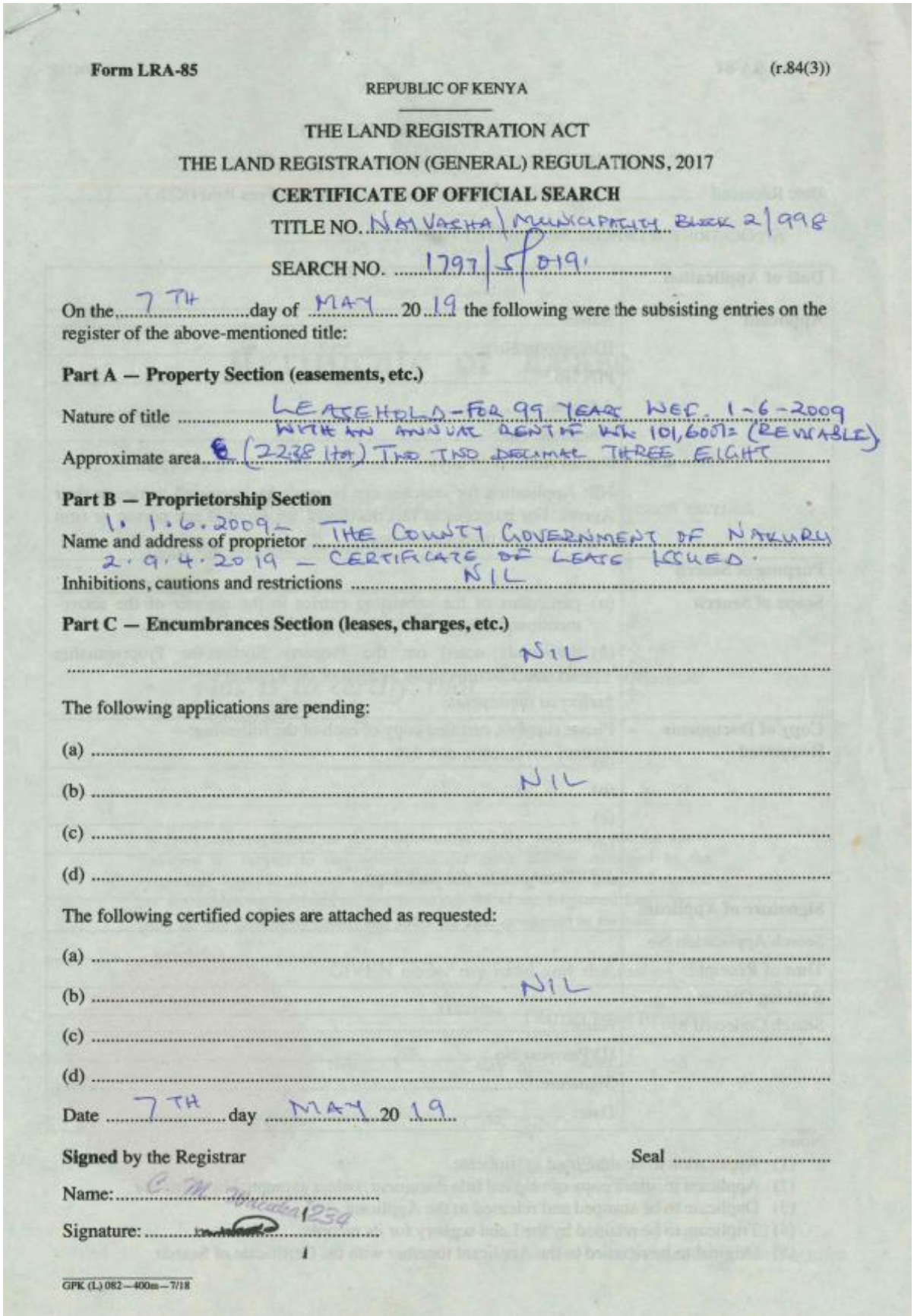
03/04/08

Cheque Number Bank Code Account Number

2267

⑈570097⑆010923⑆13⑈ 61602600⑆⑈

Appendix 5: Certificate of Official Search



Form LRA-85 (r.84(3))

REPUBLIC OF KENYA

THE LAND REGISTRATION ACT

THE LAND REGISTRATION (GENERAL) REGULATIONS, 2017

CERTIFICATE OF OFFICIAL SEARCH

TITLE NO. NAIVASHA/MUNICIPALITY BLOCK 2/998

SEARCH NO. 1797/5/019

On the 7TH day of MAY 20 19 the following were the subsisting entries on the register of the above-mentioned title:

Part A — Property Section (easements, etc.)

Nature of title LEASEHOLD-FOR 99 YEARS WEF. 1-6-2009 WITH AN ANNUAL RENT OF KSh 101,600/= (REVISABLE)

Approximate area (2238 Hrs) TWO THO DECIMAL THREE EIGHT

Part B — Proprietorship Section

1. 1.6.2009 — THE COUNTY GOVERNMENT OF NAKURU

Name and address of proprietor

2. 9.4.2019 — CERTIFICATE OF LEASE ISSUED.

Inhibitions, cautions and restrictions NIL

Part C — Encumbrances Section (leases, charges, etc.)

NIL

The following applications are pending:

(a)

(b) NIL

(c)

(d)

The following certified copies are attached as requested:

(a)

(b) NIL

(c)

(d)

Date 7TH day MAY 20 19

Signed by the Registrar Seal

Name:

Signature:

GPK (L) 082—400m—7/18

Appendix 6: Schools Absorption Capacity

MINISTRY OF EDUCATION
STATE DEPARTMENT OF BASIC EDUCATION

Telephone: 0202352776
Fax No: 254 0202352776
Email: naivashadeo@gmail.com

SUB -COUNTY EDUCATION OFFICE,
NAIVASHA,
P. O. BOX 2053 – 20117.
NAIVASHA
Date: 18TH MAY, 2018

Ref: MOE/NVS/GEN/40/133

COUNTY SECRETARY AND HEAD OF PUBLIC SERVICE
COUNTY GOVERNMENT OF NAKURU
P.O BOX
NAKURU

THRO'
COUNTY DIRECTOR OF EDUCATION
P.O BOX 259
NAKURU

Forwarded
18/5/18

RE: AFFORDABLE HOUSING PROJECT IN NAIVASHA- SCHOOL ABSORPTION CAPACITY

Your letter dated 9th May, 2018 on the above subject refers.

The schools identified can absorb the following number of students:

S/No.	School	Status	Current enrolment	Capacity	Deviation
1.	Magereza Academy	Secondary	374	600	226
2.	Naivasha Boys Boarding	Primary	764	1000	236
3.	Naivasha DEB	Primary	1952	2000	48
4.	G.K Prisons	Primary	1000	2000	1000
	Total		**4990**	**5600**	**1510**

It should be noted that only 1510 students can be accommodated by the identified schools if classrooms, sanitary facilities and Boarding can be available in schools.

MOE-ISO 9001:2008 Certified

However, the surrounding area has additional public schools e.g. Naivasha Central, Kabati, Naivasha Day secondary and private schools e.g. Bishop Wambari girls and Bishop Ndingi Boys.

Equally, the upcoming project could also put up additional facilities in its plan e.g. three public primary schools and two secondary schools. The Ministry of Education will fast-track the registration of the schools.

B. K. CHIRCHIR
SUB- COUNTY DIRECTOR OF EDUCATION
NAIVASHA

Appendix 7: Environmental and Social (E&S) Findings:

Site Description:

The target site in Naivasha is currently housing as a slaughterhouse/abattoir owned by the County Government of Nakuru. The slaughterhouse is accessed through the Nairobi - Nakuru highway.

As reported, the current land use has been operational since 1985 where it serves a radius of 40km within Nakuru County. The main market for the slaughterhouse is the neighboring institutions of the Kenya Wildlife Service (KWS) training institute located in Naivasha town, the Kenya Prisons as well as local market within Naivasha town such as butcheries and restaurants. Currently the abattoir has a capacity of 100 heads of cattle, 100 SHOATS per day, however it serves approximately eight heads of cattle and 15 SHOATS a day. These livestock are sourced from areas beyond Naivasha such as Narok County, Suswa, Kajiado County and Nairobi County.

According to the Chief Veterinary Officer, transportation of the livestock to the slaughterhouse is the responsibility of the owner of the livestock. The slaughterhouse has large fields where livestock are kept on behalf of the owner for the period awaiting slaughter. The area around the slaughterhouse was observed to be highly degraded due to heavy livestock grazing.

Waste management: The slaughterhouse produces various solid and liquid waste from the activities on site. Carcasses are sorted according to the health inspection; all condemned carcasses are put inside the condemnation pit to decompose. Blood from the slaughterhouse is channeled through French drains into an underground tank where it is exhausted by the Naivasha Water and Sewerage Company (NAWASCO) to be disposed at the county dumpsite. Waste water is directed into the NAWASCO sewer lines.

The slaughterhouse sources its water from the NAWASCO supply lines, with an average consumption of 250 cubic meters every month. The slaughter management reported to have an onsite borehole, currently not in use.

The target site activities were reportedly governed by various compliance-based licenses such as the National Environment Management Authority (NEMA) certificate, the County Public Health Permit, Government veterinary licenses among others.

As observed, the site has two permanent (single storey) structures built in the 1980's- one being the slaughterhouse and the other building being the office and changing room for the staff. Three temporary structures were observed on site, reportedly belonging to businessmen who provide services to the owners of livestock once they come to the abattoir grounds. As reported, the temporary structure owners provide services such as security for overnight stay and grazing of livestock as well as buying and drying of hides before transporting to market.

The NAHP design would be classified as a *Category B* facility, as defined by the IFC Policy on Environmental and Social Sustainability (2012), see Box 1 below.

BOX 1: IFC Environmental and Social Categorization (Source: IFC Website, 2019)
As part of the review of environmental and social risks and impacts of a proposed investment, IFC uses a process of environmental and social categorization to reflect the magnitude of risks and impacts. The resulting category also specifies IFC's institutional requirements for disclosure in accordance with IFC's Access to Information Policy. These categories are:
Category A: Business activities with potential significant adverse environmental or social risks and/or impacts that are diverse, irreversible, or unprecedented.
Category B: Business activities with potential limited adverse environmental or social risks and/or impacts that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures.
Category C: Business activities with minimal or no adverse environmental or social risks and/or impacts.

ASSESSMENT OF THE PROPOSED NAIVASHA AFFORDABLE HOUSING BUSINESS CONCEPT AGAINST THE IFC PERFORMANCE STANDARDS, 2012

The sections below illustrate what the NAHP Business Concept Prototype owner (i.e. the Settlement Company or otherwise referred to as the SetCo) should consider as part of the development of the NAHP in line with the IFC Performance Standards, 2012.

IFC Performance Standard 1: Assessment of Environmental and Social Risks and Impacts

Identification of risks and impacts: The NAHP owner or the SetCo should ensure all possible E&S risks and impacts arising from the construction and operation of the planned Affordable Housing Project are identified through an impact assessment during the Project feasibility and design phase.

Risks and impacts should be considered with regard to labor and working conditions, pollution prevention and resource efficiency, community safety and livelihoods, biodiversity conservation, protection of Indigenous People and cultural heritage. However, from the initial E&S screening risks and impacts associated with protection of Indigenous People and cultural heritage were not expected as the proposed target site is located in a cosmopolitan area as well as the land use being designated for affordable housing (*See Section 5 of this report for further details on designated land use as per the land title deed*).

Where possible, any E&S impacts should be avoided by careful consideration of design elements. If avoidance is not possible, then the design should aim to minimize negative impacts, or at least compensate or offset E&S risks and impacts.

Management of risk and impacts: Once the project design for the NAHP has addressed all possible E&S risks and impacts, the construction and operation phase will require careful E&S management plans to mitigate those factors.

Mitigation measures should be monitored during the construction phase and strengthened where necessary. The SetCo management should ensure that all contractors operate in accordance with both Kenyan local regulations and Good International Industry Practice (GIIP) with regard to labor and working conditions, occupational health and safety, resource sourcing and use, and pollution prevention.

Contractors should use the outcomes of the ESIA to develop and implement a construction environmental and social management plan (ESMP) which also aligns with the mitigation hierarchy mentioned above. Construction companies should always ask to review outcomes and recommendations of the ESIA in order to develop an appropriate site specific ESMP.

The SetCo should engage construction companies, prior to contracting, about their approach to planning for an ESMP.

IFC Performance Standard 2: Labor and Working Conditions

Contractors: Project construction typically involves engaging a principal contractor along with several subcontractors. This may include large-scale international contracting companies (with locally engaged labor) as well as small-scale local specialist subcontractors. The SetCo management should ensure that all contractors operate in accordance with local regulations and GIIP. All contractors should implement an ESMP for each Project phase which should reflect the outcomes and recommendations of the ESIA. The SetCo should engage construction companies at the tender stage (prior to contracting) about their approach to planning for site management planning and how to minimize E&S risks and impacts. In addition, a contractor's commitment and resource capacity with regard to E&S performance should be assessed.

Wages and working hours: Construction activities are a major employer of low-paid and often unskilled labor, including temporary or seasonal labor and migrant workers from other neighboring counties. Furthermore, working hours are typically long. Workers should be paid at least the minimum statutory wage for the sector and working hours should be in accordance with applicable laws and sector regulations/agreements.

The SetCo should not use third party contractors as a means of exceeding working hour regulations or avoiding minimum wage payments.

Freedom of association and collective bargaining: Relations with unions and the rights of workers to enter free and voluntary collective bargaining arrangements with management (and the rights to form unions and to strike) can be an issue in large scale housing construction projects such as the NAHP. There are many instances where the principles of Freedom of Association have not been respected during project construction. State involvement and restrictive legislation also dominates the construction sector particularly in emerging markets, such as Kenya or where public private partnerships or tendering processes aim to encourage the participation of local companies.

The SetCo should require all contractors to adopt GIIP as this can help to manage costs relating to recruitment, training and talent retention and maintain or enhance efficiency and service quality.

Child labor and bonded/forced labor: Forced/bonded or child labor is not acceptable under international standards but remains evident in the construction sector. Non-compliance with ILO Core Labor Conventions on Child Labor/Minimum Age and Forced Labor is not acceptable under international standards. Measures to eradicate these forms of labor should be implemented as a matter of priority by the SetCo.

Equal opportunities and non-discrimination: Discrimination over wages or terms and conditions can be prevalent in the construction sector, particularly towards vulnerable local communities, when it comes to wages or terms and conditions. The SetCo should address discrimination by identifying key issues (through consultation with affected workers) and putting in place policies that deter discrimination. Such steps can help to manage recruitment and training costs, improve worker retention, and maintain or enhance productivity.

Accommodation: Where the SetCo and/or the main contractor undertakes to provide (either directly or through subcontractors) workers' accommodation, it should include basic services and consider the principles of non- discrimination and equal opportunity. The SetCo and/or main contractor should develop and implement policies on the quality and management of the accommodation in accordance with the principles included in IFC Performance Standard 2.

All contractors should be encouraged to develop and apply family-friendly employment policies. Good practice in this area can help to manage costs relating to recruitment, training and talent retention and maintain or enhance productivity.

Occupational Health and Safety: OHS is an important consideration for any business, regardless of sector. The SetCo must have in place appropriate OHS and emergency preparedness and response management systems, commensurate with the level of risks.

OHS risks are particularly relevant in construction activities and robust systems should be implemented. Since contractors would typically be involved in design and construction activities, The SetCo must have systems to ensure that contractors work in accordance with applicable regulations and GIIP.

IFC Performance Standard 3: Resource Efficiency and Pollution Prevention

Energy efficiency and air emissions: The initial project design of the NAHP should focus on incorporating energy efficiency measures and building resilience to risks from climate change. The

SETCO should incorporate energy efficiency and pollution prevention into project design. Careful consideration should be given to power supply and fuel source reliability and resilience and where possible the use of renewable sources should be encouraged. Process design and layout elements should take energy conservation as well as pollution prevention into account (e.g. through insulation, co- generation, loop systems to heat other process stages with by-product heat, process equipment and efficiency in the context of emissions generation).

Overall siting and orientation of the housing units/ buildings should also focus on energy conservation (e.g. aspect with relation to sun/latitude; height of the building or facility (e.g. temperature control in a small footprint high rise facility versus a low-rise larger footprint); heating/cooling/ventilation aligned with the numbers and aspect of the windows and prevailing winds; and building height relative to actual Project site and existing built or natural environment).

The NAH Project design should consider building materials to be used in the context of energy efficiency. Certain materials can offer improved or diminished insulation (e.g. smooth surface or glass vs rough surface or concrete/stone). The sourcing of such materials and potential supply chain impacts should also be considered by the SetCo.

The main sources of air emissions during construction are dust generation and exhaust gases of heavy mobile and fixed equipment, including temporary power generation sources (generators), and from the burning of waste materials.

Site clearing, including demolition of the existing two permanent buildings on the Naivasha site and excavation, as well as onsite storage of construction materials can result in significant quantities of dust. Management of dust is critical during construction to avoid impacts to neighboring sites and communities. Timing of dust generating activities and planning of activities and construction to minimize (both spatially and temporally) the exposure of bare soil should be a key part of construction management.

Clearing and rapid resurfacing or re-vegetating, enclosure and covering of open areas and storage piles, and dust suppression techniques including damping down should be encouraged.

The SetCo should explore business opportunities associated with the adoption of cleaner technology/energy efficiency measures in the use, maintenance and purchase of heavy equipment and the sourcing of raw materials such as cement. The SetCo should also give due consideration to how the best available techniques for management of emissions may be applied, including where site clearing is undertaken by contractors or where heavy equipment is leased.

Water Management: Construction activities can use significant quantities of water, e.g. in the mixing of raw materials (particularly cement), dust suppression activities, soil stabilization and cleaning activities in the actual building as well as in the plant. The SetCo should engage with contractors to explore opportunities to reduce water consumption (e.g. use of closed-loop water systems in dust suppression). This is particularly relevant when water consumption is significant and/or water availability is restricted such as the case in Naivasha town.

Water use efficiency measures can have positive effects in terms of reducing the amount of wastewater generated by the site, and therefore any potential wastewater treatment costs and/or discharge fees.

Wastewater flows can have a high solid content due to site surface erosion and dust. Other effluent is generated from sanitary wastewater (from the site office/temporary worker washrooms facilities/accommodation). Adequate temporary sanitation facilities should form part of site management and sanitation should require treatment prior to discharge.

Waste management: Waste management should be considered at the design phase of any Project. The local context of the operation should be considered, as some waste disposal or recycling facilities

may not be available (e.g. certain hazardous waste facilities) or waste disposal may be difficult in remote locations. Early planning and consideration of these issues can help identify cost effective disposal options that might even include construction of a dedicated disposal facility. Solid waste streams specific to construction activities include excess fill materials, scrap wood and metals such as steel girders and scaffolding, domestic waste (from site offices, temporary washrooms and accommodation), waste construction material arising from poor handling or storage, as well as material from demolition activities and machinery maintenance. All require specific care in disposal to prevent environmental contamination or community health and safety risks. Where possible re-use or recycling of waste materials should be encouraged and careful site management including waste segregation and collection should avoid the need for double handling of raw materials and resulting waste.

Obligations for handling of such materials as oils, solvents, paints and lubricants should extend to all contractors and suppliers.

The SetCo should engage with construction companies and developers regarding the likelihood of encountering contaminated land (e.g. investigate land use history and where necessary, undertake pre-development soil sampling) in order to avoid significant delays once construction has commenced.

Resource use: Sourcing building materials from sustainable sources should be considered during the design phase and encouraged where possible in construction. Construction and demolition waste should be reused where possible (e.g. recycling of concrete minimizes the cost associated with sourcing new aggregate for construction).

Demolition should be preceded by site inventorying and salvage to ensure all benign materials are re-used and recycled, even if only as fill for site levelling. Selection of building materials should be a key component of Project design as mentioned above for enhanced energy efficiency and pollution prevention.

IFC Performance Standard 4: Community Health, Safety, and Security

The SetCo's social license to operate can be put at risk if community relations are not well managed e.g. due to pollution impacts locally, or through intimidation by SetCo employed security forces, if any. Community health and safety risks and impacts associated with design and construction include:

Health: Increased incidence of communicable and vector diseases related to construction or ultimate operation activities of the affordable housing area (migrant labor and land clearing/stagnant water) can pose health risks to local communities and to the workforce.

Excessive dust generation from land clearing and excavation and poorly timed execution of works (i.e. premature clearing of land which is not followed immediately by next stage construction) can impact air quality for surrounding communities. Construction site personnel should undertake dust suppression and containment, and the site should be managed (including layout and works planning) to minimize dust generation where possible. Original design should ensure that any dust or emission generating operational activities consider prevailing winds and site aspect and are managed to avoid or minimize impacts to communities.

Safety: The first issue the SetCo should consider is the project siting. Where the affordable housing project (or an element of the project) presents significant risks and/or adverse impacts to local communities, the SetCo should consider whether the project (or some elements of the Project) could be relocated (e.g. large oil tanks could be relocated away from residential areas).

The use of large heavy equipment on site and local roads to deliver materials poses threats of traffic accidents and congestion. Facility layout design and construction planning should take seasonal or daily road use fluctuations into account when planning site access and delivery to minimize impacts on the local community, especially due to the high traffic along the Nakuru – Nairobi highway that serves as the main access to the site.

Activities such as awareness programmes, community engagement and signage can minimize the potential for road accidents. Where significant impacts are anticipated, it may be advisable for the SetCo and/or the main contractor(s) to appoint a community liaison officer to manage traffic detour planning and site access timing. Emergency preparedness focused on protecting local communities in case of accidents on or near the site should be a priority during design and construction.

Noise and vibrations: Construction operations of the affordable housing units can generate significant noise and vibrations particularly during demolition activities of the existing structures, delivery of materials, use of large-scale heavy plants on site, cement mixing, concrete pouring, steel pylon erection, jack hammer compression and tile cutting, all of which can negatively impact neighboring land users and local communities.

The design of new affordable housing facilities should take operational noise into account in the siting and/or insulation of process equipment. Noise/vibration prevention and control measures should be implemented (e.g. selecting equipment with lower sound power levels and restricting noisy activities to reasonable hours) at the design and construction phase.

Indirect impacts: An influx of project labor can pose risks to local communities such as exposure to communicable diseases, increased competition for natural resources (e.g. water, firewood, and arable land for workforce food supply). There is potential for conflict between local and migrant labor where there is seen to be a lack of local economic benefit from the new development, or where local labor is marginalized or where migrant labor has been located without family.

Cumulative impacts: During the design and construction phase of the affordable housing project, cumulative impacts should be assessed as the project risks and impacts may be exacerbated by existing assets or the presence of other projects- as the housing units are built over time in the different phases.

IFC Performance Standard 5: Land Acquisition and Involuntary Resettlement

Resettlement should be avoided wherever possible to avoid related costs and project delays. Poor or inadequate community relations can undermine the construction company's license to operate.

As highlighted in the target site overview, it was observed that three temporary structures are currently on the site. It was discussed by the NCG officials as a means to seek clarification on who the temporary structures belong to; from this discussion it was reported that the temporary structure occupiers will be approached by the NCG staff so as to evacuate the site prior to the commissioning of the proposed project.

Community relations: As highlighted under this performance standard, it is critical for the SetCo to develop and maintain good relations with local communities. Sufficient time and resources should be made available to consult with Affected Communities by the affordable housing project in a culturally appropriate manner. Efforts should be made to accommodate their needs and reasonable requests; however, it is important to manage the expectations of local communities, as well as consider precedents that may have been set. It is important to view stakeholder engagement as an ongoing process and mechanisms should be in place or set up to hear grievances and address complaints.

Appendix 8: Letters of Support

Enashipai
Resort & Spa
it's the little things

To: Mrs. JudyLeah Waihenya
Chief Officer,
Department of Land, Housing and Physical Planning
County Government of Nakuru
2870-20100, Nakuru.

Date: 08/05 /2019

Dear Mrs. Judyleah Waihenya

Ref. LETTER OF SUPPORT FOR THE PROPOSED NAIVASHA AFFORDABLE HOUSING PROJECT

The subject Matter refers.

We would like to confirm the following.

(1) There is demand for the project from our employees who total **272 in number**. Our employees, across all income levels find it increasingly difficult to find affordable and adequate housing within Naivasha.

(2) The project housing offering matches the requirements of our employees demand.

(3) We are willing to support our employees to acquire housing in the proposed scheme through payroll deduction. The Employees also have a Savings and credit cooperative (SACCO) which has **membership of 142**. The Sacco may also assist the employees to acquire the housing in the proposed scheme.

(4) Enashipai Resort & Spa also has affiliated companies located in Naivasha (Lake Naivasha Holiday inn ltd with **66 employees** and Naivasha coffee house ltd with **17 employees**). The employees of these two companies also have a joint Sacco with total **membership of 68.** The staff administration of the two companies is done at Enashipai Resort and Spa e.g. employee files, recruitment and separation, payroll processing etc.

Sincerely Yours,

Samuel Njuguna Muhia.
Human Resource Manager.
Johenson Kenya Ltd T/A Enashipai Resort & Spa.

CC:
- The Governor
- County Secretary
- County Government of Nakuru
- Olivia, Hadija Kamayo, (World Bank), Larry English (urbuntu).

Booking Office: 5th Floor Prosperity House, Westlands Road, Nairobi, Kenya | Resort Location: Moi South Lake Road, Naivasha
Tel: +254 51 2130000 | +254 20 5130000 | Mob: +254 719 051000 | +254 713 254035
Email: info@enashipai.com | www.enashipai.com

Entumo Siyara

KCB BANK

KCB Bank Kenya Limited
NAIVASHA BRANCH
P.O. BOX 130 -20117
NAIVASHA

Telephone: +254 50 2021325
E-mail: naivasha@kcb.co.ke
website: kcbbankgroup.com

To: Mrs Judyleah Waihenya
Chief Officer
Department of Land, Housing and Physical Planning
County Government of Nakuru
2870-20100
Nakuru

Email: Hkamayo@worldbank.org

13th May2019

Dear Mrs Waihenya,

LETTER OF SUPPORT FOR THE PROPOSED NAIVASHA AFFORDABLE HOUSING PROJECT

This letter is provided to potential investors to confirm that:

1. There is demand for the project from our clients/members. We have over 34,000 customers / account holders. Employees across all income levels, find it increasingly difficult to find affordable and adequate housing within Naivasha

2. The project housing offering matches the requirements of clients/members demand, and

3. We are willing to support our < clients/ members> to acquire housing in the proposed scheme through the use of appropriate financial products in our institution.

Sincerely,

Zachariah Njeru
Branch Manager

Cc. Regional Business Manager-Great Rift
Director, Retail

Panda Flowers Limited

P.O. Box 884 - 20117
NAIVASHA, Kenya.

Phone: +254-50-50046/50198
Fax: +254-50-50463
Email: info@pandaflowers.co.ke
Web: www.pandaflowers.net

Associated with 'Flower Business Park', Naivasha, Kenya.

To: Mrs Judyleah Waihenya
Chief Officer
Department of Land, Housing and Physical Planning
County Government of Nakuru
2870-20100
Nakuru
Email: Hkamayo@worldbank.org

Date: 7th May 2019

Dear Mrs Waihenya

LETTER OF SUPPORT FOR THE PROPOSED NAIVASHA AFFORDABLE HOUSING PROJECT

This letter is provided to potential investors to confirm that :

(1) There is demand for the project from our employees/members. We have 878 number of employees. Employees across all income levels, find it increasingly difficult to find affordable and adequate housing within Naivasha.

(2) The project housing offering matches the requirements of employees/members demand,

(3) We are willing to support our employees to acquire housing in the proposed scheme through (eg. Payroll deduction, letters of surety, deposit support etc)

Sincerely

PANDA FLOWERS LIMITED
P. O. Box 884, Naivasha, Kenya
TEL: 050-50046 / 50198
Fax: 050 - 50463
E-Mail: info@pandaflowers.co.ke

Igal Elfezouaty
Managing Director
Panda Flowers Limited