

Real Estate Law

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KENYA

Can Real Estate Investment Trusts (REITs) be a pathway to affordable homeownership?



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Can Real Estate Investment Trusts (REITs) be a pathway to affordable homeownership?

Kenya's affordable housing agenda is a government initiative aimed at addressing the housing deficit in the country by providing affordable and decent housing for its citizens through homeownership. This initiative aligns with the Government's broader development goals outlined in its Vision 2030 blueprint. The key challenges that have been identified as the barriers to delivering this agenda include (i) limited capacity for rapid construction of affordable homes even though the Government has initiated large-scale construction projects across the country; (ii) lack of guaranteed off-take, which undermines property developers' confidence in exiting developments upon completion; and (iii) limited access to financing options that could enable developers bring more affordable homes to the market.

The challenge of accessing financing holds true as it is crucial for securing the capital required for real estate development projects. Amidst this challenge, there is a proposal that REITs could offer a viable strategy to support the affordable housing agenda, mainly in the form of pooling funds from multiple investors to provide capital for property developers interested in the development and management of affordable housing projects.

REITs are investment vehicles that own, operate or finance income-producing real estate assets. They are typically structured as trusts and are subject to regulatory oversight and compliance obligations. So, while they may not be physical real estate that an investor can directly own and manage, they provide exposure to the real estate market and its potential returns. They enable passive investment in capital-intensive real estate portfolios in a secure and regulated environment and intrinsically complement the real estate sector.

REITs are inherently profit-driven, primarily generating returns through capital appreciation from property development or rental income from properties in their portfolio. Their main focus is generating financial returns for their investors, and their investment decisions usually prioritize assets and projects that offer the highest potential for profit maximization. This profit-driven nature is the reason behind the proposal that with REITs entering the affordable housing ecosystem as one of the many stakeholders, homeownership could eventually be achieved through a rent-to-own arrangement.

Conversely, the affordable housing agenda is fundamentally concerned with addressing the affordability gap, with increasing housing units being a crucial component of this effort in order to supply housing options tailored to the varying income levels of the targeted economically disadvantaged individuals and families. The affordability gap stems from disparities between household incomes and housing costs. Accordingly, the construction financing mechanisms for affordable housing must be carefully designed to ensure they effectively address the affordability gap and make economic sense for all stakeholders involved.

Can Real Estate Investment Trusts (REITs) be a pathway to affordable homeownership?

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This raises the question of how a REIT alternative would make housing more affordable for those who need it most, meeting the critical objective of improving social mobility, well-being, quality of life and all other factors that directly influence the affordability of housing without imposing significant financial burdens on households.

While REITs can indeed play a significant role in stimulating property development, which can help close the housing gap, their profit-driven nature may limit their effectiveness in directly bridging the affordability gap. The profit motive may dictate investing in properties and projects promising higher rental returns or purchase prices, which may further exacerbate affordability issues for low and middle-income households.

If the scepticism around the REIT model being an appropriate avenue for the affordable housing agenda is warranted, it may be advisable to critically evaluate and clarify how affordable housing projects would align with the financial criteria and return expectations of REIT investors.

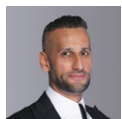
Disclaimer: This article is highly motivated by the writer's unconscious biases in property law and real estate expertise and is an attempt to investigate the correlation between REITs and the affordable housing agenda. It is all part of the journey to expand our understanding and offer fresh perspectives.

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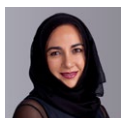
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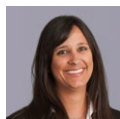
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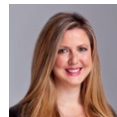
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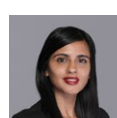
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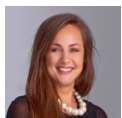
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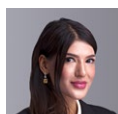
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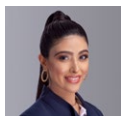
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BBBEE STATUS: LEVEL ONE CONTRIBUTOR

Our BBBEE verification is one of several components of our transformation strategy and we continue to seek ways of improving it in a meaningful manner.

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