KMRC
KENYA MORTGAGE REFINANCE COMPANY

GREEN BUILDINGS AND INDUSTRY REPORT

ISSUE 3 - **AUGUST 2022**

EXECUTIVE SUMMARY

- Real estate contributes up to 39 percent of global annual greenhouse gas emissions
- Kenya's mitigation and adaptation actions seek to lower greenhouse gas emissions by 30% by 2030
- The country's 2019 Population and Housing Census revealed that 19.3% of Kenyan homes used solar power indicating a high sense of the populace towards green buildings hence the unexplored market
- As at June 2022, 25 new green buildings had been certified compared to 43 in 2021in the country. In 2020, the certified green buildings were 20 depicting a 100 percent rise in 2021.
- An overwhelming 71% of Africans indicated that energy efficiency was very important to them compared to 42% globally ~ Knight Frank's 2021 Global Buyer Survey
- 29% of Africans would prefer a greener home and are willing to pay more for it compared to 27% globally informing on green mortgages

- Environmental, Social and Governance (ESG) is taking precedence over other considerations for African home buyers
- First time buyers and homeowners gravitating towards top quality homes, with amenities such as access to green space and reliable high-speed digital connectivity topping considerations at 64% and 72%
- Interestingly, rightsizing emerged as the key feature in future buying intentions with 22% of the African population citing upgrading family's primary residence as the main motivation towards buying a house
- The standout differences is the apparent need for African homebuyers to live in the suburbs (57%). Globally this figure was lower at 33%.

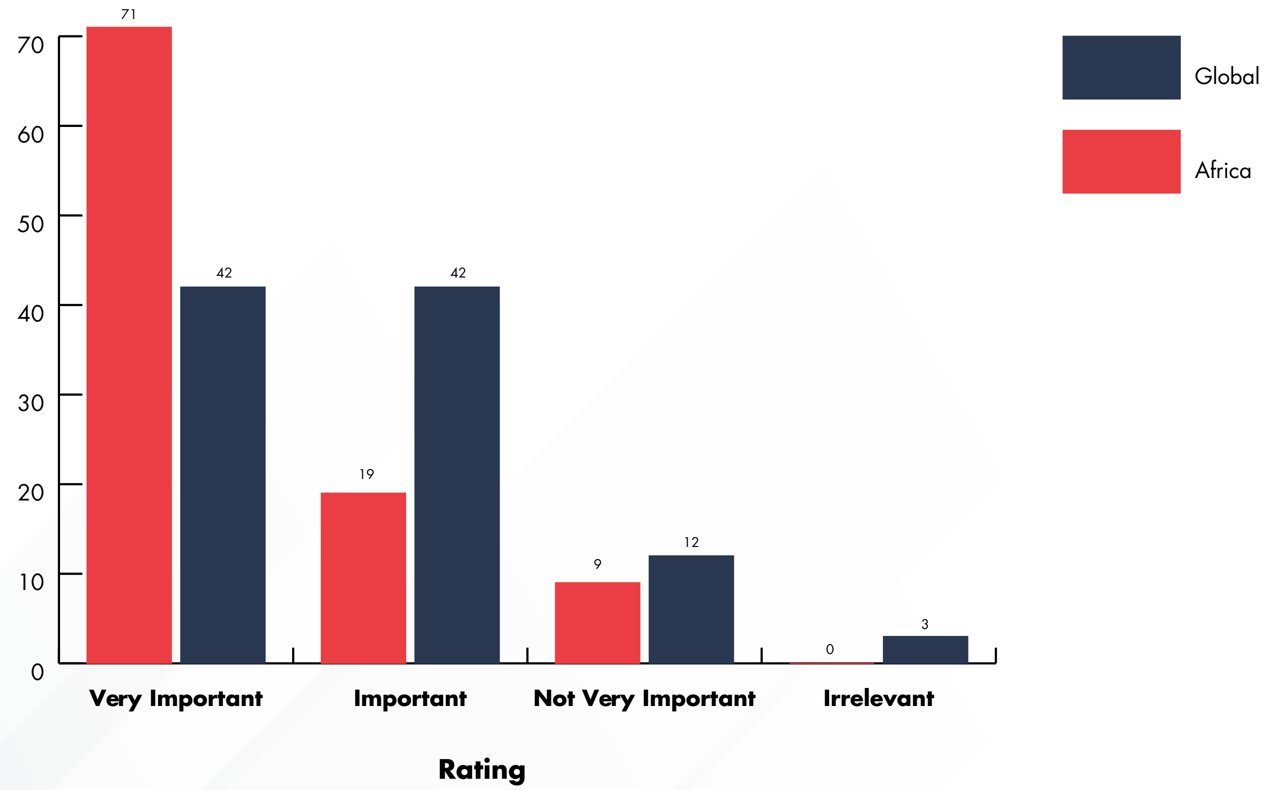
- Green homes incorporate resource-efficient features that give 53% energy-savings, 42% Water Savings and 35% Carbon Savings.
- Greater incentives for investment in green homes could turn Kenya's housing shortage into an opportunity
- Shelter Afrique has committed to certifying 4,416 affordable housing units with EDGE, a global green building certification system, in line with its 2021-2025 corporate strategy
- UK has invested to deliver approximately 10,000 new green housing units, which are affordable to many low-income families in Kenya

GREEN PROPERTIES

As the need to cut carbon emissions by businesses rise, real estate developers are increasingly positioning their buildings as green in the fight to win the environment-conscious buyer.

An overwhelming 90% of African respondents in Knight Frank's 2021 Global Buyer Survey indicated that energy efficiency was important to them compared to 84% globally.

Prefence of energy efficient homes

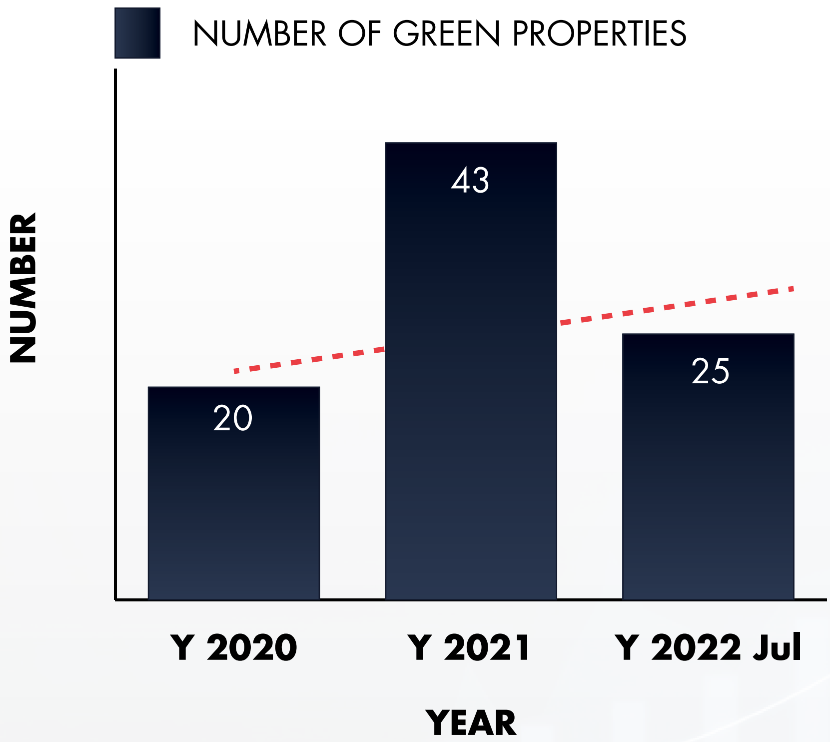


Knight Frank 2021; KMRC Research

The Knight Frank survey further indicated that 29% of the respondents in Africa would prefer a greener home and be willing to pay more for it compared to 27% globally. This indicates that the emerging global trends has driven a shift in attitudes amongst African home buyers.

According to the United Nations (UN) Environmental Programme, Real estate is estimated to contribute 39% of total global emissions. About 11% of these emissions are generated by manufacturing materials used in buildings including steel and cement, while the rest is emitted from buildings themselves and by generating the energy that powers buildings.

In 2021, there were 43 additional certified green buildings in the country, a 100 percent rise from 2020. Data from Kenya Green Building Society shows there are 25 certified and registered buildings in Kenya in the year to July 2022.



KGBS 2022, KMRC Research

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

Environmental, Social and Governance (ESG) is taking precedence over other considerations for African home buyers. Good air quality, proximity to green space and access to good healthcare were unsurprisingly ranked as the most important location features to home buyers.

We expect these findings will send a strong signal to developers on what buyers want, as the race to sustainability intensifies.

With greater flexibility towards remote working likely to emerge as a lasting legacy from the pandemic, we are seeing first time buyers and homeowners gravitating towards top quality homes, with amenities such as access to green space and reliable high-speed digital connectivity topping considerations at 64% and 72% respectively. This informs the need for green mortgages and full digitized mortgage processes.

Interestingly, rightsizing emerged as the key feature in future buying intentions with 22% of the respondents citing upgrading family's primary residence as the main motivation towards buying a house, while 17% cited downsizing as the main motivation.

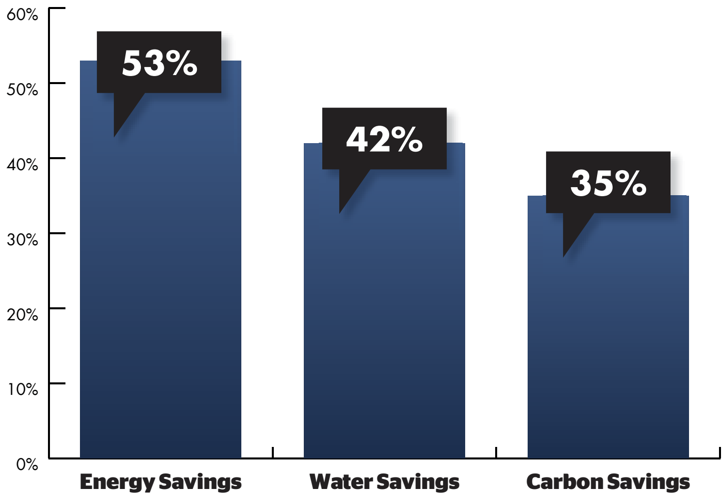
Furthermore, when asked about the type of property they would like to live in, in the future, 50% of respondents in the region said they would be more inclined to buy a rural or country estate; slightly higher than the rest of the world respondents (34%).

Green homes incorporate resource-efficient features that give 53% energy-savings, 42% Water Savings and 35% Carbon Savings.

As a result, buyers globally are focused on funds, investors and developers adopting and embracing ESG (Jones Lang LaSalle Incorporated (JLL), 2021).

As a signatory to the Paris Agreement on combating climate change, Kenya has developed Nationally Determined Contributions (NDCs) that set out the country's mitigation and adaptation actions that seek to lower greenhouse gas emissions by 30% by 2030.

Features of a resource-efficient green home



KGBS 2017,UN Habitat, KMRC Research

Overall, demand is centred on best-in-class space, with investors and occupiers zeroing in on schemes that satisfy their ESG (environmental, social and governance) criteria; a theme we believe will continue to intensify, raising questions about the future of older, more secondary, non ESG compliant stock. Despite this, the number of green certified developments remains low.

BUYERS

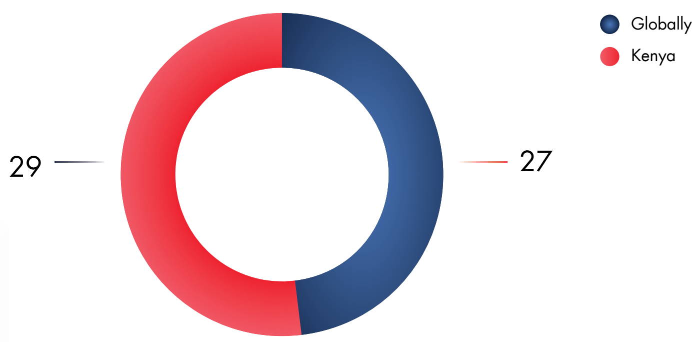
The country's 2019 Population and Housing Census revealed that 19.3% of Kenyan homes used solar power indicating a high sense of affinity towards green buildings hence the unexplored market.

With strict lockdowns imposed in most markets, it is no surprise that employment, healthcare, and children's education also emerged among the biggest motivating factors for African buyers. 34% indicated that they are more likely to purchase a second home, in line with the global average at 33%.

However, one of the standout difference was the apparent need for 57% of African homebuyers to live in the suburbs as opposed to the lower global figure at 33%.

Only 39% of Africans respondents expect the value of their home to increase in the next year compared to 64% globally.

Buyer preferring a greener home and willing to pay for it



Knight Frank 2021; KMRC Research

Data shows people spent 90 percent of their time in buildings, with the analysis done during the pre-Covid period, indicating that the time could be even higher due to hybrid working measures.

DEVELOPERS AND INVESTMENT SENTIMENT

The App, dubbed Jenga Green Library developed by Kenya Green Building Society (KGBS), is a green building material and services directory for displaying the entire supply chain of sustainable building materials and services that reduce environmental pollution.

Belva Home Limited, Acorn holdings, and Executive residency apartments in Kenya featured in Africa logistics partnership on green buildings in Kenya.
Belva Home Limited, for instance, is building a green project, 3408 Belva, a luxury residential property in the Parklands area in Nairobi.

A case study done in South Africa by International Housing Solutions (IHS), a low-income housing developer, shows that annual energy and water cost savings by home buyers in green development equals to one month's rent compared to non-green development as at June, 2022.
As a result, listed firms and capital markets have adopted initiatives such as the Sh5 billion green bond listed by Acorn Holdings on the Nairobi Securities Exchange in 2020 for building student accommodation houses.
A residential and commercial real estate development company, Purple Dot International Ltd, has also unveiled a green building- a mixed-use development that is EDGE Certified with an investment of Sh2.5 billion.
However, the largest demand has been for affordable housing to cater for the 61% of urban dwellers who live in slums and shortage in student accommodation accounting for 40% of the deficit. Therefore, we have witnessed more developers increasingly applying low-cost housing construction methods such as alternative building technologies which are known to reduce construction costs by as much as 50%.
Prices for detached houses recorded an annual positive price change of 5.9 per cent, while prices for semidetached houses and apartments dropped by 0.1 and 0.03 per cent respectively.
Greater incentives for green building could turn Kenya's housing shortage into an opportunity.
Despite COVID-19 restrictions, investment into the affordable residential sector continues to improve. This is being underpinned by the government's commitment to deliver 500,000 homes to address the well-publicised deficit of 2 million homes. In contrast, the prime residential market continues to soften, with transaction volumes, sales prices and lease rates continuing to trend downwards as buyers and tenants become increasingly cost conscious in the wake of the rising cost of living.
Shelter Afrique has committed to certifying 4,416 affordable housing units with EDGE, a global green building certification system, in line with its 2021-2025 corporate strategy
It is estimated that 75% of the housing stock that will exist in 2050 in developing countries is yet to be built.
The UK will channel £35 million (KSh 5.2 billion) investment into a new 10-year locally managed fund, which at full size will deliver approximately 10,000 new green housing units, which are affordable to many low-income families in Kenya.
Green housing units will cost an average of £30,500 (KShs 4.5 million), while rental costs will range between £100 (KSh 15,000) and £350 (Kshs 50,000) per month.
In Kenya, IFC Edge Certification study reveals that 22 green buildings covering 374,334 m^2 save at least $5 million (Kshs 585 million) annually on electricity bills for public buildings by using 20% less energy than conventional buildings.

CASE STUDIES

Nigeria Mortgage Refinance Company

Nigerian building developers have come together to discuss the pathway for a greener Nigeria through the construction industry. Financial institution and mortgage re-finance provider NMRC has pledged to be a leader in pioneering the implementation of EDGE certification in the construction industry. NMRC and the International Finance Corporation (IFC), a member of the World Bank Group, along with the consortium of thinkstep-SGS, the certification provider for EDGE in Nigeria, held two workshops in Lagos and Abuja in 2019 about EDGE adoption and implementation, attended by local government officials and financial institutions.

South Africa Home Loans

South Africa, Affordable Housing Development Finance at Nedbank Corporate and Investment Banking and the Green Fund concluded an agreement to jointly fund the development of about 400 affordable green housing units according to Hofinet.

In South Africa, there is currently one commonly accepted rating of residential homes, the IFC's Excellence in Design for Greater Efficiencies (EDGE) residential rating system. The IFC's local partner is the GBCSA who administers EDGE certification in South Africa. The EDGE certification is awarded after a home uses 20% less energy, water and also reduces the carbon footprint of the house building materials by 20%.

In March 2020, Green Building Council South Africa members Balwin Properties and financial services provider ABSA jointly launched South Africa's first green home loan, the Absa Eco Home Loan. In 2019 Balwin registered 16 000 units located across seven of its built-to-sell developments for EDGE certification. The release of the Absa Eco Home Loan is an exciting first step towards increasing accessibility to green homes.

Using the EDGE software the developer has a cost-effective planning tool that helps to build "green" based on occupant behaviour, building type and the local climate. It is affirmed that Importantly; EDGE registration provides environmentally conscious buyers and tenants with peace of mind that they are minimising their environmental footprint while saving on utility costs over the long term. Absa's Eco Home Loan enhances the benefits of EDGE certification by lowering the cost of finance for customers.

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