Review of the Affordable Housing Program, & Cytonn Weekly #25/2025

Executive Summary:

Fixed Income: During the week, T-bills were oversubscribed for the seventh consecutive week with the overall subscription rate coming in at 114.1%, albeit lower than the subscription rate of 237.4% recorded the previous week. Investors' preference for the shorter 91-day paper waned, with the paper receiving bids worth Kshs 3.7 bn against the offered Kshs 4.0 bn, translating to a subscription rate of 93.6%, significantly lower than the oversubscription rate of 364.9% recorded the previous week. The subscription rates for the 182-day increased slightly to 26.1% from the 25.7% recorded the previous week, while the subscription for the 364-day paper decreased to 210.4% from the 397.9% recorded the previous week. The government accepted a total of Kshs 24.0 bn worth of bids out of Kshs 27.4 bn bids received, translating to an acceptance rate of 87.7%. The yields on the government papers were on a downward trajectory with the yields on the 182-day paper decreasing the most by 1.9 bps to 8.48% from the 8.49% recorded the previous week, while the yields on the 364-day and 91-day papers decreased by 1.1 bps and 1.0 bps to 9.74% and 8.17%, from the 9.75% and 8.18% respectively recorded the previous week;

In the primary bond market, the Central Bank of Kenya released the auction results for the re-opened treasury bonds FXD1/2020/015 and SDB1/2011/030 with tenors to maturity of 9.7 years and 15.7 years respectively, and a fixed coupon rate of 12.8% and 12.0% respectively. The bonds were oversubscribed, with the overall subscription rate coming in at 202.7%, receiving bids worth Kshs 101.4 bn against the offered Kshs 50.0 bn. The government accepted bids worth Kshs 71.6 bn, translating to an acceptance rate of 70.7%. The weighted average yield for the accepted bids for the FXD1/2020/015 and SDB1/2011/030 came in at 13.5% and 14.0% respectively, falling within our expected bidding range of 13.25%-14.25% for the SDB1/2011/030. Notably, the 13.5% and 14.0% on the FXD1/2022/015 and SDB1/2011/030 respectively was higher than the 12.5% and 13.8% respectively the last time they were reopened in September 2020 and September 2014 respectively. With the Inflation rate at 3.8% as of May 2025, the real returns of the FXD1/2020/015 and SDB1/2011/030 are 9.7% and 10.2%. Given the 10.0% withholding tax on the bonds, the tax equivalent yields for shorter term bonds with 15.0% withholding tax are 14.3% and 14.8% for the FXD1/2020/015 and SDB1/2011/030 respectively;

During the week, the National Treasury gazetted the revenue and net expenditures for the eleventh month of FY'2024/2025, ending 30th May 2025, highlighting that the total revenue collected as at the end of May 2025 amounted to Kshs 2,157.8 bn, equivalent to 83.6% of the revised estimates II of Kshs 2,580.9 bn for FY'2024/2025 and is 91.2% of the prorated estimates of Kshs 2,365.8 bn;

Equities: During the week, the equities market was on a downward trajectory, with NASI losing the most by 1.3%, while NSE 10, NSE 25 and NSE 20 lost by 0.4%, 0.3% and 0.2% respectively, taking the YTD performance to gains of 16.2%, 10.6%, 9.0% and 8.8% for NASI, NSE 20, NSE 10 and NSE 25. The equities market performance was driven by losses recorded by large cap stocks such as Safaricom, KCB and Absa of 2.8%, 2.1% and 1.3% respectively. The performance was however supported by gains recorded by large-cap stocks such as Standard Chartered, EABL and Diamond Trust Bank of 2.6%, 2.2% and 2.1%, respectively;

Additionally, in the regional equities market, the East African Exchanges 20 (EAE 20) share index lost by 30.0 bps, attributable to losses recorded by large cap stocks such as Safaricom PLC, MTN Rwandacell and KCB Group of 7.6%, 4.5% and 1.8% respectively. The performance was however supported by gains recorded by large cap stocks such as ABSA Bank, NMB Bank and Cooperative Bank of Kenya of 1.4%, 1.4% and 1.2% respectively;

Real Estate: During the week, the Central Bank of Kenya released its monthly CEO's survey report, where 61% of respondents said that they were impacted by the recent US tariffs and other policy changes. Stakeholders in the hospitality sector have expressed the negative impacts that President Trump's policies and tariffs have had on the sector, with hotels reporting lower conference bookings from donor funded programs and Non-Governmental Organizations;

During the week the International Finance Corporation (IFC) , the private-sector arm of the World Bank, disbursed Kshs 2.6 bn repayable in 7.0 years to Centum Real Estate, a Kenyan real estate firm to build 1940.0 green, energy-efficient units within Nairobi's Two Rivers "Mizizi" project at the two rivers residential with 600.0 units already sold in phase one;

During the week Kenya's road infrastructure agenda suffered a blow after the National Treasury slashed Kshs 11.7 bn from the road construction budget in the current fiscal year's third supplementary estimates. The revised allocation, presented by Treasury, reduces funding for capital road development to Kshs 124.6 bn in FY'26/25, from Kshs 136.4 bn in FY'24/25, reflecting an 8.6% budget cut driven by below-target revenue performance as the government tries to navigate the current tight budgetary space;

On the Unquoted Securities Platform, Acorn D-REIT and I-REIT traded at Kshs 26.7 and Kshs 22.9 per unit, respectively, as per the last updated data on 23rd May 2025. The performance represented a 33.4% and 14.5% gain for the D-REIT and I-REIT, respectively, from the Kshs 20.0 inception price. Additionally, ILAM Fahari I-REIT traded at Kshs 11.0 per share as of 23rd May 2025, representing a 45.0% loss from the Kshs 20.0 inception price. The volume traded to date came in at 1.2 mn shares for the I-REIT, with a turnover of Kshs 1.5 mn since inception in November 2015;

Focus of the Week: This week, we focus on the Affordable Housing Program in the country. It has been three years since the Kenya Kwanza government assumed office, and one of its key pillars under the Bottom-Up Economic Transformation Agenda (BETA) is providing affordable housing to Kenyans. This housing program builds on initiatives from the previous administration under the Jubilee government's Big Four Agenda, launched in 2017 with the ambitious goal of delivering 1,000,000 housing units by 2022;

Investment Updates:

- Weekly Rates: Cytonn Money Market Fund closed the week at a yield of 13.5% p.a. To invest, dial *809# or download the Cytonn App from Google Play store here or from the Appstore here;
- We continue to offer Wealth Management Training every Tuesday, from 7:00 pm to 8:00 pm. The training aims to grow financial literacy among the general public. To register for any of our Wealth Management Trainings, click here;
- If interested in our Private Wealth Management Training for your employees or investment group, please get in touch with us through wmt@cytonn.com;
- Cytonn Insurance Agency acts as an intermediary for those looking to secure their assets and loved ones' future through insurance namely; Motor, Medical, Life, Property, WIBA, Credit and Fire and Burglary insurance covers. For assistance, get in touch with us through insuranceagency@cytonn.com;
- Cytonn Asset Managers Limited (CAML) continues to offer pension products to meet the needs of both individual clients who want to save for their retirement during their working years and Institutional clients that want to contribute on behalf of their employees to help them build their retirement pot. To more about our pension schemes, kindly get in touch with us through pensions@cytonn.com;

Hospitality Updates:

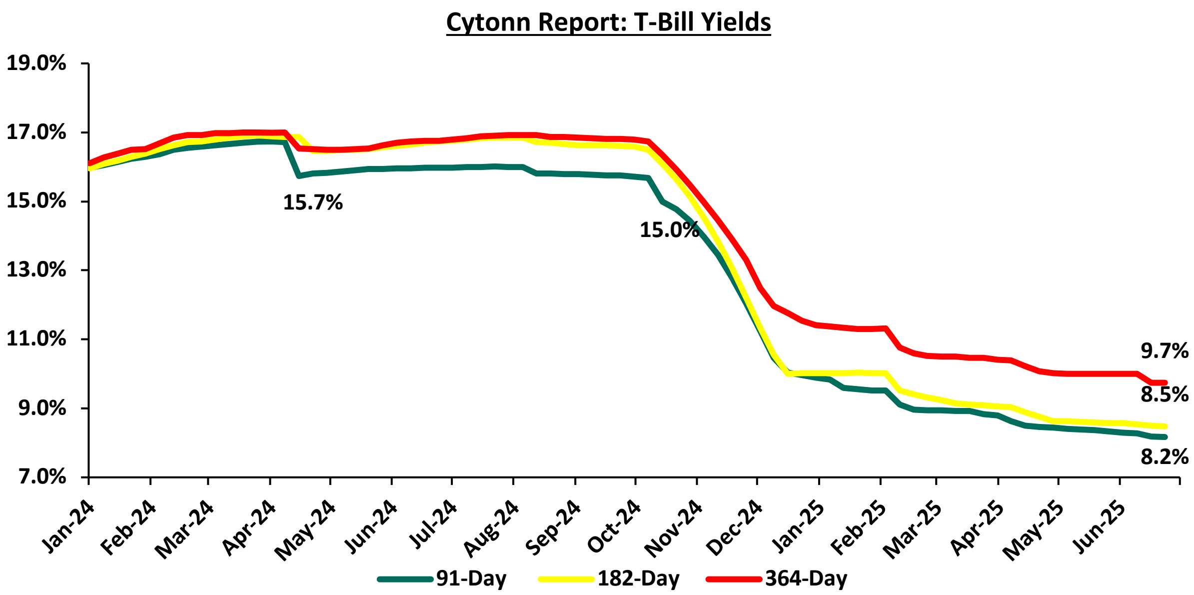
- We currently have promotions for Staycations. Visit cysuites.com/offers for details or email us at sales@cysuites.com;

Fixed Income

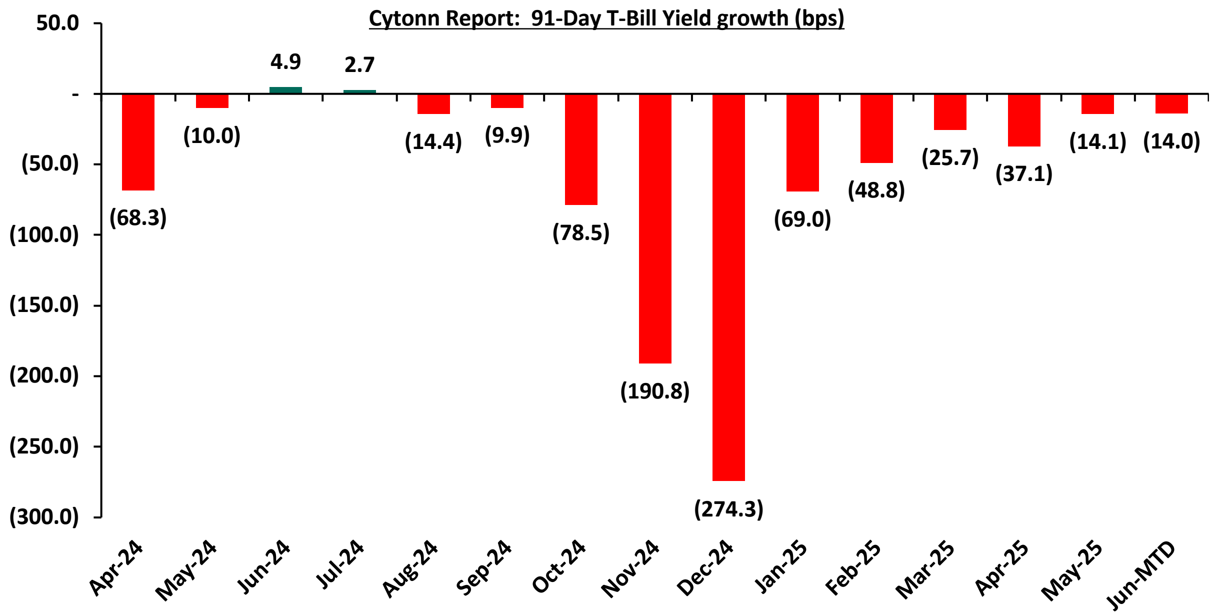
Money Markets, T-Bills Primary Auction:

T-bills were oversubscribed for the seventh consecutive week with the overall subscription rate coming in at 114.1%, albeit lower than the subscription rate of 237.4% recorded the previous week. Investors' preference for the shorter 91-day paper waned, with the paper receiving bids worth Kshs 3.7 bn against the offered Kshs 4.0 bn, translating to a subscription rate of 93.6%, significantly lower than the oversubscription rate of 364.9% recorded the previous week. The subscription rates for the 182-day increased slightly to 26.1% from the 25.7% recorded the previous week, while the subscription for the 364-day paper decreased to 210.4% from the 397.9% recorded the previous week. The government accepted a total of Kshs 24.0 bn worth of bids out of Kshs 27.4 bn bids received, translating to an acceptance rate of 87.7%. The yields on the government papers were on a downward trajectory with the yields on the 182-day paper decreasing the most by 1.9 bps to 8.48% from the 8.49% recorded the previous week, while the yields on the 364-day and 91-day papers decreased by 1.1 bps and 1.0 bps to 9.74% and 8.17%, from the 9.75% and 8.18% respectively recorded the previous week.

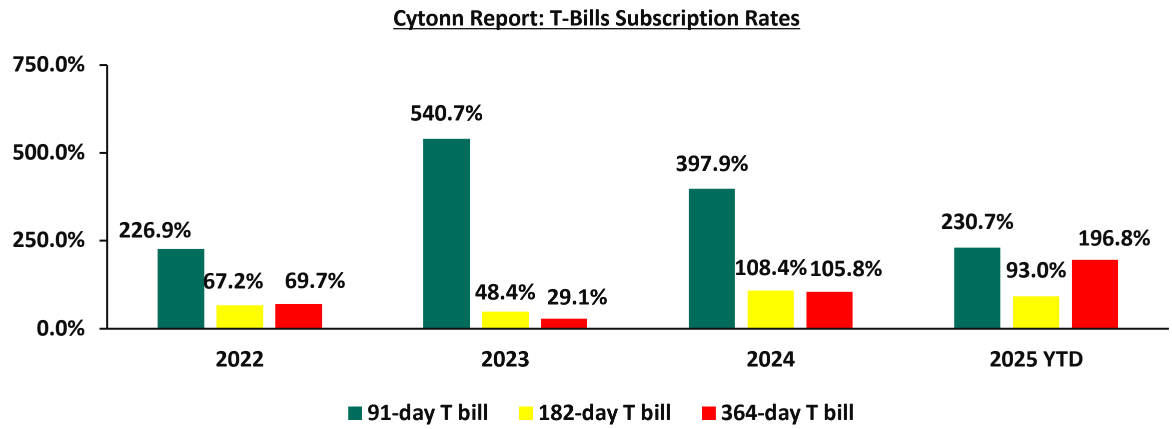
The chart below shows the yield performance of the 91-day, 182-day and 364-day papers over the period;



The chart below shows the yield growth for the 91-day T-bill:



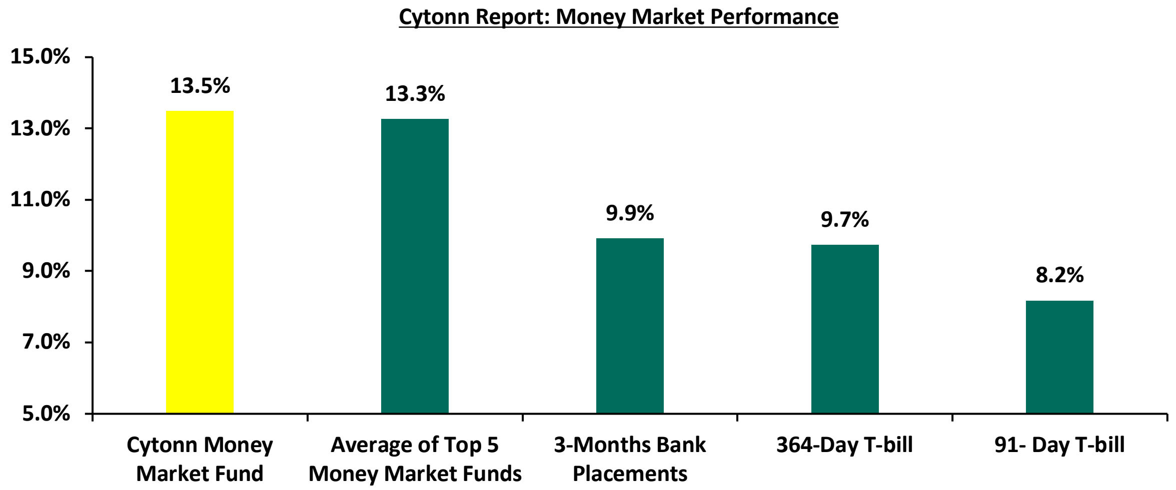
The chart below compares the overall average T-bill subscription rates obtained in 2022,2023, 2024 and 2025 Year-to-date (YTD):



In the primary bond market, the Central Bank of Kenya released the auction results for the re-opened treasury bonds FXD1/2020/015 and SDB1/2011/030 with tenors to maturity of 9.7 years and 15.7 years respectively, and a fixed coupon rate of 12.8% and 12.0% respectively. The bonds were oversubscribed, with the overall subscription rate coming in at 202.7%, receiving bids worth Kshs 101.4 bn against the offered Kshs 50.0 bn. The government accepted bids worth Kshs 71.6 bn, translating to an acceptance rate of 70.7%. The weighted average yield for the accepted bids for the FXD1/2020/015 and SDB1/2011/030 came in at 13.5% and 14.0% respectively, falling within our expected bidding range of 13.25%-14.25% for the SDB1/2011/030. Notably, the 13.5% and 14.0% on the FXD1/2022/015 and SDB1/2011/030 respectively was higher than the 12.5% and 13.8% respectively the last time they were reopened in September 2020 and September 2014 respectively. With the Inflation rate at 3.8% as of May 2025, the real returns of the FXD1/2020/015 and SDB1/2011/030 are 9.7% and 10.2%. Given the 10.0% withholding tax on the bonds, the tax equivalent yields for shorter term bonds with 15.0% withholding tax are 14.3% and 14.8% for the FXD1/2020/015 and SDB1/2011/030 respectively.

Money Market Performance:

In the money markets, 3-month bank placements ended the week at 9.9% (based on what we have been offered by various banks) and the yields on the government papers were on a downward trajectory with the yields on 364-day and 91-day papers decreasing by 1.1 bps and 1.0 bps respectively to 9.7% and 8.2% from the 9.8% and 8.2% respectively recorded the previous week. The yield on the Cytonn Money Market Fund decreased by 2.0 bps to remain relatively unchanged from the 13.5% recorded the previous week, while the average yields on the Top 5 Money Market Funds decreased by 3.6 bps to remain relatively unchanged from the 13.3% recorded the previous week.



The table below shows the Money Market Fund Yields for Kenyan Fund Managers as published on 20th June 2025:

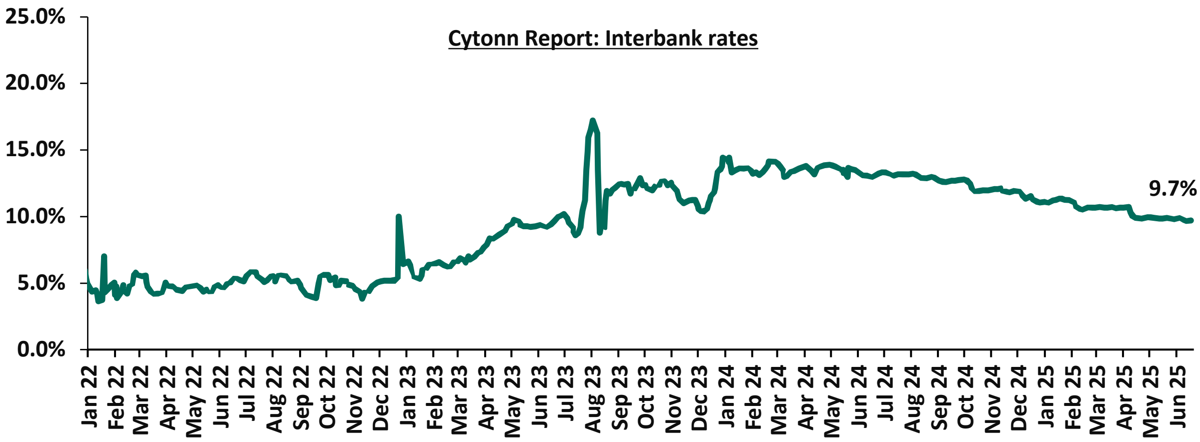
Cytonn Report: Money Market Fund Yield for Fund Managers as published on 20th June 2025		
Rank	Fund Manager	Effective Annual Rate
1.	Gulfcap Money Market Fund	13.9%
2.	Cytonn Money Market Fund (Dial *809# or download Cytonn App)	13.5%
3.	Ndovu Money Market Fund	13.1%
4.	Orient Kasha Money Market Fund	13.0%
5.	Kuza Money Market fund	12.9%
6.	GenAfrica Money Market Fund	12.8%
7.	Lofty-Corban Money Market Fund	12.7%
8.	Etica Money Market Fund	12.7%
9	Arvocap Money Market Fund	12.0%
10.	Nabo Africa Money Market Fund	11.6%
11.	Enwealth Money Market Fund	11.5%
12.	Jubilee Money Market Fund	11.3%
13.	Madison Money Market Fund	11.3%
14.	Old Mutual Money Market Fund	11.3%
15.	British-American Money Market Fund	11.1%
16.	Faulu Money Market Fund	10.6%
17.	Apollo Money Market Fund	10.5%
18.	Sanlam Money Market Fund	10.3%
19.	Dry Associates Money Market Fund	10.2%
20.	KCB Money Market Fund	10.1%
21.	CIC Money Market Fund	9.9%
22.	Genghis Money Market Fund	9.8%
23.	Mali Money Market Fund	9.7%
24.	Absa Shilling Money Market Fund	9.7%
25.	ICEA Lion Money Market Fund	9.6%
26.	Co-op Money Market Fund	9.4%
27.	Equity Money Market Fund	9.0%
28.	Mayfair Money Market Fund	8.4%

29.	AA Kenya Shillings Fund	8.0%
30.	Stanbic Money Market Fund	7.2%
31.	Ziidi Money Market Fund	7.1%

Source: Business Daily

Liquidity:

During the week, liquidity in the money markets marginally eased, with the average interbank rate decreasing by 0.4 bps, to remain relatively unchanged from the 9.7% recorded the previous week, partly attributable to tax remittances that were offset by government payments. The average interbank volumes traded decreased significantly by 74.4% to Kshs 4.5 bn from Kshs 17.5 bn recorded the previous week. The chart below shows the interbank rates in the market over the years:



Kenya Eurobonds:

During the week, the yields on Kenya's Eurobonds were on an upward trajectory driven by heightened investor concerns over recent demonstrations with the yield on the 13-year Eurobond issued in 2021 increasing the most by 45.3 bps to 10.0% from the 9.6% recorded the previous week. The table below shows the summary performance of the Kenyan Eurobonds as of 19th June 2025;

Cytonn Report: Kenya Eurobond Performance							
	2018		2019		2021	2024	2025
Tenor	10-year issue	30-year issue	7-year issue	12-year issue	13-year issue	7-year issue	11-year issue
Amount Issued (USD)	1.0 bn	1.0 bn	0.9 bn	1.2 bn	1.0 bn	1.5 bn	1.5 bn
Years to Maturity	2.7	22.7	1.9	6.9	9.0	5.7	10.7
Yields at Issue	7.3%	8.3%	7.0%	7.9%	6.2%	10.4%	9.9%
02-Jan-25	9.1%	10.3%	8.5%	10.1%	10.1%	10.1%	9.95%
02-Jun-25	8.7%	10.8%	-	10.0%	10.1%	9.9%	
12-Jun-25	8.2%	10.4%	-	9.4%	9.6%	9.3%	
13-Jun-25	8.5%	10.5%	-	9.5%	9.7%	9.4%	
16-Jun-25	8.5%	10.6%	-	9.7%	9.9%	9.6%	
17-Jun-25	8.4%	10.6%	-	9.7%	9.9%	9.6%	
18-Jun-25	8.5%	10.6%	-	9.7%	9.9%	9.6%	
19-Jun-25	8.5%	10.7%	-	9.8%	10.0%	9.7%	
Weekly Change	0.3%	0.2%	-	0.4%	0.5%	0.4%	-
MTD Change	(0.2%)	(0.1%)	-	(0.2%)	(0.1%)	(0.2%)	-
YTD Change	(0.5%)	0.4%	-	(0.3%)	(0.1%)	(0.4%)	-

Source: Central Bank of Kenya (CBK) and National Treasury

Kenya Shilling:

During the week, the Kenyan Shilling depreciated marginally against the US Dollar by 2.6 bps, to Kshs 129.3 from the Kshs 129.2 recorded the previous week. On a year-to-date basis, the shilling has appreciated by 2.5 bps against the dollar, compared to the 17.4% appreciation recorded in 2024.

We expect the shilling to be supported by:

i. Diaspora remittances standing at a cumulative USD 5,033.0 mn in the twelve months to May 2025, 11.6% higher than the USD 4,510.0 mn recorded over the same period in 2024. These has continued to cushion the shilling against further depreciation. In the May 2025 diaspora remittances figures, North America remained the largest source of remittances to Kenya accounting for 57.0% in the period,

ii. The tourism inflow receipts which came in at Kshs 452.2 bn in 2024, a 19.8% increase from Kshs 377.5 bn inflow receipts recorded in 2023, and owing to tourist arrivals that improved by 8.0% to 2,303,028 in the 12 months to February 2025 from 2,133,612 in the 12 months to February 2024 and,

iii. Improved forex reserves currently at USD 10.9 bn (equivalent to 4.8-months of import cover), which is above the statutory requirement of maintaining at least 4.0-months of import cover and above the EAC region's convergence criteria of 4.5-months of import cover.

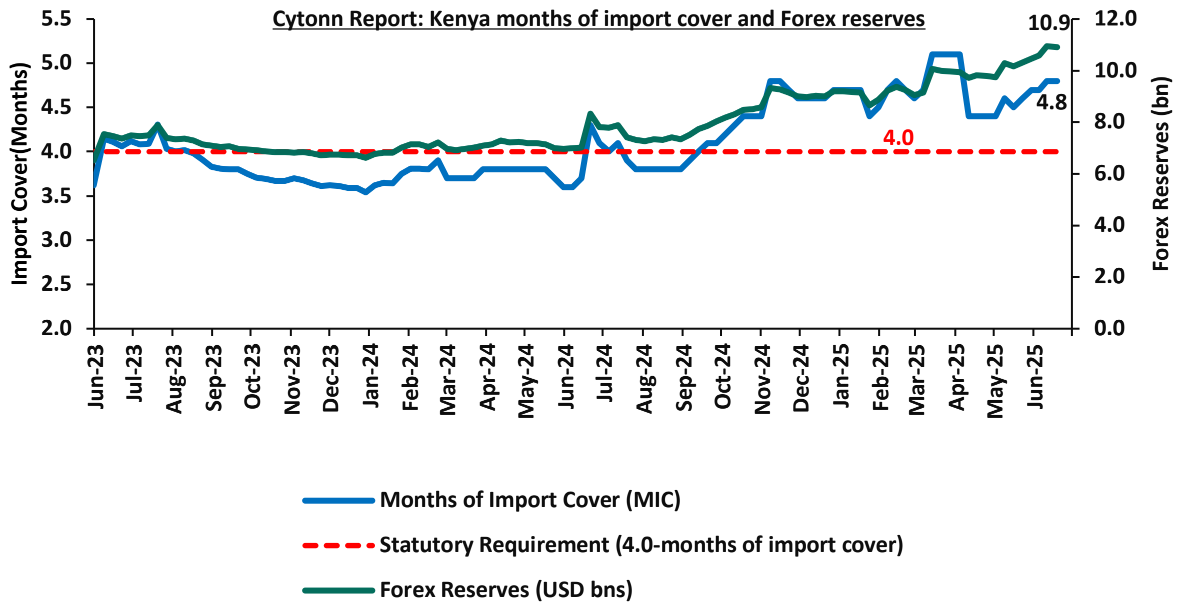
The shilling is however expected to remain under pressure in 2025 as a result of:

i. An ever-present current account deficit which came at 1.8% of GDP in the twelve months to April 2025, and,

ii. The need for government debt servicing, continues to put pressure on forex reserves given that 62.0% of Kenya's external debt is US Dollar-denominated as of December 2024.

Key to note, Kenya's forex reserves decreased by 0.3% during the week, to remain relatively unchanged from the USD 10.9 bn recorded in the previous week, equivalent to 4.8 months of import cover), and above the statutory requirement of maintaining at least 4.0-months of import cover and above the EAC region's convergence criteria of 4.5-months of import cover.

The chart below summarizes the evolution of Kenya's months of import cover over the years:



Weekly Highlights

I. Exchequer Highlight May 2025 Release

The National Treasury gazetted the revenue and net expenditures for the eleventh month of FY'2024/2025, ending 30th May 2025. Below is a summary of the performance:

FY'2024/2025 Budget Outturn - As at 30th May 2025							
Amounts in Kshs Billions unless stated otherwise							
Item	**12-months Original Estimates**	**Revised Estimates I**	**Revised Estimates II**	**Actual Receipts/Release**	**Percentage Achieved of the Revised Estimates II**	**Prorated**	**% achieved of the Prorated**
Opening Balance				1.2			
Tax Revenue	2,745.2	2,475.1	2,400.7	2,011.4	**83.8%**	**2,200.7**	**91.4%**
Non-Tax Revenue	172.0	156.4	180.2	145.2	**80.6%**	**165.2**	**87.9%**
Total Revenue	**2,917.2**	**2,631.4**	**2,580.9**	**2,157.8**	**83.6%**	**2,365.8**	**91.2%**
External Loans & Grants	571.2	593.5	718.4	426.1	**59.3%**	**658.5**	**64.7%**
Domestic Borrowings	828.4	978.3	1,167.0	932.9	**79.9%**	**1,069.8**	**87.2%**
Other Domestic Financing	4.7	4.7	8.5	4.4	**52.1%**	**7.8**	**56.9%**
Total Financing	**1,404.3**	**1,576.5**	**1,894.0**	**1,363.4**	**72.0%**	**1,736.1**	**78.5%**
Recurrent Exchequer issues	1,348.4	1,307.9	1,412.7	1,263.1	**89.4%**	**1,294.9**	**97.5%**
CFS Exchequer Issues	2,114.1	2,137.8	2,289.0	1,637.0	**71.5%**	**2,098.3**	**78.0%**
Development Expenditure & Net Lending	458.9	351.3	354.9	264.8	**74.6%**	**325.4**	**81.4%**
County Governments + Contingencies	400.1	410.8	418.3	354.3	**84.7%**	**383.4**	**92.4%**
Total Expenditure	**4,321.5**	**4,207.9**	**4,474.9**	**3,519.2**	**78.6%**	**4,102.0**	**85.8%**
Fiscal Deficit excluding Grants	**1,404.3**	**1,576.5**	**1,894.0**	**1,361.4**	**71.9%**	**1,736.1**	**78.4%**
Total Borrowing	**1,399.6**	**1,571.8**	**1,885.4**	**1,359.0**	**72.1%**	**1,728.3**	**78.6%**
Public Debt	**1,910.5**	**1,910.5**	**2,042.1**	**1,448.1**	**70.9%**	**1,871.9**	**77.4%**

Amounts in Kshs bn unless stated otherwise

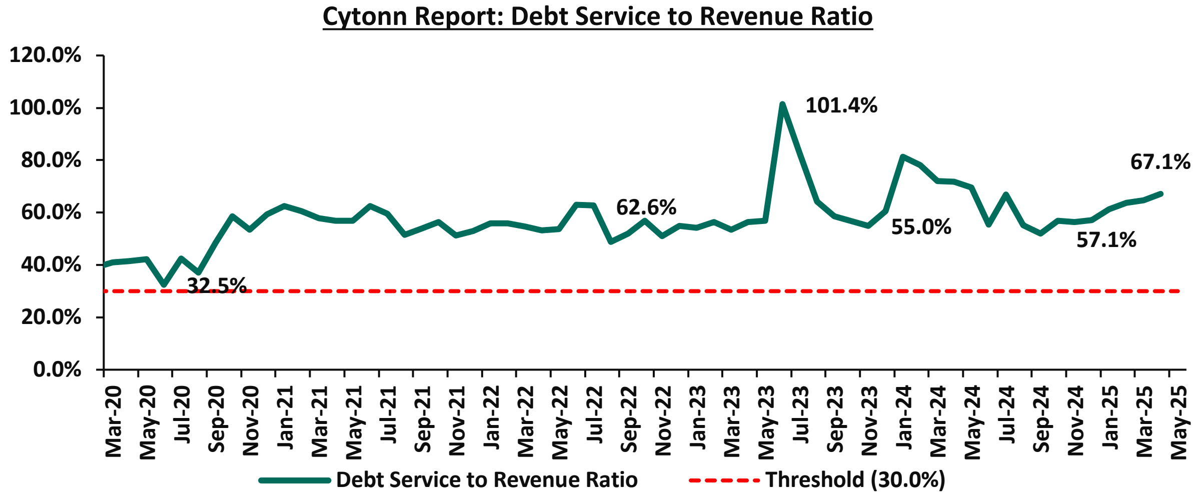
The Key take-outs from the release include;

a. Total revenue collected as at the end of May 2025 amounted to Kshs 2,157.8 bn, equivalent to 83.6% of the revised estimates II of Kshs 2,580.9 bn for FY'2024/2025 and is 91.2% of the prorated estimates of Kshs 2,365.8bn. Cumulatively, tax revenues amounted to Kshs 2,011.4 bn, equivalent to 83.8% of the revised estimates II of Kshs 2,400.7 bn and 91.4% of the prorated estimates of Kshs 2,200.7 bn,

b. Total financing amounted to Kshs 1,363.4 bn, equivalent to 72.0% of the revised estimates II of Kshs 1,894.0 bn and is equivalent to 78.5% of the prorated estimates of Kshs 1,736.1 bn. Additionally, domestic borrowing amounted to Kshs 932.9 bn, equivalent to 79.9% of the revised estimates II of Kshs 1,167.0 bn and is 87.2% of the prorated estimates of Kshs 1,069.8 bn,

c. The total expenditure amounted to Kshs 3,519.2 bn, equivalent to 78.6% of the revised estimates II of Kshs 4,474.9 bn, and is 85.8% of the prorated target expenditure estimates of Kshs 4,102.0 bn. Additionally, the net disbursements to recurrent expenditures came in at Kshs 1,263.1 bn, equivalent to 89.4% of the revised estimates II of Kshs 1,412.7 and are equivalent to 97.5% of the prorated estimates of Kshs 1,294.9 bn,

d. Consolidated Fund Services (CFS) Exchequer issues came in at Kshs 1,637.0 bn, equivalent to 71.5% of the revised estimates II of Kshs 2,289.0 bn, and are 78.0% of the prorated amount of Kshs 2,098.3 bn. The cumulative public debt servicing cost amounted to Kshs 1,448.1 bn which is 70.9% of the revised estimates II of Kshs 2,042.1 bn, and is 77.4% of the prorated estimates of Kshs 1,871.9 bn. Additionally, the Kshs 1,448.1 bn debt servicing cost is equivalent to 67.1% of the actual cumulative revenues collected as at the end of May 2025. The chart below shows the debt servicing cost to revenue ratio over the period;



e. Total Borrowings as at the end of May 2025 amounted to Kshs 1,359.0 bn, equivalent to 72.1% of the revised estimates II of Kshs 1,885.4 bn for FY'2024/2025 and are 78.6% of the prorated estimates of Kshs 1,728.3 bn. The cumulative domestic borrowing of Kshs 1,167.0 bn comprises of Net Domestic Borrowing Kshs 597.2 bn and Internal Debt Redemptions (Rollovers) Kshs 569.9 bn.

The government missed its prorated revenue targets for the eleventh consecutive month in FY'2024/2025, however registering a significant performance, achieving 91.2% of the prorated revenue targets in May 2025. The shortfall is largely due to the challenging business environment experienced in previous months with the Purchasing Managers' Index (PMI), averaging at 49.2, below the 50.0 neutral mark, in the first half of the FY'2024/2025, exacerbated by high taxes and an elevated cost of living. However, the cost of credit has seemingly declined, providing some relief to businesses and households. The improved business environment is reflected in the Purchasing Managers' Index (PMI), which has averaged at 50.9 in the second half of FY'2024/25 so far. The PMI however dipped to 49.6 in May from 52.0 in April, signaling a slight contraction in private-sector output after seven months of expansion. While efforts to enhance revenue collection, such as broadening the tax base, curbing tax evasion, and suspending tax relief payments, are yet to yield full benefits, future revenue performance will depend on how quickly private sector activity gains momentum. This is expected to be supported by a stable Shilling, lower borrowing costs, and continued efforts to enhance economic growth. The reduction in the Central Bank Rate (CBR) by 25 basis points to 9.75% from 10.00%, following the Monetary Policy Committee's (MPC) meeting on June 10th, 2025, is expected to further ease credit conditions and support private sector expansion.

Rates in the Fixed Income market have been on a downward trend due to high liquidity in the money market which allowed the government to front load most of its borrowing. The government is 83.2% ahead of its prorated net domestic borrowing target of Kshs 585.7 bn, and 79.6% ahead of the total FY'2024/25 net domestic borrowing target of Kshs 597.2 bn, having a net borrowing position of Kshs 1,072.0 bn (inclusive of T-bills). However, we expect a stabilization of the yield curve in the short and medium term, with the government looking to increase its external borrowing to maintain the fiscal surplus, hence alleviating pressure in the domestic market. As such, we expect the yield curve to stabilize in the short to medium-term and hence investors are expected to shift towards the long-term papers to lock in the high returns

Equities

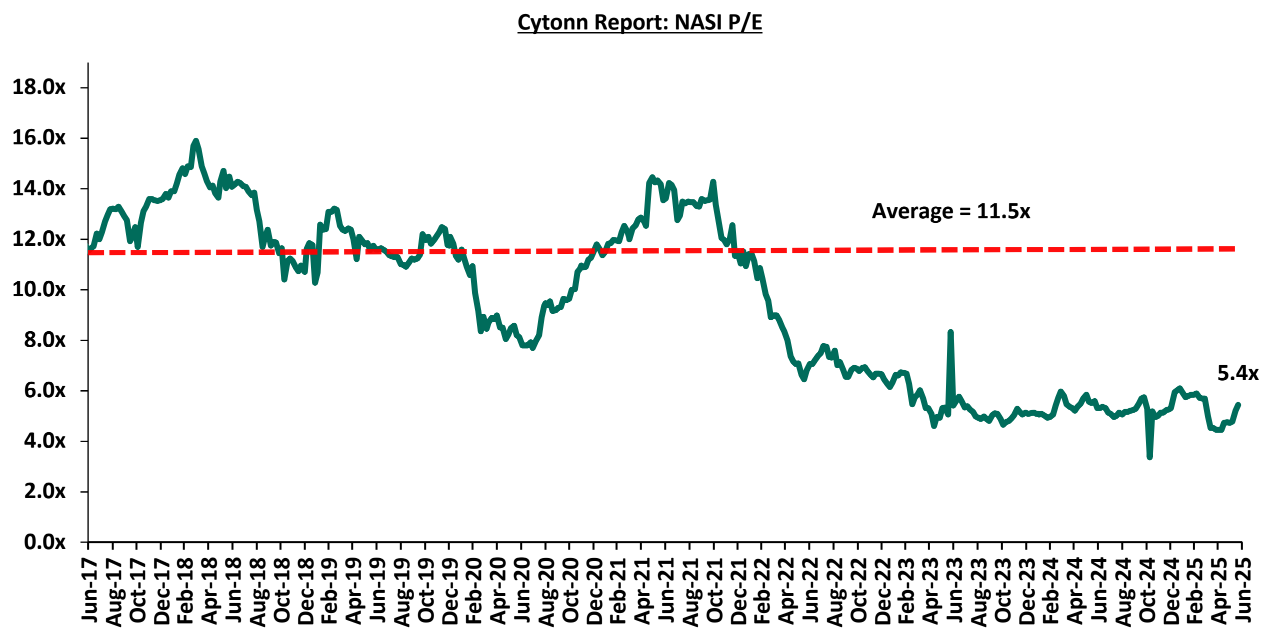
Market Performance

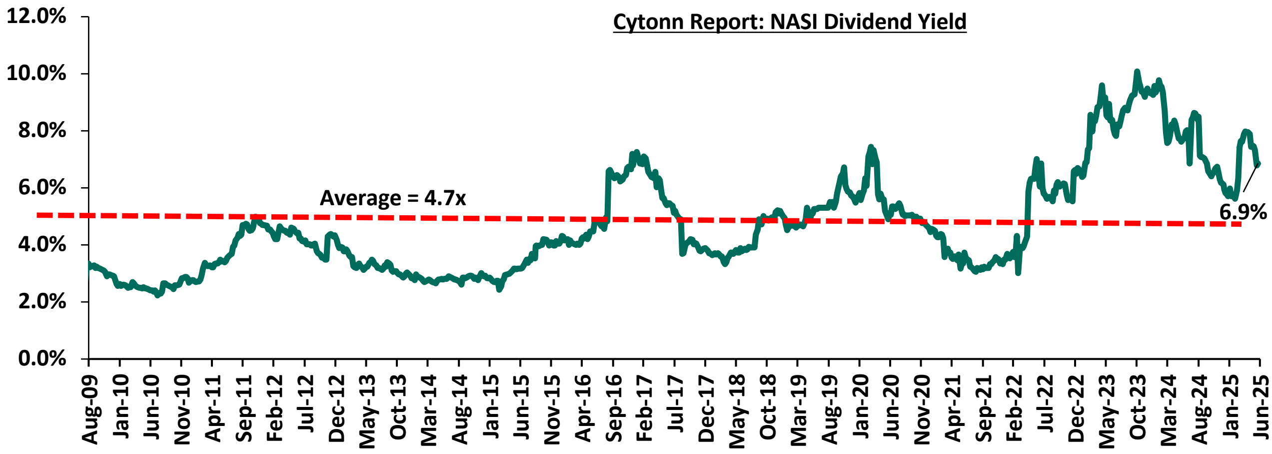
During the week, the equities market was on a downward trajectory, with NASI losing the most by 1.3% while NSE 10, NSE 25 and NSE 20 lost by 0.4%, 0.3% and 0.2% respectively, taking the YTD performance to gains of 16.2%, 10.6%, 9.0% and 8.8% for NASI, NSE 20, NSE 10 and NSE 25. The equities market performance was driven by losses recorded by large cap stocks such as Safaricom, KCB and Absa of 2.8%, 2.1% and 1.3% respectively. The performance was however supported by gains recorded by large-cap stocks such as Standard Chartered, EABL and Diamond Trust Bank of 2.6%, 2.2% and 2.1%, respectively.

Additionally, in the regional equities market, the East African Exchanges 20 (EAE 20) share index lost by 30.0 bps, attributable to losses recorded by large cap stocks such as Safaricom PLC, MTN Rwandacell and KCB Group of 7.6%, 4.5% and 1.8% respectively. The performance was however supported by gains recorded by large cap stocks such as ABSA Bank, NMB Bank and Cooperative Bank of Kenya of 1.4%, 1.4% and 1.2% respectively.

During the week, equities turnover decreased by 58.7% to USD 19.1 mn, from USD 46.1 mn recorded the previous week, taking the YTD total turnover to USD 405.3 mn. Foreign investors remained net buyers for the second consecutive time, with a net buying position of USD 3.2 mn, from a net buying position of USD 2.3 mn recorded the previous week, taking the YTD foreign net selling position to USD 28.0 mn, compared to a net selling position of USD 16.9 mn in 2024.

The market is currently trading at a price-to-earnings ratio (P/E) of 5.4x, 52.6% below the historical average of 11.5x. The dividend yield stands at 6.9%, 2.2% points above the historical average of 4.7%. Key to note, NASI's PEG ratio currently stands at 0.7x, an indication that the market is undervalued relative to its future growth. A PEG ratio greater than 1.0x indicates the market is overvalued while a PEG ratio less than 1.0x indicates that the market is undervalued. The charts below indicate the historical P/E and dividend yields of the market;





Universe of Coverage:

Cytonn Report: Equities Universe of Coverage										
Company	Price as at 13/06/2026	Price as at 20/06/2025	w/w change	YTD Change	Year Open 2025	Target Price*	Dividend Yield	Upside/ Downside **	P/TBv Multiple	Recommendation
Equity Group	45.4	46.2	1.8%	(3.9%)	48.0	58.0	9.2%	34.9%	**0.8x**	**Buy**
Standard Chartered Bank	275.8	283.0	2.6%	(0.8%)	285.3	328.8	15.9%	32.1%	**1.6x**	**Buy**
Diamond Trust Bank	72.5	74.0	2.1%	10.9%	66.8	90.4	9.5%	31.6%	**0.3x**	**Buy**
KCB Group	44.6	43.6	(2.1%)	2.8%	42.4	53.7	6.9%	30.0%	**0.5x**	**Buy**
Stanbic Holdings	161.8	160.3	(0.9%)	14.7%	139.8	185.8	12.9%	28.9%	**1.0x**	**Buy**
Co-op Bank	16.7	16.7	(0.3%)	(4.6%)	17.5	18.9	9.0%	22.5%	**0.6x**	**Buy**
I&M Group	34.0	34.3	0.9%	(4.7%)	36.0	39.0	8.7%	22.4%	**0.6x**	**Buy**
ABSA Bank	18.9	18.7	(1.3%)	(1.1%)	18.9	21.0	9.4%	22.0%	**1.2x**	**Buy**
Jubilee Holdings	211.3	225.0	6.5%	28.8%	174.8	260.7	6.0%	21.8%	**0.3x**	**Buy**
NCBA	56.0	56.0	0.0%	9.8%	51.0	60.2	9.8%	17.3%	**0.9x**	**Accumulate**
CIC Group	2.9	2.8	(1.4%)	31.8%	2.1	3.1	4.6%	14.5%	**0.8x**	**Accumulate**
Britam	7.7	7.5	(2.9%)	28.2%	5.8	7.5	0.0%	0.5%	**0.7x**	**Lighten**

***Target Price as per Cytonn Analyst estimates**
****Upside/ (Downside) is adjusted for Dividend Yield**
*****Dividend Yield is calculated using FY'2024 Dividends**

We are "Bullish" on the Equities markets in the short term due to current cheap valuations, lower yields on short-term government papers and expected global and local economic recovery, and, "Neutral" in the long term due to persistent foreign investor outflows. With the market currently trading at a discount to its future growth (PEG Ratio at 0.7x), we believe that investors should reposition towards value stocks with strong earnings growth and that are trading at discounts to their intrinsic value. We expect the current high foreign investors sell-offs to continue weighing down the economic outlook in the short term.

Real Estate

I. Residential Sector

During the week the International Finance Corporation (IFC), the private-sector arm of the World Bank, disbursed Kshs 2.6 bn repayable in 7.0 years to Centum Real Estate, a Kenyan real estate firm to build 1940 units green, energy-efficient homes within Nairobi's Two Rivers "Mizizi" project at the two rivers residential project.

The move is seen as a vote of confidence by IFC in the Centum's Kshs 91.0 bn development, covering about 20.0% of the total project cost which stands at Kshs 11.6 bn. The homes, priced between Kshs 1.9 mn and Kshs 10.0 mn for one, two and three bedroom houses which are designed to reduce energy and water use by over 30.0%, utilizing natural lighting and passive cooling systems.

The Centum–IFC housing project is expected to increase home ownership in the Nairobi Metropolitan area in the following ways; (i) With units prices ranging from Kshs 1.9 mn and Kshs 10.0 mn, the project targets a wider income bracket making home ownership more accessible, (ii) Increased Housing Supply as adding 1,940 new residential units, the project will directly addresses the supply shortage in Nairobi's housing market, helping meet growing demand, (iii) Through a demonstration effect, the project's success could inspire additional developers to venture into the affordable housing sector, fostering a competitive market with more options for homebuyers.

IFC's endorsement is critical in the Kenyan real estate market as it (i) Increases access to long term affordable financing which will unlock the potential to develop more affordable and sustainable housing units with less pressure, (ii) boosts investor confidence in the Kenyan Real estate sector that could further attract inflows, (iii) Sets a new benchmark for resource efficient developments in Kenya.

We expect that the continued foreign support for the residential developments in Kenya will; (i) Easen developer financing burden, enabling faster project completion and expansion, (ii) Influence policy as government could shape policies and urban planning frameworks to support sustainable housing development, (iii) Addresses the housing deficit as they support government efforts to reduce Kenya's housing gap.

II. Hospitality Sector

a. Kenyan hospitality sector hit hard by Trump policies as NGOs cut bookings

During the week, the Central Bank of Kenya released its monthly CEO's survey report, where 61.0% of respondents said that they were impacted by the recent US tariffs and other policy changes. Stakeholders in the hospitality sector have expressed the negative impacts that President Trump's policies and tariffs have had on the sector, with hotels reporting lower conference bookings from donor funded programs and Non-Governmental Organizations.

Other firms are likely to face adverse effects from higher import costs for inputs and finished goods, reduced export earnings—particularly to the U.S. following the lapse of the African Growth and Opportunity Act Agreement, increased production costs due to inflationary pressures from rising goods and services prices, and diminished consumer demand driven by lower disposable income resulting from reduced profits and wages.

In January 2025, President Trump issued a 'stop work order' for USAID, halting all foreign aid programs, except those for Israel, Egypt and emergency food aid. Furthermore, Trump announced 10%-50% tariffs on imports from all countries, which has created uncertainty and disrupted trade.

These policies enacted by President Donald Trump will have adverse effects on the hospitality sector in Kenya. However, the government can counter these impacts by employing strategies such as; (a) supporting affected hospitality entities by offering targeted tax breaks or low-interest loans to entities that have been affected by the NGO pullout, (b) engaging in proactive diplomacy with the U.S. government to revise blanket travel advisories and highlight tourist safety, (c) diversification of tourism source markets which will help in reducing dependence on U.S tourists. This can be achieved by strengthening marketing to intra-Africa travelers such as Nigeria and South Africa. Moreover, expanding partnerships with other countries such as China for both business and leisure travel will help in countering the impacts of Trump's policies, (d) Establish a public-private taskforce to track international policy threats such as Trump-era shocks, provide rapid economic impact assessments and coordinate countermeasures.

The ripple effects of Trump-era policies have exposed critical vulnerabilities in Kenya's hospitality sector. What began as foreign policy decisions abroad have swiftly translated into lost revenue, job cuts, and shaken investor confidence at home. However, this disruption also presents an opportunity to rethink Kenya's tourism model, deepen regional and domestic markets and future-proof the industry against external shocks. By combining short-term relief with long-term diversification and innovation, the government can not only stabilize the sector but also reposition it as a more inclusive, resilient, and globally competitive engine of economic growth.

III. Infrastructure sector

During the week, Kenya's road infrastructure agenda has suffered a blow after the National Treasury slashed Kshs 11.7 bn from the road construction budget in the current fiscal year's third supplementary estimates. The revised allocation, presented by Treasury, reduces funding for capital road development to Kshs 124.6 bn in FY'25/26, from Kshs 136.4 bn in FY'24/25, reflecting an 8.6% budget cut driven by below-target revenue performance as the government tries to navigate the current tight budgetary space.

The adjustment affects key road projects with ; (i) entire Kshs 415.0 mn allocation for the 85.0 KM Biretwo-Arror-Chesongoch road was withdrawn., (ii) the Kitale-Morpus road seing a Kshs 500.0 mn cut, (iii) Gilgil-Machinery lost Kshs 107.0 mn, (iv) Molo–Olenguruone lost Kshs 55.8 mn, and Thika-Magumu Kshs 105.0 mn. Funding for low volume seal roads technology, a cost-effective innovation first adopted in 2014 for rural and low-traffic roads, was reduced by over Kshs 1.5 bn.

The Treasury's budget cut of Kshs 11.7 bn from road construction and infrastructure development will slow down development in the real estate sector in Kenya due to the following reasons;

I. Roads are a major enabler of real estate expansion, and with reduced funding for road projects the development of these areas may slow down due to; (i) Limited accessibility for potential homeowners or investors, (ii) Reduced land value appreciation in areas that rely on road upgrades to attract development (iii) Lower investor appetite in new housing schemes where infrastructure lags;
II. Real estate developers depend on government investment in roads and utilities to reduce their own costs. Cuts to public infrastructure budgets may; (i)Force developers to fund access roads and related works themselves, (ii) Delay project timelines as they wait for supporting infrastructure, (iii) Increase sale or rental prices to offset additional costs, undermining affordability;
III. Urban-Rural Real Estate development disparities widen as Many of the affected projects are in counties outside Nairobi, such as Elgeyo Marakwet, Homa Bay, and Nakuru and with reduced funding; (i) Rural towns will struggle to attract real estate investments, (ii) Speculative land buying in rural area will stall, slowing real estate-driven economic activity in regions with high development potential.

Real Estate Investments Trusts (REITs)

On the Unquoted Securities Platform, Acorn D-REIT and I-REIT traded at Kshs 26.7 and Kshs 22.9 per unit, respectively, as per the last updated data on 23rd May 2025. The performance represented a 33.4% and

14.5% gain for the D-REIT and I-REIT, respectively, from the Kshs 20.0 inception price. The volumes traded for the D-REIT and I-REIT came in at Kshs 12.8 mn and Kshs 36.1 mn shares, respectively, with a turnover of Kshs 323.5 mn and Kshs 791.5 mn, respectively, since inception in February 2021. Additionally, ILAM Fahari I-REIT traded at Kshs 11.0 per share as of 23rd May 2025, representing a 45.0% loss from the Kshs 20.0 inception price. The volume traded to date came in at 1.2 mn shares for the I-REIT, with a turnover of Kshs 1.5 mn since inception in November 2015.

REITs offer various benefits, such as tax exemptions, diversified portfolios, and stable long-term profits. However, the ongoing decline in the performance of Kenyan REITs and the restructuring of their business portfolios are hindering significant previous investments. Additional general challenges include:

i. Insufficient understanding of the investment instrument among investors leading to a slower uptake of REIT products,
ii. Lengthy approval processes for REIT creation,
iii. High minimum capital requirements of Kshs 100.0 mn for REIT trustees compared to Kshs 10.0 mn for pension funds Trustees, essentially limiting the licensed REIT Trustee to banks only
iv. The rigidity of choice between either a D-REIT or and I-REIT forces managers to form two REITs, rather than having one Hybrid REIT that can allocate between development and income earning properties
v. Limiting the type of legal entity that can form a REIT to only a trust company, as opposed to allowing other entities such as partnerships, and companies,
vi. We need to give time before REITS are required to list – they would be allowed to stay private for a few years before the requirement to list given that not all companies maybe comfortable with listing on day one, and,
vii. Minimum subscription amounts or offer parcels set at Kshs 0.1 mn for D-REITs and Kshs 5.0 mn for restricted I-REITs. The significant capital requirements still make REITs relatively inaccessible to smaller retail investors compared to other investment vehicles like unit trusts or government bonds, all of which continue to limit the performance of Kenyan REITs.

We expect the performance of Kenya's Real Estate sector to remain resilient supported by several factors: i) heightened activities from both private and government sectors, ii) an expanding population driving the need for housing, iii) government efforts under the Affordable Housing Program and the incentives advanced to developers aligned with the program, iv) an increase in deals in the commercial office sector likely to boost occupancy, v) increased investment by international and local investors in the retail sector, and vi) increased international arrivals in the country boosting the hospitality and tourism sector. However, challenges such as rising construction costs, an oversupply in select Real Estate classes, strain on infrastructure development, and high capital demands in REITs sector will continue to impede the real estate sector's optimal performance by restricting developments and investments.

Focus of the Week: A Review of the Affordable Housing Program

Introduction

It has been three years since the Kenya Kwanza government assumed office, and one of its key pillars under the Bottom-Up Economic Transformation Agenda (BETA) is providing affordable housing to Kenyans. This housing program builds on initiatives from the previous administration under the Jubilee government's Big Four Agenda, launched in 2017 with the ambitious goal of delivering 1,000,000 housing units by 2022.

The continued emphasis on housing by both the current and previous regimes underscores its importance, as outlined in Article 43(1)(b) of the Kenyan Constitution, which states that "every individual has the right to accessible and adequate housing, as well as to reasonable standards of sanitation." The Jubilee government aimed at addressing housing needs both in the supply and the demand side. Some of the key initiatives that took off from the Jubilee government include; i) establishment of the Kenya Mortgage

Refinance Company (KMRC), a non-deposit-taking financial institution mandated to provide long-term loans to Primary Mortgage Lenders, ii) removal of stamp duty for first-time homebuyers purchasing homes under the Affordable Housing Program (AHP), iii) development of 13,529 affordable units, iv) implementation of the Tenant Purchase Scheme (TPS) under the National Housing Corporation, and, iv) elimination of VAT tax for affordable housing programs among others.

During its tenure, the Kenya Kwanza government has focused on strengthening the housing program, addressing both the demand and supply sides. The government aims to deliver 250,000 housing units annually. Consequently, the government wants to achieve this ambitious target through; i) structuring affordable long-term housing finance scheme, including a National Housing Fund and Cooperative Social Housing Schemes, that will guarantee the offtake of houses from developers, ii) growing the number of mortgages from 30,000 to 1,000,000 by enabling low-cost mortgages of Kshs 10,000 and below, and, iii) giving developers incentives to build more affordable housing.

In line with these goals, the government has implemented several notable initiatives. These include the launch of numerous Affordable Housing Programs across the country, the establishment of the Housing Levy through the Affordable Housing Act of 2024, and improved access to KMRC loans. Together, these efforts are aimed at comprehensively addressing the country's housing needs.

Housing remains a significant challenge in the country, and the government must progressively work towards implementing a holistic housing program to address diverse housing needs. With the Affordable Housing Program now in its second year under the Kenya Kwanza government, it is prudent to review its progress and provide necessary recommendations where applicable.

This week, we focus on the Affordable Housing Program in the country, covering the following areas;

i) Review of areas of focus under the Affordable Housing Program,
ii) Key developments under the program,
iii) Challenges faced by the Affordable Housing Program, and
iv) Recommendations, and,
v) Conclusion

Section I: Review of areas of focus under the Affordable Housing Program in Kenya

This section will examine the key areas of focus of the Affordable Housing Program

i) Increasing the supply of affordable housing in the country

One of the key focus areas of the Kenya Kwanza government under its housing agenda is to increase homeownership in the country. Currently, there is a significant housing deficit, with an annual demand of 250,000 housing units far exceeding the current supply of 50,000 units. Moreover, only 2% of these houses cater to low-income earners.

Under the Fourth Medium-Term Plan, the government aims to construct 200,000 housing units annually. Of these, 60,000 units will be financed through government support, while 140,000 units will be funded via the National Housing Development Fund. To address this housing gap, the Kenya Kwanza government has launched various housing projects nationwide.

Under the Affordable Housing Program, housing units are provided in three categories: social housing units, affordable housing units, and market-rate housing units. The Affordable Housing Act defines these categories as follows:

- **Social housing unit**: A house targeted at individuals earning a monthly income below Kshs 20,000.0
- **Affordable housing unit:** A house targeted at individuals earning a monthly income between Kshs 20,000.0 and Kshs 149,000.0

- **Affordable middle-class housing unit:** Housing for middle- to high-income earners, targeted at individuals earning over Kshs 149,000.0 per month.

This categorization ensures that the program addresses the housing needs of various income groups, promoting inclusive homeownership opportunities.

The government plans to allocate housing units in its projects using a ratio of 50:30:20 for affordable housing units, Affordable middle-class housing units, and social housing units, respectively. In its Mid-term scorecard review, the government announced that the program would be implemented across all constituencies, aiming to construct 200 units per constituency. Additionally, the government reported a total of 112,405 housing units as either completed or ongoing, with 730,062 units under the Affordable Housing Program.

ii) Increasing access to mortgages

Under the Affordable Housing Program, the government is also focusing on stimulating demand by increasing access to mortgages through key institutions such as the Kenya Mortgage Refinance Company (KMRC) and the National Housing Corporation (NHC). The program aims to grow the number of mortgages from 30,000 to 1,000,000 by offering low-cost mortgages of Kshs 10,000 and below.

The Kenya Mortgage Refinance Company (KMRC) plays a crucial role in disbursing mortgages to Primary Mortgage Lenders (PMLs), who then advance home loans to Kenyans. KMRC, a treasury-backed financial institution, does not accept deposits. It was established in 2018 under the Companies Act, 2015, and received its operating license from the Central Bank of Kenya (CBK) in September 2020.

KMRC provides concessional, fixed, long-term financing to PMLs, including banks and SACCOs, enabling them to extend affordable mortgages to Kenyans, particularly moderate- to low-income earners. As of December 2024, KMRC had refinanced Kshs 13.9 bn to 12 PMLs, helping 3,855 Kenyans access affordable mortgages at concessional fixed rates ranging from 7.0% to 9.9%, compared to the industry average of 14.3%.

The National Housing Corporation (NHC) is also mandated to increase access to financing for homebuyers through various loan products. These include rural and peri-urban loans, which offer a maximum repayment period of up to 10 years. The loans are capped at a maximum of Kshs 5 mn for a single-family unit and Kshs 10 mn for multi-family dwellings. Currently, the loans carry an interest rate of 13.0% per annum on a reducing balance basis.

iii) Creation of job opportunities

Unemployment is one of the biggest challenges faced in Kenya. As the government focuses on increasing housing supply and expanding access to mortgages, job creation remains a key priority under the Affordable Housing Program (AHP). The program aims to create jobs both directly and indirectly.

In its Mid-term scorecard, the program revealed that during its lifecycle, at least 1,000,000 jobs are expected to be created. Additionally, the government has facilitated the creation of 206,000 direct and indirect jobs since 2022 achieving only 20.6% of the target.

The government is also keen on supporting the local *Jua Kali* industry. The Mid-term scorecard highlighted that Kshs 4.4 bn has been allocated specifically for *Jua Kali* artisans and Medium and Small Enterprises (MSMEs) integrated into the program. The initiative provides employment to young Kenyans as masons, carpenters, plumbers, electricians, painters, steel fixers, and others.

Under the Bottom-Up Economic Transformation Agenda (BETA), the program will leverage the *Jua Kali* sector to produce mass fittings such as windows and doors, further boosting local manufacturing and job creation.

iv) Advancing incentives to developers

With the aim of providing incentives to private developers for the construction of affordable housing, the government has introduced various incentives for developers, including;

a. Value Added Tax Exemption on goods imported or developed locally for the direct and exclusive use in the construction of affordable units - To benefit from this exemption, the affordable housing project must be approved by the Cabinet Secretary (CS) responsible for matters relating to housing,
b. Reduced corporate tax rate for affordable housing developers - The third schedule of the Income Tax Act offers a reduced corporation tax rate of 15% for companies that construct a minimum of 100 residential units within a financial year. This reduced rate is applicable only with the approval of the Cabinet Secretary responsible for housing,
c. Reduced rate of Import Declaration Fee on goods imported into the country under the affordable housing scheme,
d. Reduced rate of Railway Development Levy on goods imported into the country under the affordable housing scheme - Section 8 (2A) (b) of the Miscellaneous Fees and Levies Act 2016 stipulates a reduced railway development levy of 1.5% on the customs value of goods imported under an affordable housing scheme, subject to approval by the CS Finance based on the recommendation of the CS responsible for housing matters, and,
e. Affordable housing scheme no longer exempt from thin capitalization provisions - This acknowledged that housing projects are costly to execute, requiring developers to rely significantly on borrowing from non-resident entities to finance the initiatives.

Section II: Key Developments under the Program

In this section we shall look at the key developments under the program;

i) Affordable Housing Act 2024

On 19th September 2024, the President signed the Affordable Housing Act, 2024, into law. To fund housing projects in the country, the Kenya Kwanza government pushed for the enactment of this law, which allows the collection of a housing levy from salaried Kenyans and directs the funds toward the construction of houses. The main objectives of the Act are: i) to impose a levy to facilitate the provision of affordable housing and institutional housing, ii) to give effect to Article 43(1)(b) of the Constitution regarding the right to accessible and adequate housing and reasonable standards of sanitation, and iii) to provide a legal framework for the implementation of affordable housing programs and institutional housing projects.

Since its enactment, the Act mandates a 1.5% deduction from an employee's gross monthly salary, with a matching 1.5% contribution from employers on behalf of each employee. These contributions are remitted monthly, enabling the Kenya Kwanza government to collect the necessary funds for housing construction under the program. In the first year of enforcement, the levy has generated Kshs 88.7 bn.

However, concerns have emerged over the effectiveness of fund utilization, as the Controller of Budget revealed that only 52.8% of the Ksh 88.7 bn collected from the levy has been used for affordable housing projects, amidst delays in project completion. Additionally, earlier this year, the government disclosed that some of the funds collected had been directed towards government securities.

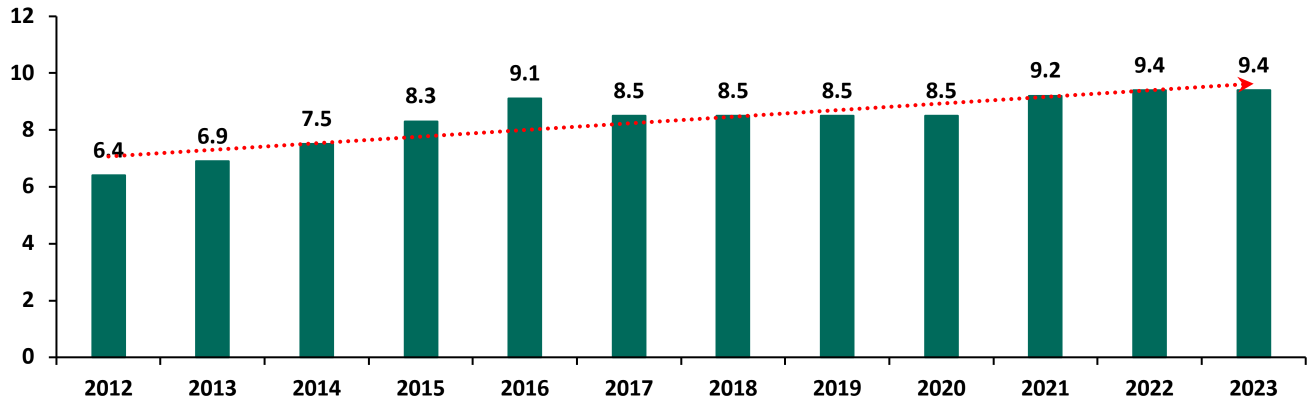
In general, the establishment of a housing levy has been a significant boost to Kenya Kwanza's agenda of providing housing to Kenyans, provided the funds are effectively utilized for their intended purposes. Currently, the government needs to review its strategy, particularly in the implementation of the fund, to ensure that all collected funds are used efficiently.

ii) Enhancement of loan products by Kenya Mortgage Refinance Company (KMRC)

KMRC continues to be a key player under the Affordable Housing Program through the disbursement of loans to Primary Mortgage Lenders (PMLs) in Kenya. As of December 2024, KMRC had provided Kshs 13.9 bn (USD 107.6 mn) in refinancing to 12 Primary Mortgage Lenders (PMLs), allowing 3,855 Kenyans to secure affordable mortgages with concessional fixed interest rates ranging from 7.0% to 9.9%, significantly lower than the industry average of 14.3%.

Additionally, in February 2024, KMRC raised its maximum loan size nationwide to Ksh 10.5 mn, up from Ksh 8.0 mn in the Nairobi Metropolitan Area and Ksh 6.0 mn in other parts of the country. This was a positive move to improve the mortgage market, especially considering that the new lending cap in the Nairobi Metropolitan Area now exceeds the average loan size in the country. According to Annual Banking Supervisory Report 2023, the average mortgage size in the country was Ksh 9.4 mn in 2023. Below is a chart showing the average mortgage loan size between 2012 to 2023;

Cytonn Report: Average Mortgage Loan Size in Kshs in mns (2012-2023)



Source: Central Bank of Kenya (CBK)

KMRC has been instrumental in strengthening and improving Kenya's mortgage market infrastructure. By introducing standardized procedures and practices, along with facilitating capacity-building programs for mortgage lenders, KMRC has enhanced the market's stability, efficiency, and overall quality. These efforts have significantly simplified access to financing for borrowers, enabling more individuals to achieve their homeownership goals.

iii) Launch of various Affordable Housing Programs across the country.

This year, the government, led by President William Ruto, launched several Affordable Housing Projects across the country. The program reported a 1,061.0% increase in completed affordable housing units, with 122,116 new units either completed, launched, or under construction in 40 counties. The government also revealed that it aims to construct at least 200 units per constituency. Here are some of the Affordable Housing Projects which have been launched by the president during the year;

#	Name of the Affordable Housing Project
1	Pioneer Affordable Housing Project
2	Kidiwa Affordable Housing Project
3	Kapsuswa Affordable Housing
4	Nanyuki Affordable Housing Project

5	Timau Affordable Housing project
6	Makenji Affordable Housing Project
7	Talai Affordable Housing Project
8	Nyaribari Masaba Affordable Housing Project
9	Siaya Affordable Housing Project.
10	Alego Usonga Affordable Housing Project
11	Embu Affordable Housing project
11	Lumumba Affordable Housing Project
12	Makasembo Affordable Housing Project
13	Kakamega Affordable Housing Project
14	Jogoo Road Affrodable Housing Project
15	Stoni-Athi Affordable Housing Project
16	Mokowe Affordable Housing

Source: Online Research and Cytonn Report

These projects are at various stages of completion; however, concerns have been raised regarding the pace at which they are being completed. Notably, over 60.0% of the funds collected through the Housing Levy remain underutilized after one year of enforcement of the levy, while projects are not progressing at the same rate as the funds are being collected. This clearly highlights a gap in the efficiency of fund utilization.

Key milestones within the year

i. President William Ruto and former Prime Minister Raila Odinga commissioned Phase One of the LAPFUND Makasembo Affordable Housing Project in Kisumu, a significant step in Kenya's Affordable Housing Programme. This phase, built on an 11.6-acre site, delivered 910 housing units: 180 one-bedroom, 100 two-bedroom, and 290 three-bedroom low-cost units, plus 600 two-bedroom and 700 three-bedroom middle-cost units, with 1,754 parking spaces. Valued at Kshs 3.5 bn, the project is a collaboration between the Kisumu County Government and the Local Authorities Pension Fund (LAPFUND), initiated in 2021. The event also marked the groundbreaking for Phase Three, expanding the project's total of 1,870 units to meet Kisumu's rising housing demand. The estate includes modern amenities such as preschools, a daycare, boreholes, solar-powered streetlights, high-speed lifts, landscaped gardens, and playgrounds, fostering a comprehensive living environment. For more information, please see our Cytonn Monthly-May 2025
ii. President William Ruto officiated the handover of 1,080 housing units at the Mukuru Affordable Housing Project in Nairobi's Embakasi South, marking a pivotal moment in Kenya's housing sector. Spanning 56 acres, this ambitious initiative, the largest of its kind in the country, aims to deliver 13,248 units by March 2026. The project, valued at over Kshs 7.0 bn and funded through the Housing Levy Fund, offers bedsitters at Kshs 3,900, one-bedroom units at Kshs 4,000, and two-bedroom units at Kshs 5,000 monthly under a rent-to-own scheme. This milestone follows the reclamation of the land, previously grabbed illegally, by the Ethics and Anti-Corruption Commission in 2020. For more information, please see our Cytonn Weekly #21/2025,
iii. The Kenyan government announced its plan to pursue an ambitious plan to secure Kshs 9.2 bn from private investors to construct 2,820 affordable homes in Stoni Athi, Machakos County, as part of its Affordable Housing Programme. The National Housing Corporation (NHC) is driving this

effort through a Public-Private Partnership (PPP) model, where private developers fund construction on NHC-owned land, while the government contributes infrastructure, including roads and electricity. For more information, please see our Cytonn Monthly-February 2025

iv. President William Ruto laid the foundation stone for the Mokowe Affordable Housing Project in Lamu County, marking a significant step in Kenya's quest to address its housing deficit valued at 1.2 bn . This ambitious initiative, located in Mokowe within Lamu West Constituency, comprises 468 residential units and 75 commercial shops, reflecting a broader vision to enhance living standards and stimulate economic growth in the coastal region. For more information, please see our Cytonn Monthly-February 2025

v. The Jogoo Road Phase I Affordable Housing Project, a 500 units residential development, was launched by President William Ruto. The project is a flagship initiative under Kenya's Affordable Housing Program (AHP) aimed at addressing the housing deficit in urban areas. Located in Makadara Constituency, Nairobi County, the project targets low and middle-income families by offering affordable housing units in a region where demand for quality, cost-effective homes is high. This project is expected to provide a viable alternative by integrating modern housing with improved infrastructure, while also addressing past issues of displacement. The total project cost is estimated at approximately Kshs 1.0 bn. For more information, please see our Cytonn weekly #11.2025

iv) New Mortgage Products

The government is working to offer a variety of loan products to Kenyans across different income levels and regions. Recently, it announced the introduction of a Kshs 10.0 bn low-cost mortgage scheme, funded by the Housing Levy, aimed at facilitating rural home construction. The scheme offers single-digit interest loans repayable over ten years, with individual applicants eligible for up to Kshs 5.0 mn and multiple-family dwellings up to Kshs 10.0 mn.

Commercial banks typically overlook rural housing markets due to low property valuations and limited penetration in these areas. This initiative is part of a broader affordable housing strategy, which includes the creation of the County Rural and Urban Affordable Housing Committee. The committee is tasked with developing frameworks and investment programs tailored to meet the housing needs of each county.

There was an introduction of a State-backed initiative to provide affordable mortgages of up to Kshs 6.0 mn to non-salaried workers, aiming to enhance homeownership among the informal sector, which comprises approximately 83.0% of the nation's 18.0 mn labor force. The Kenya Mortgage Guarantee Trust (KMGT) will cover up to 40.0% of defaulted mortgages, encouraging banks and savings and credit cooperative societies (Saccos) to extend credit to individuals with irregular incomes.

This initiative addresses the challenge that many workers lack the consistent monthly pay required by traditional mortgage models. Even among the 3 mn formally employed workers, 88.0% earn less than Kshs 100,000 monthly, raising concerns about their ability to afford mortgage repayments. By reducing perceived risk for lenders, KMGT aims to make homeownership more accessible.

Additionally in March 2025, Kenya secured Kshs 559.6 mn from the World Bank Group to initiate a credit guarantee scheme aimed at providing affordable mortgages to non-salaried workers, commonly referred to as "hustlers." This initiative, managed by the Kenya Mortgage Guarantee Trust (KMGT), seeks to mitigate lender risk by covering up to 40% of potential mortgage defaults, encouraging financial institutions to extend home loans to informal sector workers who typically lack consistent income streams.

The KMGT operates in collaboration with the Kenya Mortgage Refinance Company (KMRC), which has been instrumental in providing affordable mortgage financing by disbursing Kshs 11.9 bn to financial institutions since its inception. Despite these efforts, Kenya's mortgage market remains underdeveloped, with only

30,015 home loans totaling Kshs 281.5 bn as of December 2023, and an average loan size of Kshs 9.4 mn—figures that highlight the challenges low- and middle-income earners face in accessing home financing.

Section III: Challenges and gaps in the program

Here are some of the challenges and gaps in the program;

i) Inefficient utilization of the Housing Levy

Recently, there have been concerns regarding how the funds collected from the levy are being utilized. During last year, it was revealed that some of the funds had been invested in government securities, such as Treasury Bills and Treasury Bonds. The Permanent Secretary in the State Department of Housing and Urban Development noted that the Board is not an implementing body and, therefore, cannot utilize the funds. At the same time, the Permanent Secretary emphasized the need for a five-year plan from the implementing agency. For efficient implementation, the government must develop a well-thought-out plan to ensure that funds are not left idle and are used effectively.

This year, there have been discussions surrounding the affordable housing initiative sparking concerns about the project's transparency, financial viability, and long-term sustainability. Critics argue that the ambitious program, which aims to address Kenya's housing deficit by constructing low-cost units across the country, may suffer from inadequate oversight mechanisms and unclear funding structures. One major red flag involves the proposed financing model, which relies on a mandatory levy collected from workers and employers.

Additionally, Kenya's Affordable Housing Levy, introduced to fund low-cost housing and address the country's housing deficit, is at the center of controversy following revelations that the government plans to redirect these funds to construct schools, markets, police posts, and hospitals. This shift, outlined in proposed regulations, has sparked concerns about transparency and the potential misuse of funds intended for affordable housing, raising questions about the government's commitment to its original promise to Kenyan workers. This move has been criticized heavily by various organizations such as Central Organization of Trade Unions (COTU) and the general public. The government aims to raise Kshs 500 bn over the next decade to construct 363,860 homes, including units for civil servants and security personnel, alongside social infrastructure. Of this, Kshs 142.4 bn is earmarked for non-housing projects like schools and health centers, which critics argue deviates from the levy's core purpose.

ii) Consistency and clarity of numbers reported

There have been instances where the public has questioned the accuracy of the numbers reported regarding the program. For example, the number of job opportunities created under the project needs to be clearly defined, with a breakdown of jobs by project and specialization for better clarity rather than just giving an abstract figure. Additionally, the reported figures should remain consistent at all times.

iii) Infrastructure and Bureaucratic Barriers

Poor infrastructure increases construction costs, passed on to buyers. Multiple agencies involved in approvals create delays, with licensing processes described as "lengthy and costly". Developers in Ngara, for instance, face high costs for utilities, inflating unit prices. Bureaucracy deters private investment, slowing the shift from 83.0% government-led to more private-driven projects.

iv) Delay in launching the affordable housing units

The state postponed the launch of 4,888 housing units, initially scheduled for March 2025, has been postponed to a later date in 2025 due to delays in the installation of essential fittings, notably lifts. Housing Principal Secretary acknowledged the setback, stating that while final touches are being applied and the allocation process is ongoing.

This postponement underscores the broader challenges facing the AHP. The program aims to deliver 200,000 housing units annually to mitigate Kenya's substantial housing shortfall. However, as of February 2025, only 124,000 units were reported to be at various stages of construction, highlighting a significant lag behind targets. Additionally, the program has experienced low public engagement; since the introduction of a housing levy in July 2023, which deducts 1.5% from workers' salaries matched by employers, much of the collected funds have been invested in Treasury papers due to challenges in fund absorption within the program.

v) Lack of transparency and Corruption

Kenya’s affordable housing project initiative has faced a fresh challenge where it was found that a financially unstable construction company, despite struggling with debt and tax issues, was controversially awarded a Kshs 2.2 bn contract in January 2025 to construct affordable housing units in Loitoktok, Kajiado County. At the time of the tender award, the company had not paid a court-ordered debt of Kshs 1.9 mn and was also involved in a tax dispute with the Kenya Revenue Authority over Kshs 4.2 mn in unpaid taxes. These financial struggles were confirmed through separate court proceedings, including one that led to the brief jailing of one of the company’s directors for defaulting on payments.

Additionally, Kenya’s Affordable Housing Programme (AHP) board announced a plan to have the AHP to undergo an independent economic impact audit following underperformance in meeting its objectives. Launched to address the country’s 2.0 mn-unit housing deficit and create one million jobs annually, the programme has struggled significantly. As of the 2023/24 financial year, only 40,000 housing units were delivered—16.0% of the annual target of 250,000—while job creation stood at just 120,000. Moreover, project delays and budget shortfalls have hindered progress, with the government’s 2024/25 housing budget of Kshs 92.5 bn still falling short of what’s needed.

vi) Poor maintenance projects’ property

After the handover of projects to owners, there have been instances where the quality of the buildings has significantly deteriorated. Issues such as peeling paint and poor sanitation within the projects have been reported, tarnishing the reputation of the program

Section IV: Recommendations

To maintain the quality of building projects, the government should strengthen builder accountability by including warranties that require developers to address structural or quality-related issues within a specific period after handover. Additionally, the government can establish a maintenance fund, where a small percentage of the purchase price or rent is allocated to cover repairs and upkeep post-handover.

To improve the uptake of houses under the project, the government should launch targeted marketing and awareness campaigns to educate the public on the availability, pricing, and benefits of the housing units. These campaigns should emphasize how the program aligns with their housing needs and highlight all the advantages of purchasing houses through the program. Additionally, the government should invest in essential infrastructure, such as roads, schools, healthcare facilities, and public transport near housing projects, to enhance their appeal to potential buyers.

A comprehensive pipeline of housing projects should be developed, outlining projects for both the short-term (1–2 years) and long-term (3–5 years). The pipeline should include detailed project plans, timelines, budgets, and expected outcomes, with each project in the pipeline having clear milestones and objectives. This structured approach will help prevent delays and allow for continuous project execution, ensuring that funds are regularly absorbed.

A well-developed plan is necessary in order to improve absorption of the housing fund; plan must include a robust monitoring and evaluation framework to track the progress of each project in the pipeline. Regular assessments will allow the government to identify challenges early on, make necessary adjustments, and ensure that the funds are being spent effectively. Feedback updates should be established to revise project plans based on real-time data and outcomes.

Section V: Conclusion

The Kenya Kwanza government has made significant progress towards providing affordable housing in the country, particularly over the past two years. This progress has been catalyzed by the introduction of the Housing Levy under the Affordable Housing Act of 2024, which has provided a substantial boost to the government's ambitious goal of delivering 200,000 housing units annually. This move aligns with the government's broader agenda to address the growing housing deficit and make homeownership more accessible to Kenyans.

However, despite these positive strides, there remains considerable room for improvement, especially in the efficient implementation and management of the program. The private sector plays a pivotal role in the provision of housing in the country, and as such, attracting more private developers into the program is crucial. The government's incentives for developers are an essential aspect of this effort, but they need to be continuously evaluated and enhanced to make the program more appealing to private investors because it will assist in covering the overall housing deficit.

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