

**STRATEGIC RESPONSE BY NATIONAL HOUSING
CORPORATION ON THE EFFECTS OF GLOBAL
ECONOMIC MELTDOWN ON HOUSING IN KENYA**

BY

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DECLARATION

This management research project is my original work and has not been presented for examination in any other university.

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This management research project has been submitted for examination with my approval as the university supervisor.

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Above all, the name of ALLAH be extolled for giving me the strength and enabling me walk on the right side of His blessed road.

DEDICATION

To my dear wife E. Mwenda, my sons Siryah and Baya and my daughter Nafisa. Sincere mention of my mother Kadii Katana and my grandmother Sidi Thoya Kombo.

ABSTRACT

Housing is one of the social pillars since time immemorial as different communities around the world in their pursuit to reserve their cultural values built shelter which ranged basic shanties to high-end massionattes appealing to every communities taste and preferences.

As time went by and the need for decent housing given the effects of civilization grew, many countries came up with policies geared towards achieving this order for their citizenry to live better than yesteryears. These policies formed some of the general strategies on how governments with the help of UN Habitant to tackle the ever increasing demand of houses for the rising population. In the USA the mortgage loan facilities was one of the major moves that was trying to address this housing issue. However this backfired in the bubble bust causing the unprecedented ripple effects of the economic meltdown in the late 2008.

Project The research thus wanted to find out how the Global Economic Meltdown experienced in the last quarter of 2008 affected the provision of affordable housing in Kenya by carrying out a study on the strategic responses by NHC to the challenges. The specific objectives of the study were to determine the critical challenges facing general housing in Kenya, to evaluate the mitigation strategies employed by National Housing Corporation to safeguard against future global meltdown and to draw recommendations on the post crisis outlook and the way forward in the housing industry.

Major focus on literature review was on the developments in the housing and construction sector and the contributions by bodies, individual comments on the state of housing in Kenya and the Government and UN Habitant role in improving the quality of housing in general terms.

I he research project collected primary and secondary data from NHC which mandated to promote low-cost houses, stimulate the building industry and encourage and assist housing research. Interviews were conducted with senior managers of both NHC and KCB S&L Mortgage and data analyzed using quantitative and qualitative approaches.

The findings of the research indicated that the economic meltdown had devastating effects on the provision of affordable and decent housing and general performance of the economy in Kenya. The major economic challenges facing NHC were identified and the strategic responses NHC employed to minimize the effects of the economic crisis.

The research concluded that critical challenges facing general housing in Kenya are multidisciplinary and cannot only be pegged on the economic meltdown experienced after the housing bubble bust in the USA in the late 2008.

The recommendations of the research point towards the mitigating factors of the risks brought by the economic disaster and how organizations should do in order to effectively safeguard the interests of their shareholders and those of customers in order to survive the dynamic nature of business environment.

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ABBREVIATIONS

CMA	- Capital Markets Authority
FDI	- Foreign Direct Investments
GB	- Great Britain
GDP	- Gross Domestic Product
GoK	- Government of Kenya
IFC	- International Finance Corporation
KCBS&L	- Kenya Commercial Bank Savings & Loan
KES	- Kenya Shilling
NEMA	- National Environment Management Authority
NHC	- National Housing Corporation
PESTEL	- Political, Economic, Social, Technology, Environment and Legal
SWOT	- Strength, Weaknesses, Opportunities and Threats
UK	- United Kingdom
UN	- United Nations
UNCHS	- United Nations Centre for Human Settlements
UNESCO	- United Nations Educational, Science and Cultural Organization
USA	- United States of America

CHAPTER ONE

INTRODUCTION

1.1 Background of study

In this section of the research paper the global economic glut shall be looked at keenly to give an understating how it generally occurred and the underlying effects. The economy of any country in the world especially the major economies like Japan and China in the Asia; Germany and Britain in Europe or USA have a major impact in the other economies if anything goes wrong.

Richard C. Koo defined economic recession to having many attributes that can occur simultaneously and includes declines in component measures of economic activity GDP such as consumption, investment, government spending, and net export activity. These summary measures reflect underlying drivers such as employment levels and skills, household savings rates, corporate investment decisions, interest rates, demographics, and government policies.

Strategy originated from the military operations and refers to a plan of action designed to achieve a particular objective. The terms and conditions that it was fought on and whether it should be fought at all was a matter of strategy, which is part of the four levels of warfare: political goals or operations and tactics. In general terms strategy is the roadmap for the achievement of stated goals.

The last quarter of 2008 saw the USA mortgage backed securities popularly referred to as burst of a housing bubble collapse triggering an economic crisis of unprecedented magnitude. This evolved into a full-fledged financial crisis impacting the investment and commercial banking sectors and the insurance industry, with international transmission of the crisis to Europe and Japan and, eventually, to mainly the larger and more advanced developing countries. The financial crisis then took on the peculiar characteristics of a credit crisis, with the banks not wanting to lend (even after receiving bailout resources) because of a lack of confidence. This led to a real sector economic crisis. The decline in real sector production activity and growing unemployment then worsened the crisis for the financial sector.

.At the UN (2000) at the Millennium Summit, it was deliberated that due to the many global challenges, world leaders met to establish a series of goals for humanity in the 21st Century,

which was by then imminent. This was based on key policy documents from the series of major United Nations conferences held during the previous decade, including the Habitat Agenda. The most important target from the point of view targeting 2020 to have achieved a significant improvement in the lives of at least 100 million slum dwellers, which builds upon the Cities Alliance's "Cities Without Slums" initiative. The emphasis on cities contrasts with the fact that 67% of Kenyans live in the countryside.

Affordable housing according to the UNCHS (2003) on 'The Challenge of Slums Global Report on Human Settlements', identified that, 'Informal' suggests a different way from the norm. one which breaches formal conventions and is not acceptable in formal circles - one which is inferior, irregular and, at least somewhat, undesirable. However, research and practice over the years have demonstrated that differences may not imply inferiority. Although an informal settlement may be built on land zoned for industry and is, therefore, illegal, it provides accommodation, location and identity for its inhabitants at a cost that they can probably afford."....."

During economic recessions, spending and investing decline, and unemployment increases. A severe recession is known as a depression, though no precise criteria exist for determining a depression. Recessions often trigger government fiscal measures, especially higher spending, intended to stimulate the economy or at least minimize the damage and prevent a depression. Since the 2008-09 economic meltdown, the United States, the European Union (as well as many of its member nations) and Japan have passed economic stimulus packages.

Kenya as a child of the world was drastically affected by this global economic crisis including but not limited to reduced foreign aid as most donors were concentrating in putting up measures to salvage their own economies; inflation rates skyrocketed as the hard currencies fell hard on the local currency (KES); bank lending rates increased thus discouraging borrowing by citizens for infrastructural development; sharp fall in investments at the stock markets; reduced remittances from Kenyans in the diasporas; dwindled tourist numbers and reduced exports.

The unfavourable economic factors brought about by the glut put more pressure on the provision of affordable housing in Kenya according to the 2009 Economic survey Construction sector had an impressive growth of 8.3% in 2008, up from 6.9% in year 2007

While carrying out some research on housing in Kenya, K'Akumu (2004) prepared a paper to review the published official statistics in Kenya and further compared the Kenyan situation with the US for which statistical programmes are found to be comprehensive, objective oriented and rational. The review on the Kenyan scene was seen to be in contrast, statistical programmes were found to be unfocussed, at times erroneous, irrelevant, incomplete, or stale, and generally deficient. This deficiency it was observed to have serious implications for policy decision making, housing development, housing investment, capacity building, and policy analysis.

1.2 The Concept of Economic Challenges

The housing bubble bust resulted due to non-performing mortgage loans with the unsecured assets transforming into toxic acid, infecting the entire worldwide financial system. The ensuing global economic and financial crisis has destroyed trust in banks and borrowers in all the major economies of the world.

Any business organization has one goal, to maximize profit. The process of maximizing profit is simple; analyze" demand of consumers, and provide appropriate supply good quality and quantity. There'are however many factors that affect this simple operation. These factors are often classified as macro and micro, internal and external, technical and non-technical. All the same, the sales, production and procurement of the business organizations, directly or indirectly depends on these factors. NHC closely analyzes and ponder upon the economic factors affecting the provision of affordable housing in Kenya.

The major economic factors affecting business organizations range from internal environment, operational environment and external environment outlined here below as the research found out;

1.2.1 Capital flight

This was evident as the ensuing global credit crunch had frozen the arteries of a global economy based on easy, cheap credit. As corporations were being denied normal flows of credit, a massive global economic crisis was transforming the financial meltdown as serious economic disaster with wide ranging repercussions to the third world which hugely depended on foreign direct investment (FDI) and the Bretton Woods institutions (World Bank and International Monetary Fund) for support in development in human capacity, infrastructural, fighting diseases, research and many other economic persuasions.

1.2.2 Dwindling Direct Foreign Investment

Reduced FDI funding as majority of the large economies devised strategies on how to salvage their already delicate challenges facing their countries instead of approving foreign debts to develop growing economies.

1.2.3 Reduced remittances

Low remittances from the Kenyans in the Diaspora as quite a number of the Kenya population work and live in the Americas, Asia and Europe, the economic glut not only affected organizations but the individual too had to reflect on their ability to sustain themselves in the shrinking economies and remitting money to their family members in Kenya or make substantial investments in real estate.

1.2.4 Demand and supply

The demand and supply are two principal factors that affect the working of any business model. The demand is the will and ability of consumers to purchase a particular commodity and the supply is the ability of the business to provide for the demand of consumers. The interdependent factors affect the baseline of commercial enterprises in the world over in terms of customer base and profit margins.

1.2.5 Marginal and total utility

Utility is the amount of satisfaction that is derived by consumers from consumption of goods. It so happens that after continuous and successive consumption of units of the same goods, the

satisfaction that is experienced by consumer starts decreasing. This often results into short term or long term fall of sales. Some organizations prepare for the launch of another brand before the fall in utility and sales are experienced. The launch of new brand ensures that the revenue trend of the business does not fall. Diminishing utility is among the external factors affecting business.

1.2.6 Money and banking

Banking facilitates monetary and fiscal policies that affect business and also the customers of the business. Money in circulation dictates the paying power or rather the demand of the consumers and the banking facility dictates the borrowing capacity of individuals as well as the business.

Saddled with troubled assets, financial institutions sought to unload bad loans and raise additional money, worried investors, including major brokerages withdrew their money, which sent financial markets around the world into decline. The drop in the USA stock market in 2008 reverberated in Europe and Asia, as stock markets declined as investors envisaged a value of drop in their portfolios thus reduced spending and lending.

Financial institutions started to hoard their remaining assets, leading to sharp declines in lending. Even consumers and firms with stellar credit histories have trouble getting credit. Consumers, meanwhile, fearing further economic deterioration, spend less.

Financial institutions suffered some of the greatest damage, as the credit crunch of 2008-09 demonstrated. Bad loans and plunging assets forced banks to shut down because of insolvency, merge with other banks or become nationalized by governments. The fallout from an economic crisis, however, was not limited to the banking sector, but affected manufacturers, retailers and other sectors of the economy.

1.2.7 Economic growth and development

Economic growth dictates the amount of finances that the society at large is earning and development indicates the volume of money that is being invested into channels of long term up-gradation. Among all the economic factors affecting business environment, development is the

most important one, as the business has to cater to the demand of a dynamic society.

1.2.8 Income and employment

Another very important aspect of the economy that affects the working of the business is the level of employment and rate of income. The per capita income and density of employment dictates the rate of demand, density of demand and also the purchasing power of the people.

Massive unemployment was experienced around the world and most of the major economies like USA through the new administration after George Bush Junior had to craft bail out measures to save further unemployment rates. U.S. employers shed 63,000 jobs in February 2008, the worst in five years. In October, the Bureau of Economic Analysis reported that about 156,000 jobs had been November more than 533,000 jobs had been eliminated.

1.2.9 General Price levels

Another very important aspect of the economy that affects the business is the general price levels of the commodities that also affect the sales of the business. Costs of raw materials, paying power of people, cost of production and finally, cost of transport are some of the important components that determine the general price level and also, the sales of any firm.

1.2.10 Trade cycles

Trade cycles are the fluctuating costs of goods and commodities in an economy. Rise, stability, continuity and fall are some of the important cycles that affect the prices of all goods such as raw material, credit, final goods, etc. Trade cycles also many a times affect the general price level.

1.2.11 Regulation

Local and national regulations influence how well a business can take advantage of economic opportunities and adapt to the changing economic landscape. Regulation and standards affect the ability of smaller businesses to create jobs and revenue. Efficient laws on bankruptcy ensure that assets are quickly reallocated. Stable property rights and investment protection establish trust so that investors start investing again.

1.2.12 Credit facilities

Businesses grow when they experience low interest rates because a low rate ensures that it will cost less to get the needed financial resources to start or expand a business, or stave off bankruptcy. Businesses are influenced by the interest rate, wage rate and rate of inflation, all of which measure the general cost of doing business. If these rates rise, so does the cost of maintaining a business, which in turn necessitates higher prices for products and services. The interest rate affects retail sales, as lower rates indicate that people have more disposable income to spend. The mortgage meltdown that started in 2007 made lenders increasingly cautious about the risks of all loans.

1.2.13 Taxation

The levels of taxation in a given economy will either encourage or discourage the prosperity of businesses or inhibit growth. The resident corporate income tax rate in 2002 was 30%, reduced from 32.5% in 1998, and the rate for branches of foreign companies was 37.5%, down from 40%. The withholding tax on dividends payable to residents was 5%, down from 7.5%. On dividend income and interest income (except on bearer instruments) that is payable to non-residents, the withholding tax rates were 10% and 15%, respectively. These levels of taxation affected the development of affordable houses in Kenya in one way or the other in terms of the investor's perception.

1.3 The State of Housing in Kenya

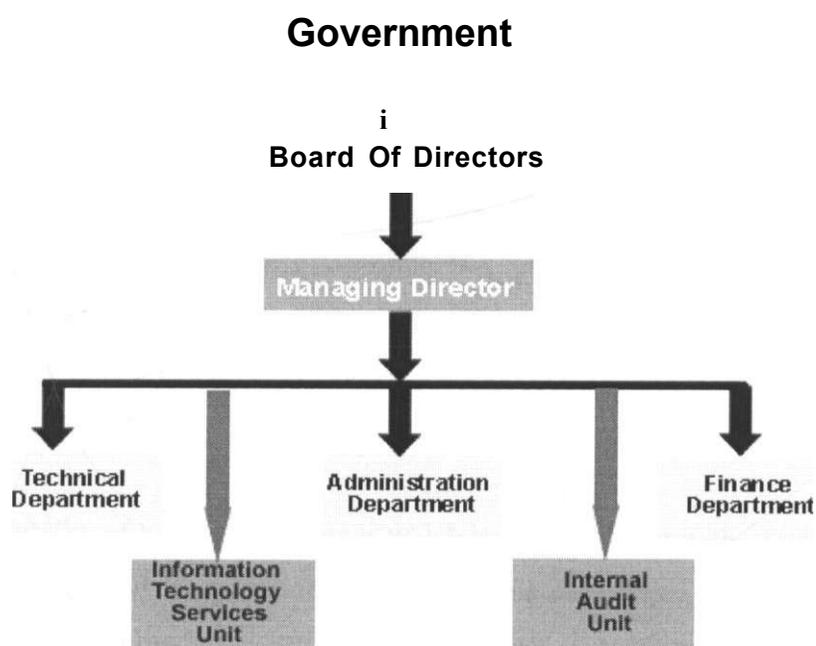
The estimated current urban housing needs are 150,000 units per year for the urban areas and 300,000 units per year for the rural. The current production of new housing in urban areas is only 20,000 - 30,000 units annually, giving a shortfall of over 120,000 units per annum. This shortfall in housing has been met through proliferation of squatter and informal settlements and overcrowding. Various interventions and strategies have been introduced in the past to alleviate the above situation.

The National Housing Corporation (NHC) is a state corporation established by an Act of Parliament Cap. 117 as was amended in 1967. The primary mandate of NHC is to play a principal role in the implementation of the Government's Housing Policies and Programmes.

It is a government owned institution with a minimal controlling stake in the housing industry sector and has of recent faced stiff competition from other players. The other players in the industry are S&L Mortgage a wholly owned subsidiary of Kenya Commercial Bank; Housing Finance and other commercial banks that have added provision of mortgage product in their service lines.

The Corporation is managed by a Board of Directors appointed by the Minister for Housing, which in turn is mandated to appoint the Managing Director and other senior managers heading various departments.

NHC Organization Structure



These Independent units report directly to the Managing Director

Figure 1.

Source: NHC

The investments in the housing sector since the 1966/67 Policy have been minimal and sporadic. The demand for housing still far outstrips supply. Research on low cost building materials and construction techniques has been limited thus not providing viable guidance to the development of the sector. Stringent planning regulations and high infrastructural standards have been an impediment in the housing delivery system. The high level of poverty has rendered access to decent housing an elusive dream to the swelling ranks of people living below the absolute poverty line. The problem in urban areas is mainly that of acute shortage in the number of habitable dwellings, inadequate infrastructure, community facilities and services, overcrowding and extensive slums and squatter settlements. On the other hand, the major problem in rural areas is mainly that of poor quality of the shelter fabric and limited access to safe drinking water.

In a study by Nabutola (2004) on Policy on Informal Settlements in Kenya he categorically classified housing is a basic right in as much as air and / or water. Like food, even those who cannot afford it need it perhaps much more than those who can, because the latter could be in it for the investment returns. By its nature housing represents a major investment requiring a substantial capital outlay.

Affordable and decent housing can be provided through construction firms that are licensed and whose work is subject to certain regulations and bylaws governing the construction industry in Kenya. Many times the construction industry has come under sharp focus given the rate of houses collapsing as construction goes on giving the professionals concerned like the Architectural Association and the Institute of Kenya Surveyors on how training and licensing of practitioners in the construction industry are conducted and whether the system employed is watertight.

The availability of land in urban areas which have seen the growth of population growing by the day due to rural urban migration has become one of a major headache of Kenya Government given that most of the land is privately owned. This is now very common in government - built estates all around the world, as well as private dwellings in cities in Kenya as demand for housing continues to outstrip the supply by far.

Land issue which evokes emotional reactions from citizens has lately been the greatest challenge in the fight to grow and sustain affordable housing in Kenya. The Government too has had to put its foot down to ensuring that there may be some genuine concerns on the need to provide decent housing to its citizens but has also to grapple with competing needs like provision of good road networks. The crave to put up houses by private developers to cash on the huge demand for affordable housing has led to the mushrooming of estates and high-rise buildings which have been brought down by local authorities due to;

1.3.1 Usage of land

Houses being built on land intended for another use (even though the building itself may conform to the standards laid down in the regulations). Most land in Kenya given the ordinances during the colonial rule had been demarcated and specific usage appended to each parcel mostly in the urban centers while the rural areas land was left in the trust of the community living around.

1.3.2 Building Standards

Many housing contractors have not been conforming to all of the standards laid down construction hence many times some houses have been demolished by local authorities thus the developers have been losing hard earned monies due to the non adherence of building standards.

1.3.3 Monitoring and Control

Many housing developers have been known to cut corners and never bothered to subject to their building plans for approval or seek permission from building inspection units of parent ministries or government agents. This has led to the poor monitoring and control of houses in most urban centers.

1.3.4 Land Ownership

Kenya has experienced houses being built on land not owned by the occupier and without permission of the owner. Of most recent is the demolition of buildings on road reserves to pave the way for the construction of expanded roads like the Nairobi - Thika superhighway currently under construction.

1.4 Statement of the Problem

The project dwelled on the Strategic Response by National Housing Corporation on the Effects of the Global Economic Meltdown to Housing in Kenya. National Housing Corporation is a state corporation established by an act of Parliament as amended in 1967 Cap 117 of the Laws of Kenya with a mandate to develop affordable houses in the country.

The global meltdown has had a wide range of effects on growth and sustainability of affordable housing in Kenya applying to almost every facet of life from the rural to urban setting in a scale never witnessed. At the World Summit (2005) it was noted that for growth and sustainability of affordable housing, there was need to reconcile the three pillars of development i.e. environmental, social and economic demands. Housing being one of the social demands has far reaching consequences of the health and well being of human race.

The unprecedented economic crisis heightened the already delicate gap of knowledge the population in Kenya in respect to how affordable housing can be provided or accessed. This is because majority of the population even those in the urban centres have little knowledge on the goings on in the housing and construction industry.

Many researches have been carried out but still more needs to be done if any meaningful strides are to be made in the provision of affordable housing. This paper envisages to bring to the fore the many gaps existing and form a basis or platform from which interested parties like the Government and housing and construction stakeholders shall use to launch a blueprint for sustainable housing for the growing population. Carrying out research like the Government tendency of carrying out feasibility studies before major projects are commissioned and implementation of the findings is total different ball game. Poor or non implementation of research findings has contributed to the unending housing crisis in the world.

Many a times the political class in Kenya has used alleviation poverty as campaign song from decade old promises that good tidings in form of infrastructure shall trickle down mwananchi way only for them to secure civil or national seats and give a wide bath the provision of affordable housing as promised.

The poor dissemination of information had also contributed to the ignorance levels of the citizens in that most of the Government decisions and academic papers in housing can mostly be found or accessed by a few as there have never been a clear mandate on who propagates what the central Government has in mind in the provision of affordable housing to the rural folks.

The recommendations of this research paper highlighted on the way forward on order to achieve in form of proposals on how to bridge the knowledge in the accessibility of affordable housing by Kenyans as given in Sessional Paper No. 3 of 2004.

The research project tried to answer the following questions that are pertinent to the issues the global meltdown has visited up on the housing development in Kenya.

- i. What have the operational and financial impacts been to date on the company (NHC) as a result of the global financial and economic meltdown? In what ways is the business strategy affected?
- ii. What assumptions had NHC management made about the state of the economy and the growth of housing market in assessing and addressing the implications of uncertainties and risk in the future?
- iii. What opportunities whether under the current financial and market turmoil have been created for NHC to exploit and emerge a strong player in the housing sector in Kenya?

1.5 Objectives of the study.

The main objective of the study was to find out how the Global Economic Meltdown experienced in the last quarter of 2008 affected the provision of affordable housing in Kenya by carrying out a study on the strategic responses by NHC to the challenges. The specific objectives of the study were;

- i. To determine the critical challenges facing general housing in Kenya.
- ii. To evaluate the mitigation strategies employed by National Housing Corporation to safeguard against future global meltdown.
- iii. To draw recommendations on the post crisis outlook and the way forward in the housing industry.

1.6 Importance of the Study

It was hoped that through this research project, the connection between the global meltdown and subsequent underlying ripple effects the world over, in the growth and sustainability of affordable housing in Kenya shall be a starting point or avenue for further research on how Governments and other stakeholders in the industry forge a united front in ensuring that its citizens have greater access to decent housing. More importantly the research shall be of great use to the following stakeholders;

1.6.1 National Housing Corporation

As a body corporate, the research provided a reality check by use of tools like PESTEL, Situation Analysis, Porter Five Forces Model and SWOT to critical examine its performance in achieving its mandate as outlined in Cap 117 of the Laws of Kenya.

1.6.2 Firms in the housing and construction industry

In the last economic survey by the Ministry of Planning and Vision 2030. the construction industry had a growth rate of 8.3% in 2008 giving a significant contribution to the overall GDP of the country, the research will be of great use to this industry as it plans ahead on how to sustain or grow at better rate than the previous period and review.

1.6.3 Kenya Government

The Government is an important stakeholder in this study as it's the prime facilitator or defacilitator in the provision of sustainable and affordable housing for its citizens. Thus the study will be of great interest to Government agencies and ministers on how to anticipate and provide the necessary mitigating avenues in the face of global economic crisis in order to cushion its citizens from the adverse effects.

1.6.4 Academicians

The findings of the study it is hoped shall be a starting point for a fundamental re-examination of the whole global economic system to see what went wrong. Academicians in particular shall use the findings to make in-depth analysis in answering the following patent questions;

- i. Was Wall Street in the USA responsible for the mistakes?

How did the Regulators respond to the mistakes?

Did valuers in the mortgage sector contribute to the mess?

Was the American Reserve Bank in the know and did not act?

What role did politicians play?

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction.

This chapter reviews the information from other researchers and scholars who have carried out research or studies and contributed their presentations to forums organized to deal with housing and human settlements. Specific areas of concern are contributions by the Kenya Government through the Ministry of Housing, UN Agencies, World Bank and scholars in various fields of study. The role of the Kenya Government in the development of affordable housing shall be examined, an overview of the services and products offered by NHC and its market share, the conceptual framework and the strategic responses by NHC to the effects of the Global Meltdown

2.2 Government Response to Growth and Sustainability of Housing

The Government recognizes that security of land tenure as well as availability of adequate quantities of land in suitable locations at affordable prices is a central requirement for clearing the backlog of housing demand for the urban poor. Housing programmes for the poor will be pursued at a scale, which is commensurate with need and availability of resources.

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It has its origins in 1953 when the Colonial Government of Kenya created a Central Housing Board through the Housing Ordinance. The Board was the principal medium through which the colonial Government could promote the development of houses for Africans. In 1959, the Board's activities were extended beyond the promotion of African housing in order to cater for Europeans and Asians. In 1965, the Board decided to undertake direct construction of dwelling in areas where Local Authorities were unable or unwilling to do so. In the same year through an amendment of Housing Ordinance of 1953, National Housing Corporation (NHC) was established thereby replacing the Central Housing Board.

The Corporation was mandated to continue the functions of the Board, with wider powers to promote low-cost houses, stimulate the building industry and encourage and assist housing research. The NHC became the Government's main agency through which public funds for low cost housing would be channeled to Local Authorities, and for providing the technical assistance needed by those authorities in the design and implementation of their housing schemes.

Kenya's first attempt at a National Housing Policy was first mooted as a result of an investigation into the short and long term housing needs in Kenya, conducted by a United Nations Mission on behalf of the Government. The Mission made recommendations on the policies to be pursued in the framework of our nation's social and economic development.

The main principles that were to guide the development and control of housing in Kenya were outlined under Urban and Rural Housing Policy; Finance for Housing; Administrative Organization; Housing Programme; Research and Education. The Government was convinced that: 'Housing is a vital factor in the nation's economic and social development and its effects have a bearing on the morale and stability of Kenya; The productive capacity of Kenya's labour force was related to the state of its health; Decent living environments are conducive to good health'. At the time Kenya's population was well over nine Million of which eight million lived in the country. Annual population growth was estimated at 3% for the whole country and 5% to 6% in urban centers putting pressure on the available resources.

One of the main recommendations of the UN Mission was that a National Housing Authority be created to be the main instrument for the prosecution of Government housing policy...."the supervision of the housing programme for the country as a whole must rest with the Government through the Minister responsible for Housing"

Kenya's went further to revise the National Housing Policy as articulated in Sessional Paper No. 3 of 2004 intended to address the deteriorating housing conditions countrywide and to bridge the shortfall housing stock arising from demand that far surpasses supply, particularly in urban areas. The shortage in housing is manifested in overcrowding, proliferation of slum and informal settlements especially in peri-urban areas. In rural areas the shortage manifests itself in the poor quality of the housing fabric and lack of basic services such as clean drinking water.

The policy aimed at, enabling the poor to access housing and basic services and infrastructure; encouraging integrated / participatory approaches to slum upgrading, including income-generating activities that effectively combat poverty; promoting and funding of research on the development of low cost building material and construction techniques; harmonizing existing

laws governing urban development and electric power to facilitate more cost effective housing development; facilitating increased investment by the formal and informal private sector, in the production of housing for low and middle-income urban dwellers and above all create a Housing Development Fund to be financed through budgetary allocations and financial support from Development partners and other sources.

The overall goal of the Housing Policy was to facilitate the provision of adequate shelter and a healthy living environment at "affordable cost" to all socio-economic groups in Kenya in order to foster sustainable human settlements. This will minimize the number of citizens living in shelters that are below the habitable living conditions. It will also curtail the mushrooming of slums and informal settlements especially in the major towns.

The poor people's pragmatic approach to housing will be harnessed and put to maximum utility by community-based organizations through effective and well-defined popular participatory approaches. Community involvement as a planning tool will be advocated in all housing programmes targeting the poor.

The Economic Recovery Strategy for Wealth and Employment creation launched by the Government in June 2003 is intended to introduce a National Housing Policy that comprehensively addresses the shelter problem, including informal settlements. The Policy targeted and highlighted urban housing, rural housing, slum upgrading and vulnerable groups; and proposes solutions, which include poverty alleviation.

2.3 Overview of the Services and Products Offered by NHC.

NHC has since expanded its mandate from the primary principal role in the implementation of the Government's Housing Policies and Programmes to a diversified player consultant in the construction and housing industry.

1. Tenant purchase housing scheme
2. Rental houses
3. Outright sale of houses
4. Rural and peri-urban housing loans

5. Provision of building plans
6. Undertaking project management
7. Provision of real estate management services

The above products and services are based on either freehold through outright purchase of already built houses, leasehold through hire for specific periods or rental as seasonal / tenancy agreements.

Nairobi being the capital city occupies about 8% of Kenya's total land surface but generates about 40% of the nation's GDP. With a population of about 4 Million people by day and 3 Million by night. About 60% live in what can be referred to as informal settlements or slums where the availability of clean water, sanitation, infrastructure and other social amenities is but a dream.

Brundtland Commission (1987) identified sustainable development as a pattern of resource use that aims to meet human needs while preserving the environment so that these needs can be met not only in the present, but also for future generations. The term was coined to what has become the most often-quoted definition of sustainable development as that "meets the needs of the present without compromising the ability of future generations to meet their own needs.

Ezekwesili (2008) while addressing a World Bank meeting in Washington on the effects of the global meltdown in Africa praised the "candor" of the conference which concluded that the global slowdown has dampened growth prospects for Africa by diminishing "trade opportunities, access to finance, migrant remittances and foreign direct investment". Through the International Finance Corporation (IFC), the Bank ramped up support to the private sector through the launch or expansion of key initiatives totaling around \$30 billion over the next three years.

Among the initiatives, a new Infrastructure Crisis Facility was muted, which would provide financing for privately-funded infrastructure projects facing financial distress to ease the slowdown in private capital flow that would adversely affect economies that had been relying on these flows to finance much-needed investment, particularly infrastructure investment as it was noted that Ghana and Kenya had postponed sovereign bond issues worth about \$800 million

while commodity prices were falling, which hurt exporters but helped importers.

UNESCO (2001) argued that there are four pillars of human development instead of three as identified by the UN World Summit of 2005. The fourth pillar is cultural development, hence the Universal Declaration on Cultural Diversity to further elaborate the concept by stating that "...cultural diversity is as necessary for humankind as biodiversity is for nature", thus it became one of the roots of development understood not simply in terms of economic growth, but also as a means to achieve a more satisfactory intellectual, emotional, moral and spiritual existence.

Sustainability is a process which tells of a development of all aspects of human life affecting sustenance. It means resolving the conflict between the various competing goals, and involves the simultaneous pursuit of economic prosperity, environmental quality and social equity famously known as three dimensions. Under the social quality decent housing for all became the rallying call of which Kenya through NHC adopted a focus on how Kenyans can benefit on the discussions of the international forums.

Anna Tibaijuka (2009) the head of UN Habitat in Nairobi signed six agreements with partnerships of Argentina, Bangladesh, Kenya, Nepal, Tanzania and Uganda in an attempt to confront the current economic crisis by encouraging pro-poor investment in housing, with the aim of providing funds for affordable housing and infrastructure development. To boost the housing developers, the agreements were meant to provide low interest rate loans through to local financial institutions and to provide loans to the urban poor, for house building, improvements and infrastructure upgrading. This meant that the issue of housing had taken a new turn and many stakeholders were feeling the need to spearhead the process for the front.

Delivering a presentation on Urbanization and Housing Challenges in South Africa, Dr. Washington Olima (2003) reiterated the challenges facing urban areas like Nairobi to be growth in population size with no equivalent growth in land supply, major disparity in land distribution (55% of population occupying 5% of urban land, densities in informal settlements going as high as 2,000 persons per hectare, colonial era mentality through exclusion on basis of race versus

contemporary exclusion on basis of class and more recently voluntary groupings on basis of ethnicity and the uneven access to amenities and the need for integrated planning.

The issue of lack of affordable housing seems to be cutting across many countries as evidenced in a study carried out by Heather (2005) who found out the 80 percent of Brazil's 186 million residents live in urban areas which lacked most of the basic human requirements for decent living. The City of Rio de Janeiro for instance, is the country's second largest city with 6 million inhabitants and a metropolitan population of 10 million. He concluded that 20 percent of Brazilians currently live in favelas, or informal, low-income housing settlements.

Research has shown that the pattern of housing development and attractiveness follows more similar path on availability of infrastructure in terms of roads, walkways, drainage, water, sewer, electricity, telephone as the bundles of rights.

Thus governments world over have come under sharp focus on their roles in the provision of affordable housing in respect to zoning and land use regulations through local authorities, taxation and land rates draining and licensing of professional in the construction industry and the overall development and enforcement of building codes , reclamation of land after excavation of building materials - in Kenya NEMA comes into focus, provision of security, protection of land that is environmentally sensitive and power of eminent domain in respect to compulsory acquisition by Governments

Research has also revealed that the global economic crisis was triggered by poor leadership and vision as without leaders with the ability to attract and retain talent, manage knowledge and unlock people's capacity to adapt and motivate, organizations like the mortgage firms in USA had a future in jeopardy. Lussier (2008) summed up the goings on by saying that businesses have to create entrepreneurial skills that are fundamental of creating new products or processes, enter virgin markets and be able to recognize and act upon opportunities but the lack of foresight by the mortgaging firms managers in safeguarding public interest at the expense of having a large customer base for the sake of it led the bust. Like a terror bomb, the bust affected the intended and those in the other lane of life and Kenya was no exception.

Chan S.L (1985) made a contribution in that the construction industry makes significant contributions to the socio-economic development process in most countries. Its importance in the economy is due largely to the direct and indirect impact it has on the national economy. He further urged that it stimulates the growth of other sectors through a complex system of linkages. Interest in multi-sectoral linkages was generated following Hirschman's work that investigated the relationship between unbalanced sectoral growth and economic development.

Erguden (2001), while making a presentation at the International Conference on Spatial Information for Sustainable Development in Nairobi on Low-cost Housing: Policies and Constraints in Developing Countries, he reiterated that there was broad consensus on the fact that housing has central importance to everyone's quality of life and health. Housing, besides being a very valuable asset, has much wider economic, social, cultural and personal significance. The way in which housing is produced and exchanged has an impact over development goals such as equity and poverty eradication; construction techniques and location of housing can influence environmental sustainability and the mitigation of natural disasters; and the design of dwellings both reflects and protects important elements of culture and often religious beliefs.

King, S.S. (1997), in a study on how an economic downturn motivates private corporations to undertake unusual steps to protect their assets from continued decline. She identified some strategies that at least until the crisis is over, organizations avoid any fundamental change in character of a business as well as major changes in the business interface with customers. In her study she mentioned that restructuring, selective shrinking, marketing cost cutting and long-term strategies as key to success.

Buckley and Kalarickal (2005), in their article on Housing Policy in Developing Countries: Conjectures and Refutations examined recent research findings in light of earlier arguments as to the benefits of more market-oriented approaches. They looked at whether the recommendations of earlier work had been refuted or developed in subsequent analyses and policy measures. In particular, they reviewed the empirical analysis of the effects of policy on housing supply, the richer understanding of the effects that land market regulations have on housing affordability and

the functioning of urban areas, and the alleged mysterious effects that researchers claim effective property rights have on housing policy and on development more generally.

Oxfam GB (2009) launched a new Urban Programme Strategy that aimed to build on the organization's strategic comparative advantages, bringing its experience elsewhere into the urban sector in Kenya. The organization's strengths include coordinating partnerships with key stakeholders, bringing the organization's experience in peace and conflict transformation in other parts of rural Kenya into the urban arena, capitalising on its international status in terms of resource mobilisation, and utilising its expertise on water, sanitation and food security to support local organisations in delivering basic urban services.

The strategies main area of concern was provision of essential services and social protection programmes to support a minimum standard of living for slum dwellers public health, food and income security interventions. The report focused on population densities that are higher than 1,000 people per hectare in the slums - compared with as low as 4 per hectare in Nairobi's wealthy areas meaning that affordable and decent housing was a scarce commodity in the slum areas where majority of the urbanites lived.

Economist Krugman (2010), argued that the simultaneous growth of the residential and commercial real estate pricing bubbles undermines the case made by those who argue that Fannie Mae, Freddie Mac, CRA or predatory lending were primary causes of the crisis. In other words, bubbles in both markets developed even though only the residential market was affected by these potential causes. Whereas the advertisement might state that 1% or 1.5% interest would be charged, the consumer would be put into an adjustable rate mortgage (ARM) in which the interest charged would be greater than the amount of interest paid. This created negative amortization, which the credit consumer might not notice until long after the loan transaction had been consummated.

Low, S.P. (1992), while studying the c the local construction industry in Singapore, found out that the poor economic performances experienced as well as other regional economies since July 1997 were not immune from the vagaries of downturn. In view of this lacuna, he set out some

objectives on review of existing management theories which explain the behaviour and strategic responses of firms in an economic downturn; an examination of the measures and strategies adopted by construction firms, which help to tide them over the financial crisis and its associated uncertainties and determined if the behaviour and strategic response of construction firms to the financial crisis can be explained by current management theories.

GO Kenya/UN Habitat (2003), under the slum upgrading programme aimed to improve the livelihoods of people living and working in Kenya's slums through provision of security of tenure, housing improvement, income generation and physical and social infrastructure. The UN-HABITAT's role in the programme was supplementary; its activities were focused on the provision of technical advice, capacity building of the relevant local authorities and communities, provision of basic infrastructure, and testing of innovative slum upgrading approaches through pilot projects.

World Bank Policy Paper (1991), reviewed the rapid demographic growth that was to add 600 million people to cities and towns in developing countries during the 1990s, about two-thirds of the expected total population increase. Of the world's 21 megacities, which will expand to have more than 10 million people, 17 will be in developing countries. With urban economic activities making up an increasing share of GDP in all countries, the productivity of the urban economy will heavily influence economic growth.

2.4 Conceptual Framework

The challenges in the growth and sustainability of affordable housing in Kenya has faced critical constraints to non due to some variables that are not easy to influence.

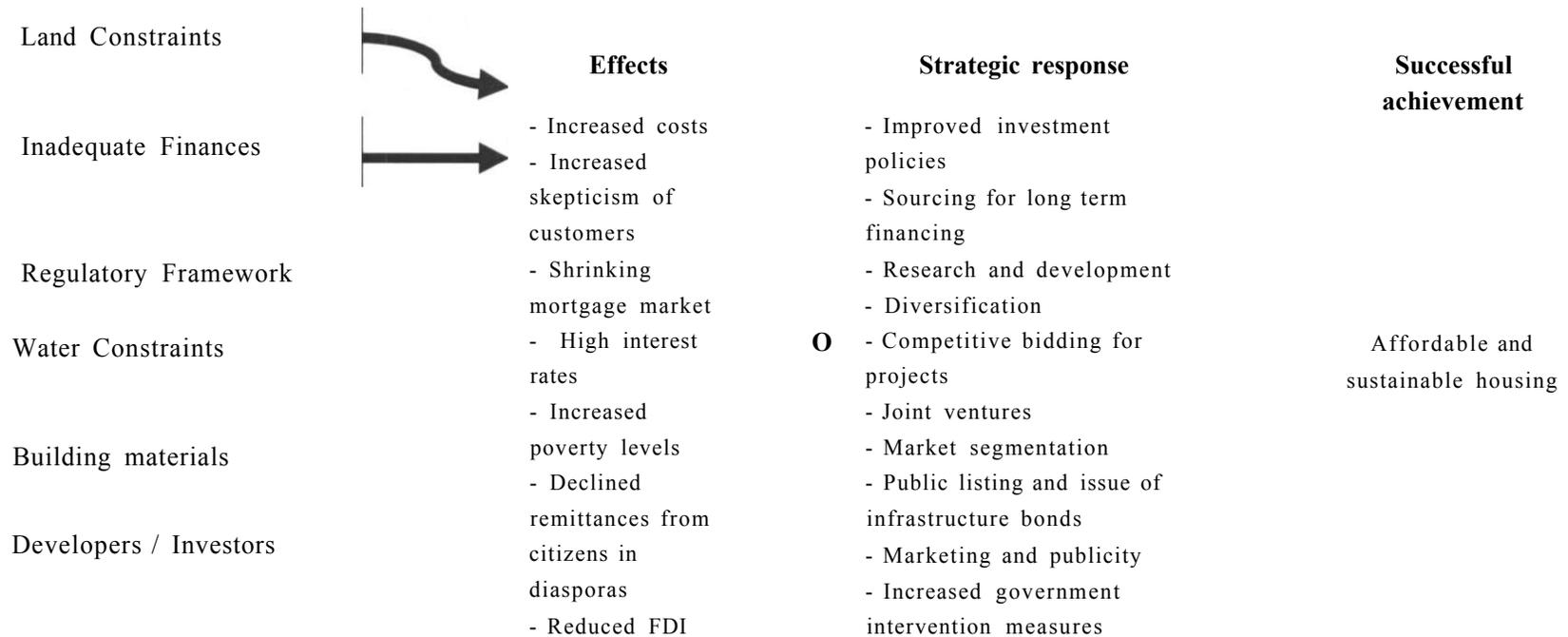


Figure 2.

2.4.1 Land Constraints

This has come to be known as the single most critical challenge in the housing industry in particularly true of the urban areas because the land is highly valued and is mostly in the hands of the central government and the local authorities. The only other land owners are speculators seeking to make a quick buck. This makes land inaccessible to the majority who need it most but cannot afford its premium price.

2.4.2 Lack of Adequate Financial Base

The financial set up in the housing market in Kenya as indeed elsewhere is such that those offering funding seek to make a profit and declare dividends for the shareholders because that is what they are in business for. The money market is expensive due to relatively higher risks that raise interest rates. The exception is the central government and the local authorities who have obligation to provide decent housing for all their citizens. Unfortunately for a variety of reasons the revenue collected through taxes and service charges is not sufficient to cover housing needs by the Government due to other pressing needs like national security.

2.4.3 Regulatory Framework

The Government through the Ministry of Housing whose mandate is to co-ordinate and direct all housing development activities. The Ministry of Housing has been in existence, though as different departments of various ministries that implemented housing policies at different times.

Between 1990s and 2004, Housing was together with Roads and Public Works as the Ministry of Roads, Public Works and Housing. In 2004, Housing was moved to the Ministry of Lands and Settlement and the new ministry was named Ministry of Lands and Housing. Despite the inconsistency in placement of the key docket of Housing, the core functions of the departments that currently constitute the Ministry of Housing have remained the same. In December 2005, following Government reorganization, the Ministry of Housing was re-established. This has greatly contributed to the poor development and sustainability of housing in Kenya.

2.4.4 Water Constraints

The availability of clean water in both the rural areas and urban has posed the biggest challenge not to the housing developers but the commodity has been scarce in all fronts due to

poor policies on harvesting and harnessing and the problem seems not to relent. The scarcity of this commodity has contributed significantly in housing projects in the country.

2.4.5 Building Materials

The country has been relying heavily on natural blocks that are made in quarries and the advent of new concerns in respect to environment degradation has given quarry mining of building blocks and sand be nightmarish in that miners has no alternative but to abide the stringent rules and regulations governing rehabilitation of land thereafter. This has seen a steep rise in the prices of building materials and not necessarily of the appropriate types.

2.4.5 The Developers / Investors

With the exception of a few champions in the market who have huge resource base, a few players have entered the housing development business given the huge capital outlay required. Matters have not been so rosy though even in the advent of cheap loans from financial institutions has not helped much given other factors like poverty levels and the percentage number of citizens with ability to repay mortgage facilities.

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CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

This chapter dwells in the methodology used to carry out the study, a description of the design model, study areas, types and sources of data, research instrument, data collection and analysis.

3.2 Research Design

This research design was a case study and borrowed from various studies carried out especially by the UN Habitat, which had put together various international experiences, into volumes of very readable text analysis. I looked at the various definitions of informal settlements, low cost housing, and eventually zeroed in on the National Housing Corporation. Mugenda (2003) referred a case study as an in-depth investigation of individual, institution or phenomena. Since the study sought to identify the effects of the 2008 global economic meltdown on the provision of affordable housing in Kenya, case design was deemed more appropriate to fulfill the objectives stated.

Quantitative data that was numerical in nature like the number of housing units NHC has been able to construct and sell, rent or lease since it was established, the number of clientele NHC has been able to serve successfully while the qualitative data zeroed in on non-numerical data.

The study approach was descriptive in nature as it offered a more appropriate methodology and enabled the researcher to gain in-depth understanding of what NHC stands for and the strategic responses employed towards overcoming the challenges posed by the global economic crisis.

This study dwelled more on the strategic responses on the global meltdown employed by NHC

in the provision of affordable and sustainable housing in Kenya. For comparison purposes, the study roped in KCB S&L Mortgage in the data collection loop. This came in handy to have a great feel of the goings in the construction and housing development industry in Kenya.

3.3 Data Collection

Greater affinity to the research in carrying out interviews on senior staff of NHC, and to give further insights in the housing problems or solutions the research also indulged other asset

developers in the industry like KCB S&L Mortgage wholly owned subsidiary of Kenya Commercial Bank Ltd, which is one of the oldest mortgage finance company in Kenya having been established in 1949 as a branch of Savings & Loan Society.

Interviews were conducted to get primary data as this gave in-depth thoughts, emotion and personal views of interviewees. The interviews will allow respondents' views to unfold freely rather than the predisposition of the researcher (Marshall and Rossman, 1997). Reference to secondary data, use of the internet and other publications formed the basis of data collection avenues for this research paper.

Secondary data was used in the research paper. This was through the NHC and KCB S&L Mortgage publications, Government publications, UN Habitat papers and any write-ups by scholars and interested parties in the construction and housing development industry in Kenya.

3.3 Data Analysis

Data was analyzed to explain the cause-and-effect phenomena in global economic crisis, relate the data collected on the study and the real world issues of affordable housing in Kenya. Logical / Matrix analysis was used like flow charts and tables to pictorially represent these, as well as written descriptions on the social aspects while the statistical inferences were used to draw a clear understanding on the effects of the global meltdown on housing in Kenya.

Being a descriptive research, data was analyzed on the extent to which it is relevant and its impact on the case study.

CHAPTER FOUR

4.0 DATA ANALYSIS AND PRESENTATION OF FINDINGS

4.1 Introduction

This chapter represents the analysis of the data collected in order to fulfill the study objectives. Both the primary and secondary data collected have tried to address the objectives of the study. This having been a case study looked at the strategic response by NHC in the face of provision of affordable houses in Kenya.

4.2. Strategic Response by NHC to the global economic meltdown

In the face of the global economic meltdown experienced in the USA, NHC was not left out in the after shocks and employed a number of strategies to cushion itself for the medium and long term.

Internal Strategies	External Strategies
<ul style="list-style-type: none">- Improved investment policies- Research and development- Diversification- Competitive bidding for projects- Marketing and publicity- Restructuring- Change of management style and corporation culture	<ul style="list-style-type: none">- Joint ventures- Market segmentation- Increased government intervention measures- Sourcing for long term financing- Public listing and issue of infrastructure bonds

Figure 3: Internal and external strategies

Source: NHC Strategic Plan 2008 - 2011

4.3 Strategic Response by NHC on Global Economic Crisis

NHC responded to the economic crisis by employing some fundamental strategies as outlined hereunder to mitigate the adverse effects of the crisis;

4.3.1 Improved investment policies:

The aftermath of the global economic meltdown ushered in a new dawn on how NHC conducted its investment and drew up more enhanced policies that will withstand the test on time. NHC developed a human resource policy, investment portfolio policy and drew up a mid-term strategic plan as a road map towards achieving stability, strengthen and sustain its operations.

4.3.2 Sourcing for long term financing

Financing has been and will always be a management nightmare as long as the avenues available are not adequate or the underlying conditions therein are stringent and user unfriendly. NHC has since partnered with institutions that offer long term lending at favourable rates in order to finance the construction of new affordable houses.

4.3.3 Research and development

Organizations world over have little choice but to embrace the expensive but mondus operadi of choice and engage in serious research in the development of products in line with market demands.

4.3.4 Diversification

Chen, (1985) and Whiltington, (1989), suggested that overseas investments as well as upstream/downstream diversification help to spread risks in any portfolio set up, thus NHC has diversified from its traditional provision of houses. Diversification as a management tool of development of both new products and offloading same in new markets, the economic crisis taught many organizations great lessons and NHC was not left out and diversified from its traditional products and services and included provision of consultancy services in the construction industry, project management on behalf of clients and real estate management services.

4.3.5 Competitive bidding for projects

In order to reduce costs for its houses, NHC in adherence to the Public Procurement and Disposal Act 2005, reverted use of the open tendering system of securing contractors for housing projects. Its popularity suggests that construction firms are seizing opportunity to obtain lower bid prices through competitive tendering rather than to seek the services of familiar subcontractors through negotiation. This appears to be in line with the drop across the board in tender prices for public sector building projects as well as monthly price indices. In

line with public procurement procedures NHC has adhered to the provisions of the Public Procurement and Disposal Act 2005 and Regulations 2006 in such for value for money.

4.3.6 Joint ventures

As has been discussed in this study organization do not have monopoly of knowledge nor resources and thus NHC went out to the market in search of partners to join hands in the development of sustainable and affordable housing. Such partnerships are characterized by the sharing of the investment risks, responsibility and rewards between the partners. The reasons for establishing such partnerships vary but generally involve financing, design, construction, operation, technology transfer, better and faster production methods etc. The partnerships NHC has crafted generally involve financing, design, construction, operation, technology transfer, better and faster production methods etc.

4.3.7 Market segmentation

This is the informed by a research process where NHC identified the different needs of Kenyans and came up with a market segmentation strategy in order to be able to serve each market's unique needs. Instead of going for the mass market, NHC after carrying out research on the market dynamics segmented the market to serve and niche on the middle class population with a view that this category of Kenyans had the ability to pay for the mortgage facility.

4.3.8 Public listing and issue of infrastructure bonds

This has been gaining general acceptance after the Capital Markets Authority (CMA) saw the need to help both Government and private institutions to raise much needed funds to finance infrastructure projects around the country. According to Chen (1985), companies may want to consider going public to tap a wider capital base. NHC intends to issue an infrastructure bond in future if the Board of Directors adopts this suggestion and the necessary authorizations are secured from the relevant bodies.

< NHC is commercial public institution that is also exploring the possibility of listing at the Nairobi Stock Exchange to enable it raise more funds through Initial Public Offer.

4.3.9 Marketing and publicity

This has also become to be accepted as business strategic tool of reminding the already well informed populace that NHC is still up and running and has a wide range of products and services from where willing buyers can sample from. The economic downturn, which caused a decline in consumer spending power, offered opportunities for profitable sales in so far as improved products are concerned (Committee for Economic Development, 1954). Marketing is therefore a more desirable alternative to increase volume instead of cutting profit margins or continually discounting prices (Morine, 1980). Palmer (1991) argued that companies wishing to thrive in an economic downturn should not be cutting back on marketing and product development but should instead increase the budget for marketing activities.

As part of its marketing function, the NHC has kept in constant touch with its existing client base, introduce quick adjustments to its portfolio, and re-focus on client's needs for financing, promotion, quality and design (Palmer, 1991). Attention has also be paid to delivery, time-saving product features, reliable after-sales service and back-up, aesthetic features of the product, a unique, functional and convenient feature of the product (Palmer, 1991; Morine 1980). Marketing policies have been redefined in line with customer shifts for more value-adding products/services at lower prices (Slatter, 1992).

4.3.10 Increased government intervention measures

The Government like a parent is duty bound to protect its children at all times, hence NHC has resorted to government intervention at the hour of need thus cushioning itself from the adverse effects of economic crisis. This included increased financing,

4.3.11 Restructuring

Restructuring is the process of transferring production from an expensive site to a cheaper one. It may involve the transfer of activities from a developed to developing country or from high to low wage countries (Cordova and Dror, 1984) as in the case of Japanese firms moving their operations overseas (King, 1997). Townsend (1983) observed that in the 1980's recession in the United Kingdom, virtually all major corporations at some point in time restructured their activities in the face of over-capacity and high costs.

NHC adopted this strategy as part of the government efforts to embrace austerity measures in the management of public institutions. NHC adopted process restructuring, that covered

marketing, product development, production purchasing, finance and services as identified by Kozminski, (1997). Its main objective is to bring the company to an acceptable minimum level of performance. This led to improvement in quality, elimination of waste and reduction of the production cycle in terms of construction process. Cost improvement can be achieved through out-sourcing and buying directly from the producer. Selection of local talents, with some background in management and providing them with training, formed part of functional restructuring process. Staff are encouraged to acquire new skills and to further develop skills and capabilities that they already possessed .

4.3.12 Change of management style and corporation culture

NHC being a government institution has not been able to shed the shenanigans each public institution has suffered since inception, thus after a thorough SWOT analysis it was time to adopt to the changing economic environment and culture was one of the items identified for change. G. Hofstede (2004), defined culture as more often a source of conflict than of synergy. Cultural differences are a nuisance at best and often a disaster if not managed well. A cultural and management change was inevitable if NHC had to sustain its operations in a very competitive environment. The demand push ideology was replaced with a demand pull concept.

Bureaucracy which was the norm instead of the exception in most government institutions but due to the paradigm shift after change of government in 2003, the management had to adopt a more friendly and participatory approach in managing NHC affairs to be in line with the new government thinking. This has increased NHC visibility and uptake of its products and services by the public.

CHAPTER FIVE

5.0 SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter gives a summary of the findings of the projects, objective conclusion and recommendations therein based on the objectives of the study.

5.2 Summary of findings

The objectives of the study as outlined in Chapter One of this research project were to determine the critical challenges facing general housing in Kenya, evaluate the mitigation strategies employed by National Housing Corporation to safeguard against future global meltdown and draw recommendations on the post crisis outlook and the way forward in the housing industry.

The study found out that the strategic responses employed by NHC in the face of global economic meltdown that started in America in late 2008 were varied in that they were both external and internal in nature.

The findings were in concurrence with the agreed view that the global economic meltdown caused by the housing bubble bust could have been handled better were it not for skewed thinking and total failure of control of the mortgage managers of the real estate institutions that had been entrusted with funds to provide affordable housing to the growing population of USA.

As Oxfam UK observed that the face of poverty in Kenya is changing and the country is facing a new urban crisis. Nairobi is facing rapid urbanisation, yet the divide between rich and poor is growing wider and 60 per cent of residents now live in slums with no or limited access to even the most basic services. Urban poverty is set to be Kenya's defining crisis over the next decade if it is not urgently addressed.

The private partnership is hoped shall open up more avenues for NHC to exploit in terms of capacity building, finance, facilitates acquisition of land as a key resource suitable for

housing development while the partners mobilizes financial resources. Provision of technical know-how / consultancy in housing development and partner provides finance by NHC, benefit of cheap housing construction projects technology by partners; development of houses for groups with specific needs geared towards Kenyans in diaspora as NHC is able to package and deliver a housing scheme of not less than 30 units thus boosting the total houses available to needy Kenyans.

The restructuring measures taken by NHC provided continuous cuts in supplier costs; direct sourcing from suppliers; encourage individual participation through quality circles; introduce new methods of managerial control; and explain current difficulties faced to employees.

The more popular cost-cutting measures include: more competitive bidding for subcontracting works; freezing salaries; training staff to look for ways to cut costs; cutting bonuses; employing staff on a project basis; cutting overtime work; and keeping only the core personnel.

Through the collaboration with development conscious partners NHC is currently developing 38 units in Kiambu Phase III with an average price tag of KES 3.5 million per unit; 890 flats in Langata, Nairobi with average price tag of KES 3.75 million per flat and 100 apartments in Kilileshwa, Nairobi that range from KES 5.5 million to 12 million per apartment

NHC is on a rollercoaster with major programmes of housing projects in other towns of Kenya in Kisumu, Kakamega, Kisii, Kericho, Machakos and Nyeri to rolled out in the not distant future.

The findings revealed that the devastating effects of the global meltdown experienced mostly in 2009 are slowly waning out given the responses NHC employed coupled with the Government intervention measures

The Kenyan urban housing sector is characterized by inadequate affordable and decent rental housing options, low-level of home ownership (about 16%) extensive and inappropriate dwelling units including slums and squatter settlements. It is estimated that while a total of 150,000 housing units are required annually in the urban areas to cater for the backlog, only about 30,000 units are developed every year. This scenario creates a great opportunity for

investing in housing in our country. The returns to an investor have been shown to be significantly good.

Demand for housing, particularly in urban areas, has continued to rise without requisite movement on the supply side. This has pushed prices up making the houses affordable to but a few. Scarcity of well-located land in the city of Nairobi for example, has directed housing development along Mombasa and Kangundo Roads where land is still available at relatively lower costs.

In the process, redevelopment option has been pursued by various developers. There is heightened activity in the development of apartments, to meet the ever increasing demand, in hitherto single family residential neighbourhoods of Kilimani, Kileleshwa, Lavington, with a view to minimise the costs of running single family residential homes (security, gardener/ground maintenance, garbage collection utility bills etc). This shift in interest has therefore influenced housing delivery packages being put forth by various developers.

The growing demand has given a window of opportunity to speculators and money hungry individuals who have now engaged in building of substandard houses across the country mostly by quacks in the name of contractors supervised by another set of quacks filling the shoes of quantity surveyors. The most recent tumbling of houses around Nairobi (Daily Nation 20th October 2009), where architectural engineers blamed the owner of the collapsed building that killed at least 6 people on the use of quacks as advisors in construction.

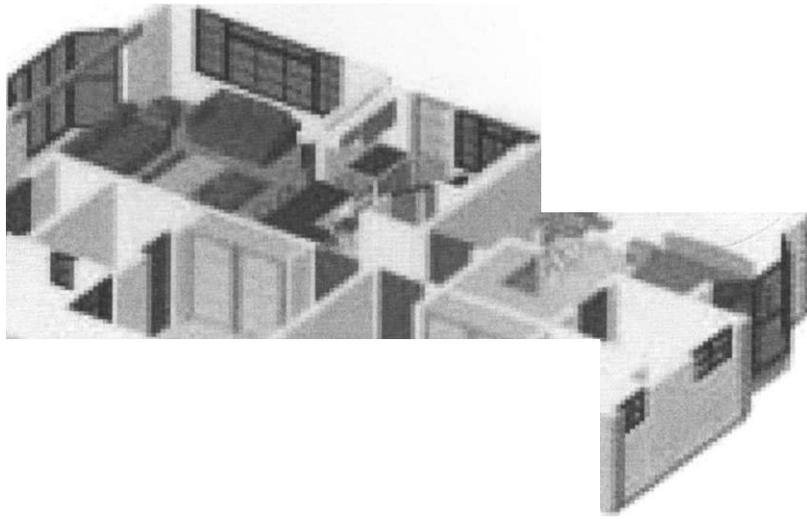


Figure 4: Architectural impression of the proposed 4 bedroom apartment in Kileleshwa, Nairobi

Source: NHC

These type of houses are targets for family occupancy given the growing number of family households in Kenya.

The findings also revealed that due to the short supply of land, NHC has restructured its development policy and most of the bungalows that characterized its modus operandi has changed to putting up of high-rise buildings that will accommodate more housing units like the case of Kisii town where NHC intends to develop nearly 40 (2 bedroom) units to help alleviate the housing shortage experienced. The proposed sites currently accommodate 6 NHC rental bungalows which are to be demolished to pave way for the modern units.

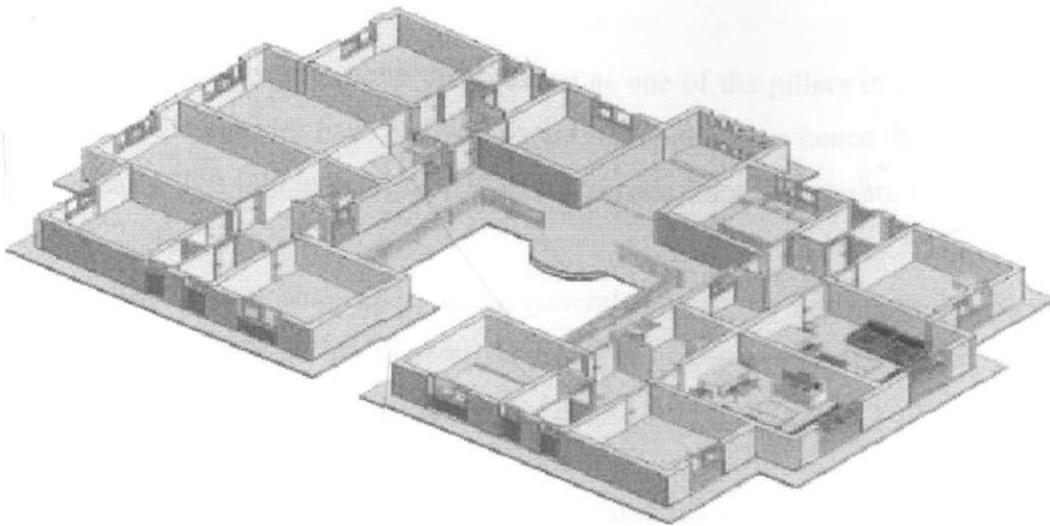


Figure 5: Architectural impression of the proposed 2 bedroom flats in Kisii town

Source: NHC

The need for different type of houses through differentiation is evident in NHC development plans. As high-rise building in major towns like Nairobi and Kisumu are the choices for most customers, towns like Kericho where land is still relatively accessible and affordable, NHC is developing 3 bedroom 52 bungalows units for its customers.



Figure 6: Architectural impression of the proposed 3 bedroom bungalow in Kericho town

Source: NHC

5.3 Conclusion

From the study it was evident that housing as one of the pillars in cultural development, the players in the industry have had got a good run on the issue hence the ever spiraling slums in the country. The following observations were made from the case study;

1. The critical challenges facing general housing in Kenya are multidisciplinary and cannot only be pegged on the economic meltdown experienced after the housing bubble bust in the USA in the late 2008.
2. That Government intervention is critical in the provision of affordable housing for the growing citizen population in Kenya.
3. Formal strategic planning for competitive advantage is not a panacea but a leverage tool given the dynamic nature of the economic environment and the goings on in different markets around the globe.
4. The days of lone rangers in the commercial world are long gone and buried hence the paradigm shift from I can manage to a collaborative and partnering business environment as long as the choice adds value to the customer.

The second objective of the study was to evaluate the mitigation strategies employed by National Housing Corporation to safeguard against future global meltdown. An interesting finding in the research is that NHC had limited options in the wake of the meltdown but to device other strategies of survival in business environment that could easily be shaken by the acts of omission in far Hung cities of in one of the developed economies. The research too found out that there a variety of both internal and external strategies that organizations like NHC have to employ in order to remain relevant in a global competitive world.

The third objective of the research was to draw recommendations on the post crisis outlook and the way forward in the housing industry. The research drew cross references on the happenings in the post reactions in Kenya and concluded that the aftermath of the tough times brought about by the economic meltdown is slowly being replaced by a recovery path filled with hope and high expectations world over. Many economies are showing signs of recovery

while others are way ahead on the recovery path. In this regard companies like NHC can safeguard their interests and those of its customers through;

1. Anticipation of change in the market and engaging the what if gear and thus business leaders will have to master the disciplines of uncertainty.
2. Cut expenditure and focus on core business to widen the gap in profit margins
3. Outsource non core businesses process
4. Improving regulation through the available avenues through lobbying and influencing
5. Strengthening corporate governance
6. Fostering innovation and creativity
7. Promoting trade, investment and competition
8. Developing policies for sustainable growth

From the analysis of the data collected and the responses from the interviews conducted, the main challenges facing NHC in the provision of affordable housing in the country were;

1. Land Constraints
2. Lack of adequate Finances
3. Internal human capacity
4. High demand for houses
5. Political interference
6. Stiff competition
7. Technology
8. Management style and structure

9. Economic factors like inflation, interest rates, exchange rates etc

5.4 Limitations of study

The researcher used a case study to answer a broad challenge of housing in Kenya by looking on at NHC yet the providers of housing range from the brief case soloist in the streets of major towns as in evident whenever one drives along the major highways and estate roads. One comes face to face with many adverts pinned on trees or stamped in strategic positions for ease view of passersby announcing the availability of residential houses ranging from the most posh to the meanest areas of the cities.

This reality means that NHC was not necessarily a representative of the players in the housing industry hence may provide a limited view of the actual position.

5.5 Recommendations

From the findings of the research, it is evident that many policies and working papers have been developed in respect to housing in Kenya but due to various factors including political interference in the implementation of such policies, the state of housing in Kenya shall not improve as long as the players do not take concrete steps in addressing the short falls.

The Government must do more than at the moment since it recognizes that a productive nation is one which is well housed and in any case it is a physiological need. The Kenya Government is obliged to develop a home grown solution and take advantage of housing the UNCHS Habitat on its soil, where it seems to benefit others out there.

The Government should have a policy on avoiding relocation as much as possible and instead regularize the stay of the settlers, and enable upgrading of the houses. Wholesome and potable water should be available and affordable. Right now the water in informal settlements is very expensive more than in the formal areas! The land tenure matter cannot be wished away, and with it come the impetus for those living in slums to improve their habitats. They will not do so until and unless they are assured of a certain sort of permanency residency. Government must work its policy on land banks, reserving it for informal settlements.

Government must come up with a housing act that addresses homelessness in rural and urban areas. A policy that recognizes the basic right of every citizen's right to shelter. The research into building materials and construction technology should take on a whole new meaning. It should be undertaken with a purpose not just for its own sake as at the moment. There ought to be more experiments with not just locally available materials, perpetually copying Western architecture, but also conduct more studies into the original African architecture of grass, cow-dung and mud. It is said to be cool and keeps away mosquitoes!

For informal settlements policies to be successful the much talked about graft and apathy that has been a cornerstone of our self-inflicted poverty must be reversed, and make the public sector, more accountable to the Kenyan people. The informal settlers must be involved in the design of policies intended for them so that they can take ownership of them, given the chance

and a level field they are capable of making informed decisions and embracing the outcome of their execution.

There is hardly mention of informal settlements in Rural Kenya and too much emphasis on the urban areas. Yet the majority of the population lives in the country. Perhaps these majorities are voiceless, and someone has to speak for them. With some budgetary allocations channeled to the rural areas the outcome will be more visible sooner than in towns. This must be corrected and suitable approach designed to cater for this majority if for nothing else but to retain the more able bodied and thus help fast track rural development as well and stem congestion in the cities.

NHC should take note of the newly promulgated constitution as outlined in Section 43 which entrenched the provision of affordable housing as basic human right. In pursuit to this section and the Sessional papers, NHC job is well cut.

5.6 Further Study

The researcher narrowed himself to NHC which is a Government body and in this respect he recommends further research to be carried out how other players in the housing sector were affected by the global economic meltdown in general. Further research is also recommended to find out the role the USA government had or did not have in abetting the crisis.

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APPENDIX I: LETTER OF INTRODUCTION



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Date

TO WHOM IT MAY CONCERN.

The bearer of this letter

Registration No

/
is a Masters of Business Administration(MBA) student of the University of Nairobi.

He is required to submit as part of his coursework assessment a research project report on a management problem. We would like the student to do his project in real problems affecting firms in Kenya. We would therefore appreciate if you assist him by allowing him to collect data in your organization for the research.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you

Dr. W.N. Iraki
CO-ORDINATOR, MBA PROGRAM.

APPENDIX II: Interview Guide

Section A. Background Information

1. How long have you worked with NHC?
 - a. 0 - 3 years
 - b. 3 - 5 years
 - c. Above 5 years
2. Please indicate your current position
3. How long have you served in that position

Section B. Main Questions

1. Briefly describe NHC and when it was started.

/

2. What are the objectives of NHC

3. Does NHC have a strategic plan? (tick)

a. Yes

b. No

If
reasons

no,

above

give

4. What are the key highlights of the strategic plan?

/

5. How does the implementation of the strategic plan affect the overall core business?

6. What is the management structure of NHC?

7. Briefly outline the customer base of NHC?

8. What is the current market share of NHC?

9. How many houses has NHC been able to develop since being established in the following towns?

	Flats	Bungalows
a. Nairobi		
b. Mombasa		
c. Malindi		
d. Kisumu		
e. Eldoret		
f. Machakos		
g. Embu		
h. Nyeri		
i. Nakuru		
j. Any other town		

10. Which of the following do you consider as the most challenges both internal and external to NHC operations? (tick)

- a. Land Constraints
- b. Lack of adequate Finances
- c. Regulations and Government interference
- d. Water Constraints
- e. Building Materials
- f. The Developers / Investors
- g. Internal human capacity
- h. High demand for houses
- i. Political interference
- j. Stiff competition
- k. Technology
- l. Management style and structure
- m. Economic factors like inflation, interest rates, exchange rates etc

11. Of recent is the global economic meltdown that started in USA due to non-performing mortgage loans. How did this meltdown affect the operations of NHC?

12. What strategic responses did NHC employ in wading off or minimizing the effect of the global economic meltdown?

13. In your own opinion; do you think the USA Government did enough to minimize the overall effects of the problem?

/

14. How do the NHC operations relate to the UN Habitat policies?

15. The new constitutional dispensation under the Bill of Rights on Section 43 gives Kenyans a right to decent and affordable housing, what challenges and opportunities does this offer to NHC?

a. Challenges

b. Opportunities

/

Thank you for taking your time to answer my questionnaire and may the Almighty God bless you always.

APPENDIX III
LIST OF TABLES

#	Town	Flats (units)	Bungalows
1	Nairobi	725	
2	Mombasa	48	8
3	Nakuru	1,172	0
4	Kakamega	80	0
5	Kericho	52	0
6	Nyeri	0	45
7	Kisumu	1,090	0
8	Kisii	40	0

Table 3. No. of Houses developed by for outright sale NHC.

Source: NHC

NAIROBI PROVINCE		TYPE OF SCHEME	NO. OF UNITS	VALUE k£
		Tenant Purchase	5,486	45,813,191
		Mortgage	1,750	16,554,193
		Rental	4,000	7,125,269
		Prefabricated	67	32,000
		Site & service	8,328	6,335,171
	NHC Depot	NHC Stores	1	62,156
	NHC House	NHC HQS	1	659,606
	Kariobangi	Owner Builder	16	7,600
	Pumwani Urban	Renewal	660	1,010,000

Table 4: Past housing developments by NHC in Nairobi Province

Source : NHC

COAST PROVINCE		TYPE OF SCHEME	NO. OF UNITS	VALUE k£
		Site & service	617	770,840
		Rental	2,656	5,628,484
		Tenant Purchase	387	1,853,597
		Mortgage	149	1,455,394

Table 5: Past housing developments by NHC in Coast Province

Source : NHC

NYANZA PROVINCE		TYPE OF SCHEME	NO. OF UNITS	VALUE k£
		Tenant Purchase	359	859,952
		Site & service	1,003	1,779,284
		Rental	955	602,625
		Mortgage	83	758,557
		Own Builder	3	4,975
		Commercial plots	7	33,190

Table 6: Past housing developments by NHC in Nyanza Province

Source : NHC

WESTERN PROVINCE		TYPE OF SCHEME	NO. OF UNITS	VALUE k£
		Site & service	874	792,981
		Rental	844	1,073,590
		Tenant Purchase	471	472,608
		Mortgage	50	472,608

Table 7: Past housing developments by NHC in Western Province

Source : NHC

EASTERN PROVINCE		TYPE OF SCHEME	NO. OF UNITS	VALUE k£
		Site & service	749	315,593
		Rental	206	315,593
		Tenant Purchase	582	2,901,192

Table 8: Past housing developments by NHC in Eastern Province

Source : NHC

RIFT VALLEY PROVINCE		TYPE OF SCHEME	NO. OF UNITS	VALUE k£
		Site & service	3,854	4,267,369
		Rental	2,393	2,060,878
		Tenant Purchase	870	2,045,791
		Mortgage	373	3,930,705

Table 9: Past housing developments by NHC in Rift Valley Province

Source: NHC