KENYA MORTGAGE REFINANCE COMPANY

STATE OF BANKING SECTOR MORTGAGE MARKET IN KENYA

KMRC is Licensed and Regulated by Central Bank of Kenya

EXECUTIVE SUMMARY

This Research Brief, underpinned by the Central Bank of Kenya Bank Supervision Annual Report, 2023 provides a comprehensive snapshot of the current state of the mortgage market in Kenya, highlighting the salient features in 2023:

- **First,** mortgage market penetration declined slightly in 2023, with the mortgage-to-GDP ratio falling from 1.94% in 2022 to 1.86%, indicating that mortgage growth has not kept pace with overall economic growth.
- **Second,** outstanding mortgage loans grew by 7.5% to KES. 281.5 billion, while the share of mortgage loans to total banking industry loans declined to 6.7%, highlighting the robust demand for housing finance, though the overall penetration remains low in comparison to the total population.
- **Third,** the mortgage market remains concentrated with the top seven banks holding 80% of the total mortgage market. Notwithstanding the mortgage market concentration, significant growth in the mortgage portfolio is evident across.
- **Fourth,** the average mortgage size stabilized at KES. 9.4 million, and average interest rates rose to 14.3% from 12.3% reflecting the rising cost of housing as well as a response to inflationary pressures and changes in property values.
- **Fifth,** variable-rate mortgages dominated at 88.4%, and mortgage NPLs surged to KES. 40.8 billion, raising the mortgage NPL ratio to 14.4%.
- **Sixth,** mortgage market asset quality stabilized, with the mortgage sector's asset quality, the ratio of mortgage NPLs to outstanding mortgages – standing at 14.4% in 2023, a similar level registered in 2022 reflecting the muted mortgage market risk.
- **Seventh,** the average mortgage tenor continued to lengthen, and in 2023 stood at 11.7 years, reversing the downtrend observed in 2022 where it stood at 10.9 years compared to 12.0 years in 2021, thus reflecting the continued efforts towards ensuring affordability.

Overall, mortgage market in 2024 while navigating the underlying economic uncertainties is expected to remain stable on account of the ongoing government focus on affordable housing and strategic lending approaches to non-shareholders as well as the risk mitigation interventions which are poised to drive increased mortgage uptake.

ABOUT KENYA MORTGAGE REFINANCE COMPANY

The Kenya Mortgage Refinance Company (KMRC) is a non-deposit taking financial institution established in 2018 under the Companies Act 2015. Its mandate is to provide long-term funds to primary mortgage lenders (PMLs) for purposes of increasing availability of affordable home loans to Kenyans. KMRC provides concessional, fixed, long-term finance to the primary lenders who include Banks and Saccos so that they can transfer the same benefits to 'wananchi', making home loans more accessible to especially the moderate to low-income earners in the country.
By increasing the supply of affordable housing finance, KMRC acts as a key lever in the push to increase homeownership in Kenya. Noting that Kenya's mortgage market remains underpenetrated, relative to the potential demand for home ownership, KMRC recognizes the upside potential and the downside risks of facilitating home ownership to the moderate to low-income earners.

KMRC is regulated by the Central Bank of Kenya (CBK), with the Capital Markets Authority (CMA) providing oversight over its bond issuance operations.

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VISION:
To sustainably promote home ownership

MISSION:
To increase affordability of home loans through refinancing

TABLE OF CONTENTS

LIST OF FIGURES & TABLES

ABBREVIATIONS

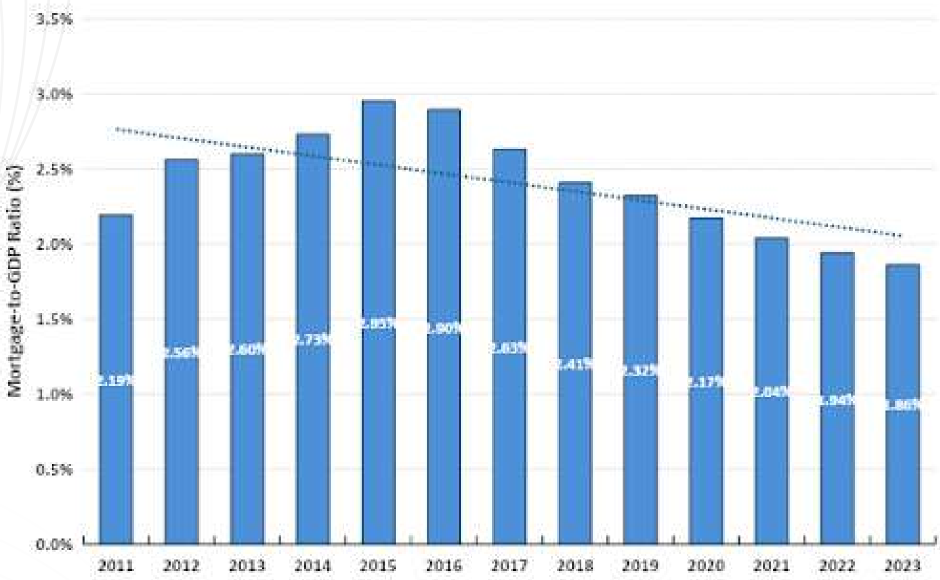
CBK	Central Bank of Kenya
FRM	Fixed Rate Mortgages
GDP	Gross Domestic Product
KES	Kenya Shilling
KMRC	Kenya Mortgage Refinance Company
NPLs	Non-performing loans
VRM	Variable Rate Mortgages

MORTGAGE MARKET DEVELOPMENTS: A HISTORICAL PERSPECTIVE

1.1 Banking sector mortgage depth

Kenya's mortgage depth slightly declined. The mortgage-to-GDP ratio - an aggregate gauge of the importance of the mortgage finance market relative to total economic activity slightly declined from 1.94% in 2022 to 1.86% in 2023 (Figure 1), indicating that mortgage growth has not kept pace with overall economic growth.

Figure 1: Mortgage penetration



Source: CBK Annual Bank Supervision Report, KMRC Research

1.2 Number and value of outstanding mortgages

- **Kenya's mortgage market registered significant growth.** In 2023, the outstanding loans grew to KES.281.5 billion, up from KES. 261.8 billion the previous year—a 7.5% increase amounting to KES. 19.7 billion (Figure 2). Similarly, the number of mortgages steadily rose to 30,015 in 2023 from 27,786 in 2022 translating to annual growth of 8%.

This rise, driven by new mortgage loans, highlights robust demand for housing finance, though the overall penetration remains relatively low in comparison to the total population.

Figure 2: Evolution and growth of outstanding mortgages

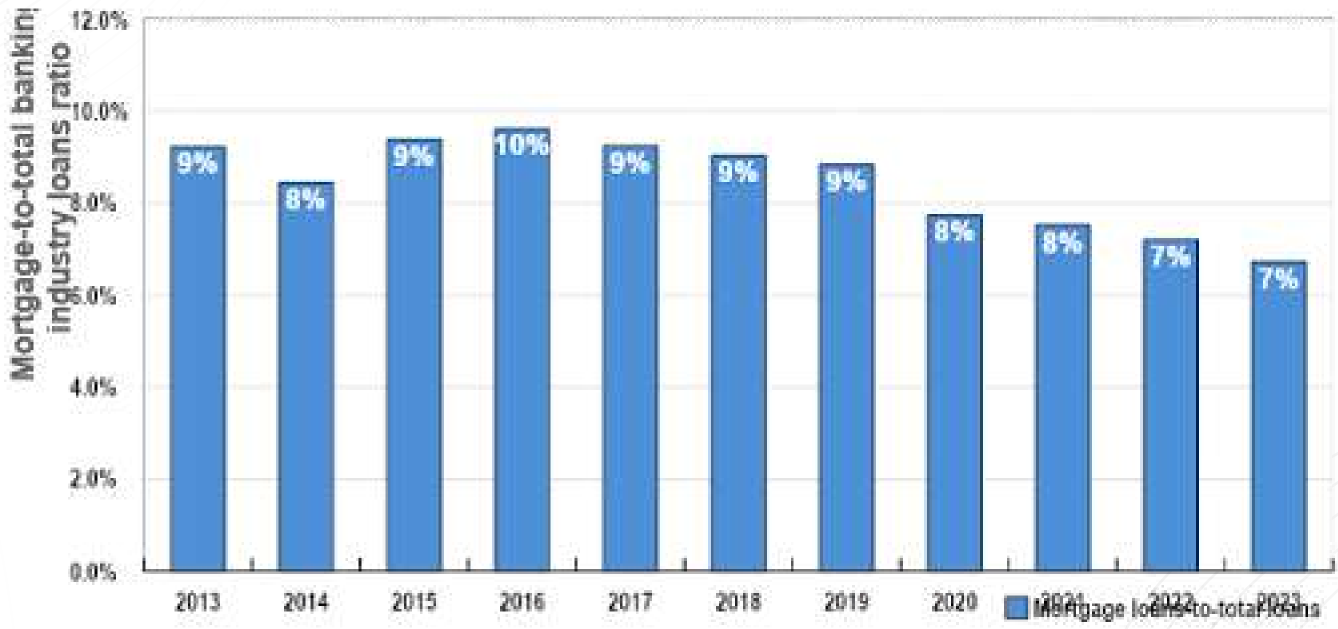
Source: CBK Annual Bank Supervision Report, KMRC Research

1.3 Mortgage-to-total industry loans ratio

- **The share of mortgage loans to total loans has steadily contracted.** In 2023, the mortgage loans to total banking industry loans ratio declined to 6.7% from 7.2% in 2022 **(Figure 3).** The highest ratio is observed at HFC Ltd with 51.2%, Development Bank of Kenya Ltd at 26% and Gulf African Bank Ltd at 13.4%.

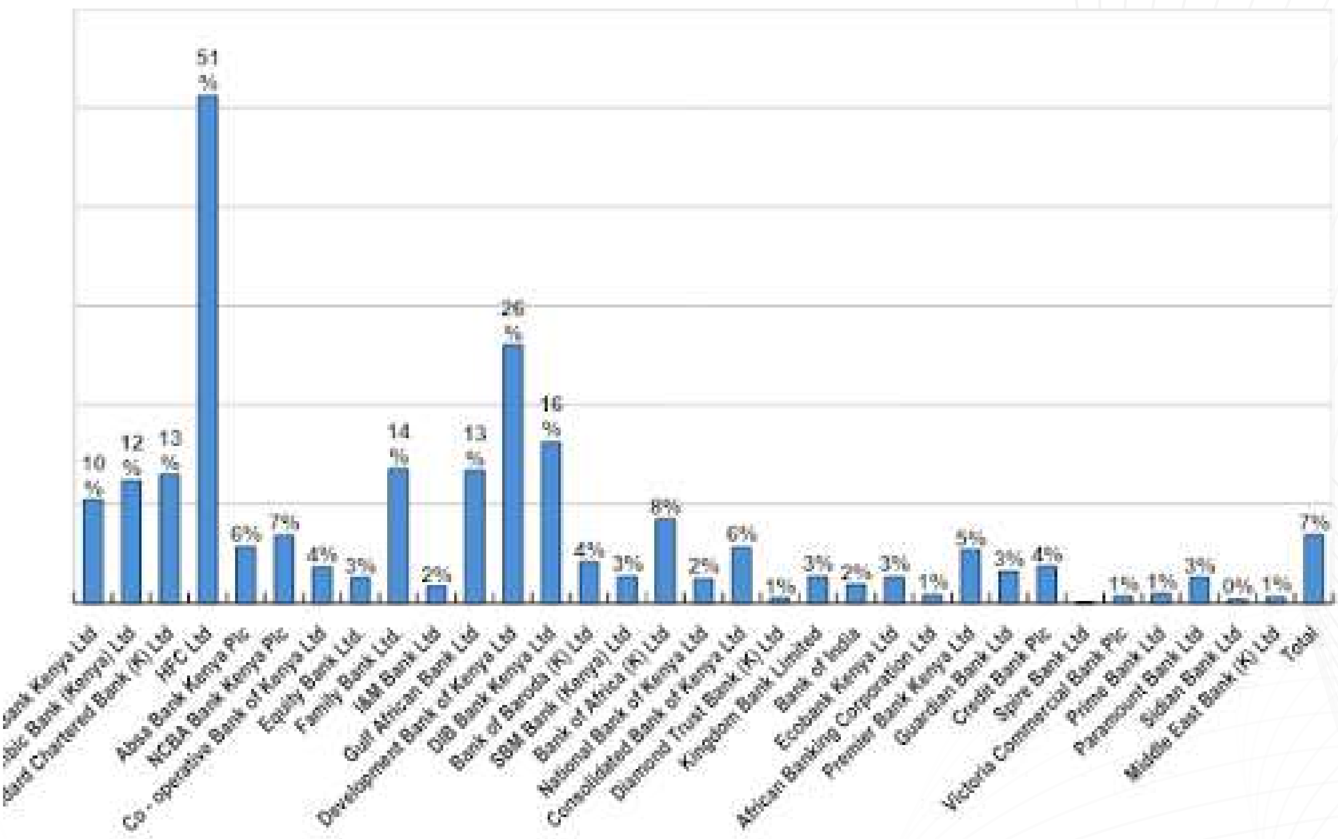
In contrast, banks like Equity Bank Ltd. and I&M Bank Ltd exhibit lower ratios, 3% and 2% respectively **(Figure 4),** indicating a more diversified loan portfolio. This variance highlights differing strategic orientations within the sector, where some banks prioritize mortgage lending as a core activity while others maintain a broader lending focus.

Figure 3: Mortgage-to-total banking industry loans ratio



Source: CBK Annual Bank Supervision Report, KMRC Research

Figure 4: Mortgage loans to total loans ratio per bank

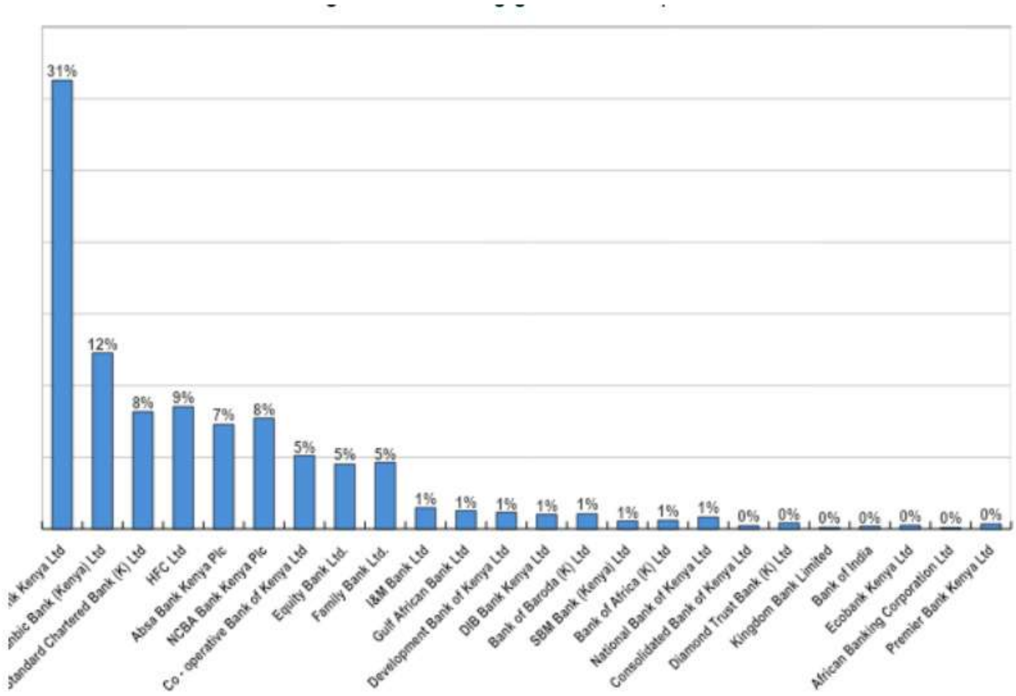


Source: CBK Annual Bank Supervision Report, KMRC Research

1.4 Mortgage market concentration

- **Mortgage market remains concentrated:** in 2023, the top seven banks accounted for 80% of the total mortgage market compared to 78% in 2022 **(Figure 5).** At 31% of the total mortgage loans, KCB leads followed by Stanbic (12%), HFC (9%), NCBA (8%) Standard Chartered (8%), ABSA (7%), and Co-operative Bank (5%), highlighting a more competitive landscape among large and mid-sized players. In contrast, the lower tiers of the market are more fragmented but exemplify the market's diverse nature.

Figure 5: Mortgage market share per bank

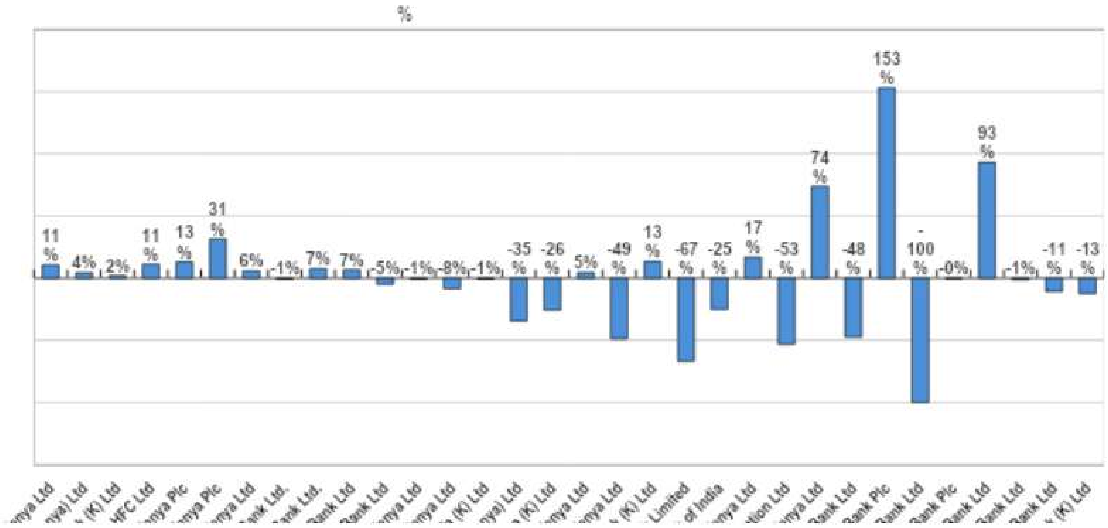


Source: CBK Annual Bank Supervision Report, KMRC Research

- **Notwithstanding the mortgage market concentration, significant growth in the mortgage portfolio is evident across the primary mortgage lenders (Figure 6).** Credit Bank registered growth of 153% in 2023 followed by Prime Bank (93%), Premier Bank (74%), NCBA (31%), Ecobank (17%), DTB (13%), Absa (13%) HFC (11%), KCB (11%), Family (7%), and I&M (7%).

These market growth dynamics suggests that there is significant room for growth in the mortgage market, particularly among medium and smaller banks that currently have a minimal share. Conversely, Spire Bank Ltd has experienced a dramatic contraction, with a staggering 100% contraction, indicating a complete withdrawal from the mortgage market.

Figure 6: Year-on-year growth in outstanding mortgages



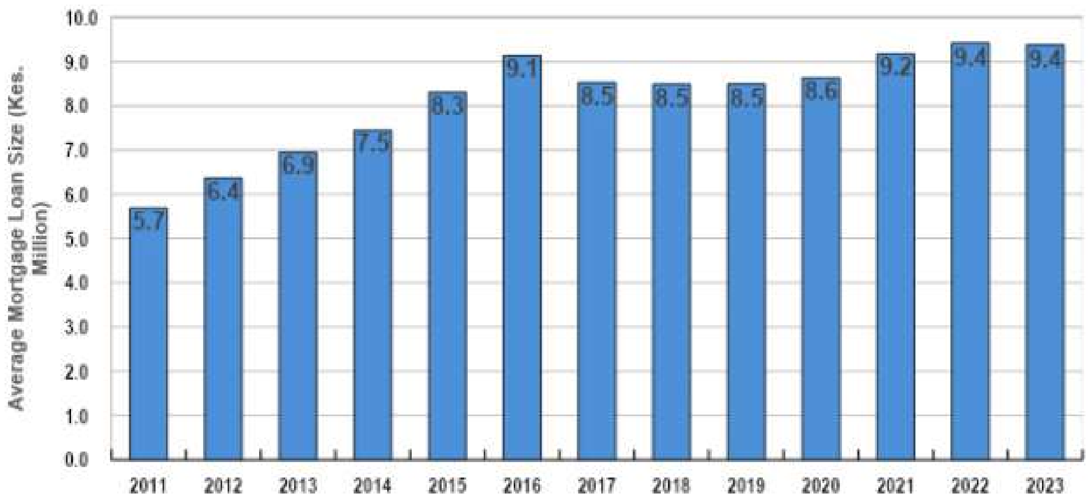
Source: CBK Annual Bank Supervision Report, KMRC Research

1.5 Average mortgage loan size

- **The average mortgage size has consistently edged upwards.** In 2023, the average mortgage size stabilized at KES. 9.4 million, as was also observed in 2022 **(Figure 7).** However, over the last decade it has gradually been increasing from KES. 5.7 million in 2011 reflecting the rising cost of housing as well as a response to inflationary pressures and changes in property values.

A sustenance of the high average mortgage size also raises concerns about affordability and accessibility for lower-income households, highlighting need for interventions to maintain inclusive housing finance.

Figure 7: Average Mortgage Loan Size



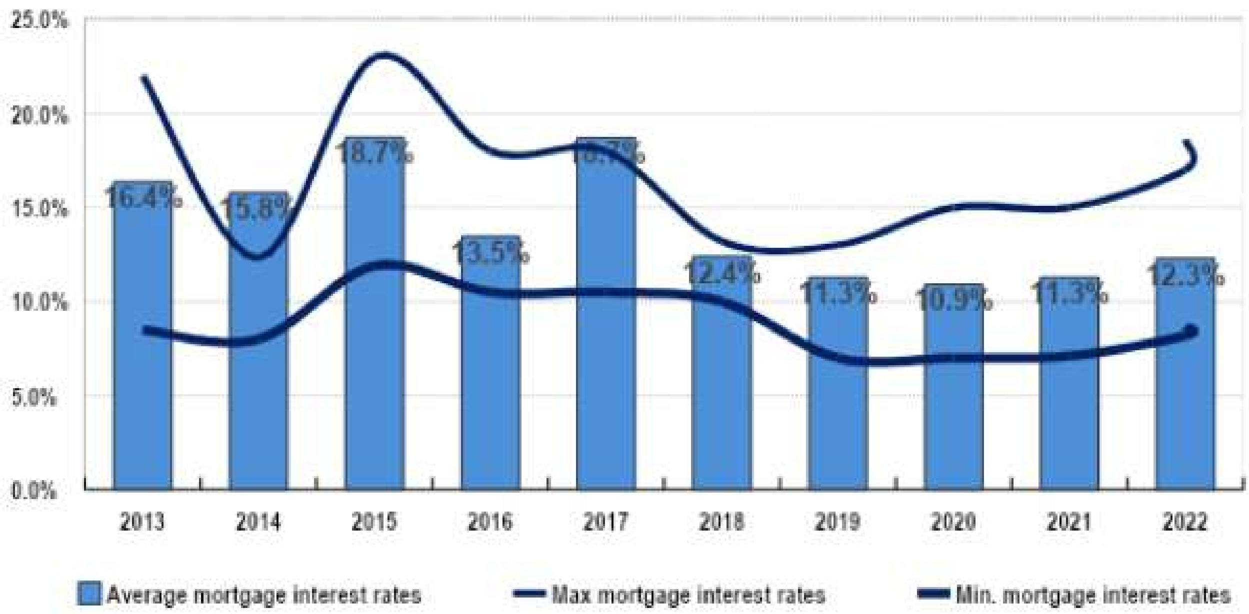
Source: CBK Annual Bank Supervision Report, KMRC Research

1.6 Mortgage interest rates

The average mortgage interest rates continued to rise. In 2023, the average interest rate rose to 14.3% from 12.3% in 2022 reflecting changes in the cost of borrowing. The minimum mortgage interest rates rose to 8.7% in 2023 compared to 8.2% in 2022, while the maximum rates hit 18.7% in 2023 compared to 17.0% in 2022 **(Figure 8).**

These trends reveal a persistent high cost of mortgage borrowing. Moreover, the double-digit rates effectively constraint mortgage affordability, and its reversal is essential for accessibility of mortgages.

Figure 8: **Evolution of mortgage interest rates, 2013-23**



Source: CBK Annual Bank Supervision Report, KMRC Research

The Best-Kept Secret about Home Loans in Kenya.

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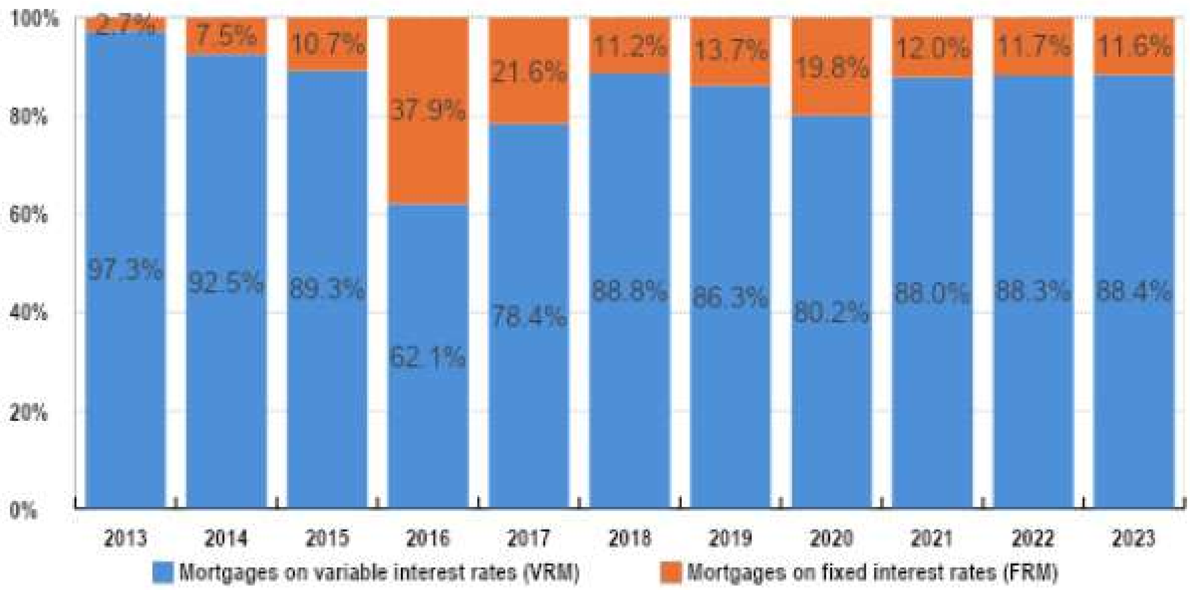
1.7 Nature of mortgages

- **The mortgage market continues to be characterised by the dominance of variable-rate mortgages.** The proportion of mortgages on variable interest rates remained high at 88.4% in 2023, compared to 88.3% in 2022 **(Figure 9).**

Figure 9: **Nature of Mortgages: FRM versus VRM, 2013-23**

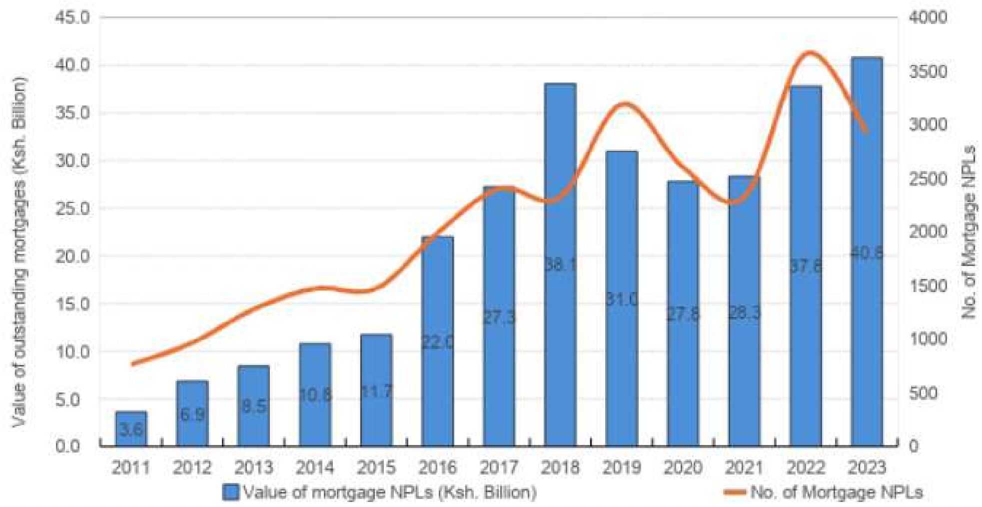


Source: CBK Annual Bank Supervision Report, KMRC Research

1.8 Mortgage asset quality dynamics

- **Kenya's mortgage market asset quality continued to deteriorate.** The mortgage sector's non-performing loans (NPLs) surged to KES. 40.8 billion in 2023 from KES. 37.8 billion, reflecting mounting repayment difficulties. However, the number of mortgages NPLs slightly decreased to 2,929 in 2023 from 3,666 in 2022 **(Figure 10).** The mortgage market asset quality stabilized. The mortgage sector's asset quality – the ratio of mortgage NPLs to outstanding mortgages – standing at 14.4% in 2023, a similar level registered in 2022 reflecting the muted mortgage market risk. However, the industry loan book asset quality deteriorated to 15.6% in 2023 from 13.8% in 2022. The comparative analysis of asset quality indicators highlights the credit risk challenges that are significantly higher in the banking sector reflecting the broader economic fragilities in 2023, especially the elevated inflation and interest rate.

Figure 10: **Evolution of Value & Number of Mortgage NPLs, 2011-23**

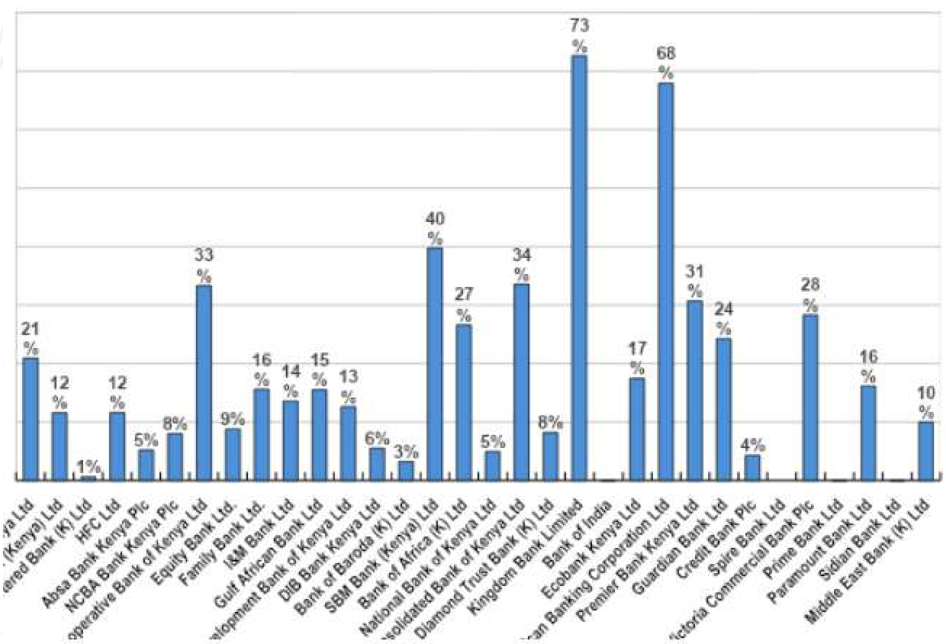


Source: CBK Annual Bank Supervision Report, KMRC Research

- **Banks with highest mortgage NPL ratios.** At the bank level, fourteen banks have a mortgage NPL ratio higher than the average industry mortgage NPL ratio **(Figure 11).** Kingdom Bank Limited has the highest mortgage NPL to gross loans ratio at 73%, followed by African Banking Corporation Ltd at 68%.

Others include SBM Bank (39.8%) Consolidated Bank of Kenya (33.6%), Co - operative Bank (33.3%), Premier Bank (30.7%), Victoria Commercial Bank (28.3%), Bank of Africa (26.6%), Guardian Bank (24.3%), KCB (20.9%), Ecobank (17.5%), Paramount Bank (16.2%), Family Bank (15.6%) and Gulf African Bank (15.5%).

Figure 11: **Mortgage loan NPLs by bank**



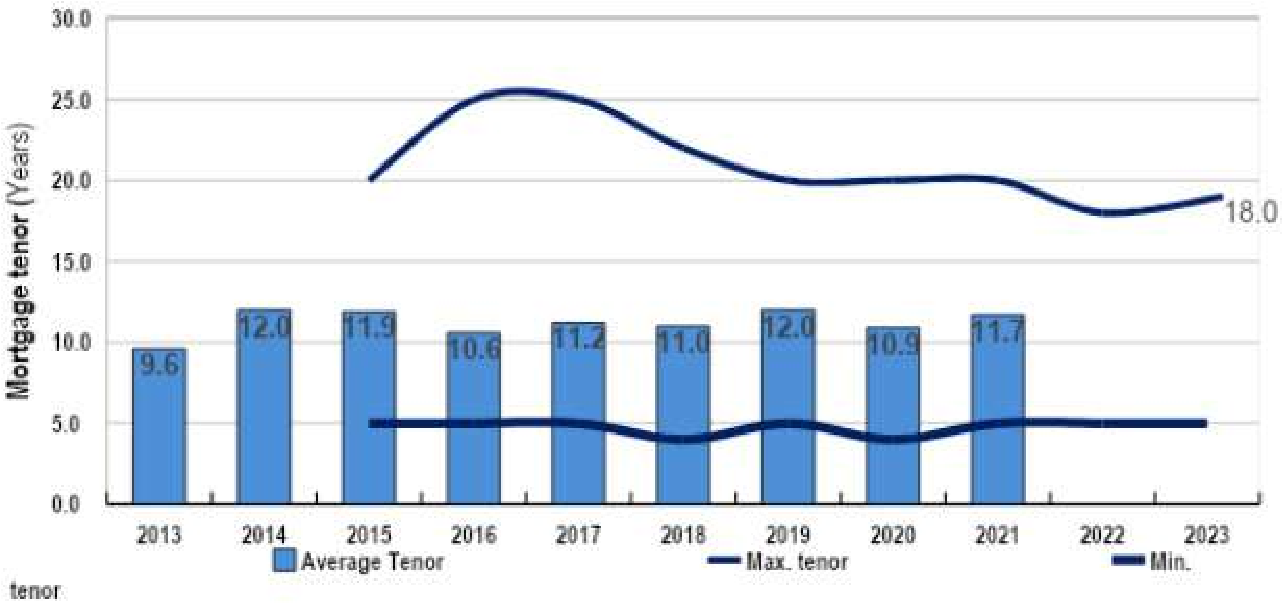
Source: CBK Annual Bank Supervision Report, KMRC Research

1.9 Mortgage tenor

- **Average mortgage tenor continued to lengthen.** In 2023, the average mortgage tenor increased to 11.7 years, reversing the downtrend observed in 2022 where it stood at 10.9 years compared to 12.0 years in 2021 **(Figure 12),** reflecting the continued efforts towards ensuring affordability.

The minimum mortgage tenor remained stable at 5 years, while the maximum mortgage tenor also remained stable at 18 years, offering extended repayment options for borrowers.

Figure 12: Mortgage tenor in years



Source: CBK Annual Bank Supervision Report, KMRC Research

MORTGAGE MARKET PROSPECTS

Kenya's mortgage market in 2024 is set to navigate a period of nuanced stability amidst evolving dynamics. The sector is witnessing significant growth in mortgage values and rising risks as evidenced by the elevated non-performing loans (NPLs), alongside the prevailing high interest rate regimes. Despite high borrowing costs and a cautious consumer base, the mortgage market is expected to remain stable in 2024.

However, the sector must balance immediate challenges with long-term growth strategies. Elevated interest rates and economic uncertainties pose risks, but ongoing government focus on affordable housing and strategic lending approaches to non-shareholders could drive increased mortgage uptake. Effective risk management, supportive policies, and consumer education on mortgage products and financial planning will be crucial for sustaining growth and enhancing market stability.

KMRC

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