

HOUSING MARKET TRENDS AND FORECASTS

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EXECUTIVE SUMMARY

- There was more demand for mortgages in the 2020 – 2021 period compared to the previous three years informed by the increasing enquiries
- Kenya's real estate market has grown exponentially, as evidenced by its contribution to GDP, which increased from 4.1% in 2020 to 6.7% in 2021
- Apartments accounted for 43% of the concluded sales, attributed to affordability, with detached units accounting for 54% according to Reall 2021 report focusing on Kenya Affordable Housing landscape.
- Research by Knight Frank 2022 indicates that buyers have embraced digital research, virtual viewings and virtual tours in search of properties post-pandemic.
- Sale leads dropped at a lower rate of 3% to level up with rental leads that dropped to 8% rate implying the market is focusing on developing residential properties for sale rather than rentals
- The housing market in Kenya is primarily a rental market. Affordability is critical.
- Access to decent housing is difficult. As a result, only about 21.3 % of Kenyans

living in cities own their homes speaking to the potential of home ownership through mortgages in addition to exploring rent to own schemes/product in the future.

- According to the Kenya National Bureau of Statistics, three and four-bedroom homes dominated the Kenyan real estate market from 2010 to 2015. However, demand for larger units has decreased compared to studios, one and two bedrooms, as of 2019.
- Most owner-occupied houses in the country (88.6%) were constructed by the owners themselves, over time speaking to incremental housing financing.
- Housing finance will be unlocked significantly if both state and non-state actors consider how people are actually building then developing financial mechanisms to support the same. People are building incrementally, mainly through personal savings (54%) and loans through SACCOs (11%).

- Recent Haki Jamii study 2021 recommends that counties consider pragmatic ways of engaging the private sector, national government agencies, development partners and local investors to jump start housing for their people. They need to consider practical incentives they can give, e.g., planned land, house type plans, ease of approval, collaborating with Civil Society Organizations (CSOs), etc.
- According to the Home Ownership Survey by the Kenya Bankers Association, bank financing through home construction loans or home purchase loans, while a relatively highly used source of financing for home ownership, is not the most preferred financing model for home ownership compared to personal savings



EXECUTIVE SUMMARY

- Studies shows that most individuals construct their homes over a period rather than buying (readily developed homes), hence the suitability of personal savings. This points to the need for incremental housing financing.
- 18 % of Kenyan buyers said they were more likely to buy a second home as a result of the pandemic, presumably as a retreat or safe haven in case of future outbreaks or disasters, and to enhance their lifestyle during periods of uncertainty according to Knight Frank report 2021 eliciting the equity release conversation.
- Home loans by banks are restrictive and inaccessible to low-income earners (informal sector) limiting their right of access to housing speaking to the potential of credit risk sharing facility that can help alleviate the risk averseness of banks.
- In the recent past, new real estate financing products have been created, including real estate investment trusts (REITs), and Mezzanine Financing.
- In mid-2021, the World Bank estimated that Savings and Credit Cooperatives (SACCOs), provide approximately 90% of Kenya's total housing finance
 - Formal and informal financial access is high in Kenya, having expanded to 89 percent in 2019 from 26.7% in 2006
 - Recent study by Sagaci Research and McKinsey 2021 points that Off plan purchase of housing is drastically reducing popularity with only 25% of the residents saying they would consider it; 75% preferring ready to occupy homes.
 - Many people in Kenya (45%) live in informal or inadequate dwellings and 83% of households are without access to basic waste collection services which calls for intervention to encourage developers to embed sustainability in their properties with a focus on housing impact
 - Studies show that about 70% of households in urban areas lived in rented dwellings compared to about 10% of households in rural areas. A high proportion of households in Nairobi City (86.4%) and Mombasa (82.2%) lived in rented dwellings; while in Kisumu the percentage was relatively low at 42.2% speaking to the potential of accelerating/driving home ownership through mortgages.
- The number of land transactions in the form of title transfers and leases at the Ministry of Lands in September 2021 stood at 5,355, the highest recorded in the past 5 years, representing a 35% increase from a similar period in 2020.
- According to the National Lands Commission, Kenya has 4,060,000 residential properties registered with title deeds.
- The population of the major capital cities is rapidly increasing resulting into more apartment buildings developing along the skyline. As a result, the demand for apartments for people living in the urban or city location is met according to a report by Saif Properties 2022
- The rapid rate of urbanization in Kenya continues to create demand for urban infrastructure and housing

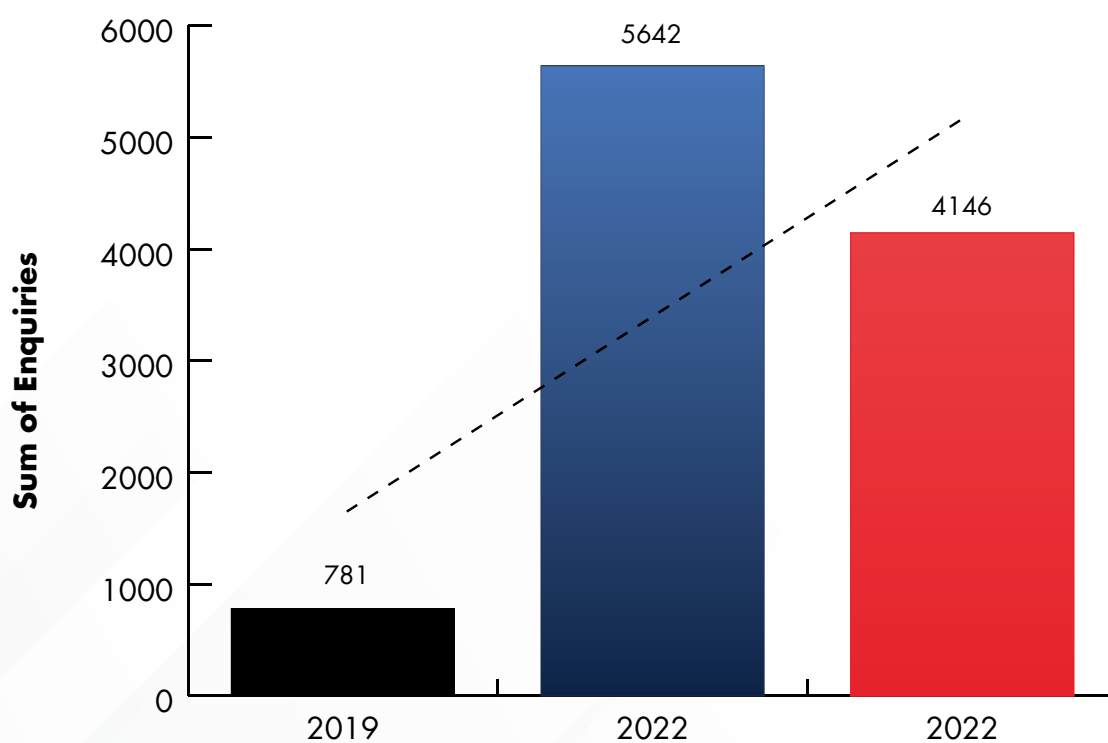




With most people working from home, we have seen more demand for mortgages in the 2020 – 2021 period compared to the previous three years, as shown in the yearly trend graph informing on a positive trend going into the future. This presents a good market for mortgage

uptake hence KMRCs' business viability. For instance, Nigeria Mortgage Refinance Company pools all mortgage enquiries/applications through a database and refers them to primary lenders for refinancing driving seamless mortgage uptake.

Trend in Mortgage Enquiries by Year



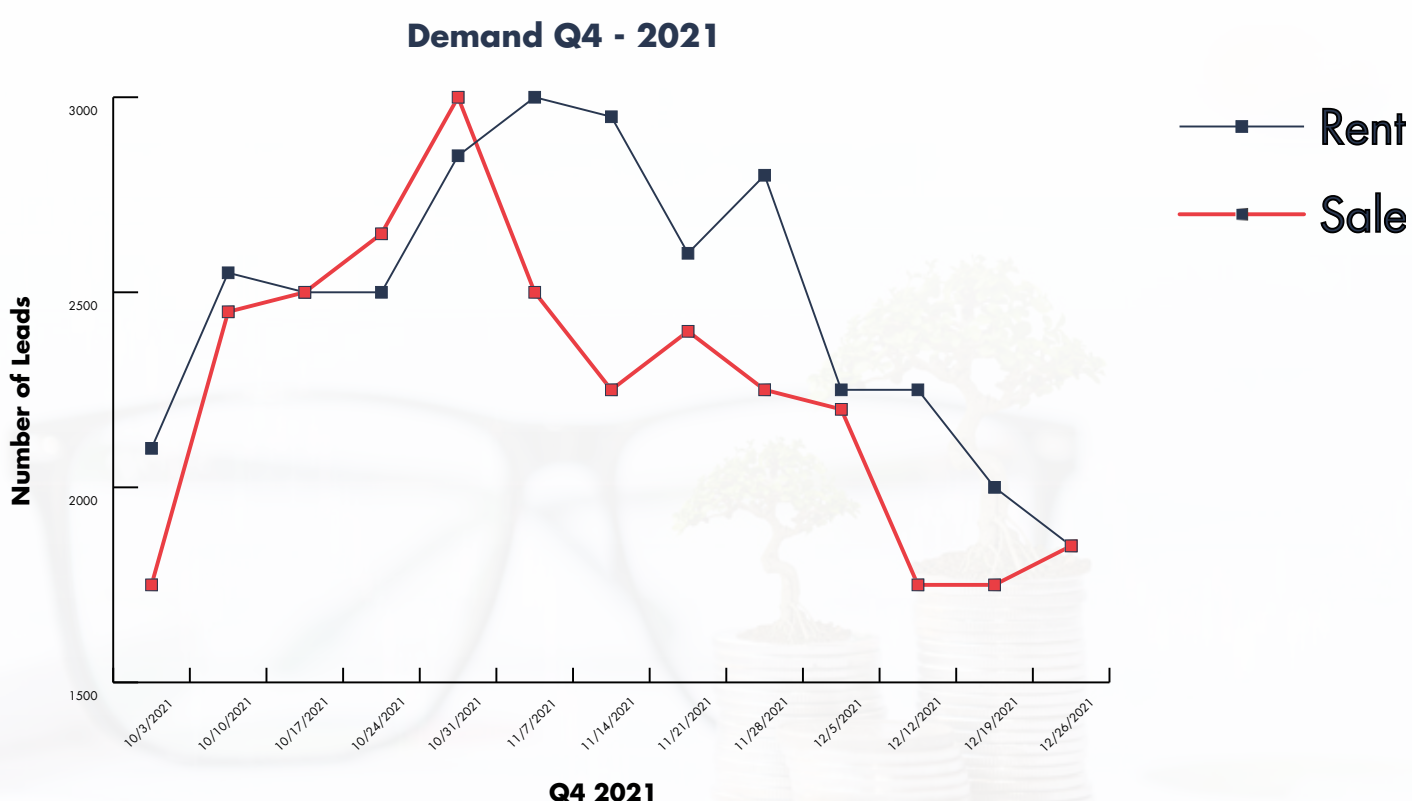
buyrentkenya 2022; KMRC Research 2022

The pandemic has additionally highlighted the opportunity for digital and technological innovations in the real estate space. For instance, research by Knight Frank 2022 indicated that buyers have embraced digital research and virtual viewings and virtual tours in search of properties. This alludes to the wider adoption of more interactive and immersive viewing experiences, and further technological advances seeking to drive accessibility and flexibility of the market informing on need to embrace digital public awareness. In terms of online engagement Knight Frank statistics for April 2021 show a 47% increase in page views for residential properties as compared to March 2020, similarly statistics for May 2021 show a further increase of 42% compared to the previous month. Since then, figures have remained consistently high and stable, but the large jump demonstrates a significant increase in online activity. It will be interesting to monitor whether this level of engagement is sustained as in 2022, but currently it presents real estate agents with an opportunity to capture buyers' attention online which justifies the online AHP catalogue and digitization of mortgage processes from origination.

Most (33.7%) of the bank customers Surveyed in the Banking Industry Customer Satisfaction Survey (2021) were aged between 26 – 35 years while 28.9% were aged between 36-45 years. This highlights a viable adult population who can take on long term mortgages. Also, for this group, mortgage financing seems to be a little more popular as 20% of them compared to 6% of current homeowners would want to acquire a home through a mortgage according to Standard Newspaper. Over half of aspiring homeowners may want to use some bank financing.

PROPERTY OUTLOOK

There was a shift in demand towards the end of 2021 from rental to sale in specific property types and locations around Nairobi Metropolitan Area.



Above, we see demand trend lines for the last 13 weeks of 2021 in the rent vs sale category. Sale leads dropped at a lower rate of 3% to level up with rental leads that dropped to 8% rate implying the market is focusing on developing residential properties for sale rather than rentals. Land and residential properties were the major influencers towards this growth.

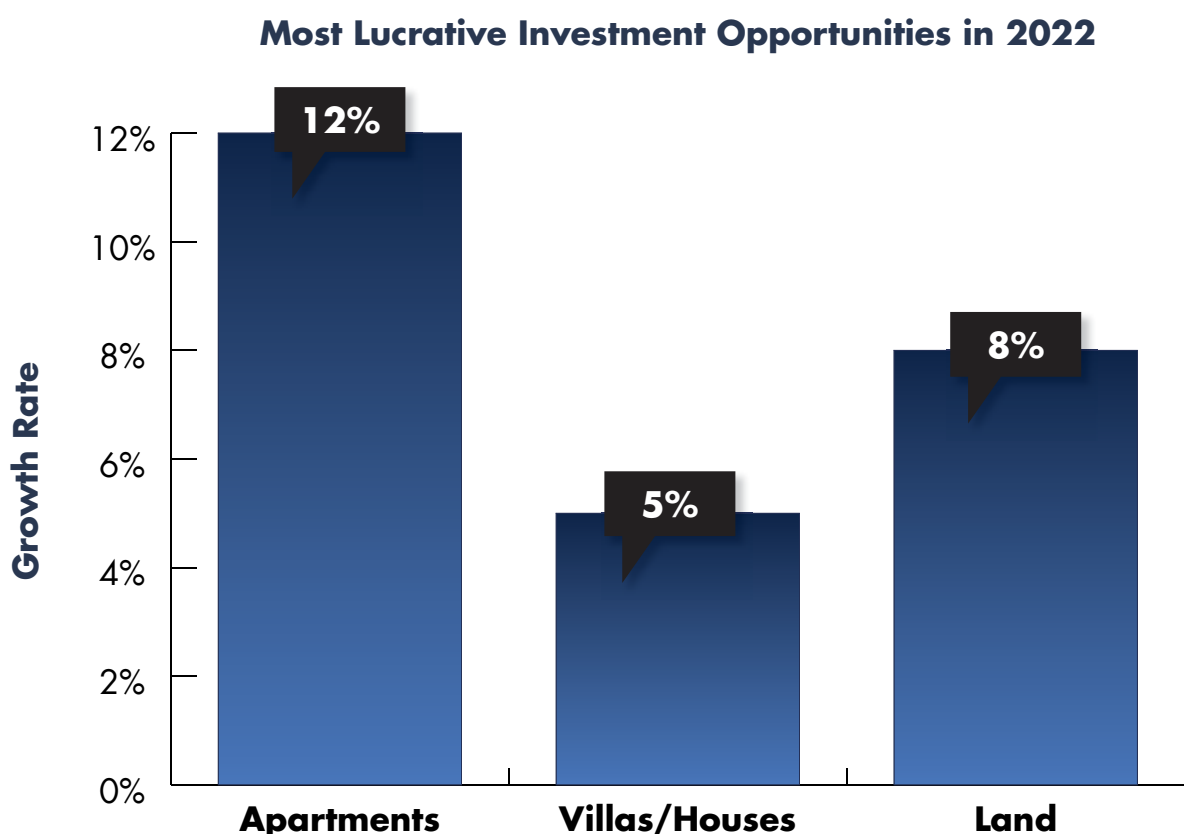
Kenya's real estate market has grown exponentially, as evidenced by its contribution to GDP, which increased from 4.1% in 2020 to 6.7% in 2021 according to CBK Bank Supervision report, 2021.

In Q3'2022, the Real Estate industry recorded substantial improvement in activity and performance compared to a similar period last year driven by favorable economic environment besides the peaceful electioneering period which boosted investor confidence in the sector and consequently improved Real Estate transactions according to the latest research report by Cytonn in October 2022.

Buyrentkenya report in 2022 reported that more developers are getting into the affordable housing/property market especially in the outskirts of the Nairobi and in the coastal counties. Worth noting is the shift in the average rental price of recent developments by around 31%. The major driver for this was more affordable housing being built in more locations.

Apartments accounted for 43% of the concluded sales, attributed to affordability, with detached units accounting for 54% according to Reall 2021.

Below is an average growth rate for the three property types highlighted above to give you an idea of the current projections that will probably guide the real estate industry in the next few years.



buyrentkenya 2022; Reall 2021, KMRC Research 2022

The population of the major capital cities is rapidly increasing resulting into more apartment buildings developing along the skyline. As a result, the demand for apartments for people living in the urban or city location is met according to a report by Saif Properties 2022.

According to the Kenya National Bureau of Statistics, three and four-bedroom homes dominated the Kenyan real estate market from 2010 to 2015. However, demand for larger units has decreased compared to studios, one and two bedrooms, as of 2019.

Post-pandemic, developers continue to adopt technology to differentiate their products and remain competitive to reinvent delivery of housing. This includes using virtual reality to enable customers to tour pre-developments or ready units remotely.

The number of land transactions in the form of title transfers and leases at the Ministry of Lands in September 2021 stood at 5,355 the highest recorded in the past 5 years representing a 35% increase from a similar period in 2020. This is a result of the greater efficiencies at the Lands Registry allowing investors to finalize on transactions carried forward from previous periods, attributed to the launch of the Ardhisasa platform. Market correction also contributed to increased transactions with some vendors accepting offers of more than 20% off their asking prices according to the market update report by Knight Frank 2021.

According to the National Lands Commission, Kenya has 4,060,000 residential properties registered with title deeds.

Recent Haki Jamii study recommended that counties to consider pragmatic ways of engaging the private sector, national government agencies, development partners and local investors to jump-start housing for their people. The re-invention should, among other things, consider adopting practical incentives to motivate investments in line with the counties' housing agenda which may take the form of planned land, ease of approval, collaboration with CSOs, etc.



HOME OWNERSHIP



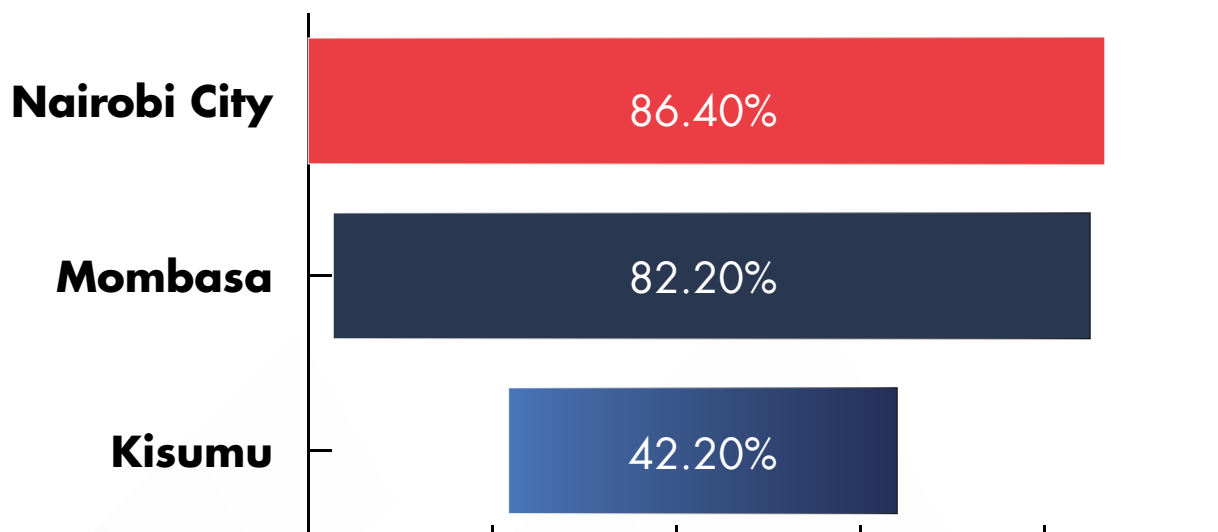
At the national level, 61% of households own their homes while 38.7% are renting. However, in urban areas, home ownership and rental rates stand at 21.3% and 78.7%, respectively. In contrast only 10% of households in rural areas live in rented houses. A high proportion of households in Nairobi City (86.4%) and Mombasa (82.2%) lived in rented dwellings;

while in Kisumu the percentage was relatively low at 42.2% speaking to the potential of accelerating/driving home ownership through mortgages; KMRC avails affordable and accessible financing to buy or build a home.

This confirms that housing market in Kenya

is primarily a rental market. Affordability is critical. Subsequently, only about 21.3% of Kenyans living in cities own their homes. This primarily renting society informs need to push for affordable housing solutions such as affordable home loans and/or rent-to-own products/schemes to drive home ownership.

Proportion of Renting in Kenyan Cities

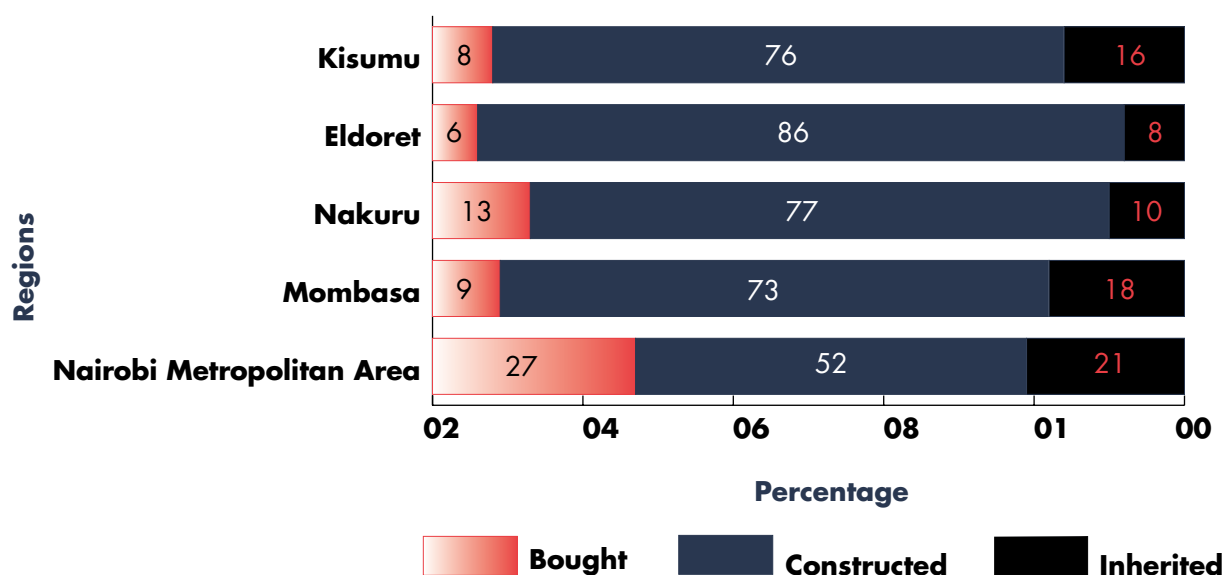


Haki Jamii 2022; Cytonn Research; KMRC Research 2022

Majority of home owning households have constructed their own houses which points to need to enhance construction loans by PMLs. Most owner-occupied houses in the country (88.6%) were constructed by the owners themselves, over time speaking to incremental housing.

Urban areas: 80.6% own construction, 10.2% purchased, and 9.1% inherited; Rural areas: 96% own construction, 2.4% inherited, and 1.6% purchased.

Nature of Housing Ownership by regions



Haki Jamii 2022; KMRC Research 2022

Low levels of home ownership in urban areas are attributed to the unaffordability of housing units in the wake of spiking house prices, resulting from the high cost of land, construction costs, costs associated with obtaining various approvals, and other indirect costs incurred by the developer that are transferred to buyers. The reintroduction of the Environmental Impact Assessment fees by NEMA is postulated will increase the costs. Recent study by Sagaci Research and McKinsey points that off-plan purchase of housing is drastically reducing popularity with only 25% of the residents saying they would consider it, and 75% preferring ready-to-occupy homes. This can be linked to the increase in number of cases where developers have failed to deliver complete houses after having received payments from off plan purchasers.

A survey done by Knight Frank, 2021 found that 2 bedroom houses are the most popular units in Nairobi. Out of 43 respondents of the survey, about half of them at 48.8% were interested in

2 bedrooms. 3-bedroom houses come third in terms of preference at 18.6% after 1-bedroom at 30% implying the mismatch of demand of 3 bedroom and supply of the same in the city. A separate survey shows that while 71.4% of people leasing or buying 2 bedroom houses were interested in 3 bedroom houses, 33.3% settled on 2 bedrooms due to higher prices of 3 bedroom houses or lack of preferred units. The research agrees with KNBS research which reported that the demand for larger units has decreased compared to studios, one and two bedrooms since 2019 being attributed to the size of an average household in Kenya decreasing from 5.1 to 3.9.

45% of people in Kenya live in informal or inadequate dwellings and 83% of households are without access to basic waste collection services which calls for interventions to encourage developers to embed sustainability in their properties with a focus on impacting the quality of houses.



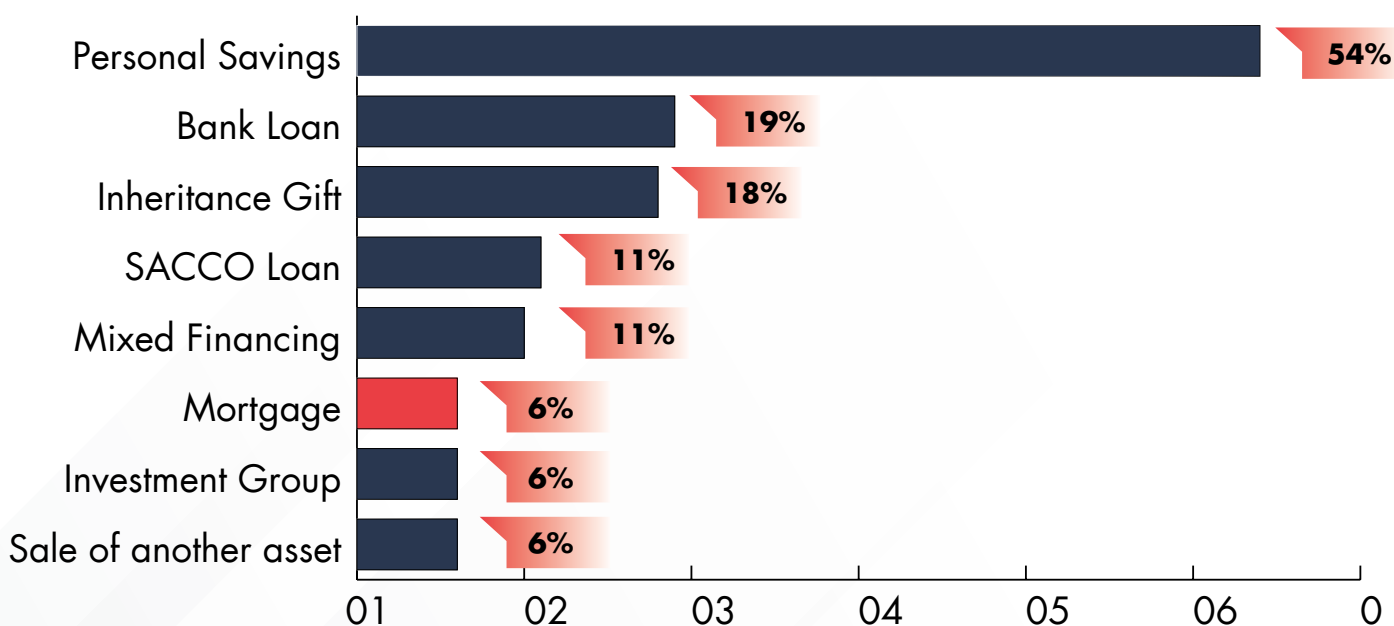
Households finance their housing mainly with regular income and personal savings, with those relying on formal credit financing falling below 10%. The World Bank estimates that as much as 90% of Kenya's housing finance has been supplied by SACCOs and housing cooperative networks.



Studies indicate that a majority of the homeowners specifically 54% used their personal savings and regular income to enable home ownership regardless of the way they acquired their houses (whether bought or built) insinuating a popularity for cash investments into housing. However, more aspiring homeowners (36%) than current homeowners (19%) are actually planning to borrow to build. They are attracted to a home loan or a normal personal loan to acquire

a home according to Standard Newspaper. Less than a third of homeowners borrowed (from both formal and non-formal credit sources) to acquire their homes. Inheritance is still a prevalent way of acquiring a house. The results show that mortgages have continued to lag behind as a home financing alternative accounting for only 6% calling for the need to increase KMRC product awareness and actualization of government incentives in driving home acquisition through mortgages.

Housing finance Alternatives



Haki Jamii 2022; KBA Home Ownership survey; KMRC Research 2022

Given the above, and in line with a research by Knight Frank 2022 indicating that 18 % of Kenyan buyers were more likely to buy a second home as a result of the pandemic, presumably as a retreat or safe haven in case of future outbreaks or disasters, and to enhance their lifestyle during periods of uncertainty, this sparks the equity release conversation that can inform mortgage uptake since its probable that the release will be used for second home ownership.

Like primary residences, buyers of second homes are prioritizing home offices, greater privacy and outdoor space when choosing a second home. 41% of home seekers are more likely to want a second home that they can extend, and almost a third (32%) are more likely to look for property with an annex speaking to incremental housing finance.

In mid-2021, the World Bank estimated that Savings and Credit Cooperatives (SACCOs), provide approximately 90% of Kenya's total housing finance giving KMRC an opportunity to leverage and penetrate the mortgage market through SACCOs. Moreover, their credit facilities are more accessible, cheaper than the banks and their clientele speaks to the affordable housing finance market that KMRC is targeting.

Eight commercial lenders account for 84% of home loans valued at 245 billion shillings (\$2 billion), according to the Central Bank's Annual Bank Supervision report 2021 giving an opportunity for KMRC to explore all the remaining PMLs to drive mortgage uptake.

Construction finance is limited and expensive. Bank loans make up 95% of all construction finance, while the remaining five percent

is sourced from equity or debt investment from development financial institutions and structured products according to Affordable housing in Kenya: Market shaping indicators report by Reall, 2021.

In the recent past, new real estate financing products have been created, including real estate investment trusts (REITs), and Mezzanine Financing. Real estate industry players have also developed innovations geared towards mitigating climate change and promoting sustainable real estate developments. While green financing is relatively new in Kenya, it is gradually gaining traction among the players in the real estate finance sector. For instance, Acorn D-REIT recorded profits of KES 775.9 mn in FY'2021 while the IREIT profits came in at KES 387.5 mn – both in their first year of operations. The D-REIT performance was mainly driven by a positive adjustment in the fair value of its investment property.

Formal and informal financial access is high in Kenya, having expanded to 89% in 2019 from 26.7% in 2006 according to Affordable Housing in Kenya: Market shaping indicators report by Reall, 2021.

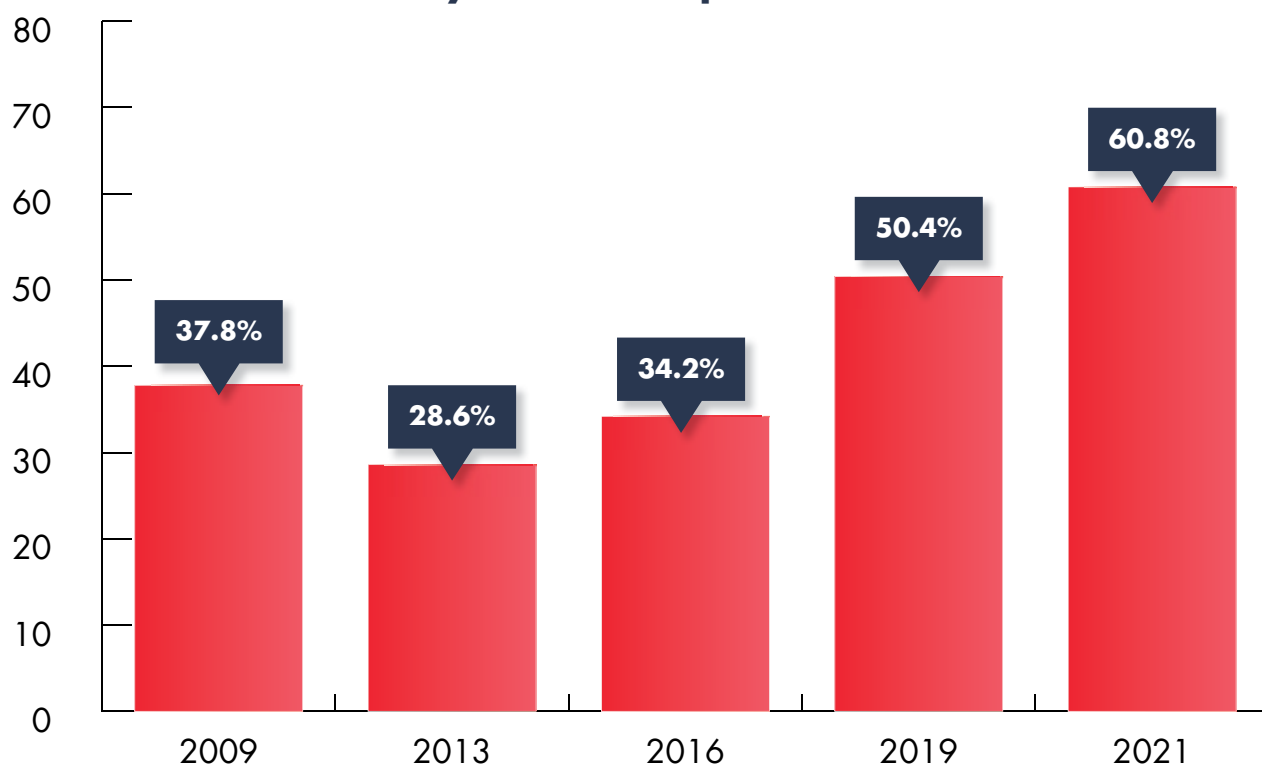
FinAccess Report 2021 indicates that mobile money as the most used financial platform accounting for 81.4% of users, followed by banking institutions at 44.1%, then informal groups at 28.7%. Notably, bad or no credit history and negative listing on CRBs remain the biggest hindrances to credit accessibility. The graph below shows the evolution of credit uptake over the last five years;





HOUSING FINANCE

Kenya's Credit Uptake Growth



Source: 2021 FinAccess report; Cytonn Research 2022; KMRC Research 2022

83% of total employment being in the informal sector, this portion of the population lacks access to mortgage loans due to insufficient credit risk information for meeting the criteria set in the mortgage products. This informs the need to develop a credit risk sharing facility to avert the PMLs risk averseness hence enabling mortgage uptake in the informal sector and to low-income earners.

In 2020, the cheapest newly built house in Kenya was Tsavo Real Estate's 88 m² unit costing KES 2,700,000 (US\$24,590). Using standard financial products, it is estimated that the maximum dwelling price affordable to the bottom 40 households would only be KES 1,142,991 (US\$10,410). At current financing rates, it is estimated that the Tsavo Real Estate house would only be affordable to 12.34% of urban households.

The National Housing Development Fund was expected to provide guaranteed offtake to developers and enable end-buyer uptake through a long-term subsidized Tenant Purchase Scheme and low interest rate mortgage loans, but this is yet to be implemented. Unlike the initial structure, which involved a mandatory levy, the fund has since been restructured allowing individuals to voluntarily save a minimum of KES 200 (US\$1.9) monthly towards home ownership. This has crippled mobilization of adequate funds and compromised the affordable financing plans.



POPULATION AND URBANIZATION

In 2021, urban **population** for **Kenya** was 28.5 %.

Kenya's rapid rate of urbanization continues to increase pressure on housing and urban infrastructure. Housing is not being built at anywhere near an adequate rate, and growth of slums and informal settlements is expanding, which are often not served by public schools or other amenities. Around 30% of Kenyans currently live in cities and towns, and it is projected that more than 50% will live in urban areas by 2030 (Kenya Common Country Analysis, 2018). This gives rise to several issues that negatively affect women and girls living in these urban settlements including inadequate security, lack of affordable housing and inadequate social amenities. Failure to fully mainstream gender into all aspects of urban, population and housing planning prevents the integration of women from other social, economic, political and cultural aspects informing the need to focus on gender/cross cutting issues as part of housing impact (sustainability).

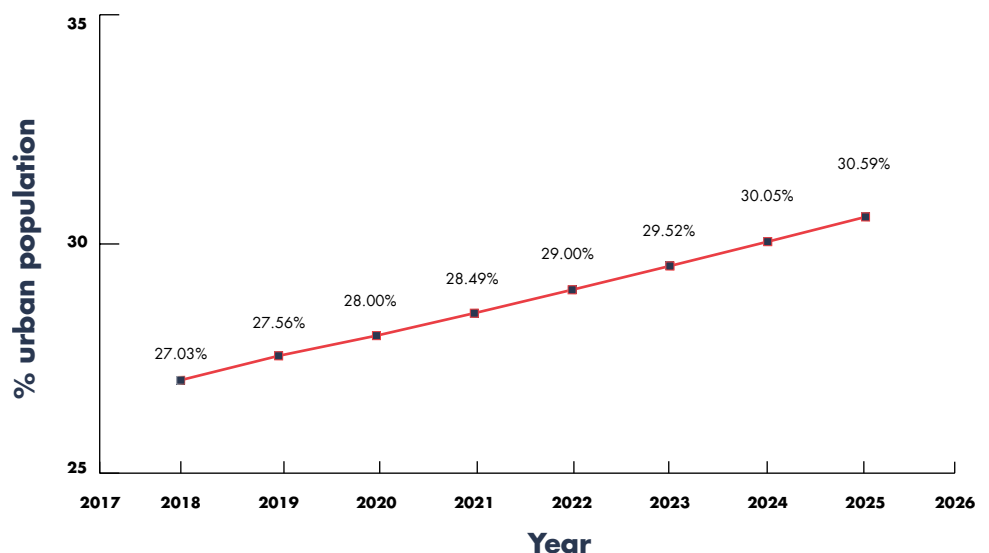
The largest demand has been for affordable housing to cater for the 61% of urban dwellers who live in slums and the shortage in student accommodation accounting for 40% of the deficit. Therefore, we have witnessed more developers increasingly applying low-cost housing construction methods such as alternative building technologies which are known to reduce construction costs by as much as 50% according to Cytonn research in October 2022. Kenya's population and urbanization is growing at 2.3% and 4.0% respectively against

the global average which is at 1.1% and 1.9% respectively according to World Bank. This is a key factor in driving the demand for Real Estate products and services cushioning the current housing deficit that is at 2.0 mn units growing by 200,000 units p.a. The incoming supply of housing units stands at approximately 50,000 housing units a year with only two percent of this being for the low-income market against an annual demand of 250,000 units according to Reall,2021.

In 2019, Kenya had an estimated total number of households of 13,926,946 and over the last 10 years, the size of an average household in Kenya has decreased from 5.1 to 3.9. This has been attributed to decreasing fertility rates, lifestyle changes and increasing literacy rates.

Kenya has risen five places to 56th position out of 190 economies in the World Bank's 2020 Ease of Doing Business index. This is an improvement compared to 61st position in 2019. Notably, Kenya strengthened access to credit by introducing online registration, modification, and public online

Urban Population (% of total population)



Source: World Bank 2022; Knoema 2022; KMRC Research 2022



searches of its collateral registry. Kenya currently ranks 4th in accessing credit and 1st in protecting minority investors. The country is still lagging behind in registering properties, with a rank of 134 out of 190, which is attributed to bureaucracy and slow approval processes. Formal financial inclusion has improved from 26.7 percent in 2006 to 82.9 percent in 2019 according to KNBS.

Infrastructural developments remain one of the key drivers of residential developments by boosting price appreciations and increase in rental yields. Numerous infrastructure projects are ongoing including the Northern and Western Bypasses, LAPPSET project, and Nairobi Commuter Rail project among others, while others such as the 27-km Nairobi Express Way running from Westlands to Jomo Kenyatta International Airport (JKIA), and the first three births of the Northern Bypass and the LAPPSET project are complete.

The housing investment opportunity lies in the affordable market segment supported by the growing demand for affordable housing options, positive demographics and the expanding middle class. Pockets of value are in satellite towns such as Ruiru, which act as Nairobi's dormitory, supported by the availability of land in bulk at affordable prices, improving infrastructure and availability of amenities. This is according to Reall 2021.



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