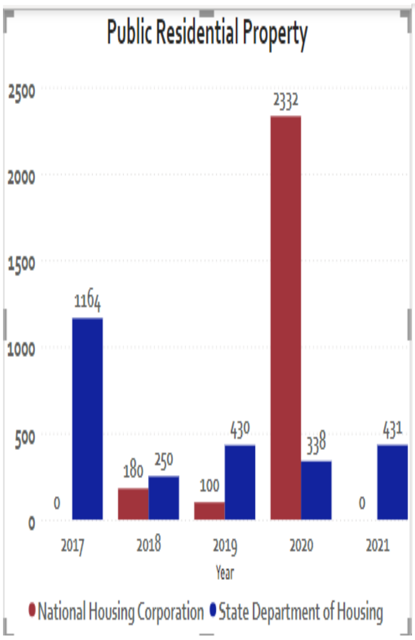
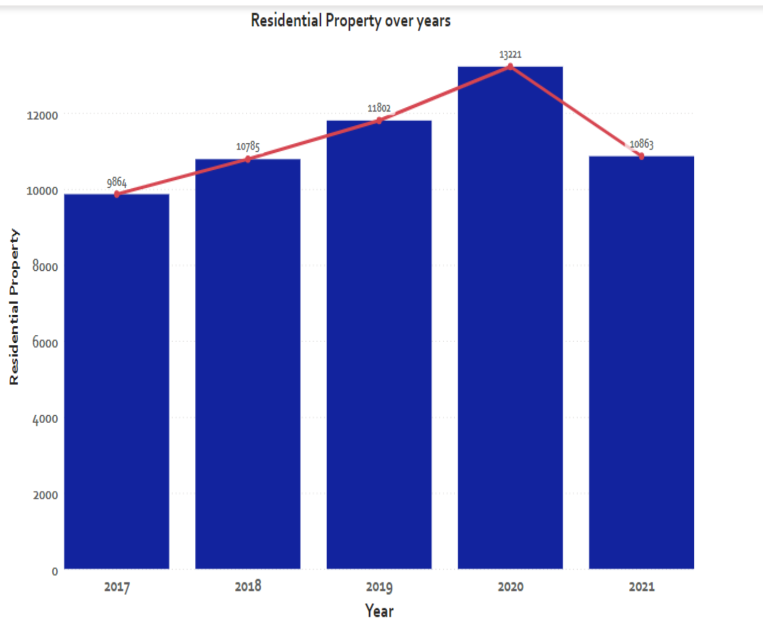
Research Insights report on housing – June 2022

Key take outs

- ✓ In 2021, 431 housing units were completed by the State Department for Housing bringing to 2,613 units that have been constructed by the State since 2017. As at December 2021, there were 3,480 housing units under construction by the State Department for Housing (SDHUD) and 424 housing units under construction during the same period by the NHC showing slightly positive trend in property development under the AHP.

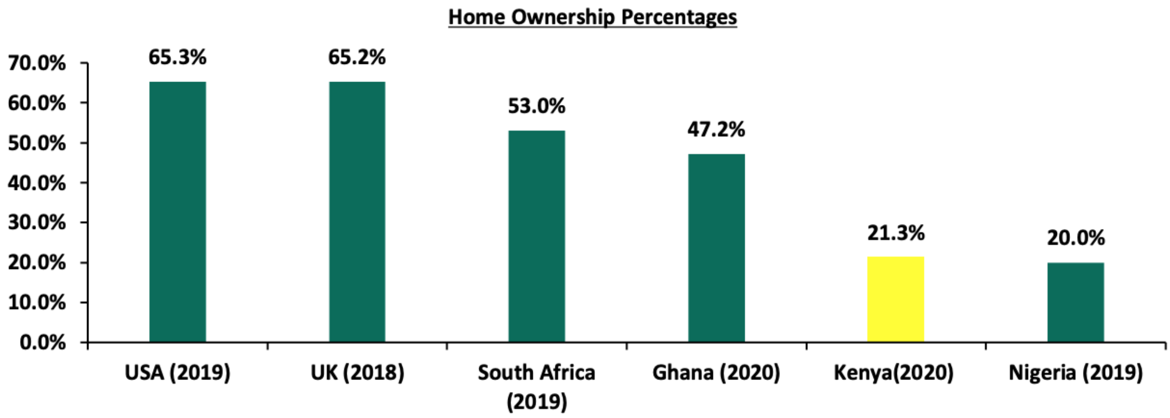
- ✓ The number of completed buildings within the NCC was 13,350 in 2021 compared to 16,248 that was reported in 2020. During the year under review, 431 buildings were completed by the State Department for Housing.



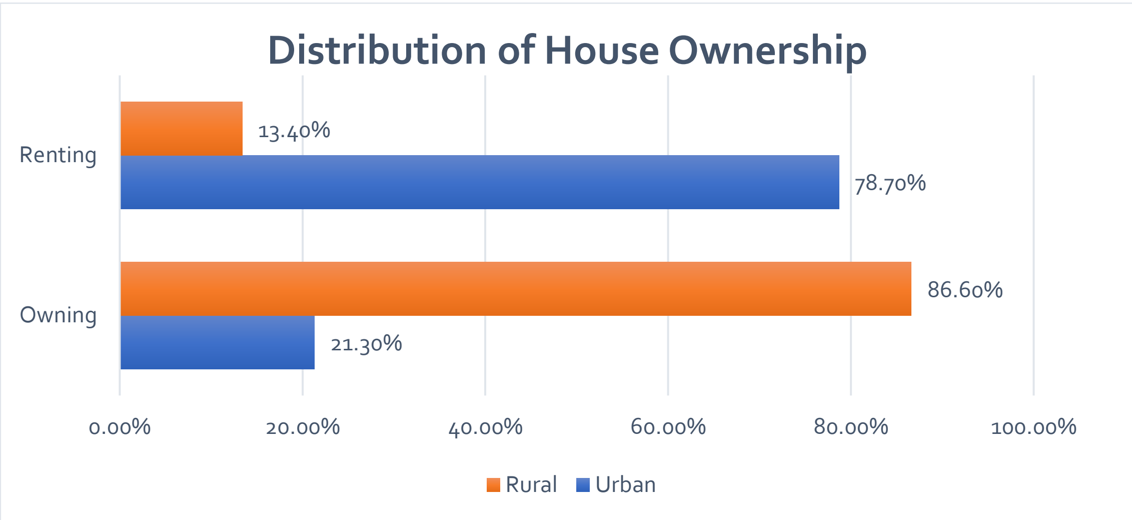


Its sufficient to conclude that private developers are leading from the front in residential property development.

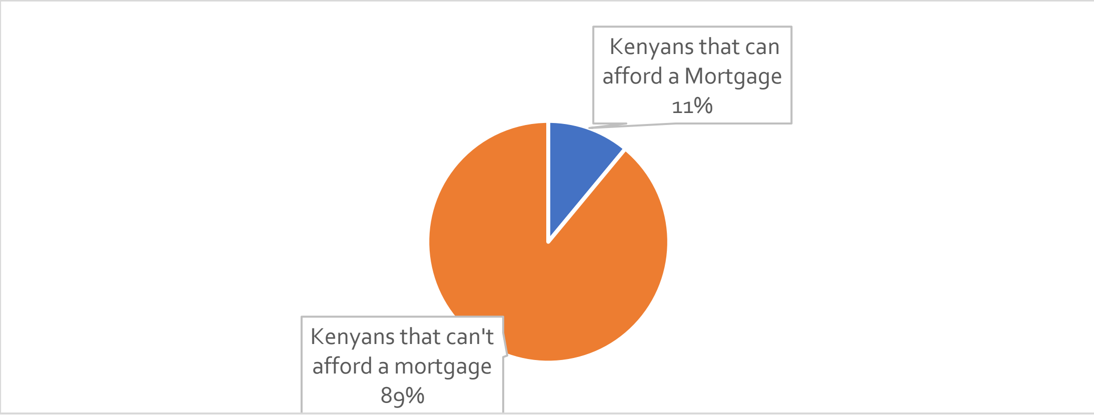
- ✓ From Cytonn research report, home ownership in Kenya also remains low compared to other African countries, at 21.3% in urban areas as at 2020, compared to other African countries such as South Africa and Ghana with a 53.0% and 47.2% urban home ownership rates, respectively. This signals the urgent need to emphasize the need for investment in affordable housing to bridge the housing deficit and increase home ownership in the country especially for the low income earners.



- ✓ The prices of the houses continue to rise due to high costs of construction and infrastructure development.
- ✓ Only 2% of the formally constructed houses target lower-income families according to Habitat for Humanity report 2022. The **Unemployment rate** is at 9.31% and the **Below poverty line** stands at 36.8%



- ✓ The lowest cost of a new house is estimated at **Kes 1,100,000** and only about 11 percent of Kenyans earn enough to support a mortgage. This implies that public and private housing developers have previously concentrated on the middle- and high-income groups.



Majority of home owning households have constructed their own houses.

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.

While 61 % of Kenyans own their homes, only 3% of those homeowners actually bought the houses, while 93 % of homeowners built their own houses and 3% inherited them, according to the Kenya National Bureau of Statistics. The city counts 1.5 million households, of whom 91 % are renters.

Positive demographics evidenced by Kenya's relatively high urbanization and population growth rates of 4.0% p.a and 2.3% p.a, respectively, against the global average of 1.8% p.a and 1.0% p.a, respectively, as at 2020, driving increased demand for developments.

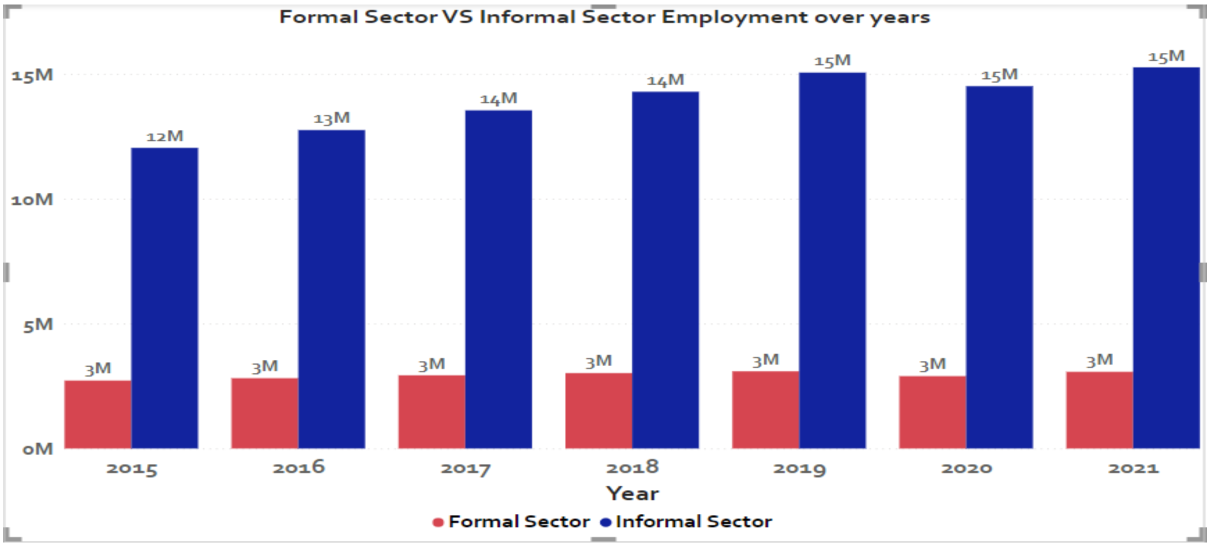


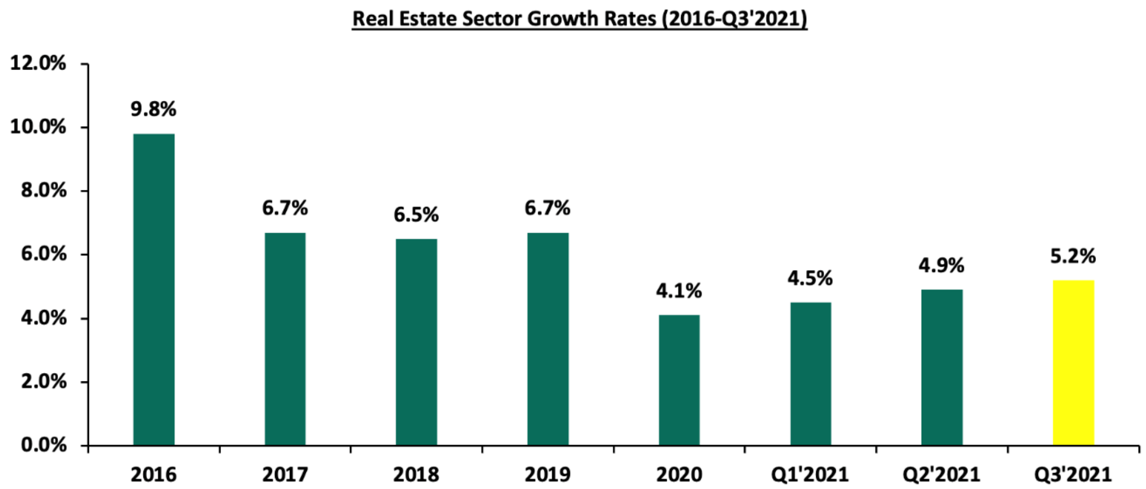
Figure- Employment demographics

Majority of the jobs are in the informal sector corresponded to over 80 percent of the total number of people employed in the country.

The segment of the adult population that is excluded from accessing financial services and products (formal and informal) by providers, increased to 11.6 percent in 2021 compared to 11.0 percent in 2019 according to FSD survey 2021. The use of savings increased from 69.9 per cent in 2019 to 74.0 per cent in 2021 while the uptake of credit/loans increased from 50.4 per cent in 2019 to 60.8 per cent in 2021.

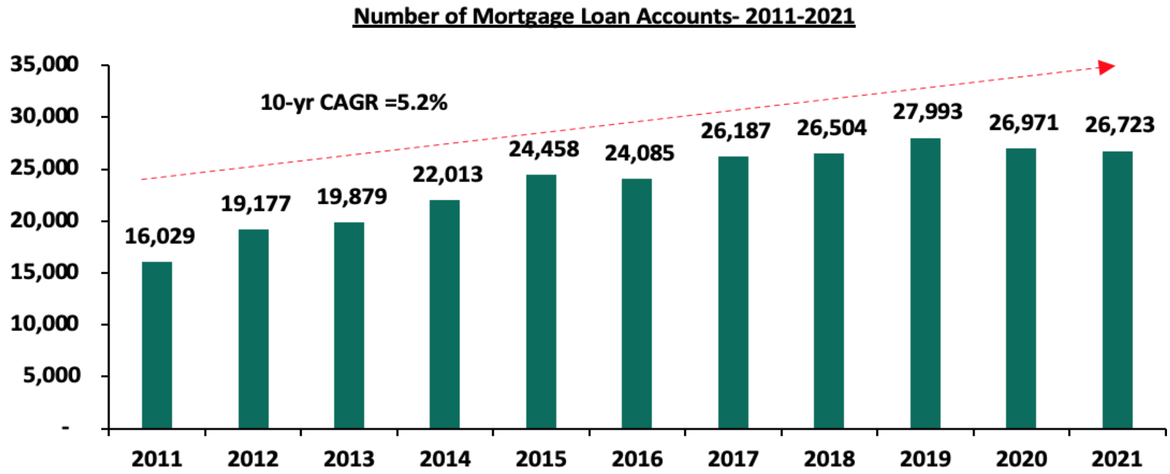
Overall Usage of Savings and Credit, 2006 - 2021 (per cent)

- ✓ In 2021, the Kenyan Real Estate sector witnessed increased development activities with a general improvement in Real Estate transactions, attributed to the improved business environment. The Real Estate Sector in Q3'2021 grew by 5.2%, 0.3% points higher than the 4.9% growth recorded in Q2'2021, according to the Quarterly GDP Report Q3'2021 by the Kenya National Bureau of Statistics' (KNBS).



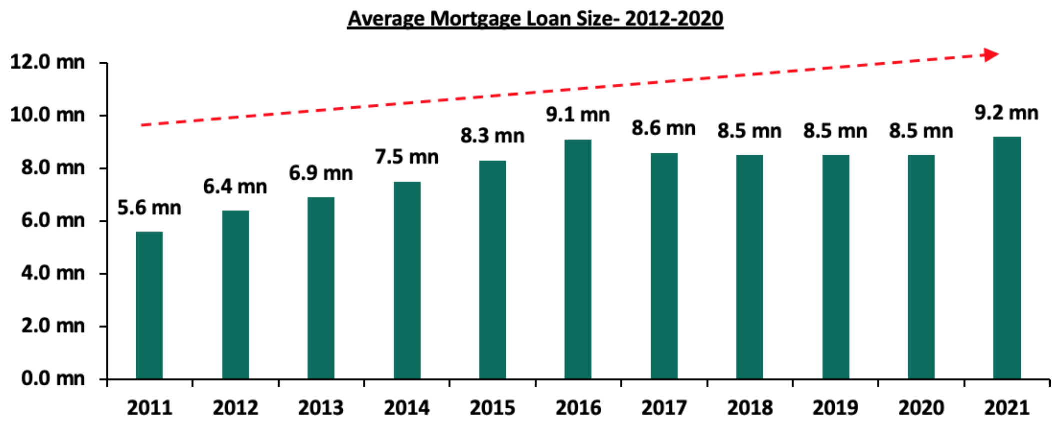
- ✓ The residential mortgage market recorded a 0.9% decline in the number of mortgageloans accounts in the market, to 26,723 in December 2021 from 26,971 in December 2020. The decline was mainly attributed to a higher number of existing mortgage loan repayments overtaking the number of new loans issued.

The fewer mortgage loans advanced by banks is on the other hand, partly due to the effect of the Covid- 19 depressed economy. The graph below shows the number of mortgage loan accounts in Kenya over the last 11 years; (CBK 2021)

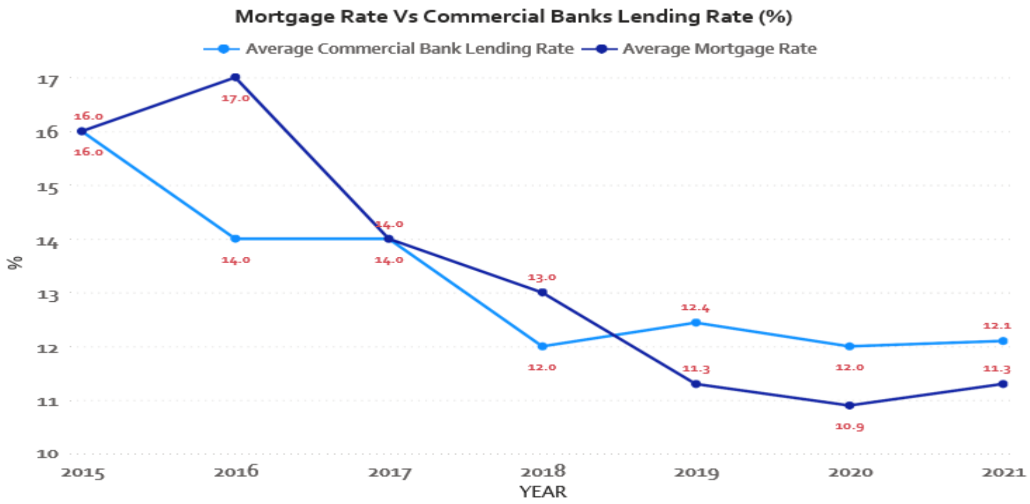


Source - Central Bank of Kenya (CBK)

✓ The overall value of mortgage loans outstanding registered a 5.3% increase to Kes 245.1bn in December 2021 from Kes 232.7 bn in December 2020. Additionally, the average mortgage loan size increased to Kes 9.2 mn in 2021 from Kshs 8.6 mn in 2020, attributed to higher value of mortgage loans advanced in the year, as illustrated below:



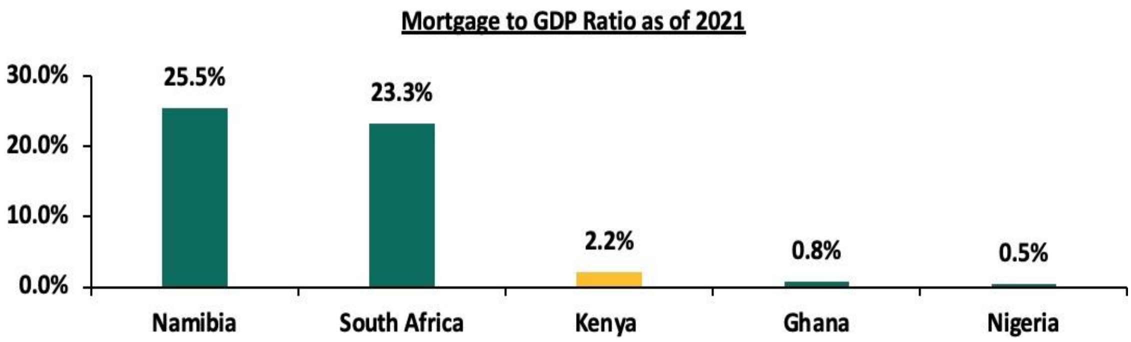
Source - Central Bank of Kenya (CBK)



Source – Central Bank of Kenya

- ✓ Average mortgage lending rate was 11.3% as compared to 12.1% average commercial banks lending rates.

  The average interest rate charged on mortgages in 2021, was 11.3% and it ranged between 7.1% and 15.0% compared to an average of 10.9% with a range of 7.0% to 15.0% in 2020. According to Cytonn Research on Real Estate trends, with an average mortgage size of Kes 9.2 mn, an average interest rate of 11.3% and a maximum tenor of 20 years, one is required to make monthly repayments of approximately Kes 96,847 per month which is unaffordable assuming a gross salary of Kes 50,000 per month, which is the median household income in Kenya (Economic Survey 2021). Given the above, the Kenya mortgage to GDP ratio has continued to lag behind at 2.2% as of 2021 compared to other countries in the SSA at as illustrated in the graphbelow;

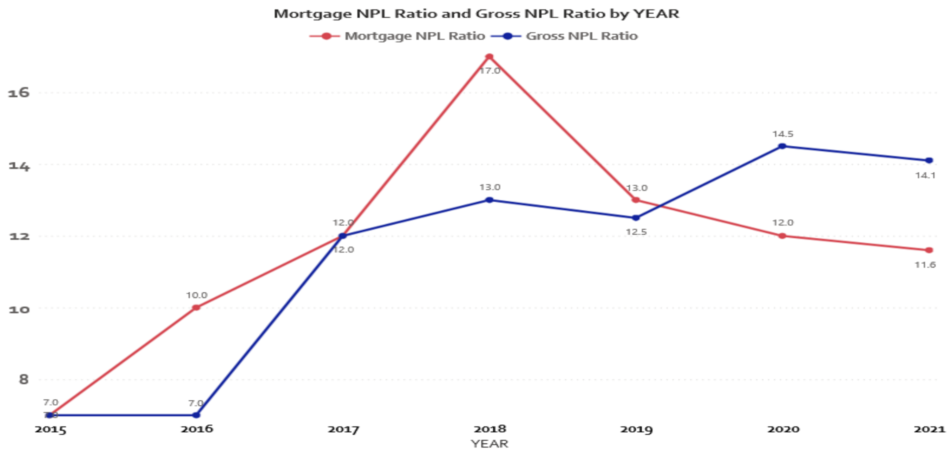


Source – Cytonn Research

- ✓ The outstanding value of non-performing mortgage loans increased from Kes27.8 billion in December 2020, to Kes 28.3 billion in December 2021.

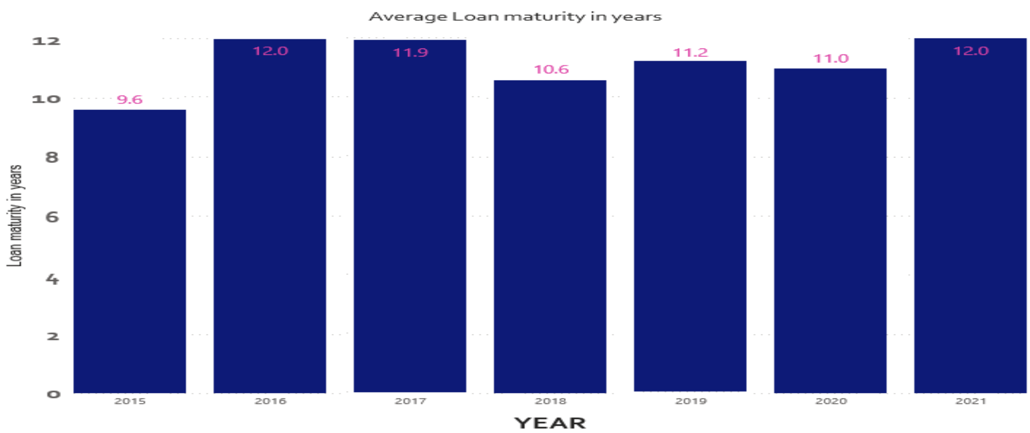
- ✓ Mortgage Non-Performing Loans (NPLs) to gross mortgage loans ratio was

11.6% in December 2021, 0.4% points lower compared to 12.0% in December 2020. The ratioswere below the industry gross NPLs to gross loans ratio of 14.1% in December 2021, and 14.5% in December 2020. This was attributed to the higher number of mortgageloans that were repaid as compared to the number of new mortgage loans granted inthe year.



- ✓ The average interest rate charged on mortgages in 2021, was 11.3 percent and it ranged from 7.1 percent to 15.0 percent compared to an average of 10.9 percent with a range of 7.0 percent to 15.0 percent in 2020. The increase in average rates was consistent with the increase in interest rates in the year

- ✓ The average loan maturity was 12 years with a minimum of 5 years and a maximum of 25 years in 2021, as compared to an average loan maturity of 11 years with a minimum of 4 years and a maximum of 20 years in 2020. This is an indication that banks increased the period of mortgage facilities in 2021.



- ✓ About 88 percent of mortgage loans were on variable interest rates in 2021, as compared to 80.2 percent in 2020. The increase in variable interest rates was consistent with the increase in the value of outstanding mortgage facilities in the year.
- ✓ Loan to value (maximum loan as a percentage of property value) was pegged

below 90 percent by majority of banks in 2021, and 2020

- ✓ Mortgage Risk Characteristics- During the survey, financial institutions indicated an array of risk factors that are examined more closely before a mortgage loan to a household is approved, including: borrower's repayment ability, borrower's characterbased on the credit history and Credit Reference Bureau references, age of the borrower, prevailing market conditions etc.

- ✓ Obstacles to Mortgage Market Development- The survey identified a number of impediments to mortgage market development, including: Impact of COVID-19 Pandemic, Low level of income, High cost of property purchase, Limited access to affordable long-term finance, Lengthy charge process timelines, Lengthy process of security realization by banks in case of default, lack of understanding of mortgage product by consumer – lack of financial literacy, etc

- ✓ According to Real Estate Analysts, Development of the mortgage market in Kenya continues to face impediments because of the factors listed above. Subdued performance in the mortgage market is expected. However, performance of the sector is expected to pick substantially and get a boost through KMRC's interventions.

Outlook

The mortgage market has a slightly positive outlook given the significance developments and activities in the housing sector. The government and private sector aggressiveness in implementing housing initiative programs, with focus on affordable housing and with growing trend towards alternative financing for real estate development especially public-private partnerships (PPPs) delivering development projects. With the current tough economic times, affordable housing continues to attract demand as people seek to own homes at a time when the country has seen increased unemployment and the subsequent drop in disposable incomes. Kenya's population and urbanization growing at 2.3% and 4.0% respectively against the global average at 1.1% and 1.9% respectively according to World Bank is expected to drive the demand for home ownership.

With informal sector employment standing at 15.3 million, KMRC needs to enhance Uniform Mortgage Underwriting Standards for the Informal Sector and explore alternative credit scoring mechanism other than the traditional credit history.

With the high property costs, KMRC should revise the affordable product offering to increase the limits/threshold to meet the current market needs.

The continuous growth of Real Estate Sector to 5.2% in 2021 coupled with the increase in use of savings from 69.9 per cent in 2019 to 74.0 per cent in 2021 alongside the increased uptake of credit/loans from 50.4 per cent in 2019 to 60.8 per cent in 2021 sets a precedent on mortgage uptake.