The Mirage of ‘Affordable Housing’

Affordable housing remains a mirage for low-income category households and the salaried class in Kenya owing to spiralling land prices and demand, supply and income mismatch.

BY CAROLINE THEURI

That housing in Kenya is a headache is not in doubt. According to the World Bank, there is a deficit of 2 million Kenyans who require access to low income housing. One of the reasons that housing is a challenge comes with the cost. For instance, according to the 2019 Kenya Real Estate Market report, the prices for land on which real estate will be built on, is expensive. As an example, land in upmarket estates such as Muthaiga, Lavington and Nyari goes for as high as KSh176.1 million, KSh237 million and KSh105.6 million, respectively per acre. The report echoed what had happened during the global financial crisis of 2008, where banks that lend housing loans, also known as mortgages, went into massive losses due to low returns or no policy to ensure that such a sector would not be negatively affected.

While these are suburbs that have a top demand for land, there are reasons as to why there is a low demand for houses. For instance, the problems faced in the macro-economic environment, such as a dip in income and lower revenue, as well as high taxes derail the sector. Among the recommendations that are being made by the report is to make affordable housing an incentive to prospective buyers.

Affordable housing mirage

The Kenya National Bureau of Statistics (KNBS) observes that the real estate in Kenya is lucrative, bringing KSh625,712 million in 2018, as compared to KSh575,139 million in 2017. This is an industry that recorded a rise in mortgages, according to a joint study done by the World Bank and Central Bank of Kenya, from KSh19 billion in 2006 to at KSh42 billion more by the mid-2010. But even with such a growth in mortgage rates, there is concern among the public that the rates being offered are too high. For instance, according to a scan check, the mortgage income rates from a variety of banking institutions differs. While Standard Chartered Bank offers a 12.2 per cent interest rate for a 25 years mortgage loan rate, KCB Bank Group offers a slightly higher rate of 12.9 per cent over the same 25 year period.

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In May 2019, the government launched the Kenya Mortgage Refinancing Company (KMRC), so as to address some of these concerns, such as offering affordable but long-term housing loans to Kenyans.

Affordability of housing to low income earners is not just a passing concern to the Jubilee government, as under the Big Four Agenda, it has planned to construct 0.5 million housing units for low income earners, offered at interest rates of 5 per cent for a three decade period. However, the question is the starting price is KSh.800,000 per unit, how can low income earners, who struggle to make ends meet afford them?

Demand, supply and income mismatch

In an interview with Julius Kirui, a Lecturer of Business and Economic at Moi University held on January 24th, 2019, the affordable housing scheme, offers a platform to stabilise the economy. "In economics, the say that production without consumption is a waste of resources. The success of the Big Four Agenda is anchored on demand and supply. The demand is there in terms of housing but the supply, in terms of financiers and investors, are scarce. The cost of land has gone up," he says.

Goal 11 of the United Nation's Sustainable Cities and Communities, focus on not just safe and affordable housing but also emphasises on urban planning and management. But the reality in Kenya is far different from the ideal. A 2017 KNBS report found that 1.9 million Kenyans earn an income that is less than KSh50,000. In such a case owning a home, even under the affordable housing scheme, implies that it might take additional resources. Kirui says that the real estate market outlook for the year 2020 looks promising albeit one that is faced by challenges.

"Unemployment is on the rise, which is a real challenge when it comes to affordability. We are seeing companies retrenching or closing down due to unfriendly policies. If youth unemployment is one the rise and their parents cannot afford to pay rent, then home ownership or renting real estate becomes a challenge. Already taxing of real estate is high and the government should look at how to harmonise taxation for the sector both at the county and national government levels. With employment, comes a boost in the purchasing power of an individual," he says.

Youth unemployment stands at 26.2 per cent, citing 2017 statistics from the United Nations' Development Programme (UNDP). And, while Kirui states the ray of hope for the real estate sector in Kenya, the sector can rely on the diversity of financing options that are currently present, which apart from mortgage financing, also include savings to the Real Estates Investment Trusts (REITS), a financing option that allows investors the chance to pool their resource so as to buy property.

Introduced in 2015, REITS have nevertheless not had as much success, research shows, though the government, through the Finance Bill of 2019 had proposed to exempt REITS's from income tax, a corporation tax of 30 per cent is to be paid by a REIT in a company that it invests in.

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