KMRC
KENYA MORTGAGE REFINANCE COMPANY

MACROECONOMIC FACTORS AND INDUSTRY REPORT

ISSUE 2 - JULY 2022

EXECUTIVE SUMMARY

- The overall year on year inflation rate as measured by the Consumer Price Index (CPI) was 7.9 per cent, in June 2022.
- The interest rates are increasing; from 12.15% in March to 12.20% in April.
- The exchange rate shot to KES 117.290 precipitating exchange rate risk - Kenya Shilling records historic low.
- The economy grew by 7.5 percent in 2021, compared to a contraction of 0.3 percent in 2020 and is expected to register a growth of within the range of 4.3% - 4.7% in 2022 supported by continued recovery of businesses from the adverse effects of the pandemic.

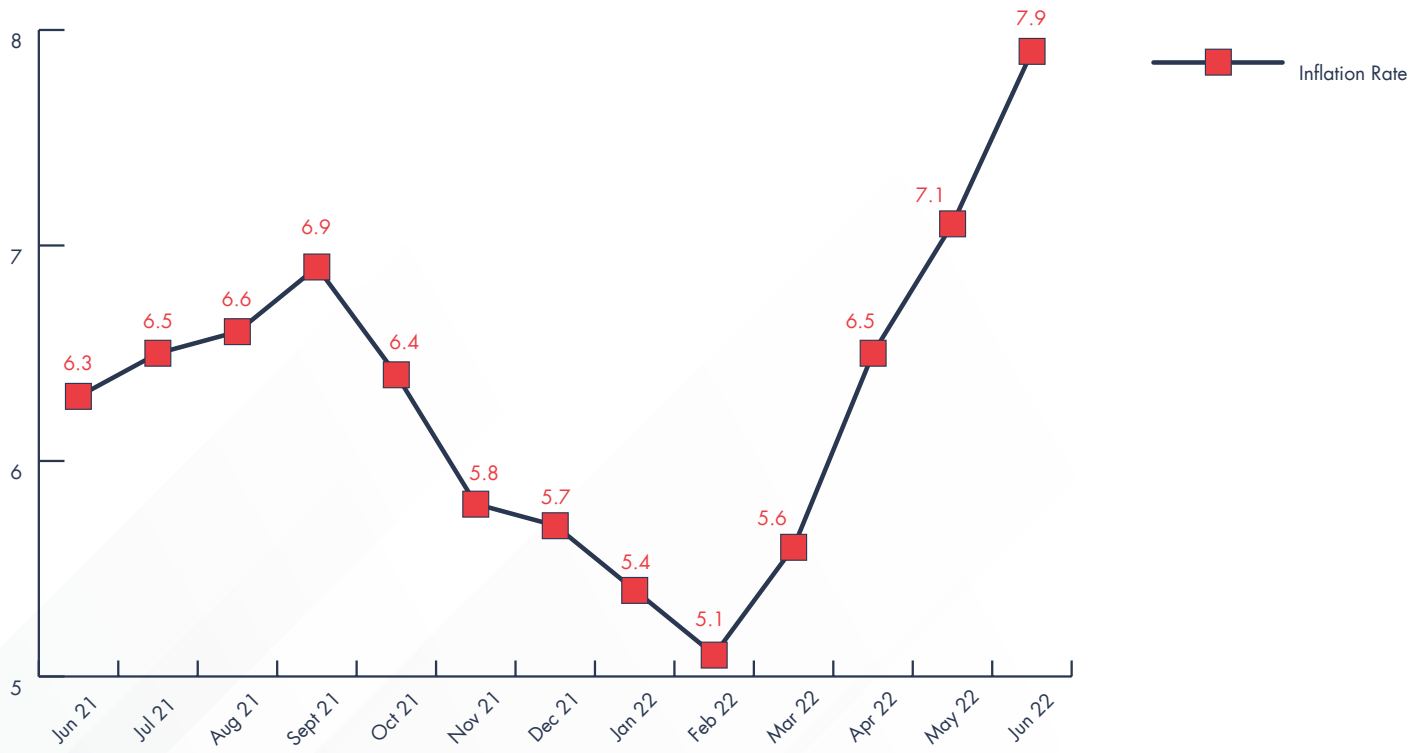
- Gross National Disposable Income increased from KES 11,058.4 billion in 2020 to KES 12,588.2 billion in 2021 showing capacity for Kenyans to take up Mortgages – KMRC visibility need to be enhanced to inform uptake.
- Slightly over a half of the diaspora remittance amounts were allocated to three uses: investment in real estate (land and building) for recipients, mortgage payment for senders and purchase of food and household goods which presents a market for KMRC to explore
- Data shows that a house in the city now costs 3.1 percent more on average, up from 0.20 percent last year and 3.5 percent in 2019 with the average cost of a maisonette standing at Kes. 12.15 million, while that of apartments and bungalows stood at Kes. 9.38 million and Kes. 6.69 million, respectively.
- Land transactions rebound totaling 5,355 in 2021 informing on property development.

- The cost of construction increased by 3% and this in turn increased the cost of residential buildings and this is expected to rise further with the reintroduction of the NEMA Environmental Impact Assessment (EIA) and related fees
- 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.
- An estimated 50% of buyers used the internet to search for a property, with that figure increasing to 93 percent for people under the age of 36 which calls for KMRC to embrace digital mortgage processes from the onset.
- Unemployment Rate in Kenya remained high at 6.6 % in 2021 increasing the unaffordability gap

1. INFLATION RATE

The overall year on year inflation rate as measured by the Consumer Price Index (CPI) was 7.9 per cent, in June 2022. It is theoretically expected that the higher the inflation rate the higher the house price and therefore the lower the mortgage loan uptake.

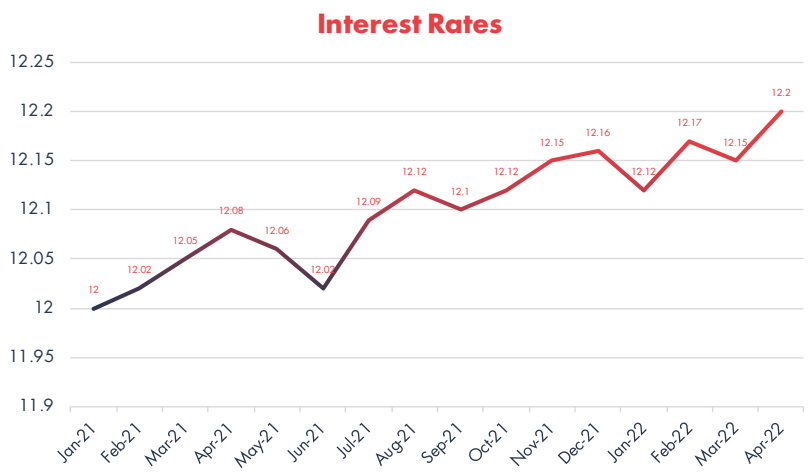
Martinez and Maza (2013) did a study on inflation rates changes in Spain and found out that there was a negative relation between inflation increase and mortgage loan uptake.



Source: KMRC Research, KNBS 2022

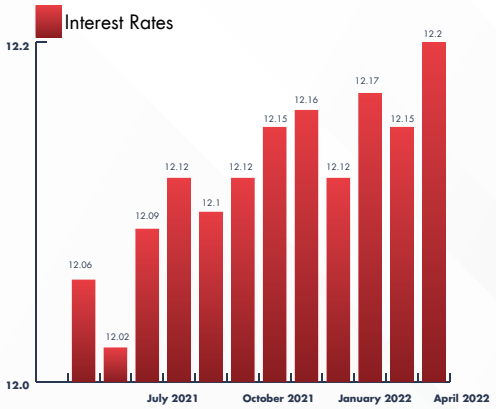
2. INTEREST RATES

Interest rates are expected to raise raising the cost of housing finance. Lower interest rates allow more people to be able qualify to purchase a home but the rising interest rates are a threat to mortgage uptake.



Source: KMRC Research, CBK 2022

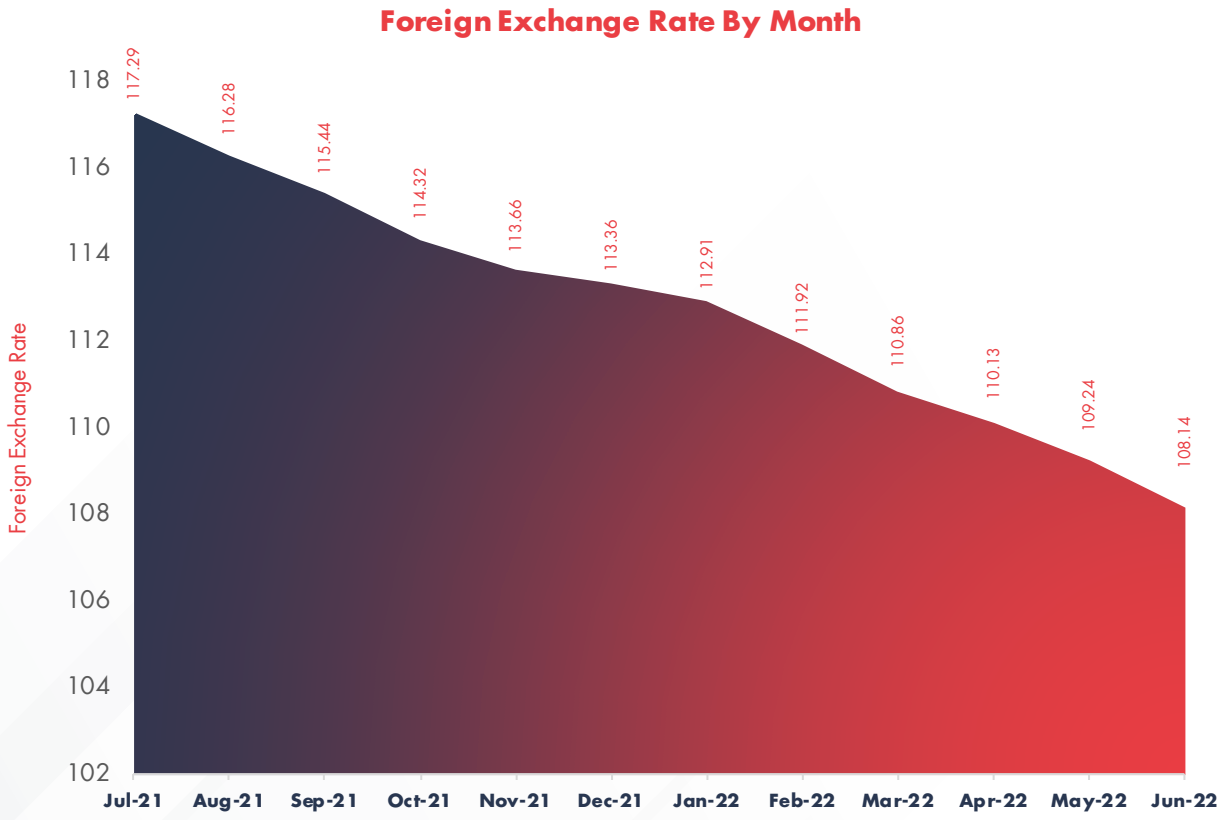
This agrees with another research from Trade Economics



TRADINGECONOMICS.COM - IMF

3. FOREIGN EXCHANGE RATES

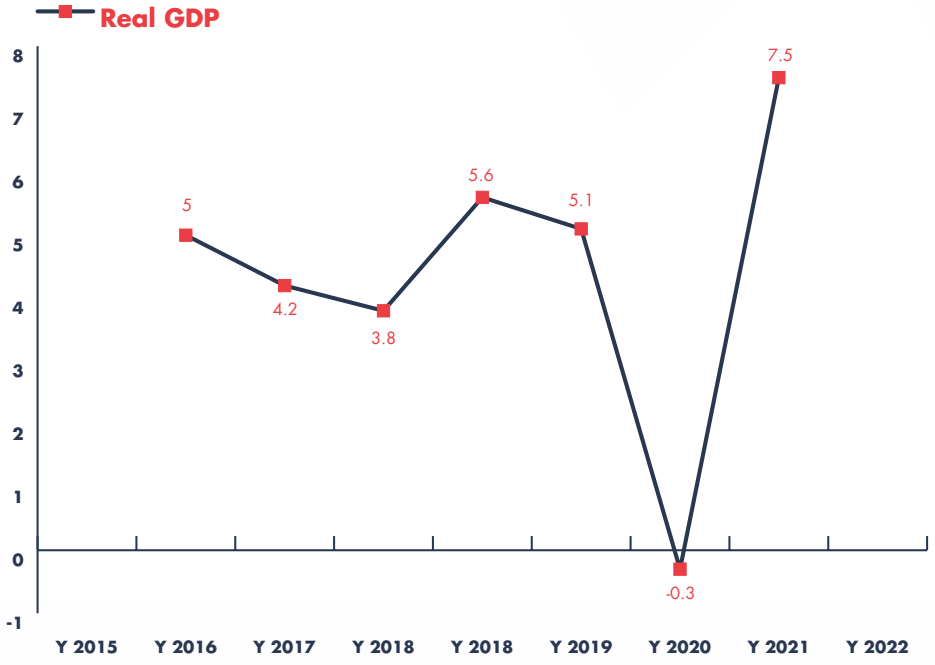
Siemińska and Krajewska (2015) studied the influence of exchange rate risk on the mortgage market in Poland and found that exchange rate risk causes the problem of the inadequacy of the collateral for the mortgage following an increase in the exchange rate of the currency in which it was granted. This agrees with Luyali et.al (2021) who argue that exchange rate has a significant effect on the growth of mortgage financing among commercial banks in Kenya. This in turn lowers mortgage absorption rates. As a result, this research advises that the government guarantees currency stability since currency fluctuations may have a negative impact on commercial banks mortgage borrowing.



SOURCE: CBK 202, KMRC RESEARCH

4. REAL PER CAPITA GDP

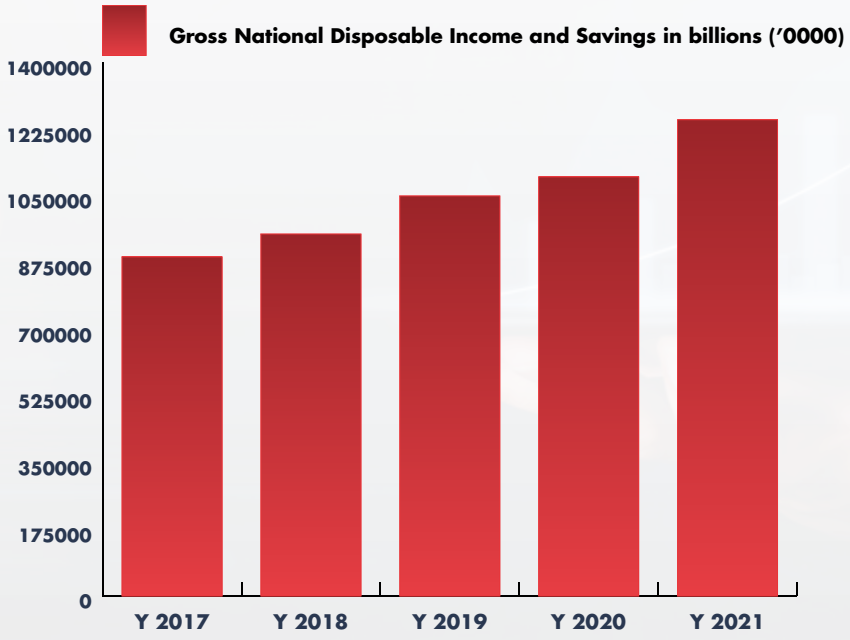
The economy grew by 7.5 percent in 2021, compared to a contraction of 0.3 percent in 2020 and is expected to register a growth of within the range of 4.3% - 4.7% in 2022 supported by continued recovery of businesses from the adverse effects of the pandemic. This should enhance the spending power of households. Real GDP growth of 4.9 % per year on average is projected over 2022–23, which would be a return to the pre-pandemic rate (5.0 percent average annual growth, 2010-19).



Source: KMRC Research, KNBS 2022

5. NATIONAL DISPOSABLE INCOME AND SAVING

Gross National Disposable Income increased from KSh 11,058.4 billion in 2020 to KSh 12,588.2 billion in 2021 showing capacity for Kenyans to take up Mortgages. The gap might be on awareness which calls KMRC to increase its visibility.



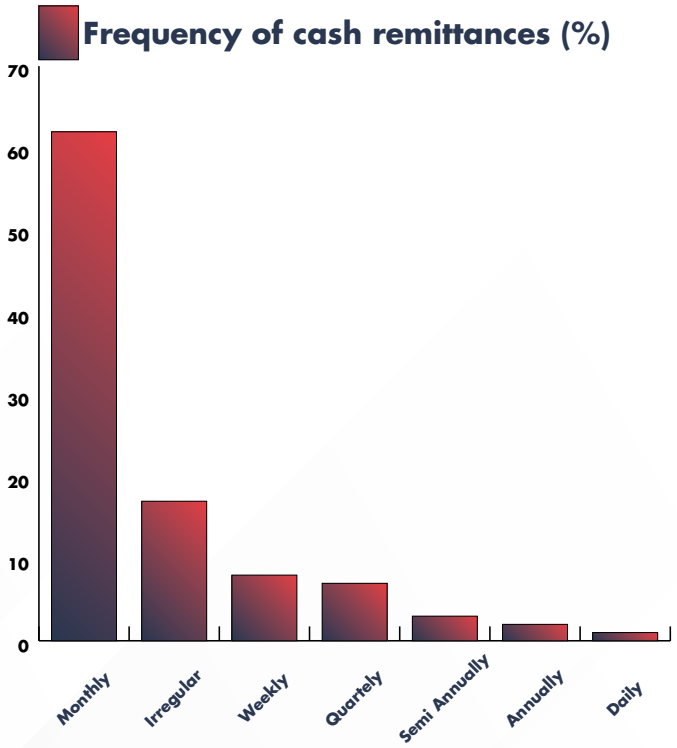
Source: KMRC Research, KNBS 2022

6. DIASPORA REMITTANCES

Diaspora remittances in the first quarter of 2022 have grown by 23.5 per cent to Ksh.118.4 billion ($1.024 billion) according to new data from the Central Bank of Kenya (CBK). Slightly over a half of the remittance amounts were allocated to three uses: investment in real estate (land and building) for recipients, mortgage payment for senders and purchase of food and household goods (CBK,2021).

The population estimated to be over 3 million has continued to invest massively in real estate either for their future investments needs or for their retirement homes when they come back to the country.

A report from CBK further indicates the proportion of cash remittances (in USD) allocated to each use as well as the average amount (in USD) spent on each expenditure category.



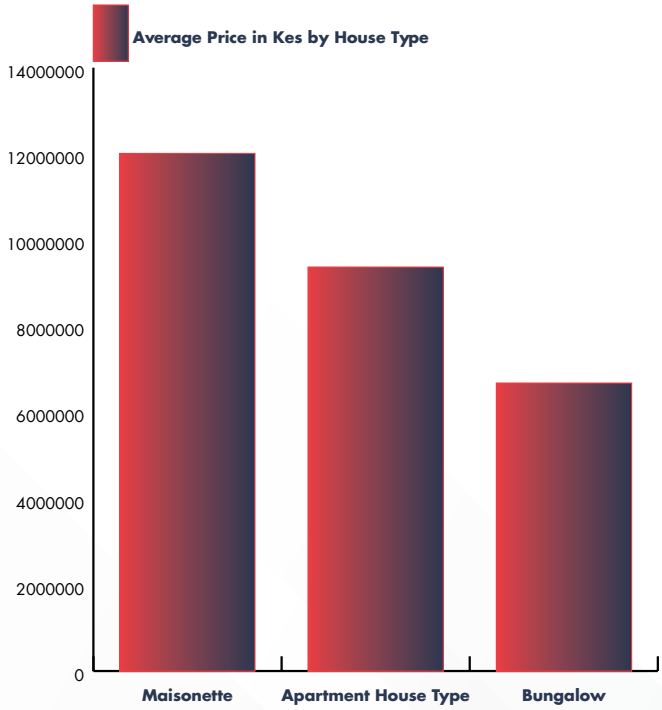
SOURCE: KMRC RESEARCH, CBK 2021, KNBS 2021

The frequency of remittances at monthly presents an opportunity for KMRC to explore the diaspora market for mortgaging given all the set conditions are met as their housing investment is positive.

7. HOUSING PRICES

Variations in property prices are evident along house type and market segments. First, sizeable differences across house types exist, with the average cost of a maisonette standing at Kes. 12.15 million, while that of apartments and bungalows stood at Kes. 9.38 million and Kes. 6.69 million, respectively. As a result, data shows that a house in the city now costs 3.1 percent more on average, up from 0.20 percent last year and 3.5 percent in 2019. This is the fastest growth rate since 2018, when it was 8.5 percent, reflecting the property market's recovery from the Covid-19 economic hardships.

This shows an increasing cost of housing which makes affordable unaffordable informing on the need for KMRC to raise the threshold of its affordable housing product to meet the current market needs.



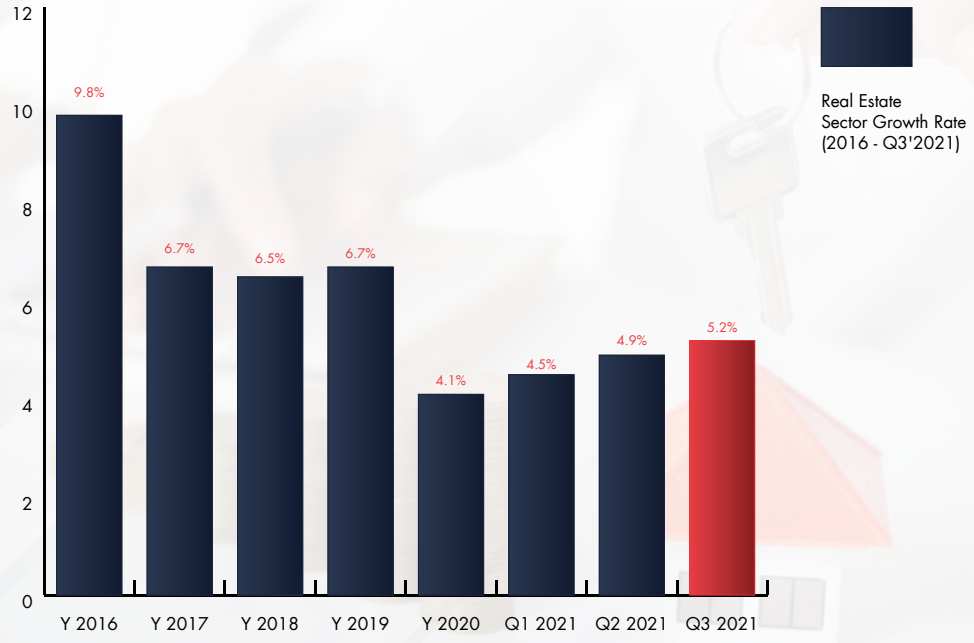
Source: KBA, 2022; KMRC Research

8. COST OF CONSTRUCTION

The price of building materials affects the price of a building once complete. In 2018, the Kenya Bureau of Statistics Economic Survey \indicated that the cost of construction materials increased by 3% and this in turn increased the cost of residential buildings. In 2022 this is expected to be higher due to several factors including the reintroduction of the NEMA Environmental Impact Assessment (EIA) and related fees. This will increase the costs of projects and slow down the construction sector. The increase in the cost of property will lead to increase in size of mortgages. To balance between affordability and quality of buildings and timely delivery to clients, developers will need to deliberately embrace and learn on how to use new technologies in construction industry such as use of green/recycled materials, prefabricated panels among others. This will ultimately reduce construction time and the cost.

9. REAL ESTATE GROWTH RATES

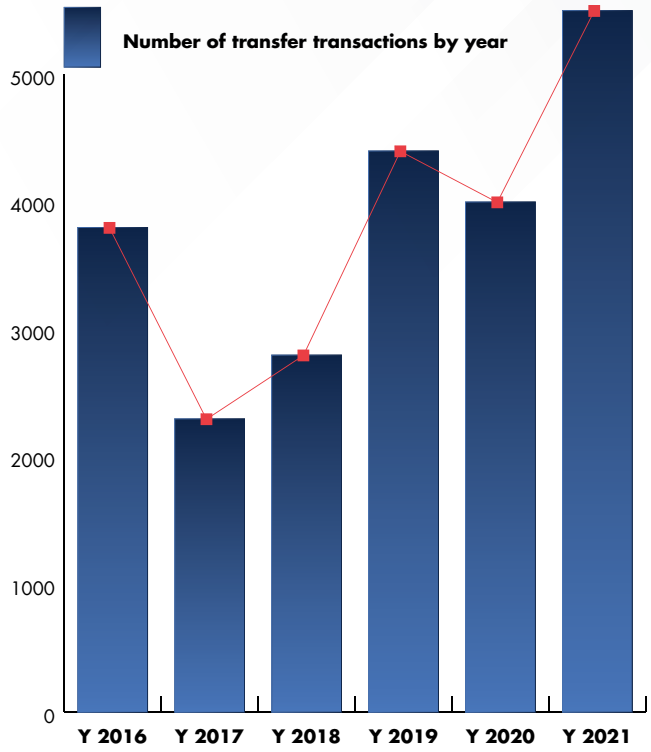
Notably, among private enterprises, Building, Construction and Real Estate had the highest share at 10.8 per cent as at December 2021 in terms of shares of total credit advanced by commercial banks to various sectors of the economy for the period 2017 to 2021 according to KNBS. In 2021, the Kenyan Real Estate sector witnessed increased development activities with a general improvement in Real Estate transactions, attributed to the improved business environment. The reopening of the economy also facilitated numerous expansion and construction activities by investors, in addition to various businesses also resuming full operations. This will facilitate more property development given the infrastructural developments like Expressway being witnessed.



Source: Cytonn Research

10. LAND TRANSACTION TRANSACTIONS

The number of land transactions in the form of title transfers and leases at the Ministry of Lands to September 2021 was the highest in the past 5 years totaling 5,355, which represents a 35% increase from a similar period in 2020 according to Knight Frank report 2021. This is a result of the greater efficiencies at the lands registry allowing investors to finalise on transactions carried forward from previous periods. Market correction also contributed to increased transactions with some vendors accepting offers of more than 20% off their asking prices. This strategically informs on property development.



Source: Ministry of Lands, 2022; KMRC Research

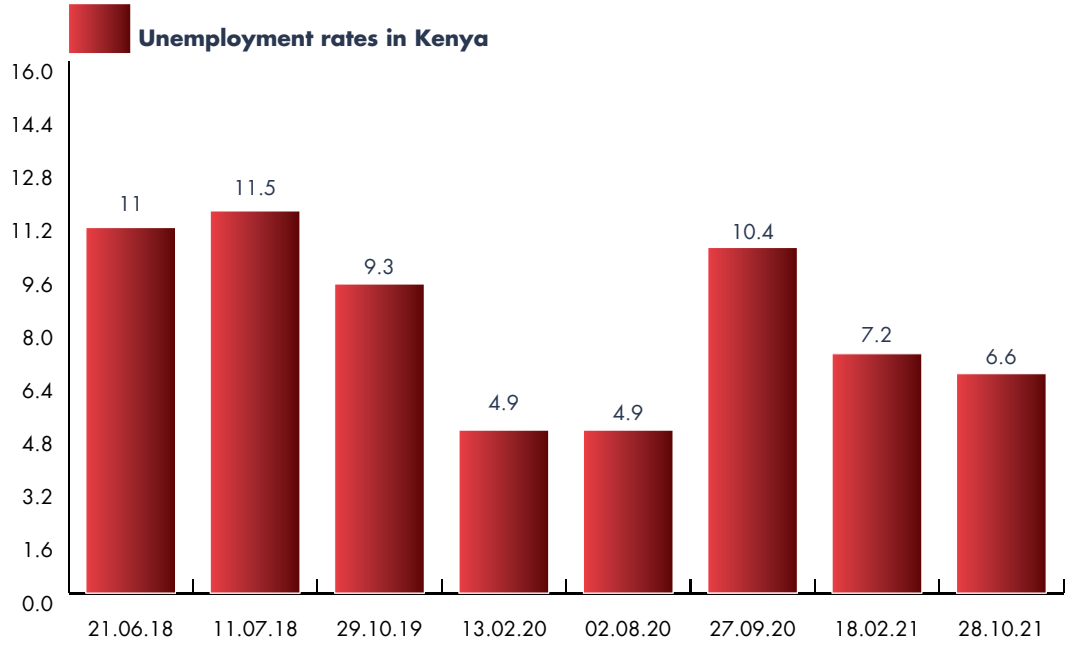
11. DIGITIZATION

According to the National Association of Realtors, an estimated 50% of buyers used the internet to search for a property, with that figure increasing to 93 percent for people under the age of 36 which calls for KMRC to embrace digital mortgage processes from the onset. A research by Freddie Mac in 2021 shows that the mortgage industry was already intently focused on digitization. According to UNESCO, Kenya has an adult literacy rate of 78.73%. The Government's continued investment and reforms in the education sector will see literacy rates increase. Coupled with global pandemic, businesses are driving the need for low to no-touch services that enables more workers the ability to work from home hence mortgage processes need to be digitized. The digitally enabled mortgage process is fully automated end-to-end, providing a touchless straight-through-process (STP) experience for more than 70% of mortgage applications. It starts with a hyper-personalized point-of-sale (POS), a mobile app that allows the user to make a mortgage application with a minimal set of data. Most of the heavy lifting is done by intelligent data ingestion and integration through APIs with banks, credit rating agencies etc.

According to the Digital 2021: Kenya report from DataReportal it is established that 72.9% of Kenyan's aged 15 and above have a mobile money account. For this same group 81.6% have an account with a financial institution, but only 5.7% have a credit card. 22.86 million Kenyans are internet users according to Kenya's Digital 2020 report. The ever-changing technology landscape has brought with it new opportunities. Key technology advances include that KMRC can leverage on include big data, Data Lake, data warehousing, data analytics, distributed ledger technology, artificial intelligence, cloud computing solutions, containerization of applications, micro services, application programming interfaces (APIs) and Blockchain technologies (cagamas model)

12. UNEMPLOYMENT

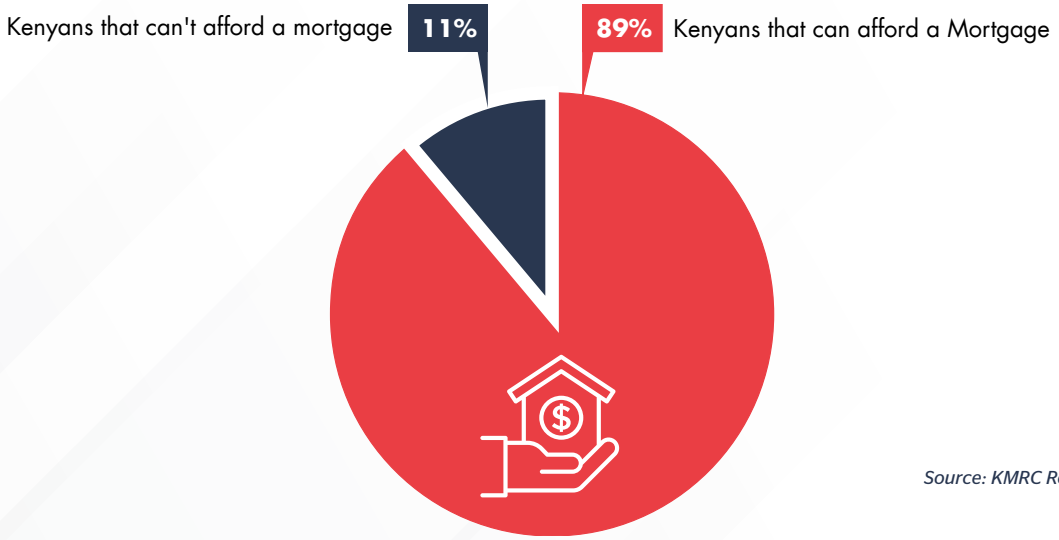
Unemployment Rate in Kenya remained high at 6.6 % in 2021. The maximum rate was 12.2 % and minimum was 4.7%. This leaves most Kenyans ineligible for mortgage uptake. Home ownership in Kenya has remained low at 21.3% in urban areas as at 2020, implying that 78.7% of the urban population are renters.



Source: Statista 2022

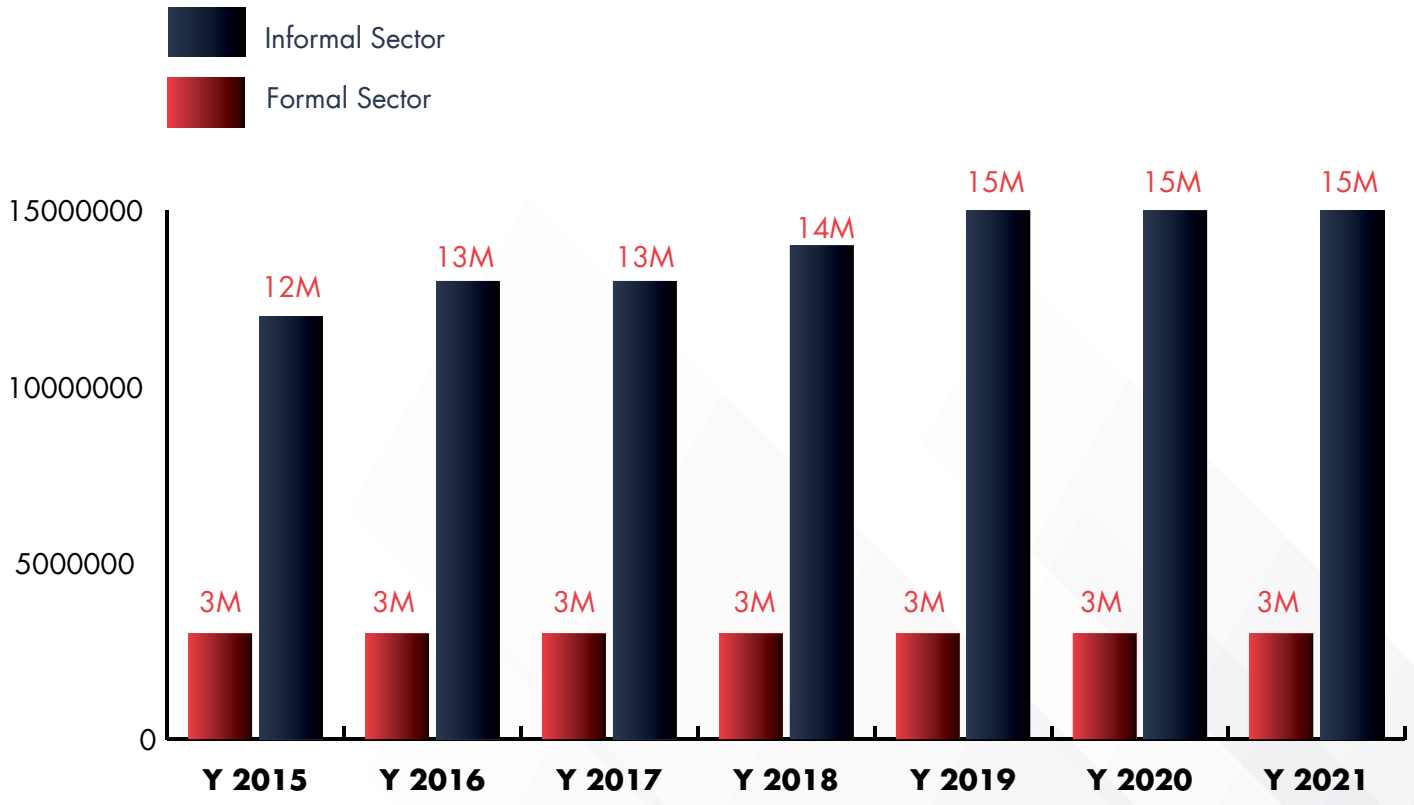
This affects mortgage affordability hence only 11% of Kenyans can afford a mortgage

13. MORTGAGE AFFORDABILITY



Source: KMRC Research, CAHF 2021

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



Source: KMRC Research, KNBS 2021

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