KMRC
KENYA MORTGAGE REFINANCE COMPANY

RESEARCH INSIGHTS ON MACROECONOMIC OUTLOOK AND INDUSTRY

ISSUE 9 – APRIL 2023

INTRODUCTION

The publication is an analytical review offering key insights into the macroeconomic outlook and industry on key indicators from Kenya National Bureau of Statistics Economic Survey report 2023, Central Bank of Kenya, Hass Consult report Q1'2023 report, Centre for Affordable Housing Finance and Trading Economics 2023.

KEY HIGHLIGHTS

- The global economy grew at a slower rate of 3.4% in 2022, from an expansion of 6.0% recorded in 2021 attributable to supply chain disruption worsened by persistent geopolitical pressures, tightened monetary policies, and elevated inflationary pressures.

- In 2022, the Sub-Saharan and East African economies recorded growths of 3.9% and 4.9%, respectively.

- The Kenyan economy recorded a 4.8% expansion in 2022, a 2.8% decline from 7.6% recorded in 2021. The economic growth recorded in 2022 is an indication of resilience following multiple shocks such as supply chain constraints, soaring global fuel prices, elevated inflationary pressures, persistent geopolitical pressures, erratic weather conditions, and currency depreciation.

- Notably, Kenya's inflation rate averaged 7.7% in 2022, up from an average of 6.1% recorded in 2021 largely attributable to a rise in food and fuel prices stemming from persistent supply bottlenecks.

- On a year-to-date basis, the shilling has depreciated by 10.5% against the dollar, adding to the 9.0% depreciation recorded in 2022.

- The CBR has risen to 9.50% in March 2023 from 8.75% in December 2022 leading to an increase in lending rates.

- Banks are currently practicing risk-based lending according to Kenya Bankers Association, 2023 informing the operationalization of Risk Sharing Facility.

- Gross National Disposable Income (GNDI) increased by 11.5% to stand at KES 13.9 trillion in 2022 showing capacity for Kenyans to take up mortgages.

- Kenya National Bureau of Statistics (KNBS) released the Economic Survey 2023, highlighting a decline in growth of the Real Estate and Construction sectors.

- Growth in the Real Estate Sector declined by 2.2% from 6.7% in 2021 to 4.5% in 2022.

- The construction sector grew by 4.1% in FY'2022, 2.6% lower than the 6.7% growth recorded in FY'2021.

- The mortgage contribution to GDP was 1.96% in 2022 as compared to 2.2% in 2021.

- Kenya's Real Estate sector contribution to Gross Domestic Product (GDP) in 2022 came in at 10.5%, a 0.4% increase from the 10.1% recorded in 2021.

- The number of residential housing units completed by the State Department for Housing increased more than threefold, from 431 units in 2021 to 1,390 units in 2022.

- The total number of residential properties with title deeds is 4,060,000 according to The Center for Affordable Housing Finance Africa (CAHF), providing a market for mortgage uptake that requires titles as collateral.

- The number of residential projects certified by EDGE stood at 17 in 2022 acc0rding to CAHF and Edgebuildings.com, eliciting the green mortgages conversation.

- Credit advanced (Loans and Advances from Commercial Banks) to the construction sector grew by 4.2% to KES 562.0 billion in 2022, indicating the populace's appetite for home ownership.

- House Price Index Q1'2023 Report highlights that the average q/q selling prices for residential houses registered 0.02% increase in Q1'2023, compared to 2.2% decline recorded in Q4'2022, while on y/y basis the average selling prices for residential houses appreciated by 2.0%, compared to 6.8% increase that was recorded in Q1'2022.

- The price of the cheapest, newly built house by a formal developer or contractor in an urban area is KES 1,500,000(US$12 727), which falls within the affordable housing brackets according to CAHF.

- Land Price Index Q1'2023 Report highlights that the average q/q and y/y selling prices for land in the Nairobi suburbs slightly increased by 0.3% and 1.4% respectively, compared to 0.1% and 1.1% recorded in Q1'2022.

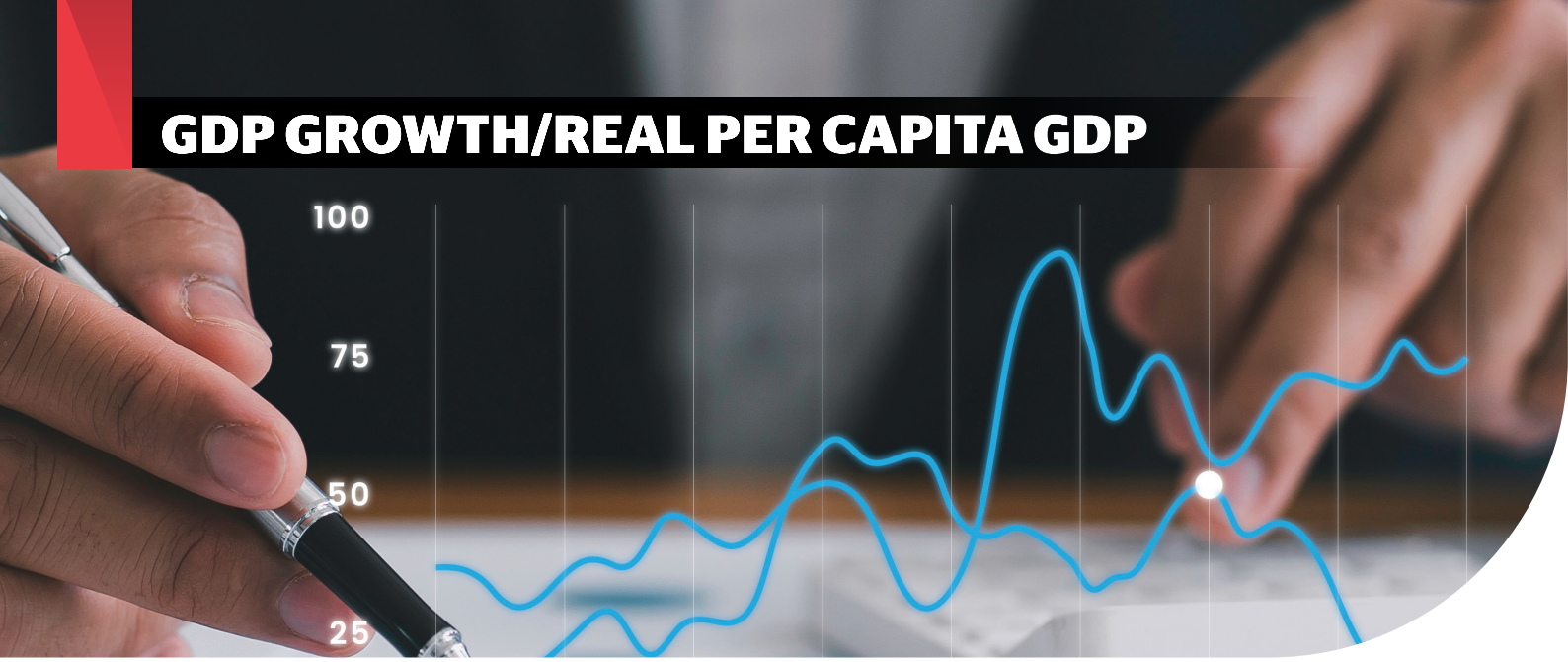
- Kenya continues to witness positive demographics as evidenced by Kenya's relatively high urbanization and population growth rates of 3.7% p.a. and 1.9% p.a. respectively, against the global averages of 1.6% p.a. and 0.9% p.a. respectively, as at 2021. Kenya's population hit 50,623,000 in 2022 and is projected to grow to 57,811,000 in 2030.

- Formal employment in the modern sector increased by 3.8% to 3.0 million persons in 2022 from 2.9 million persons in 2021 indicating a growing bankable class viable for mortgage uptake.

- The informal sector created 702,900 new jobs, which informs the operationalization of the risk sharing facility to deepen mortgage uptake.

- Bank customers prefer fully automated or self-service modes (including Mobile, Internet and Chatbots) when accessing banking services according to KBA Banking Industry Customer Satisfaction Survey 2022, which informs digitization, including automating mortgage origination processes.

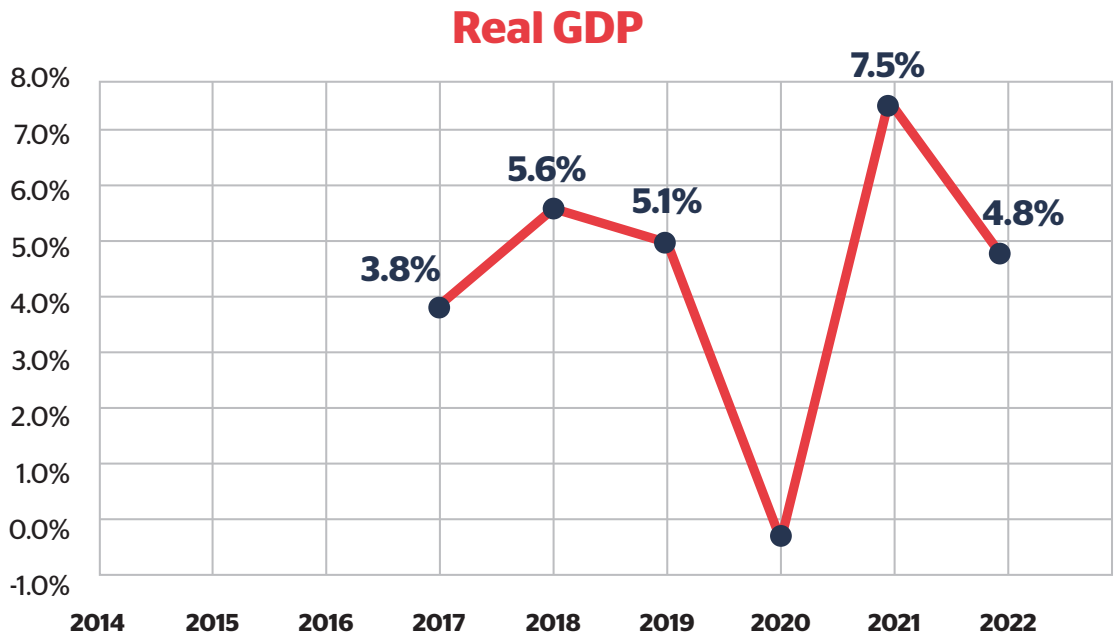
GDP GROWTH/REAL PER CAPITA GDP



The Kenyan economic growth slowed down in 2022 as evidenced by an average GDP growth of 4.8%, a decline from 7.6% recorded in 2021 amid the elevated inflationary pressures, persistent geopolitical pressures, and erratic weather conditions.

The global economy grew at a slower rate of 3.4% in 2022, from an expansion of 6.0% recorded in 2021. The slowdown in growth was mainly attributable to supply chain disruption worsened by geopolitical tensions between Russia and Ukraine, tightened monetary policies and elevated inflationary pressures.

Additionally, in 2022, the Sub-Saharan and East African economies recorded growths of 3.9% and 4.9%, respectivel



KMRC Research 2023, KNBS Economic Survey 2023

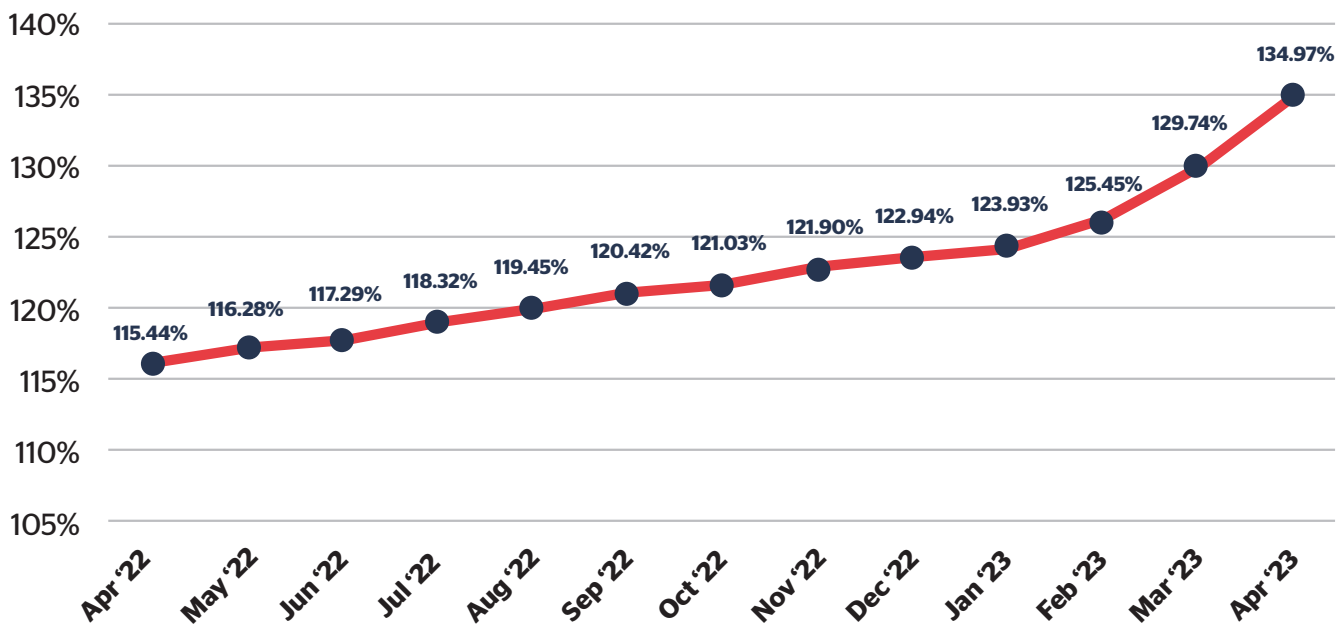
Kenya's GDP at Market Prices stood at KES 13.4trillion in 2022 as compared to KES 12.0trillion in 2021.

FOREIGN EXCHANGE

On a year-to-date basis, the shilling has depreciated by 10.5% against the dollar, adding to the 9.0% depreciation recorded in 2022. The shilling is expected to remain under pressure in 2023 as a result of:

1. High global crude oil prices on the back of persistent supply chain bottlenecks coupled with high demand.
2. An ever-present current account deficit estimated at 4.9% of GDP in 12 months to January 2023, from 5.6% recorded in a similar period last year.
3. The need for Government debt servicing which continues to put pressure on forex reserves given that 63.0% of Kenya's External debt was US Dollar denominated as of December 2022

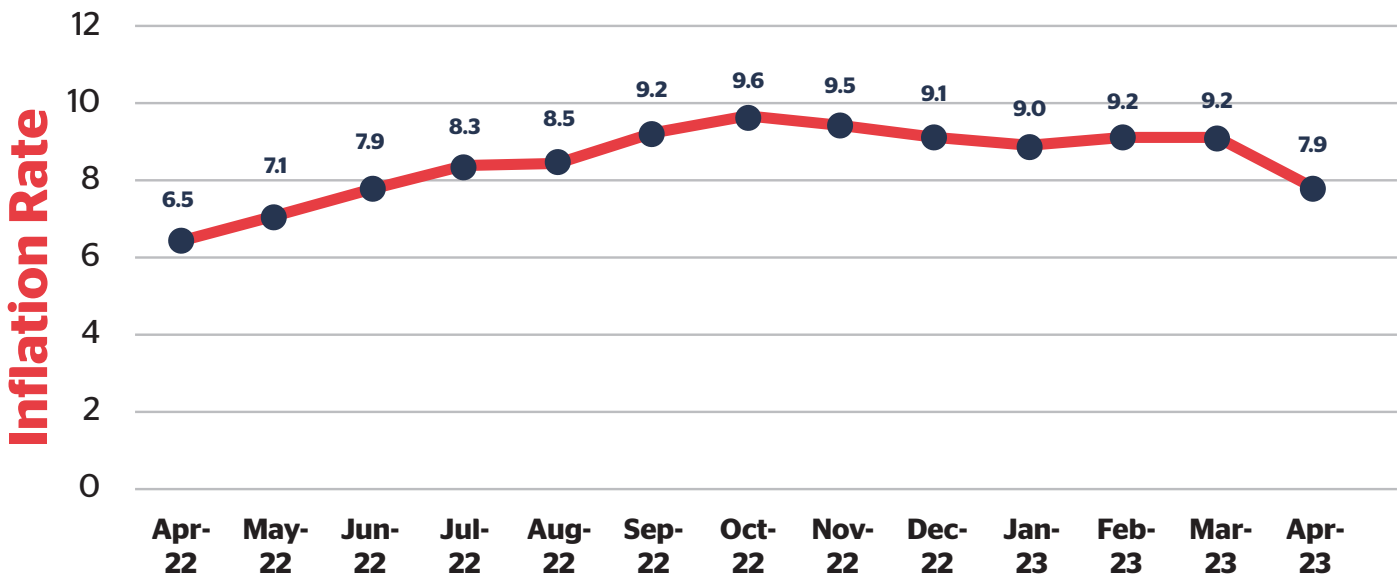
The Kenya Shilling remained relatively stable against major international and regional currencies exchanging at an average of KES 134.97 in April. Luyali et.al (2021) argue that exchange rate has a significant effect on the growth of mortgage financing among commercial banks in Kenya. The higher the exchange rate the lower mortgage absorption rates.



KMRC Research 2023, CBK Banking Supervision report 2023

INFLATION

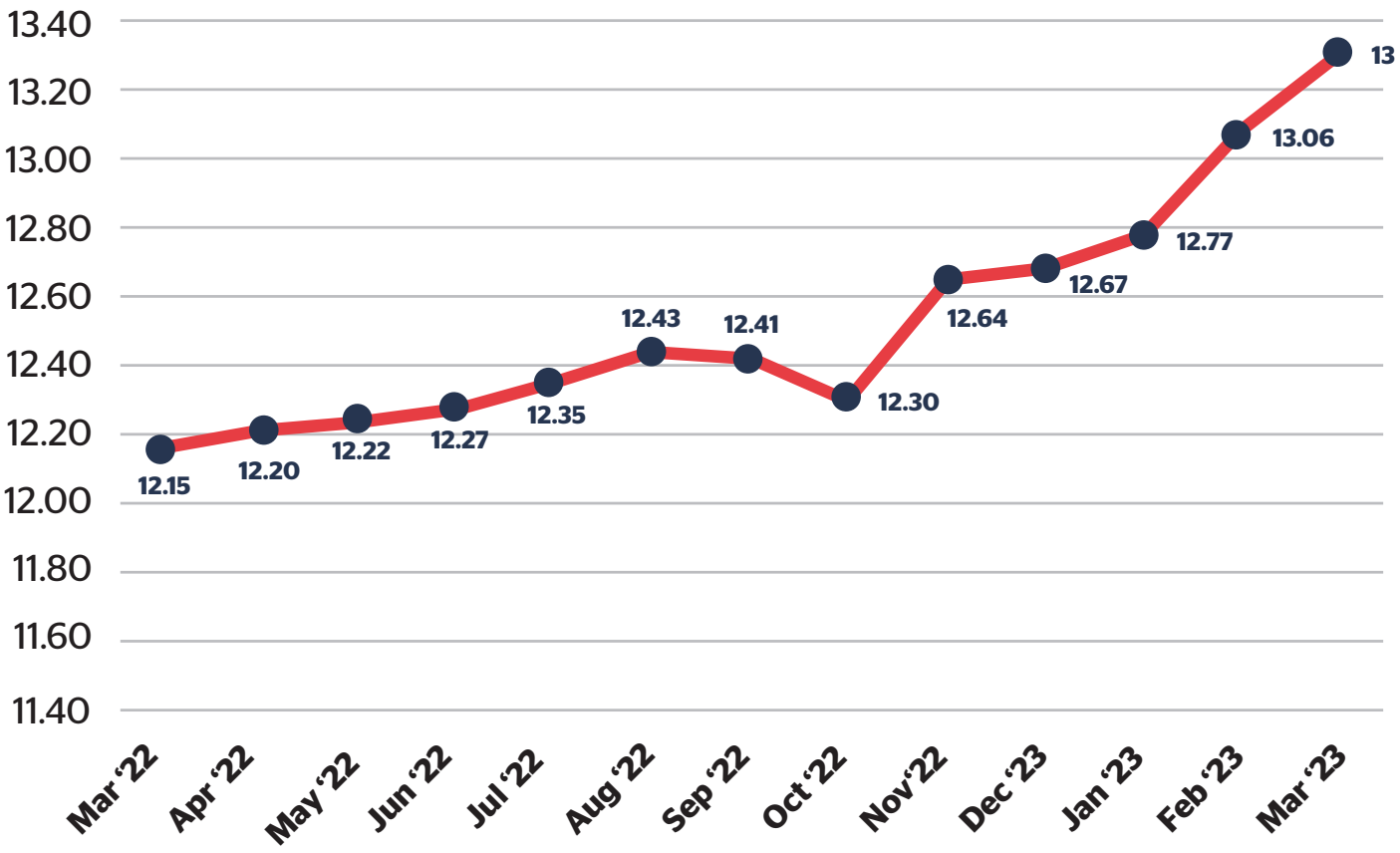
Kenya's inflation rate averaged 7.7% in 2022, up from an average of 6.1% recorded in 2021, mainly driven by high food and non-alcoholic beverage index, housing as well as fuel index. Similarly, the world inflation increased to 8.7% in 2022, from 4.7% in 2021, driven by high fuel prices and supply chain bottlenecks, while the inflation for Sub-Saharan Africa rose to 14.5%, from 11.0% in 2021. The overall year on year inflation rate as measured by the Consumer Price Index (CPI) was 7.9%, in April 2023.



KMRC Research 2023, KNBS Economic Survey 2023

MONETARY POLICY

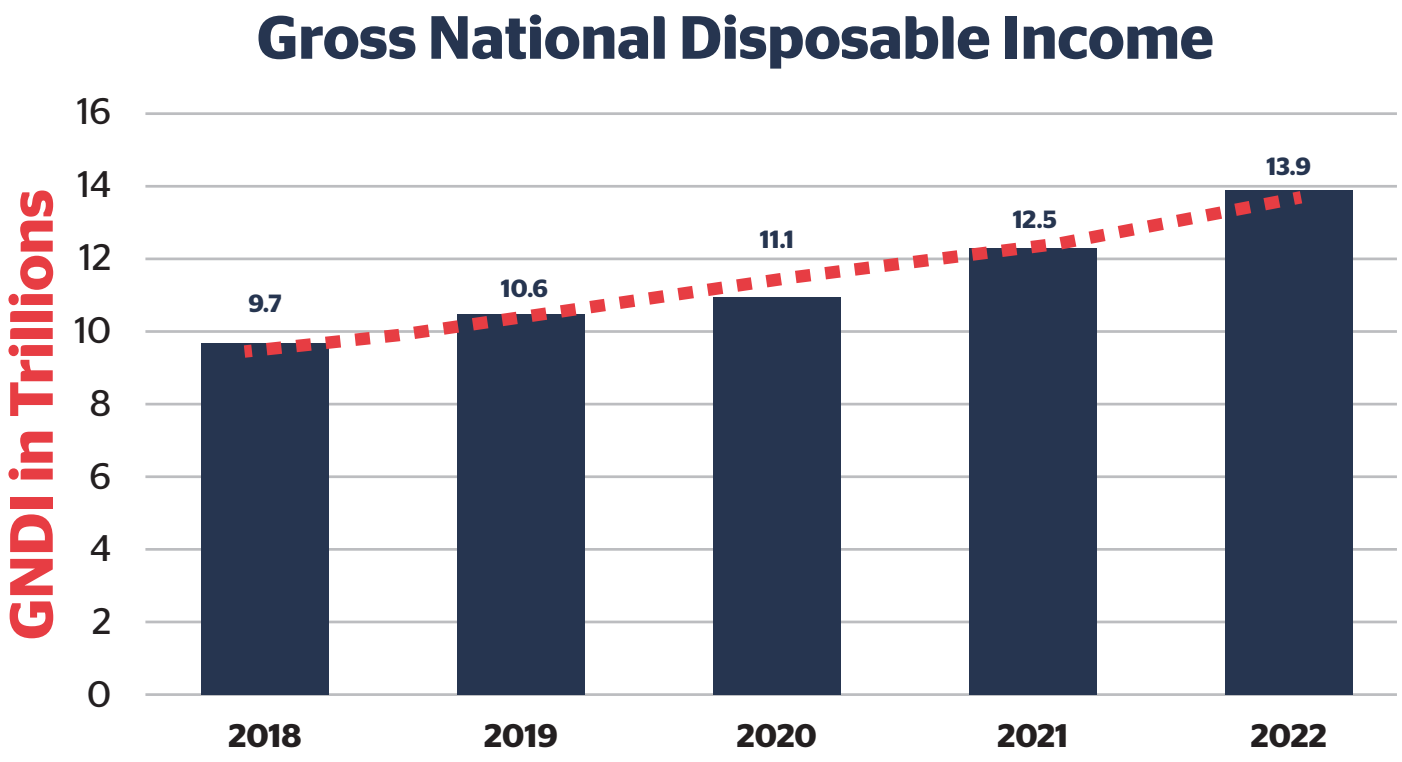
In 2022, the Monetary Policy Committee raised the Central Bank Rate (CBR) by a cumulative 175.0 bps to 8.75% in December 2022, from 7.00% in December 2021, with the aim of anchoring inflation that averaged 7.7% in 2022, 0.2% points above the government's target range of 2.5% - 7.5% and supporting the Kenyan shilling that depreciated by 9.0% in 2022. Notably, key interest hikes were witnessed in June, October, and December at 7.50%, 8.25% and 8.75% respectively. Consequently, lending interest rates for loans and advances increased to 12.7% as at the end of December 2022, from 12.2% in December 2021. In March 2023, the CBR rose to 9.50% while Bank Lending Rates increased to 13.31% from 12.77% in February2023, according to CBK and Trading Economics global macro models and analysts. Banks are currently practicing risk-based lending according to Kenya Bankers Association, 2023.



KMRC Research 2023, CBK 2023, Trading Economics 2023

NATIONAL DISPOSABLE INCOME AND SAVING

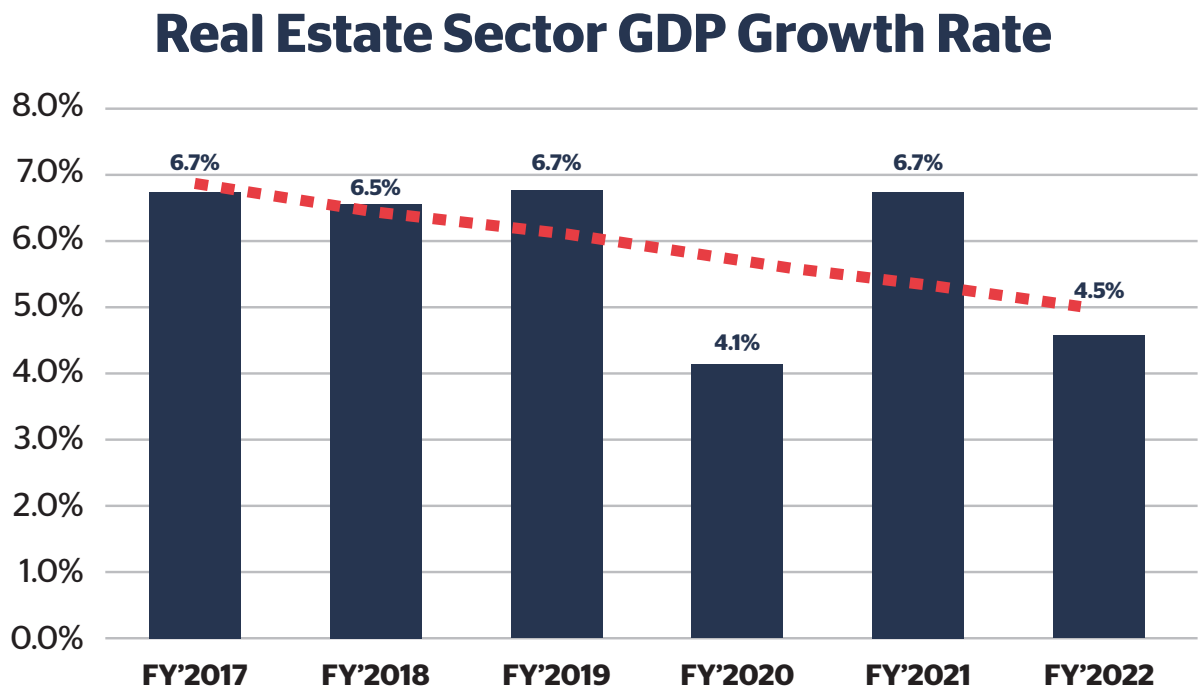
Gross National Disposable Income (GNDI) increased by 11.5% to stand at KES 13.9 trillion in 2022 demonstrating capacity for Kenyans to take up mortgages.



KMRC Research, KNBS 2023

REAL ESTATE SECTOR

According to the report, the Real Estate Sector grew by 4.5% in FY'2022. This was, however, 2.2% points lower than the 6.7% growth recorded in FY'2021. The decline in performance was mainly attributed to increased cost of construction materials which hampered optimum investments, and reduced investor confidence as most investors, for the most part of the year, adopted a 'wait-and-see' approach in anticipation of the August 2022 general elections. The graph below shows Real Estate sector growth rates from FY'2017 to FY'2022.



KMRC Research 2023, KNBS Economic Survey 2023

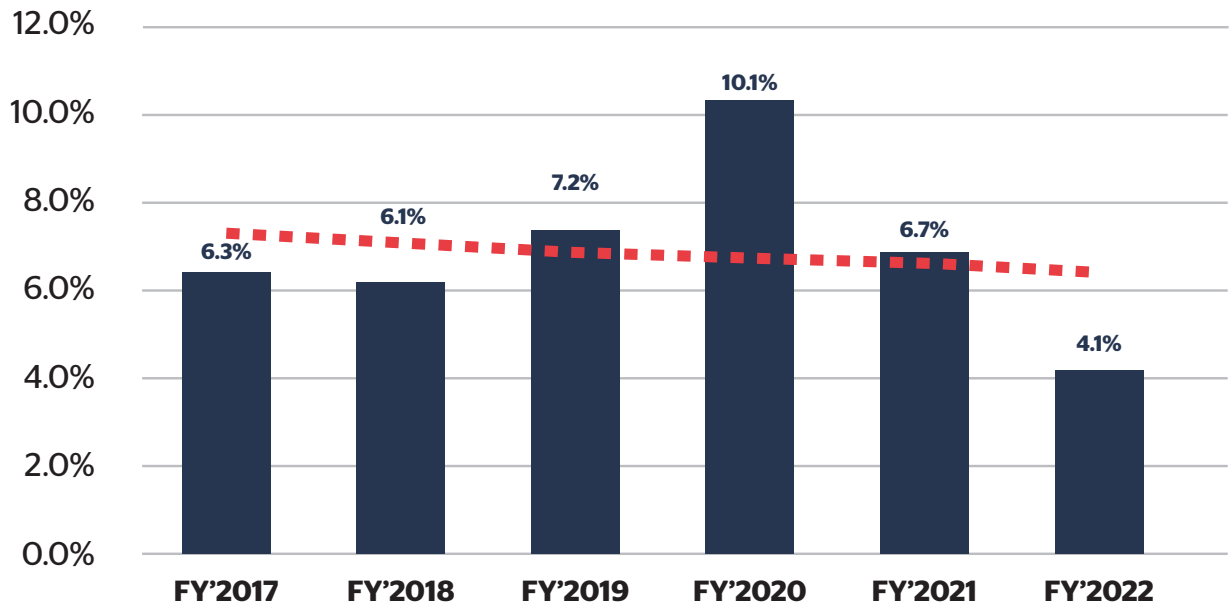
In FY'2022/23, the residential sector recorded increased activity mainly supported by the continued launch and implementation of various residential projects by the government under the Affordable Housing Programme (AHP), which encouraged construction and property transactions. According to the Kenya National Bureau of Statistics (KNBS), Kenya's Real Estate sector contribution to Gross Domestic Product (GDP) in 2022 came in at 10.5%, a 0.4% increase from the 10.1% recorded in 2021. This performance was attributed to increased investor confidence as a result of the improvement in the country's business environment post COVID-19, and peaceful conclusion of the August 2022 General elections.

CONSTRUCTION SECTOR

The construction sector grew by 4.1% in FY'2022, 2.6% points lower than the 6.7% growth recorded in FY'2021. The decline was driven by:

1. The rising cost of construction materials averaging Kshs 5,210 per SQFT in 2022, a 5.0% increase from Kshs 4,960 per SQFT recorded in 2021, hence hindering several construction projects,
2. The completion of major development projects in the country such as the Nairobi Expressway and the Eastern Bypass, and,
3. The government's decision to cut back on infrastructure expenditure.

Construction Sector GDP Growth Rate



KMRC Research 2023, KNBS Economic Survey 2023

The number of residential housing units completed by the State Department for Housing increased more than threefold, from 431 units in 2021 to 1,390 units in 2022.

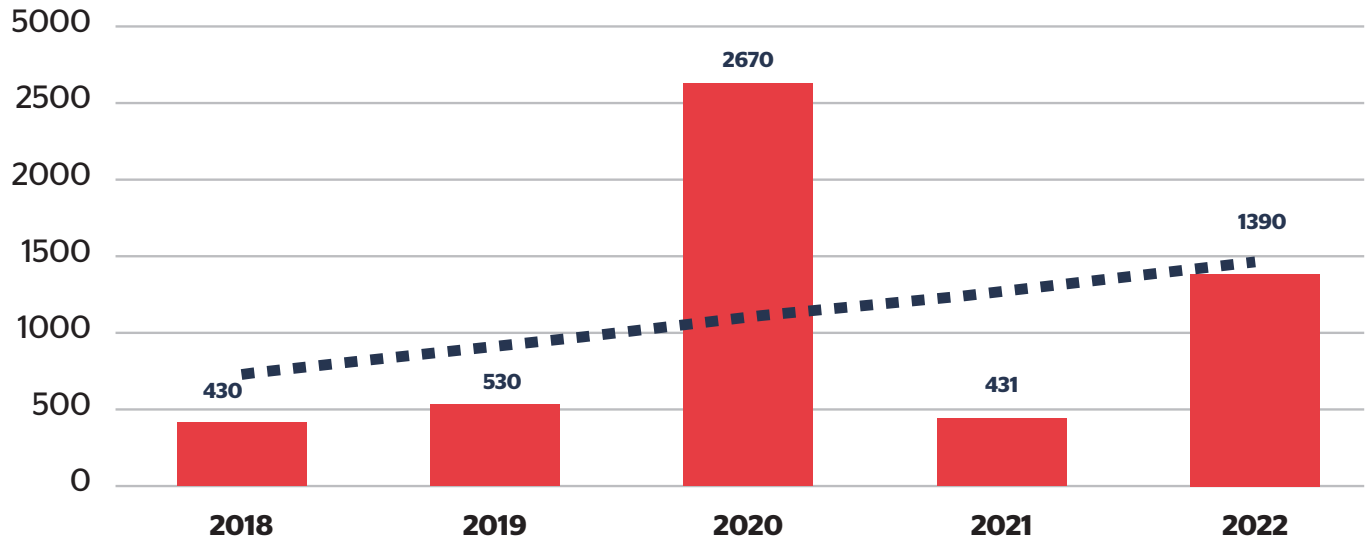
The total number of residential properties with title deeds is 4,060,000 according to The Center for Affordable Housing Finance Africa (CAHF), providing potential market for mortgage uptake.

The number of residential projects certified by EDGE stood at 17 in 2022 acc0rding to CAHF and Edgebuildings.com, eliciting the green mortgages conversation.

Many opportunities for investment in sustainable housing and construction exist, including investment in setting up recycling centres to recycle waste materials for use in construction of low-cost housing, according to CAHF.

An estimated 10 million people rely on quality-verified off-grid solar products for lighting, a demonstration of sustainability to meet household needs.

Number of Residential Buildings by NHC and State Department of Housing



KMRC Research 2023, KNBS Economic Survey 2023, NHC and SDHUD 2023

Credit advanced (Loans and Advances from Commercial Banks) to the construction sector grew by 4.2% to KES 562.0 billion in 2022, indicating the populace's appetite for home ownership.

In Nairobi, 90.6% of the population live in rented units and 9.3% in owned units due to the unaffordability of home loans and preference for renting property in the city while owning homes in rural areas, according to CAHF.

HOUSING/PROPERTY PRICES

From the House Price Index Q1'2023 Report, the average q/q selling prices for residential houses registered a 0.02% increase in Q1'2023, compared to a 2.2% decline in Q4'2022. The performance was mainly driven by 0.8% and 0.7% increase in apartment prices and detached house prices respectively. However, the performance was weighed down by a 2.4% decline in the selling prices of semi-detached houses. On a y/y basis, the average selling prices for residential houses appreciated by 2.0% compared to a 6.8% increase that was recorded in Q1'2022. The slow increase in property prices is attributable to inflationary pressures which have impended consumer demand and made developers less aggressive in pricing their properties.

The overall asking rents of housing units in the NMA slightly declined by 0.5% q/q resulting in a 1.2% y/y decline, compared to a 1.5% q/q decline recorded in Q4'2022 and 0.3% y/y growth recorded in 2022, attributed to slow growth in the general demand for rental units post-pandemic and landlords offering rent incentives to attract customers. Apartments recorded the highest y/y increase in asking rents of 3.2% with detached and semi-detached units realizing price corrections of 2.5% and 3.2% respectively, supported by the progressive expansion of the middle class preferring to rent apartments due to their affordability.

The average q/q selling prices for land in the Nairobi suburbs slightly increased by 0.3% compared to a 0.1% gain realized in Q1'2022. Consequently, q/q and y/y land prices in satellite towns of Nairobi increased by 1.3% and 8.1% respectively, compared to 2.2% and 7.4% respectively in Q1'2022. The sustained improvement in performance continues to demonstrate the sector's resilience even during times of economic uncertainty characterized by inflationary pressures.

The price of the cheapest, newly built house by a formal developer or contractor in an urban area is KES 1,500,000(US$12 727), which falls within the affordable housing bracket according to CAHF.

The main challenges facing affordable housing production have always been the high costs of development class land and construction.

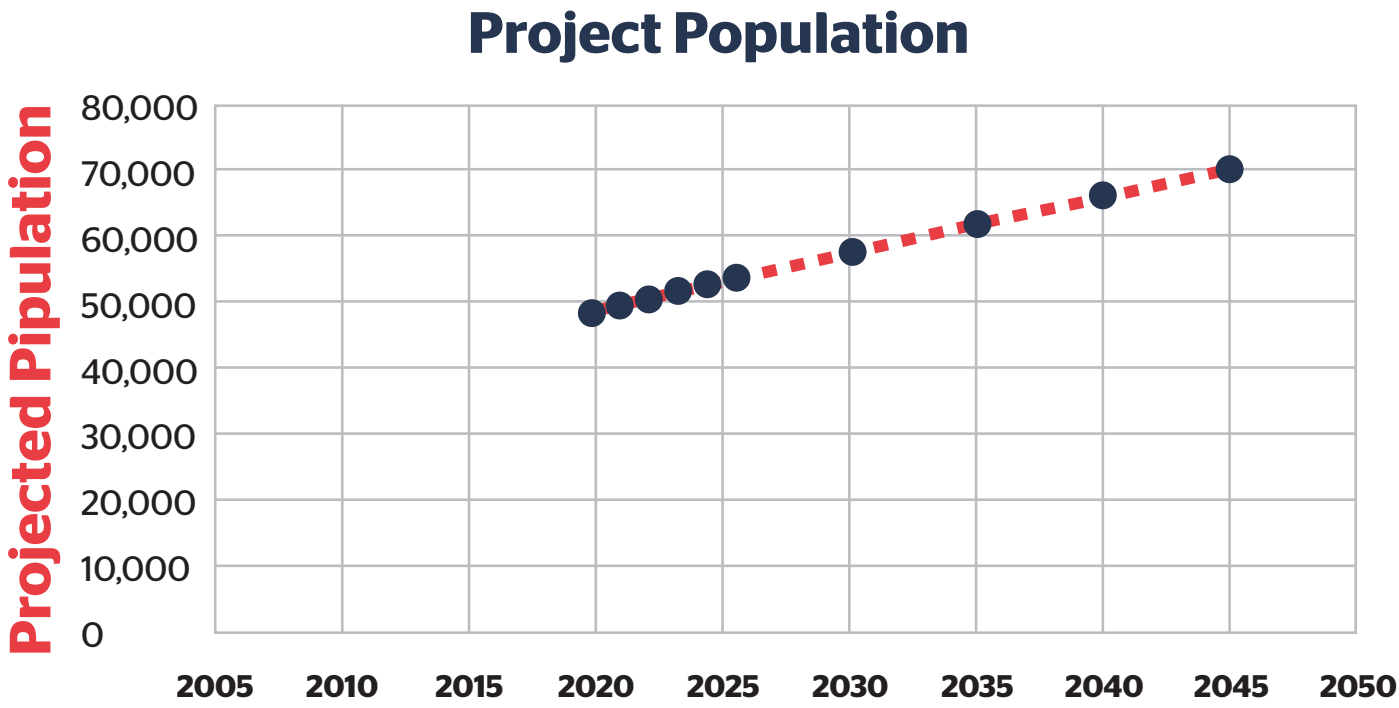
Approximately 89% of contractors use locally available construction materials, 8% use mostly imported materials, and 3% rely on both locally available and imported materials according to CAHF.

According to the World Bank's Doing Business indicators for Kenya, a land transaction process comprised 10 procedures and took approximately 43.5 days, costing 5.9% of the property value.

In 2021, the total number of land transactions in Nairobi was 39 627 compared to 32 276 in 2020.

POPULATION

Kenya continues to witness positive demographics as evidenced by its relatively high urbanization and population growth rates of 3.7% p.a. and 1.9% p.a. respectively against the global averages of 1.6% p.a. and 0.9% p.a. respectively as at 2021. Kenya's population hit 50,623,000 in 2022 and is projected to grow to 51,526,000, 53,331,000 and 57,811,000 in 2023, 2025 and 2030 respectively. As such, the demand for Real Estate development in the country continues to increase hence it is projected that there will be increased mortgage uptake.



KMRC Research 2023, KNBS Economic Survey 2023

In the last four years, there has been a steady growth of bank customers preferring fully automated or self-service modes (including Mobile, Internet and Chatbots) when accessing banking services according to KBA Banking Industry Customer Satisfaction Survey 2022, which informs digitization including automating mortgage origination processes.

76% of the adult population borrowed formally according to the Center for Affordable Housing Finance Africa (CAHF).

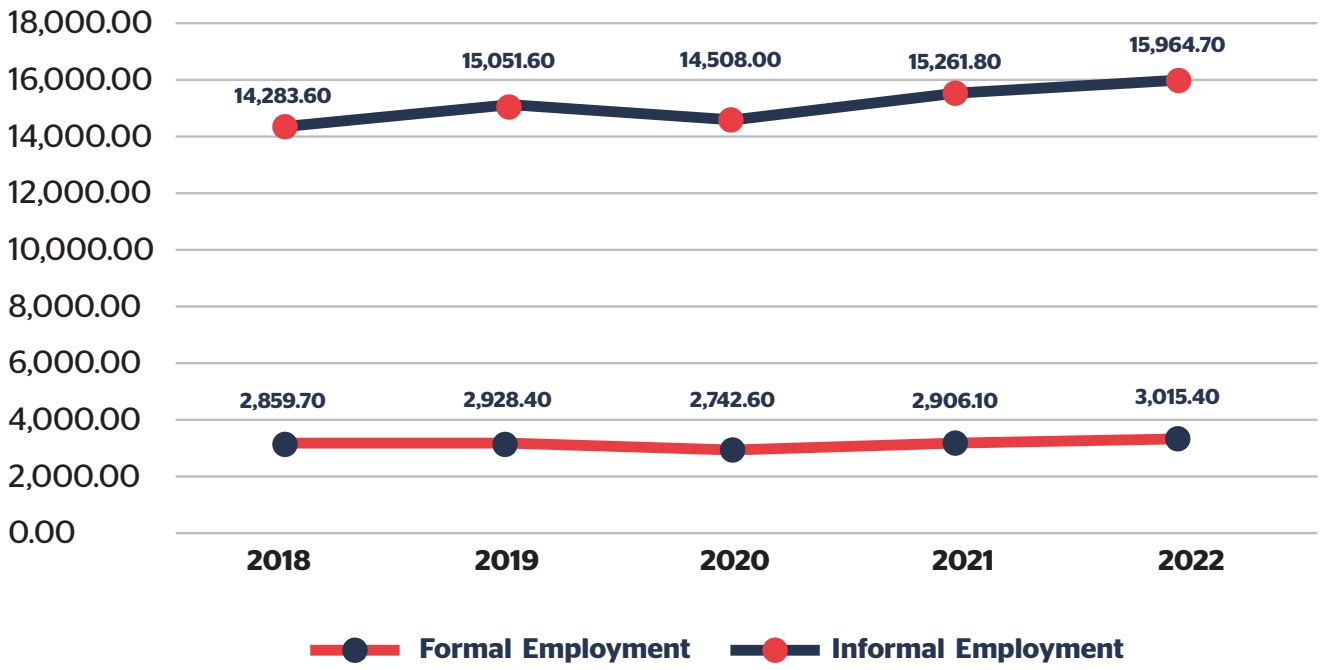
Access to formal finance in 2021 was 83.7% compared to 82.9% in 2019, primarily driven by the use of technology and increased regulation and safety in the financial sector. However, the opportunity exists for greater financial inclusion, as 11.6% of Kenya's adult population is completely excluded from accessing financial services according to Centre for Affordable Housing Finance.

EMPLOYMENT

Formal employment in the modern sector increased by 3.8% to 3.0 million persons in 2022 from 2.9 million persons in 2021, indicating a growing bankable class viable for mortgage uptake. The informal sector created 702,900 new jobs, which informs the operationalization of the risk sharing facility to deepen mortgage uptake in this sector. Approximately 83.3% of the total employed population works in the informal sector.

Unemployment is estimated at 5.7% of the total labour force of 24.97 million, comprising 49.2% women and 50.8% men as of 2021 according to CAHF.

Formal and Informal Employment in '000



KMRC Research 2023, KNBS Economic Survey 2023

KMRC
KENYA MORTGAGE REFINANCE COMPANY

Strategy and Corporate Communication
27th Floor, UAP Old Mutual Tower, Upperhill Road,
Upperhill, Nairobi.
Email: communications@kmrc.co.ke
Web: www.kmrc.co.ke / Mobile: +254 111 022 400

KMRC is Regulated by the Central Bank of Kenya