CENTRAL BANK OF KENYA

AFFORDABLE HOUSING FINANCE IN KENYA: DEVELOPING A STRATEGIC FRAMEWORK

Radisson Blu Hotel, Upper Hill, Nairobi

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As Prepared for Delivery

Good morning!

I am indeed honoured to be here today at the opening of this workshop on ***Affordable Housing Finance***, and I thank The National Treasury and the World Bank for co-hosting it.

The theme of this workshop —developing a **Strategic Framework for Affordable Housing Finance** — is timely given the state of the real estate sector in Kenya. The country continues to experience acute problems of affordable housing and to deal with this, there is need for higher investment, both private and public. As you may be aware the country needs approximately 240,000 new housing units per year to meet the ever growing need. This is a big challenge given the high cost of construction material and other related expenses. In addition, shelter without the supporting infrastructure of water, sewerage, electricity, and social services fails to achieve the desired benefit. Affordable housing therefore is a herculean and multi-faceted objective for which practical solutions are needed. In the words of Nelson Mandela, *"it always seems impossible until it is done".*

Allow me to share with you some statistics on the real estate sector:

- The sector continues to receive a small but rising share of bank credit. This now accounts for 13 percent of credit to the private sector, rising from 7 percent in 2010.
- The real estate and construction sectors contributed approximately 13 percent to GDP in 2015.
- The residential mortgage finance market has more than tripled in the last five years, from Ksh.61 billion in 2010 to Ksh.203 billion in 2015.

- The number of mortgages in the banking sector has grown from 13,800 to 24,500 over the same period.
- Though the data is weak, we understand that SACCOs have provided substantial support to the sector.

A critical piece in the puzzle is the role of the financial sector in driving this objective. It is important that this be probed, also highlighting the opportunities but also the significant risks. In particular, the seemingly perennial issue of high interest rates, in addition to high property prices and transaction costs, are often cited as key drawbacks.

Evidently, the mortgage industry does not seem to provide adequate solutions for affordable housing. However, Kenya's outstanding mortgage debt to GDP ratio at about 4.2 percent in 2014 is still low compared to peers such as South Africa and Namibia where the ratio is above 20 percent, and developed countries such as the U.S. market where the ratio is over 70 percent. This may be attributed to the high mortgage rates averaging 17.5 percent in 2015, collateral requirements, difficulties with property registration and high incidental costs of borrowing among other factors.

Nevertheless, there is reason for optimism. I am pleased to note that players in the real estate sector have embraced the aspirations engraved in Kenya's Economic Development Blueprint Vision 2030 on attaining "adequately and decently-housed nation in a sustainable environment". This will ensure that the real estate sector and other players remain vibrant in provision of affordable and adequate housing; enhancing access to finance for developers and buyers; pursuing targeted reforms to unlock the potential of housing and initiating nationwide urban plans and development campaigns.

A number of initiatives have been undertaken to enhance the uptake of mortgage in Kenya. Allow me to mention a few;

- ***Amendment of the Banking Act in 2010,*** which allowed mortgage finance companies to advance up to 40 percent of their total deposit liabilities, from the previous limit of 25 percent for purchase, improvement or alterations of land. This unlocked funding to finance the real estate sector.

- ***Enabling issuance of corporate/housing bonds***, through which commercial banks can mobilize long term funding to strengthen the mortgage market.

- ***Implementing Credit Information Sharing mechanisms***. Commercial banks and microfinance banks are now able to access the credit history of borrowers on a real time basis, helping address information asymmetry which often stifled lending.

- ***Greater transparency and competitive pricing*** of loans and mortgages. The Central Bank of Kenya (CBK) continues to urge banks to reduce their operating costs and enhance transparency in the pricing of credit. In this respect, the CBK has commenced the quarterly publication of individual banks' lending rates across loan categories and maturities.

The housing sector in Kenya has also attracted the attention of the diaspora who have been remitting funds to acquire or build assets for their retirement or their future housing. Along with this dynamism, is the major increase in demand associated with the expansion of the towns housing County capitals.

Much more work needs to be done. I am sure your deliberations will offer many useful ideas and innovative solutions.

On our part, the CBK will continue to support initiatives and innovations aimed at reducing cost of doing business for financial institutions with the main aim of bringing down the cost of financial services. Further, the CBK will pursue better regulation as opposed to more regulation so as to create room for more innovations by financial institutions and also be ready with effective tools to deal with any system vulnerabilities and emerging risks.

It is my hope that a **Strategic Framework for Affordable Housing Finance** will provide solutions on some of the pertinent problems in the housing market in Kenya, sensitive to the immediate demands and the need to have a sustainable vision.

Ladies and gentlemen, it is now my pleasure to welcome Mr. Henry Rotich, Cabinet Secretary to The National Treasury, to make his remarks and officially open the workshop.

Welcome Bwana Waziri