

CENTRAL BANK OF KENYA



Remarks by

**PROF. NJUGUNA NDUNG’U
GOVERNOR
CENTRAL BANK OF KENYA**

ON THE OCCASION OF

**HANDOVER CEREMONY OF WATERFRONT GARDENS
ESTATE TO
HOUSING FINANCE**

at

WATERFRONT GARDENS, LORESHO, NAIROBI
Wednesday, June 2nd, 2010

Mr. Steve Mainda, Chairman, Housing Finance;
Mr. Frank Ileri, Managing Director, Housing Finance;
Board Members of Housing Finance;
Mr. Michael Karanja, Chairman, Hewton Ltd.;
Board Members of Hewton Ltd.;
Distinguished Guests;
Ladies and Gentlemen:

It is my pleasure to join you this afternoon at this important handover ceremony of the Waterfront Gardens Estate Phase 2. My thanks go to the Board and Management of Housing Finance for this invitation. Allow me at this juncture to also commend the Boards and Management of Housing Finance and Hewton Ltd. for their fruitful partnership. I am informed that the partnership will see the handover of 45 units today bringing to 90 the completed units since the project began in 2006. I am further advised that this initiative will in a phased approach develop a total of 208 units when fully completed. I have no doubt that Waterfront Gardens will play a significant role in providing housing in the growing Westlands business hub and provide a forward step in resolving the supply of housing in Nairobi.

Ladies and Gentlemen: Provision of adequate and decent housing for Kenya's populace is a key plank of Vision 2030. At the moment, the available supply of housing units estimated at 35,000 per year falls far below the estimated annual demand of 150,000 units. This state of affairs has been attributed to various factors including under-investment in the housing sector, an outdated legal and regulatory framework, land value and scarcity in the urban centres and the high cost of financing. I wish this afternoon to expound further on the financing constraints as this, to some extent falls under the purview of the Central Bank among other players in the financial sector.

Kenya's financial sector is yet to achieve optimum financing to the Housing sub-Sector. This can be illustrated by the lending by commercial banks and mortgage finance companies to the building and construction and real estate sectors which amounted to Ksh.92.5bn as at the end of 2009 or 12.2% of total credit. Given the

excess demand for housing there is considerable headroom for expansion of credit to support provision of housing. The key constraint to financing housing in Kenya is a structural one relating to the undeveloped mortgage market in a wide scale. Mortgage financing is fundamentally of long term nature and cannot be effectively supported by short term deposits.

Ladies and Gentlemen: It is therefore imperative that solutions to addressing the cost of mortgage finance in Kenya addresses these structural constraints. It is worth noting that significant strides have already been made in this area. The presence of a vibrant bond market and the launch of infrastructure bonds to finance long-term infrastructure projects by Government has provided a mechanism to address the constraint on the market for long term finance. The success of the infrastructural bonds has signaled the launch of similar bonds by corporates. It is certainly time that we explored this path and consider a housing bond to finance the much needed long term investment in housing. The Central Bank stands ready to support such initiatives by the financial sector players borrowing from its experiences with infrastructure bonds.

Another contributing factor to the cost of housing finance has been the risk premium associated with default by borrowers. This is due to information asymmetry in the market. To mitigate this risk, borrowers have front-loaded a risk premium to the cost of mortgages. In addition, costly collateral requirements that are also complicated by multiple legal statutes have made it an expensive affair. The operationalization of Credit Information Sharing will go a long way in reducing information asymmetry and the front-loading of risk premiums for mortgage finance and also usher in a new set of collateral technology requirements. As you are aware, the Central Bank of Kenya in February 2010 licensed the first Credit Reference Bureau. Commercial Banks and the Bureau have been conducting pilot tests since then ahead of the roll out of the credit information sharing mechanism in July 2010.

Ladies and Gentlemen: The Central Bank will continue to engage players in the mortgage market and especially in the financing of housing in order to understand the constraints and opportunities in this market. This will facilitate the formulation of targeted policy interventions to create an enabling environment for expanding housing finance. My challenge to market players is to continuously innovate and develop products that will meet the needs of Kenyans wishing to tap the housing market or acquire a home. In this regard, I commend the recent introduction of a pension backed mortgage by Housing Finance through its Home Freedom Mortgage. Innovations such as these will leverage on pension savings and make mortgages affordable to potential home-owners. Working with our sister Regulator of Pensions, Retirement Benefits Authority (RBA) I am sure you will develop a wealth of ideas to resolve the excess demand in the housing market in Kenya's urban centres. This is the only way to expand cities – they are associated with development and enlarged capacity for growth.

In closing, let me once again commend Hewton Limited for the entrepreneurial spirit in putting up this development and Housing Finance for providing the required financing. It is only through partnerships and investments such as this that we can create wealth and increase capacity for growth for Kenyans and raise living standards along the aspirations of Vision 2030.

It is now my distinct pleasure to officially handover Phase 2 of Waterfront Gardens Development by Housing Finance to Hewton Ltd and to homeowners.

Thank You.