

# Kenya Retail Report 2024, & Cytonn Weekly #29/2024

## Real Estate

### I. Industry Report

During the week, the Central Bank of Kenya (CBK) released The Bank Supervision Annual Report 2023. Below are the key take-outs related to the Kenyan Residential Mortgage Market;

#### i. Mortgage Accounts

In 2023, the number of mortgage accounts increased by 2,229, representing an 8.0% increase to 30,015 from the 27,786 recorded in 2022. The average number of loan accounts has recorded a 10-year Compounded Annual Growth Rate (CAGR) of 4.2%, indicating growing demand for homeownership among Kenyans, driven by the expanding middle class and the continuous increase in population and urbanization rates. The chart below shows the average mortgage loan accounts from 2013 to 2023;



Source: Central Bank of Kenya

#### ii. Loan Size

In FY'2023, the average mortgage loan size remained stable at Kshs 9.4 mn. Notably, the loan mortgage size in Kenya has been increasing steadily over the past 10 years. The average mortgage size grew from Kshs 6.9 mn in 2013 to Kshs 9.4 mn in 2023. This represents a compound annual growth rate (CAGR) of 3.5% over the ten-year period. This upward trend indicates a growing need for more financing options in Kenya. Several factors contribute to this rise, including increased property prices, higher demand for homeownership, and changes in the economic landscape that make larger loans necessary as shown in the graph below;



Source: Central Bank of Kenya

#### iii. Mortgage Loans Outstanding

The value of mortgage loans outstanding increased by Kshs 19.7 bn, representing a 7.5% increase to Kshs 281.5 bn in 2023 from Kshs 261.8 bn in 2022. The upward trajectory of the loans which also represented a positive 10-year CAGR of 8.9% was attributed to the growing number of mortgage accounts as more people try to access mortgages to finance their housing needs, this follows the economic recovery from a downturn in 2020, during which the mortgage sector was adversely impacted by the COVID-19 pandemic. The chart below illustrates the trend of the value of mortgage loans outstanding from 2013 to 2023;



Source: Central Bank of Kenya

#### iv. Interest Rates on Loans

In 2023, the mortgage market recorded an average interest rate of 14.3%, representing a 2.0%-points increase from 12.3% recorded in 2022. CBK noted that rates ranged between 8.7% to 18.6% compared to a range of 8.2% and 17.0% recorded in 2022. The increase in the interest rates was attributed to the constant increase in interest rates in the economy during the period under review. However, for the past decade, the interest rates charged on mortgage loans has been on a downward trajectory mainly attributed to the **introduction of the interest rate cap** imposed by the Central Bank of Kenya (CBK) in September 2016 and later removed in **November 2019**. This resulted in a significant drop in interest rates offered by banks during the period as shown in the chart below;



*Source: Central Bank of Kenya*

#### v. Non-Performing Loans

In 2023, the value of outstanding Non-Performing Mortgage Loans increased by 7.9% to Kshs 40.8 bn in 2023 from Kshs 37.8 bn in 2022. This is attributed to the tough macroeconomic environment prevailing in the country during the period under review, evidenced by heightened inflationary pressure and the weakening of the Kenya Shilling. This situation was further exacerbated by the ripple effects of the COVID-19 pandemic, which triggered extensive economic turmoil throughout 2020, resulting in widespread job cuts and decreased income for many people. The value of Non-Performing Loans has increased by a 9-year Compounded Annual Growth Rate (CAGR) of 14.2% to Kshs 40.8 mn in 2023, from Kshs in 2014. The chart below shows the trend in the non-performing mortgage loans from 2013 to 2023;



*Source: Central Bank of Kenya*

Despite various efforts by many stakeholders in the industry, the mortgage market in the country remains misaligned with the government's ambitious agenda of delivering over 200,000 mortgages to address the housing shortage. From the report major challenges facing the Kenyan mortgage market are; i) low level of income, ii) high cost of property purchase, and, iii) limited access to affordable long-term finance.

We expect the Kenyan residential mortgage market to progress, driven by initiatives such as the Kenya Mortgage Refinance Company (KMRC) and government measures including the finalization of the digitalization of land registry processes to support mortgage documentation, the streamlining and simplification of legal and regulatory processes governing the mortgage sector for transparency, efficiency, and certainty, and the development of innovative mortgage options by market players.

## II. Real Estate Investment Trusts (REITs)

On the **Unquoted Securities Platform**, Acorn D-REIT and I-REIT traded at Kshs 24.5 and Kshs 22.0 per unit, respectively, as per the last updated data on 19th July, 2024. The performance represented a 22.5% and 10.0% gain for the D-REIT and I-REIT, respectively, from the Kshs 20.0 inception price. The volumes traded for the D-REIT and I-REIT came in at 12.3 mn and 30.7 mn shares, respectively, with a turnover of Kshs 257.5 mn and Kshs 633.8 mn, respectively, since inception in February 2021. Additionally, ILAM Fahari I-REIT traded at Kshs 11.0 per share as of 19th July, 2024, representing a 45.0% loss from the Kshs 20.0 inception price. The volume traded to date came in at 138,600 for the I-REIT, with a turnover of Kshs 1.5 mn since inception in November 2015.

REITs offer several benefits, such as tax exemptions, diversified portfolios, and stable long-term profits. However, the ongoing decline in the performance of Kenyan REITs and the restructuring of their business portfolios are hampering significant past investments. Other general challenges

include: i) a lack of understanding of the investment instrument among investors, ii) lengthy approval processes for REIT creation, iii) high minimum capital requirements of Kshs 100.0 mn for trustees, and, (iv) minimum investment amounts set at Kshs 5.0 mn for Investment REITs. All of these factors continue to limit the performance of the Kenyan REITs market.

***We expect Kenya's real estate sector to grow, supported by: i) increased investment by foreigners in the hospitality and retail sectors, ii) positive demographics evident by above-average rates in urbanization and population growth, iii) activities by the government under the Affordable Housing Agenda (AHP), iv) increased number of international arrivals, vi) a growing middle class in the country, and, vii) the initiation and completion of major infrastructure projects opening up satellite areas for investment opportunities. However, challenges such as rising construction costs, strain on infrastructure development (including drainage systems), prevailing political uprising deterring potential investors, high capital requirements for REITs, and existing oversupply in select real estate sectors will continue to hinder the sector's optimal performance by limiting developments and investments.***

---

Liason House, StateHouse Avenue  
The Chancery, Valley Road  
www.cytonn.com  
Generated By Cytonn Report

A product of **Cytonn Technologies**