Q1.13 MORTGAGE REPORT
IN ASSOCIATION WITH

THE Mortgage COMPANY
OPENING DOORS

High cost finance makes mortgages unaffordable: Urgent action needed

- Current interest rates making mortgage payments twice as expensive as renting the same properties
- Co-operative Bank now 2nd cheapest mainstream mortgage lender, after 4 point cut to 15.75 per cent
- Equity Bank uniquely increased rates in the first quarter, to 22 per cent
- Bank of Africa offering cheapest foreign-denominated mortgages, at 9 per cent
- Mortgage financed houses making losses at current rates, even where they are rented out
- The breakeven rate to create mortgage payments on a par with rentals is 4.7 per cent
- Without urgent financial intervention, housing shortages are set to grow far worse, and home ownership will remain "a pipe dream" for most Kenyans

Mortgage Rate Lead Table

Rank	Change in Rank	Bank	Best Interest Rate as at 4th April 2013	Change in Rate from 30th June 2012	Construction: Project	Construction: Individual	Home Purchase	Land Purchase	Equity Release
1	◀ ▶	Barclays	15.50%	◀ ▶	15.5%	N/A	15.5%	N/A	15.5%
2	▲ 12	Co-operative Bank	15.75%	▲ 3.5%	15.75%	15.75	15.75%	15.75%	15.75%
3	▼ 1	Standard Charted	15.90%	◀ ▶	15.90%	N/A	15.90%	N/A	15.90%
4	▼ 1	KCB S & L	16%	◀ ▶	16%	16%	16%	16%	16%
5	▲ 2	I & M bank	16.50%	▲ 1%	20.50%	16.50%	16.50%	16.50%	16.50%
6	▼ 2	CFC Stanbic Bank	17%*	◀ ▶	17%	N/A	17%	17%	17%
7	▼ 2	Bank of Africa	17%	◀ ▶	17%	N/A	17%	17%	17%
8	▼ 2	CBA	17%	◀ ▶	N/A	17%	17%	17%	17%
9	▼ 1	FamilyBank	17.50%	◀ ▶	17.50%	17.50%	17.50%	17.50%	17.50%
10	▼ 1	HFCK	18%	◀ ▶	18%	18%	18%	18%	18%
11	▼ 1	National Bank	18%	◀ ▶	18%	N/A	18%	18%	18%
12	▲ 4	Consolidated Bank	19%	▲ 1%	19%	19%	19%	19%	19%
13	▲ 2	Diamond Trust	19%	◀ ▶	19%	19%	19%	N/A	19%
14	▲ 1	NIC	19%	◀ ▶	19.50%	N/A	19.50%	19.50%	19.50%
15	▼ 3	Equity	20%	▲ 2%	20%	20%	20%	20%	20%
16	▼ 5	Chase Bank	22%	▲ 4%	22%	22%	22%	22%	22%

N.B
All above rates are variable unless otherwise noted

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The Mortgage Company today unveiled its first quarter mortgage report, with warnings that the continuing high levels of commercial interest rates were now stifling the local mortgage market, and creating an obstacle to widespread home ownership, that now urgently needs to be addressed.

An analysis by TMC comparing rents and mortgage payments on identical properties revealed mortgage payments now running at typically twice prevailing rents, deterring landlords from buying mortgage-financed buy-to-let properties, and leaving developers with unsold properties.

Only one bank, Co-operative Bank, cut its rates significantly in the first quarter of the year, emerging as the new market leader after cutting its rates by 4 per cent, from a range of 19.25 to 20.25 per cent down to 15.75 to 16.25 per cent. This now represents the 2nd cheapest mainstream mortgage, after Barclays, which was maintained at 15.5 per cent across the quarter, and Standard Chartered at 15.9 per cent.

However, the majority of the country's banks held rates at between 17 and 19 per cent, with the highest rate being asked by Chase Bank, at 22 per cent. This saw the average mortgage rate for the quarter maintained at just marginally below 18 per cent. Equity Bank, in a unique move across the industry, put its mortgage rate up by 2 point, from 18 per cent to 20 per cent.

The resilience of such high mortgage rates, at a time of flat rental yields (at 6.22 per cent) and only moderate sales price growth (at 9.98 per cent), saw mortgage-financed properties, even those earning rental incomes, record a sixth consecutive quarter as a loss-making asset.

“Rates are running at far higher levels than the norm,” said Ms Carol Kariuki of The Mortgage Company. “With the Central Bank Rate stabilizing at 9.5 per cent, we would normally expect a 4 per cent spread, meaning rates of 13 to 14 per cent, and yet the average is still next to 18 per cent.”

“This extra has rendered houses bought with mortgages a loss making asset, which is a grave impact, and has to call into question the purpose of the banks in holding to such high returns.”

“Unless the banks now return to more normal returns, the consequences for the mainstream mortgage industry will be extremely serious, as buyers seek alternative financing routes, and the mortgage industry renders itself stillborn.”

Among the alternative financing routes, one has been mortgages denominated in dollars, Euros or pounds sterling. In this market, Bank of Africa and Chase Bank led the field with the cheapest offerings in the first quarter, at a rate of 9 per cent.

“However, mortgage takers should exercise great caution in committing to foreign currency repayments unless the country enjoys the kind of improvement in its balance of payments that will stop the shilling from deteriorating. The outlook for exchange rates carries its own, additional costs,” said Ms Kariuki.

“The reality is that a combination of monetary policy, political uncertainty, and economic imbalance in Q1 seriously depressed the outlook for the country's mortgage market. We expect the new administration under President Uhuru to work with the Real Estate and Financial sectors to ensure that we address the issues hindering mortgage penetration in Kenya. We are confident that with policy interventions and and the promising economic environment we can change the housing debate and significantly reduce the growing housing shortage.”

“Those who buy-to-let are losing money. Those who buy-to-live-in are losing money. And while all these owners will eventually make gains, as the exacerbated shortages push house prices up further, the entry point will continue to move further out of reach for the vast majority of Kenyan families and wage earners.”

Urgent interventions were necessary, said The Mortgage Company, in creating low-cost finance for home buyers. These could include low-cost infrastructure bonds for developers – with infrastructure typically accounting for 20 to 30 per cent of the cost of home building – and legislation to allow pension funds to be directed into the mortgage market. Without these, “affordable home ownership is still a pipe dream for most Kenyans,” said Ms Kariuki.

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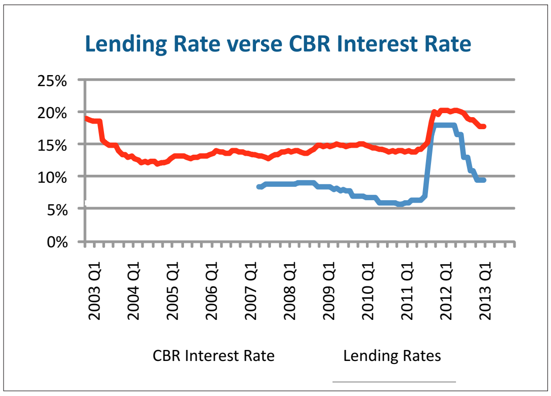
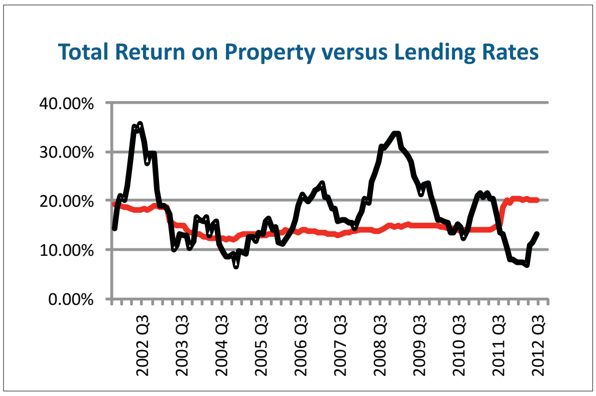
THE KENYAN MORTGAGE DEBATE

Banks make big spreads

Despite the banks reacting sharply to the upward changes in the Central Bank Rate during 2011, they have been very slow to react to the downward changes in the rates during 2012. The Monetary Policy committee has maintained rates at 9.5% therefore, we should see mortgage rates at 13-14%. However the average bank rates remain much higher at a whopping 18%.



Banks were quick to raise rates following CBK hikes and much slower to bring them back down following cuts



The continued high lending rates have led to a period of negative returns on mortgage financed property

Making mortgages accessible

If we are to see the uptake of mortgages increase from 17,000 as per the last official figures to 100,000, we need to focus on several aspects. The mortgage report today focuses on these interventions that can radically shift mortgage uptake and set many Kenyans on the journey towards home ownership.

Funding

Today, the funding of mortgages is done primarily through bank deposits making the industry vulnerable to shifts in short-term market liquidity. The impact of this cannot be underestimated with the interest rates in the market moving in October 2011 from an average of 14% to 24 % leaving many mortgage takers in distress after their mortgage payments doubled. Although this position has improved slightly, we require a long term and sustainable solution to funding of mortgages to give a lasting solution to this challenge.

How Lending Rates Affect Monthly Repayments

Lending Rate	Total Monthly Payment Kshs. 10,000,000 Property	Total Monthly Payment Kshs. 3,900,000 Property
15.5% (Kenya Mainstream)	Kshs 108, 608	Kshs. 42,357
12% (Kenya Secondary)	Kshs 88,087	Kshs. 34,354
8.5% (South Africa)	Kshs 69,426	Kshs. 27,076
5.5 % (UK)	Kshs 55,031	Kshs. 21,462
3.5% (US)	Kshs 46,397	Kshs. 18,095

*deposit of 20%, .nortgage of 80% over a 20 year period

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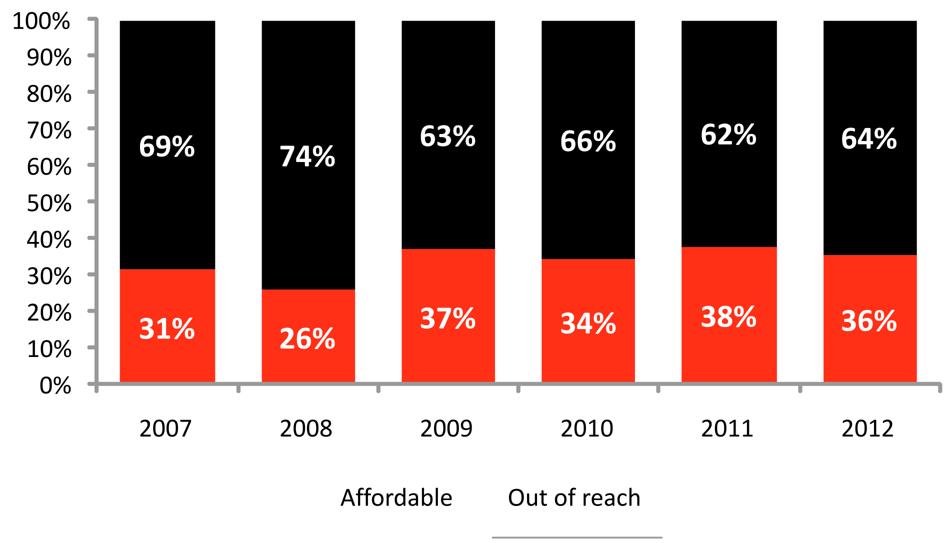
We need to get cheap long term funds directed towards mortgage financing to enable us move towards single digit interest rates and radically change the affordability of mortgages. In the USA, mortgage rates range around 3.5%. A 2 Bed Apartment in Syokimau of Kes 3.9 million taken for a tenor of 20 years at the best commercial rate in Kenya of 15.5% will cost the home owner approximately Kes 42,357 while the same home at a equivalent US rate of 3.5% would cost the home owner Kes 18,095 per month to mortgage. One can imagine the impact of this shift in affordability.

To encourage the flow of long term funding we need to seriously look at the possibility of developing a well organised securitization programme where financiers can obtain funding from the capital markets. While REITs will be great for developers and long-term investors in commercial properties, we need to address the more important aspect of allowing the flow of Pension funds, SACCOs and Insurance funds to the mortgage market.

Affordability

Affordable Home ownership is still a pipe dream for most Kenyans. The high land prices and high cost of infrastructure coupled with the developers need to make a profits keep most homes out of reach for most Kenyans.

Housing Stock Availability to New Loans



Average Mortgage Size for New Loans (kshs)

	2007	2008	2009	Forecasts based on Index growth [2] 2010	2011	2012
Ave Mortgage Size [1]	5,189,360	5,452,699	7,685,520	8,300,362	8,682,178	9,524,350
Ave Mortgage Size plus 15% deposit [3]	5,967,764	6,270,604	8,838,348	9,545,416	9,984,505	10,953,002
Annual Average growth				8%	4.6%	9.7%

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Government interventions will be necessary to provide an enabling environment. The first being provision of affordable serviced land for developers. The cost of infrastructure adds an additional 20-30% to the cost of homes. If this could be addressed through infrastructure bonds serviced through utility payments, we could achieve a significant reduction to the cost of homes in the country. The setting up of Counties provides the perfect opportunity to begin development of this model.

Secondly, making interest payable on owner occupied homes fully tax deductible up from the current maximum of Kes 150,000.- would encourage many to make this decision. Working to reduce high closing costs of 7-10% of the cost of the home e.g. through reduction of stamp duty would ensure that many are able to commit to home ownership with ease. Allowing access to pension benefits towards payment of the down payment towards purchase of a home would be a positive way of ensuring that each employed person makes the first step towards home ownership.

For the lowest end of the market, subsidies would be needed to get rid of informal settlements and convert these to simple yet affordable homes for the low income earners.

Salary Required For Different Property Types

Property type	Average Price	Deposit	Deposit Saved Over	Saving Rate	Deposit Value in KSHs	Total Savings Per Year	Required Salary in KSHs a month
Stand Alone House	34,900,000	20%	5 years	20%	6,980,000	1,395,960	**581,650**
Townhouse	19,000,000	20%	5 years	20%	3,800,000	759,960	**316,650**
Apartment	12,300,000	20%	5 years	20%	2,460,000	492,000	**205,000**
First Home	6,000,000	20%	5 years	20%	1,200,000	240,000	**100,000**
Plot Loan	1,000,000	20%	5 years	20%	200,000	40,000	**16,667**

What Your Current Salary Can Get You

Salary	Percentage (%) Salary Saved	Savings After 5 Years Including Interest (6%)	Enough For A 20% Deposit On A Property Worth:	Which Is The Average Price Of:
25,000	20	350,594	1,752,970	Bedsitter on Mbagathi Way or small plot outskirts Nairobi
50,000	20	701,188	3,505,940	Small Apartment in Koma Rock or Kitengela
75,000	20	1,051,783	5,258,915	Apartment in Mlolongo, Ongato Rongai or Standalone in Ruai
100,000	20	1,402,377	7,011,885	Townhouse in Juja or Apartment in Donholm or Embakassi
200,000	20	2,804,755	14,023,775	Standalone house in Athi River or Townhouse in Kiambu
300,000	20	4,207,132	21,035,660	Standalone house in RedHill, Tigoni or Apartment in Kilimani
400,000	20	5,609,510	28,047,550	Luxury Apartment in Westlands or Standalone house in Nyali
500,000	20	7,011,888	35,059,440	Townhouse in Lavington, Riverside or Ridgeways
750,000	20	10,517,832	52,589,160	Standalone house in Karen, Runda or Rosslyn
1,000,000	20	14,023,776	70,118,880	Standalone house in Kitisuru, Nyari or Muthaiga