Q4.12 MORTGAGE REPORT
IN ASSOCIATION WITH

The Mortgage Company — Opening Doors

CBK rate cuts boost sentiment however banks slow to cut rates

- CBK rate cuts totaling 3.5% since September fails to trigger mortgage rate cuts. Banking sector may be seen to be cautious ahead of elections, alternatively others may see this to be profiteering.
- Barclays maintains lead position as most competitive interest rate, without any downwards adjustment since October 2012, still at 15.5 per cent.
- Some bank rates now more than double the Central Bank Rate.
- But mortgage rate cuts in 2012 has stimulated project financing, that will see construction spur back into life, meaning shortages in new housing in 2013 will ease in 2014 as new projects move to completion.
- Uncertainty over GLA titles and subsequent reluctance of the banks to lend on them has become the biggest road block for property development and sales most notably in Kiambu and Thika.
- Enforcement of 30 per cent tax on landlords has removed returns from buy-to-rent, but a move to align with taxes on other asset classes, such as the 5 per cent on shares, would once again invigorate the building of houses for rental.

Mortgage Rate League Table

Rank	Change in Rank	Bank	Best Interest Rate as at 14th January 2013	Change in Rate from 16th Oct 2012	Construction: Project	Construction: Individual	Home Purchase	Land Purchase	Equity Release
1	◀▶	Barclays	15.5%	◀▶	N/A	N/A	15.5%	N/A	15.5%
2	◀▶	Standard Chartered	15.9%	▼ 1%	N/A	N/A	15.9%	N/A	15.9%
3	▲ 1	KCB S & L	16%	▼ 2%	16%	16%	16%	16%	16%
4	▲ 1	CFC Stanbic Bank	17%	▼ 1.5%	17%	17%	17%	17%	17%
5	▲ 2	Bank of Africa	17%	▼ 2%	17%	N/A	17%	17%	17%
6	▲ 2	CBA	17%	▼ 2%	N/A	17%	17%	17%	17%
7	▼ 4	I & M Bank	17.5%	▼ 0.5%	20.5%	17.5%	17.5%	17.5%	17.5%
8	▲ 4	Family Bank	17.5%	▼ 2%	17.5%	17.5%	17.5%	17.5%	17.5%
9	▼ 4	HFCK	18%	◀▶	18%	18%	18%	18%	18%
10	▲ 6	National Bank	18%	▼ 4%	18%	N/A	18%	18%	18%
11	▲ 4	Chase Bank	18%	▼ 4%	18%	18%	18%	18%	18%
12	▲ 2	Equity Bank	18%	▼ 3%	18%	18%	18%	18%	18%
13	▼ 4	Diamond Trust Bank	19%	◀▶	19%	19%	19%	N/A	19%
14	▼ 4	Co-operative Bank	19.25%	◀▶	19.25%	19.25%	19.25%	19.25%	19.25%
15	▼ 4	NIC Bank	19.5%	◀▶	19.5%	N/A	19.5%	19.5%	19.5%
16	▼ 3	Consolidated Bank	20%	◀▶	20%	20%	20%	20%	20%

N.B All above rates are variable unless otherwise noted.
CBK rate is currently 9.5%

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OPENING DOORS

The Mortgage Company today unveiled its fourth quarter 2012 mortgage market report, revealing the emergence of 'super-spreads' as banks took wider profit margins on the most recent CBK interest rate cut, rather than cutting rates to borrowers.

With Barclays continuing to lead the pack as the most competitive mortgage lender, despite holding its rate at 15.5 per cent since October last year, a new club of banks emerged offering mortgage rates of 19 per cent or higher on a CBK rate of 9.5 per cent, amounting to 100 per cent margins near unprecedented in global finance.

“We have been slightly disappointed that banks have not cut rates more since our last report in October despite the CBK cutting the Central Bank Rate by a further 3.5% during the same period. We would appeal to our banking sector to look at the volumes that lower rates could bring rather than the security of higher interest rates,” said Ms Carol Kariuki, Managing Director of The Mortgage Company.

“Despite appeals from the President the current mortgage rates remain stubbornly high with average lending currently over 19% compared with only 14% in 2008 the last time the CBR was at 9%”

“It was interesting to see how fast banks took up their rates when on the rise versus the deafening silence when the rates have come down over the last two announcements,” she said.

However, with mortgage rates now static in a range between 15 and 20 per cent, the cuts last year have stimulated a revival in project finance, seeing many developers return to construction and new projects commencing.

“We believe that this revival will encourage more developers to commence projects that cater to the lower end of the market and begin to bridge the housing gap,” said Ms Kariuki.

The MD of TMC also drew attention to the blockages of many projects in Kiambu and Thika caused by the recent legislative changes that have raised questions of the validity of certain GLA titles and the reluctance banks now have to lend against such titles. She appealed to the government and relative authorities to resolve these issues without delay.

She also advised that devolution and the setting up of county administrations may causes some backlog in approvals as the new counties settle down.

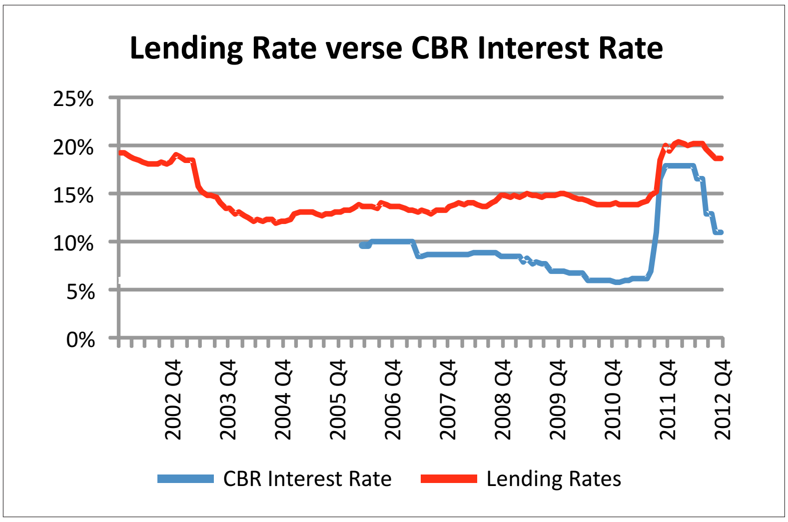
“Perhaps it would be wise for developers to have projects intended for implementation in 2013 obtain approvals within the next 2 months, prior to the elections, to avoid further unnecessary delays,” she said.

Overall, the mortgage market saw renewed activity in the closing months of last year, on the rate cuts at that time, but with banks now sitting on the most recent gains, a fuller recovery in buying could yet be delayed by some months, she said.

**Q4.12 MORTGAGE REPORT
IN ASSOCIATION WITH**

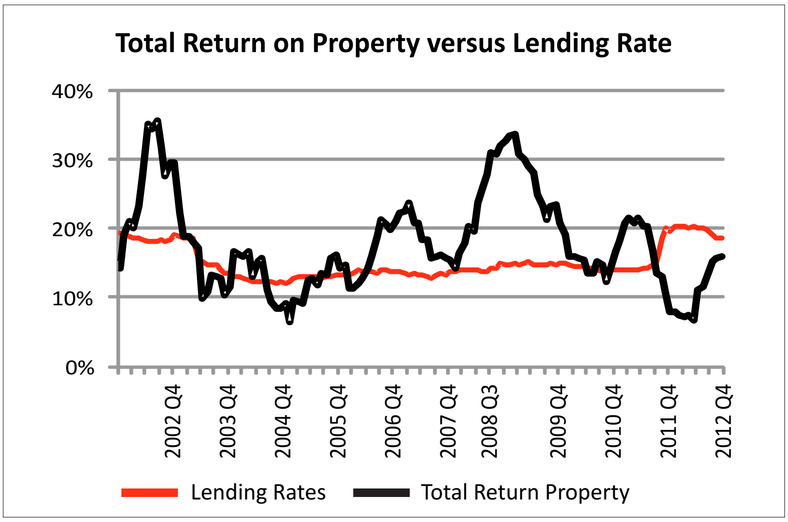
The Mortgage Market over 10 years

Snap shots of the mortgage market over 10 years, including a look at commercial bank lending rates versus CBK rates as well as total returns on mortgaged property.



SNAP SHOTS

Average lending rates (Commercial Banks' Weighted Average Interest Rates) over the last ten years versus the Central Bank Rate



SNAP SHOTS

Total returns from a mortgage buy (house price capital appreciation + rental income per year) less the annual cost of a mortgage will illustrate whether or not the mortgage is a profit or loss per year.

When the black line rises above the red line, you are making a profit even with the cost of the mortgage.

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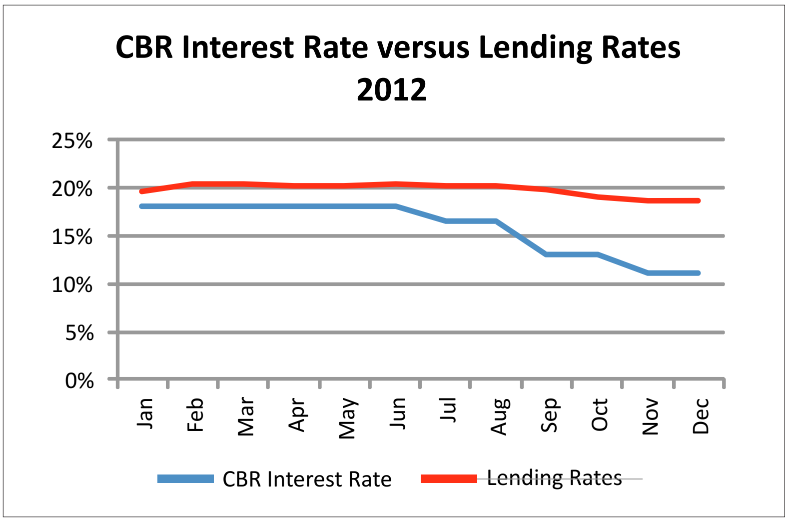
OPENING DOORS

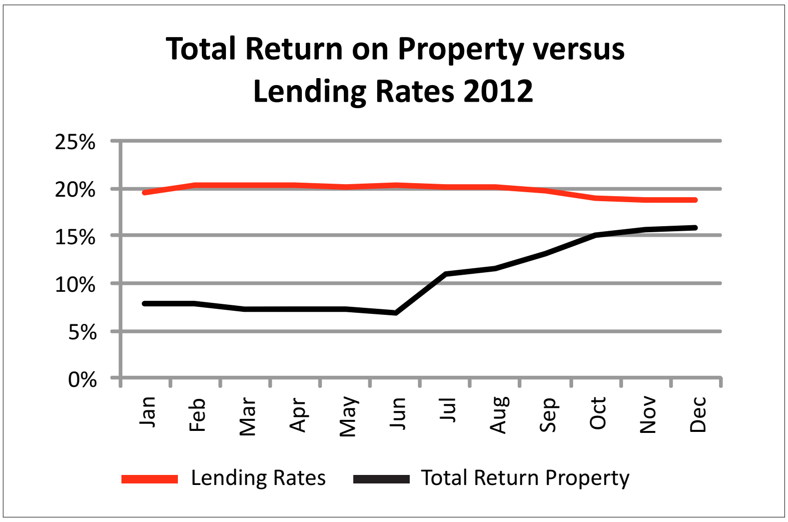
The Mortgage Market: 2012

Snap shots of the mortgage market over 2012, including a look at commercial bank lending rates versus CBK rates as well as total returns on mortgaged property.



SNAP SHOTS

Average lending rates (Commercial Banks' Weighted Average Interest Rates) versus the Central Bank Rate in 2012.



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The Mortgage Market: Into 2013

Caroline Kariuki, Managing Director of The Mortgage Company provides insights into the year ahead.

Elections

With strong economic growth forecast in 2013 at 5.3% we expect positive impact on the mortgage and construction sectors in particular. Despite the forthcoming elections, we have not had any drop in the level of mortgage demand with the market continuing to respond positively to the earlier reduction in interest rates.

Historically, whatever the outcome, property prices increase significantly after an election due to the positive euphoria and since this is a transition year with positive sentiments from Kenyans and the international community, potential buyers would be wise to lock in their positions in Q1 to avoid paying the premium thereafter.

Projects

We have seen a large demand for project financing in this last quarter with most developers taking a positive market view. This we opine is in response to the expected lowering of the interest rates and expansion of the mortgage market in 2013 and beyond.

The market may well experience a shortage of housing in 2013 due to the impact of high interest rates in 2011-2012 which meant that there was a major delay in many projects. There should be good stock coming into the market in 2014 as these new projects near completion.

There is a need for the grey areas around GLA titles to be resolved expeditiously to avoid slow down of projects with such titles especially in formerly agricultural zones of Kiambu and Thika. The Banking sector have chosen to take a conservative view on these properties, choosing not to give mortgages on such properties until a clear way forward is arrived at by the Ministry of Lands. This could lead to serious challenges for many developers should the matter delay further due to the set up of the new government and effects of devolution.

Tax

The follow through on Tax on Rental properties may reduce the attractiveness of the buy-to-rent or build-to-rent properties quite significantly for some, as the taxes will reduce the income due to investors. The tax authorities may well consider reducing the taxation levels of these investments from 30% in line with those in shares in the stock exchange which are only taxed at 5% to encourage investment in affordable housing which is in dire need in the country. Perhaps an amnesty consideration would also encourage more landlords to come forward and be compliant going forward backdating tax payments may render many landlords bankrupt.

In addition a review of current incentives for 1st time home owners should be encouraged, to make it more attractive to buy rather than rent your home. An allowance of 100% on interest as a tax deductible would be welcomed, as compared to the current maximum deduction of Kes 150,000 per annum. This would encourage many middle income Kenyans to make this major decision with significant savings on family income.

Counties

Implementation of county governments will create positive growth in the property sector both commercial and residential and appetite for mortgage growth in 2014 as developers begin implementation of projects.

However with the implementation of the new constitution may delay approvals as new counties settle down most of the existing local government authorities will be destabilized therefore delaying new projects implementation. Perhaps it would be wise for developers to have projects intended for implementation in 2013 obtain approvals within the next 2 months to avoid unnecessary delays.

Funding

We expect mortgage rates to reduce in line with CBK direction but mostly after the elections as financiers may be uncomfortable about the uncertainty in the interim period.

We have seen interest in foreign investors playing in the Kenyan property space which would therefore avail more affordable funding lines to developers.

We expect the secondary mortgage market beginning to take shape especially with Pension Funds, Insurance companies eying alternative asset classes to diversify their investments. The interests of CMA in deepening the financial sector is also evident and therefore within the next 2 -3 years we expect some positive move in this direction. This would provide much needed liquidity for the mortgage industry and make mortgages more affordable to more Kenyans.