

The Home Ownership Survey

January 2015



CENTRE FOR RESEARCH ON
FINANCIAL MARKETS AND POLICY



CENTRE FOR RESEARCH ON
FINANCIAL MARKETS AND POLICY

About this Report

This *Report* presents the findings of the first Survey conducted by the Kenya Bankers Association Centre for Research on Financial Markets and Policy. The Survey was undertaken in collaboration with *Think Business Limited*. The lead authors of this *Report* were Ochieng Oloo and Watson Macharia, respectively Chief Executive Officer and Head of Research, *Think Business Limited*. We gratefully acknowledge the efforts of the Report's authors as well as the support of the Banks and Mobile Network Operators that responded to the study questionnaire as well as all other questionnaire respondents and the team that conducted field work.



KENYA BANKERS
ASSOCIATION
One Industry. Transforming Kenya.

The Centre for Research on Financial Markets and Policy® was established by the Kenya Bankers Association in 2012 to offer an array of research, commentary, and dialogue regarding critical policy matters that impact on financial markets in Kenya. The Centre sponsors original research, provides thoughtful commentary, and hosts dialogues and conferences involving scholars and practitioners on key financial market issues. Through these activities, the Centre acts as a platform for intellectual engagement and dialogue between financial market experts, the banking sector and the policy makers in Kenya. It therefore contributes to an informed discussion that influences critical financial market debates and policies.

The entire content of this publication is protected by copyright laws. Reproduction in part or whole requires express written consent from the publisher.

© Kenya Bankers Association, 2014

Abstract

This survey seeks to contribute to the understanding of the dynamics of urban home ownership in Kenya. There is an evident perception of positive economic prospects in the country arising from which is a growing middle income class. The recent change of status of the economy to ‘middle income’ implies that the optimism of the middle class is now more anchored, ensuing from which is increased demand for housing.

The survey establishes that while urban households could potentially acquire homes through construction by the owners, buying completed homes or inheriting, a clear majority have constructed their homes. A majority of these homes are bungalows compared to other types owing to such type of houses considered cheaper to construct. The income status of a majority of urban dwellers in Kenya leads to two-bedroomed houses being the most common, with the motivation of the home ownership leaning more to the social considerations that commercial – it is more about providing shelter for family that being an investment to supplement households’ income.

The houses characteristics and the preferred mode of acquisition mirror households’ amenable funding options. A majority of households fund

their home acquisition through own income and/or savings. Home acquisition through either mortgages or home construction loans, accounting for 28% of the funding options, is less preferred to savings on account of the perception of this option being expensive.

The perception that external funding being more expensive compared to own savings is however not nuanced by the consideration that construction on own funds may take longer and therefore end up being as (or even more) costly. This is on the back of the indication that a majority of home owners prefer only one funding option. The aspects of mode of acquisition largely through construction and the preferred funding option apply to both existing and prospective home owners.

The fact that new homes are considered to be very expensive is a key barrier to ownership according to the survey, the other being rigid home financing options available in the market. The high interest regime and the long time taken to pay up the mortgage were cited as huge barriers, considering that households are keen to owning their homes over a short period of time and do not want to be tied in long term relationships with financiers.





Contents

ABSTRACT	1		
CONTENTS	2		
CHAPTER ONE			
INTRODUCTION			
1.1 Background	3		
1.2 Research problem	4		
1.3 Research objectives	4		
CHAPTER TWO			
RESEARCH METHODOLOGY			
2.1 Research Design	5		
2.2 Sampling design	5		
CHAPTER THREE			
SURVEY FINDINGS			
3.1 Economic situation affecting home ownership	7		
3.2 Characteristics of home ownership	8		
3.3 Home financing and the role the bank plays	10		
3.4 Barriers to home ownership	13		
3.5 Perspectives towards future home ownership	14		
3.6 Challenges of mortgages as home ownership financing solutions from banks	15		
CHAPTER FOUR			
CONCLUSION	16		
REFERENCES	28		
		LIST OF TABLES	
		Table 1: Mortgage Values Comparison	4
		Table 2: Sample allocation table	6
		Table 3: Reasons behind high optimism about the future	8
		Table 4: Size of home by Urban Area	9
		Table 5: Mortgage financing alternatives vs way of home acquisition	11
		Table 6: Reasons why new homes are expensive	13
		LIST OF FIGURES	
		Figure 1: Personal Financial Situation Over Past One Year	7
		Figure 2: Personal Financial Expectations For The Next One Year	7
		Figure 3: Ways of home acquisition	8
		Figure 4: Home Ownership by Regions	9
		Figure 5: Type of house owned	9
		Figure 6: Number of homes owned	11
		Figure 7: Reasons for owning a house	11
		Figure 8: Number of home financing alternatives used	
		Figure 9: Home financing alternatives	
		Figure 10: Bank Involvement in Home Acquisition amongst Current Home Owners	
		Figure 11: Home acquisition with or without bank financing	
		Figure 12: Barriers to home ownership	
		Figure 13: Intentions to acquire a home	14
		Figure 14: How do you intend to own a home?	14
		Figure 15: How do you intend to finance your home in future?	14
		Figure 16: Awareness of Mortgages	15
		Figure 17: Reasons why they would not take up a mortgage	15
		Figure 18: Mortgage advocacy	15

Chapter 1

Introduction

1.1 BACKGROUND

The issue of home ownership receives considerable interest from diverse stakeholders and deservedly so. Home ownership is both a social as well as a commercial investment; a home provides shelter as a basic need and stands to buttress commercial progress once its value appreciates. The demand for urban housing has been rising in line with the growth in the country's population whose income puts them in the middle class category.

There is an evident perception of positive economic prospects in the country. The recent change of status of the Kenyan economy to 'middle income' implies that the optimism of the middle class is now more anchored, ensuing from which is increased demand for housing. In September 30th, 2014 Kenya achieved a lower middle income status. According to the World Bank (2014), the current size of the rebased economy is 25% higher than what was the case at the time of rebasing.

That the middle class is growing not just on account of the rebasing as attested by the Africa Development Bank report, AfDB (2011). According to the World Bank (2014) analysis on mortgage access, the growth in the middle class will continue to put pressure housing demand as the middle class grows and especially those within the urban areas. As anecdotally observed, a substantial portion of diaspora remittances is channeled to the housing sector.

Whereas demand for housing is steadily increasing, it is evidently not matched by adequate supply. It is estimated that there is a housing deficit of 156,000 units per annum (World Bank, 2011). Finaccess (2009) indicates that a majority of Kenyans own the homes they live in. However, this has a strong urban-rural differential where home ownership is higher in rural areas than in urban areas. The rural setting allows for cheaper land rates as well as acquisition of land through

inheritance. Further, in rural areas, the quality of housing may be rudimentary due to low income levels; consequently people own homes but the homes are inexpensive.

Unlike the in the rural area, there is a high demand for modern houses. According to the World Bank report 2011 the demand of new housing units is higher in urban areas than in rural areas. This demand is higher than the supply (AfDB 2013), an attribute that has resulted in increased pressure on house prices. The higher prices for homes have led to a scenario that home owners are resulting to self-building (Finaccess 2009). Self-built houses are perceived to be cheaper and offer control on the type of a house one wants to build. The demand-supply picture presents opportunities for intervention.

The financial sector, and banks especially, are able to intervene on both sides of the equation – they can support the development of homes as well as acquisition of homes. It is clear that there is scope for banks to do more in supporting the housing sector development. When looked at in the narrow sense of one product (mortgages) the role of banks, the role of banks in promoting this key sector is understated; by some estimates, the number of mortgage loans is about 20,000².

Finaccess (2009) indicates that the options of home acquisition are through regular income that is saved savings and/or through credit. The banks' intermediation role in terms of savings mobilization and credit extension could be inferred here; but households have savings

¹ Africad Development Bank (2011), The Middle of the Pyramid: Dynamics of the Middle Class in Africa, April (http://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/The%20Middle%20of%20the%20Pyramid_The%20Middle%20of%20the%20Pyramid.pdf)

² For instance, HassConsult's *Mortgage Special Report* Quarter 3, 2013



that are not necessarily in banks or are in form of non-financial assets.

World Bank (2011) indicates that during that year, the size of the Kenyan mortgage market was KES 61.4 billion; this is far much below the potential KES 800 billion with the annual housing need is estimated to be least 156,000 units. This essentially means that banks have not been attractive enough on the mortgage product.

The gap between actual market and potential market is manifested in the modest number of mortgages, estimated at 13,800 in 2011 and increasing to 20,000 in 2014. At an equivalent of 2.5 percent of GDP (**Table 1**), the value of mortgages in Kenya may be above the East African counterparts but is still well below an economy such as South Africa.

Table 1: Mortgage Values Comparison

COUNTRY	MORTGAGES AS A % OF GDP
South Africa (2011)	26.4
Namibia (2011)	19.6
Morocco (2011)	16.9
Mauritius (2012)	12.2
Tunisia (2010)	12
Seychelles (2010)	3.94
Kenya (2010)	2.51
Botswana (2009)	2.3
Rwanda (2009)	2.3
Burundi (2011)	1.6
Algeria (2009)	1.3
Zimbabwe (2012)	1.2
Uganda (2011)	1.1
Egypt (2011)	1
Malawi (2005)	0.5

Source: Housing Finance Africa (<http://www.housingfinanceafrica.org/wp-content/uploads/2012/10/2012-HOUSING-YEARBOOK.pdf>)

With an average mortgage loan size was KES 4.0 million, the market is above what low income families can afford. Those who could afford a mortgage are only 2.4% of the total population and 11% of the urban

population. This has skewed demand for modern housing to the urban areas away from the low income segment.

1.2 RESEARCH PROBLEM

Demand for housing in Kenya is increasing and so is home ownership. The prevailing demand and supply conditions however point to the fact that the growth in home ownership is constrained by the preferences in both modality of acquisition and funding options. There constrain is buttressed by the balance between building a home versus buying one on the one hand, and getting an external financiers versus using own savings on the other.

While it is clear that the main home financing product from banks is a mortgage, the imbalance between the number of mortgages and the number of housing units available suggest that there could be other sources of financing. These sources may not necessarily be outside the banking sector, although part of home ownership is supported by financial sector players besides banks. It is therefore critical to determine whether home ownership can be optimally supported through multi-pronged interventions as opposed to stark choices of built or buy as one extreme and borrow and acquire or save and construct as the other. These are the issues that this survey seeks to address.

1.3 RESEARCH OBJECTIVES

The general objective of this study is to undertake a broad evaluation of the dynamics of urban home ownership with a view to ascertaining the preferences in terms of the preferred supply modalities and the financing options. Specifically, the study will seek to:

1. Assess the home ownership preference characteristics amongst urban dwellers with regard to home development and funding fort acquisition;
2. Understand the level of involvement by, and perceptions towards, financial market players and especially banks in supporting home ownership;
3. Understand the constraints faced by various market segments in their aspiration of the objective of home ownership.

Chapter 2

Research Methodology

2.1 RESEARCH DESIGN

Pursuant to the study objectives, a three-pronged approach was deployed as follows:

- i. A desk analysis is undertaken to provide an understanding questionnaire design and contextualization of the responses. The secondary sources of information included the following:
 - a) Central Bank of Kenya
 - b) Kenya National Bureau of Statistics
 - c) Kenya Bankers Association
 - d) Ministry of Lands Housing and Urban Development and National Housing Corporation
 - e) Credible reports published on the home ownership market in Kenya
- ii. Respondent interviews. This was undertaken to understand the perceptions of current and aspiring home owners and finally
- iii. Key informant interviews. This was done to get a deeper understanding of home ownership by speaking to experts in the real estate

2.2 SAMPLING DESIGN

This was done for the respondent interviews module.

SAMPLE SIZE

The key objective of the sampling design is to assure reliability of the estimates. To achieve this objective, a robust sample size is required. The following formula is used to calculate the ideal sample size for the study.

$$n = Deff \times Z^2 \times p(100-p) / e^2$$

Parameter	Description	Values
Deff	Design effect (due to cluster sampling rather than simple random sampling)	1.5
Z	Z is a value corresponding to your significance level (and is called the standard normal deviation"). Z = 1.96 (rounded to 2) for 5 percent significance levels.	1.96
P	is the rough value you provided for your estimated percentage (proportion)	50
E	is the precision you wish to achieve (+/-%)	3
N	Sample size	1600

The resultant sample size considered for this study was 1,600. This sample size provided a Margin of Error of +/-2.45% at 95% confidence level. This sample size also allowed for reasonable breakout analysis by;

- Geographical location (Key towns)
- Owners and potential owners
- Duration of purchasing the house

The sample was distributed based on the proportion of the number of households in the towns. Since there is a huge difference between the number of households in Greater Nairobi and Kisumu, a direct sample allocation based on the number household led to a very small sample allocation to Kisumu. To circumvent this problem, controlled disproportionate allocation was done based on square root transformation. **Table 2** shows this allocation typology.



Table 2: Sample allocation table

	Estimated number of HH	Square root transformed # of HH	Square root transformed # of HH%	Sample allocation
Greater Nairobi*	1,505,797	1227	42%	700
Mombasa	354,816	596	20%	275
Nakuru	242,949	493	17%	225
Eldoret	122,193	350	12%	200
Kisumu	73,971	272	9%	200
	2,299,726	2937	100%	1600

*Greater Nairobi covers – the urban areas of Kiambu, Machakos and Kajiado counties with close proximity to Nairobi

Chapter 3

Survey Findings

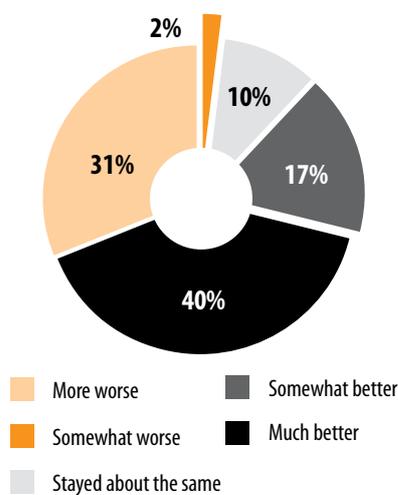
3.1 ECONOMIC SITUATION AFFECTING HOME OWNERSHIP

This study sought to find out whether the prevailing economic dynamics as summarized in Section 1 of this report have influenced the perceptions of the urban populace about their personal economic situations. The a priori expectation was that perception of better personal economic situation could be a catalyst of higher housing demand.

Personal economic situation compared to 1 year ago

The respondents were asked to assess their current economic conditions compared to the past 1 year. **Figure 1** shows the distribution of responses. Over 70% indicated that 2014 was better than 2013 insofar as their personal finance situation was concerned. This finding corroborate with the results from both the World Bank and African Development Bank reports cited earlier.

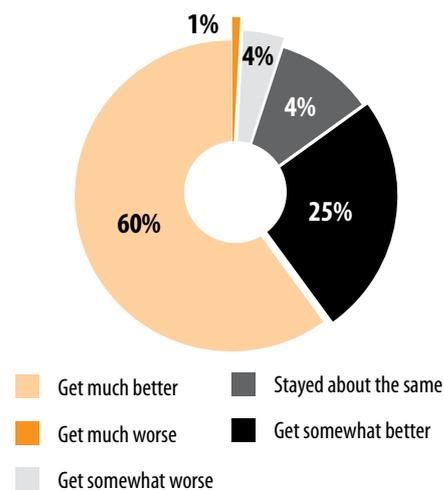
Figure 1: Personal financial situation over past one year



Short Term Outlook

As **Figure 2** indicates, the respondents were very optimistic about their prospects for 2015. This could be a pointer to their increasing amenability to home ownership for those that are currently not home owners; consequently this could be a pointer to the ever increasing housing demand.

Figure 2 : Personal financial expectations for the next one year



Basis of Optimism

The general state of the economy as earlier reviewed is a good basis to have expected the respondents to be bullish about their personal financial situation. The actual responses however provided an interesting nuance. As Table 3 indicates, most of the respondents (42%) the future is bright because of their own investment efforts; while this could be attributed to good economic prospects, it could as well imply that their optimism is regardless of the developments in the broader economy. Another 11% are hopeful that things will get better (mainly from a religious point of view). It is surprising that only 5% would directly cite the economy. Therefore while the respondents could not directly cite the country's economy, it is clear that the economic improvements would provide a suitable environment for the success of their investment efforts.

Table 3: Reasons behind high optimism about the future

Reason	%
Have good investments plans e.g. businesses, farming	42
I just optimistic that things will get better,	11
Economy is improving	7
Expenditures have reduced	6
Have a good job - Increase in salary/benefits	5
Working with loans i.e. Trying to acquire /about to acquire/ have acquired	3

3.2 CHARACTERISTICS OF HOME OWNERSHIP

Home acquisition

The typical ways of acquiring homes include buying, building and inheriting. The results of the survey indicate that home ownership is mainly through building (68%) compared to buying and inheriting which contribute 17% and 15% respectively (. Constructing houses is a preferred option of home acquisition mainly due to the perceptions that it is a cheaper option and that the owner can exert control on the overall design and finishing matching their taste. Additionally, building a house is seen to provide flexibility on the pace of construction that is dependent upon one's personal availability of funds. Ascertaining whether the preferred is necessarily the cheaper one would necessitate a deeper analysis of how long it takes to construct the house and the construction cost differential compared to financial costs if acquisition is through credit.

Figure 3: Ways of home acquisition

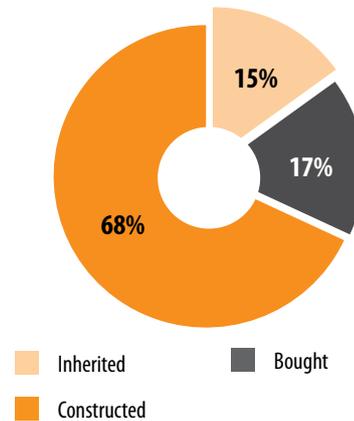
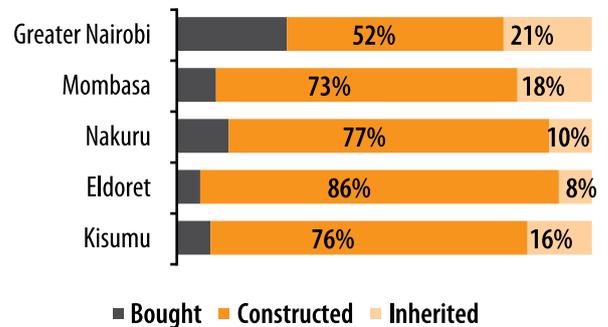


Figure 4 indicates that home owners in Nairobi are more likely to have acquired their homes through buying and inheritance than the rest of the towns where construction seems dominant.

Figure 4: Home Ownership by Regions

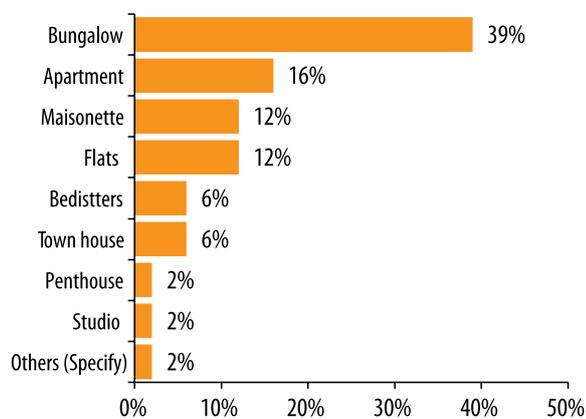


Finaccess (2009) also arrived at similar results which indicated that Nairobi has the highest levels of home owners though buying. The case for home ownership through buying could be attributed to the fact that in Greater Nairobi, there is a higher affluence level and wealth accumulation and hence a higher propensity to purchase homes. On inheritance, typically, this could be based on those home owners who retired from active working life in the capital city and leaving their assets to their children who have an active work life in Nairobi.

Type of houses owned

Bungalows are the most popular type of houses owned. Apartment, Flats and Maisonettes follow in popularity. The rest of the types of houses are less popular. The popularity of bungalows may be explained by the fact that most home owners built their own homes and in terms of constructing bungalows may be cheaper compared to the other house types due to its design.

Figure 5: Type of House owned



The size of houses owned

While the typical measure of measuring the size of houses is by using total square feet, during the pilot study it was noted that most home owners would typically not be aware of the houses' square footage. Therefore, the number of bedrooms was used as it was an easier option to determine the size of the house.

Most homes have 2 bedrooms, even though 1 bedroom and 3 bedroom ones are also popular. Eldoret has a higher likelihood of preference of 1-bedroomed houses than the rest of the towns. Mombasa and Nakuru have a higher likelihood of 4 and above bedrooms. This could be arising from due to pricing considerations where a similar house would be more expensive in Nairobi.

Number of houses owned

Majority of home owners (91%) have only one single house and this is observed across all regions surveyed. The home ownership phenomenon in Kenya is still geared towards satisfying the basic need of shelter hence single home ownership. Owning multiple homes for the purposes of investing (to sell in future or to earn rental income) is still not widespread.

Figure 6: Number of homes owned

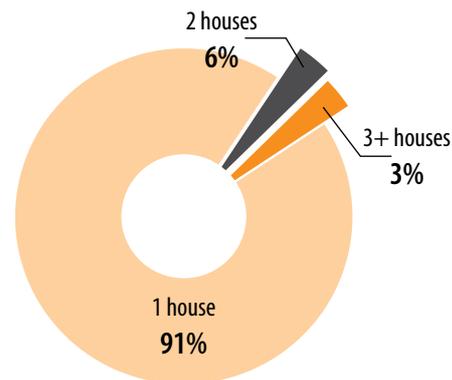


Table 4: Size of home by Urban Area

	Urban Area					
	Total	Greater Nairobi	Mombasa	Nakuru	Eldoret	Kisumu
Size of home	%	%	%	%	%	%
1 bedroom	21	21	18	26	34	12
2 bedrooms	40	42	38	34	38	48
3 bedrooms	29	31	29	26	18	32
4+ bedrooms	9	6	16	14	9	7



Reasons for owning a house

The respondents were asked to provide reasons why they chose to own a home. As shown in **Figure 7**; three thematic areas emerged; for Economic, Social Security and to lesser extent for Personal Preferences purposes.

As far as economic reasons are concerned, some of the home owners consider their home as lifestyle investment that will provide living standards that they would otherwise not enjoy without their own home. Owning homes also is seen to contribute in the absolute reduction of the rent burden hence the income that would otherwise be used for rent can be channeled to other worthwhile investments.

Whereas it is clear that the Kenya Revenue Authority provides tax relief for persons paying for mortgages and home owner occupiers, the relief is not a motivation for owning a house. This could be explained by the fact that most home owners and especially those outside of the capital city may not either be aware that the relief itself exists or that their sources of income are informal as such they do not pay any income tax.

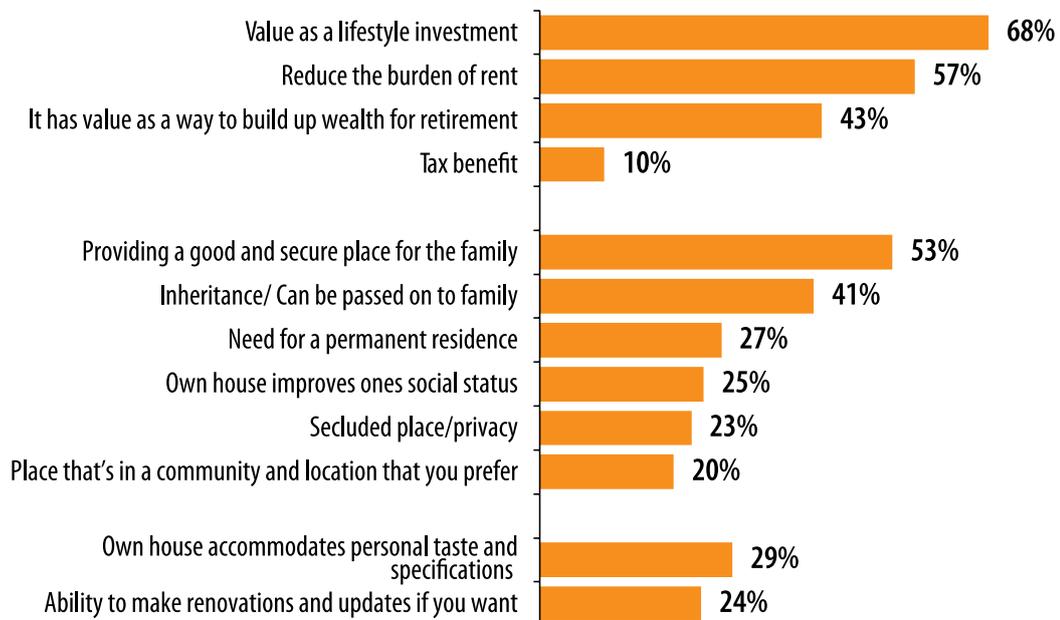
On social security, home owners feel that owning a house provides security and privacy to their families. As an asset it can also be transferred to other generations through inheritance due to its permanency. Surprisingly, some home owners indicated that in the society, owning a home elevates one's own social status.

Other reasons provided indicated that owning a home provides one with the flexibility of incorporating personal tastes and preferences and especially to the design and/or future home improvements. These reasons apply mainly to those home owners who have built their own homes of which this survey has established to be the majority.

3.3 HOME FINANCING AND THE ROLE THE BANK PLAYS

The major objective of this study was to establish how home owners financed their home acquisition. This section therefore analyses the dynamics of home ownership financing with a view of identifying the role that the bank has played in contributing to home ownership in Kenya.

Figure 7: Reasons for owning a house



Number of home financing alternatives

As shown in **Figure 8**, majority of the home owners (73%) indicated that they opted for only one method of financing. The implications of this result are twofold. Either there are very few alternatives of home financing in the market, and/or secondly there is one main and common method of home financing.

Figure 8: Number of home financing alternatives used

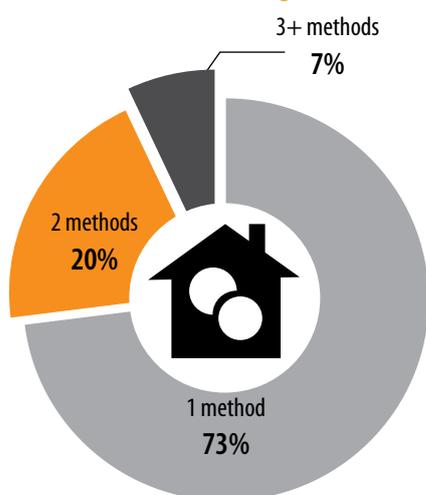
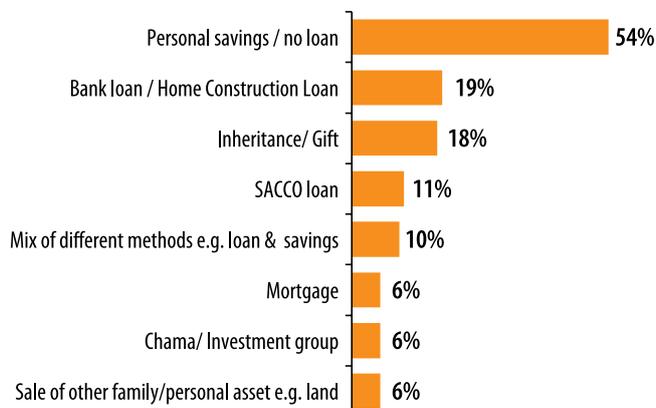


Figure 9 shows the distribution of mentions on the different home financing alternatives that the home owners used.

Figure 9: Home financing alternatives



The results indicate that majority of the homeowners (54%) used their personal savings to enable home ownership regardless of way they acquired their houses (whether bought or built). Less than a third of them borrowed (from both formal and non-formal credit sources) to acquire their homes. Inheritance is still a prevalent way of acquiring a house.

Table 5 shows a cross tabulation between home financing alternatives and how the home was acquired. The analysis indicates that out of those who bought a house, they used mortgages more (13.5%) than Construction (5.0%) and Inheritance (4.5%). The use of mortgages in inheritance may be due to the need of home improvement financing.

Table 5: Mortgage financing alternatives vs way of home acquisition

Mortgage financing alternatives	Ways of home acquisition			
	Total (%)	Bought(%)	Constructed (%)	Inherited(%)
Personal savings/ no loan	54.4	47.5	65.6	12.5
Bank loan / Home Construction Loan	19.2	26.5	19.8	8.0
Inheritance/ Gift	18.3	10.0	5.9	83.0
SACCO loan	11.1	8.5	13.2	4.5
A mix of different methods e.g. loan and savings	9.7	10.0	10.5	5.7
Mortgage	6.4	13.5	5.0	4.5
Chama/ Investment group	6.4	7.0	7.4	1.1
Sale of other family/personal asset e.g. land	5.8	9.5	5.5	2.8
Microfinance Institution Loan	3.7	5.0	3.3	4.0
Help by family and friends / Harambees (to build)	2.8	3.5	2.6	2.8
Employer housing scheme	2.2	3.5	1.9	2.3
Other methods	0.9	0.5	1.2	0.0

As will be seen later (**Section 3.5**), the above findings for home owners also hold true for aspiring home owners. When asked to indicate how they would intend to acquire their houses in future, about a half (49%) suggested that they would not use any form of borrowing but would rely on their savings. The reliance on personal savings to acquire homes is mainly driven by the widespread perception that borrowing to acquire a home is expensive.

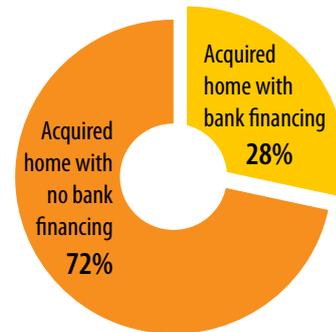
Additionally, those who decide to build feel that they can pace themselves to slowly construct the house depending on the regularity of their incomes. This suggests that the mindset of acquiring a home over a longer period of time (through using personal savings) is more popular than acquiring the house right away and paying for it in future by using mortgages and/or home loans.

However, this pattern differs slightly geographically. This reliance of personal savings in Nairobi is significantly less than that of other major towns in Kenya. While only 46% of Nairobi home owners claimed to have used savings, the rest of the other towns have figures higher than 55%. Additionally, the use of mortgages is higher in Nairobi than in the other towns. The uniqueness of Nairobi on this issue may be explained in part by the fact that there seems to be a concentration of wealth and affluence that predisposes the populace to be more financially literate hence leading to a higher demand of home financing products from financial institutions.

The extent to which banks play a role in financing home acquisition

In establishing the role banks play in supporting home ownership in Kenya, an analysis was undertaken where all bank-related home financing alternatives mentioned in the section above were isolated. In that analysis, for example, if a home owner had a mortgage or a home loan, or had these two in combinations with other alternatives, they were uniquely counted as to have been financed by the bank; whether in part or in full. The results of the analysis show that out of all home owners, the banking sector has played a home-financing role to about 28% (slightly over a quarter) of all home owners (**Figure 10**).

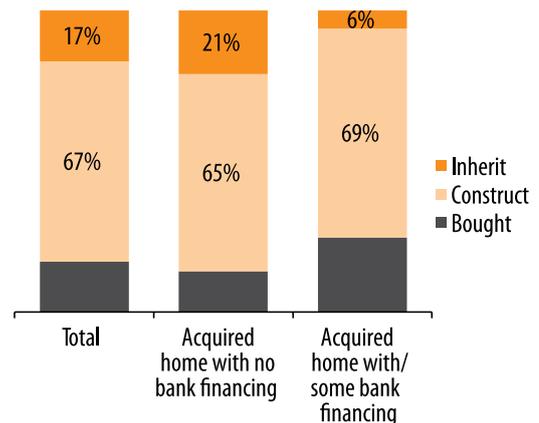
Figure 10: Bank Involvement in Home Acquisition amongst Current Home Owners



According to Finaccess (2009), home ownership through banks – which they termed as formal credit – was less than 10% in urban areas. While this figure cannot be compared directly with the data from this survey due to different research designs, we still can infer that the role of banks in home ownership seems to have grown in the last five years.

Figure 11 shows the interrelationship between the role banks play in home ownership and how the homes were acquired.

Figure 11: Home acquisition With or without bank financing



The analysis provides three key findings:

- First, self-construction as seen in earlier sections is still prominent, with or without bank financing.
- Secondly, and more importantly, those who acquired their homes with bank financing are more likely to buy (25%) than those who did not have bank financing (14%). This essentially means that the banks seem to play a slightly larger role in financing home buying.
- Finally, a small portion (6%) of those who had some bank financing claimed to have inherited the home. This could be explained by the fact that some of those who inherited the homes may require some financing to renovate or improve the home.

3.4 BARRIERS TO HOME OWNERSHIP

As alluded to earlier, the Finaccess 2009 establishing that home ownership in Kenya is high owes it to the fact that most of the populace that live in rural areas own the homes irrespective of quality and other standards. However, the dynamics are different in urban areas. Only 18% of urban dwellers own the homes they live in. Majority rent the houses they live in. According to the World Bank (2011), the demand of housing in Kenya has been growing rapidly due to population growth and a high rate of rural-to-urban migration and this is in reference to the urban population.

This study (which is based in the urban areas) sought to find out what barriers prevent people from owning homes in the urban areas. **Figure 12** shows the findings.

Affordability was a major concern. Two thirds claimed that new homes are already too expensive and therefore way beyond the reach of many aspiring home owners. Of those who mentioned that new homes were expensive, the reasons provided were basically high land prices, high cost of building materials, expensive labour and high cost on interior design as shown in **Table 6**.

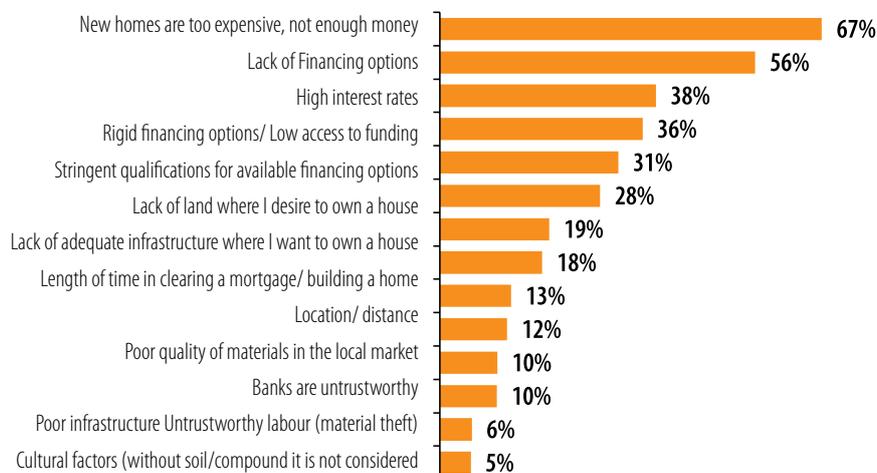
Table 6: Reasons why new homes are expensive (%)

Reason	%
Expensive land prices	74
Expensive external building materials	66
Expensive labor	53
Expensive interior design materials	28

Barriers associated with home ownership financing were also highlighted. First, the amenability of financing options is a challenge. This study has established that about three quarters of home owners had only one financing option available to them. Additionally, some of the options available are very rigid locking out potential home owners from accessing them. The World Bank (2011) cites that affordability is a major hindrance in accessing mortgages.

The other drawback in home financing is the length of time required to clear a mortgage. Most mortgages take over 15 years to pay back. However, it seems that most of those who have this perception may have low financial literacy to know how to position them to pay back

Figure 12: Barriers to home ownership



the mortgage in a shorter period of time. Banks are also perceived as untrustworthy in the sense that home owners are concerned about the terms and conditions tied to the financing options, further exacerbating challenge of owning a home.

Other factors cited were mainly based on personal preferences. First is the issue of location. As it currently stands, and more so in Nairobi, relatively affordable land within the reach of the middle class is far from the Central Business District (CBD) and its environs. Most of the affordable land does not have the required infrastructure yet (piped water, electricity and security) making it difficult to construct a home. The main preserve of purchasing this type of land is purely from a price speculative consideration than for home building. And finally, since this study has established that majority have or would want to build their own homes, poor quality materials and untrustworthy labourers/contractors could further deter people from owning homes.

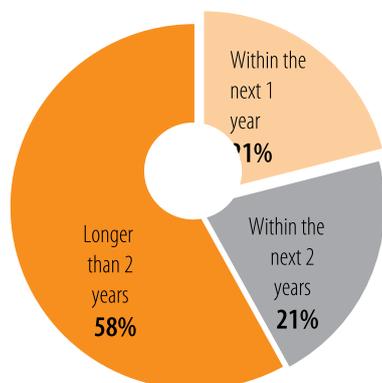
3.5 PERSPECTIVES TOWARDS FUTURE HOME OWNERSHIP

A sample of aspiring home owners was also interviewed in this study. This component was included to provide information about the dynamics of future home ownership.

Time intending to own a home

About a fifth (21%) of potential home owners indicated that they were planning to acquire a home within the next 1 year. Taking all those who would want to acquire a house in the next 2 years increases the proportion to 42%. This indicates some level optimism in intention to acquire houses in the short term.

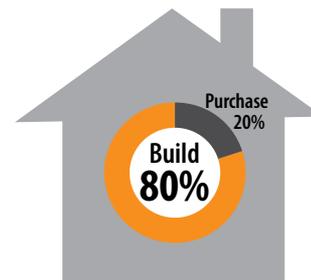
Figure 13: Intentions to acquire a home



Preferred method of home acquisition

Construction is still popular among aspiring home owners. Majority (80%) intend to build their own home rather than buying. The cost element of acquiring a house is still very prevalent even to aspiring home owners. The recent developments in the real estate seem not to have aided in changing people's perceptions.

Figure 14: How do you intend to own a home?

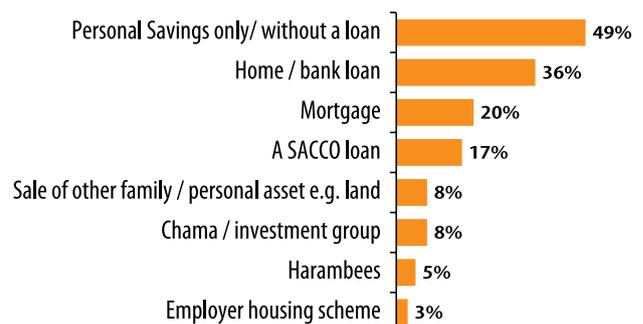


Preferred method of home financing acquisition

A look at the ways by which aspiring home owners may want to finance their future homes indicate that they are no different from what current home owners used. Even for this category, about half of them (49%) are not planning to borrow from any source to build. They are intending to use their personal savings and periodic incomes to build.

However, what is different within this category is that slightly over a third (i.e. 36% compared to 19% of current home owners) is actually planning to borrow to build. They are attracted to a home loan or a normal personal loan to acquire a house. Also, for this group, mortgage financing seems to be a little more popular (i.e. 20% of aspiring home owners compared to 6% of current home owners) would want to use a mortgage to acquire a home. Over half of the aspiring home owners may want to use some bank financing, which is higher than the 28% bank involvement for the current home owners.

Figure 15: How do you intend to finance your home in future?



The slightly higher appetite for bank related home financing for the aspiring home owners may be due to a more financially literate group. In the recent years, there has been a lot of communication from the banks on mortgages. Also several home ownership promotion events across key urban areas in which banks are key participants.

3.6 CHALLENGES OF MORTGAGES AS HOME OWNERSHIP FINANCING SOLUTIONS FROM BANKS

This study has established that popularity of mortgages is low among current and prospective home owners. Only 6% of current home owners have used it and 20% of aspiring home owners intend to use it to acquire homes. This section therefore delves deeper into the issue of mortgages and attempts to uncover some of the consumer attitudes that make it unpopular.

Awareness of mortgages

The awareness of mortgages as a home financing solution seems not to be a problem. Over 80% of the respondents claimed to know the product. Therefore the lower popularity of mortgages is definitely not an issue of awareness.

Figure 16: Awareness of Mortgages



Reasons for not using mortgages among the aspiring home owners

The 80% of the aspiring home owners who indicated their reluctance to use mortgages to acquire their homes in the near future gave their reasoning as follows:

Figure 17: Reasons why they would not take up a mortgage

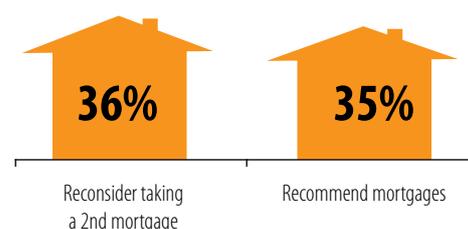


One of the cited negative issues about mortgages is high interest rates which make them very expensive and out of reach of some of the middle class. Additionally, mortgage terms are perceived to take very long before one completely owns the home. Most mortgages are repaid in 15 years or more. Of particular interest is that some of the respondents claimed that they would not take a mortgage without collateral. Mortgages do not require collateral; this essentially means that even though awareness of mortgages is high, some of the respondents are not properly aware of the finer details. This is exemplified further by some 8% who claimed that they did not know how mortgages work. Other reasons cited were related to affordability, other debts that the respondents have.

Mortgage advocacy among current home owners

This study sought to establish whether the current home owners, based on their home ownership experience with mortgages would reconsider taking another mortgage should they want another home or whether they would recommend their family and friends to take up mortgages. Surprisingly, slightly over a third of them (36%) would reconsider taking a mortgage. A similar proportion (35%) would also want to recommend it to their families and friends. This is a reflection of potentially bad experiences amongst those that have financed their homes through mortgages.

Figure 18: Mortgage advocacy



Chapter 4

Conclusion

The key findings of this survey can be summarized as follows:

Perception on the general economic condition:-

There is a general feel-good demeanor amongst the respondents who express a sense of optimism that the economy is getting better with time. This sense of optimism is underpinned by recent change of the economy's status to 'middle income' category. With this disposition, the demand for housing by the urban middle class is expected to be on the rise. With the middle class explicitly indicating that their financial position was better in 2014 than in 2013 and remaining optimistic with regard to the economy's outlook, the prospects for investment by this income segment on housing are boosted.

Characteristics of home ownership:-

The majority of urban home owners built their house, with buying a home or inheriting one remaining low. The most common type of house owned is a bungalow because it is considered cheaper to construct than the other types. A majority of the houses in the preferred type are two-bedroomed, signaling that many home owners are in the lower income bracket; it is no wonder therefore that a majority of the respondents own only one home. In essence, home ownership is towards meeting the basic need of shelter and not for investment with a motivation of immediate financial return.

Home financing and the role the bank plays:-

Out of the current home owners, majority used only one method of financing; it is rare to have home owners who have used more than

one financing option. The most popular home financing method is by way of own income and/or savings. Mortgage and Home loan use are low for they are considered to be expensive. Banks are estimated to have contributed about 28 percent of home ownership financing [mortgages or loans (or both)]. That home owners are averse to mortgages is not on account of limited awareness; rather it is due to the perception that this funding option is not only expensive but also the fact that people are keen to owning their homes over a short period of time and do not want to be tied in long term relationships with financiers.

Barriers to home ownership:-

The fact that new homes are considered very expensive and therefore beyond what a majority of the urban population can afford combined with the rigidity in home financing options constrains increased home ownership. This barrier is augmented by the perception of a persistent high interest rates regime.

Perceptions about future home ownership:-

The respondents keen in acquiring a home in the next one year (about a fifth) would prefer to fund such acquisition using own savings/income. The rest are waiting to build savings to a level adequate for home acquisition. Just like current home owners, the majority of the aspiring home owners want to self-build their homes rather than buying.

Chapter 5

References

1. African Development Bank, 2013, African Housing Dynamics: Lessons from the Kenyan Market Volume 4, Number 3.
2. Financial Sector Deepening Trust – Kenya, FinAccess (2009)
3. Housing Finance Africa (<http://www.housingfinanceafrica.org/wp-content/uploads/2012/10/2012-HOUSING-YEARBOOK.pdf>)
4. World Population Prospects (2009 Revision), United Nations Population Division
5. World Bank, 2013, Kenya economic update
6. World Bank, 2011, Developing Kenya's Mortgage Market, May



KENYA BANKERS
ASSOCIATION

One Industry. Transforming Kenya.

Kenya Bankers Association

13th Floor, International House, Mama Ngina Street

P.O. Box 73100– 00200 NAIROBI

Telephone: 254 20 2221704/2217757/2224014/5

Cell: 0733 812770/ 0711 562910

Fax: 254 20 2221792

Email: research@kba.co.ke

Website: www.kba.co.ke