

ECONOMIC STUDY NO. 7

HOUSING RESEARCH AND
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THE MORTGAGE MARKET IN KENYA

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ECONOMIC STUDY

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PURPOSE

It is the intention of this paper to describe the present conditions as regards financing of housing. The historical development will to some degree give way to a discussion of what potentials the market holds in its present form and what could possibly be done to enhance the flow of money into housing

SCOPE

By definition MORTGAGE means security, and in this way it is often thought of as security for a loan to buy or build a house with the property as the security. Though the public sector does not often use a formal charge on property built by it, it is included in the paper because of its significant contribution to the stock of housing and its potential ~~roll~~ in promoting house-ownership.

The paper is to include some remarks on the general market for securities, both public and private, because the mortgage market is obviously an integral part of a bigger market for securities and therefore highly influenced by it. The property market as such will also influence the movements of the mortgage market, thus reference will be made to this fact from time to time.

APPROACH

The approach to the basic data of the mortgage market will be one dealing first with the supply of funds, public and private, and then the demand side, viz. the house owners, - present and potential. On the basis of the data and the technical operation of the institutions the paper will end with a discussion on how this system could be improved.

DEFINITIONS

Apart from the definition of the mortgage market given above, another few expressions which are used ambiguously even among professionals should be defined as they are used in this paper: Low-cost Housing means housing units costing £500 and less (incl. services) Low-income Groups means family units making shs. 500/- and less per month. Subsidy means anything which makes the official price of a commodity different from the free market price.

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SUPPLY

Before describing the supply of funds available for mortgage, which in the strict sense would mean **from** private mortgage institutions, it would be relevant to look at the property market as a whole so as to illustrate the relative importance of the public and private sector respectively.

Public Sector

It would appear that the public sector is the major factor in this market, both in absolute and relative terms.

TOTAL PLANNED AND PROJECTED EXPENDITURE ON HOUSING

PROGRAMME	1969/70	1970/71	1971/72	1972/73	1973/74	Plan Period
Central Government	2,260	2,470	2,870	3,320	3,970	14,890
Institutional Housing	1,570	2,360	2,700	2,890	2,770	12,290
E.A. Community	220	230	180	160	160	950
Local Authorities	1,770	3,080	3,310	3,960	4,410	16,530
Less: HFCK/NHC double counted	-1,670	-1,900	-2,250	-2,650	-3,250	-11,720
Sub-total Public Sector	4,150	6,240	6,810	7,680	8,060	32,940
Private Sector *	3,000	3,500	4,000	4,600	5,300	20,400
TOTALS	7,150	9,740	10,810	12,280	13,360	53,340

* The projection is based on an annual growth rate of about 15 per cent

It is to be expected that the private sector produces houses of a much higher cost per unit than the public sector, but it is somewhat surprising to find that the average cost of public housing is going up, when "low-cost housing" is the declared policy of the Government. As can be seen from the above table there are three main bodies concerned with public housing, namely Ministry of Housing through National Housing Corporation, Ministry of Works, which builds staff and institutional houses for all other ministries and thirdly the local authorities which are providing some funds of their own on top of what they receive from N.H.C. Only a small number of these houses are financed by a mortgage, namely those houses built for owner-Occupation and financed through the H.F.C.K. (Housing Finance Company of Kenya) 2

¹ See following page
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