Prof Njuguna Ndung'u: Growing real estate through finance

Remarks by Prof Njuguna Ndung'u, Governor of the Central Bank of Kenya, at the Forum on Growing Real Estate through Finance, Kenya School of Monetary Studies, Nairobi, 23 June 2010.

* * *

The Permanent Secretary, Ministry of Housing, Mr. Tirop Kosgey
The Counsellors of Real Estate
Distinguished Guests
Ladies and Gentlemen

It is my great pleasure to warmly welcome you all to this important interactive forum on *"Growing Real Estate through Finance"*. I thank all present for accepting our invitation. In particular, I wish to thank the Counsellors of Real Estate represented here for joining us to deliberate on growth and financing of such an important sector in the Kenyan economy.

Ladies and Gentlemen: In any economy, long-term finance is one of the key drivers of economic growth. Long-term finance allows for the provision of affordable and adequate housing which is a major thrust of Kenya's Vision 2030. Indeed, in line with the objective of this forum, one of the flagship projects under the *"Housing and urbanization"* as stipulated in the Vision 2030 is *"Mortgage Financing Initiatives".* At an estimated annual demand of about 150,000 housing unit, the supply is barely at 35,000 leaving a gap of 115,000. The sector thus portends enormous opportunity and a major market; appropriate and innovative financing mechanisms are therefore absolutely essential.

This forum brings together bankers, regulators, practitioners, researchers, academics and senior government policy makers to discuss this vital agenda – Real Estate Financing in Kenya, but I do believe that one of the solutions is not only the source of long-term finance but also the collateral technology and its process must be improved and simplified. The outcomes and policy conclusions of this interactive forum are, therefore, an important input into policy responses in addressing the binding constraints in this sector and the economy.

The Kenyan financial system through its intermediation role remains the key pillar in providing mortgage financing. Although there is evidently enormous opportunity in the sector, lending to the building and construction and real estate sector stands at 12.2% (Ksh 92.5 billion as at end of 2009) of the total credit by banks and mortgage finance companies. The bulk of financing, it does appear, is through household savings. This is a clear indication that financing is one of the major constraints. While most deposits are of short term nature, mortgage finance is long-term. The traditional mismatch constraint therefore comes into play. This requires a well developed mortgage market to address long-term funding requirements of the sector.

Developing mechanisms for long-term finance is good for monetary policy transmission as well. The MPC has been trying to address the issue of long-term finance; we do hope this forum can provide some viable and feasible options.

Ladies and Gentlemen: The Government's commitment to growth of real estate sector is in our blueprint for Vision 2030 and is also well articulated in the Finance Bill, 2010. The Finance Bill outlines a number of measures to spur growth in the property market. In particular, in order to facilitate provision of adequate housing to Kenya's growing population, The Finance Bill, 2010 contains proposals to amend the Banking Act:

(i) To allow mortgage finance companies to operate current accounts; and

(ii) To allow banks to advance up to 40% of their total deposit liabilities up from 25% for purchase, improvement or alterations of land.

These measures will unlock the sector's potentials by availing funding required to finance growth of real estate in Kenya. The Central Bank will continue to work with the sector to improve the operating environment.

It is equally important for the players in the real estate sector to design innovative ways of securing funds to exploit opportunities available. For instance, pension funds are needed for guaranteeing members' mortgages. This is happening in Kenya, but still at a low scale. Leveraging on such long-term instruments will lower costs and make decent and low cost housing available to potential borrowers. Also, other investment vehicles such as unit trusts have the potential of pooling funds required for specific projects.

In addition, the success of the Kenya Government infrastructure bond as well as other corporate bonds that have followed, demonstrates enormous potential of the bond market. In 2009 alone the Government raised a total of Ksh 54.7 billion through bonds issues, and the infrastructure bonds were oversubscribed every time. This is a clear testimony of the market's ability to provide cheaper source of funding for long-term projects such as mortgages. To further deepen the bond market, the Central Bank has implemented a number of measures, including introduction of benchmark bonds and re-opening of these benchmark bonds to create liquidity and facilitate trading. We can then use this infrastructure bond platform to develop housing bonds.

Ladies and Gentlemen: In all this, a vibrant financial sector with adequate and dynamic human capital is a vital component. The Kenya School of Monetary Studies as the capacity building institution of the Central Bank of Kenya and the region is well placed to develop and implement a curriculum that fits 21st century Real Estate Financing. This curriculum is expected to be broad and multi-disciplinary cutting across various fields in demand for capacity building. Such a multi-faceted capacity building program will provide the requisite skill sets to unlock potentials of the real estate sector in Kenya.

Distinguished Guests, Ladies and Gentlemen, with these remarks on the future of this market, it is my pleasure to declare this interactive forum officially open. I wish you all fruitful deliberations.

Thank you.