Owning a home is no longer a pipe-dream for most Kenyans

Mention owning a home in Kenya and most Kenyans will give you a disillusioned stare. This is despite the fact that almost every Kenyan dreams of owning a home especially in an urban area.

Over the last ten years, the Kenyan property market has grown significantly and Kenya has ranked highly in real estate development, coming third in Africa behind South Africa and Namibia. In fact, in Nairobi and its environs, one does not need be told about the booming construction and real estate sector – whichever side one turns, there is most likely a development coming up.

Ironically, although a significant number of these developments are for residential purposes, the appetite and uptake of these facilities is low as they are not within the financial reach of majority of Kenyans. Recent banking statistics indicate that there are just about 30,000 mortgages in Kenya. This statistic aligns to the often repeated statement that Kenya has a housing supply deficit estimated at 150,000 units a year.

When one considers the Bill Of Rights under the Constitution, every person has a right to among other things, accessible and adequate housing and to reasonable standards of sanitation, the natural question that follows is how can the government assist in addressing this supply gap?

The government must be lauded for the significant steps that it has taken in making the dream of owning a house for thousands of Kenyans a reality. Some of the changes that bring us closer to owning homes include:

Increase of mortgage deduction

Mortgage deduction is deduction of mortgage interest that home owners are permitted to take from their monthly gross pay before arriving at the taxable income. The key requirement to access this mortgage interest deduction is that one must have taken out a mortgage with a financial institution for a residential house in which he/she is living in.

The mortgage interest deduction was first introduced in Kenya in 1996 at KES 56,000 per annum (pa) and in 2001 it was revised upwards to KES 100,000 pa. In 2006, the government again revised the relief upwards to KES150, 000 pa. A decade later, the government has once again revised the mortgage relief upwards to KES 300,000 pa. This means that effective 1 January 2017, a taxpayer will save KES 7,500 per month – which for most households can pay for electricity and water for the month!

Introduction of income tax incentives to developers of low cost houses

Prior to the Finance Act, 2016 all income tax incentives in the form of reduced corporation tax rates only applied to newly listed companies. However, the Finance Act 2016 has introduced a new category of property development companies which will enjoy a reduced corporation tax rate of 15% effective from January 2017. Eligible property development companies are required to construct at least 400 residential houses annually subject to approval by the Cabinet Secretary in charge of housing.

This incentive is expected to have a ripple effect on low cost housing as lower corporation rate translates to a lower income tax liability and a higher after tax profit for the developers. In addition, with relatively higher after tax profits compared to other industries, more companies are likely to venture into this space which will result into increased supply, competition and price wars. This in turn will push the prices of houses down and ultimately making mortgages and housing more affordable.

Capping of interest rates

Majority of Kenyans cannot afford to own a house without a facility from a third party financier. While shopping for a mortgage, the key parameters that a rational buyer will consider are the facility financing costs/interest rates and the repayment period. Low interest rates and long repayment periods are preferred as they tend not to strain household budgets.

In 2016, the President assented to an amendment to the Banking Act that caps interest rates. Currently the interest rates are capped at 14%. The capping of interest rates has effectively reduced the interest rates that were applied on mortgages making them relatively cheaper and affordable and perhaps, ultimately more accessible.

Development of Real Estate Investment Trusts

The demand for affordable housing in Kenya has been increasing as more people attain middle income status. However, the supply of affordable housing has lagged resulting in excess demand which has exerted upward pressure on prices.

The introduction of Real Estate Investment Trusts (REITS) Regulations under the Capital Markets Authority Act is another measure that the government has taken to increase supply of affordable housing. REITS provide a tax efficient vehicle for investors to pool their funds for investments in large real estate projects. In addition to the tax incentives, the REITS reduce the financing burden on projects which is one of the major factors that contribute to the high cost of real estate.

Clearly, the past few years and specifically the year 2016 was a good year for real estate and potential homeowners. With such policies, we expect Kenya to start addressing the housing deficit. Indeed, with this policy interventions, owning a house is no longer a pipedream!

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