AN INVESTIGATION INTO THE FACTORS THAT INFLUENCE
HOUSING FINANCE IN DEVELOPING COUNTRIES

A CASE STUDY OF KENYA

By

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May 2014
DECLARATION

I, FELIX ORIRI ATATI, hereby declare that this research project is my original work and has not been presented in any other University.

Signed .................................. Date ........................................

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This research project has been submitted for examination with my approval as a University supervisor.

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DEDICATION

I dedicate this research project to my parents for their support and persistence and for being a source of inspiration in the course of my studies. I also wish to dedicate this to my siblings, Geoffrey, Boniface and Angela for their prayers and support.
ACKNOWLEDGEMENTS

My acknowledgements first go to the Almighty God for granting me the strength, health and will to go through with the work without giving up even when the going was tough. Glory be to His name.

Next to my beloved family: Dad, Mum, my siblings, Geoffrey, Boniface and Angela for supporting me financially and emotionally to be the best I can be. I am greatly indebted to my supervisor, Dr. Jennifer Murigu for the advice, encouragement and constructive criticism she gave me throughout the research duration which has contributed to the success of this research project.

I am grateful to the different financial institutions that took the time to hear me out and allow me access to the data that I needed for the project.

Finally I would like to thank my friends and classmates for the diversity in opinions and being there for me for the four years. May you all succeed in whatever endeavors you pursue in life.
ABSTRACT

The real estate industry plays an important role in providing employment opportunities, enhancing income distribution and alleviating poverty all over the world. However real estate in Kenya although experiencing a boom has not been able to curb the housing problem, which begs the question, why? Housing supply is dependent on a combination or integration of various components and finance has been identified as the mobilizing component. This is not to say that finance is the only factor driving the supply of housing and addressing it will solve the problem at hand, but it will sure bring us a step closer to the solution.

A large gap exists between the demand and supply of housing finance. Critical analysis and clear understanding of the money market and the current financial system in the country is required to effectively relate housing finance and house delivery. Could it be that households are not approaching financial institutions to source for housing finance or is that the qualification procedures are so stringent that individuals cannot meet up with the lender’s requirements.

The study is organized into five chapters. Chapter one sets the premise against which the factors that affect housing finance will be investigated. Chapter two forms the literature review; it looks at the characteristics of housing finance in Kenya and the different sources of housing finance accessible by households. Chapter three lays down the procedures and steps in data collections and the research methodology to be employed. Chapter four explores the findings from the research survey conducted. Chapter five gives the conclusions and suggestions based on the findings from the research analysis and literature review.

The aim of this study was to examine the factors that influence housing finance; its supply and access and its impact to the provision of housing. The factors investigated in this study include; socio-economic factors, financial factors and government factors. The study also sought to identify direct and indirect sources of housing finance and the avenues that can avail funds for the low income earner.

Various recommendations which are aimed at improving the availability of housing finance have been given as well as measures which would ensure equity and sustainability of housing
finance institutions. They include; Subsidizing housing finance by the government to low income earners, establishment of a secondary mortgage market, downward-market expansion of formal mortgage lending, reviewing the restrictive lending criteria, establishing an efficient and effective land administration system, government support to informal and newly established housing finance institutions.
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CHAPTER ONE
INTRODUCTION

1.0 Introduction
The delivery system of housing in the country is a combination of many integrated components which include land, building materials, infrastructure, policies, building regulations and more importantly finance. The priority accorded the issue of housing is immense; to most governments, the availability of sufficient but basic housing for all is often stated as a priority for enhancing the social needs of the society. In Kenya alone there is a shortage of 150,000 units annually (National housing policy, 2004), the government alone with its public housing initiatives cannot curb this problem hence the need for private investors in the real estate market.

Habitable housing contributes to the health, efficiency, social behavior and general welfare of the population. Apart from providing man with shelter and security, housing plays a major role serving as an asset. For any typical home-owner, the house is a major asset that adds onto his portfolio and for many households; the purchase of a house represents a lifelong investment and a store of wealth. Provision of housing services depends mostly upon a well-functioning housing finance system. The consideration of constructing or acquiring a house is influenced by the cost and various government economic policies which could be fiscal or monetary (Giussani and Hadjimatheou, 1991) and even depends on the economic system adopted in a country.

Housing is a major purchase requiring long-term financing, and the factors that are associated with well-functioning housing finance systems are those that enable the provision of long-term finance. It is evident that countries with stronger legal rights for borrowers and lenders through collateral and bankruptcy laws, credit information systems that are well informed, and a stable macroeconomic environment have more developed housing finance systems (Warnock 2008). These factors also help explain the variation in housing finance across emerging market economies.

1.1 Statement of the Problem
In line with the government’s effort in achieving Vision 2030 and the overall development of the economy, provision of housing is essential. With an acute shortage of 150000 units
annually and the ever increasing population, a housing problem arises and consequently social and economic problems. Housing here is not the only problem, but adequate housing that can allow for the comfort ability levels sort by mankind. The importance attached to housing problems by the government has resulted in the adoption of the housing policy; its implementation and effectiveness has not been adequate as is depicted by the current state of housing in Kenya.

Fallis (1994) noted that housing problem might be focused on the causes, for example; the housing problem might be described as being caused by an underdeveloped mortgage market which leads to the loss of simple rental housing. There were various reasons deduced as causes of housing problems. The most important reason has been the variation between the price of habitable and decent accommodation and the number of individuals that can afford it. In the long term, market forces and government intervention determine the specific size of each of the housing tenures (Warnock 2008)

A large gap exists between the demand and supply of housing finance. Critical analysis and clear understanding of the money market and the current financial system in the country is required to effectively relate housing finance and house delivery. The purchase or construction of housing in many countries is inhibited because individuals cannot borrow funds. The available loans are channeled to high and middle-income families. The problem is how do we avail the loanable funds to the low income earners? Finding measures to address this problem and subsequent implementation will provide for adequate affordable housing for the low-income earners.

The lack of finance has been caused by the intermittent sources of income and low income from the informal employment. UN Habitat (2003) puts forward that the informal sector, which provides for the bulk of employment to the low income group, has not been generating regular and enough income to undertake the expensive housing construction and improvement. Consequent to this, those in the low income group need to save for many years if ever they are to realize a dream of living in an adequate house.

The problem again is how do we avail funds to the low income earners who have no collateral to act as security and not risk bursting the real estate bubble? Can the available financial
models allow it? If so, how do we avoid a scenario like that in the USA in 2007. Too much borrowing and an assumption that the prices of homes would only go up led to the mortgage crisis. According to Dean Baker (2008), before the mortgage crisis, banks offered easy access to money. One could qualify for mortgages with little or no documentation. Even individuals with bad credit could qualify as subprime borrowers. Stringent measures on Mortgage applications were not applied to check for accuracy as well as it should have been. When the mortgage crisis began, home prices stopped rising, borrowers who bought more houses than they could afford stopped paying the mortgage, monthly payments increased on adjustable rate mortgages as interest rates rose. This led to the banks repossessing the houses leaving most in a state of homelessness.

Critical evaluation of the factors that influence financing for housing in the country could lead to the formulation of models that if well assimilated into the existing financial system could yield effective and efficient results.

1.2 Research Hypothesis
The supply of housing finance is influenced by factors other than demand, hence inaccessible by the low-income earner.

1.3 Research Objectives
1. To identify the factors that influence housing finance.
2. To establish their impact to the provision of housing.
3. To analyze housing supply characteristics in developing economies.
4. To identify direct and indirect sources of housing finance and the avenues that can avail funds for the low income earner.

1.4 Research Questions
1. What are the main factors that influence the supply and demand for loanable funds for property development in Kenya?
2. What is the impact of socio-economic and financial factors and government policies in housing development/real estate investment?
3. What are the main sources of housing finance for households and what strategies can avail the funds to low income households?
1.5 Area and Scope of Study
This study focuses on Kenya, a developing country; the development of its built environment has been described as vibrant. This research will aim at both rural and urban areas, real estate development takes place in all parts of the country, and this research will be able to find out whether the factors that affect housing finance in one part of the country are uniform or vary with that in another part.

Kenya offers both a macro and microeconomic platform enabling critical evaluation of all factors available in both economic environments. The impact on the country’s money market due to macroeconomic shocks for example, volatility of interest rates consequent to inflation, unemployment rate vs. employment rate among other factors. The microeconomic environment attempts to depict the attitude of households in the demand and supply of housing finance.

The scope of this study will be restricted to conventional financial institutions and households that attempt to access funds for housing development. The study will examine how different factors affect the supply of funds by lenders and the demand of the funds by households. The research will also highlight the housing finance system employed in the country, its characteristics and role in housing delivery.

1.6 Justification of the Study
The findings on the study will be useful to the stakeholders and players in the real estate industry. It will reveal that the availability of housing finance is not determined only by the interplay of supply and demand but also other factors such as socio-economic factors, financial factors and the government policies play a part as to this. The study will assist individuals in decision making processes and assessing the different avenues that can avail funds for housing development.

The supply of housing is governed by supply and demand factors. Real estate development requires time to plan, permit and build hence supply is very inelastic. Housing demand is fairly predictable as it varies with income level. The level of income correlates to the availability of mortgage finance. Mortgage finance is an important factor in generating housing demand. Boleat (2008) postulated that there is a strong connection between economic
development and the size of the mortgage market. It is also important for one to identify the various financial options available and assess the costs of such finance.

Over the years, different policies and strategies have been used in Kenya to improve the housing delivery system and quality of housing to the low-income group. However, most of the policies developed have been slow and ineffective; this could be attributed to the limited resources to fund the low-income group and their access to housing finance. The study is therefore important to the Kenyan housing policy formulation process as it will identify the major issues in housing finance. The study will also provide useful background information for those institutions involved in housing finance initiatives to understand the types and characteristic of housing finance loan products required in the market.

1.7 Organization of the Study

The study is covered in five chapters.

Chapter one sets the premise against which the factors that affect housing finance will be investigated. It introduces the research topic. This chapter further highlights the research problem, the research questions that lead to the objectives of the research. It sets the scope, research hypothesis and justification of the study.

Chapter two forms the literature review; it discusses the trends in real estate development in Kenya and housing problem. Further, it analyses the different sources of finance available for housing finance and looks at the characteristics of housing finance in Kenya, also included are definitions in relation to Housing Finance.

Chapter three explains the procedures and steps in achieving the research objectives. It discusses the research framework, the methods for data collection, the research data and sample design and its suitability, the methods of analysis employed in the research and the expectations in conducting the analysis.

Chapter four explores the findings from the research survey that has been conducted. It explains in brief the research data, the technique and the research analysis.

Chapter five gives the conclusions and suggestions based on the findings from the research analysis and literature review.
CHAPTER TWO
LITERATURE REVIEW

2.0 Introduction
This chapter starts off by examining the housing problem and the desired qualities that make for adequate housing. It goes further to look at the characteristics of housing finance in the country; its demand and supply and how the monetary policy influences it, its trends and development alongside the overall growth of the economy. The chapter ends by looking at the housing finance system in the country and the various sources of funds that could be accessed by households for the purpose of housing development.

2.1 Housing Problem
It is without doubt that the shortage of houses is annually increasing at a rapid rate in Kenya. The importance attached to housing problems by different governments have resulted in the housing policy adopted which can either be institutional or comprehensive or residual or social in nature. There were various reasons deduced as causes of housing problems. The most important reason has been the variation between the price of habitable and decent accommodation and number of individuals that can afford it. In the long term, market forces and government intervention determines the specific size of each of the housing tenures.

2.1.1 Concept of Adequate Housing
UN-Habitat (2002) defines housing from a physical product, the processes and cultural reality point of view. In ordinary sense housing is a physical tangible space with built forms, artifacts, walls, roofs, doors, fences and gates. Housing is understood in the broader context of the shelter fabric together with the living environment, integration of a dwelling unit or a house with other units in the neighborhood through infrastructure and community facilities, streets and roads.

The Universal Declaration of Human Rights of 1948 recognizes the right to adequate housing as an important component of the right to adequate standard of living. Adequate housing can be defined as housing with acceptable living space, privacy, safety, lighting and ventilation, security of tenure, free from environmental hazards, basic and social infrastructure and services (sessional paper No 3 of 2004)
UN-Committee on Economics and Cultural Rights (1992) defined the concept of adequate housing in paragraph 8, “Thus the concept of adequate housing is particularly significant in the relation to the right of housing since it serves to underline a number of factors which must be taken into account in determining whether particular forms of shelter can constitute adequate housing for the purpose of the covenant.” While the determination of housing as adequate is by social, cultural, climatic, ecological among others, the committee identified certain aspects of the right that must be taken into account. These aspects include affordability, accessibility, habitable rooms, legal tenure security and availability of services, facilities and infrastructure.

2.1.2 Affordability
The vision 2030 for housing aims at an adequately and decently-housed nation in a sustainable environment. Strategies put forward to achieve this include better development of, and access to affordable and adequate housing, and enhanced access to adequate finance for developers and buyers. However, the challenge faced by majority of the households is the issue of inadequate incomes forcing them to resort to informal housing.

The high level of poverty has rendered access to decent housing an elusive dream to the large number of people living below the absolute poverty line. National Housing Policy (2004) for Kenya identifies the high rate of urbanization, increasing poverty and escalating housing costs and prices as some of the challenges in the provision of housing, infrastructure and community facilities. Ability to afford quality housing is closely linked to the households’ income. Affordability is determined by how much a family earns; the proportion of income the family is willing to or able to commit to housing and the monthly cost of housing, the rent for tenant occupied houses or monthly loan repayment for owner occupier (Eggers and Moumen, 2011). Housing is said to be affordable if it does not affect the ability of the household to pay for other necessary expenditure. Pelletiere (2008) put forward that the maximum acceptable cost burden be set at 30% of the households income to imply affordability. Therefore, the ratio of housing expenditure to income is often used as an indicator for housing affordability.

The concept of affordability is however more complex when applied to owner occupied housing as opposed to rental housing. For rental housing, affordability is simply the ratio of
rent to income, on the other hand, for homeowners; one must also factor in tax benefits from mortgage interest and real estate taxes, as well as the potential for capital appreciation. (Schwartz, 2011)

The ability to afford housing will have to be looked at from an individual’s ability to raise funds required to meet the cost or price of their housing needs. The first source of funding for individuals is their income. This is often the cheapest source. An emerging problem is that in developing economies, households’ income levels are generally low, calling for indecent housing or in other cases homelessness. A measure put forward to curb this problem was the provision of social housing (Centre for Affordable Housing in Africa, 2002). In Kenya however, social housing is not a priority on the government’s agenda. Social housing refers to a form of rental housing owned and managed by the state, by non-profit organizations, or by their combination thereof, with the aim of providing affordable housing.

2.1.3 Accessibility
Homelessness has become a serious problem affecting developing countries, Kenya included. Many of the contemporary problems affecting access to housing and housing standards have been reinforced by societal negative attitude towards the vulnerable groups among the low income group (UN-Habitat, 2003).

The Constitution of Kenya (2010) under article 60 brings forth the principle of equitable access to land. Article 40 stipulates that every person has the right, either individually or in association with others, to acquire and own property of any description and in any part of Kenya. UN-Habitat Agenda (1996) recommends that member states shall take measures to ensure that houses are accessible to those entitled to them including the disadvantaged groups.

2.1.4 Basic Services and Amenities
Adequate services and amenities provide for the health, safety and welfare of individuals. They include water supply, sanitation facilities, refuse disposal facilities and drainage systems. Provision of amenities should consider safe and convenient location thus ensuring clear access, affordability and practicability. Physically deficient housing is associated with many health hazards. Inadequate or excessive heat can raise the risk of health problems such

Adequate housing must be accompanied by appropriate infrastructure. Provision of accessible roads, community services and recreational facilities remains unachieved in LDCs. This is because in urban areas most of the settlement are unplanned and are therefore not recognized. Serageldin (1993) observes that local authorities in most LDCs are still reluctant to provide infrastructural services.

Lack of accessible roads leads to injuries and even death in the event of fires as access to the site is almost impossible. Basic facilities such as hospitals lacking in a particular area often lead to deaths during emergency situations.

Poor housing impacts directly on residents’ health and educational attainment, while difficulties in accessing affordable housing can also limit the ability of people to move to find work. People who live in distressed neighborhoods face a greater risk of being robbed, assaulted or worse than inhabitants of more affluent areas (Bratt, 2000). The need to increase the supply of housing and tackle affordability issues is a key housing policy issue.

2.1.5 Security of Tenure

Different definitions of security of tenure exist, but a recent definition that was agreed upon during the Expert Group Meeting on urban indicators in October 2002 is; “the right of all individuals and groups to effective protection by the state against forced eviction”.

International Human Rights Standards describe forced eviction as permanent or temporary removal of individuals, families or communities against their will from the home and/or land which they occupy, without the provision of, and access to, appropriate form of legal or other protection. In most developing countries, majority of the population lives in informal settlement and slums, as such the households live in constant fear of ambush, forced eviction, arrest and demolition leaving them homeless and exposed to environmental hazards (UN-Habitat, 2003). Secure tenure is an important factor in housing finance as most financial institutions require proof of legal ownership of property before they can issue a housing loan to an applicant.
Housing finance is a key factor determining the quality and tenure of housing consumption, the overall financial portfolio of the public and the stability and effectiveness of the financial system (Diamond and Lea, 1992a). A well-functioning mortgage market is considered to have large external benefits to the domiciled national economy like contribution to economic growth and improved standards of living. With the absence of a well-functioning housing finance system, a market-based provision of housing would therefore be lacking (Kim 1997; Quigley 2000; Warnock 2008).

2.2 Housing Market Demand versus Housing Need

Housing market demand shows what households are willing to pay to acquire real estate. Housing need distinguishes between households that are financially able to purchase or rent housing at an affordable price consistent with their household characteristics, and households that cannot find and afford such housing. This research aims to investigate how different elements and their integration therewith influence provision of housing, access and consequent impact to its citizens.

\[
\text{Housing Need} = \frac{\text{Population}}{\text{Occupancy rates}}
\]

In analyzing housing market demand and housing need, three key components need to be taken into consideration (Stone, 1954)

1. Current need analysis
2. Demand analysis
3. Supply analysis

The current need analysis seeks to identify households in a community that are homeless or live in inadequate housing due to various reasons, and cannot afford the housing they need in the local housing market without some assistance. This analysis identifies individuals in the community who need affordable housing immediately.

The demand analysis is more of a “future expectation” perspective of the need question. It relies on the projected short to medium term household composition of the community to estimate the future need for affordable housing in the community. This allows the government
or real estate investors to put forward a project that is better able to accommodate the present and future affordable housing needs of a community.

The supply analysis, on the other hand, determines the ability of the community to meet its current and future affordable housing needs in the absence of the proposed project by examining the existing housing stock and anticipated additions.

By stacking need and demand against the supply, real estate investors are able to gain a better insight into the level of shortage or surplus of affordable housing in the community, as well as the scale and form that the project should take.

### 2.3 Housing supply

The supply of housing units in Kenya is through the formal and the informal sectors. Formal sector refers to supply from the private sector and the various bodies of the public sector.

**Table 2.1: Housing Supply Structure in Kenya**

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Housing supply has been described as being inelastic. There are two major factors that influence the level of housing supply and the responsiveness of supply to changes in prices (Ball, Goody, Meen and Nygaard, 2011):

- The fixed supply of land and the requirement to allocate it among a number of economic and social uses i.e. the planning system and the rate at which land is released for development
- The long lead times in the construction of housing.

Factors such as the large capital requirements in the house building industry, training and regulation are also barriers to entry by newer firms hence the inelasticity.

In addition the housing market is subject to geographical differences in demand and supply due to regional and urban/rural divides and unique local area effects. It is also influenced by the segmented sub-markets for certain needs that is, type of consumer lifestyle and the choice to rent or purchase.

2.4 Overview of the Housing Finance

Housing finance can be simply defined as the mechanisms by which the construction or purchase of housing by an individual is financed (Boleat, 2005). Factors such as the household’s financial status and future expectations will influence their decision on whether to rent or own their residence. In most cases the decision to purchase often puts the household in a situation where he has to borrow funds to complement his savings, most individuals take out a loan; mortgage.

In a primary market, the lender extends a loan to a borrower for the purchase of a house. The loan is such that it takes the house as collateral. According to an interview, Family Bank credit manager (2014) “there are different types of mortgages; however the common mortgages in Kenya include the fixed rate mortgages and the adjustable rate mortgages”. She cited that some of the applicant’s factors that the lender takes into consideration; borrower’s credit history, income, debt, assets and the value of the house to be purchased.

A mortgage has four basic characteristics

- The amount of the loan
- Term of the loan; up to thirty years for fixed rate and self-amortizing mortgages
• Schedule for the loan payment; either in monthly installments or lump sum
• Interest rate

2.4.1 Development of Mortgage Finance in Kenya

A mortgage has been defined as a chattel attached to land to act as security for the payment of a loan. It is a loan agreement between a home owner or buyer and a financier that gives the conditional right of ownership of the property to the financier as security for the loan until the interest on the amount is paid in full (property Leo newspaper, September-October issue, p.21). How the mortgage works is that the collateral is the property itself, a house for instance, such that if an individual fails to pay back or defaults, the lender takes back the house, this is referred to as fore-closure.

Kenya’s mortgage industry has been on a growth path and is becoming even more competitive. Although growing, mortgage lending is still low, as of December 2012 it stood at 3.7% of Kenya’s GDP compared to 70% and 50% in the US and UK respectively. (Property Leo newspaper September-October issue, p.21). A number of factors have been identified as retarding the growth of mortgage accounts, they include; affordability and insufficient housing supply plus a lack of understanding about mortgage among Kenyans.

An efficient mortgage market relies on a number of fundamental legal underpinnings. Among advanced economies, the key determinants of the market depth of housing finance are collateral and bankruptcy laws that define the legal rights of borrowers and lenders (Warnock and Warnock, 2008). The efficiency of the legal system may have an impact on borrowing costs and on the costs of financing for capital market products backed by mortgages. One important element relates to the costs, duration, and effectiveness of the enforcement and foreclosure process in the event a borrower defaults.

Kenya’s mortgage market has been described as dynamic; it is growing rapidly and becoming increasingly competitive. Out of the 44 commercial banks only 30 offer mortgage loans to customers, however, it is a common practice for banks to advance mortgages to their employees. According to the Central Bank Economic Report (2012), 71% of mortgage lending in Kenya is done by five institutions: Kenya Commercial Bank (KCB) is the market leader with 30% of the market share, Housing Finance Company of Kenya with 19% of
market share, Standard Chartered Bank, CFC Stanbic Ltd and the Cooperative Bank of Kenya take on the remaining share. There has been tremendous growth in the mortgage market with every passing year; the Central Bank puts forward that this may be partly attributed to an increase in property prices.

Nevertheless, mortgage lending is still accessible to only a small number of the population – mortgage lending as a percentage of GDP stood at 3.7% in December 2012 (Centre for Affordable Housing Finance, 2013). New entrants and aggressive marketing has resulted in development of some newer products. For example, fixed rate mortgages have been made available for between 10-year and 20-year terms. Some banks have recently introduced 100% financing for the full value of a house. The HFCK with its ingenuity and innovativeness has introduced a mortgage that covers 105% of the costs including professional fees, for those unable to access mortgage finance, a rent -to-buy initiative has curbed this problem.

When asked to rank the obstacles to the growth of the mortgage market in a Central Bank survey, 34 lenders cited access to long term funds as the primary obstacle. Other constraints listed include; high interest rates, low income of borrowers, credit risk and lack of financial literacy in respect to mortgage lending. The risk of foreclosures, difficulties in the land titling process, financial regulatory burdens and lack of new housing supply were some of the impeding factors mentioned by households.

2.4.2 Housing Finance, Financial Development and Economic growth
There exists a symbiotic relationship between housing finance market and the wider capital market. The expansion of housing finance is assisted by the development of capital markets, and growth in the capital market aided by that of housing finance. Development of both contributes to the overall growth of the economy. A primary indicator of mortgage market depth is the ratio of outstanding mortgage debt to GDP. Developed countries have large housing finance markets with a ratio of mortgage debt to GDP over 50% while the ratio in emerging economies remains at less than 20% (Doling, J., Vandenber, P., and Tolentino, J. 2013)

A point of contention emerges on how one sector affects the other, for example does economic growth lead to deeper housing finance or is it vice versa? According to Dubel
(2007) a number of variables are at play. Variables that correlate with the ratio of mortgage debt to GDP include: the depth of credit information; the strength of legal rights for borrowers and lenders; and inflation volatility, with the latter acting as a substitute for the macroeconomic environment. He also suggests that macroeconomic stability, lower interest rates, and more dynamic labor markets may stimulate higher income and larger finance sectors, and that housing finance may affect levels of gross fixed investment.

A review of the literature carried out by the Asian Development Bank reveals that there is a consensus that the development of a national financial sector is critical to economic growth. The study concludes that a “robust financial system enables growth through pooling and mobilizing savings, producing information ex ante about the possibility of investments and allocating capital; monitoring investments and exerting corporate governance; facilitating the trading, diversification, and management of risks; and facilitating the exchange of goods and services” (Zhuang et al. 2009, p. 29).

2.5 The Theoretical Concept of Finance

The literature on finance reveals that there are only two types of finance available: debt and equity finance. Using either as a source of financing a project either depends on the characteristics of assets being financed and transaction cost. Reasoning suggests the use of debt to finance re-deployable assets and equity used to finance non re-deployable assets (Williamson, 1988). Debts are used if the ability to exploit potentially profitable investment opportunities is limited by the resources of the owner (Jensen and Meckling, 1976). Bank lending as a form of debt can be categorized into two: either as asset specific or corporate loans (Crosby et al, 2000). Again, the debt can be either secured or unsecured. Debt finance can be obtained from formal financial institutions like banks, micro-finance arrangements, indigenous moneylenders, family members, employers and government.

Equity finance gives the household total control over the decisions when undertaking the project if the household completely funds the project using equity. Heffernan (2003) and Tirole (2006) claimed that financial instruments vary widely according to the characteristic of term to maturity. Equity has no redemption date and therefore possesses an infinite term to maturity.
One of the biggest problems facing financial institutions is the lack of information on the promoters and the projects to be financed (Guzman, 2000), to determine whether the borrower will be able to pay the principal and interest when due. Altman and Saunders (1998) emphasized the selection of information on various borrowers’ details to include their character, capital, capacity and collateral. However, Mints (2006) limited the required information to the “3Cs of lending” which include: collateral, capacity and credit.

2.5.1 Equity Finance for Housing

Equity finance may be said to consist of all monies pulled together from actors-friends, relatives or business entities, who are interested in maintaining interest in the house purchased with the money raised. Canada Mortgage and Housing Corporation define equity as any material contribution that a funding group controls and that reduces the amount of mortgage financing and/or government subsidies required. Examples of equity include:

- Land and/or buildings that the sponsor group owns or that is being donated by the local government, another nonprofit organization or a faith group;
- Cash that the sponsor has saved, or raised in a fundraising campaign;
- Deposits from committed purchasers in the case of a life lease or home ownership option.

The most common equity-financed model for housing is the Real Estate Investment Trust (REIT). Real Estate Investment Trusts are basically shares in Real Estate Assets, that trade on an exchange. The REIT structure was designed to provide a similar structure for investment in real estate as mutual funds provide for investment in stocks. The concept of REITs began in the United States in the 1960s but became popular in early 1990s (Seiler & Seiler, 2009). In Kenya however, REITs haven’t been fully operationalized as yet. It was hoped for that by the start of this 2012 the whole system would be fully in place, but apparently the Capital Market Authority is still in the process of fine tuning the Legal Framework that will govern its operation. The REITs ideally take three forms i.e. Equity REITs, Mortgage REITs or Hybrid REIT.

Another type of equity finance model is the Shared Equity Products, which covers a range of financial products that enable the division of the value of the dwelling between two or more
legal entities. These products thus enable the main purchaser to reduce their outgoings by giving up rights to that part of the equity in their homes. These shared equity products may be taken out by first time buyers to reduce the costs of entering the housing market, by more mature owners who wish to diversify their housing equity risks especially older households who are looking to release equity.

2.5.2 Debt Finance for Housing

The gap between total project costs and the amount of equity and capital grants invested is made up for through debt. Debt finance can be classified into short-term and long-term. There are different types of debt but the most common in housing are construction and mortgage financing. Construction financing in most cases is provided in lump sums, referred to as advances, as components of the project are completed. Interest on the outstanding balance is added to the total accumulated loan amount, repayable on occupancy of the completed building (Canada Mortgage and Housing Corporation, 2013). Mortgages are used for long term financing. Mortgage lenders typically include: banks; trust and life insurance companies; pension funds; and cooperatives.

The most popular funding instrument for housing is the term loan. Here, a specified maturity date sets the time for repayment of the loan amount and interest. Van Order (2007) identifies models for funding loans to be either portfolio lender model or securitization model. While portfolio lender model involves financial intermediaries originating and holding loans which are funded with debt or deposits, the securitization model involves raising funds through the bond markets.

Term loans vary from short term through the medium term to long term (project finance, capital expenditure)-which might have tenure of between 10 and 30 years. Lending for commercial purposes is short-tenured while the typical tenure of mortgage loans varies between 10 years and may be as long as 30 years.

In many developing countries, families are frustrated by their inability to borrow the money to make a house purchase. Housing finance may be limited to those with a high and steady income. Individuals able to secure finance are usually required to provide an initial down payment of 30% or higher, of the value of the unit and the mortgage may be large relative to
income (Asian Development Bank, 2013). Those unable to secure a mortgage are forced to save for many years or abandon the dream of owning their own home. Moreover, when housing improvements are incremental related to the rate at which people can save, the outcome may be inefficient. For example, people start by using cheap, poor quality materials that soon need replacement (UN-Habitat, 2009).

2.6 Demand and Supply of Loanable Funds

The loanable funds theory is a framework used to determine interest rate in the short-run. According to this the interest rate is determined by the demand for and supply of direct and indirect financial claims on the primary and secondary markets during a given time period (Bibow, 2005)

Chart 2.1 Structure of Loanable Funds Model

The intersection of the demand and supply of loanable funds/housing finance determines the interest rate according to the loanable funds approach to interest rate determination (Pilbeam, 2005). SL represents the housing finance supply and DL represents the housing finance
demand. The point at which SL and DL cross one another is the equilibrium point Qo. It is the point at which the quantity demanded equals quantity supplied.

Buying of financial claims to earn interest represent the supply of loanable funds; Consumer savings, business savings, government savings and the central bank are some of the suppliers of loanable funds. The Loanable funds theory of interest rate argues that economic agents have a certain amount of financial wealth and they can decide to hold the wealth in the form of either interest earning financial assets, or in cash which earns no interest, or a combination of the two (Pilbeam 2005; Buckle & Thompson 2005 and Wickens 2008). Increase in interest rate will encourage more saving and increase supply of loanable funds so that the loanable fund supply curve slopes upwards, therefore existing a positive relationship between interest rates and the supply of loanable funds.

It is important to consider the Central Bank’s role in the supply of loanable funds in the country. In Kenya, the country’s monetary and credit system is regulated and strongly influenced by the Central Bank of Kenya. Through a policy called the monetary policy, the Central Bank has the ability to directly affect the supply of credit in Kenya, and by so doing affect interest rates.

2.6.1 Monetary Policy

The monetary policy provides the framework through which the monetary authority within a country controls the supply of funds within a country. The Central Bank of Kenya is the institution mandated with this task. It influences the level of money supply credit in the economy in order to minimize excessive price fluctuations, and promote economic growth (Friedman, 1968).

How the monetary policy works is that it safeguards against inflation and ensures stability of prices, interests rates and exchange rates. Effective implementation promotes savings, investments and economic growth.

There are various channels through which monetary policy affects economic activities and these transmissions channels have been examined under the monetarist and Keynesian schools of thought. The monetarist postulates that change in the money supply leads directly to a change in the real magnitude of money. Explaining this transmission mechanism, Friedman
and Schwartz (1963) say that extensive open market operations by the Central Bank, increases stock of money, which also leads to an increase in Commercial Bank reserves and ability to create credit and hence increase money supply through the multiplier effect. Tobin (1978) supports this view saying that tight monetary policy affects the liquidity and ability of banks to lend thereby restricting loans to prime borrowers and business firms.

Alternatively, Keynesians suggest that change in money stock facilitates activities in the financial market affecting interest rate, output, investment and employment. Modigliani (1963) supports this view but brought forth the concept of capital rationing and held that the willingness of banks to lend affects monetary policy transmission. Analyzing the use of bank and non-bank funds in relation to tight monetary policy, Oliner and Rudebush (1995) observe that there is no significant change in the use of either but rather larger firms crowd out small firms in such times. Gertler and Gilchrist (1991) support the view that households experience decline in loan facilities during tight monetary policy and that they are affected more adversely by changes in money supply. The structure of credit to non-government borrowers in industrialized countries show that it has been influenced by factors such as interest rates, terms of loan, collateral and willingness to lend (Borio, 1995).

**Figure 2.1. Monetary Policy Framework**

![Monetary Policy Framework Diagram](image)

**Source:** World Bank, 2008
2.6.1.1 Kenya’s Experience

The main target variables therefore for monetary policy are inflation and output. However, the CBK cannot influence its target variables (inflation and output) directly. It influences them indirectly using mainly two monetary policy instruments; interest rates which is the price of liquidity and reserve money which is the quantity of liquidity. (IJEMS vol 1, No 9, 2012)

According to Darryl (1969), interest rates are a price for the use of moneys and if rapid monetary expansion contributes to excessive demand and inflation, it also contributes to rising interest rates. The role of Central Bank under the interest rate instrument is to set a short-term official rate of interest, which dictates the price at which it will make liquidity available to the banking system. According to section 36 (4) of the Central Bank of Kenya Act, the CBK shall publish the lowest interest rate it charges to banks, this rate is called the Central Bank Rate. Using the interest rates, the central bank sets a target inflation rate and then the interest rates are made to move inflation to its intended level.

The Central Bank of Kenya has consistently been implementing Basel guidelines since the mid-2000s. Currently all commercial banks are actively regulated on the Basel II Framework, it is a framework that regulates finance and banking internationally ensuring greater stability, capital sufficiency, liquidity and loans management.

2.6.2 Supply of Loanable Funds

Other than the interest rate there are various factors that affect the supply of loanable funds. They cause the supply curve SL to shift to either sides, for example, increase in the quantity of money may cause the SL curve to shift downwards as there would be an increase in the supply of loanable funds and people would have more to save resulting in a new equilibrium with lower interest rates. Other factors that may cause the SL curve to shift and result into a new equilibrium include:

1. Change in the income tax
2. Changes in government budget from deficit to surplus position
3. Expected inflation
4. Change in saving rate :public desire to hold money balances
5. Changes in business saving
Each of the above scenarios has an impact on the savings either of the government or of households. A situation that causes the amount of savings to increase will increase the supply of loanable funds shifting the SL curve to the right.

The supply of loanable funds comes from individuals who have some extra income they want to save and lend out. This lending can occur directly, such as when a household buys a bond from a firm, or it can occur indirectly, such as when a household makes a deposit in a bank, which in turn uses the funds to make loans (Mankiw, 2008).

2.6.3 Demand of Loanable Funds

The need to sell financial claims represents the demand for loanable funds. The demand for loanable funds emanates from business investment, consumer credit purchase and government budget deficit. Barker (2003) argues that the Demand for loanable funds decreases as the interest rate increases due to increase in cost of borrowing. There is a negative relationship between interest rate and demand for loanable funds, so that demand for loanable funds curve slopes downward.

Demand for loanable funds comes from households and firms who wish to borrow to make investments. This demand includes families taking out mortgages to buy homes and firms borrowing to buy new equipment or build factories. In both cases, investment is the source of the demand for loanable funds (Mankiw, 2008).

Some factors that affect the demand of loanable funds include:

a) Changes in future expected profits or business activities

If business expected higher profit in the future demand for investment or investment demand increase, and so does demand loanable funds, DL curve shifts to the upwards, resulting in a new equilibrium with higher interest rate and higher equilibrium quantity.

b) Changes in government budget from surplus to deficit position

Increase in government expenditure, increases government borrowing to cover its deficit, therefore the demand for loanable funds increases, and the DL curve shifts to the right.
c) Changes in tax
A decrease in tax results in a decrease in government revenue, and thus increases the demand for loanable funds, and DL curve will shift to the right.

Megbolugbe et al. (1991) gave the general form of the housing demand equation which is the same with the quantity of housing finance demanded as:

\[ Q = q(Y, Ph, Po, T) \]

Where Q is housing consumption, Y is household income, Ph is the relative price of housing, Po is a vector of prices of other goods and services and T is a vector of taste factor.

It is argued that it is out of the disposable income that a lender determines the amount borrowers can afford to spend on housing. For this study; data would be collected from users of housing finance at the household level.

2.7 Housing Finance System in Kenya
Kenya’s financial market is served by a broad range of commercial banks and non-banking institutions as well as by capital market institutions including the NSE. There are also channels and instruments for mobilizing long term funds for development. There are estimated to be 43 Commercial banks in Kenya; two mortgage finance companies, Housing Finance and The Mortgage Company (TMC); and 11 Non-banking financial institutions, (Central Bank of Kenya, 2012).

Housing finance Institutions in many developing countries are characterized by poor asset portfolio, and illiquid mortgage instruments partly owing to limited availability of secondary mortgage markets or any other forms of liquidity facility (Warnock, 2008). Primary mortgage markets are also poorly developed, partly because the institutions operate under an often chaotic and uncertain legal framework, doubtful property rights title, doubtful security of tenure and uncertain foreclosure procedures.

The acquisition of adequate housing confronts the choice between renting and owning. These options are determined majorly by a household’s access to financial resources. Renting dictates that a household has a regular stream of income, owning requires the household to have access to a large amount of accumulated finance because the purchase of a home is very
expensive, more so, purchasing requires a large payment up front which normally requires that the homeowners secure a mortgage and therefore also requires a regular income stream to pay the mortgage (Doling Vandenberg and Tolentino, 2013). In the long-run homeownership is cheaper than renting because of the low interest rates and mortgage rates that can go as low as 3%, fixed rate spread over a long span of time, up to 30 years. The Real Estate industry has three identifiable sources that finance its activities, equity (the individual household’s own available resources), and debt and government subsidy.

The provision of housing finance can be split into two components: (i) the provision of housing finance by a lender who has sufficient funds at hand, and (ii) the mobilization of funds within an economy so that lending institutions have access to funds (Warnock, 2008). For lenders with adequate funds to decide on allocating part of the funds to long-term housing finance, a number of preconditions must be in place:

- Information on the borrower. Availability of relevant information to assess the creditworthiness of prospective borrowers, which enables the determination of the probability of default. To assure the accuracy of the information, credit history such as public credit registries or private credit bureaus could be used to standardize it. It is best if the source has a wide coverage of the population, and the most informative source would include negative as well as positive transactions.

- Ability to value the property. There should be a mechanism to determine the market value of property. Where data on the sales price and appropriate features of the home, that is location, size etc. are maintained in a proper property registry, appraisers can more accurately value homes for borrowers and lenders.

- Ability to secure collateral. The lender should be able to secure collateral against the loan in case of default. This requires a proper legal and registry system to assure the rights therein and ownership of the property such that the lender can seize the property in case of default.

- Macroeconomic stability. The macroeconomic environment should be stable. The lender passes the interest rate risk to the borrower in an unstable environment. Substantial interest rate risk will retard the development of the housing finance
system, as either lender will go out of business (e.g., U.S. savings and loans in the 1980s) or borrowers will be unable to repay their loans or both.

Housing finance is characterized by the application procedures, period of the loan, collateral and repayment method. Loan applications in conventional institutions involve lengthy procedures for one to get qualified. The period of the loan is usually on long term basis often more than 10 years. This form of finance is insensitive to inflation and changes in borrower’s income. Furthermore some sort of collateral is required to secure the loan, usually immovable tangible assets. Securing mortgages requires a proper title deed and registration of the same. Repayment of the loan is normally on an annuity basis i.e. equal periodic payments covering interest and capital.

Major providers of housing finance can be grouped into:

1. Non-institutional finance (informal sector)
2. Private institutional finance
3. Public housing
4. International sources

2.7.1 Non-Institutional Finance (Informal Sector)

The informal sector of an economy is distinguished from the formal sector by the extent to which government is functionally cognizant of the activities carried on (Akanji, 1998).

They were established to cater for the shortcomings of conventional institutions. Informality of housing finance is best understood in terms of availability to people who want to finance housing that is not acceptable by the formal sector specializing in long term mortgage finance.

Low income households have a long standing skepticism of acquiring formal finance and considerable experience of various forms of self-finance in which people come together to save for the purchase of housing, cars or land (Wurtzbach C.H, 1995). Some informal sector finance sources for housing are as follows:

a) Personal or Family Savings

Usually is the easiest and cheapest form of finance. Personal savings and other assets make a great source of funds. Because you already have them, acquisition costs are minimal.
Obtaining finance from family also presents a cheap and flexible alternative, it is however, important to note that this may potentially affect your relationships.

b) Loan from Friends, Relatives and Neighbors
Terms and conditions vary across time and place. They depend on the strength of the personal bond between the borrower and the lender and the urgency of fund (Megbolugbe, 1987). To obtain the loan, the borrower relies on nonconventional collateral and creditworthiness is measured in terms of social behavior rather than in terms of material assets.

Often the loans are given free or on very low interest rates. Conditions for repayment are more flexible and may become open-ended essentially converting the loan partly or completely into a gift. There is however, substantial social pressure to repay the loan according to the initial terms and conditions.

c) Savings & Credit Unions
They extend credit to their members for different uses, including the purchase of houses. The borrowing member is usually given four or six times what he has saved. This is against 40% equity required by formal mortgage lenders. The loans are charged low interest rates. Unlike formal finance systems, there is no need for mortgage documents and no need for title deeds. The reliability of their member is all that counts and there is a committee to judge that (Nabutola, 2004).

d) Individual Moneylenders
They are determined by commercial business motives. Limits on loans depend on the assets owned by the borrowing household, income, relationship with the money lender or availability of collateral. Interest rates may vary considerably and are high compared to banks. To a large extent the interest rate is determined by opportunity cost and risk premiums and cannot simply attributed to an assumed monopoly position of money lenders (Adams, 1992).

2.7.2 Private Institutional Finance
Conventional Housing Finance Institutions are accessible and provide housing finance to the middle and high-income segment of the population. Public sector housing finance institutions have offered longer-term loans also to lower income groups, but even these have largely been restricted to borrowers with clear land title and certifiable income, a condition only met in
public low-income housing projects. The vast majority of the population remains excluded (Nabutola, 2004).

a) Commercial Banks
This category of bank is retail bankers by operation. Previously they only lent on short-term basis because they had to meet the withdrawal request at the shortest notice. Development of commercial banks has led to the transition from short-term lending to now long-term loans and mortgage packages that have had a major impact in the growth of real estate, mainly by private investors. Development in the mortgage market can be attested by the fact that banks, for example Housing Finance released a unique product, 105% financing solution of the project’s cost.

b) Sharia Banks
These are Islamic banks that are managed according to sharia law. The Quran prohibits the collection of interest (riba) in all monetary transactions, charging fees (and donations) for services provided in lieu of charging interest on loaned capital. The strictness of the banks prohibits issuance of loans for illegal purposes.
Disapproval of interest on loans disallows Muslims from taking up conventional mortgages. Islamic mortgages were introduced as a way to go around this and provide home finance to Muslims who can’t raise cash to buy property. The bank, to earn profit undertakes in capital and real estate investment opportunities among others.

c) Microfinance
Microfinance can be described as provision of a broad variety of financial services such as payment services, money transfer, insurance, but more typically deposit facilities and loans for individuals in the lower income groups for their house development or micro-enterprises (Khawari, 2004). Microfinance was developed due to the financial exclusion of the low income group from formal financial systems; loans are usually small and short term and are designed to suit the repayment ability of low-income families.
Housing micro-finance (HMF) is a subset of microfinance designed to meet the housing needs of the poor. It is designed for low-income households who wish to expand or improve their
dwellings, or to build a home in incremental steps or relying on the sequential small loans (Fergusson, 1999).

**d) Contractor Financed**
Contractor financing has changed from interest-free loans provided by the government in the form of large advance payments-to short-term, fee-bearing loans provided by commercial banks.
Private property developers and other investors have applied various financing techniques like: Turnkey, Pre-letting and, Joint financing, (loan syndication) to finance housing project.

**e) Non-Banking Financial Institutions**
NBIFs were set up to fill the gap in the financial systems and rectify inefficiencies in loan facilities. They mobilize savings in competition with commercial banks. The savings are then channeled into credit for commerce, agriculture, industry and the real estate.
Non-bank financial institutions (NBFIs), such as insurance companies, housing finance institutions, pension funds and investment funds mobilize savings, provide market-based safety nets, and fund long-term investments to support growth as well as job creation.

**f) Insurance Companies**
Life funds of insurance companies are long term savings in form of annuities or endowment Policies, which can only mature at the occurrence of certain known events, like death, accident or retirement. This creates a fund base that enables life assurance companies to invest on long term capital assets like real estate investment and get involved in the following: Loan for real estate development based on capital value of the policies, investment in mortgage and debentures; direct investment in or development of real property i.e. acquiring or developing landed properties apart from those meant for their own occupation.

**g) Pension Funds**
They operate like insurance companies and finance housing mainly for the pensioners. In Kenya we have the National Social Security Fund (NSSF).
h) **Housing Finance Institutions**

Housing finance institutions are deposit-taking primary institutions. There are three HFIs in Kenya, namely Housing Finance Company of Kenya (HFCK), Savings and Loan Kenya Ltd(S&L) and the East Africa Building Society (EABS).

i) **Mortgage Companies**

In Kenya they are defined by the Banking Act cap 488 as a company other than a financial institution which accepts, from members of the public, money on deposit repayable on demand or at the expiry of a fixed period or after notice and is established for the purpose of employing such money in accordance with section 15. The major mortgage companies in Kenya are Housing Finance and the mortgage company.

### 2.7.3 Public Housing Finance

Public houses are financed, often constructed, owned and operated by the public sector. They may be let out to the general public or to civil servants but continue in public ownership whether they produce economic profit or loss.

In most countries, the governments have provided housing for the poor through massive housing programs (UNCHS, 2002). However due to high subsidies provided, they tend to attract higher income groups and miss the target group. In Kenya, the NHC channels public fund for lower and middle income groups through local authorities (UNCHS, 1994).

### 2.7.4 International Sources

They include private funds, public bilateral and public multilateral funds. Major providers of private funds include the Commonwealth Development Corporation (CDC), United States Agency for International Development (USAID) and the World Bank.

### 2.8 Chapter Summary

The criteria employed by most housing finance institutions relentlessly restrict the access of low-income groups to funds for housing. To access mortgages, borrowers are required to have some sort of collateral for the loan, real estate has been the most popular security recognized by lending institutions, a condition that acts as a major handicap to the poor, and to women as they have the legal right to get titled land in their name in African countries in particular (UNCHS, 1994).
The conventional approach to allocation of funds for housing by institutional lenders is for the purpose of screening applicants on the basis of “affordability”; this is mostly against the borrower’s income. Since these institutions use the fixed annuity method of repayment, they effectively bar most low-income households from obtaining a loan (UNCHS, 1995). Moss (2002) noted that the generic problem that eliminates low-income earners from the housing market is affordability since the gap between income and cost is very wide.

In addition to the former requirements, access is restricted by other lending conditions that are needed to ensure the economic viability, sustainability and safeguard sources of capital of lending institutions. They include: type and age of the account held with the institution; mortgage insurance; payment of service charges; and the tax clearance certificate (UNCHS, 1994).

Housing like any other economic good is dependent on the interplay of demand and supply, but as earlier stated its demand surpasses supply. This could be attributed to the fact that it takes time to construct houses, zoning requirements in place may not permit such a project and availability funds to undertake such a project, this are just but a few factors. Demand conditions for housing influence both the willingness and ability of people to make house purchases. Demand is dependent on income and is often inelastic; a rise in income tends to lead to a larger percentage of income being spent on houses.

Having identified the different avenues that can avail funds for construction purposes to households and the trends in the market, it is of importance to evaluate the attitude of households towards them. The psychological orientation of individuals when it comes to investing in real estate combined with objectivity. Any housing decision: buying, renting, selling, remodeling, or investing in a second home, combines significant financial and personal components and consequences.

This research other than only answering the question on the factors that affect housing finance, it aims to identify their impact on the money market (loanable funds) as well as supply of housing within the country. The following chapters will further delve into the matter.
CHAPTER THREE
STUDY AREA AND RESEARCH METHODOLOGY

3.0 Introduction
This chapter describes the study area and how the research study will be conducted. It starts off by introducing the study area of the research presenting its physical location and demographic characteristics. The second section describes the research methodology, it includes the research design adopted, the target population, data collection and analysis of the data.

3.1 Study Area
Republic of Kenya is a sovereign state in East Africa. Kenya lies on the equator with the Indian Ocean to the south-east, Tanzania to the south, Uganda to the west, South Sudan to the north-west, Ethiopia to the north and Somalia to the north-east. Kenya covers 581,309 km² and has a population of about 40.9 million in early 2013. The country is named after Mount Kenya, the second highest mountain in Africa.

Kenya’s population currently is estimated to be 40.9 million, 75-80 per cent of whom live in the rural areas. The rapid population growth implies a rising need for housing. New housing is needed to cover both regular household formations arising from higher birth rates than death rates, but also internal migration. As population moves away from rural areas into urban areas extra urban housing is required to accommodate the internal migrants.

The annual housing requirement in 2010 is estimated at around 206,000 units. This is split between 124,000 units needed in rural areas (60% of the total) and 82,000 in urban areas (40% of the total), Kenya Census Data (2009). There is a housing deficit of 156,000 units currently, in addition it is estimated that there is a current existing shortage of 2 million units, where households are homeless, living in temporary shelters or in extremely low quality housing in slum areas.

To capture the trends in real estate development versus supply and access to housing finance in both rural and urban areas, the research will consider different areas identified through stratified random method of sampling. Areas identified include; Nairobi, Thika, Nakuru, Limuru, Kabete, Machakos and Kiambu.
3.2 Research Design

The methodology adopted in this study is mixed method; this is a combination of the qualitative and quantitative methods of research. It is considered as a research design and method of inquiry that dictates the direction of the collection and data analysis whereby the collection and analysis of data has a mix of quantitative and qualitative research processes (Creswell and Plano Clark, 2007). Data analysis for this research is largely quantitative in nature. This is due to the fact that various studies in the area of housing finance have been mainly qualitative and descriptive in nature (Warnock and Warnock, 2008). This study being investigative, using quantitative approach for data analysis would enable the research to extract the variables that drive housing finance supply in Kenya.

This design uses description as a tool to organize data into patterns that emerge during analysis. There are two categories of descriptive designs: surveys and observational studies. This research was administered through the use of structured questionnaires that were distributed among respondents to collect primary data.

3.2.1 Target Population

A population is the total of all the individuals who have certain characteristics and are of interest to a researcher (Polit and Hungler, 1999). A target population includes all cases about which the researcher would like to make generalizations while the accessible population comprises all the cases that conform to the designated criteria and are accessible to the researcher as a pool of subjects for a study. The target population is made up of housing finance institutions, banks, private lenders, private investors and developers including contractors and individuals who would wish to own a home. The accessible population to the research includes mortgage institutions, commercial banks, SACCOs and a number of private developers, investors and potential home owners that were chosen randomly.

3.2.2 Sample and Sampling Techniques

Considering the accessible population and the scope of the study, the study employed random and non-random methods of sampling. Selective sampling method was employed in the case of financial institutions and simple random sampling for households that engage in the development of the built environment.
Selective sampling entails deliberately choosing a population with certain characteristics. The research is biased to institutions say like banks that had branches in various parts of the country providing a wider database on the lending and demand pattern of funds. Therefore, 2 mortgage companies (Housing Finance Company of Kenya & The Mortgage Company), 3 SACCOs (Chuna Sacco, Waumini Sacco & Mwalimu Sacco) 2 NBFIs (Retirement Benefits Authority & Old Mutual) and 20 commercial banks were selected. Commercial banks are popular as mortgage providers hence the large sample.

Table 3.1 List of Commercial Banks Selected

<table>
<thead>
<tr>
<th>Bank</th>
<th>Website</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cooperative Bank</td>
<td><a href="http://www.co-opbank.co.ke">www.co-opbank.co.ke</a></td>
</tr>
<tr>
<td>Family Bank Ltd</td>
<td><a href="http://www.familybank.co.ke">www.familybank.co.ke</a></td>
</tr>
<tr>
<td>Equity Bank Ltd</td>
<td><a href="http://www.equitybank.co.ke">www.equitybank.co.ke</a></td>
</tr>
<tr>
<td>Kenya Commercial Bank Ltd</td>
<td><a href="http://www.kcbbank.co.ke">www.kcbbank.co.ke</a></td>
</tr>
<tr>
<td>Consolidated Bank</td>
<td><a href="http://www.consolidated-bank.com">www.consolidated-bank.com</a></td>
</tr>
<tr>
<td>National Bank Of Kenya Ltd</td>
<td><a href="http://www.nationalbank.co.ke">www.nationalbank.co.ke</a></td>
</tr>
<tr>
<td>Standard Chartered Ltd</td>
<td><a href="http://www.sc.com">www.sc.com</a></td>
</tr>
<tr>
<td>CFC Stanbic</td>
<td><a href="http://www.cfcstanbicbank.com">www.cfcstanbicbank.com</a></td>
</tr>
<tr>
<td>First Community Bank</td>
<td><a href="http://www.firstcommunitybank.com">www.firstcommunitybank.com</a></td>
</tr>
<tr>
<td>K-Rep Bank Ltd</td>
<td><a href="http://www.k-repbank.com">www.k-repbank.com</a></td>
</tr>
<tr>
<td>NIC Bank</td>
<td><a href="http://www.nic-bank.com">www.nic-bank.com</a></td>
</tr>
<tr>
<td>Habib Bank Ltd</td>
<td><a href="http://www.habibbank.com">www.habibbank.com</a></td>
</tr>
<tr>
<td>Prime Bank Ltd</td>
<td><a href="http://www.primebank.co.ke">www.primebank.co.ke</a></td>
</tr>
<tr>
<td>Guardian Commercial Bank</td>
<td><a href="http://www.guardian-bank.com">www.guardian-bank.com</a></td>
</tr>
<tr>
<td>Development Bank Of Kenya Ltd</td>
<td><a href="http://www.devbank.com">www.devbank.com</a></td>
</tr>
<tr>
<td>Eco Bank Ltd</td>
<td><a href="http://www.ecobank.com">www.ecobank.com</a></td>
</tr>
<tr>
<td>Citibank Ltd</td>
<td><a href="http://www.citigroup.com">www.citigroup.com</a></td>
</tr>
<tr>
<td>Barclays Bank Of Kenya Ltd</td>
<td><a href="http://www.barclays.co.ke">www.barclays.co.ke</a></td>
</tr>
<tr>
<td>Diamond Trust Bank Ltd</td>
<td><a href="http://www.dtbafrica.com">www.dtbafrica.com</a></td>
</tr>
<tr>
<td>Chase Bank Ltd</td>
<td><a href="http://www.chasebankkenya.co.ke">www.chasebankkenya.co.ke</a></td>
</tr>
</tbody>
</table>
Simple random sampling method was used for households. The total number of households identified was 80 households, this included investors and individuals that partake or wish to partake in raising funds for real estate. The sample size was determined using an assumed confidence level of 95%. The response achieved would be within -5 or +5 of the true state of the population targeted. The size was calculated using the following formulae;

\[ n = \frac{Z^2p(1-p)N}{e^2(N-1) + Z^2p(1-p)} \]

Where;
N= population size
n= sample size
p= sample population estimated to characteristics being measured. Assume a 95% confidence level of the target population
q=1-p
e= acceptable error (e=0.05, since the estimate should be 5% of the true value)
Z= the standard normal deviate at the required confidence level=1.96

Therefore; \( n = \frac{1.96^2 \times 0.95 \times (1-0.95) \times 80}{0.05^2 \times (80-1) + 1.96^2 \times 0.95 \times (1-0.95)} \)

\( n = 38 \) households

In summary;
2 mortgage companies
20 commercial banks,
2 NBFIs
3 SACCOs were selected.
38 households, including customers of the above institutions.
Total=65 respondents
3.2.3 Data Collection

Given the sample size, a survey method was best in order to obtain a representative response. The survey instrument of collecting primary data used for this study was a structured questionnaire. The questions were designed to elicit data in accordance with the research questions. Drop and pick later method of data collection was applied. First contact with the respondents was through email. The respondents filled in the questionnaires individually as they were well designed for self-administration.

Two sets of questionnaires were administered. The first one was to the financial institution that required them to give details regarding their among other things; sources of funds, lending terms and conditions, eligibility requirement, credit assessment and strategies being used to improve finance access by the low-income earners. Also as major players in the country, their sentiments on the financial state of the economy, its growth potential and whether it could be achieved by 2030 was key. This was important as it gauged their confidence in the country’s financial system.

The other set was administered to borrowers, private developers and contractors. Required explicitly was their general attitude towards the acquisition of funds for property development or purchase, their sources of funds and the factors that opt them to go for the stated avenue other than the other. Their understanding on mortgages and mortgage market was imperative.

Apart from the questionnaires, the study employed interviews with the help of an interview guide as a source of primary data. The interviews were open-ended and proved quite helpful in obtaining information from key respondents; they permitted adequate discussions by giving the respondents the freedom to formulate their responses. This helped unveil new aspects that were not anticipated but proved useful to the study.

Secondary information and data was obtained from company brochures, annual reports and manuals and websites. Data was also obtained through library research including text books, journals, reports, newspaper and magazine articles and Acts of parliament.
3.2.4 Data Analysis and Presentation

The aim of data analysis is to extract useful information and develop conclusions. Data was processed during and after data collection. The data collected was edited for accuracy, consistency and completeness. The data was then coded and cross-tabulated to enable the responses to be statistically analyzed eliminating errors.

Oral interviews were summarized enabling the researcher to review the notes and employ extensive analysis to answer the question on the summary sheet. The extensive analysis entailed review of published works, documents presented, journals, newspapers and magazines.

This research has employed a combination of qualitative and quantitative methodology to analyze the data.

3.2.4.1 Qualitative Method

Qualitative research approach is a form of scientific inquiry that covers different disciplines (Curry, L.A, 2008). Qualitative studies are often exploratory in nature and seek to generate novel insights using inductive rather than deductive approaches, that is to say it starts with observation and development of the hypothesis. This method can be used to understand complex social processes and capture the essential aspects of a phenomenon from the perspective of the study respondents.

Patton (2002) describes that the best method to analyze qualitative data is by using content analysis. In this research, the content analysis was conducted to various sources such as the responds from the questionnaire, and reference such as books, journal papers, published and unpublished working papers among others. However, there is no standard approach to content analysis.

3.2.4.2 Quantitative Method

The quantitative research approach is an enquiry into a social or human problem based on testing a theory made up of variables, measured with numbers and analyzed using statistical procedures in order to determine whether the predictive generalizations of the theory hold true (Creswell 2003 and 1994). The method provides numeric description of trends, attitudes or opinions of a population by studying a sample of that population.
Descriptive analysis has been adopted in analyzing the quantitative data where theories and hypothesis are tested in cause-and-effect order. Establishing the frequency distribution to know the achieved score of each variable is how analysis of the descriptive data will be carried out. The achieved score will determine the characteristic of the examined variables. The Likert’s scale will be used. The likert scale is some kind of rating scale developed to measure attitudes of respondents directly (McLeod, 2008). This is achieved by asking people to respond to a series of statements about a topic in terms of the extent to which they agree with them.

3.2.4.3 Random Utility Model

Access of funds by households involves the choice between different alternatives. The study will employ the McFadden’s random utility model, RUM; the utility function expressed as;

\[ U_{ij} = U_j(X_{ij}; Z_{ij}) + V_j(X_{ij}; \beta) + \varepsilon_j \]

Where;
- \( U_{ij} \) represents the utility derived by individual i, from credit choice of alternative j
- \( X_{ij} \) represents the observed characteristics of individual i and alternative j chosen
- \( Z_{ij} \) represents the unobserved characteristics of individual i and alternative j chosen
- \( \beta \) represents the estimated coefficients of the explanatory variables
- \( V_j(X_{ij}; \beta) \) denotes the deterministic component of the utility
- \( \varepsilon_j \) is the random component of the utility

Microsoft excel will be used to carry out the appropriate quantitative calculations and presentation of the research data. The statistical package for social scientist was used to analyze the data collected. The analyzed data is presented in graphs, tables and narrative form.
CHAPTER FOUR
DATA ANALYSIS AND PRESENTATION

4.0 Introduction
This study sought to investigate the different factors that influence the supply and demand for loanable funds for property development in Kenya. This section will present the findings of the research by answering the research questions.

4.1 Response Rate
A total of 65 questionnaires were administered but only 53 were collected and analyzed. Some of the questionnaires were left with the respondents to fill but were never returned in another case the respondents were unavailable during collection of the questionnaires while others had misplaced them. The response rate was 81.54%. The following data analysis and presentation is based on the collected questionnaires, oral interviews and secondary data collected during the research period.

Table 4.1: Response Rate

<table>
<thead>
<tr>
<th>Zone</th>
<th>No. of questionnaires distributed</th>
<th>No. of respondents</th>
<th>% of responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial Banks</td>
<td>20</td>
<td>17</td>
<td>85</td>
</tr>
<tr>
<td>SACCOs</td>
<td>3</td>
<td>2</td>
<td>66</td>
</tr>
<tr>
<td>Mortgage Co.</td>
<td>2</td>
<td>2</td>
<td>100</td>
</tr>
<tr>
<td>NBFIs</td>
<td>2</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Households</td>
<td>38</td>
<td>32</td>
<td>84.21</td>
</tr>
<tr>
<td>Total</td>
<td>65</td>
<td>53</td>
<td>81.54</td>
</tr>
</tbody>
</table>

Source: Field Survey; 2014
Table 4.2 Spatial Distribution of Questionnaires to Respondents

<table>
<thead>
<tr>
<th>Location</th>
<th>No. of Questionnaires Administered</th>
<th>No. of Questionnaires Collected</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nairobi</td>
<td>25</td>
<td>23</td>
<td>92</td>
</tr>
<tr>
<td>Thika</td>
<td>9</td>
<td>5</td>
<td>55.56</td>
</tr>
<tr>
<td>Nakuru</td>
<td>10</td>
<td>8</td>
<td>80</td>
</tr>
<tr>
<td>Limuru</td>
<td>6</td>
<td>4</td>
<td>66.67</td>
</tr>
<tr>
<td>Kabete</td>
<td>5</td>
<td>5</td>
<td>100</td>
</tr>
<tr>
<td>Machakos</td>
<td>4</td>
<td>3</td>
<td>75</td>
</tr>
<tr>
<td>Kiambu</td>
<td>7</td>
<td>5</td>
<td>71.43</td>
</tr>
<tr>
<td></td>
<td></td>
<td>65</td>
<td>53</td>
</tr>
</tbody>
</table>

Source: Field Survey; 2014

4.2 Tenure choice

Out of the 32 households interviewed, 65.6% of the population sampled live in rented apartments and in staff quarters, this include all single people. 21.9% live in their personal houses either self-built or purchased and only 12.5% live in their family houses.

Chart 4.1 Households’ Tenure Choices

Source: Field Survey; 2014
Non-payment of rent, lack of interference by the landlords, ability to use the property as collateral for future borrowing and pride in property ownership were some of the reasons cited by 43.8% of households for home ownership. It was unanimously agreed that property development is a prudent investment at this time.

67% of the respondents that rent believe that renting is less stressful and gives them more flexibility in future decisions. Flexibility in terms of relocation as it is easier to move when you want to and there are fewer hassles of upkeep and maintenance. 33% of the respondents who rent expressed their wishes to own a home in future, however they shared their fear against house price declines.

The respondents acknowledged the fact that the real estate market was growing at a rapid rate and that the price of houses appreciate at a significant rate, new investors in the industry share the fear that the real estate bubble might burst but economists state that while this is a likely scenario, it is not bound to happen in the near future.

4.3 Access to loans

In evaluating the number of individuals that take out loans or mortgages for the purpose of housing development, the men formed the bulk. 100% of the lending institutions interviewed observed that the male gender formed majority of their customer base and in essence most of their business. This observation could be attributed to the fact that not until recently, the societal chauvinistic practices shunned women from partaking in certain activities. However, recent developments indicate that women have become empowered and more and more women are opening up accounts with different financial institutions and getting involved in investing in real estate. 100% of the female respondents at least held a checking account with a financial institutions.74% of the respondents had spouses and out of that, 78% had joint accounts. Undertaking a decision to invest in real estate therefore meant that both parties had to consent to the idea.

Different attributes about the respondents, more specifically the households were put down and analyzed against their access to funds. This however are not the characteristics that influence their choice to go for housing finance but rather it goes to show how households regard the financial sector and their attitude towards them.
Access to credit facilities especially in rural areas is a major problem. 71.9% of respondents cited lack of information as the reason to this. When asked what they understood about mortgages; 28.1% clearly understood the concept, 37.5% of the respondents had a vague idea while 34.4% had almost no idea what mortgages were. Most households described it as loans for development but advised against taking terming them as expensive. 40.6% of household respondents attributed the long physical distance to the nearest financial service provider to their inability to access funds for housing development. 65.6% of the respondents stated the high cost of credit as the reason why conventional financial institutions are not so popular among them.

4.4 Sources of Housing Finance
The research found that households had 3 sources of housing finance, that is; equity, credit from formal financial institutions and non-financial institutions. Real estate development requires a large capital base. 90% of individuals interviewed stated that undertaking a construction project requires some sort of external financial assistance, be it a loan, mortgage or donor funding. All respondents that had purchased a house or constructed it themselves stated that they had taken out a loan at some point to facilitate the dream of owning a home. Table 4.3 shows the number of households with that was taken at any one time for the purpose of housing and from where they accessed the finances. Based on the survey questionnaires collected, the research was able to evaluate how households regarded different avenues as sources of funding.
Table 4.3 Selected Financial Characteristics

<table>
<thead>
<tr>
<th></th>
<th>Households</th>
<th>% of response</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of households in survey</td>
<td>32</td>
<td>81.54</td>
</tr>
<tr>
<td>No. of households with bank a/c</td>
<td>28</td>
<td>87.5</td>
</tr>
<tr>
<td>Households with a loan</td>
<td>23</td>
<td>71.88</td>
</tr>
<tr>
<td><strong>Source of loan</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Relatives/friends</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Informal lender/ Savings groups/Chamas</td>
<td>15</td>
<td>65.22</td>
</tr>
<tr>
<td>SACCOs</td>
<td>8</td>
<td>34.78</td>
</tr>
<tr>
<td>Commercial banks</td>
<td>21</td>
<td>91.3</td>
</tr>
<tr>
<td>Sharia Banks</td>
<td>3</td>
<td>13.04</td>
</tr>
</tbody>
</table>

Source: Field Study; 2014

None of the respondents viewed loans from relatives and friends as an appropriate source of housing finance, the ties set by their relationship complicated the issue in situations where there is a likelihood to default. Evident from the research is that households sourced different avenues for funds for housing development, 56.3% attest to having loans with more than one lender.

Evaluating the sources of finance will take two dimensions; the demand of housing finance by households, their preference and the supply of the same by lending institutions, their sources of funds and the percentage of their portfolio dedicated to housing finance.

4.4.1 Sources of Finance Preferred By Borrowers: Random Utility Model

Social and economic factors among others are the major factors that influence the decision by households to choose a given source of funding. Consider a situation where a household has to choose among the various financial institutions. Predicting that a household will choose any of the alternatives, $j$ is chosen, this however is dependent on a vector of explanatory variables $x_i$ and a vector of unknown variables $\beta_i$. 
A household faced with two or more choices will compare the difference in utility of the alternatives available such that the choice is that which yields the highest utility. A household is assumed to choose alternative A if $U_A > U_B$.

Table 4.4 Ranking of Preference

<table>
<thead>
<tr>
<th>Source</th>
<th>Proportion %</th>
<th>Ranking of households preference</th>
</tr>
</thead>
<tbody>
<tr>
<td>SACCOs</td>
<td>79.2</td>
<td>1</td>
</tr>
<tr>
<td>Commercial banks</td>
<td>72.4</td>
<td>2</td>
</tr>
<tr>
<td>Micro finance institutions</td>
<td>65.1</td>
<td>3</td>
</tr>
<tr>
<td>Individual money lenders</td>
<td>48.6</td>
<td>4</td>
</tr>
<tr>
<td>Mortgage companies</td>
<td>36.2</td>
<td>5</td>
</tr>
<tr>
<td>Sharia banks</td>
<td>22.4</td>
<td>6</td>
</tr>
</tbody>
</table>

Source: Field Survey; 2014

The popularity of SACCOs among households is immense. This could be tied to the fact that their costs are not expensive, the interest rates range between 10%-12% and the qualification procedures are not as stringent as those of commercial banks. Commercial banks charge interest rates up to 24%. Contrary to the expectations, informal money markets are not as popular as avenues for housing finance. Some of the reasons behind the slow growth rate of informal sources of housing finance include; lack of funds, lack of government support, low loan recovery and replicability rate, inappropriate legal regulations and inappropriate organizational structures. 75% of the respondents believed that to be eligible for a loan from a sharia bank, one had to be of the Muslim faith, with zero percent interest rate, their unpopularity may be due to lack of information or even ignorance by households.
Table 4.5 Percentage of Portfolio Dedicated to Housing Finance by Lending Institutions

<table>
<thead>
<tr>
<th>Lending institution</th>
<th>% of portfolio – housing finance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial banks</td>
<td>25-30</td>
</tr>
<tr>
<td>Sharia banks</td>
<td>50</td>
</tr>
<tr>
<td>Mortgage companies</td>
<td>75</td>
</tr>
<tr>
<td>Microfinance institutions</td>
<td>20-25</td>
</tr>
<tr>
<td>Insurance companies</td>
<td>15</td>
</tr>
<tr>
<td>Pension companies</td>
<td>10</td>
</tr>
<tr>
<td>SACCOs</td>
<td>20</td>
</tr>
</tbody>
</table>

**Source: Field Study; 2014**

The major sources of capital for most lending institutions include saving deposits from individuals and institutional investors. The research identified donor loans and grants form the least source of funding for most financial institutions, most banks cited less than 5%. Shown in Table 4.6 are the different sources of funding for loanable funds by lending institutions.

Table 4.6 Source of Funding of Lending Institutions

<table>
<thead>
<tr>
<th>Source of funding</th>
<th>Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deposits from individuals</td>
<td>1</td>
</tr>
<tr>
<td>Deposits from institutions</td>
<td>2</td>
</tr>
<tr>
<td>Bond issuance</td>
<td>3</td>
</tr>
<tr>
<td>Refinancing of mortgages</td>
<td>4</td>
</tr>
<tr>
<td>Donor grants</td>
<td>5</td>
</tr>
<tr>
<td>Donor loans</td>
<td>6</td>
</tr>
</tbody>
</table>

**Source: Field Study; 2014**
4.5 Factors Influencing Housing Finance

For this research, the dependent variable identified is housing finance vis-à-vis housing development and real estate investment in Kenya. Independent factors that were believed to influence housing finance and consequently housing development include socio-economic factors, financial factors and government policies.

Chart 4.2 is developed as a conceptual framework relating the above factors to housing finance. It is from this framework that a basis is formed to analyze each factor in depth.

**Chart 4.2**

<table>
<thead>
<tr>
<th>Independent variables</th>
<th>dependent variable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Socio-economic factors</td>
<td>Influence</td>
</tr>
<tr>
<td>Financial factors</td>
<td>Housing finance/ House development by stakeholders</td>
</tr>
<tr>
<td>Government policies</td>
<td></td>
</tr>
</tbody>
</table>

**Source: Author’s Construct; 2014**

Socio-economic factors examined include; age, marital status, income and employment. In addition to the above factors, household’s level of education, location, gender and household size.

Financial factors investigated in this study include; inflation, the availability of funds, interest rates, technology, taxes, costs of building materials, qualification procedures, mortgage repayment schedule.

Government policies investigated in the study include; monetary policy, property rights and their registration, government planning regulations/land use, government taxation on transactions relating to real estate investment, government direct investments in real estate, government loans/ grants and subsidies.
4.5.1 Socio-Economic Factors that Influence Access to Housing Finance

4.5.1.1 Age

Observed in the study is that increase in age increases the probability of access financial services.

Table 4.7 Distribution of Households by Age

<table>
<thead>
<tr>
<th>Age level</th>
<th>Frequency</th>
<th>% that access formal loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>21-30 years</td>
<td>3</td>
<td>9.38</td>
</tr>
<tr>
<td>31-35 years</td>
<td>7</td>
<td>21.88</td>
</tr>
<tr>
<td>36-45 years</td>
<td>12</td>
<td>37.5</td>
</tr>
<tr>
<td>46-55 years</td>
<td>8</td>
<td>25</td>
</tr>
<tr>
<td>Over 55 years</td>
<td>2</td>
<td>6.25</td>
</tr>
</tbody>
</table>

Source: Field Survey; 2014

Chart 4.2 Graphical Representation of Age as a Factor

Source: Field Survey; 2014

Age as a factor presents a U-shaped curve (inverted). Age has a positive relationship with access to credit from banks and other formal institutions. Increase in age raises the probability of individuals to access credit but after a certain age the probability declines. From the survey
data the optimal age bracket is indicated as 36-45 years. The reason as could be that at this age many individuals are perceived settled and stable, however, most banks and SACCOs view very old applicants are less creditworthy hence the decline.

4.5.1.2 Marital Status
Although not a significant factor, it brings out the aspect of decision making within households and societal perception. A married person is perceived to be responsible over his/her action and is therefore not likely to default in settling the debt. Married persons are also considered to be a bit stable and would take longer to relocate to another place

**Table 4.8 Distribution of Households by Marital Status**

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>% that access formal loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single</td>
<td>7</td>
<td>21.88</td>
</tr>
<tr>
<td>Married</td>
<td>23</td>
<td>74</td>
</tr>
<tr>
<td>Divorced</td>
<td>2</td>
<td>4.12</td>
</tr>
</tbody>
</table>

*Source: Field Survey; 2014*

4.5.1.3 Income
The level of income has a direct influence on access funds for housing development. Households who reported their monthly income to be over 25000 were more likely to be formally included compared to those with less than 25,000 who are described as low income households by the Centre for Affordable Habitats in Africa. 71.5% of the respondents’ income level enabled them access financial services. The level of income defines the source of funds that the household will opt to go for. The low-income and the middle-lower earners seem to be concentrated in the informal financial sector whereas the middle-upper and the high-income earners are more pronounced in formal financial market. Most banks stated that they are more inclined to advance credit to high income households because of their ability to repay.
Table 4.9 Distribution of Households by Level of Income

<table>
<thead>
<tr>
<th>Level of Income</th>
<th>Frequency</th>
<th>% that access formal loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 10000</td>
<td>4</td>
<td>12.5</td>
</tr>
<tr>
<td>10001-24999</td>
<td>5</td>
<td>16.5</td>
</tr>
<tr>
<td>25000-49999</td>
<td>12</td>
<td>37.5</td>
</tr>
<tr>
<td>Above 50000</td>
<td>11</td>
<td>34</td>
</tr>
</tbody>
</table>

Source: Field Survey; 2014

4.5.1.4 Employment

An individual’s employment or main income source is the factor that has the most influence on access, brings out the aspect of affordability. Formal employment means a steady source of income with information that financial institutions can assess the creditworthiness of an individual. 62.5% of individuals in the formal sector of employment have access to formal source of funding. The intermittent nature of revenues by households in the informal sector or the lack of pensions by retirees other than the age factor is the reason as to the attitude of financial institution towards them, 25% and 12.5% respectively.

Chart 4.3 Distribution of Households by Form of Employment

Source: Field Survey; 2014

Discussed above are the aspects that the research considered as socioeconomic factors that affect households’ access to housing finance. The inequalities in the apparent circumstances of individual’s lives like age, marital status, financial literacy, income, employment, household’s size among others affect the lifestyles of households and the choices behind
them. The inequitable distribution of these variables is the result of a combination of poor social policies, poor economic measures and bad politics as evidenced by the gap between the poor and the rich. The informal financial markets have had a major impact in the growth of the economy if not the real estate with individuals accessing funds to improve their livelihoods. An emerging trend is the incorporation of non-institutional financial markets into the formal financial market. An example of this is collaboration of mobile service providers, Safaricom with CBA bank to bring out M-shwari service.

4.5.2 Financial Factors that Influence Housing Finance

These variables were subjected to a Likert’s scale of 1 to 5 so as to determine how they were regarded by the lending institutions. Where 1= strongly agree and 5 = strongly disagree, points awarded were 1=5; 2=4; 3=3; 4=2; 5=1.

The respondents had mixed reactions on the effect of some financial factors have on the availability of funds and the subsequent development and investment of the real estate industry.

Financial factors that were considered by financial institutions supply of housing finance include; availability of funds, technology, taxes, qualification procedures and the credit history of households.

Availability of loanable funds was the factor that had the strongest impact on housing finance with all financial institutions unanimously agreeing that the percentage of their portfolio they dedicate to different activities has an effect on the amount of funds set aside for housing finance.

Conventional financial institutions and their stringent qualification procedures end up excluding a large number of people from accessing the finance for house development, the factor mostly considered by financial institutions is the household’s credit history to reduce cases of defaulters.

Financial factors that were thought to influence demand of housing finance by households included; interest rates, cost of construction, mortgage repayment schedule and inflation. Most respondents, households, indicated that the level of interest rates influence their decision
to go for finance. High interest rates discourage most households from taking out loans and mortgages as they source for other alternatives for funding. The respondents put forward that Inflation’s effect on the cost of construction, a high inflation rate raises the cost of building materials which forces households to go for loans so as to complete their projects.

Table 4.10 Descriptive Statistics for Financial Factors

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>Standard deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inflation</td>
<td>4.23</td>
<td>0.20</td>
</tr>
<tr>
<td>Availability of funds</td>
<td>5</td>
<td>0</td>
</tr>
<tr>
<td>Interest rates</td>
<td>4.43</td>
<td>0.35</td>
</tr>
<tr>
<td>Technology</td>
<td>3.76</td>
<td>0.18</td>
</tr>
<tr>
<td>Taxes</td>
<td>2.28</td>
<td>0.41</td>
</tr>
<tr>
<td>Cost of construction</td>
<td>3.84</td>
<td>0.42</td>
</tr>
<tr>
<td>Qualification procedure</td>
<td>4.13</td>
<td>0.46</td>
</tr>
<tr>
<td>Mortgage repayment schedule</td>
<td>4.06</td>
<td>0.45</td>
</tr>
<tr>
<td>Household’s credit history</td>
<td>4.62</td>
<td>0.37</td>
</tr>
</tbody>
</table>

Source: Field Survey; 2014

4.5.3 Government Policies Influence on Housing Finance

These variables were also subjected to a Likert’s scale of 1 to 5 so as to determine how they were regarded by the lending institutions. Where 1= strongly agree and 5 = strongly disagree, points awarded were 1=5; 2=4; 3=3; 4=2; 5=1.

Most of the respondents agreed that government policies affect real estate investment and housing finance. Financial institutions were particular on the monetary policy effect on the interest rates and the subsequent attitude of households in response to the change. Low interest rates encourage individuals to invest and the demand for loans increases. However, high interest rates increase the cost of money prompting individuals to save more rather than invest.
Property rights and their registration thereof have also had their turn on housing finance. Most individuals described it as ineffective pointing out that most conventional financial institutions require collateral of some sort, to act as security for the loan. The traditional form of collateral has been land hence, the need of title deeds for land ownership. The bottlenecks strain the process of land administration and consequently access of funds by households. Still on the land issue, the planning regulations and land use patterns dictate the rate at which land will be released for development. Land being fixed, its access provides incentives for the access of funds to develop it.

Government incentives towards the low-income group and tax reduction on mortgages have made many households wish to own a house hence embracing the concept of housing finance. The popularity of government initiatives on housing finance is still low. Most of the respondents other than identifying slum upgrading projects could not identify any other scheme by the government. The emerging issue was that effect of government subsidies and deductions could only be felt by large scale developers having little impact on the private developer who really needs it.

Table 4.11 Descriptive Statistics for Government Factors

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>Standard deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monetary policy</td>
<td>4.76</td>
<td>0.18</td>
</tr>
<tr>
<td>Planning regulations</td>
<td>3.64</td>
<td>0.48</td>
</tr>
<tr>
<td>Registration of property rights</td>
<td>4.48</td>
<td>0.29</td>
</tr>
<tr>
<td>Budget allocation</td>
<td>4.11</td>
<td>0.35</td>
</tr>
<tr>
<td>Government loans/ grants</td>
<td>4.13</td>
<td>0.54</td>
</tr>
<tr>
<td>Subsidies</td>
<td>3.75</td>
<td>0.63</td>
</tr>
</tbody>
</table>

**Source:** Field Survey; 2014
4.6 Analysis of Borrowers Ranking of Difficulties They Face in Accessing Housing Finance

Availability of collateral was ranked as the most difficult step that borrowers had to go through. Some forms of collateral such as title deeds take really a long duration before they are processed and issued to their rightful holders. The qualification procedures employed by lending institutions that render a household eligible for a loan was also an obstacle as it was too lengthy and technical.

Other difficulties were ranked as shown in Table 4.9. Table 4.10 shows the criteria that qualify an individual to accessing funds by different financial institutions and the measures put forward to minimize defaulting as well as loan recovery strategies.

Table 4.12 Ranking of Borrowers Difficulties

<table>
<thead>
<tr>
<th>Lenders requirements</th>
<th>Proportion %</th>
<th>Ranking (lender’s requirement)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Collateral</td>
<td>81.6</td>
<td>1</td>
</tr>
<tr>
<td>Repayment schedule</td>
<td>63.2</td>
<td>2</td>
</tr>
<tr>
<td>Mortgage protection policy</td>
<td>61.2</td>
<td>3</td>
</tr>
<tr>
<td>Amortization period</td>
<td>51.4</td>
<td>4</td>
</tr>
<tr>
<td>Equity</td>
<td>50.4</td>
<td>5</td>
</tr>
<tr>
<td>Building plan approval</td>
<td>49.1</td>
<td>6</td>
</tr>
<tr>
<td>Service charges (e.g. valuation &amp; search fees etc.)</td>
<td>47.5</td>
<td>7</td>
</tr>
<tr>
<td>Savings</td>
<td>46.2</td>
<td>8</td>
</tr>
</tbody>
</table>

Source: Field Survey; 2014
Table 4.13 Eligibility Criteria and Loan Recovery

<table>
<thead>
<tr>
<th>Institution</th>
<th>Qualifications</th>
<th>Loan recovery &amp; defaults</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial banks</td>
<td>• Account holder&lt;br&gt;• CAMPARI evaluation&lt;br&gt;• 10-30% down payment&lt;br&gt;• Title deed</td>
<td>• Fore-closures&lt;br&gt;• Legal action&lt;br&gt;• CRB listing&lt;br&gt;• Notice (demand letters)</td>
</tr>
<tr>
<td>SACCOs</td>
<td>• Registered member of the Sacco&lt;br&gt;• Contributed shares continuously (not less than 6 months)&lt;br&gt;• Approval by the credit committee&lt;br&gt;• Maximum amount granted shall not exceed 3 times a member’s share</td>
<td>• Guarantors&lt;br&gt;• Savings / deposits / shares</td>
</tr>
<tr>
<td>Micro financial institutions</td>
<td>• Kenyan citizen&lt;br&gt;• Active savings account for at least 6 months</td>
<td>• CRB listings&lt;br&gt;• Auctions</td>
</tr>
<tr>
<td>Mortgage companies</td>
<td>• Proof of adequate and dependable income&lt;br&gt;• Collateral; title&lt;br&gt;• Insurance cover</td>
<td>• Foreclosures</td>
</tr>
<tr>
<td>Sharia banks</td>
<td>• Account holder&lt;br&gt;• Murabaha&lt;br&gt;• No Riba (interest free)</td>
<td>• Qur’anic rule: more time is granted to individuals with difficulty to pay&lt;br&gt;• Sharia compliant rules</td>
</tr>
</tbody>
</table>

Source: Field Survey; 2014

Conventional housing finance institutions apply restrictive lending terms and conditions which many new home buyers or developers find hard to comply. These factors termed as hindrances kept off many potential borrowers.
4.7 Hypothesis Testing

The study hypothesis was that the supply of housing finance is influenced by factors other than demand, hence inaccessible by low-income earner. The acceptance criterion for accepting this hypothesis was pegged at 51% proportion. Estimating within 95% confidence level, the proportion of respondents of the opinion that socio-economic, financial and government factors also have a major influence on the supply of housing finance to households; out of the 53 respondents, 36 of them were of the opinion.

The size of sample = 53

The proportion of the sample that suggested that factors other than demand influence housing finance; p = 36/53 = 0.68

\[
\text{Standard error} = \sqrt{\frac{p (1-p)}{n}}
\]

95% confidence limits for \( p \) are:

\[
P \pm 1.96 \sqrt{\frac{p (1-p)}{n}} = 0.68 \pm 1.96 \sqrt{\frac{0.68 \times 0.32}{53}} = 0.619 \text{ and } 0.741
\]

Using a confidence level of 95% for the proportion population; between 61.9% and 74.1% of the respondents agree that other factors influence its supply and access by individuals. From the data it can be concluded that the hypothesis holds; the supply of housing finance is influenced by factors other than demand, hence inaccessible by the low-income earner.
CHAPTER FIVE
CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction
This chapter presents a summary of the findings, as regards to the main objectives of the study. Conclusions were drawn based on the findings, and some recommendations on the way forward made. The objectives of this study were;

1. To identify the factors that influence housing finance
2. To establish their impact to the provision of housing.
3. To analyze housing supply characteristics in developing economies.
4. To identify direct and indirect sources of housing finance and the avenues that can avail funds for the low income earner.

5.1 Summary of Findings
The research sample was a total of 53 respondents made up of financial institutions, home owners and developers and “potential” home owners and developers.

Findings from the research clearly showed that the demand and supply of housing finance does not only rely on the interplay of these two factors, but rather other factors have to be considered. The other aspects considered in this study were socio-economic characteristics, financial characteristics and the government policy in relation to housing finance. The research established that the above factors have a major role in regard to access of the funds and their provision.

Evident from the study is that the socio-economic characteristics of an individual have a significant impact on his or her access to financial services. Many of the conventional financial institutions regard the ability of an individual to repay the loan advanced hence; the employment status and the level of income have to be taken into consideration. The bulk of customers in conventional financial institutions are households in formal employment due to the steady source of income and information that the lending institutions can assess the creditworthiness of an individual. The income earned by an individual determines the ability to repay the money borrowed. Loan repayment periods have to be spread over very long
period of time. However, the low wages and high cost of construction excludes the low income group from accessing the financial products.

The study revealed that financial factors mainly apply to lending institutions and their supply of funds. Financial institutions mobilize funds through savings, deposits and investing; availability of loanable funds was cited as a major factor with a mean score of 5.0. Qualification procedures and the lending criteria applied by these institutions exclude a large number of people as the financial institutions try to minimize cases of defaulters. Interest rates and inflation were also indicated as strong financial variables that affect the provision of housing finance with a mean score of 4.43 and 4.23 respectively.

Government factors that have a great impact on access to housing finances as indicated by the respondents were the monetary policy and registration of property rights. Most financial institutions alluded that the effect of monetary policy on interest rates influence the number of loans that households take with a mean of 4.76. Households cited registration of property rights and its importance with a mean score of 4.48.

While these factors’ influence are significant, the disparities within the society cannot allow all individuals that seek or want housing finance access to it, hence the need to develop innovative ways for this to happen and reduce the housing deficit in the country.

5.2 Conclusions
From the study it can be concluded that housing finance is a key factor in defining the quality and tenure of housing consumption. It is evident that conventional financial institutions concentrate on individuals effectively marginalizing the low-income earner. This “exclusion” could be tied to the fact that these institutions aim at maximizing their profits. A housing finance component that would increase access to housing credit for low-income groups would complement projects by the government, private sector and international agencies.

If ever a solution of the housing problem is to be found, the different stakeholders need to come together and organize for effective and efficient mobilization of resources. One major resource for house development is finance. The demand and supply of housing finance is determined by different factors. Provision of funds or in this case lending by financial
institutions for the purpose of housing determines the quantity of funds that can be availed to the households for the purpose of house acquisition and construction. The factors identified were those that influence households’ decision to go for such financing and also that which influence financial institutions to their provision.

The qualifying terms for mortgages are too stringent leaving out a big chunk of individuals that would like to advance for it. Inappropriate fiscal policies on real estate finance, inability to finance house loans, low affordability brought about by poverty or high cost of construction, high interest rates on mortgages, absence of graduated payments on mortgages and the lack of access to the large deposits of retirement benefits funds have hindered the development of housing.

Lending interest rates in conventional financial institutions is guided by the central bank rate. The cost of finance being too high may discourages the low income earner from accessing such funds preferring the informal market and their going rates. Other monetary policies like the OMO and credit reserves influence the amount of funds available for loans. In regards to the sources of funds, financiers have to go to the open market and source funds at high interest rates and the subsequent high house prices. Informal housing institutions lack the capacity to effectively mobilize for funds to run for an adequate revolving fund. Sources of funds for these institutions are few and cannot cater for the high credit demand.

Collateralized lending requires a land tenure and registration system that is well developed to allow access of funds by individuals that need it. The land administration system in place should be devoid of bottlenecks that strain the process, easing the titling process and in so doing developing formal land markets.

In Kenya the housing market relative to housing finance is characterized with a complicated market served by an elaborate financial system. Top of the hierarchy are households capable of affording the quality of housing they want. In the middle are the middle income group that are not adequately catered for in the housing provision and hence relegated to housing targeted for low-income group. A good example is the Kibera Highrise project. The third group forms the majority made up of low income earners, they are the most affected by the housing problems arising from inadequate housing.
The housing delivery system by the government has been proved to be ineffective with the institutions with this mandate performing below par. The politics within the institutions and the level of corruption have contributed majorly to their non-performance. Budgetary allocations from treasury are inadequate and declining. This has restricted the number of housing programs that the institutions have been able to undertake.

5.3 RECOMMENDATIONS
Based on the findings and conclusions derived from the study, this research recommends the following:

i. **Subsidizing Housing Finance by the Government to Low Income Earners**
Subsidies by the government to make housing finance affordable to low income earners may take different forms, it may include; subsidizing the interest rate on housing loans using special funds, deduction of mortgages interest rate or providing a lump-sum grant.

ii. **Establishment of a Secondary Mortgage Market**
A secondary mortgage market (SMM) that will assist in the mobilization of additional resources for housing development and overcome constraint in the primary mortgage market. The role of SMM is to purchase mortgages from the primary market or from originators. Lenders could sell the mortgages to other stakeholders; the lender can then use the proceeds to fund additional new mortgages in the primary market. Other than shifting the risk associated with mortgage lending to the buyers of the mortgages, the available funds are also increased.

iii. **Downward-Market Expansion of Formal Mortgage Lending**
Well defined institutions and policy reforms could result to the housing finance market shifting its objectives and move down-market to serve the majority of middle-lower and low-income households. This could alleviate pressure on lower income housing. Some of the reforms to be considered include:

a) Increasing access to formal mortgage finance by the middle and low-income households

b) Expanding the financial resources available to the private housing finance sector

c) Improving the efficiency of the primary mortgage market
iv. **Review of the Restrictive Lending Criteria**

The borrowing Criteria should be liberalized in such a way that it recognizes the special constraints of the low income earner and in the rural areas. The repayment term set should be reviewed by lending institutions to allow for part lump-sum payment of loans by the borrowers, should be equal with their levels of incomes. The interest rate charged, the application procedure and the repayment period need be standardized to improve the ease of housing finance accessibility as well as affordability.

v. **Establishing an Efficient and Effective Land Administration System**

Land security can be based on the degree of confidence households have in their ability to build on their property without fear of being evicted or having their construction demolished. In this regard the titling process in place should be well defined and efficient. The effectiveness of a land information system is dependent upon its updatedness, accuracy, completeness and accessibility.

vi. **Government Support to Informal and Newly Established Housing Finance Institutions**

Budgetary allocation will assist these institutions improve their scale and capacity. Availability of funds means that these institutions will be able to hire qualified staff and establish an adequate revolving fund to meet the high credit demand. Informal finance institutions should also be linked with conventional measures.

5.4 **Areas of further research**

This research has not yet investigated all factors that can influence housing finance; other researchers interested in such a study are encouraged to conduct a continuation research by adding other factors and their influence on housing finance. Also an area that needs addressing by researchers is the role of informal financial institutions in housing provision.
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APPENDICES
Appendix one

Questionnaire- Households

It has been observed as an emerging trend that the lack of finance and escalating cost now take precedence over land in the delivery of housing. Though housing delivery involves the integration of some components, finance seems to be the mobilizing factor. The following questionnaire has been prepared to investigate the factors that influence individuals in financing for housing. This research is aimed at assessing how this factors influence households in their decisions to fund for housing.

All information provided herein is CONFIDENTIAL and will be treated with ultimate confidentiality and will be used for ACADEMIC PURPOSES ONLY.

1. Name(optional) 

2. Gender
   Male   Female

3. Age
   ............................................................
   ............................................................

4. Marital status
   Single
   Married
   Divorced/Separated/Widowed

5. Would you say the area you live in is …?
   Suburban
   Rural
Urban or city

Don’t know

6. Which of the following best describes your current employment status?
   Employed full-time
   Employed part-time
   Not currently employed in a paying job
   Retired
   Don’t know

7. Please indicate which of the following categories best represents your total family income?
   Less than 10,000
   10,000-14,999
   15,000-24,999
   25,000-34,999
   35,000-49,999
   50,000-74,999
   75,000-99,999
   100,000-149,999
   150,000-199,999
   200,000+

8. Type of current dwelling
   Bungalow
   Maisonette
9. Do you own your primary residence?
   Own ☐
   Rent ☐
   Live for free ☐

10. How was the house originally constructed?
    Self-built ☐
    Unknown (not original owner) ☐
    Developer ☐
    Government built ☐

11. Where did you get the majority of the funds?
    Personal and family savings ☐
    Informal loan ☐
    Formal loan ☐
    Don’t know ☐
12. Have you ever applied for a loan from a bank, government, micro lender or Sacco?

No

Yes

Yes but was not approved

13. If no, what was the reason for not applying

<table>
<thead>
<tr>
<th>Reason</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Fear of inability to repay the loan</td>
<td></td>
</tr>
<tr>
<td>Lack of financial documents/lack of pay slip</td>
<td></td>
</tr>
<tr>
<td>High interest and fees</td>
<td></td>
</tr>
<tr>
<td>Difficult and lengthy procedures</td>
<td></td>
</tr>
<tr>
<td>Availability of other sources of finance</td>
<td></td>
</tr>
<tr>
<td>Lack of bank relations(no account)</td>
<td></td>
</tr>
<tr>
<td>Lack of collateral</td>
<td></td>
</tr>
<tr>
<td>Bad credit history</td>
<td></td>
</tr>
<tr>
<td>Others, Specify</td>
<td></td>
</tr>
</tbody>
</table>

14. In your own view which of the following statements is closer to your choice between owning and renting?

<table>
<thead>
<tr>
<th>Statement</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Renting makes more sense because it shields one against house price declines and is actually a better deal than owning.</td>
<td></td>
</tr>
<tr>
<td>Owning makes more sense because you’re protected against rent increases and owning is a good investment over the long term.</td>
<td></td>
</tr>
<tr>
<td>Renting is less stressful and it gives you more flexibility in future decisions.</td>
<td></td>
</tr>
<tr>
<td>Owning makes gives you more control over where you live and a better sense of privacy and security</td>
<td></td>
</tr>
<tr>
<td>The financial benefits of renting, like lower upfront and ongoing costs, foreseeable monthly housing expenses, and the ability to use the money for purposes other than buying a home</td>
<td></td>
</tr>
<tr>
<td>With renting some benefits exist such as it being easier to move when you want to, fewer hassles of upkeep and maintenance, and the process of renting being easier,</td>
<td></td>
</tr>
</tbody>
</table>
15. What do you understand by the term mortgages?
..................................................................................
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16. Do you have a mortgage on your primary residence or do you own your primary residence outright with no mortgage?
..................................................................................
..................................................................................

17. What factors influenced on the amount you borrowed?
..................................................................................
..................................................................................

18. What suggestions would you recommend to make access to mortgages and loans easier?

   Loan terms and costs that are easier to understand  □

   The ability to shop and compare loan terms from multiple lenders at once  □

   More responsiveness from your lender  □

   Less paperwork  □

   Shorter length of time from application to closing  □

   Less back and forth during the approval process  □

   Other (specify)  ____________________________________
The following section includes various factors that the research believes to affect households in advancing for loans or mortgages. The following questionnaire is designed to investigate how high or low you regard each factor in choosing the type of finance, financial institution or demand of housing finance.

**Assessment scale:** 1=Very low  2=Low  3=Medium  4=High  5=Very high

<table>
<thead>
<tr>
<th>Factor</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Information</td>
<td></td>
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<tr>
<td>Current income</td>
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<tr>
<td>Equity</td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>Amount to be borrowed</td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>Interest rates</td>
<td></td>
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<td></td>
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<tr>
<td>Mortgage payment schedule</td>
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<tr>
<td>Fees</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Housing price</td>
<td></td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td>Real Property gains tax</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Mortgage interest deductions</td>
<td></td>
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<td></td>
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<tr>
<td>Financial viability of property (if commercial)</td>
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<tr>
<td>Service packages</td>
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</tbody>
</table>
APPENDIX TWO

Questionnaire to Lending Institutions

Mobilization of funds within the economy, the supply of funds versus housing development, Financial Institutions have a mandate to the provision of this as part of their function. This research is aimed at investigating the factors that influence the supply of financial services, its accessibility and affordability and its subsequent impact to the provision of housing. Your contribution to this study will be held in high regard.

All information provided herein is CONFIDENTIAL and will be treated with ultimate confidentiality and will be used for ACADEMIC PURPOSES ONLY.

1) What type of financial institution is your organization?
   
   Type of Organization                                                                Tick the appropriate box
   
   Commercial bank                                                                  ☐
   Non-bank financial institution                                                     ☐
   Mortgage companies                                                                ☐
   SACCO                                                                            ☐
   Sharia Bank                                                                     ☐
   Other
   (specify) ...........................................................................................................
   .........................................................................................................................
   .........................................................................................................................
   ...........................................................
   ...........
   

2) What gender forms the bulk in taking out loans and mortgage in the institution?
   Male ☐ Female ☐
3) What type of housing loans do you provide? (Tick both if your organization provides both types of loan). Ignore if your organization does not offer housing finance products.

Mortgage loans ☐

Housing Microfinance loans ☐

Other, please describe:
..........................................................................................................................................

4) What percentage of your lending portfolio goes to housing finance

Below 25% ☐

25%-50% ☐

50%-75% ☐

Above 75% ☐

5) To whom does it lend (income bracket). Please tick appropriately range of income given below.

4000-10000 ☐

10001-20000 ☐

20001-40000 ☐

40001-80000 ☐

80001-160000 ☐

160001-200000 ☐

Above 200000 ☐

6) What income group does it mostly target? Give reasons.
..........................................................................................................................................
..........................................................................................................................................
..........................................................................................................................................
..........................................................................................................................................

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7) List and rank your main sources of capital for lending with 1 being the most important source, 2 the second most important source, 3 the third most important source etc.

<table>
<thead>
<tr>
<th>Source of capital</th>
<th>Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>Savings deposits from individuals</td>
<td></td>
</tr>
<tr>
<td>Savings deposits by institutional investors (such as insurance firms, pension fund)</td>
<td></td>
</tr>
<tr>
<td>Bond issuance</td>
<td></td>
</tr>
<tr>
<td>Refinancing of mortgages by a refinancing company/liquidity facility</td>
<td></td>
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<tr>
<td>Donor grants</td>
<td></td>
</tr>
<tr>
<td>Donor loans</td>
<td></td>
</tr>
<tr>
<td>Other (specify)</td>
<td></td>
</tr>
</tbody>
</table>

8) What procedures are followed when applying for a loan? (Please enclose a list of procedures for approving a given loan if available).

.....................................................................................................................
.....................................................................................................................
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9) How long does it take before a loan is approved?
............................................................................................................................

10) What are the terms and conditions of advancing loans and the rationale behind each? Refer to the table below. (Please enclose a brochure indicating the terms & conditions if available)

<table>
<thead>
<tr>
<th>Mortgage terms</th>
<th>Rationale</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum size of mortgage</td>
<td></td>
</tr>
<tr>
<td>Maximum size of mortgage</td>
<td></td>
</tr>
<tr>
<td>Minimum loan period</td>
<td></td>
</tr>
<tr>
<td>-------------------------------------------------------------------------------------</td>
<td></td>
</tr>
<tr>
<td>The maximum loan period</td>
<td></td>
</tr>
<tr>
<td>Collateral</td>
<td></td>
</tr>
<tr>
<td>Loan to value ratio</td>
<td></td>
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<tr>
<td>The down payment</td>
<td></td>
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<tr>
<td>Fees</td>
<td></td>
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<tr>
<td>Interest rate</td>
<td></td>
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<tr>
<td>Prepayment (is it allowed?)</td>
<td></td>
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<tr>
<td>Payment to income ratio</td>
<td></td>
</tr>
<tr>
<td>Penalties for arrears and default</td>
<td></td>
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<tr>
<td>Other requirements</td>
<td></td>
</tr>
</tbody>
</table>

11) How would you describe the mortgage market in Kenya?
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........................................................................................................................................................................

12) Given the current state of the mortgage market, do you think Kenya can accommodate a secondary mortgage market? Explain.
........................................................................................................................................................................
........................................................................................................................................................................
13) Are you involved in housing development projects?
   Yes ☐
   No ☐

14) Does your institution finance Low-cost housing?
   Yes ☐
   No ☐

15) What projects are being carried out by your institution for the Low-income households?
   Savings account services ☐
   Development financing ☐
   Banking with low bank charges ☐
   Small loan services ☐
   Group lending for housing ☐
   Other, Specify
   .............................................................................................................................................
   .............................................................................................................................................
   .............................................................................................................................................

16) What is the average default rate in your institutions?
   Above 50% ☐
   30% to 50% ☐
   20% to 30% ☐
   Less than 10% ☐
17) What action is taken to defaulters within your institution?

..........................................................................................................................................................
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18) As a lending institution there are various factors that you consider before a decision is made to advance out a loan or mortgage for an individual. Listed below are aspects that are believed to influence the supply of funds for housing. Please indicate how you regard each of the factors on the scale of one to five, one being that you strongly agree and five strongly disagree.

Scale: 1= strongly agree 2=agree 3=somewhat agree 4=disagree 5=strongly disagree

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<th>1</th>
<th>2</th>
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<tbody>
<tr>
<td>Applicant eligibility</td>
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<tr>
<td>Credit history</td>
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<tr>
<td>Income</td>
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<tr>
<td>Property rights</td>
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<tr>
<td>Collateral</td>
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<td>Duration</td>
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<tr>
<td>Account holder</td>
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<tr>
<td>Household savings</td>
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<tr>
<td>Guarantors</td>
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<tr>
<td>Financial market regulation</td>
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<tr>
<td>Government policy</td>
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<tr>
<td>Technological innovations</td>
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<tr>
<td>Competition</td>
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<tr>
<td>General economic condition</td>
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</tbody>
</table>
UNIVERSITY OF NAIROBI
DEPARTMENT OF REAL ESTATE AND CONSTRUCTION MANAGEMENT
P.O. Box 30197, 00100 Nairobi, KENYA, Tel: No. +254-2-2724529
E-mail: dept-recm@uonbi.ac.ke

Ref: B04/37351/2010

Date: 14th February, 2014

TO WHOM IT MAY CONCERN

Dear Sir/Madam,

RE: FELIX ATATI ORIRI

This is to certify that the above named is a student in the Department of Real Estate and Construction Management, pursuing a degree in Bachelor of Real Estate.

He is carrying out a research entitled “An Investigation into the Factors that Affect Housing Finance in Developing Countries” in partial fulfillment of the requirements of the degree programme.

The purpose of this letter is to request you to allow him access any kind of material he may require to complete his research. The information will be used for research purposes only.

Please accord him the necessary assistance needed.

CHAIRMAN
DEPARTMENT OF REAL ESTATE AND CONSTRUCTION MANAGEMENT
UNIVERSITY OF NAIROBI

Dr-Ing. Christopher Mbatha
Ag. Chairman &Senior Lecturer
Dept. of Real Estate and Construction Management