

CREDIT MARKET



| Real estate loan defaults (Sh' billions) |      |
|--|------|
| Dec-21                                   | 74.7 |
| Sep-21                                   | 69.2 |
| Jun-21                                   | 68.2 |
| Mar-21                                   | 70.5 |
| Dec-20                                   | 61.4 |
| Sep-20                                   | 57.7 |
| Jun-20                                   | 52.6 |

# Banks cut lending to real estate as defaults hit Sh70b

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Commercial banks are slamming brakes on their lending to property developers to shield themselves from further defaults after unpaid loans crossed the Sh70 billion mark.

Central Bank of Kenya (CBK) data for January 2022 shows the pace of annualised credit growth to the real estate players slowed for the fourth straight month to hit 0.5 per cent, compared to 2.9 per cent in September last year and 8.8 per cent in January 2021.

Developers who had pegged their loan repayments on rental income or receipts from selling finished properties have seen their calculations complicated by the low uptake on units.

From the loan book of Sh413.4 billion in September last year, the loan book has slowed to Sh409.9 billion in January 2022, signalling that banks are not adding as many fresh loans as old ones mature.

Gross loan defaults in real estate jumped from Sh61.4 billion at the end of 2020 to Sh74.7 billion or 18.2 per cent of the loans book last year.

Developers have not fared any better in bringing down the figure this year, according to the CBK report for March.

CBK last month, when announcing that the portion of value loans that had remained unpaid for at least three months had hit 14 per cent, the regulator cited real estate as among the sectors that drove up the defaults in the banking sector.

## Low uptake of completed projects left developers unable to service loans, worsened by Covid-19 blues.

At 0.5 per cent growth, credit to real estate is below the average lending to the private sector (8.8 per cent) and is the slowest pace in 28 months since the 0.4 per cent growth in October 2019.

The share of real estate loans in the Sh3.09 trillion total lending to the private sector has dropped to 13.3 per cent compared to 15.8 per cent five years ago.

The slowed growth in lending to real estate contrasts with that of other sectors such as manufacturing and quarrying (24.9 per cent), transport and communication (20.7 per cent) and consumer durables (14.6 per cent).

CBK data to December last year

showed defaults in real estate had jumped eight per cent in three months, making it the sector with a steep jump in unpaid loans, followed by energy and water (5.1 per cent).

The regulator said the low uptake of completed projects left developers unable to service loans, worsened by the Covid-19 economic fallout.

"Real estate and energy and water sectors recorded the highest increases in NPLs mainly due to low uptake of completed contracts," noted the CBK.

Many real estate developers are taking longer to sell apartments and are holding back on launching new projects due to weak demand in a subdued property market.

The increasing prices of construction materials such as steel, paint and cement look set to hurt growth in the real estate sector that is still weighing the impact of e-commerce on demand and uptake of physical retail spaces.

Resumption of business operations by firms is driving up office occupancies but not at a rate real estate developers would want, thanks to the shared office concept.

But the aggressive entry and expansion by local and international retailers such as Naivas, QuickMart, and Carrefour are offering some boost to sellers of commercial spaces who had been hit by the woes of Tusksys and Nakumatt.

“Real estate and energy and water sectors recorded the highest increases in NPLs mainly due to low uptake of completed contracts.”

Central Bank

SH410  
BILLION

BANKS' loan book in January 2022 compared to Sh413.4 billion in September last year, signaling that banks are not adding fresh loans

SH74.7  
BILLION

GROSS loan defaults in real estate last year compared Sh61.4 billion at the end of 2020

0.5%  
PERCENTAGE

GROWTH of credit to real estate which is below the average lending to the private sector (8.8 per cent)

Cytonn, an investment and real estate company, expects the pace of activities in the real estate sector to be impacted by the August general elections.

"As 2022 is an election year, we expect a slow-down in market prices and sales volumes since investors and prospective buyers are expected to adopt a wait and see," says Cytonn.

OPINION

## How women can break the bias in construction



Last month, the world celebrated International Women's Day themed 'Breakthebias'. This was an apt theme given that a society which affords opportunities to men and women promotes equal development. We see more workplaces and organisations take steps to ensure gender equality awareness.

It is even more concerning that the presence of women in the construction sector remains low - both in Kenya and globally.

The impact of women in construction remains far behind sectors such as finance, banking and education. The construction industry continues to remain male-dominated - from the supply chain to the sites, the number of women participating as equal partners still reflects a bias that certain jobs and sectors remain the purview of men. The vibrant infrastructure projects space, and the booming real estate shows a resilience within the economy with reports indicating that the construction industry in the country will be on a constant growth at an annual average rate of 6.1 per cent until the year 2025.

The Institute for Women's Policy Research indicates that globally, the industry will need 62,000 new hires every month for the next three years to meet the growing house demand - meaning there is a dire need for more construction workers.

And while many women have shown interest, and some pursued courses in construction, the challenges from recruitment, long and odd working hours, remote working locations and exclusive work practices, have seen many avoid joining the industry.

For many women, the harassment and bias at site means a career in construction becomes unattractive.

Support for organisations such as Buildher which trains women in construction is critical. Initiatives such as Women on Wheels (founded by Bamburi Cement) is helping to break the bias and redefine the role of women in transport by training women truck drivers and providing them work opportunities.

-Irene Wamanga is the People, Organisation and Sustainability Director at Bamburi Cement