



The Influence of Macro Economic Factors on Mortgage Market Growth in Kenya

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Abstract: This study examines the influence of macro-economic variables on the growth of the mortgage market in Kenya. Panel data is collected for a 30 year period, from 1984 to 2013 on the outstanding Real Estate Loan Portfolio as the dependent variable and the macro-economic variables of Average Yearly Inflation Rate, Average Yearly GDP growth Rate, Average Yearly Exchange Rate, Percentage Informal Sector Employment, Treasury bill rate and National Savings Rate as the predictor variables. Regression Analysis was used and the study found no evidence of significant influence of inflation, average GDP growth rate, Treasury bill rate and national savings rate on total real estate loan portfolio. However, the study finds evidence of relationship between informal sector employment, the per capita income and exchange rate. However, the model showed that 81% of the variation in the dependent variable could be explained by the predictor variables.

Keywords: Real Estate, Mortgage Market, Macro-Economic Factors

1. Introduction

According to the World Bank (2012) world development indicators report, a macro-economic factor is one that is pertinent to a broad economy at the regional or national level and affects a large population rather than a few select individuals. Examples of such factors include economic output, unemployment, inflation, savings and investment among others. The Kenya National Bureau of Statistics normally provides data on various economic development indicators, like inflation, informal sector employment, national savings rate, GDP growth rate, GDP per capita among others. This study seeks to unlock the relationship between such macro-economic variables and the development of the mortgage market.

The mortgage market is the market for financing real estate assets (Femi, 2013). It has been observed by Levine (1997) that provision of housing cannot be successful if a nation does not have a well developed mortgage market. Lwali, (2008) argues that in Kenya, the institutions involved in the provision of mortgages include commercial banks, specialized mortgage firms, saving and loans firms, insurance companies, government parastatals, pension

funds, trusts and other real investment.

Central Bank of Kenya (2013) argues that commercial banks dominate mortgage lending in Kenya, with 43 banks and one Mortgage Finance Company, 36 of them having mortgage portfolios of differing sizes. Central Bank of Kenya authorizes two types of lenders, the ordinary banks and the mortgage companies. Similar regulations with regards to mortgage financing apply to the two types of lenders.

A number of indicators have been used to measure the growth of the mortgage market. The Central Bank of Kenya has been measuring the growth of Kenya's mortgage market in terms of total mortgage lending, number of mortgage accounts and the ratio of mortgage debt to GDP. This is captured in the CBK (2011), CBK (2012) and CBK (2013) surveys among others. Walley et al., (2013), Femi (2013), Warnock and Warnock (2008) among others have also measured the growth of the mortgage market in terms of the ratio of outstanding residential mortgage debt to GDP, the total mortgage lending and the number of mortgage accounts.