



Social Media Article on a Real Estate Bubble:

We would like to draw attention to a post circulating on social media about a Real Estate bubble. It is first important to explain what a “real estate bubble” is. A real estate bubble refers to a periodic phenomenon characterized by an astonishing rise in prices properties that are not supported by any fundamentals. For property, it results due to property being too expensive for the general population to afford, which results into lower demand hence prices declining tremendously (what is known as a “bubble bursting”). The main features of a property bubble are:

1. Increase in demand for property leading to overvaluation,
2. Speculation in the real estate market,
3. Easy access to credit, and,
4. Disruption in the credit market, which leads to an increase in interest rates leading to an increase defaults levels and non-performing loans.

Strong Fundamentals Supporting Kenya’s Real Estate:

As a result of the real estate sector’s resilient performance over the last few years, despite the long electioneering period, the property prices have held with the low increases in both rents and asking prices, investors have ascribed this to a possible property bubble. However, Kenya’s real estate sector has been growing and is supported by strong fundamentals:

1. **Positive Demographics:** Kenya’s population continues to grow rapidly at double the global rate at an average of 2.6% p.a. and the urbanization rates are high at 4.4%,
2. **Stable Economy:** In a bubble economy, the burst is most often than not followed by an economic recession. However, the GDP growth in Kenya has averaged at 5% for the last five-years,
3. **Low Credit Supply:** Property bubbles are mainly characterized by ‘cheap’ mortgages and access to credit, which is not the case in Kenya,
4. **High Genuine Demand:** A real estate bubble bursts when supply exceeds demand. However, according to the World Bank, the country has a deficit of 2.0 mn units,
5. **Availability of Land & Government Incentives:** Land prices in Kenya have been driven by a justified demand and infrastructural development that has opened up more areas for development.

Conclusion:

From the above it is clear that the real estate sector in Kenya is not in a bubble based on the five supporting factors. The sector is experiencing the normal real estate cycles, and the rapid price increments being witnessed are a result of low supply and high demand. Thus, it still presents attractive opportunities for investors. Additionally, there are ways to invest either directly or indirectly and ensure that you continue to get the best returns.

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- What Real Estate Bubble? <https://cytonn.com/topicals/what-real-estate-bubble>
- Ruaka Residential Research. <https://cytonn.com/research/article/update-February-28-2016>
- Karen Real Estate Investment Opportunity. <https://cytonn.com/research/article/update-June-7-2015>