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In Kenya not all that glitters is property !
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Slide 1

PKM2 Patrick Kiragu Mwangi, 24/04/2016

As an investor in Kenya you would be forgiven for overestimating the returns on property given the demand for housing that has existed in the market for decades and appears to have no end in sight.

However, a deeper look at the investment space involving the whole range of asset classes- from shares, bonds, property and a simple fixed deposit account (cash) reveals rather interesting results.

Taking the NSE-All share index performance over the period 2009 – 2015 as a proxy for equity investing and mapping this on both the performances of the Nairobi property index (as a proxy for property investment) and a 'naïve' fixed deposit account (as a proxy for cash investment) reveals that not all that glitters is property.

The return profiles of the three asset classes are demonstrated in the graph below. They reveal a superior return from a fixed deposit account compared to property or equity over the same time horizon.

However, transactions costs as well as tax costs have been ignored.

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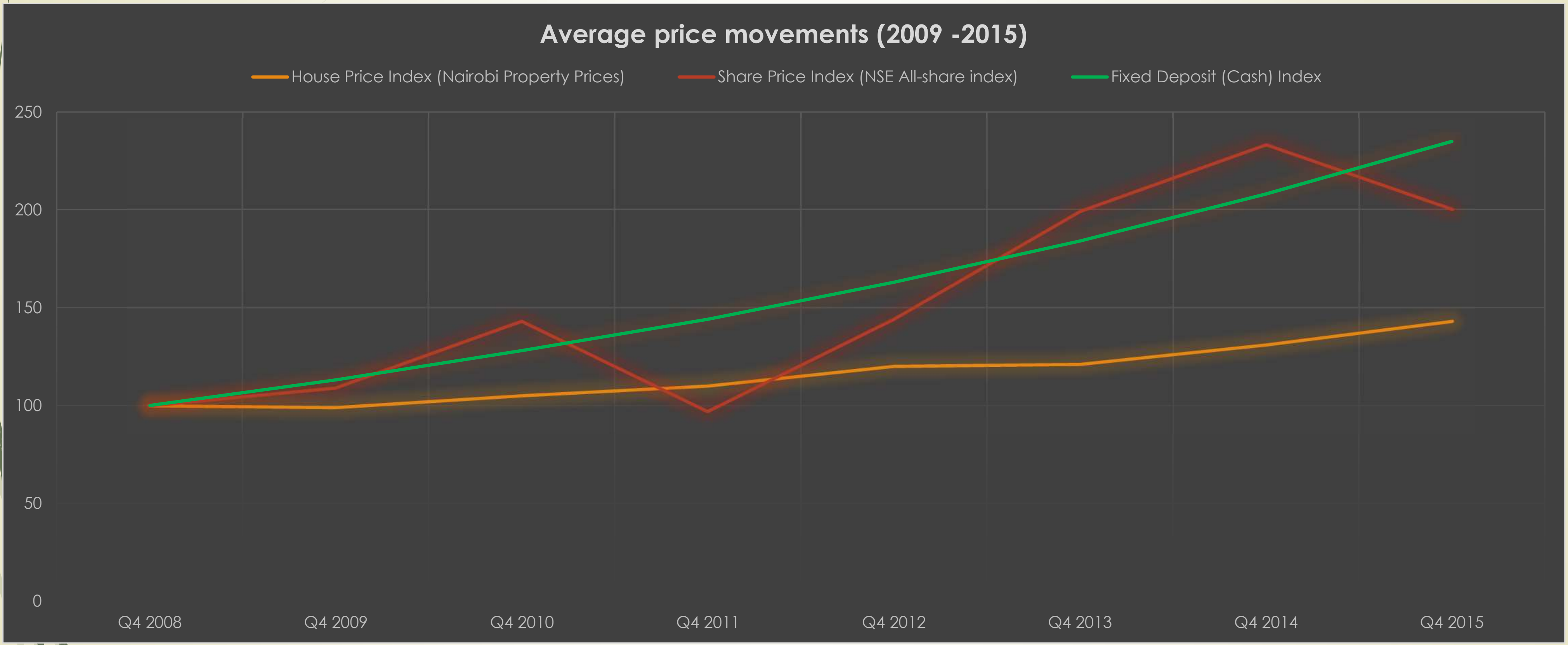
Are you better off in Property? 👎



Source: Hass Consult, 2016; myStocks!, 2016

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Caveats

Fixed deposits

- The higher end of the Fixed deposit interest rate range of **7% - 13%** for **7 days – 3 years** has been assumed, namely **13%**
- A **15% withholding tax** is payable on interest receipts. KES 100,000 at 13% interest would earn net KES 11,050**. Capital gains tax** on sale of shares is **non-existent** from 1 January 2016
- Banks are unwilling to commit to higher returns over a long period due to changing market forces.
- Account will also incur:
  - opening charges
  - monthly maintenance fees, and
  - ledger fees
- **Cancellation fees** are payable on early withdrawal (i.e before maturity date)
- Interest is payable only on maturity
- A minimum a/c balance- **KES 50,000** must be held

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