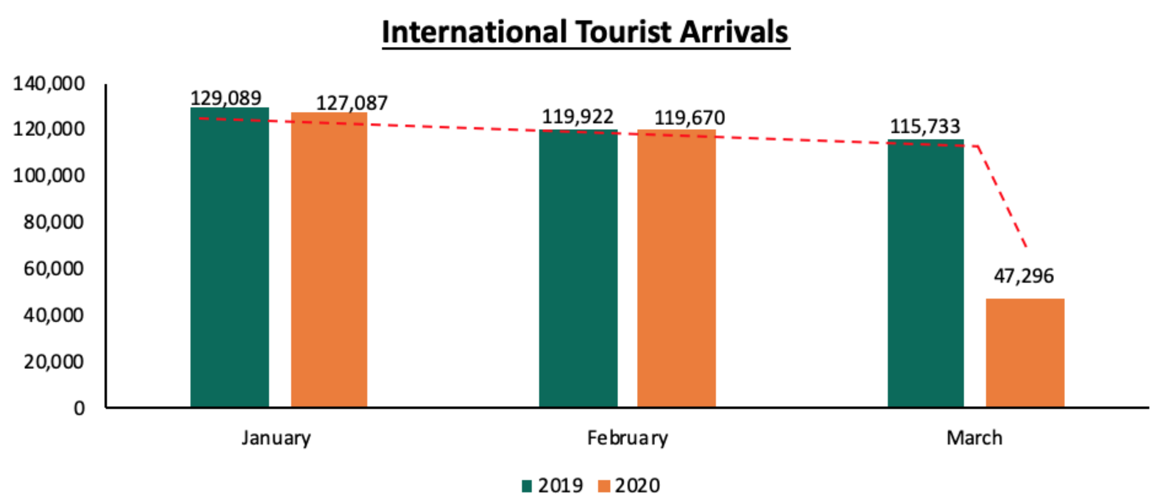
Impact of COVID-19 on Kenya's Real Estate Sector, & Cytonn Weekly #23/2020

Real Estate

I. Industry Reports

During the week, the Kenya National Bureau of Statistics released the Leading Economic Indicators Report April 2020. According to the report, the quantity of cement produced increased by 12.1% in Q1'2020 totalling 1.64 mn tons from 1.46 mn tons in the same period in 2019. The quantity of cement consumed also increased by 11.6% to 1.63 mn tons in Q1'2020 from 1.46 mn tons in Q1'2019. We attribute the steady growth of cement demand to ongoing government infrastructure projects.

The total number of visitors arriving through Jomo Kenyatta (JKIA) and Moi International Airports (MIA) decreased by 60.5% to 47,296 persons in March 2020 from 119,670 persons in February 2020. Overall, tourist arrivals reduced by 19.4% in Q1'2020 totalling 294,503 persons compared to 364,744 persons in Q1'2019.



Source: KNBS

The staggering decline is attributable to the spread of the Coronavirus disease, which has seen nations across the world impose travel restrictions to curb the pandemic. This has been characterized by airport closures, flight suspensions and nationwide lockdowns in various countries with high levels of infections. With Kenya effecting a ban on international flights towards the end of March 2020 and the subsequent halt of tourist activities in the country, we expect the situation to only improve once the pandemic is contained. However, we expect the sector to continue being supported by the government's efforts such as the recent launch of virtual safaris and the economic stimulus package meant to cushion the sector's players.

II. Hospitality

The hospitality sector in Kenya is set to begin its cautious recovery from the adverse effects of the Coronavirus pandemic. This is as more hotels during the week resumed their restaurant activities including dine-in and deliveries. They include top tier hotels such as Villa Rosa Kempinski, Ole Sereni, Hemingways Watamu, Radisson Blu Arboretum and Trademark Hotel, while others such as Pride Inn announced plans to reopen by Mid-June. This is following the government's approval in May 2020 for restaurants located in major towns to resume operations albeit under strict new safety measures, which include (i) spacing dining tables at least 1.5 metres apart, (ii) limiting the number of persons per table to 4 per 10 SQM, and (iii) strict client and staff temperature monitoring. This is a positive step for hotel investors who have been grappling with revenue drops, and we expect this coupled by the plan by East African airlines such as RwandAir, Kenya Airways and Air Tanzania to resume passenger flights, to put hotels back on a recovery path, albeit slowly as social distancing and curfews remain in place. The sector has also been receiving backup from the government evidenced by the recent formation of the National Tourism and Hospitality Protocols Taskforce meant to develop tourism and hospitality protocols and guidelines in response to COVID-19 pandemic and to support tourism operations. Additionally, the tourism sector received the biggest boost from the government's stimulus package plan with hotels and other hospitality facilities set to receive soft loans through the Tourism Finance Corporation (TFC), while a total of Kshs 2.0 bn will be set aside to support the renovation of facilities and the restructuring of business operations by actors in the industry.

Also during the week, Chaudhary Group, a Nepalese multinational conglomerate acquired majority ownership of The Fairmont the Norfolk and Fairmont Mara Safari Club from Kingdom Hotel Investment, an international hotel and resort real estate investment company that is focused on emerging markets, which is owned by Saudi billionaire Prince Al-Waleed bin Talal. According to online sources, the deal was worth Kshs 2.8 bn. Despite the negative effects of Coronavirus on the hospitality sector, this affirms Kenya's attractiveness particularly to high-net-worth global investors keen on tapping into the vibrant sector of top-notch hospitality facilities mainly driven by Kenya's position as the ultimate gateway to East and Central Africa, vibrant tourism sector, improved infrastructure, and attractive supply and demand opportunities.

III. Infrastructure

During the week, the State Department of Infrastructure revealed plans to put up a 0.6km bridge at the Likoni Channel in Mombasa. The bridge, whose construction has been necessitated by the need to keep pedestrians in social distancing, will go a long way in easing congestion at the Likoni Ferry Channel as well as complimenting the planned Mombasa Gate Bridge project, thus, easing delays for travellers between North and South Coast regions. The project will be implemented by China Road and Bridge Corporation (CRBC) and the State Department for Infrastructure through its implementing agency, the Kenya National Highways Authority (KeNHA), at an estimated cost of Kshs 1.5 bn and is expected to be complete by November this year. We expect the continued improvement in infrastructure at the Coast to continue stimulating tourism in the region by removing bottlenecks such as long delays thereby enabling tourists to travel quickly and affordably within the region with increased ease.

We remain neutral on the real estate sector's outlook. We expect the sector to continue recording activities as the economy cautiously reopens following the COVID-19 closures, coupled with improved infrastructure, foreign investments and continued government efforts to cushion businesses through positive policy reforms and economic stimulus packages.