Financial Planning Amidst COVID-19, & Cytonn Weekly #26/2020

Real Estate

I. **Residential Sector**

During the week, Ever Forgarden Company Limited, a local developer, announced plans to develop 900 apartments hosted within four 15-storey blocks along Kindaruma Road in Kilimani, Nairobi. The proposed development, dubbed 'Heartland Home' will comprise of 240- 40 SQM studio apartments and 660- 70 SQM one-bedroom apartments selling at Kshs 3.8mn and Kshs 6.8 mn, respectively, which translates to Kshs 96,363 per SQM, 16.9% lower than Kilimani's market average of Kshs 115,985 according to our Cytonn Q1'2020 Markets Review. This marks the developer's second development in Kilimani after Denis Garden along Denis Pritt Road. The project, which started in 2018, comprises of 30 SQM studio apartments, 40 SQM one-bedroom apartments, 70 SQM one bedroom (inclusive of a servant quarter) apartments, 100 SQM two-bedroom apartments, 120 SQM three-bedroom apartments, and, 150 SQM three bedroom (inclusive of a servant quarter) apartments selling at Kshs 3.8 mn, Kshs 4.8 mn, Kshs 6.8 mn, Kshs 8.8 mn, Kshs 10.8 mn, and Kshs 12.8 mn, respectively, which translates to Kshs 93,725 per sqm on average. In addition, New Forhome Company, also a local developer, has also announced plans to put up 240 apartments in the Kilimani area. The project will consist of 60 Studio apartments, 120 one-bedroom apartments, and, 60 two-bedroom apartments *(the sizes and prices are yet to be disclosed)*. The move by the developers are an indication of the continued investor interest in Kilimani submarket, supported by the relatively high returns on investment. According to Cytonn Q1'2020 Markets Review, Kilimani was the best performing node in the upper mid-end market within the Nairobi Metropolitan Area, recording an average rental yield of 6.7%, compared to the market average rental yield of 5.3% and an average annual uptake of 25.7%, compared to the market average of 20.0%. The relatively high performance within Kilimani is supported by an existing demand for residential units by Nairobi's young and working population driven by the proximity to key business nodes such as Upperhill, availability of good infrastructure, security, coupled with availability of amenities.

(All Values in Kshs Unless Stated Otherwise)

Upper Mid-End Apartments Performance Q1'2020

Node	Average Price per SQM Q1'2020	Average Rent Per SQM Q1'2020	Average Occupancy Q1'2020	Average Annual Uptake 2020	Average Rental Yield Q1'2020	Average Annual Price Appreciation Q1'2020	Total Returns Q1'2020
Kilimani	115,985	650	94.5%	25.7%	6.6%	0.1%	**6.7%**
Parklands	113,703	637	94.1%	16.7%	6.2%	(0.8%)	**5.4%**
Loresho	111,277	563	90.8%	17.9%	5.5%	(0.6%)	**4.9%**
Westlands	129,199	687	77.6%	21.5%	5.2%	(0.4%)	**4.8%**
Kileleshwa	113,736	442	71.4%	18.3%	5.9%	(1.6%)	**4.3%**

Upper Mid-End Apartments Performance Q1'2020

Node	Average Price per SQM Q1'2020	Average Rent Per SQM Q1'2020	Average Occupancy Q1'2020	Average Annual Uptake 2020	Average Rental Yield Q1'2020	Average Annual Price Appreciation Q1'2020	Total Returns Q1'2020
Average	**116,780**	**596**	**85.7%**	**20.0%**	**5.9%**	**(0.6%)**	**5.3%**

Source: Cytonn Research 2020

II. Retail Sector

During the week, Quickmart, a local retailer, opened its latest outlet in Kilimani, along Kilimani Road, marking its 32nd store nationwide, following recent openings in Nairobi's Central Business District (CBD), along Tom Mboya Street, Ongata Rongai, Roysambu, and, along Waiyaki Way. The retailer has continued to expand its foothold in the Kenyan retail market with plans to open another store in Nyayo Estate, Embakasi next month. The retailer's continued expansion is mainly supported by; (i) adequate funding from Adenia Partners, a private equity fund management company based in Mauritius, which acquired majority stake in Quickmart for an undisclosed amount in September last year, (ii) availability of prime locations vacated by struggling supermarket chains such as Choppies, (iii) shifting consumer habits as Kenyans increasingly shop in formal retail centres, and, (iv) Kenya's expanding middle-class population.

The move by Quickmart comes just two months after Naivas Supermarket unveiled its 64th outlet in the Kilimani suburb, indicating that the Kilimani market appeals to a number of retailers supported by; (i) availability of relatively good infrastructure such as the upgraded Ngong Road, and, (ii) presence of individuals with a high purchasing power, since the area is an upper middle-income neighbourhood. We expect the continued expansion of the retailers will cushion the sector's performance in the wake of growing vacancy rates driven by some retailers shutting down their operations to cushion themselves against the impact of the Coronavirus pandemic and the fall of struggling retailers such as Botswana's Choppies. According to Cytonn Q1'2020 Market Review, in terms of performance, Kilimani retail market recorded an average occupancy rate of 85.5%, compared to the market average of 76.3%.

The table below shows the performance of the retail sector:

(All Values in Kshs Unless Stated Otherwise)

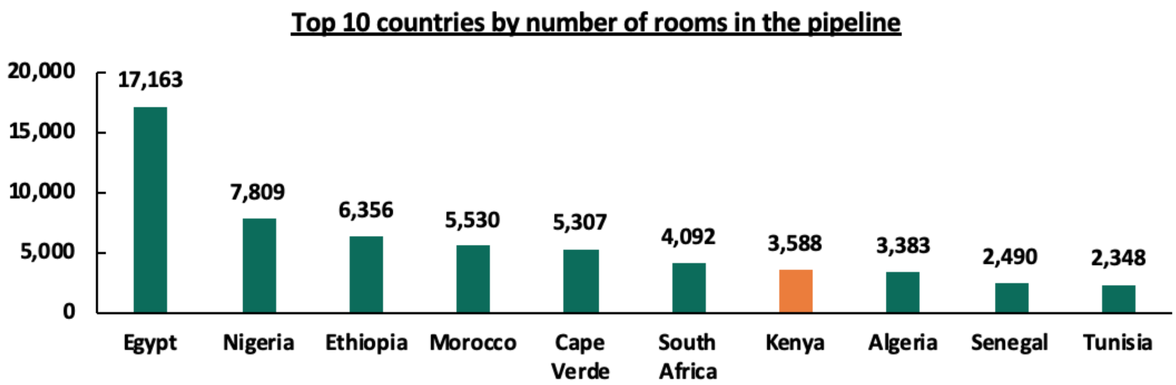
Nairobi Metropolitan Area (NMA) Retail Submarket Performance Q1'2020

Location	Rent/SQFT Q1' 2020	Occupancy Q1' 2020	Rental Yield
Westlands	**210.3**	**82.2%**	**10.0%**
Karen	**220.0**	**81.9%**	**9.6%**
Ngong Road	**186.3**	**80.5%**	**8.5%**
Kilimani	**164.2**	**85.5%**	**8.5%**
Kiambu Road	**175.4**	**70.3%**	**7.3%**
Thika Road	**170.4**	**73.0%**	**7.0%**
Eastlands	**148.2**	**71.8%**	**6.8%**
Mombasa Road	**152.5**	**69.3%**	**6.4%**
Satellite town	**135.0**	**74.5%**	**6.0%**
Average	**172.7**	**76.3%**	**7.7%**

Source: Cytonn Research 2020

III. **Hospitality Sector**

During the week, W Hospitality Group, an African tourism investment advisor, released their Hotel Chain Development Pipelines in Africa 2020 Report, which aims at providing the hospitality industry with insight into the various upcoming hotel facilities by the major hotel players in Africa at a country, regional, and, city level. According to the report, Kenya ranked 7th in Africa with 3,588 rooms in the pipeline, within 23 hotels under brands such as; Radisson Hotel Group, Accor Hotels, Swiss International, and, Marriott International. This accounts for 25.3% of total rooms in the pipeline in the East African region whose total amounted to 13,850 keys. At the city level, Nairobi stood out as the key investment destination for global hoteliers targeting Kenya, with 3,298 rooms in the pipeline, representing 91.2% of Kenya's total expected rooms, while ranking 4th in Africa after Cairo, Addis Ababa and Lagos with 6,257, 4,865 and 3,690 hotel rooms, respectively, within their pipeline.



Source: W Hospitality Group Report

The report affirms the attractiveness of Kenya's hospitality sector to investors and this we attribute to; (i) Nairobi's recognition as East and Central Africa's leading business and investment hub which has led to an increase in conference tourism, and, (ii) increased foreign investor confidence in the Kenyan hospitality industry supported by an existing demand for hospitality facilities and services. According to the World Travel and Tourism Council (WTTC), domestic travel spending in Kenya generated 59.0% of direct travel and tourism GDP in 2015. This figure is expected to increase at an average annual rate of 5.4%, reaching USD 4.2 bn in 2026. Nevertheless, development activities within the sector are expected to slow down considerably in the short and medium term, attributed to effects of the current COVID-19 pandemic among them; (i) a decline in project financing as investors adopt a wait and see attitude in the wake of a slowdown in the economy globally, (ii) delays in project completion due to disruption of supply chains and reduced labor force, and, (iii) reduced tourism activities owing to local and international travel restrictions. However, we expect the sector to recover gradually supported by various National Government measures among them; (i) the gradual easing of movement restrictions, (ii) extension of working hours for hotels and restaurants, and, (iii) various fiscal response measures such as the restructuring of loans worth Kshs 634 mn to hospitality facilities through the Tourism Finance Corporation (TFC) coupled with the allocation of Kshs 3 bn in support of the post COVID-19 tourism marketing and hotel refurbishment under the 8-point stimulus programme.

We expect the real estate sector to record activities as the economy cautiously reopens following the COVID-19 closures, supported by the continued investor focus on high return residential submarkets such as Kilimani and the hospitality sector, and, continued expansion of local retailers such as Quickmart backed by investor funding.

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