Nairobi Metropolitan 2020 Residential Report, & Cytonn Weekly #30/2020

Real Estate

I. **Residential sector**

During the week, Cytonn Investments, an investments management firm and real estate developer, announced that construction activities had resumed in phase 2 of their 600-unit comprehensive residential development in Ruaka, Kiambu County. The developer suspended construction works at the project in April this year due to disruptions caused by the ongoing COVID-19 pandemic such as shorter working hours. The COVID-19 pandemic has resulted in an unprecedented disruption to the Kenyan economy over the past few months, with the building and construction sector being one of hardest hit sectors. According to the Architectural Association of Kenya(AAK) Impact of COVID-19 on Built Environment Industry Operations survey conducted in April, 29.8% of respondents, who were professionals working in the built environment, indicated that several of their projects had stalled, whereas 63.0% stated that there was a slowdown in progress in the various ongoing projects. The resumption of construction activities in the development underlines the ongoing recovery of the economy prompting the gradual revival of the construction sector. We expect the sector to pick up in the medium to long term, buoyed by; (i) the gradual reopening of the economy which has been supported by the easing of movement restrictions which is expected to minimize supply chain bottlenecks of equipment and construction materials, (ii) improving infrastructure with ongoing projects by the National Government such as the Nairobi - Mau Summit Highway and various upcoming projects such as the JKIA – Westlands Expressway, and (iii) various monetary and fiscal policies by government such as; lowering of the Central Bank Rate (CBR) to 7.0%, and, lowering of the Cash Reserve Ratio (CRR) by 1.0% to 4.25%, to increase the available cash for on lending and setting aside loans for onward lending to various sectors.

II. **Hospitality Sector**

During the week, the Ministry of Tourism and Wildlife Cabinet Secretary, Najib Balala, announced that the National Government had set aside Kshs 10 bn aimed at offering cheap loans to hotels and firms operating in the tourism sector through a state-backed credit scheme. The funds, which are expected to be utilized in the renovation of existing facilities and the restructuring of business operations will be available at interest rates of 5.0%-7.0% p.a and the firms will be required to start making repayments 2 years from the date of issuance. The move is a measure by the National Government to ease financial distress on hospitality facilities which are experiencing reduced revenue inflows attributed to the ongoing COVID-19 pandemic, with the cabinet secretary estimating the total loss to be approximately 50.0% of the Kshs 163.6 bn total revenue generated by the sector in 2019. We expect the move by the ministry, coupled with other measures such as; (i) the restructuring of Kshs 634 mn loans to hospitality facilities affected by the Covid-19 pandemic by Tourism Finance Corporation (TFC), a financial institution with the mandate of facilitating and providing affordable development funding and advisory services to the Kenyan tourism industry, (ii) the formation of the National Tourism and Hospitality Protocols Taskforce meant to develop tourism and hospitality protocols and guidelines in response to COVID-19, and, (iii) the easing of movement restrictions along with the expected resumption of international flights, to cushion the hospitality sector and enhance its recovery in the medium term.

In relation to the above, the recent easing of movement restrictions and the anticipated resumption of international passenger flights have prompted the reopening of hospitality facilities such as safari lodges and camps, and, city hotels, as the sector anticipates an increase in tourist arrivals. During the week, PrideInn Azure Hotel, a 164-room hotel located in Westlands, resumed operations 4 months after its closure, while the Maasai Mara Game Reserve reopened various safari lodges and camps. The continued reopening of top tier hotels since May, following the government’s approval for restaurants located in major towns to resume operations albeit under strict safety measures, indicates the gradual recovery of the hospitality sector in Kenya following the adverse effects of the Coronavirus pandemic. Some of the key hospitality facilities that have reopened so far include;

Hotels That Have Resumed Operations	Location
Villa Rosa Kempinski	Chiromo Rd., Nairobi
Ole Sereni	Mombasa Road
Hemingways Watamu	Watamu, Mombasa
Radisson Blu Arboretum	Arboretum Dr., Nairobi
Trademark Hotel	Limuru Road
DusitD2 Nairobi	Riverside Dr., Nairobi
Maasai Mara Game Reserve(safari lodges and camps)	Narok County

The ongoing reopening of hospitality services is a positive step for hotel investors who have been grappling with revenue drops, attributed to a general slowdown in activities due to the ongoing pandemic. We thus expect hotels to embark on a recovery path as domestic tourism slowly picks up due to the easing of movement restrictions and the expected resumption of international passenger flights on August 1st which may see international tourists trickling in, subject to lifting of international travel bans across different regions globally, such as Europe and Asia which account for approximately 56.8% and 13.9% of the international tourist arrivals into Kenya, respectively.

We expect the real estate sector to continue recording increased activities supported by; the gradual reopening of the economy and easing of movement restrictions, the reopening of hospitality facilities, and, supportive government policies such as the extension of loans to hospitality services.