Kenya Real Estate Developers Regulatory Board, & Cytonn Weekly #38/2020

Real Estate

I. Industry reports

During the week, Ministry of Tourism under the Tourism Secretary Najib Balala released the Tourism Performance August 2020. The key highlights were;

i. The number of international arrivals came in at 13,894 for the month of August, 91.4% lower than the 161,723 arrivals recorded during a similar period last year, indicating the adverse effects of the Covid-19 pandemic on the tourism sector,
ii. The highest number of arrivals were from the United States and United Kingdom, coming in at 2,768 and 2,469, respectively, attributed to ease of travel advisories, and,
iii. In terms of the purpose of visit, 2,723 came in for business, 1,125 were in transit while 10,046 visited for leisure. We attribute the relatively high number of tourist arrivals for leisure to reopening of destination hospitality facilities such as the Maasai Mara and the wildebeest migration that has traditionally resulted in relatively high tourist numbers into the country.

Despite the relatively low numbers, the resumption of tourist arrivals is an indication of the gradual reopening of the tourism sector following the easing of travel restriction in and out of the country, opening up key tourism markets such as the USA, resumption of flight operations starting 1st August and reopening of hospitality facilities. The hospitality sector has been one of the worst hit by the COVID-19 pandemic owing to its heavy reliance on tourism and the MICE (Meetings, Incentives, Exhibitions and Conferencing) sectors. However, we expect the sector to gradually resume operations supported by the above mentioned factors, in addition to the continued relaxation of travel advisories by governments of key tourism market, repackaging of the tourism sector's products to appeal to domestic tourists, and the Ministry of Tourism's post-corona recovery strategy fund of Kshs 500.0 mn which will cushion the sector from the impact of the pandemic.

II. Residential Sector

During the week, Nairobi Metropolitan Services Director of Housing Charles Sikuku announced that 1,562 low-cost housing units within the government's affordable housing Pangani Estate were set for completion in December 2020. The Kshs 5.0 bn Pangani Estate being developed by Technofin Kenya is part of the Nairobi Urban Regeneration Plan aimed at delivering approximately 12,000 low-cost housing units in Nairobi's old government estates by 2030, with other areas designated for the redevelopment being Jeevanjee/Bachelors Quarters, Ngong Road Phases I and II, Uhuru Estate, New Ngara, Old Ngara and Suna Road Estates. Despite the disruption caused by the Covid- 19 pandemic, the project which was launched in December 2018, has been encountering delays in its implementation due to bureaucracy and lack of land documentation. On completion, phase 1 of the project will comprise of five blocks with 1,562 housing units, out of which 952 units will be under affordable scheme while approximately 610 three bedroom units will be priced as per the market rates.

The table below gives a summary of the unit types, sizes and prices for the development;

Pangani Estate Affordable Housing Project

Unit type	No. of bedrooms	Unit size	Unit price (Kshs)	Price per SQM (Kshs)
Social Housing Units	1	25	1.0 mn	40,000
	2	50	2.5 mn	50,000
Affordable Low Cost Units	1	30	1.5 mn	50,000
	2	40	2.3 mn	56,250
	3	60	3.0 mn	50,000
Market Priced Units	3	90	7.5 mn	83,333

Source: Cytonn Research

The affordable housing program has continued to take shape with approximately 228 housing units delivered in October 2019 through the Park Road Project Phase 1, while other projects such as Shauri Moyo, Makongeni and Starehe houses are still underway. Despite the growing demand for the affordable housing units, evidenced by the relatively high number of approximately 300,000 individuals who have registered through the boma yangu portal, the implementation of affordable housing projects has been sluggish and the initiative is expected to fall short of its 2022 target of delivering 500,000 housing units. Some of the challenges facing the initiation and implementation of the projects include; (i) bureaucracy and slow project approval processes, (ii) the pending operationalization of the Integrated Project Delivery Unit which was tasked with being a single point of regulatory approval for developments, infrastructure provision and developer incentives, (iii) failure to fast track incentives provided in support of the affordable housing initiative, (iv) ineffectiveness of Public-Private Partnerships, and, (v) the current economic slowdown due to the ongoing pandemic.

In our view, if successfully delivered, the Pangani Estate project will enhance Kenyans confidence in the affordable housing programme and thus encouraging more potential home owners to join the boma yangu platform. However, given the negligible number of units delivered compared to existing demand, we expect the housing deficit to expand even further driven by the relatively high population growth of 4.0% per annum, compared to the global average of 1.9% according to World Bank. Therefore, to accelerate the supply of housing units, the government must embark on resolving the above challenges in addition to investing in urban planning to enhance sustainability and also invest in infrastructure around the satellite towns to open them up.

During the week, the Kenya Mortgage and Refinance Company (KMRC), a Treasury backed lender, announced plans to lend approximately Kshs 37.2 bn out of the Kshs 40.0 bn raised from institutions such as World Bank and Africa Development Bank to Kenyans earning a maximum of Kshs 150,000 per month and seeking to purchase affordable housing units. The mortgage loans will be capped at Kshs 4.0 mn for those seeking residence within the Nairobi Metropolitan Area (NMA) which also covers Kiambu, Machakos and Kajiado and at Kshs 3.0 mn for all other areas outside the NMA. According to the facility’s CEO, Johnstone Oltetia, while 80.0% of the funds will be directed to affordable housing, the rest will be availed for upper-middle-income housing units at normal market lending rates.

KMRC aims at boosting the mortgage market by growing the number of mortgage accounts to

60,000 by end of 2020 from the current 26,504 as of 2018. The facility is set to lend money beginning end of September, to local financial institutions at an annual interest rate of 5.0%, enabling them to write home loans at 7.0%, 6.0% points lower than the market rate of approximately 13.0%. Though a great and noble idea we see a couple of challenges:

i. The growth in lending is ambitious and may not be achievable given the current economic situations where people are suffering from job losses and salary cuts,
ii. Default rates likely to be high,
iii. The lending rates at 5.0% to 7.0% are unsustainably below market rate, it is yet to be clarified how KMRC expects to maintain those rate, and,
iv. Given the relatively low loan size provided by KMRC, potential homeowners will have few or no options of housing units within the NMA due to the relatively high property prices and low supply of affordable housing units thus forcing them to focus on housing units within satellite towns which are relatively affordable. The current NMA residential unit prices range from Kshs 6.3 mn to Kshs 16.6 mn for detached units and Kshs 7.4 mn to Kshs 10.4 mn for apartments. This is significantly higher than the KMRC range of Kshs 3mn to Kshs 4 mn.

The table below shows the residential market average price of units within the NMA;

All values in Kshs unless stated otherwise

NMA Residential Market Rates and Performance 2020

Segment	Unit Size (SQM)	Average Price per SQM	Price	Average Y/Y Price Appreciation	Average Total Returns
Detached units					
High-End	90	184,843	16.6 mn	0.0%	4.2%
Upper Mid-End	90	140,642	12.7 mn	0.9%	5.6%
Lower Mid-End	90	69,484	6.3 mn	(0.5%)	4.1%
Apartments					
Upper Mid-End	90	116,093	10.4 mn	(0.7%)	4.6%
Lower Mid-End	90	90,939	8.2 mn	0.1%	5.9%
Satellite Towns	90	81,833	7.4 mn	(0.1%)	5.3%
Residential Market Average		113,972	10.3 mn	(0.1%)	5.0%

* *the above assumes a 90sqm housing unit*

Source: NMA Residential Report 2020

At current market prices, the average unit price in Nairobi Metropolitan Area is Kshs 10.3 mn for a 90sqm unit, and with KMRC's mortgage loan range being relatively lower than that, it raises the questions of whether one can pay approximately Kshs 6.3 mn deposit for the subject unit, and secure the balance of Kshs 4.0 mn from KMRC.

We expect the residential sector to record increased activities going forward driven by the ongoing affordable housing projects, and the lending by KMRC which is set to provide the much-needed housing finance for low and middle-income earners.

III. Retail Sector

During the week, Tuskys, a local retail chain, was forced to shut down two of its outlets, at Juja City Mall in Juja and at Nairobi's Greenspan Mall in Donholm, due to rent arrears. This brings the total number of Tuskys operational outlets to 55, highlighting the depth of the retailer's financial woes, despite reopening two of its branches in Malindi and Kilifi last week. The retailer's current financial strain is mainly attributed to reduced revenues amid reduced demand due to constrained consumer spending, and family wrangles among the retail chain's shareholders thus affecting its operations. In the strive to support its operations, the retailer in August 2020 claimed it had secured financial support amounting to Kshs 2.0 bn following the signing of terms of agreement with an undisclosed Mauritius-based private equity fund. The move to secure debt financing was expected to cushion the retailer against financial shocks amid reduced revenues and boost investor confidence, especially in Kenya's retail sector. However, in our view, the continued shutting down of the retailer's outlets is an indication that the retailer will need to mobilize more funds to stabilize its operations and repay suppliers' debt. Hotpoint Appliances has so far filed a petition against the troubled retailer in a bid to recover approximately Kshs 250 mn debt.

The table below shows local and international retailers that have exited or closed down outlets in Kenya;

Local and international retailers that have exited or closed down outlets in Kenya

Name of Retailer	Initial no. of branches	Current no. of branches
Nakumatt Holdings	65	0
Botswana's Choppies	15	2
South Africa's Shoprite	4	2
Uchumi	37	4
Tuskys	63	55
Total	184	63

Source: Online Research

Despite the exit of retailers such as Tuskys, the sector's performance will continue being cushioned by several key local and international players entering the market and taking up the prime spaces left behind. Some of the new entrants during the year include;

Main Local and International Retail Supermarket Chains opened in 2020

Name of Retailer	Number of branches
QuickMart supermarket	3
French retailer, Carrefour	1
South Africa's Game Stores	1
Naivas Supermarket	4
Chandarana Foodplus Supermarket	1
Total	10

We expect the real estate sector to record activities mainly on the affordable housing front as the government projects continue to take shape, and the hospitality sector as the economy gradually reopens.

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