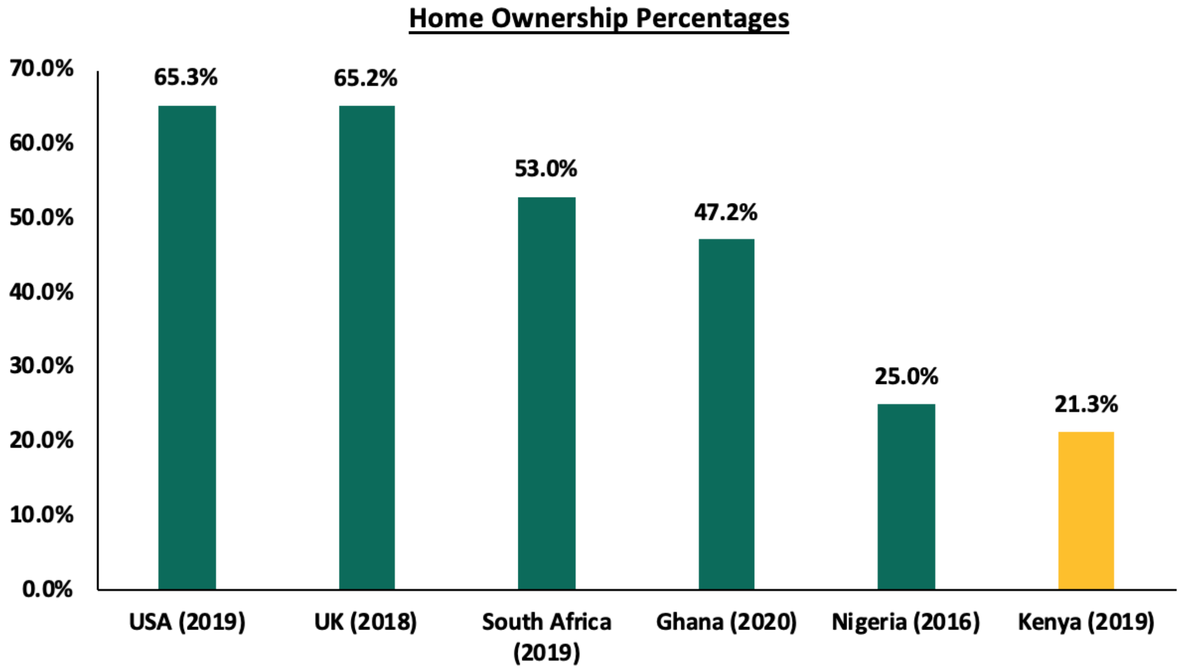
Understanding Collective Investment Schemes, & Cytonn Weekly #39/2020

Real Estate

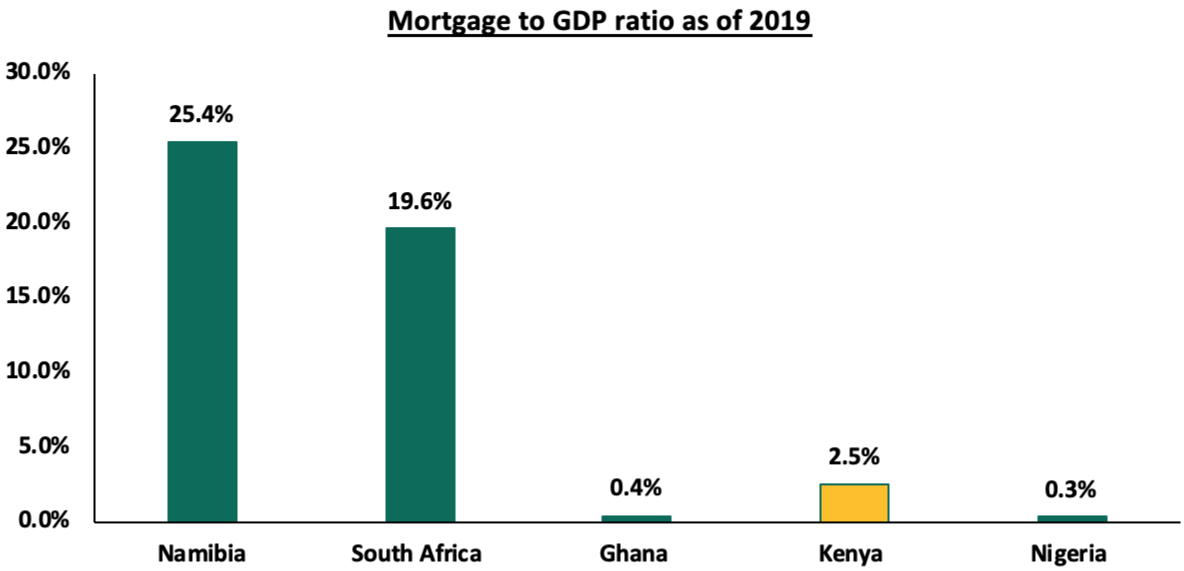
I. **Residential Sector**

During the week, NCBA Bank Kenya Plc, partnered with Tatu City, a leading urban developer in Kenya, to provide mortgage facilities to home buyers within their mixed-use development. The partnership marks the second banking institution to partner with the Kiambu based mixed-use property developer after they signed an agreement with ABSA Bank Kenya in June 2020, to provide mortgage loans for home financing including insurance products. The partnership between NCBA and Tatu City will provide home owners with a variety of options including purchase of plots, construction financing and loans to buy and build. The mortgage financing, which will be available for both salaried and non-salaried individuals, is expected to be at an interest rate of 13.0% with a minimum deposit rate of 10.0% of the property value. Buyers purchasing land within the Tatu City project will receive up to 70.0% financing with a repayment period of up to 5 years while those taking the buy and build option will receive up to 80.0% financing with a maximum repayment period of 25 years depending on their employment status. Home ownership has remained low in Kenya at approximately 21.3% implying that more than 78.7% of the total population are renters, compared to more developed countries such as South Africa which have more than 53.0% of the population owning homes. The low home ownership level in Kenya is attributed to unavailability and unaffordability of housing finance. The graph below shows the home ownership percentages for different countries in comparison to Kenya



Source: Center for Affordable Housing Africa, Federal Reserve Bank

The graph below shows the mortgage to GDP ratio as of 2019 for some selected African counties;



Source: Center for Affordable Housing Africa

The subject partnership is a step in the right direction towards promoting increased access to mortgages but it is yet to address the key issues affecting mortgage affordability. As at 2018, mortgage accounts in Kenya stood at 26,504 accounts out of an adult population of more than 24 million, the low uptake is attributed to; i) high-interest rates and high deposit requirements, ii) soaring of property prices, iii) low-income levels making it hard to service loans, and, v) lack of credit risk information for those in the informal sector leading to their exclusion.

In our view, the continued focus on increasing access to mortgages by private partners also complements government efforts geared towards enhancing affordable home ownership supported by the availability of mortgage facilities particularly through the Kenya Mortgage Refinancing Company (KMRC).

II. **Retail Sector**

During the week, the management of the Waterfront Mall, Karen and Naivas Supermarket, signed an agreement that will see the retail chain take up space that was previously occupied by Shoprite at the mall. Naivas will be the anchor tenant occupying approximately 3,500 SQM, and bringing its total outlets to 66, out of which 4 have been opened in 2020. The opening of the branch in Karen is supported by the high purchasing power of the consumers within the affluent submarket which hosts high-income earners. In terms of performance, according to the Cytonn H1’2020 Markets Review, Karen was the second-best performing retail node within the Nairobi Metropolitan Area with an average yield of 9.2% against the market average of 7.4% and an average occupancy of 75.0% against the market average of 74.0%.

The table below shows the H1’2020 NMA Retail market performance;

(All values in Kshs unless stated otherwise)

Nairobi Retail Market H1’2020 performance

Location	Rent per SQFT H1’2020 (Kshs)	Occupancy H1’ 2020	Rental Yield H1' 2020
Westlands	207	81.2%	9.8%
Karen	219	75.0%	9.2%
Kilimani	173	83.1%	8.7%
Ngong Road	183	80.1%	8.3%

Nairobi Retail Market H1’2020 performance

Location	Rent per SQFT H1’2020 (Kshs)	Occupancy H1’ 2020	Rental Yield H1' 2020
Kiambu Road	175	67.1%	6.9%
Thika road	164	69.3%	6.5%
Mombasa Road	144	69.6%	6.0%
Eastlands	143	69.6%	5.9%
Satellite Towns	128	71.4%	5.4%
Average	**170**	**74.0%**	**7.4%**

Source: Cytonn research

French retailer, Carrefour announced plans to open three stores in Mombasa, to be located at City Mall in Nyali, Center Point Plaza in Diani and Shanzu Mall in Shanzu. The first two stores which are expected to be commissioned in November 2020, will be in Nyali and Diani, and are set to occupy 2,150 SQM and 1,800 SQM, respectively, while the third outlet will be opened at Shanzu Mall once it is completed in 2023. The opening of the three stores will bring the total number of the retailer’s outlets in Kenya to 11, with 8 currently in Nairobi. The plans to open the three new stores signals the commitment by Carrefour to invest in the Kenya retail market supported by positive demographics with Mombasa having a population of 1.21 mn in 2019, 28.6% higher than 0.9 mn recorded in 2009 according to the Kenya population and housing census, a growing middle class, attractiveness as a tourist hub and availability of retail space with Mombasa having the second-largest mall space supply in Kenya after Nairobi at 1.4 mn SQFT.

The table below shows the key local and international retail supermarket chains opened in 2020 taking up spaces left out by struggling retailers such as Tuskys and Shoprite;

Main Local and International Retail Supermarket Chains

Name of Retailer	Initial number of branches	Number of branches opened in 2020	Closed branches	Branches expected to be opened	Projected total number of branches
QuickMart	32	3	0	0	32
Carrefour	8	1	0	3	11
Game Stores	3	1	0	0	3
Naivas Supermarket	65	4	0	1	66
Chandarana Foodplus	20	1	0	0	20
Tuskys	63	0	8	0	55
Uchumi	37	0	33	0	4
Shoprite	4	0	4	0	0
Nakumatt	65	0	65	0	0
Choppies	15	0	13	0	2
Total	312	10	123	4	193

Source: Online research

We expect continued expansion of retailers in Kenya’s retail market taking up space left behind by struggling retailers to cushion the sector’s performance. According to H1’2020 Real Estate Market Review, the sector recorded an average rental yield of 7.4%, with the occupancy rates at 74.0%. The expansion is supported by i) positive demographics with Kenya’s current urbanization and population growth rates at 4.0% and 2.2% against a global average of 1.9% and 1.1%, respectively according to World Bank, ii) improving infrastructure hence supporting the opening up of areas, and iii) demand for varieties as a result of the changing preferences of consumers. Additionally, according to data published in 2018 by Nielsen, a leading global information and measurement company, Kenya has been experiencing shifting consumer trends which have driven growth in formal retail, with 30.0% of the Kenyan population now shopping in formal retail establishments compared to 4.0% in Ghana and 2.0% in Cameroon and Nigeria. Kenya is the second-highest in Sub-Saharan Africa after South African which has a formal retail penetration of 60.0%. Nevertheless, factors likely to constrain the performance of the sector include the existing oversupply of space estimated at approximately 2.8 mn SQFT as of 2019, the exit of some local and international retailers on the back of a decline in revenue inflows, and the growing focus on e-commerce thus affecting demand for physical retails space.

Other highlights during the week;

i. Tuskys Supermarket, a local retail chain announced that it received Kshs 500.0 mn capital injection from a Mauritius-based equity fund. This is part of Kshs 2.0 mn that the retailer is supposed to receive after signing terms of agreement with an undisclosed Mauritius based firm for the provision of a financing facility. The funds will be used to pay off landlords, suppliers, and other immediate working capital requirements, with Kshs 321.0 mn being used directly to settle supplier’s debts. The funds are intended to ease the financial pressure that the retailer has been facing and stabilize operations.

The real estate sector is expected to record increased activities supported by the increased availability of mortgages thus boosting home ownership and the expansion of retailers within the Kenyan retail market.

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