

Cytonn Weekly #42/2020

Real Estate

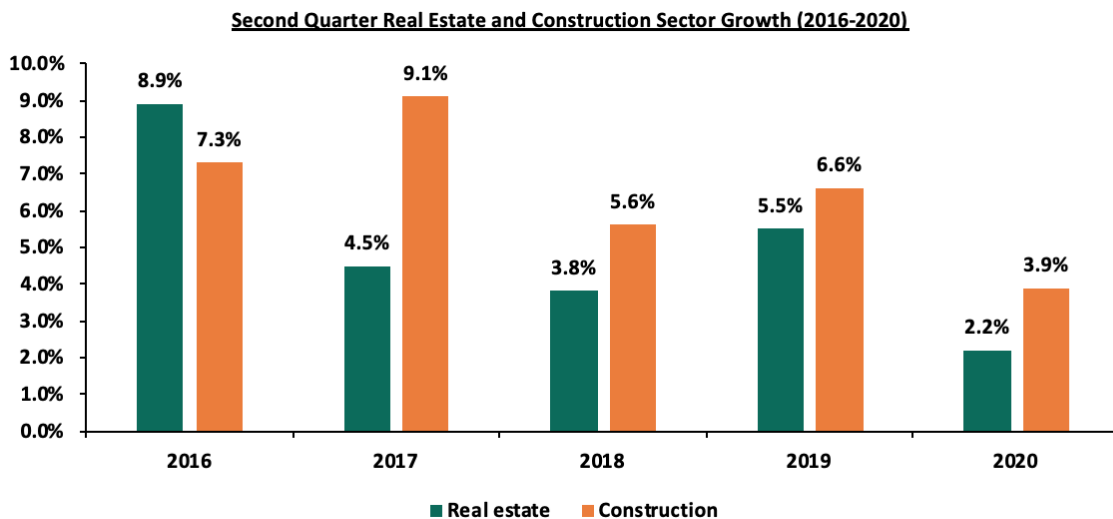
I. Industry Reports

During the week, the Kenya National Bureau of Statistics (KNBS), released the **Quarterly Gross Domestic Product Report-Q2' 2020**, highlighting that growth in real estate and construction activities in Q2'2020 came in at 2.2% and 3.9%, respectively. It is key to note the sectoral contribution to GDP in Q2'2020 stood at 9.2% and 6.2%, for the real estate and construction sector, respectively, compared to 8.3% and 5.5% in a similar period in 2019.

Cement consumption rose by 6.0% to 1.54 mn metric tonnes from 1.45 mn metric tonnes recorded during the same period in 2019. Credit advance to the construction sector also grew by 6.0% compared to a 5.6% contraction in the second quarter of 2019.

We believe the continued growth in the real estate sector has been supported by the existing housing deficit which according to National Housing Corporation is at around 2.0 mn and the increased value of building approvals which stood at Kshs 154.5 bn as at May 2020.

The chart below shows the sectors' five-year performance:

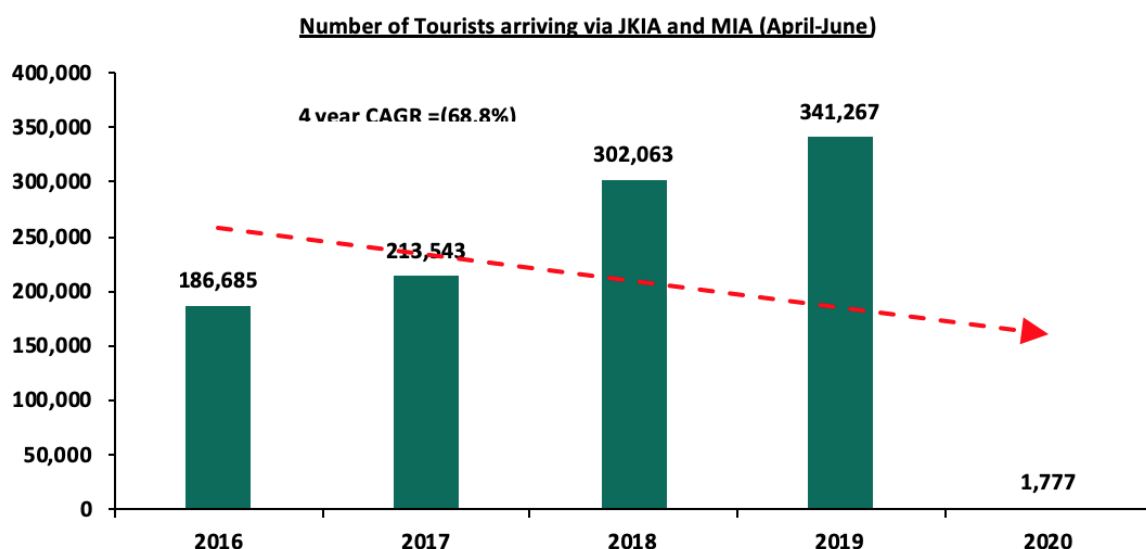


Source: Kenya National Bureau of Statistics

The dismal growth in Q2'2020 was mainly attributable to;

- ?. Constrained financing to developers due to the increased perceived risk levels,
 - i. Business restructuring with some firms downsizing hence reducing occupancies and overall rental yields, and,
 - ii. Travel restrictions, attributed to the COVID-19 pandemic that led to a near cessation of international flights in a bid to minimize the spread of the virus which mainly affected the performance of the hospitality sector. The travel restrictions saw the total number of visitors arriving through Jomo Kenyatta International Airport (JKIA) and Moi International Airport (MIA)

drop by 99.5% and 99.9% respectively, as highlighted in the chart below:



Source: Kenya National Bureau of Statistics

II. Residential Sector

During the week, Centum Investments handed over the first 96 units in two of its master-planned developments, Awali and Pearl Marina Estates. The company handed over 74 out of 152 maisonettes and bungalows in Awali Estate at Vipingo Ridge in Kilifi valued at Kshs 1.2 bn, and 22 villas in Uganda's Pearl Marina properties in Entebbe.

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

Centum's Master-Planned Developments

Development	Typology	Unit Size (SQM)	Unit Price (Kshs)	Price per SQM
Awali Estate	2 bdr (Bungalow)	155	13.0 mn	83,871
	2 bdr (Maisonette)	210	17.0 mn	80,952
	1 bdr	50	4.2 mn	84,000
	2 bdr	80	5.9 mn	73,750
Pearl Marina	3 bdr	100	7.2 mn	72,000
	3 bdr	150	14.0 mn	93,333
	3 bdr (Townhouse)	220	22.5 mn	102,273
	4 bdr (Villa)	300	33.3 mn	111,000

Sources: Online Research

Coastal regions attractiveness to real estate investors is supported by; i) tourist activities boosting the hotel industry and demand for luxury residences, ii) infrastructural developments leading to opening up of the area, and, iii) positive demographics having grown from 0.5 mn in 2009 to 1.5 mn in 2019 according to KNBS data. According to the Mombasa Real Estate Investment Opportunity August 2018 report, the average price of a 92 SQM 2-bedroom unit was Kshs 14.3 mn, bringing the average price per SQM to Kshs 136,324, while Awali Estate offers a 155 SQM 2-bedroom bungalow

at Kshs 13.0 mn and a 210 SQM 2-bedroom maisonette at Kshs 17.0 mn bringing the price per SQM to Kshs 83,871 and Kshs 80,952, respectively showing that the Awali Estate is offering relatively cheap units.

In our view, the plethora of amenities coupled with the relatively cheaper price of the houses in the master-planned communities will continue to make them attractive. We expect to witness more developments coming up supported by investors' search for higher returns and the growing middle class with increased disposable income.

III. Retail Sector

During the week, Naivas supermarket, a local retail chain, announced plans to open 4 more retail stores to be located at Lifestyle Mall in Nairobi's CBD, Rongai, and two other undisclosed locations. The space at Lifestyle Mall was previously occupied by the troubled Nakumatt Supermarket. This will bring the total number of the retailer's outlets to 70 following the recent opening of its 66th outlet at The Waterfront Mall in Karen on 12th October 2020. The move by the retail giant to increase its footprint is supported by; i) changing tastes and preferences of consumers, ii) 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 the World Bank, iii) availability of prime retail space left out by struggling retailers, and, iv) growing middle class with higher purchasing power.

The table below shows the summary of the number of stores of the key local and international retail supermarket chains in Kenya;

Main Local and International Retail Supermarket Chains

Name of Retailer	Current 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	66	5	0	4	70
Chandarana Foodplus	20	1	0	0	20
Tuskys	64	1	8	0	56
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	314	12	123	7	198

Source: Online research

In terms of performance, according to Cytonn Q3'2020 Markets Review, the retail sector recorded an average rental yield of 7.4%, a 0.4% points decline from 7.8% in FY'2019. The decline in performance is attributable to; i) exit by some retailers to cushion themselves against the impact of

the COVID-19 pandemic, ii) growing focus on e-commerce thus reduced demand for physical space, and, iii) reduced consumer spending power attributed to the tough economic environment. Going forward, we expect the sector's performance to be cushioned by the continued expansion of both local and international retailers taking up space left behind by struggling brands.

The real estate sector is expected to record positive activities supported by investor interest in master-planned communities and the expansion of local retailers.

Disclaimer: *The views expressed in this publication are those of the writers where particulars are not warranted. This publication, which is in compliance with Section 2 of the Capital Markets Authority Act Cap 485A, is meant for general information only and is not a warranty, representation, advice or solicitation of any nature. Readers are advised in all circumstances to seek the advice of a registered investment advisor.*

Liason House, StateHouse Avenue
The Chancery, Valley Road
www.cytonn.com

Generated By Cytonn Report

A product of **Cytonn Technologies**