Understanding Exchange Regimes, & Cytonn Weekly #48/2020

Real Estate

I. Residential Sector

During the week, Hydro Developers Limited, a real estate developer based in Nairobi, partnered with the Kenyan government for the construction of approximately 30,489 affordable units under the Big Four Agenda, at a cost of Kshs 3.0 bn. The project dubbed Hydro City, will sit on a 302acre piece of land in Kamiti area along the Northern Bypass Road in Kiambu County. The project will comprise of 10,166 studio units of 31 SQM, 9,384 one-bedroom units of 45 SQM, 6,256 two-bedroom units of 62 SQM and 4,692 three-bedroom units of 91 SQM *(specific unit prices are yet to be disclosed).* Kiambu County is one of the areas that the government enlisted that will be used in the implementation of the affordable housing projects, others being, Machakos County, Lang'ata Sub-County and Starehe Sub-County. Focus on Kiambu county is mainly supported by; i) positive demographics having recorded a population growth of rate 48.9% from 1,623,282 in 2009 to 2,417,735 in 2019 according to the population and housing censure report by the Kenya National Bureau of Statistics (KNBS), ii) relatively good transport network as the area is served by the Northern Bypass, Thika Super Highway and Kamiti Road, iii) availability of land in bulk, and, iv) recognition of Kiambu as Nairobi's dormitory thus hosting a huge working class population.

Hydro City will be the third Public Private Partnership (PPP) project under the affordable housing initiative, with some of the other projects being River Estate Project in Ngara being developed by Edermann Property Limited, and Pangani Housing Project in Pangani by Tecnofin Kenya Limited. The above partnership is an indication that the government continues to enlist the help of the private sector for development and financing of affordable housing with aim of achieving its target of approximately 500,000 housing units by 2022. However, so far PPPs have not been achieved their full potential due to their ineffectiveness resulting from;

?. Regulatory hindrances such as lack of a mechanism to transfer public land to a Special Purpose Vehicle (SPV) to facilitate access to private capital through the use of the land as security,
a. Lack of clarity on returns and revenue-sharing,
b. The extended time-frame of PPPs while private developers prefer to exit projects within 3-5 years, and,
c. Bureaucracy and slow approval processes.

Nevertheless, in our view, the partnership is a stride in the right direction and will drive the supply of affordable housing which is currently lagging behind on its target number of housing units having only delivered approximately 228 housing units so far through the Park Road affordable housing Project in Ngara. Key to note, in some developed countries the private sector developers were key players in resolving the country's housing deficit, casing point Singapore. It is therefore important for the Kenyan government reviews the current PPP structure to make it more favourable to private developers and thus boost the achievement of the Big Four Agenda on provision of affordable housing.

II. Retail

During the week, Naivas, a local retail chain opened 2 branches one in Hazina towers in Nairobi CBD taking up space previously occupied by Nakumatt Lifestyle and House of Leather which relocated to another location, and the other at Ananas Mall in Thika Town taking up space left behind by struggling retailer, Tuskys . This brings the total number of outlets by the retailer to 68 with 7 outlets opened during this year. The move by the retailer to open the branch in the Nairobi CBD is supported by the relatively high footfall within the CBD and ease of accessibility. On the other hand, the investment in Thika is supported by; i) positive demographics with Thika West having a population of 245,820 as of 2019, a 12.8% growth from the 218,544 recorded in 2009, according to the Kenya National Bureau of Statistics (KNBS) Population and housing census report, iii) a growing middle class with increased consumer purchasing power, and iii) accessibility with the area being served by the Thika Super Highway.

The continued expansion of the local retailer, taking up space left behind by struggling counter parts continues to cushion the real estate retail sector which has continued to feel the pressure of the tough economic environment due to i) reduced demand for retail space as some retailers halt operations to cushion themselves from the effects of the pandemic, ii) reduced revenues amid reduced disposable income among consumers, iii) the shift to e-commerce, and, iv) the existing oversupply in some cities such as Nairobi with a surplus of 3.1 mn SQFT retail space thus resulting in pressure on landlords to provide concessions and other incentives to attract new clientele or retain existing tenants. In terms of performance, according to Cytonn's Kenya Real Estate Retail Sector Report 2020, the Kenya retail sector recorded subdued performance with the rental yield coming in at 6.7%, 0.3% point lower than 7.0% recorded in 2019. Mt Kenya Region which includes Thika, Meru, Nyeri and Nanyuki was the best performing urban city recording an average rental yield of 7.7%, while Nairobi Metropolitan Area was ranked second with an average rental yield at 7.5%.

The table below shows a summary of 2020 retail performance in key urban cities in Kenya;

(All values in Kshs unless stated otherwise)

Summary of Retail Performance in Key Urban Cities in Kenya

Region	Rent/SQFT 2020	Occupancy% 2020	Rental Yield 2020
Mount Kenya	125.0	78.0%	**7.7%**
Nairobi	168.5	74.5%	**7.5%**
Mombasa	114.4	76.3%	**6.6%**
Kisumu	97.2	74.0%	**6.3%**
Eldoret	130.0	80.2%	**5.9%**
Nakuru	55.7	76.6%	**5.9%**
Average	**115.1**	**76.6%**	**6.7%**

Source: Cytonn Research

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	Initial number of branches	Number of branches opened in 2020	Closed branches	Current number of Branches	Branches expected to be opened / closed	Projected total number of branches
Naivas Supermarket	61	7	0	68	2	70
Tuskys	64	2	14	52	27	25
QuickMart	29	6	0	35	0	35
Chandarana Foodplus	19	1	0	20	0	20
Carrefour	7	1	0	8	3	11
Uchumi	37	0	33	4	0	4
Game Stores	2	1	0	3	0	3
Choppies	15	0	13	2	0	2
Shoprite	4	0	2	2	0	2
Nakumatt	65	0	65	0	0	0
Total	**303**	**18**	**127**	**194**	**32**	**172**

Source: Online research

III. Infrastructure

During the week, Kenya Urban Roads Authority (KURA) announced plans to construct two elevated carriage ways in the Nairobi Central Business District (CBD). The Kshs 2.9 bn project which has been assigned to China Road and Bridge Corporation will take shape after the completion of the Nairobi Expressway which is currently under construction by the Kenya National Highways Authority (KENHA), and is expected to be completed by 2023. The carriage ways are expected to be along Valley Road-Kenyatta Avenue junction around Integrity Centre through to the CBD, and Nyerere Road interchange through to UpperHill-Haile Selassie Avenue. One of the carriage ways will be from Integrity Centre to Serena Hotel and the other one will be on the Milimani Close. The two overpasses are intended to link Ngong Road to the CBD. The overpass will be designed to approach the Nairobi Express way at the lower levels thus easing traffic into the CBD through the Kenyatta Avenue and Haile Selassie Avenue.

The implementation of infrastructural projects in Kenya has been affected by the reduced budget allocation through the National Budget to the infrastructural sector. For financial year 2020/2021, the sector was allocated Kshs 172.4 bn, 60.4% lower than the 435.1 bn allocated in the 2019/2020 budget. This is the lowest allocation in the last 10 financial years attributed to a projected revenue shortfall brought about by slowdown in the economy due to disruptions by the COVID-19 pandemic which prompted diversion of funds towards mitigation of the pandemic. Despite the reduced budget allocation, we expect the government to continue with the implementation of selected infrastructural projects thus opening up areas for development hence boosting the real estate sector. On completion, we expect the carriage ways to result in reduced traffic congestion in and out of the CBD thus making it more attractive to real estate investors. Other infrastructural projects underway include the Nairobi Express way, Nairobi-Western Bypass, Lamu Port and Lamu-Southern Sudan-Ethiopia Transport Corridor Project (LAPSSET), and, Mombasa Port Development Project.

We expect the real estate sector to record activities supported by continued implementation of infrastructural projects by the government thus opening up areas for investment, focus on affordable housing which is expected to boost the performance of the residential sector and the ongoing expansion of local retailers which is expected to cushion the performance of the retail sector.

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