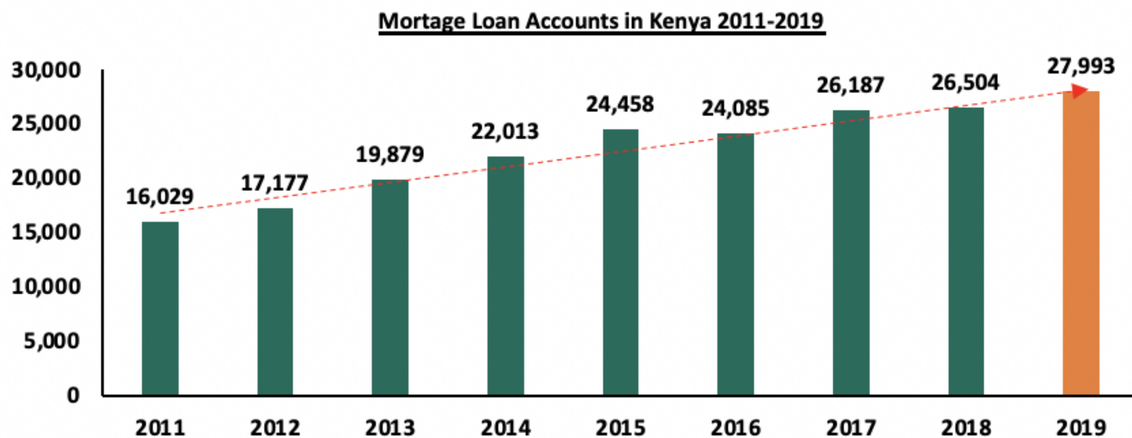
Nairobi Metropolitan Area Mixed-Use Developments (MUDs) Report-2020 & Cytonn Weekly #51/2020

Real Estate

i. **Industry Reports**

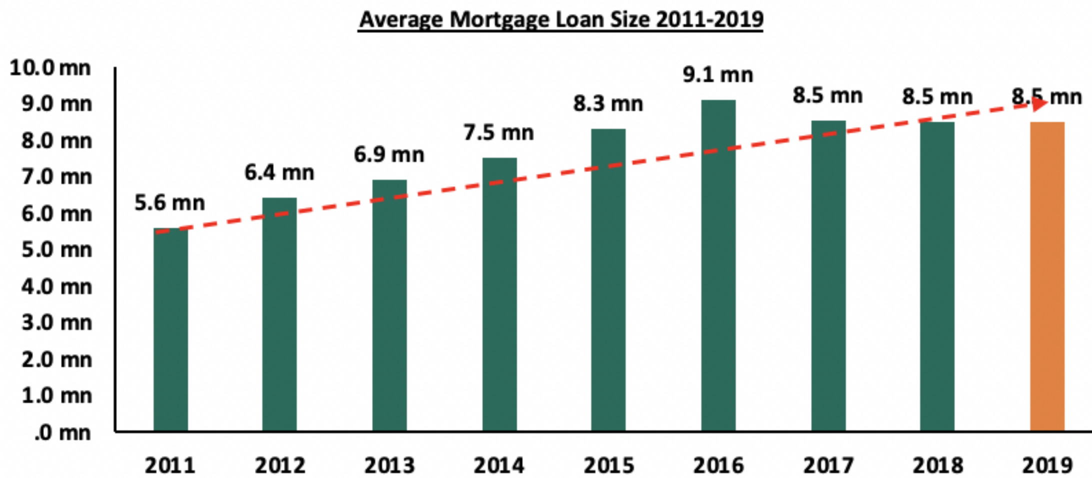
During the week, the Central Bank of Kenya (CBK) released the Bank Supervision Annual Report 2019, outlining the performance of various financial institutions licenced to operate by the CBK. Some of the key take outs in relation to the mortgage market in Kenya include;

- The value of mortgage loan assets outstanding increased by 5.7% from Kshs 224.9 bn in December 2018 to Kshs 237.7 bn in December 2019 attributed to increased appetite for home ownership,
- Approximately 76.4% of lending to the mortgage market was by 6 institutions which included, one medium sized bank (16.9%) and five banks from the large peer group (59.5%) as compared to one medium sized bank (15.0%) and five banks from the large peer group (61.1%) in December 2018,
- The outstanding value of non-performing mortgages decreased from Kshs 38.1 bn in December 2018 to Kshs 31.0 bn in December 2019 due to increase in the number of loan repayments,
- The mortgage non-performing loans (NPLs) to gross mortgage loans decreased to 13.0% in December 2019 compared to 16.9% in December 2018,
- There were 27,993 mortgage loan accounts in the market in December 2019 an increase by 6.9% from 26,504 in December 2018. The graph below shows the growth of mortgage accounts in Kenya;



Source: Central Bank of Kenya

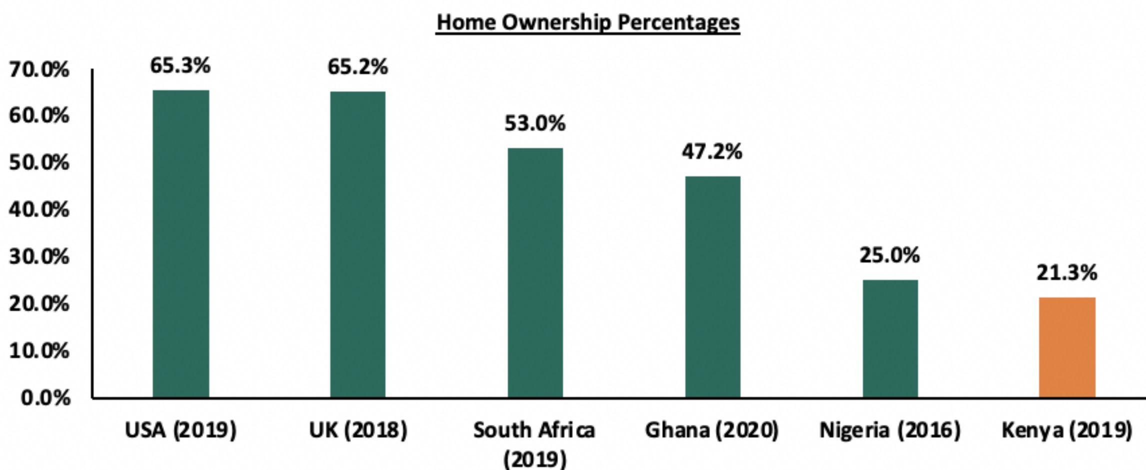
- The average mortgage loan size increased from Kshs 8.48 mn in 2018 to Ksh.8.49 mn in 2019. The graph below shows the average mortgage loan size between 2011-2019;



Source: Central Bank of Kenya

- The number of institutions offering mortgages to customers were 31 in 2019 as compared to 32 in 2018. One bank in the small peer group stopped offering mortgage loans in 2019, and,
- The average loan maturity was 11.2 years with minimum of 5 years and a maximum of 20 years in 2019 as compared to average loan maturity of 10.6 years with a minimum of 4 years and a maximum of 22 years in 2018.

The above statistics shows an improvement of the Kenyan mortgage market in 2019 compared to 2018. However, for 2020, we expect an increase in non-performing loans as well as reduced mortgage uptake attributable to the tough economic times with borrowers shying away from taking loans amid constrained income levels. However, this may be cushioned by the operationalization of the Kenya Mortgage Refinance Company which has been offering affordable mortgage loans since September 2020, thus enhancing the accessibility of affordable mortgage loans, a resultant boost to the mortgage market, and increased home ownership which has remained low in Kenya.



Source: Centre for Affordable Housing Africa

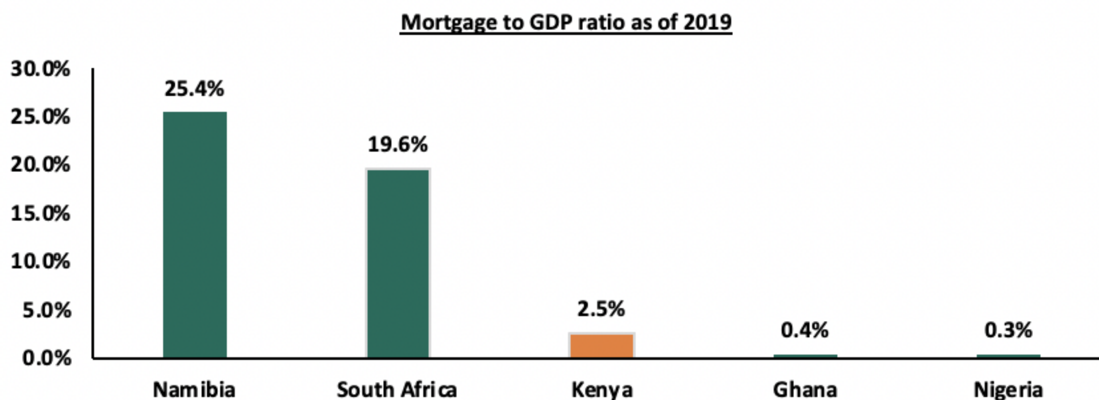
ii. **Residential**

The Kenya Mortgage Refinance Company (KMRC), a state backed mortgage firm offered KCB Group, Housing Finance, Stima Sacco and Nyandarua Sacco Kshs 2.64 bn home loans at an interest rate of 5.0% to enable them write home loans at an interest rate of 7.0% which is lower compared to an average market rate of 12.0%. Out of the Kshs 2.64 bn, KCB Group will receive Kshs 2.13 bn while Housing Finance Corporation is expected to receive Kshs 514 mn. Stima Sacco and Nyandarua Sacco were offered Kshs 69.0 mn and Kshs 29.0 mn, respectively. Potential home buyers are expected to benefit from the products that KMRC offers which include;

a. **Affordable Housing Loans**: These are loans that are capped at Kshs 4.0 mn for Nairobi Metropolitan Area (Nairobi, Kiambu, and Machakos & Kajiado) and Kshs 3.0 mn elsewhere, at a 7.0% interest rate to individual borrowers whose monthly income is not more than Kshs 150,000, and,

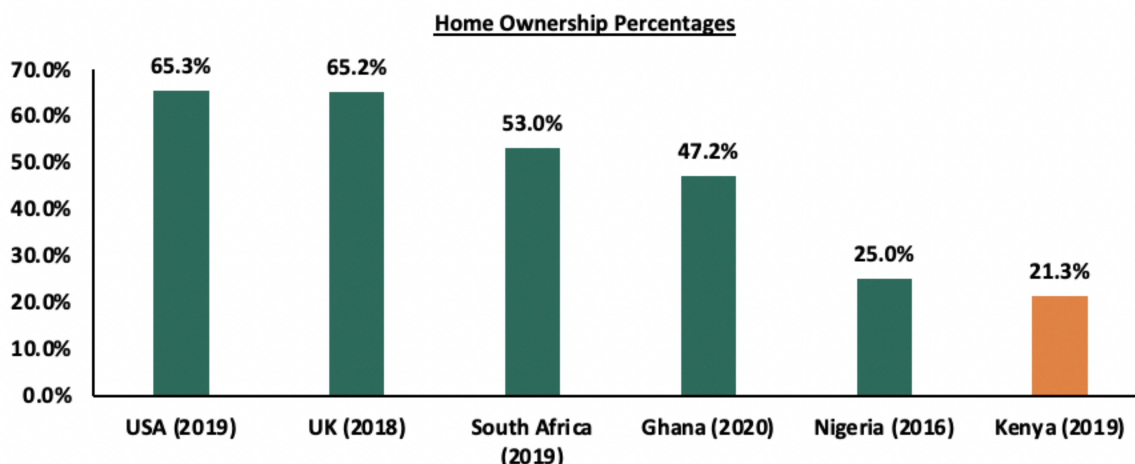
b. **Market Housing Loans**: These are loans above the affordable housing loans threshold, have a limit of above Kshs 4.0 mn, and will be issued at interests determined by the average market rates.

The move by the KMRC to provide cheaper home loans is expected to increase mortgage uptake which has remained low with 27,993 mortgage loan accounts in the Kenyan market in December 2019 out of an adult population of more than 24 million. It is also expected to improve Kenya's mortgage penetration rate which stood at 3.2% of gross domestic product (GDP) as at 2017, compared to other developed countries such as South Africa at 19.6%. The graph below shows the Mortgage to GDP ratio of different countries as of 2019;



Source: Centre for Affordable housing Africa

With the expected improvement in the mortgage penetration rates, we expect home ownership in Kenya to also increase as people will be able to access funds through mortgage loans to finance the purchasing and building of their homes. Home ownership in Kenya has been relatively low at 21.3% compared to other countries such as South Africa and Ghana at 53.0% and 47.2%, respectively as shown in the graph below;



Source: Centre for Affordable Housing Africa

iii. **Retail Sector**

During the week, Naivas Supermarket opened a new branch in Rongai completing a series of outlets that they had initially announced will be opened within the Nairobi Metropolitan Area earlier this

year. This brings the total number of outlets by the retailer to 69 with 8 outlets opened during this year. The move by the retailer to invest in Rongai is supported by; i) positive demographics with Rongai having a population of 172,569 as of 2019, a 331.9% growth from the 39,951 recorded in 2009, according to the Kenya National Bureau of Statistics (KNBS) Population and Housing Census Report, and, ii) ease of access as the area is served by Magadi and Gataka Road. With a total of 69 branches, Naivas has so far surpassed the 65 number of branches held by Nakumatt during its prime days. The continued expansion of the retailer as well as other retail chains such as QuickMart and Carrefour, taking up prime retail space left behind by troubled chains such as Tuskys and Nakumatt, is expected to cushion the retail sector performance which is currently witnessing; i) reduced demand for physical space due to shifting focus to online shopping, ii) reduced purchasing power among consumers amid a tough economic environment, and, iii) reduced rental rates as landlords offer rental concessions to retain tenants.

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	8	0	69	0	69
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**	**19**	**127**	**194**	**31**	**171**

Source: Online Research

In terms of performance, according to the Kenya Retail Report 2020, satellite towns such as Rongai recorded the lowest rental rates averaging Kshs 130.0 hence an opportunity for expanding retailers such as Naivas to take up affordable space. The table below shows the Nairobi Metropolitan Area (NMA) Retail performance FY'2020;

All values in Kshs unless stated otherwise

Nairobi Metropolitan area (NMA) 2020 Retail Performance

Node	Rent/SQFT 2020	Occupancy 2020	Rental Yield 2020
Westlands	207.5	80.9%	**9.8%**
Karen	215.5	79.1%	**9.2%**
Kilimani	169.5	83.0%	**8.6%**

Nairobi Metropolitan area (NMA) 2020 Retail Performance

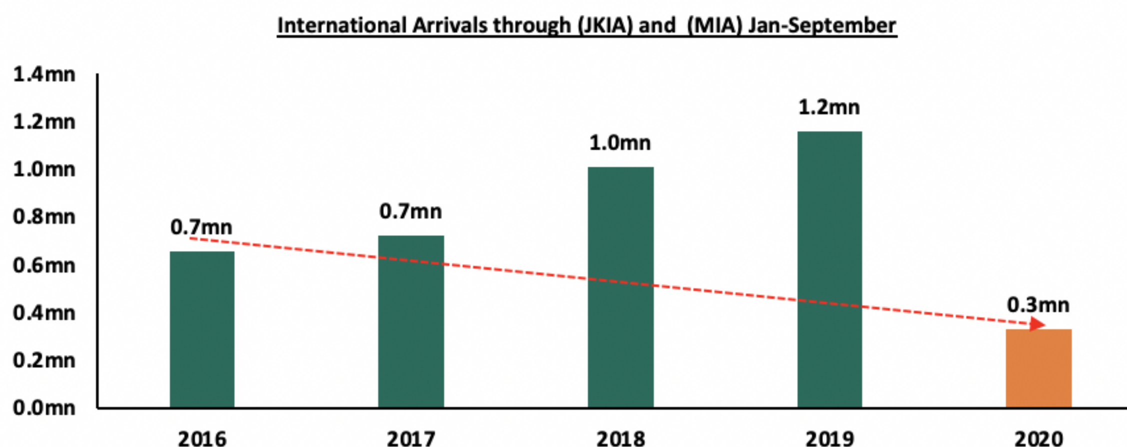
Node	Rent/SQFT 2020	Occupancy 2020	Rental Yield 2020
Ngong Road	179.8	79.3%	8.5%
Kiambu road	174.8	65.3%	6.8%
Mombasa road	140.8	70.8%	6.2%
Thika Road	160.1	69.0%	6.2%
Eastlands	138.3	69.2%	6.1%
Satellite towns	130.0	73.6%	5.8%
Average	**168.5**	**74.5%**	**7.5%**

Source: Cytonn Research 2020

We expect the continued expansion by local retail chains to cushion the performance of the retail sector supported by; i) continued improvement of infrastructure opening up areas for investment, ii) relatively high population growth rate, iii) investor confidence due to the ease of doing business in Kenya, having been ranked position #56 by World Bank in the ease of doing business, and, iv) the growing middle class with increased purchasing power.

iv. **Hospitality**

During the week, Sarova Group of Hotels and Resorts announced that it has ventured into the restaurant business to cushion itself against the effects of the pandemic which has hurt its operation with some of the worst hit outlets being Nairobi's Sarova Stanley and Sarova Panafric due to their reliance on hotel and room services. The hotel chain has opened two urban eateries in Westlands; Chiso that will focus on food from various Asian countries like Japan, China, Indonesia, Malaysia and Thai, and the second one named The Kitchen which will offer Western, African and Indian food. The decision by the hotel chain to diversify its portfolio to the restaurant business has been prompted by the reduced number of hotel bookings attributable to a slowdown in the tourism industry and an overall decline in international arrivals. According to the Kenya National Bureau of Statistics the number of international arrivals declined by 71.5% from 1.2 mn persons between January-September in 2019 to 0.3 mn persons during the same period in 2020. The table below shows the number of international arrivals over the last 5 years (January to September);



Source: Kenya National Bureau of Statistics.

Despite being negatively affected by the pandemic, the decision by the Sarova Group of Hotels and Resorts to continue investing in the Kenyan hospitality sector indicates investor confidence in the resilience of the sector. In addition, the choice of Westlands area as an investment node is supported

by the presence of high and middle-income earners with relatively high disposable income and spending power, presence of a huge working population as it is a key commercial node and ease of accessibility in and out of the area.

In line with the above, the Serena Group of hotels reopened its beach resort after eight months and a half months of closure on 15th of December with the intention to take advantage of the expected growing demand for accommodation facilities at the coast during the December holiday season. The Serena Beach Resort and Spa in Mombasa plans to operate at a capacity of 74 rooms which represents 45.0% of its hotel capacity a move aimed at complying with the COVID-19 protocols set by the government. The decision to reopen is supported by the gradual reopening of the economy and resumption of tourism activities especially at the Kenyan Coast.

Nevertheless, during the week, Radisson Blu, an international hotel chain announced that it had halted the operations of its Nairobi UpperHill branch as bookings remain low due to the COVID-19 Pandemic. The decision to close the branch and send employees home was aimed at mitigating the economic impact of the pandemic on the business. The move by Radisson Blu mirrors the decision made by other hospitality services such as Fairmont Hotels and Resorts which closed The Norfolk, and Fairmont Mara Safari Cub, and other hotels under their brand in May this year to cushion themselves against the effects of the pandemic.

The hospitality sector has been one of the hardest hit sectors by the pandemic due to over reliance on tourism and Meetings Incentives Conferences and Exhibitions (MICE). It has resulted in a general slowdown in tourism activities and travel with the issuance of travel advisories by key tourism markets such as the USA, cancellation of meetings and conferences and overall decline in revenue inflows amid reduced demand for hospitality services and facilities. This is evidenced by the subdued performance of the hospitality sector with its contribution to GDP declining by 83.3% during the second quarter of 2020 compared to an expansion of 12.1% during the same period in 2019, according to the KNBS Quarterly Gross Domestic Product Report – Q2'2020.

Going forward, we expect the sector to witness gradual recovery supported by; i) the easing of travel restriction in and out of the country due to opening up of key tourism markets such as Asia, ii) domestic tourism picking up leading to opening up of hotels like Serena, iii) government strategies to support the recovery of the sector such as the Ministry of Tourism Post-Corona recovery funds aimed at offering financial aid to hotel and other establishments in the hospitality industry through the Tourism Finance Corporation (TFC), Other factors boosting the hospitality sector include; i) recognition of Kenya as a regional hub, ii) improved security, and, iii) political stability.

v. **Statutory Reviews**

The president of Kenya, Uhuru Kenyatta signed into law the Sectional Properties Act 2019, and, the Statute Law (Miscellaneous Amendments) 2020 bill.

The new Sectional Properties Act, 2019 which repeals the Sectional Properties Act of 1987, provides for the division of buildings into units to be owned by individual proprietors and common property to be owned by proprietors of the units as tenants in common and to provide for the use and management of the units and common property and for connected purposes.

- The Act will give property developers and apartment owner's greater transaction ability in financing and disposal of properties in the market as it will allow apartment buyers to have title deeds as proof of ownership,
- Independent and complete ownership of properties will give banks greater incentive to lend to apartment owners since charges can be placed directly on individual titles,
- The owner of a unit shall only be liable in respect of an interest endorsed on the sectional plan in proportion to the unit factor for his unit,
- Developers can subdivide buildings into two or more units by the registration of a sectional plan

prepared, by a surveyor, from a building plan that has been approved by a county government,
- Common property comprised in a registered sectional plan, shall be held by the owners, and,
- Landlords or owners of existing units are allowed to convert their properties into units under the Act if they want to sell them as units. This implies developers will no longer be allowed to sell units without sectional plans to enable individual ownership.

The above provisions have a direct impact on home buyers as it will enable them have easier access to secure loans as they can use title deeds as collateral.

The Statute Law (Miscellaneous Amendments) 2020 Act on the other hand amends 21 statutes which includes Interpretation and General Provisions Act, Records Disposal Act, Penal Code, Public Holidays Act, Kenya Roads Board Act, and Firearms Act among others. Key real estate sector related take outs include;

- Amendment of the Housing Act (Cap.117) to remove the mandatory nature of contributions to the National Housing Development Fund, and,
- Amendment of The Kenya Roads Board Act 1999 (No.7 of 1999) to include a minimum number of days the board can hold every year at 4 days in a year hence departing from the current provision where the board is required to hold meetings every month.

The above amendments under the Statute Law (Miscellaneous Amendments) act, 2020 will imply that the individuals will not be subjected to the mandatory housing levy but instead will be allowed the liberty to make savings towards purchasing of their homes voluntarily through the NHDF. This will mitigate against the otherwise financial burden of making the contributions monthly in addition to the already existing statutory deductions especially during these tough economic times. However, on the downside, we expect this to affect the ability of the government to reach their target on funds that are expected to be collected through the National Housing Development Fund in support of the affordable housing initiative. Additionally, the reduction of the meetings by the Kenya Roads Board will help in regular planning thus creating a shift from the tedious process of meeting every month. The regular planning for meetings will also help in streamlining the way infrastructural projects are launched as it will create more time to deliberate on the effectiveness of the projects.

We expect real estate sector activities to be supported by the continued expansion of local retailers, policy and regulatory reforms in support of the housing sector, and the diversification of businesses by hospitality industry players to cushion themselves against the tough economic times. However, the exit by some businesses operating in the hospitality industry is expected to affect the sector's performance.