Kenya's Public Debt, & Cytonn Weekly #52/2020

Real Estate

I. **Industry Reports**

During the week, Knight Frank, a global real estate company and property manager released the Kenya Buyer Survey 2020, a survey that was conducted to understand the impact the Covid-19 pandemic on residential markets, and in particular, the buyers' attitude. Some of the key take-outs from the survey include:

- 32.0% of households are likely to move from their current homes to other house units over the next 12 months. Out of the population, 72.0% are likely to stay in the same location that they live in but move to a different property,
- 54.0% of respondents are more likely to buy a detached family home than they were before Covid-19, with 50.0% in favour of waterfront homes,
- The demand for apartments has declined, with 50.0% of respondents indicating that they are less likely to want to live in an apartment in the future as they seek to have more spacious living spaces that can accommodate both living and working spaces,
- More than a third of prospective homebuyers from the sample selected are looking for low-cost houses, this is mainly as a result of the tough economic environment brought about by the COVID-19 pandemic which has led to a shift to affordable housing options,
- Over three-quarters of respondents stated that they are more likely to work from home in the future as a result of Covid-19, with only 1.0% of respondents indicating that they intended to work less from home. In our view, the continued working from home trend is likely to result in reduced demand for physical office spaces and the increased the need for convenient residential housing with spaces accommodating work, shopping and living spaces,
- The house prices are expected to fall over the next 12 months with 50.0% of respondents expecting prices of properties to fall over the next 12 months, 36.0% do not foresee any change, while 14.0% believe that prices will increase,
- Sellers of residential properties are more inclined to discount the prices of properties and provide offers of up to 15.0% off the asking prices as a result of increased demand for liquidity, and,
- Similar to primary residences, buyers of second homes are prioritising home offices, greater privacy and outdoor space when choosing a second home.

The results generated from the survey shows a shift in the buyer's trends when it comes to choosing a residential home as a result of the COVID-19 pandemic. The market continues to witness high demand for low-cost housing evidenced by the higher uptake of units in the lower mid-end areas as seen in our Nairobi Metropolitan Area Residential Report-2020, according to which, the detached units in the lower mid-end areas recorded an average uptake of 17.5%, 1.0% points higher than 16.5% average uptake for the high-end detached units. Additionally, apartments in the lower mid-end areas recorded an average uptake of 20.3%, 1.8% points higher than the 18.5% average uptake of apartments in the upper mid-end areas within the Nairobi Metropolitan Area (NMA).

The table below shows the residential performance summary for FY'2020

All values in Kshs unless stated otherwise

Residential Performance Summary FY'20

Segment	Typology	Average Price Per SQM	Average Rent Per SQM	Average Annual Uptake	Average Occupancy	Average Rental Yield	Average Y/Y Price Appreciation	Average Total Returns
High-End	Detached	184,843	736	16.5%	82.3%	4.2%	0.0%	**4.2%**
Upper Mid-End	Detached	140,642	601	17.7%	88.9%	4.6%	0.9%	**5.6%**
Lower Mid-End	Detached	69,484	317	17.5%	83.7%	4.6%	(0.5%)	**4.1%**
Upper Mid-End	Apartments	116,093	610	18.5%	87.9%	5.4%	(0.7%)	**4.6%**
Lower Mid-End	Apartments	90,939	526	20.3%	86.6%	5.8%	0.1%	**5.9%**
Satellite Towns	Apartments	81,833	426	19.5%	84.3%	5.4%	(0.1%)	**5.3%**
Residential Market Average		**113,972**	**536**	**18.3%**	**85.6%**	**5.0%**	**(0.1%)**	**5.0%**

Source: Cytonn Research

II. Residential

During the week, Meera Construction Limited, a subsidiary of Krishna Group launched a Kshs 750 mn project in Thindigua dubbed Green Zone Estate. The Green Zone Housing project is expected to host approximately 160 units: 64 one-bedroom units, 32 two-bedroom units, and 64 three-bedroom units priced at Kshs 2.7 mn, 4.6 mn, and, 6.3mn, respectively. The units will be in phase two of the project, with 224 units on a two and a half-acre plot in phase one of the project. Below is the summary of the sales prices of the units;

Green Zone Estates-Thindigua

No of Bedrooms	Unit Size (SQM)	Price (Kshs)	Price per SQM (Kshs)
1	45	2,700,000	60,000
2	96	4,600,000	48,168
3	144	6,300,000	43,750
Average			**50,639**

Source: Online Research

The units are priced at approximately Kshs 50,639 per SQM on average, 117.7% lower than the market average rates for Thindigua which stand at Kshs 110,224 per SQM according to the Cytonn Q3'2020 Markets Review. The project which will be financed by the Bank of Baroda, who has also partnered with Housing Finance to offer mortgage loans to buyers at an interest rate of 9.0%, thus enabling buyers to own the relatively affordable houses through the cash and tenant purchase option. The launch of the project indicates the continued efforts by private sector players in support of the affordable housing initiative which aims to see the delivery of approximately 0. 5mn affordable units by 2022.

In terms of performance, Thindigua was the best performing submarket for apartments recording an average total return of 8.1%, 2.4% points higher than the market average of 5.7%, supported by positive demographics as Thindigua hosts a significant working population, ease of accessibility as the area is served by Kiambu Road and, and, availability of amenities such as the Two-Rivers, Ridgeways mall, and Ciata City mall.

All Values in Kshs Unless Stated Otherwise

Lower Mid-End: Satellite Towns Apartments Performance Q3'2020

Area	Average price per SQM (Kshs) Q3'2020	Average rent per SQM (Kshs) Q3'2020	Average Occupancy Q3'2020	Average Uptake Q3'2020	Average Annual Uptake Q3'2020	Average Rental Yield Q3'2020	Average Price Appreciation Q3'2020	Total Returns Q3'2020
Thindigua	110,224	590	96.4%	93.2%	18.8%	5.8%	2.3%	**8.1%**
Syokimau	69,225	362	88.3%	79.9%	14.2%	5.5%	1.4%	**6.8%**
Ruiru	89,781	495	76.4%	60.7%	20.4%	5.0%	1.3%	**6.2%**
Kikuyu	81,090	416	86.0%	84.4%	26.5%	5.7%	0.1%	**5.8%**
Athi River	58,311	340	84.6%	90.1%	15.3%	6.2%	(1.8%)	**4.4%**
Kitengela	60,027	325	88.1%	99.5%	13.6%	6.0%	(1.7%)	**4.3%**
Ruaka	100,215	520	89.9%	86.2%	25.6%	5.3%	(1.3%)	**4.0%**
Average	**81,268**	**436**	**87.1%**	**84.8%**	**19.2%**	**5.6%**	**0.0%**	**5.7%**

Source: Cytonn Research

We expect increased activities on the affordable housing front with private sector players complementing government efforts supported by; the growing demand for affordable housing options, positive demographics with Kenya recording relatively high urbanization and population rates of 4.0% and 2.2%, compared to the global average of 1.9% and 1.1%, respectively according to the World Bank, and government incentives such as ; (i) waiver on stamp duty for first time home buyers of affordable housing units, and, (ii) the affordable housing relief of 15.0% of gross emoluments up to Kshs 108,000 per annum or Kshs 9,000 per month for Kenyans buying houses under the Affordable Housing Scheme.

III. **Land**

The ministry of lands announced that it will be overseeing the development of a National Land Valuation index that is intended at guiding the process of land valuations within the country. The process will involve the collection of data and undertaking of inspections of land parcels located in counties such as; Kiambu, Kajiado, Nakuru, Machakos, and, Meru. So far, the Ministry of Land has completed the process of data collection in 11 other counties which include; Kakamega, Garissa, Bungoma, and Busia among others. The land valuation index will be of essence in; i) creating a credible valuation database for use in making investment decisions, ii) making land compensation decisions, iii) creation of a generalized system that will determine the land rates throughout the country, iv) preparation of development appraisals, iv) monitoring the performance of properties, and, v) using accurate land values to determine loan securities. In our view, the land valuation index will play an important role in determining the market rates of land as it can be used as a basis of negotiation between buyers and sellers, for land rent, land taxation, compensation, mortgages appraisal, secured borrowing, future investment, land use planning, and identifying the value of individual land assets.

IV. **Industrial Sector**

A Mauritius-based firm, Grit Real Estate Income Group, announced plans to set up 10,142 square meters of modern warehousing space within Mlolongo area targeting the growing industrial and transport hub. The firm plans to expand its logistics presence within the country by focusing on the Mlolongo and Syokimau areas which have continued to offer new investment areas for storage and logistics following the completion of the Standard Gauge Railway (SGR) and the establishment of an inland container depot. The establishment of the prime logistics and warehousing space is expected to commence in 2021 and will be ready for occupation in mid-2022.

The decision by Grit Real Estate Income Group to invest in a modern warehousing facility signals rise in demand for high-quality storage for goods with features such as; (i) high floor load-bearing capacity, (ii) low operating costs due to environmental friendly features such as solar-powered electricity, and, (iii) approximately 12 m operating heights which make it possible to stack more goods. Besides the demand for good warehousing spaces stems from the prevalence of outdated spaces in most industrial parks in Kenya despite the growing demand for the spaces as the manufacturing sector continues to expand. The decision to focus on Mlolongo is supported by; (i) relatively good infrastructural network with the area being served by Mombasa Road, (ii) availability of development land, iii) proximity to the Standard Gauge Railway terminus that serves as an offloading point for Nairobi for goods coming from Mombasa, and iv) the zoning of the area as an industrial zone thus high presence of industries.

We expect the industrial sector to witness a growing uptake and occupancy of warehouse space fuelled by; (i) expansion of local and international retailers seeking storage space for goods, (ii) government focus on the Big 4 Agenda on manufacturing which is expected to influence demand for warehouses, (iii) the improving infrastructure, for instance, the construction of SGR phase two which will increase the output of Special Economic Zones, and, (iv) growth in e-commerce trade.

The real estate sector is expected to continue recording activities with an anticipated focus on affordable residential projects, modern warehousing facilities, and establishment of land reforms. Nevertheless, the sector especially the residential theme is expected to continue being faced by the COVID-19 pandemic which has resulted in a shift in buyer trends.