Property Regulations in Kenya, & Cytonn Weekly #03/2021

Real Estate

I. **Residential Sector**

During the week, British Foreign Secretary Dominic Raab announced that Kenya is expected to receive at least Kshs 8.0 bn from the United Kingdom to finance the construction of approximately 10,000 affordable houses through Acorn Holdings, a local real estate developer. The funds which will be released in tranches will consist of Kshs 1.0 bn from UK funded InfraCo and another Kshs 7.0 bn from private investors. The investment affirms UK's government's support for the Big Four Agenda on affordable housing that is aimed at delivering affordable homes for Kenyans. Kenya government has continued to push for the delivery of the targeted 0.5 mn units but the implementation of the projects has continued to lag behind with less than 1,000 units delivered so far mainly through the Park Road Project and Pangani Estate, while other projects such as Shauri Moyo, Makongeni and Starehe houses are still in the pipeline. The main challenges facing the delivery have included; (i) unavailability of affordable financing to developers, (ii) bureaucracy and slow project approval processes, (iii) the pending operationalization of the Integrated Project Delivery Unit (IPDU) which was tasked with being a single point of regulatory approval for developments, infrastructure provision and developer incentives, (iv) failure to fast track incentives provided in support of the affordable housing initiative, (v) ineffectiveness of Public-Private Partnerships, (vi) obstacles in our capital markets regulatory framework, which make it difficult to raise capital for real estate development, and, (vii) the current economic slowdown due to the ongoing pandemic. We therefore expect the provision of funding from the UK government will positively drive the initiative by facilitating implementation of projects through Acorn. In spite of the above, the implementation of approximately 10,000 housing units is still a drop in the ocean given the relatively high demand evidenced by more than 300,000 individuals who have registered to purchase affordable homes through the Boma Yangu initiative. Additionally, the 2022 target of 500,000 units remains a pipers dream as there is still no clear path to achieving that. In our view, despite the milestones achieved by the government in driving the affordable housing initiative, the above stated challenges still need to be addressed to fast track the supply of affordable housing units. In addition, there is need for vigorous raising of funds for the initiative especially in the wake of reduced budget allocation towards the same for FY 2020/21 at Kshs 6.9 bn 34.3% lower than the Kshs 10.5 bn allocated in FY 2019/2020.

II. **Retail Sector**

During the week, Naivas Supermarket announced plans to open its 70th retail store at Kilifi Complex Centre in Kilifi towards the end of January taking up the 25,000 SQFT space previously occupied by troubled retailer Tuskys. This follows the opening of other outlets such as Ananas Mall in Thika, Hazina Towers, and Prestige Plaza among others. The rapid expansion by Naivas is supported by availability of funds having raise approximately Kshs 6.0 bn in August 2020 from the sale of a 30.0% stake to a group of investors, including the International Finance Corporation.

The decision to invest in Kilifi is supported by; i) positive demographics with Kilifi having a population of 1,453,787 as of 2019 which was a 23.7% growth from the 1,109,735 recorded in 2009, ii) a growing middle class with increased consumer purchasing power, and, iii) the area's recognition as a major tourist destination in Kenya, due to its rich cultural heritage and proximity to the Indian Ocean.

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 2021	Closed branches	Current number of Branches	Branches expected to be opened / closed	Projected total number of branches
Naivas Supermarket	69	0	0	69	1	70
Tuskys	52	0	14	52	27	25
QuickMart	35	0	0	35	0	35
Chandarana Foodplus	20	0	0	20	0	20
Carrefour	8	0	0	8	3	11
Uchumi	37	0	33	4	0	4
Game Stores	3	0	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	**308**	**0**	**127**	**195**	**31**	**172**

Source: Online Research

The continued expansion of local retailers such as Naivas, has significantly cushioned the real estate retail sector whose performance has been dwindling attributable 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 the retail sector of 2.0 mn SQFT in the Kenya retail as at 2020 thus resulting in pressure on landlords to provide concessions and other incentives to attract new clientele or retain existing tenants. According to the Cytonn's Kenya Retail Report 2020, the retail sector on overall recorded a decline in the average rental yield by 0.3% points to 6.7% in 2020 from 7.0% in 2019, while the occupancy rates also recorded a 0.7% points drop to 76.6% in 2020 from 77.3% in 2021.

The performance of the key urban centers in Kenya is as summarized below;

(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%**

Summary of Retail Performance in Key Urban Cities in Kenya

Region	Rent/SQFT 2020	Occupancy % 2020	Rental Yield 2020
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

Despite declines in performance, some of the factors expected to continue supporting the growth of the retail sector in Kenya include; i) continued improvement of infrastructure opening up areas for investment, ii) rapid urbanization and population growth rates of around 4.0% and 2.2%, respectively against a global average of 1.9% and 1.1%, 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.

The real estate sector is expected to continue recording increased activities supported by the continued focus on the affordable housing initiative and the constant expansion by local retailers taking up prime spaces vacated by struggling retailers.