Mobile Payments, & Cytonn Weekly #05/2021

Real Estate

I. Industry Reports

During the week, Hass Consult released the Q4'2020 House Price Index, highlighting that residential house prices stagnated in Q4'2020, registering a 1.2% q/q decline bringing the overall performance for the year to a marginal increase of 0.2% y/y. This was attributed to an average price decline of 4.6% y/y on apartments, while both detached and semi-detached houses retained positive price growth at 0.03% y/y. Other key take-outs from the report include;

?. Kileleshwa and Kilimani apartments registered the highest decline in prices of 2.6% and 2.8%, q/q, respectively, as well as declines of 9.9% and 8.6% y/y, respectively, largely attributed to the overall high stock of houses with reduced uptake amid the pandemic,
i. Residential rental prices recorded a 1.1% increase q/q, despite a 1.2% fall in apartment's rental prices during the same period, with apartments in Kilimani registering the highest decline at 4.0%, followed by Kileleshwa at 2.6%, as landlords reduced rental rates in a bid to woo tenants to take up units,
ii. Average rental prices increased by 5.5% y/y attributed to a 7.3% y/y rise in rental prices for detached houses in 2020, attributed to consumers' preference to renting as opposed to buying.

The above indices are in line with our Cytonn Annual Markets Review-2020 report, which highlighted that the residential unit prices stagnated with detached houses recording a 0.1% y/y increase in house prices in 2020 while apartments recorded a 0.5% y/y decline in unit prices. This was attributed to tough economic environment that caused buyers to hold on to money amid market uncertainty and reduced disposable income. We expect the market to continue experiencing constrained transaction volumes with the ongoing pandemic, however markets such as Rosslyn, Ridgeways and Ruiru continue to offer above average returns for detached units while for apartments, investment opportunity lies in satellite towns such as Thindigua and Syokimau.

Hass Consult also released their Q4'2020 Land Price Index, and the key take-outs were:

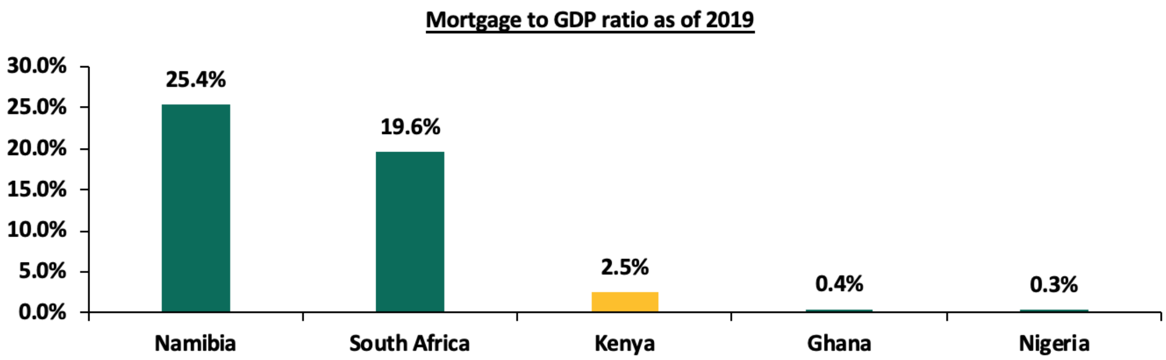
?. Land prices in Nairobi's satellite towns registered sluggish growth in Q4'2020, coming in at 0.4% q/q while the y/y growth dampened registering an unprecedented fall of 1.1% in 2020 compared to a 6.9% rise in 2019,
i. Land in Kiambu County registered extensive price corrections in 2020, as Kiambu Town, Ruiru and Limuru recorded the highest annual price declines of 11.4%, 6.0% and 3.0%, respectively after years of speculative land buying activity due to massive infrastructure upgrades,
ii. Land prices in Nairobi's suburbs remained stagnant during the quarter and declined y/y by 2.6% in 2020 compared to a 1.7% y/y rise in 2019, and,
iii. Parklands registered the highest land price decline in 2020 coming in at 7.4% y/y, followed by Riverside at 7.2% y/y. In our view, this is attributable to reduced demand for development land on the commercial space front given the existing oversupply of both office and retail space.

The above findings are slightly different from our Cytonn Annual Markets Review-2020 report, which highlighted that land prices remained resilient in 2020 despite the tough economic environment evidenced by a 2.3% annual capital appreciation and 10.7% 9-year CAGR. In our view, land performance is expected to be on an upward trajectory as investors still consider land a good investment asset in the long term, with land prices in satellite towns expected to continue outperforming those in suburbs due to their affordability, availability in bulk and the improving infrastructure with the implementation of select projects.

II. Residential Sector

During the week, Shelter Afrique, a Pan-African housing lender and real estate developer, partnered with NCBA Bank to provide mortgage financing to 200 home buyers in Nairobi, Mombasa, Kisumu, Kiambu and Machakos counties, in targeted projects such as Tatu City in Kiambu, Eden Beach in Mombasa, and, Edenvale in Nairobi. The housing units being financed include maisonettes and apartments whose prices range between Kshs 5.5 mn to Kshs 20.3 mn, at an interest rate of 13.0%, higher than the market average rate of 11.3% according to the Central Bank of Kenya, with a minimum deposit rate of 10.0% of the property value and a maximum repayment period of 25 years, compared to the market average of 20 years. NCBA Bank seeks to provide customers with property loans to cover purchase of plots, construction financing and loans to buy and build thereby boosting the number of mortgage accounts which stands at 27,993 as at 2019 out of an adult population of more than 24.0 million people in Kenya. In terms of mortgage penetration, Kenya has continued to record a relatively low mortgage to GDP ratio which stands at 2.5% as at 2019, compared to other African countries such as Namibia at 25.4%. The low mortgage uptake has been low due to; i) the high interest rates and high deposit requirements, ii) soaring of property prices, iii) low-income levels making it hard to service loans, and, v) lack of credit risk information for those in the informal sector leading to their exclusion.

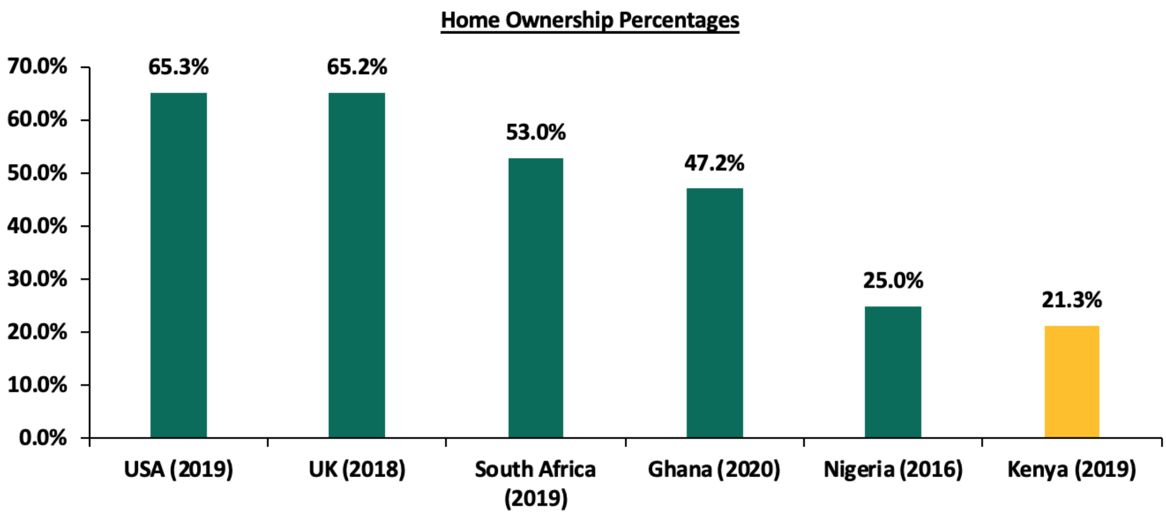
The graph below shows the Mortgage to GDP ratio of different countries as of 2019;



Source: Centre of Affordable Housing Africa

The above partnership is expected to result in increased mortgage uptake thus sparking an increase in the urban home ownership level which has remained low in Kenya at approximately 21.3%, implying that more than 78.7% of the total population are renters, compared to more developed countries such as South Africa which have more than 53.0% of the population owning homes. The low home ownership level in Kenya is mainly attributed to unavailability and unaffordability of housing finance.

The graph below shows the home ownership percentages for different countries in comparison to Kenya;



Source: Centre of Affordable Housing Africa

III. Retail Sector

During the week, French Retailer Carrefour opened a new outlet at Nextgen Mall along Mombasa Road, in an expansion drive that saw it take up 1,800 SQFT of space previously occupied by Souk Bazar supermarket. This brings its number of operational outlets to 10 having opened its first outlet in Mombasa County at City Mall in Nyali in November 2020. The continued expansion into Nextgen Mall is supported by the high quality space with the mall, improved infrastructure, as well as high footfall within the mixed-use development. The average rent per SQFT in Mombasa Road stands at Kshs 140, which is relatively low compared to the market average of Kshs 169. This is mainly attributable to dwindled demand for space within the node due to unattractiveness to investors given the traffic congestion in the area.

The table below shows the retail performance of nodes in the Nairobi Metropolitan Area in 2020;

(All values in Kshs unless stated otherwise)

Nairobi Metropolitan Area Retail Market Performance FY'2020

Area	Rent /SQFT FY'2020 (Kshs)	Occupancy% FY'2020	Rental Yield FY'2020
Westlands	209	81.5%	9.9%
Karen	217	81.0%	9.8%
Kilimani	171	82.5%	8.5%
Ngong Road	178	80.3%	8.2%
Kiambu road	176	67.5%	6.9%
Thika Road	158	70.5%	6.3%
Eastlands	137	70.2%	6.1%
Mombasa road	140	70.0%	5.9%
Satellite towns	133	73.0%	5.8%
Average	169	75.2%	7.5%

Source: Cytonn research 2020

The taking up of space left by troubled retailers such as Tuskys and Shoprite, and the continued expansion by local and international retailers is expected to cushion the retail sector, however, we expect the trend towards online shopping to continue affecting uptake of physical space whose oversupply in the Nairobi Metropolitan Area currently stands at 3.1 mn SQFT.

The table below shows the number of stores of 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 2021
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	9	1	0	10	2	12
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	309	1	127	197	30	173

Source: Online Research

We expect the performance of the real estate sector to be cushioned by resilience of land prices, provision of mortgage facilities to increase home ownership and expansion by local and international retail chains taking up spaces left by troubled retailers.