Lifestyle Communities, & Cytonn Weekly #06.2021

Real Estate

I. Industry Reports

During the week, Knight Frank, a real estate developer released their Kenya Market Update H2’2020 Report. The report tracks the status and trends in various economic sectors in Kenya including prime real estate. Some of the key highlights from the report were;

- Prime monthly retail rent prices remained unchanged over the review period at Kshs 459 per SQM (4.2 USD per SQFT) similar to H1’2020. The stagnation was mainly attributed to an oversupply of retail centres, economic slowdown, restrictions on mobility due to the nationwide curfew, unfavourable business climate, landlords adopting a range of concessions and less disposable income which all resulted in reduced consumer spending. According to the report, retail centres recorded average occupancy rates of between 70.0%-80.0% with more established malls having an average occupancy levels of 90.0%,
- Prime commercial office monthly rental charges recorded a 12.7% decline to Kshs 142 per SQFT from Kshs 124 per SQFT in H1’2020. Absorption of Grade A and B office space decreased by 50.0% during the review period compared to a similar period in 2019, with overall absorption for the year 2020 declining by 47.0%. The declines in the uptake and rental rates of offices is attributed to oversupply in the commercial spaces in some submarkets, the tough economic times which has resulted to businesses scaling down their operations, the adaptation of the working from home amid the COVID-19 pandemic, and,
- Prime residential sale prices in Nairobi declined by 3.9% in 2020, compared to a decline of 4.0% in 2019. This was mainly attributed to developers and sellers being more flexible and willing to negotiate lower prices with potential buyers amid a tough economic environment. Prime residential rents experienced a sharp decline of 10.3% in 2020, compared to a decline of 2.8% in 2019 attributed to the continued oversupply of rental properties, less disposable income due to the unfavourable economic climate, budget cuts from multinationals and fewer expatriates in the country as a significant number relocated back to their home countries in H1’2020 due to the pandemic.

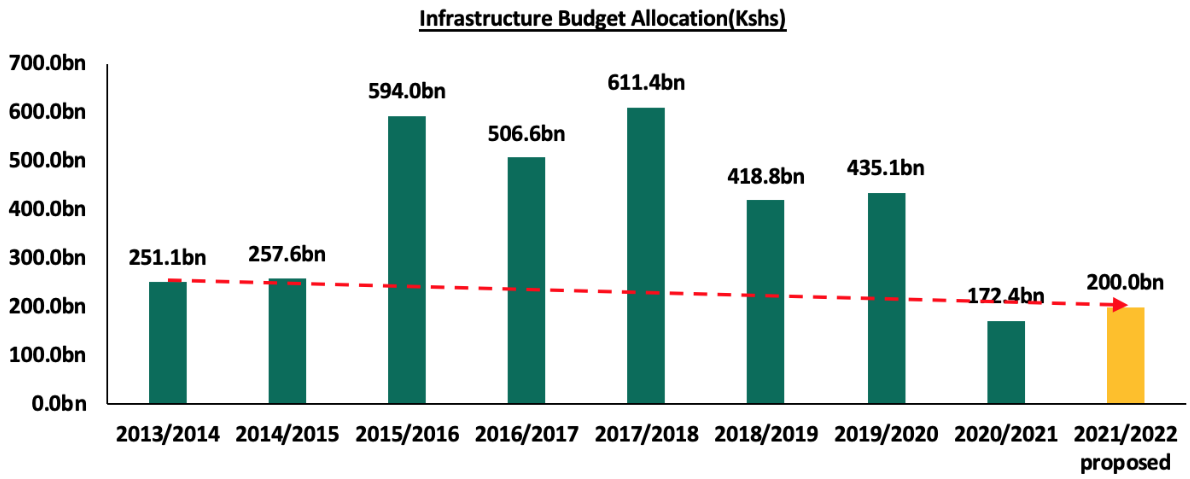
The findings of the above report are in line with our views on the Cytonn Annual Markets Review-2020 which stated that the average rental yields on the residential, commercial office and retail sectors softened coming in at 4.7%, 7.0%, and, 7.5% in FY’2020 from 5.0%, 7.5% and 7.8% respectively in FY’2019. The declines in performance is attributed to the overall declines in rental charges, occupancies and uptake as a result of the negative impacts of the COVID-19 pandemic on the real estate sector. The sectors performance is expected to improve in the long run as economic activities continues to regain momentum amid the discovery of the COVID-19 vaccine.

II. Infrastructure

During the week, the Kenya Urban Roads Authority (KURA) announced the construction of a Kshs

907.2 mn 8-Kilometre road in Nairobi's Umoja-Innercore aimed at improving access into the area. The project is expected to include a 7-meter wide two lane carriageway, a foot path, bus bays, drainage facilities, road markings and street lighting. The Umoja-Innercore project consists of several roads namely; Ruaraka Crescent Road, Kangundo Moi Drive link and Malewa-Mwangaza Road. The continued implementation of select infrastructural projects in Kenya has been occasioned by the reduced budget allocation through the National Budget, where the sector was allocated Kshs 172.4 bn for financial year 2020/2021 budget, the lowest allocation in the last 10 financial years, and 60.4% lower than the Kshs 435.1 bn allocated in the 2019/2020 budget, attributed to diversion of funds towards the mitigation of the spread of the COVID-19 pandemic. However, the National Treasury proposed an allocation of Kshs 200.0 bn to the State Department of Infrastructure, which is in charge of the development of roads, railways and other infrastructure. The proposal is expected to increase the budget allocation to the infrastructure sector by 16.0% from Kshs 172.4 bn allocated for financial year 2020/2021.

The graph below shows the budget allocation to the infrastructure sector over the years;



Source: National Treasury

The expected increase in the infrastructure budget allocation is expected to boost the implementation of select infrastructural projects thus opening up areas for development hence boosting the real estate sector. This will be in line with the country's economic expansion goals to make Kenya the African hub for transportation, industrial, and services sectors. Despite the reduced budget allocation to the sector some of the other ongoing infrastructural projects include; i) the Nairobi Express way, ii) Nairobi Western Bypass, iii) Lamu Port Access Road, and, iv) the Mombasa Port Development Project among others.

The real estate sector is expected to continue recording sluggish growth amid the tough economic environment. However, the continued implementation of infrastructural projects opening areas for development is expected to boost the sector.

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