

Unit Trust Fund Performance Q3'2020, & Cytonn Weekly #07/2021

Real Estate

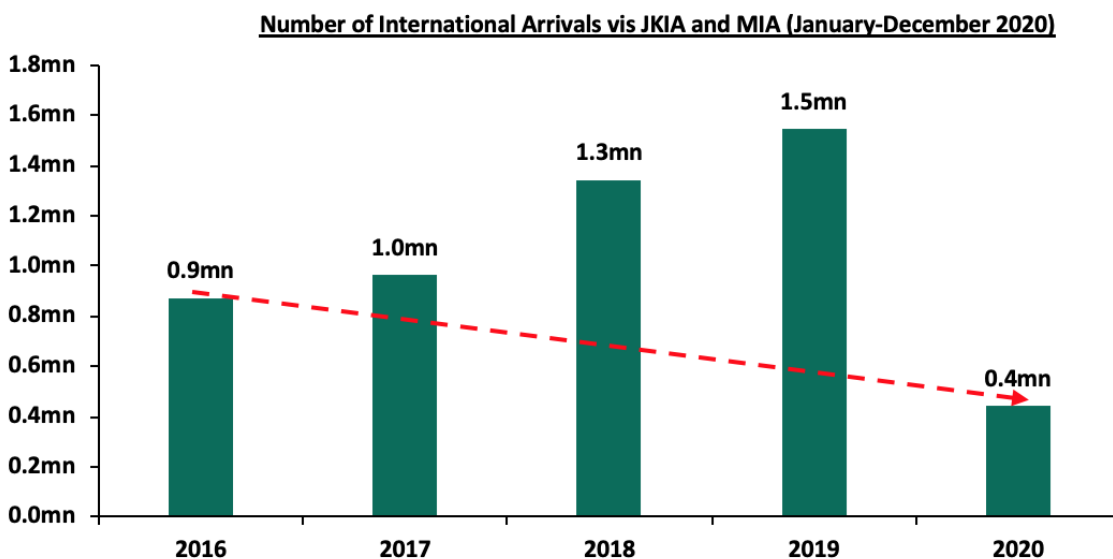
Real Estate

I. Industry Reports

During the week, the Kenya National Bureau of Statistics (KNBS) released the **Leading Economic Indicators December 2020**. The key take outs were as follows:

- i. The total number of international arrivals through Jomo Kenyatta International Airport (JKIA) and Moi International Airport (MIA) rose by 48.7% from 31,875 persons in November 2020 to 47,406 persons in December 2020. This is an indication of gradual recovery in the tourism industry which expected to boost the performance of the hospitality sector. The Hospitality sector which was the worst hit real estate by COVID-19 pandemic is expected to recover largely supported by government strategies 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), recognition of Nairobi as a regional hub, repackaging of the tourism sector products to appeal to domestic tourists, and, relaxation of travel advisories and reopening of Kenya's key tourism markets.

The graph below shows the number of international arrivals in Kenya in the last five years;



Source: Kenya National Bureau of Statistics

- ii. Consumption of cement decreased by 6.9% from 760,769 metric tonnes in October 2020 to 710,685 metric tonnes in November 2020. However, in the entire year, consumption of rose by 19.6% from 5.4 mn metric tonnes in 2019 to 6.5 mn metric tonnes in 2020, attributed to the ongoing mega infrastructural projects such as the construction of the 21.7-kilometre Nairobi

Expressway, 17-kilometre Western Bypass, and, the Lamu Port project among many others.

Given the above statistics, we expect the real estate sector to continue recording increased activities in the hospitality front supported by gradual recovery in the tourism industry, and, the expected increase in the number of building approvals following increase in development activities, which will translate to increased cement consumption.

II. Residential Sector

A notable highlight during the week is;

- i. Unity Homes, a Kenyan residential property developer, announced plans to develop a Kshs 4.0 bn, 576-unit apartment complex dubbed Universal One, in the Lekki Free Zone in Lagos City, Nigeria in an international expansion drive. The units will be set up in Alaro City, a mixed-use master planned development featuring industries, logistics centres, offices and homes. The development will be backed by Rendeavour, an international urban real estate developer. The move by Unity Homes to expand their reach to other countries besides Kenya is an indication of investor confidence in the trend towards master planned developments, supported by: i) high developer returns, ii) security of returns for investors with a guarantee of increased value, and, iii) demand for investment grade real estate offering the live, work and play setting.

III. Retail Sector

During the week, French Retailer Carrefour opened a new outlet at Centre Point Mall in Diani, Kwale County, in an expansion drive that saw it take up approximately 10,000 SQFT of space previously occupied by retail giant Nakumatt. This brings the retailers number of operational outlets to 11 having opened its first outlet outside Nairobi, in Mombasa County at City Mall in Nyali during the month of November 2020 and another outlet at Nextgen Mall along Mombasa Road, Nairobi, in January 2021.

The retailer aims to serve an even bigger customer base in Kwale County at the coastal region of Kenya supported by ; i) positive demographics with Kwale having a population of 866,820 as of 2019 which was a 33.4% growth from the 649,931 recorded in 2009, ii) a growing middle class with increased consumer purchasing power, iii) the area's recognition as a major tourist destination in Kenya, due to its rich cultural heritage and proximity to the Indian Ocean, and, iv) improved infrastructure such as the ongoing construction of the Dongo- Kundu bypass enhancing ease of accessibility.

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	2	0	11	0	11

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
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	2	127	197	28	172

Source: Online Research

The taking up of space left by troubled retailers such as Nakumatt, 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 Kenyan retail market currently stands at 2.0 mn SQFT.

The real estate sector is expected to continue recording activities supported by the gradual recovery of the tourism industry thus supporting the performance of the hospitality sector, and the expansion by international retailers.

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