Cytonn Monthly - February 2021

Real Estate

I. Industry Reports

During the month, various industry reports were released and the key take-outs were as follows:

#	Theme	Report	Key Take-out
1	Residential	Hass Consult Q4’2020 House Price Index	• Residential house prices stagnated in Q4’2020, registering a 1.2% q/q decline 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. For more information, see Cytonn Weekly #05/2021
2	Land	Hass Consult Q4’2020 Land Price Index	• 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. For more information, see Cytonn Weekly #05/2021
3	General Real Estate	Knight Frank Kenya Market Update H2’2020 Report	• In comparison to H1’2020, prime monthly retail rent prices remained unchanged, while prime commercial office and residential monthly rental charges recorded declines of 12.7% and 3.9%, respectively in H2’020. For more information, see Cytonn Weekly #06/2021
		Leading Economic Indicators December (LEI) 2020	• The number of international arrivals rose by 48.7% from 31,875 in November 2020 to 47,406 in December 2020. For more information, see Cytonn Weekly #07/2021

Performance of the real estate sector is expected to pick in the long run following development activities gaining momentum, land performance remaining resilient as a good investment despite sluggish growth of land prices and improvement in the tourism industry boosting hospitality sector performance.

II. Residential Sector

During the week, Infinity Development Limited, a design and building provider, announced plans to develop a 40-floor development dubbed West Riverside Tower to be located along Ring Road, Westlands. The lifestyle development will sit on a 0.5-acre piece of land and will comprise prime residential accommodation. The decision to put up the development in Westlands is supported by; i) Westlands’ positioning as a commercial hub, thus attracting a high number of clients, ii) improved infrastructure opening up areas for development with the construction of the Nairobi Expressway expected to cause an increase in property prices, iii) relaxation of zoning regulations enabling the construction of skyscrapers, and, iv) above-average returns of lifestyle apartments. Furthermore, the trend towards lifestyle developments continues to take shape supported by; i) the growing middle class with increased disposable income, ii) demographic growth presenting an ideal market for lifestyle communities, and, iii) benefits of the economies of scale as developers can offer amenities and services at a relatively lower unit cost.

According to the Cytonn Annual Markets Review- 2020, apartments performance in Westlands recorded total returns of 5.5%, 0.3% point higher compared to the upper mid-end market average of 5.2% with a price appreciation of 0.2% despite the tough economic environment, and a rental yield of 5.3%, 0.1% higher than the market average of 5.2% indicating sustained demand for rental units. This is an indication that the move by Infinity Developers is a step in the right direction towards achieving above-average returns through investing in lifestyle apartments,

The table below shows the performance of the residential apartments in the upper-mid end segment in 2020;

(All Values in Kshs unless stated otherwise)

Apartments Performance FY’2020

Area	Average Price Per SQM FY'2020	Average Rent per SQM FY'2020	Average Occupancy FY'2020	Average Uptake FY'2020	Average Annual Uptake FY'2020	Average Rental Yield FY'2020	Average Y/Y Price Appreciation FY'2020	Total Returns FY'2020
Upper Mid-End								
Kilimani	108,696	818	89.0%	90.4%	34.0%	6.0%	0.2%	6.2%
Kileleshwa	124,057	637	84.3%	83.4%	20.4%	5.2%	0.6%	5.8%
Westlands	145,479	783	78.5%	83.0%	26.4%	5.3%	0.2%	5.5%
Parklands	115,793	677	83.4%	84.1%	16.7%	5.5%	(0.4%)	5.1%
Loresho	117,016	560	89.7%	89.0%	11.4%	5.2%	(0.4%)	4.8%
Upperhill	130,608	710	77.0%	78.3%	13.0%	4.2%	(0.1%)	4.0%
Average	123,608	697	83.7%	84.7%	20.3%	5.2%	0.0%	5.2%

Cytonn Research 2020

Notable highlights during the month are;

i. 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. For more information, see Cytonn Weekly #05/2021, and,
ii. 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. For more information, see Cytonn Weekly #07/2021.

We expect performance of the residential sector to improve following increased development activities and provision of relatively affordable mortgage facilities to facilitate increase in homeownership.

III. Retail Sector

During the week, French Retailer Carrefour opened a new outlet in Westgate Mall in Westlands, taking up approximately 15,000 SQFT of space previously occupied by Shoprite. This brings the retailers number of operational outlets to 12 having recently opened an outlet at Centre Point Mall in Diani and in Mombasa County at City Mall in Nyali.

In terms of the sub-markets analysis, Westlands was the best performing nodes recording average rental yields of 9.9%, compared to the overall market average of 7.5%. The performance is attributed to the presence of affluent residents who have a high consumer purchasing power with the areas hosting high-end income earners, the ease of access to the area served with good road connectivity, and, relatively high occupancy and rental rates of 81.5% and Kshs 209, respectively, against the market average of 75.2% and Kshs 169.

The table below shows Nairobi Metropolitan Area retail performance in FY'2020;

(All Values in Kshs Unless Stated Otherwise)

Nairobi Metropolitan Area Retail Market Performance FY'2020

Area	Rent Kshs /SQFT FY'2020	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 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	Highest No. of Branches that ever Existed	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	1	0	70	0	70
Tuskys	64	0	59	5	0	5
QuickMart	37	1	0	38	0	38
Chandarana Foodplus	20	0	0	20	0	20
Carrefour	9	3	0	12	0	12
Uchumi	37	0	33	4	0	4
Game Stores	3	0	0	3	0	3
Choppies	15	0	13	2	0	2

Also during the month;

i. French Retailer Carrefour opened two new outlets, at Nextgen Mall along Mombasa Road taking up approximately 18,000 SQFT of space previously occupied by Souk Bazar supermarket, and the other at Centre Point Mall in Diani, Kwale County taking up approximately 10,000 SQFT of space occupied by former retail giant Nakumatt. For more analysis, see Cytonn Weekly #05/2021, and, Cytonn Weekly #07/2021

We expect performance of retail sector in the Nairobi Metropolitan Area to continue being affected by the oversupply of approximately 2.0 mn SQFT, however, expansion by local and international retailers taking up space left by troubled retailers such as Nakumatt and Shoprite will boost performance of the sector.

IV. Infrastructure

A notable highlight during the month in the infrastructure sector;

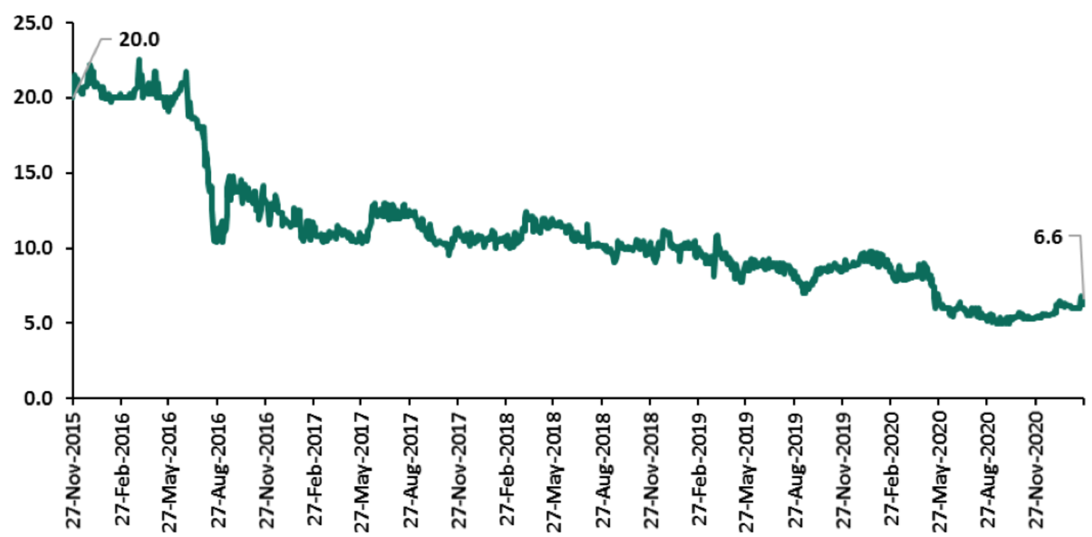
i. The Kenya Urban Roads Authority (KURA) announced the construction of a Kshs 907.2 mn 8-Kilometre road in Nairobi's Umoja-Innercore aimed at improving access into the area. The project is expected to include a 7-meter wide two-lane carriageway, a footpath, bus bays, drainage facilities, road markings and street lighting. For more information, see Cytonn Weekly #06/2021.

V. Listed Real Estate

During the month, the Fahari I-REIT closed the month trading at an average price of Kshs 6.6 per share, representing a 6.5% increase compared to the previous month's closing price of Kshs 6.2 and bringing the YTD increase to 8.2% having opened the year at an average share price of Kshs 5.8;

The graph below shows performance of the Fahari I-REIT since inception;

Fahari I-REIT Performance (November 2015- February 2021)



A notable highlight during the month in the REIT market;

Student hostels developer, Acorn Holding's listed their development REIT (D-REIT) and income REIT (I-REIT) at the Nairobi Stock Exchange at a cost of Kshs 7.5 bn, making it the first product to be traded on the Unquoted Securities Platform (USP) which was launched in December 2020. Acorn aims to tap into Kenya's capital market to unlock growth opportunities as it seeks to grow its capacity in student hostels. Some of the key challenges that are still facing the REIT market include; i) insufficient institutional grade real estate assets, iii) lack of investor appetite in the instrument, and iv) negative investor sentiments.

We expect that quoting the REITs on the USP will allow the asset class to access a wider pool of investors, enhance the liquidity of their shares as well as support capital raising needs in the future, and therefore opening an investment path where local and foreign investors can inject funds.

The real estate sector is expected to continue recording activities supported by the gradual recovery of the tourism industry thus boosting performance of the hospitality sector, increased activities in the residential sector especially for lifestyle apartments, the expansion by international retailers and the continued launch of infrastructure projects by the government.
