

# Financial Planning for Education, & Cytonn Weekly #10/2021

## Real Estate

### I. Industry Reports

During the week, the Kenya Bankers Association (KBA) released the **Housing Price Index, March 2021 Report**, highlighting that house prices rose by 0.2% in Q4'2020, an improvement from the 0.1% contraction recorded in Q3'2020. The marginal improvements in the housing prices are attributed to, preference by homeowners to newer buildings over the older ones, and, reduced private-sector lending, especially for the construction sector and this has significantly affected the incoming supply of new units consequently contributing to the rise in house prices. Other key take-outs from the report include;

- Apartments accounted for approximately 71.0% of sales while maisonettes and bungalows accounted for 23.0% and 4.0%, respectively, while townhouses accounted for 2.0% of the concluded sales in Q3'2020, and,
- Lower mid-end residential markets within the Nairobi Metropolitan Area such Ruaraka, Kasarani, and Kitengela recorded the highest activities accounting for 52.0% of the sales during the quarter, with upper-mid-end areas such as Thindigua and South B at 45.0%, and, high-end markets such as Kileleshwa and Karen at 3.0% of the sales, indicating that buyers continue to focus on affordability as the main metric for purchasing homes.

The above findings are in line with the **Cytonn Annual Markets Review-2020**, which highlighted that buyers continued to show a preference for apartments as opposed to detached units. In terms of annual uptake, detached units recorded an average of 16.9% compared to apartments at 21.7% indicating continued demand for apartments supported by affordability amid reduced disposable income. Investment opportunity for apartments lies in the lower mid-end market such as Ruaraka, Kasarani, and Kitengela which continues to show increased demand and continue to post above-average market returns due to the higher annual uptake. For detached units, the opportunity lies in the upper mid-end market in submarkets such as Thindigua, and, South B due to high occupancies and attractive rental yields

### II. Residential

During the week, Sycamore Pine Limited, a real estate developer announced plans to construct 1,959 residential apartments under a project dubbed Samara Estate to be located in Migaa Gold Estate in Kiambu County. The Kshs 11.0 bn affordable housing development will sit on a 17.2-acre piece of land is expected to be completed in 2024. It will comprise two and three-bedroom units of 59 SQM and 76 SQM priced at Kshs 3.0mn and 4.0mn, respectively. The unit prices translate at an average of Kshs 44,408 per SQM, 40.9% lower than the satellite towns' residential market average for apartment's value of Kshs 75,187 according to the **Cytonn Annual Markets Review-2020**. In our view, the investors' decision to focus on the affordable housing project in Kiambu is supported by i) availability of development land, ii) infrastructural development which continues to open up the area

for development, iii) availability of social amenities such as the Migaa Golf Club, iv) incentives by the government on affordable housing projects, and, v) positive demographics with Kiambu town hosting a population of 147,870 as of 2019, 36.0% higher than 108,698 recorded in 2009 according to KNBS. Additionally, in terms of performance, apartments in satellite towns recorded an annual uptake, rental yield, and, total returns of 22.5%, 5.0%, and, 5.5% compared to the market averages of 21.5%, 5.7%, and, 5.2%, respectively.

The table below shows the apartments performance summary FY'2020

All Values in Kshs Unless Stated Otherwise

<b>Apartments Performance Summary FY'2020</b>							
<b>Segment</b>	<b>Average Price per SQM (Kshs)</b>	<b>Average Rent per SQM (Kshs)</b>	<b>Average Occupancy</b>	<b>Average Annual Uptake</b>	<b>Average Rental Yield</b>	<b>Average Price Appreciation</b>	<b>Annual Total Returns</b>
Upper Mid-End	123,608	697	83.7%	20.3%	5.2%	0.0%	5.2%
Lower Mid-End	95,310	530	88.1%	22.3%	5.8%	(0.9%)	4.9%
Satellite Towns	75,187	408	85.8%	22.5%	6.0%	(0.6%)	5.5%
<b>Average</b>	<b>98,035</b>	<b>545</b>	<b>85.9%</b>	<b>21.7%</b>	<b>5.7%</b>	<b>(0.5%)</b>	<b>5.2%</b>

Source: Cytonn Research

***The real estate sector is expected to continue recording activities particularly in the residential sector supported by the continued launch of projects by investors especially in the satellite towns of the Nairobi Metropolitan Area.***

Liason House, StateHouse Avenue

The Chancery, Valley Road

www.cytonn.com

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