Public-Private Partnerships (PPPs) in the Real Estate Industry in Kenya, & Cytonn Weekly #19/2021

Real Estate

I. **Industry Reports**

During the week, Hass Consult, a local real estate company, released the House Price Index Q1’2021, a report that highlights the performance of residential buildings within the Nairobi Metropolitan Area. Some of the key take outs from the report include;

- House prices recorded a 0.7% drop q/q, and a 1.8% drop y/y, attributed to the reduced consumer purchasing power of individuals which has affected uptake of properties,
- Apartments in Lang’ata recorded the highest price appreciation of 2.9% q/q, and 1.6% y/y attributed to increased demand due to their affordability, on the other hand, Westlands apartments recorded the highest q/q drop with prices declining by 3.3%,
- Ruiru recorded the highest q/q price appreciation of 2.7% for satellite towns while Ngong recorded the highest y/y increase at 8.4%. Juja had the highest q/q and y/y price depreciation of 4.2% and 10.8% respectively, and,
- Overall, rental prices increased by 1.2% q/q and 5.1% y/y with Donholm recording the highest rental appreciation of 2.2% q/q while Muthaiga recorded the highest y/y rental appreciation of 7.8%. The general appreciation in the rental rates is attributed to growing demand for rental housing as people relocated due to reduced disposable income brought about by the tough economic environment.

The findings of this report are not in line with the Cytonn Q1’2021 Markets Review which indicated that the residential sector posted a price appreciation of 0.5% q/q in Q1’2021 with average Y/Y total returns to investors coming in at 5.1%, up from 4.7% attributed to increased market activities at the start of the first quarter of the year. We expect the returns to investors to record slight improvements supported by the expected improvement in market activities due to the reopening of the economy. As per our report investment opportunity for apartments lies in areas such as South C, Ruaka and Thindigua which continued to post high returns of 6.5%, 6.2% and 6.0% respectively while for detached units, opportunity lies in submarkets such as Rosslyn, Ruiru and Kitisuru which posted returns of 6.7%, 6.3%, and 5.9 % respectively.

Hass Consult also released the Q1’2021 Land Price Index, and the key take outs are;

- Land prices within the Nairobi suburbs recorded a price appreciation of 0.2% q/q, indicating that people still consider land as a good investment asset class despite the pandemic. Satellite towns on the other hand recorded a 1.5% appreciation q/q and 0.6% price appreciation y/y, attributable to increased demand for affordable land available in satellite towns.
- Nyari registered the highest q/q increase in land prices at 2.2% and a 2.1% price appreciation y/y while Riverside posted the biggest q/q drop of 1.7%, with an annual price correction of 7.1%

within the Nairobi suburbs, and,
- Ngong recorded the highest appreciation among satellite towns at 6.1% q/q, and 16.0% y/y, supported by the affordability of land and improving infrastructure. On the other hand, Kiambu recorded the highest q/q and y/y price correction of 2.0% and 12.6%, respectively, attributed to relatively high land prices compared to other satellite towns with the average price per acre at Kshs 37.8 mn.

The findings of the report are in tandem with the Cytonn Q1'2021 Markets Review, which indicated that the land sector posted an annualized appreciation of 2.8% in Q'1 2021 indicating that people still consider land as a good investment asset in the long term. According to the report, land in satellite towns recorded an average annual price appreciation of 7.2% while land within Nairobi suburbs recorded an average annual price appreciation of 1.0%. The investment opportunity lies in sub markets such as Kitisuru, Runda, and Kasarani, which recorded relatively high annualized capital appreciation of 8.2%, 6.5% and 5.2%, respectively. For satellite towns, Juja recorded the highest annualized price appreciation of 10.5% for unserviced land whereas Thika recorded the highest annualized appreciation for site and serviced land at 10.5%.

II. **Residential Sector**

During the week, the Nakuru County Governor, Lee Kinyanjui, announced that the construction of 600 affordable housing units in Nakuru has kicked off. The project which is expected to be completed within 18 months is a joint venture between the National Government and the World Bank. The project will complement the on-going construction of 2,400 houses in Naivasha, targeting workers earning between Kshs 15,000 and Kshs 150,000. The affordable housing units will be built on a 10-acre piece of land in Bondeni Estate within Nakuru Town East Sub-County while those within Naivasha are being constructed on a 55-acre parcel of land along the Nairobi-Nakuru Highway near GK Prisons. The continued focus on the development of affordable homes in Nakuru county is attributed to the increasing demand for housing in Nakuru due to population growth with Nakuru recording a 34.9% increase in population from 1.6 mn in 2009 to 2.2 mn in 2019 creating the need for housing.

The affordable housing projects continues to take shape in Kenya with other developments being the recently launched Buxton Project in Mombasa, Shauri Moyo, Makongeni, and Starehe houses in the Nairobi Metropolitan Area which are still underway. Despite the growing demand for affordable housing units, evidenced by the relatively high number of individuals who have registered through the Boma Yangu portal currently at 316,632; the implementation of affordable housing projects has been sluggish and the initiative under the Big Four agenda by the government is expected to fall short of its target of delivering 500,000 housing units by the end of 2022. This is likely to accelerate the current housing deficit of 2.0 mn units that continues to grow at 200,000 units per annum. We expect the housing deficit to expand even further driven by the relatively high population growth of 2.2% per annum, compared to the global average of 1.9% according to World Bank. Some of the challenges that have been facing the implementation of the projects include i) bureaucracy and slow project approval processes, ii) the pending operationalization of the Integrated Project Delivery Unit which was tasked with being a single point of regulatory approval for developments, infrastructure provision and developer incentives, iii) failure to fast track incentives provided in support of the affordable housing initiative, iv) ineffectiveness of Public-Private Partnerships, and, v) the current economic slowdown due to the ongoing pandemic. The government must embark on resolving these challenges to accelerate the supply of housing units within the country in addition to investing in urban planning and infrastructure to open up areas for development.

In our view, if the project is successfully delivered within the target timelines, it will help enhance the confidence of Kenyans in the affordable housing programmes particularly projects that involves the government and other agencies such as the World Bank.

III. **Commercial Sector**

During the week, Insurance Regulatory Authority (IRA) and Capital Markets Authority (CMA) announced plans to jointly purchase office spaces within Nairobi, in a move that will see it take up at least 55,000 SQFT of office space in the Upper Hill area with a minimum of 100 parking bays. Currently both IRA and CMA offices are located in Zep-Re building and Embankment Plaza respectively. The decision by the authorities to buy office spaces maintaining Upperhill as their preferred location is supported by; i) concentration of government offices within alluring environment of Upper Hill, ii) favourable infrastructure with the area served by roads such as the Valley Road, Elgon Road, and Upper Hill Road etc, iii) proximity to the Nairobi's CBD, and, iv) favourable zoning regulations supporting densification. In terms of performance, according to the Cytonn Q1'2021 Markets Review, Upper Hill recorded relatively high rental prices of Kshs 95 against the average market price of Kshs 92 thus supporting the move by the authorities to venture into buying of office space instead of renting to cut down on costs.

The table below shows summary of Nairobi Metropolitan Area commercial office sub market performance;

All Values in Kshs Unless Stated Otherwise

Nairobi Metropolitan Area Commercial Office Submarket Performance Q1'2021

Area	Price per SQFT	Rent per SQFT	Occupancy (%)	Rental Yield (%)
Gigiri	13,400	116	81.0%	**8.3%**
Karen	13,511	107	83.8%	**8.0%**
Westlands	11,974	101	74.0%	**7.6%**
Parklands	10,763	92	77.2%	**7.4%**
Kilimani	12,187	92	78.6%	**6.7%**
Upper Hill	12,524	95	74.8%	**6.8%**
Nairobi CBD	12,110	81	80.9%	**6.6%**
Thika Road	12,417	76	74.4%	**5.3%**
Mombasa Road	11,167	72	61.6%	**4.7%**
Average	**12,228**	**92**	**76.3%**	**6.8%**

Source: Cytonn Research 2021

IV. **Retail Sector**

During the week, QuickMart supermarket, a local retail chain, announced plans to open 4 stores concurrently by mid-July, in an expansion drive that will see it take up spaces at i) Chania Mall in Thika (previously occupied by Tuskys, ii) OTC within Nairobi's Central Business District, iii) Mtwapa Mall in Kilifi, and, iv) Kitale Town in Trans-Nzoia County. This will bring the retailer's operational outlets to 45, having opened 4 outlets so far this year. The decision to open the stores is supported by; i) a rising middle class with increased disposable income, ii) the exit of retailers such as Tuskys from the market leaving prime retail space to let, iii) stiff market share competition with closest rival Naivas and Carrefour having 71 and 13 stores respectively, and, iv) improved infrastructure such as roads creating easier and faster access to the retail outlets.

In terms of performance, according to our Kenya Retail Sector Report 2020, Nairobi recorded an average rental yield of 7.5% against the market average rental yield of 6.7% implying that Nairobi continues to offer an attractive investment opportunity for retail chains. Mount Kenya where Thika is categorized recorded the best performance for the Kenyan retail market with an average rental yield of 7.7% against a market average of 6.7% attributed to increased demand evidenced by an occupancy of 78.0% against a market average of 76.6%. The table below shows a summary of the performance of the retail sector in key urban cities in Kenya.

Summary Performance of Key Urban Cities in Kenya

Region	Rent/SQFT 2020	Occupancy% 2020	Rental Yield
Mount Kenya	125	78.0%	**7.7%**
Nairobi	168.5	74.5%	**7.5%**
Mombasa	114.4	76.3%	**6.6%**
Kisumu	97.2	74.0%	**6.3%**
Eldoret	130	80.2%	**5.9%**
Nakuru	55.7	76.6%	**5.9%**
Average	**115.1**	**76.6%**	**6.7%**

Source: Cytonn Research 2020

The table below shows the summary of the number of stores of the key local and international retail supermarket chains in Kenya;

Main Local and International Retail Supermarket Chains

Name of Retailer	Category	Highest number of branches that have ever existed as at FY'2018	Highest number of branches that have ever existed as at FY'2019	Highest number of branches that have ever existed as at FY'2020	Number of branches opened in 2021	Closed branches	Current number of Branches	Number of branches expected to be opened	Projected number of branches FY'2020
Naivas	Local	46	61	69	2	0	71	3	74
QuickMart	Local	10	29	37	4	0	41	4	45
Chandarana Foodplus	Local	14	19	20	0	0	20	0	20
Carrefour	International	6	7	9	4	0	13	0	13
Cleanshelf	Local	9	10	11	1	0	12	0	12
Tuskys	Local	53	64	64	0	61	3	0	3
Game Stores	International	2	2	3	0	0	3	0	3
Uchumi	Local	37	37	37	0	35	2	0	2
Choppies	International	13	15	15	0	13	2	0	2
Shoprite	International	2	4	4	0	3	1	0	1
Nakumatt	Local	65	65	65	0	65	0	0	0
Total		**257**	**313**	**334**	**11**	**177**	**168**	**7**	**175**

Source: Online Research

Generally, the performance of the Kenya retail sector is expected to be affected by factors such as (i) constrained spending power among consumers resulting from a tough financial environment, and, (ii) an oversupply of retail space in certain locations which has resulted in pressure on landlords to provide concessions and other incentives to attract new or retain existing tenants. The performance of the sector is however expected to be cushioned by factors such as i) positive demographics, iii) continued expansion of local and international retailers taking up retail spaces left by struggling retailers, and, improving infrastructure.

V. **Mixed Use Developments (MUDs)**

During the week, Kenya Commercial Bank (KCB) Group announced that it is seeking joint venture partners to finance and develop its 153.2 acres in Juja. The firm seeks to develop a Kshs 6.0 bn mixed-use development project comprising of 5,786 residential and commercial buildings in Juja near Thika. KCB’s contribution towards the venture will therefore be its prime land worth Kshs 2.3bn whereas the JV partner will provide the cash and meet other construction related costs translating to a 38.0 % and 61.0 % shareholding respectively on the successful completion of the project. The decision by the group to seek joint venture partnership to develop its land is supported by; i) sluggish land purchase deals owed to the Covid-19 pandemic thus sourcing for development, ii) Juja’s ease of accessibility to Nairobi’s CBD, iii) population growth of 31.4% to 156,041 in 2019 from 118,793 in 2009 supporting the increased demand for housing, iv) a rising middle class with increased disposable income, and, v) improved infrastructure such as roads with the area being served by Thika Road creating easier and faster access to developments.

In terms of performance, according to the Cytonn Annual Markets Review-2020, Thika road recorded a 22.5% average uptake for residential units against the market average of 20.3% signalling demand, and an average commercial office rental price of Kshs 105 against the average market price of Kshs 112 thus providing investment opportunity due to affordability.

Table below shows summary of Nairobi Metropolitan Area mixed-use developments market performance;

All Values in Kshs Unless Stated Otherwise

Nairobi Metropolitan Area Mixed Use Developments Market Performance by Nodes 2020

	Retail Performance				Office Performance				Residential Performance				
Location	**Price/SQFT**	**Rent/SQFT**	**Occupancy**	**Rental Yield (%)**	**Price/SQFT**	**Rent/SQFT**	**Occupancy**	**Rental Yield (%)**	**Price/SQM**	**Rent/SQM**	**Annual Uptake (%)**	**Rental Yield (%)**	**Average MUD Yield**
Westlands	15,833	178	70.8%	**9.8%**	12,667	117	73.3%	**8.2%**	211,525	1,226	24.5%	**7.0%**	**8.5%**
Limuru Rd	23,900	223	85.0%	**9.5%**	13,500	130	65.0%	**7.5%**	147,496	1,166	20.0%		**7.3%**
Karen	23,333	143	88.5%	**6.7%**	13,200	123	80.0%	**9.0%**					**7.3%**
Kilimani	17,400	143	75.0%	**7.5%**	13,250	108	68.8%	**6.6%**					**7.2%**
Upper Hill	15,485	120	65.0%	**6.0%**	12,500	107	65.0%	**6.7%**					**6.6%**
Msa Rd	20,000	150	70.0%	**6.3%**	13,000	100	70.0%	**6.5%**	157,440	874	14.3%	**6.7%**	**6.5%**
Thika Rd	26,250	200	85.0%	**8.5%**	13,750	105	64.0%	**5.9%**	143,803	705	22.5%	**5.9%**	**6.4%**
Eastlands	20,000	110	80.0%	**5.3%**	12,000	100	55.0%	**5.5%**	72,072	333	18.0%	**5.6%**	**5.5%**
Average	**18,857**	**157**	**75.7%**	**7.8%**	**12,957**	**112**	**69.9%**	**7.3%**	**146,023**	**835**	**20.3%**	**6.2%**	**7.1%**

Source: Cytonn Research 2020

***The real estate sector is expected to be on an upward trajectory supported by the continuous focus on the affordable housing initiative, uptake of prime commercial office spaces, and, the continued expansion of local retailers taking up prime retail spaces left by struggling retailers*.**

Liason House, StateHouse Avenue
The Chancery, Valley Road
www.cytonn.com