Currency and Interest Rates Outlook, & Cytonn Weekly #20/2021

Real Estate

I. **Retail Sector**

During the week, Naivas supermarket, a local retail chain, opened a new store in Zion Mall, Eldoret, in addition to signing a lease agreement with Greenspan Mall in Donholm to become the anchor tenant taking up 57,000 SQFT of space. With addition of the two outlets previously occupied by Tuskys Supermarket, this will bring Naivas' operational outlets to 72 having already opened 2 other stores so far this year in Nakuru and Kilifi. The retailer has been on an aggressive expansion spree taking up space vacated by troubled retailers supported by an increase in its financial strength after signing an agreement with a France-based private equity fund, Amethis Finance, of which it sold to a 30.0% stake in January 2020. Naivas' aggressive expansion drive in the two locations is supported by i) positive demographics increasing the need for formal retail space with Kenya's high urbanization and population growth rates at 4.0% and 2.2%, respectively, compared to the global average of 1.9% and 1.1%, respectively according to World bank, ii) growing middle class with increased purchasing power, iii) changing consumer tastes and preferences, and, iv) exit by troubled retailers leaving prime retail spaces.

In terms of performance, according to our Kenya Retail Report 2020, Eldoret recorded the highest occupancy rates at 80.2%, 3.6% points higher than the market average of 76.6%, showing the area's high demand for retail spaces hence presenting a good investment opportunity for Naivas.

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	125.0	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	130.0	80.2%	**5.9%**
Nakuru	55.7	76.6%	**5.9%**
Average	**115.1**	**76.6%**	**6.7%**

Source: Cytonn Research 2020

In the Nairobi Metropolitan Area, according to according to our Cytonn Q1' 2021 Markets Review, Eastlands recorded the lowest rental rates of Kshs 132, against the average market rent price of Kshs 166, therefore encouraging space uptake by the retailer due to affordability.

Nairobi Metropolitan Area Retail Market Performance Q1'2021

Area	Rent (Kshs) /SQFT Q1'2021	Occupancy% Q1'2021	Rental Yield Q1'2021
Westlands	205	84.5%	**10.1%**
Karen	219	82.6%	**10.1%**
Kilimani	173	83.8%	**8.7%**
Ngong Road	178	75.0%	**7.6%**
Kiambu Road	163	70.8%	**6.7%**
Mombasa Road	139	73.0%	**6.0%**
Satelite Towns	138	72.4%	**6.0%**
Thika Road	148	66.8%	**5.6%**
Eastlands	132	66.0%	**5.5%**
Average	**166**	**75.0%**	**7.4%**

Source: Cytonn Research 2021

Naivas also aims to open three more branches next month; along Muindi Mbingu Street in Nairobi's Central Business District (CBD), in Kisumu at Simba Club Hall and in Githurai 44 along Kamiti Road as it continues on its aggressive expansion drive in order to gain more market share relative to its competitors QuickMart and Carrefour who have each opened 4 stores so far this year.

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'2021
Naivas	Local	46	61	69	3	0	72	3	75
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**	**12**	**177**	**169**	**7**	**176**

Source: Online Research

Despite the expansion of some retailers, the real estate retail sector performance continues to be affected by factors such as; i) oversupply which is currently at 2.0mn SQFT in the Kenyan retail market and 3.1mn SQFT in Nairobi Metropolitan Areas (NMA), ii) shift to online shopping leading reduced demand for physical space, and, iii) reduced consumer spending power among consumers resulting from a tough financial environment. We however expect performance of the retail sector to be cushioned by; i) continuous expansions by local and international retailors taking up prime retail spaces, ii) positive demographics in Kenya owing to a growing middle class, iii) improving infrastructure in various areas opening up areas to investment, and, iv) investor confidence with Kenya having been ranked position #56 by World Bank.

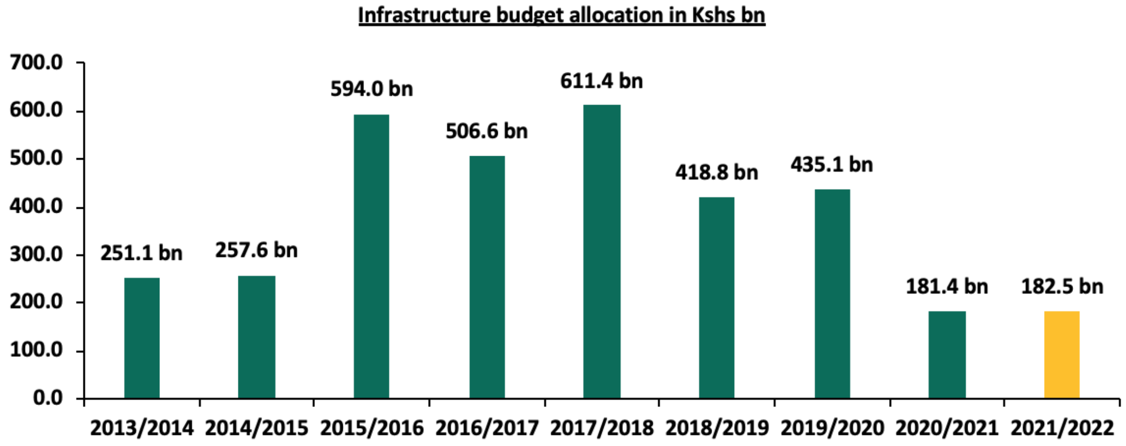
II. **Infrastructure**

During the week, Uganda signed a Public-Private Partnership (PPP) deal worth Kshs 5.0 bn with China Roads and Bridge Corporation (CRBC) to renovate its century-old meter gauge railway line between Malaba and Kampala. The 260.0 km railway line will be linked to the Standard Gauge Railway (SGR) track in Kenya, through Naivasha to Malaba old railway, which the government of Kenya is currently upgrading. The upgrade of the railway line is expected to be completed within a year, by China Roads and Bridge Corporation (CRBC), and once completed, it will open up surrounding areas to trade and tourism activities, as well as provide seamless transport of goods from the Mombasa port to Uganda through the SGR. Moreover, it will enhance real estate investment opportunities in the surrounding areas.

Additionally, during the week, President Uhuru Kenyatta launched the first berth of the Lamu Port-South Sudan-Ethiopia-Transport (LAPSSET) corridor, a project that targets to link Kenya to South Sudan, Ethiopia and the middle belt of Africa. The 2,500.0 km project worth Kshs 2.5 tn kicked off in March 2012 as a PPP project between Kenya, Ethiopia and South Sudan, and Development Bank of South Africa, European Union and African Development Bank. However, it has been stalling due to limited finances, fraudulent land transactions, as well as the government’s failure to compensate land owners who in return refused to vacate their lands thus causing property access difficulties resulting to the project delays. The government has been raising finances through infrastructure bonds and equity participation and now has started the process by even compensating the land owner. The second and third berth of the projects are expected to be completed by December 2021 which makes the implementation extremely ambitious. Once the project is completed, it will enhance easier and faster transport of goods and also open up surrounding areas to trade and tourism activities, as well as boost property prices and investment opportunities such as construction of residential units within Lamu and its environs.

The government continues to support and implement select infrastructural projects through public-private partnerships which have proven to have benefits such as large scale investment and developments, access to finance for projects, and government access to private sector efficiencies, among many others. For more details on the Private Public partnership read our Public-Private Partnerships in the Real Estate Industry in Kenya report.

The graph below shows the budget allocation to the infrastructure sector over the last nine financial years and it’s clear from the table below that the allocations have been erratic and have reduced over the last two financial years;



Source: National Treasury

We expect performance of the real estate sector to continue recording increased activities supported by the expansion of local and international retailers taking up space previously occupied by trouble tenants such as Tuskys and Nakumatt, as well as the aggressive implementation of infrastructural projects by the government despite the pandemic.
