Cytonn Monthly - May 2021

Real Estate

I. **Industry Reports**

During the month, various industry reports were released as highlighted in the table below;

#	Theme	Report	Key Take-out
1	General Real Estate	Budget Estimates 2021/22	• The real estate thematic sectors continued to receive support with roads allocated a total of Kshs 182.5 bn, Housing, Urban Development and Public Works allocated a total of Kshs 21.7 bn with Kenya Mortgage Refinance Company receiving Kshs 8.0 bn to fund affordable housing projects, and the tourism sector allocated Kshs 18.1 bn. For more information, visit the Cytonn Weekly #18/2021
		Central Bank of Kenya Bank Supervision Annual Report 2020	• The residential mortgage market recorded a 3.7% decline in the number of mortgage loans accounts in the market, to 26,971 in December 2020 from 27,993 in December 2019. Further analysis can be found in the Cytonn Weekly #21/2021
2	Residential	Hass Consult House Price Index Q1'2021	• House prices recorded a 0.7% drop q/q, and a 1.8% drop y/y. Overall, rental prices increased by 1.2% q/q and 5.1% y/y. For more information visit our Cytonn Weekly #19/2021
3	Land	Hass Consult Q1'2021 Land Price Index	• 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 despite the pandemic. Details of the analysis are in our Cytonn Weekly #19/2021

The performance of the real estate sector is expected to pick following increased budgetary allocation to roads, housing, urban development and public works, and land remaining resilient as a good investment option. However, the sector will continue being affected by poor performance of the tourism sector and decline of house prices in the residential market.

II. **Residential Sector**

During the month;

i. The County Government of Nakuru through the governor, Lee Kinyanjui, announced that the construction of 600 affordable housing units in the county had kicked off. For more information, see Cytonn Weekly 19/2021,
ii. Kenya Mortgage Refinance Company (KMRC), a treasury backed lender, appointed three advisors namely; NCBA Investment Bank, Lion's Head Global Partners and Mboya Wangong'u & Waiyaki Advocates, to guide it during its planned green bond issue targeted for July to September this year whose proceeds will be channelled to banks and SACCOs to offer affordable home loans. For more information, see Cytonn Weekly 18/2021, and,

iii. Property developer Acorn Holdings announced plans to restrict construction of their student hostels to within a 3.0 km radius of targeted institutions in order to attract more students and to reduce students' transport costs. For more information, see Cytonn Weekly 18/2021.

We expect an improvement in the residential sector following the increased developmental activities in affordable housing and student housing, coupled with plans to improve access to mortgage facilities through the Kenya Mortgage and Refinancing Company (KMRC).

III. Commercial Sector

During the month;

i. Insurance Regulatory Authority (IRA) and Capital Markets Authority (CMA) announced plans to jointly purchase office spaces within Nairobi premises, a move that will see it take up at least 55,000 SQFT of office space in Upper Hill. For more information, see Cytonn Weekly #19/2021.

The commercial office sector continues to record minimal activities and has an oversupply of 7.3 mn SQFT as at 2020 which is expected to cause a decline in both purchase and rental prices hence poor rental yields. We therefore expect subdued performance of yields in the commercial office sector until there is enough demand to meet the current oversupply of commercial office space.

IV. Retail Sector

During the week, Tuskys Supermarket, a local retail chain, sought approval from the Competition Authority of Kenya (CAK) to lease its brand through an undisclosed United Kingdom (UK)-based franchise, after delays in receiving Kshs 1.6 bn from an undisclosed Mauritius-based private equity firm as part of a Kshs 2.1 bn deal that would see the firm pay over 60 creditors and keep afloat. So far, only 3 of Tusky's branches are operational after a closure of about 61 outlets; at Kenyatta Avenue outlet in Nairobi CBD, Imara outlet at Tom Mboya Street and Athi River outlet. The retailer has been facing challenges such as mounting rent arrears, unpaid employee salaries, unpaid creditors and liquidation litigations. The proposal will allow independent retailers to trade using its brand at a fee in a bid to keep the brand alive besides generating fees from partnerships and sharing of major costs such as marketing and logistics costs. This move is expected to aid the troubled retailer in its race for survival and efforts to bounce back in the competitive Kenyan retail market with a long term aim of rebuying the franchises.

The table below shows the number of outlets of key local and international retailers;

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	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

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
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

Other notable highlights during the month include;

i. Naivas supermarket, a local retail chain, opened an outlet at Zion Mall in Eldoret in addition to signing a lease agreement with the Greenspan Mall to become their anchor tenant taking up 57,000 SQFT space previously occupied by Tuskys Supermarket. The retailer also announced plans to open 3 stores by mid-June 2021, in an expansion drive that will see it take up spaces previously occupied by Tuskys Supermarket, in two outlets to be located along Muindi Mbingu Street in Nairobi's Central Business District (CBD), and Simba Club Hall in Kisumu, while the third outlet will be located at Githurai 44 on Kamiti Road. For more information see, Cytonn Weekly #18/2021, and Cytonn Weekly #20/2021,
ii. 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 Chania Mall in Thika, OTC within Nairobi's Central Business District, Mtwapa Mall in Kilifi, and, Kitale Town in Trans Nzoia County. For more information, see Cytonn Weekly #19/2021.
iii. Tuskys supermarket announced plans to sell its brand and non-essential assets including furniture, fixes and fittings in 19 of its branches, most of which have been closed down by landlords due to rent arrears, to avoid liquidation by more than 60 creditors following a delay in receiving a Kshs 1.6 bn debt from an undisclosed Mauritius firm to settle its Kshs 1.0 bn debt. For more information see Cytonn Weekly #18/2021

The retail sector is expected to continue witnessing entry and expansion by local and international retailers taking up prime retail spaces left by troubled retailers, supported by improved infrastructure opening up areas to investment, positive demographics creating a ready market for goods and services and a growing middle class with enhanced tastes and preferences. However, we expect its performance to be affected by continued closure of troubled retailers such as Tuskys coupled with oversupply of retail space which is currently at 2.0 mn SQFT as at 2020, online shopping reducing demand for retail space, and, low income levels due to tough economic environment constraining consumer spending.

V. **Mixed-Use Developments**

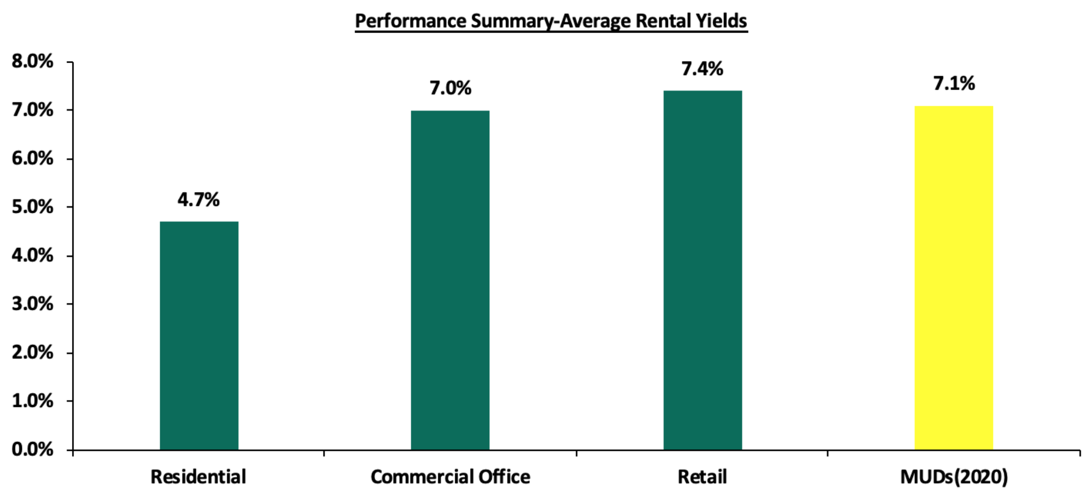
During the week, Tatu City, a mixed-use property developer in the country, appointed Australian-based construction company, Snowy Mountains Engineering Corporation (SMEC) as the lead infrastructure consultant for the second phase of its 2,500 acre Tatu Industrial Park in Ruiru. The company is expected to oversee tendering and building of roads, drainage, lighting, systems and water distribution, with a projected completion date of May 2022. The new city is expected to meet demands for new client lifestyles after a 90.0% completion rate of Phase One. In February 2021, the Kenya Wine Agencies Limited broke ground on a Kshs 4.0 bn manufacturing and distribution facility on the site with two schools namely; Crawford International and Nova Pioneer already establishing campuses on the estate to serve more than 3,000 students.

Hilshaw Group, a Dubai based firm, was appointed as the adviser and financing consultant of the planned Athi River Smart Green City project in Nairobi. The master-planned Smart City project by Jetblack Group will sit on 4,500 acres, with its development expected to commence in May 2022 and open Phase 1 by end of 2025. The project will consist of commercial offices, retail spaces, hotels and other support facilities in addition to over 4,000 residential units (details undisclosed).

Development of master-planned communities continues to gain traction in Kenya due to i) relatively higher developer returns, ii) benefits from economies of scale to the developer and the buyer, iii) proximity to various social amenities, and, iv) affordability compared to stand alone houses.

Athi River also presents itself as a good investment area supported by i) an increase in the middle income population with more disposable income and demand for convenient lifestyles ii) positive demographics supporting development in the area, iii) affordable land prices per acre in Athi River at approximately Kshs 4.1 mn for Unserviced land and Kshs 13.2 mn for serviced land compared to the market averages of Kshs 25.6 mn and Kshs 15.0 mn respectively, and, iv) improving infrastructure with various government projects such as the ongoing dualling of Mombasa Road.

The graph below shows the average rental yields of the different real estate sectors;



Source: Cytonn research

Other notable highlights during the month include;

i. 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. 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. For more information, please see Cytonn Weekly 19/2021.

We therefore expect the market to witness increased developments of master-planned communities as investors aim to gain higher returns with the demand of a more comprehensive lifestyle for homebuyers expected to continue fueling uptake of property in such developments.

VI. **Hospitality Sector**

During the month;

i. Kenya Airports Authority announced that JKIA passenger movement registered a 24.1% decline in the month of March 2021, to 279,413 passengers from 368,279 passengers in the same period last year. For more analysis, see Cytonn Weekly #21/2021.

With the decline of international arrivals, the hospitality sector performance will continue being affected by poor performance of the tourism sector which heavily relies on Meetings, Incentives, Conferences, and Exhibitions (MICE). Moreover, the lower allocation of the government's budget to the Ministry of Tourism from Kshs 20.4 bn in FY'2020/21 to Kshs 18.1 bn in FY'2021/22 is expected to further impede the sector's performance.

VII. **Land Sector**

During the week, the Central Lands Registry, whose offices are located in Ardhi House, Upperhill Nairobi, was shut down after its operations were migrated to an online platform following the official launch of the National Land Information Management System (NLIMS) by President Uhuru Kenyatta last month. The launch of the digital land platform named 'Ardhi Sasa', first rolled out in Nairobi will be implemented in other counties in phases in an effort to contain fraud in the land sector.

The land digitization program will enable Kenyans to;

i. Conduct land searches in real time thereby allowing for identification of the land's location, ownership, size and past records,
ii. Apply for title deeds directly through the system unlike in the past where one had to do this physically. This will reduce delays and inconveniences that were common in the land registries,
iii. Sell land and conduct nearly every land transaction at the click of a button hence reducing human interaction, delays and other inconveniences Kenyans had to endure in the land registries,
iv. Phase out the use of brokers and hence reduce cases of fraud and exploitation by fraudsters and middlemen while carrying out land transactions, and,
v. Reduce corruption and illegal transactions while assisting investigative agencies such as the Ethics and Anti-Corruption Commission (EACC) in curbing land related fraud.

The new digital platform also comes with the introduction of the Registry Index Maps (RIMs) in place of the old system that utilized deed plans and is now able to display all land parcels within an area as opposed to a deed plan used in the former system that captured data on one specific parcel hence making it easier to note any changes or alterations. This new platform is expected to help to make transactions involving land easier and more transparent while reducing fraudulent transactions such as land grabbing that have plagued the sector for decades.

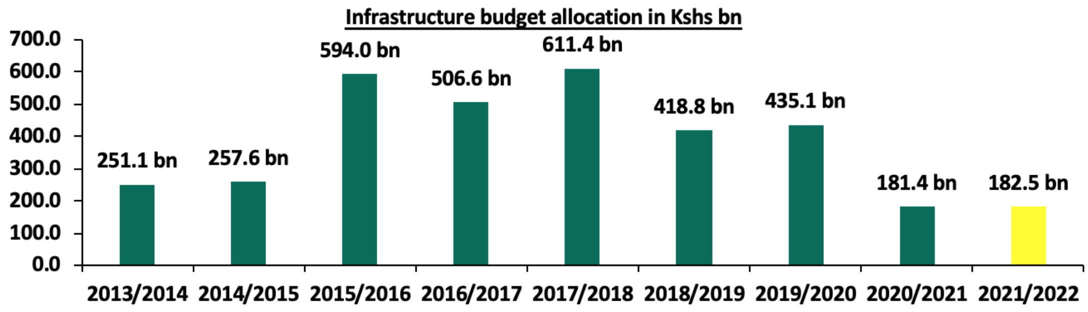
VIII. **Infrastructure**

During the week, the Cabinet Secretary for Transport, Infrastructure, Housing, Urban development and Public works, Hon. James Macharia announced that the construction of the 233-km Nairobi-Mau Summit highway is expected to begin in September 2021 at a cost of Kshs 160.0 bn in a build, operate and transfer (BOT) partnership. The Public Private Partnership (PPP) deal between the Kenyan government and a French consortium made up of Vinci Highways Societe par Actions Simplifee (SAS), Meridian Infrastructure Africa Fund and Vinci Concessions Societe par Actions Simplifee (SAS) will last over a period of 30 years. The four lane dual carriage highway is expected to decrease traffic in the northern corridor as well as improve transport connections for goods and services through the Eastern, Western and Rift Valley counties. The project will also see the widening of the existing Rironi-Mai Mahiu- Naivasha road to become a seven-meter carriage way with two-meter shoulders on both sides and the construction of a four-kilometer elevated highway through Nakuru Town.

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. Moreover, in the proposed budgetary allocation, infrastructure received a 0.6%

increase in allocation from Kshs 181.4 bn in FY'2020/2021 to Kshs 182.5 bn in the proposed FY'2021/2022 allocations.

The graph below shows infrastructure budgetary allocations for the last nine years;



Source: National Treasury

Notable highlights in the infrastructure sector during the month include;

i. Uganda signed a Public Private Partnership 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, which will link the Standard Gauge Railway (SGR) track in Kenya through Naivasha to Malaba old railway. For more information see, Cytonn Weekly #20/2021, and,
ii. 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. More analysis can also be found on Cytonn Weekly #20/2021.

We expect the continued improvement of infrastructure through increased budgetary allocation, PPP agreements and strengthening of policy frameworks to continue helping the attainment of Vision 2030.

IX. **Statutory Reviews**

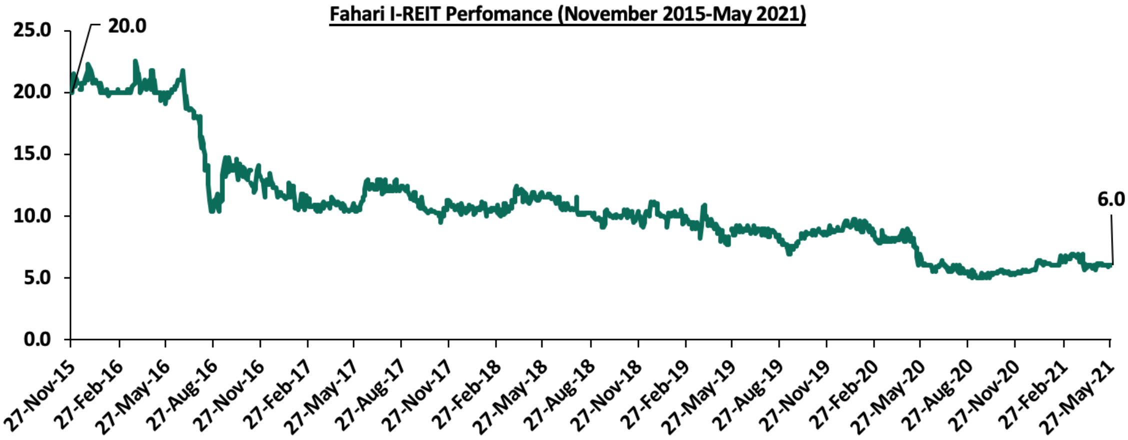
During the month;

i. Nairobi's City Hall announced plans to conduct public participation into the New Draft Valuation Roll, on 16th June 2021 in the 17 sub-counties in Nairobi, to pave way for its roll-out, since being tabled before the Nairobi County Assembly in February. The public participation forum will inform the final percentage to be charged as rates on all ratable properties in Nairobi. This announcement follows the government's plan to replace the outdated Valuation for Rating Act of 1956 and the Rating Act of 1963, in a bid to determine new land rates and ensure inclusion of more property owners into the tax bracket. For more information, see Cytonn Weekly #21/2021

X. **Listed Real Estate**

In listed real estate, the Fahari I-REIT closed the month of May trading at Kshs 6.0 per share, representing a 6.4% and 5.2% increase in YTD and MTD performances respectively. However, the performance indicates a 70.0% loss when compared to its listing price of Kshs 20.0 in November 2015. Even with the performance improvements, the REIT has continually been constrained by i) declining performance of the real estate market from the effects of the Covid-19, ii) insufficient institutional grade real estate assets, and, iii) lack of investor knowledge in the instrument.

The graph below shows the performance of the Fahari I-REIT from November 2015-May 2021;



The real estate sector is expected to record increased activities supported by focus on affordable housing and student housing projects, entry and expansion by local and international retailers taking up space left by troubled retailers, and, increased implementation of infrastructure projects. However, its performance will be weighed down by poor performance of the hospitality sector and listed REIT.