# Kenya Listed Banks Q1'2021 Report, & Cytonn Weekly #23/2021

## Real Estate

**I. Industry reports**

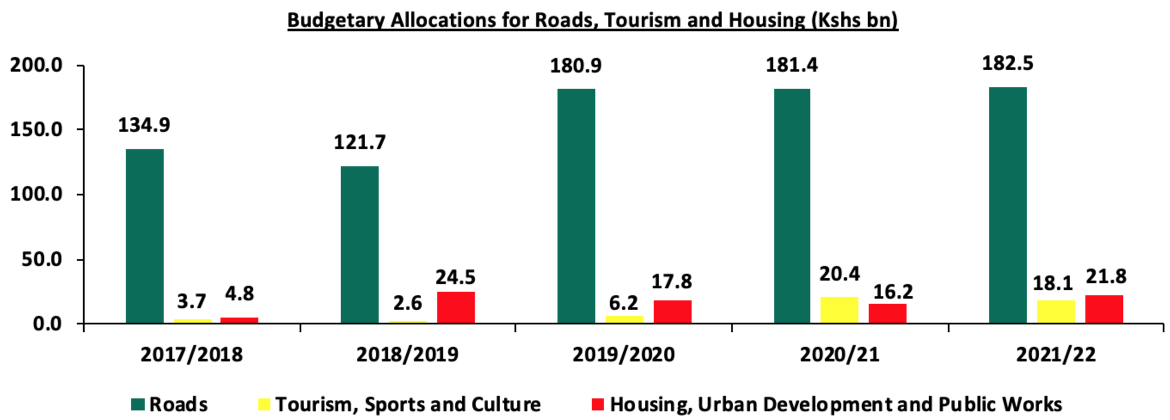
In the FY'2021/22 Budget Statement there was an allocation of Kshs 222.4 bn for key themes in the real estate and real estate related sector as highlighted below;

?. Infrastructure sector received a total of Kshs 182.5 bn in FY'2021/22 to support construction of roads and bridges as well as the rehabilitation and maintenance of roads, which is a 0.6% increase from Kshs 181.4 bn in FY'2020/21.,

i. Housing, Urban Development and Public Works were allocated a total of Kshs 21.8 bn, a 33.9% increase from FY'2020/21 with Kenya Mortgage Refinance Company (KMRC) receiving Kshs 3.5 bn to enhance company's capital and lending to primary mortgage lenders. Other key areas in the residential sector including construction of affordable housing units, urban housing units and Kenya Informal Settlement Improvement Phase II, received an allocation of Kshs 8.2 bn, Kshs 0.7 bn, and Kshs 3.5 bn, respectively, and,

ii. The tourism sector was allocated a total of Kshs 18.1 bn with the Tourism Promotion Fund (TPF) receiving Kshs 0.6 bn and Tourism Fund receiving Kshs 1.7 bn. With the government rationalizing funds towards the negatively affected sector while giving more priority to entities that received less allocation in FY'2020/21 budget allocation, the allocation to the tourism sector was decreased by 11.3% from Kshs 20.4 bn in FY'2020/21. The funds allocated are aimed towards the sector's recovery after being one the hardest hit sector by the COVID-19 pandemic, evidenced by the flight restrictions imposed on the country to curb the pandemic effects hence leading to reduced passenger arrivals into the country.

The graph below shows comparison among road, tourism and housing budgetary allocations in the last five fiscal years;

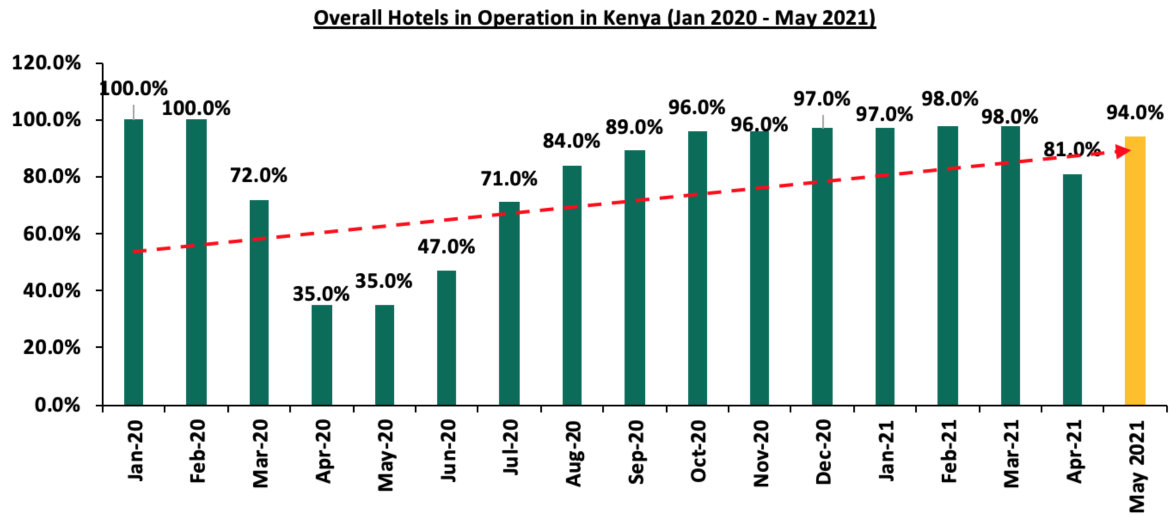



*Source: National Treasury of Kenya*

With the improved budget allocation for the infrastructure and housing sectors, we expect increased development activities attributable to government's aggressiveness to implement and conclude select infrastructure projects despite the pandemic. However, we expect the hospitality sector performance to continue being affected negatively due to the reduced budgetary allocation and overreliance on the tourism sector which has also been affected by reduced number of passenger arrivals.

Also, during the week, the Central Bank of Kenya released the Monetary Policy Committee Hotel Survey-May 2021, a survey that was intended to assess the extent of the recovery of the hospitality industry as a result of COVID-19 pandemic. Some of the key take outs from the report include:

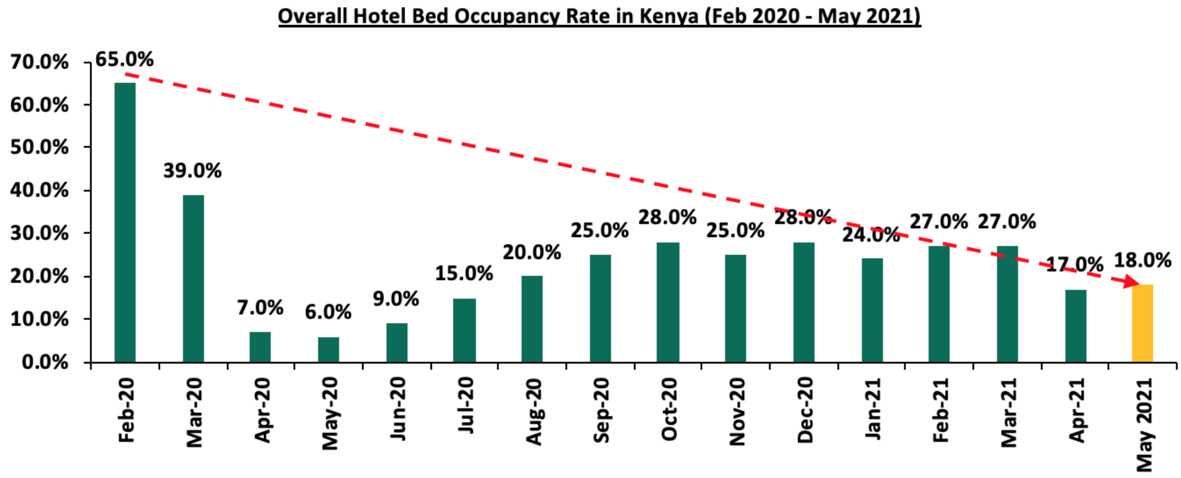
i. The number of operating hotels registered a 16.0% increase to 94.0% in May from 81.0% in April highlighting that the COVID-19 containment measures in March 2021 had an impact on the operations of hotels. The graph below shows the overall percentage of the number of operating hotels in Kenya between January 2020 – May 2021;




*Source: Central Bank of Kenya*

ii. The hospitality sector has remained dependent on local guests and this accounted for 84.0% and 85.0% of accommodation and restaurant services, respectively in May 2021 compared to 62.0% and 69.0% respectively during the Pre-COVID period, mainly attributed to the decline in the number of international tourism arrivals as people limit their traveling options to avoid the spread of the virus, health advisories to Kenya mainly from the United States of America, and Kenya issuing travel bans to the United Kingdom which account for a largest percentage source of tourists, and,

iii. The average bed occupancy in May was at 18.0%, an increase by 1.0% points from 17.0% in April. The slight increase is attributed to the lifting up of travel restrictions after the March 26$^{th}$ partial lockdown. The graph below highlights the hotel bed occupancy rates in Kenya between February 2020 and May 2021;




*Source: Central Bank of Kenya*

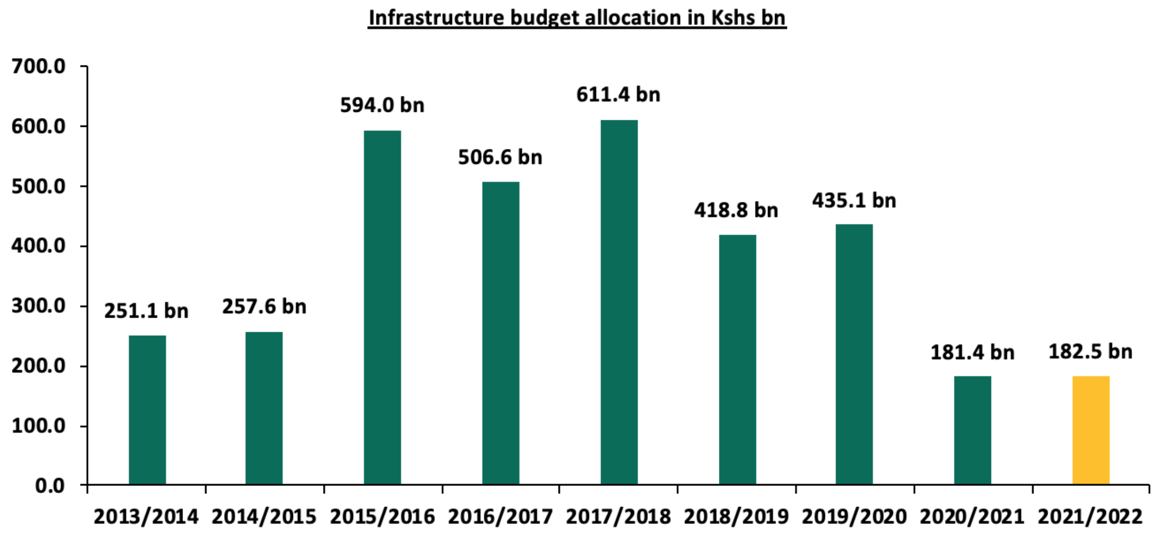
The overall improvement of the performance of key facilities in the hospitality industry is attributed to the gradual lifting of flight restrictions. The performance improvement gives hope for the recovery of the hospitality sector in the long run alongside other interventions by the government to support the recovery of the sector such as repackaging of the hospitality sector to appeal to local tourists and allocation of funds to the Ministry of Tourism through TPF (Tourism Promotion Fund) to support the recovery from the pandemic.

**II. Infrastructure Sector**

During the week, the upgrading of the Kshs 10.8 bn Garsen- Minjilla- Mokowe road project linking Lamu and Tana River County was concluded and launched by President Uhuru Kenyatta. The 113-km road project funded by the national government and upgraded by the Kenya National Highways Authority (KeNHA) was initiated in June 2018 and was expected to be completed by December 2020, however it has been stalling due to floods and persistent insecurity in the neighbouring areas hence affecting working hours. With its conclusion, the road will spur trade activities by enhancing easier and faster transport of goods, open up surrounding areas for investments, as well as boost tourism activities and property prices.

With other mega infrastructure projects currently underway such as the Nairobi Express Way, Standard Gauge Railway, Nairobi Western Bypass, and Nairobi Commuter Rail Project among others, we expect increased activities in the infrastructure sector attributed to the Government's aggressiveness to implement and conclude projects despite the pandemic effects, and the 0.6% increase in budgetary allocation to Kshs 182.5 bn for the FY'2021/2022, from Kshs 181.4 bn allocation for FY'2020/2021.

**The graph below shows the budget allocation to the infrastructure sector over the last nine financial years;**




*Source: National Treasury*

***We expect an overall improvement in the real estate sector supported by the overall increase in budgetary allocation to key sectors that directly affect the real estate sector, the expected improvement in the hospitality sector in the long run due to easing of travel restrictions and continued launch of infrastructural projects. However, the reduced budgetary allocation to the tourism sector is expected to negatively impact the recovery of the sector.***

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