

Real Estate Bubble, & Cytonn weekly #28/2021

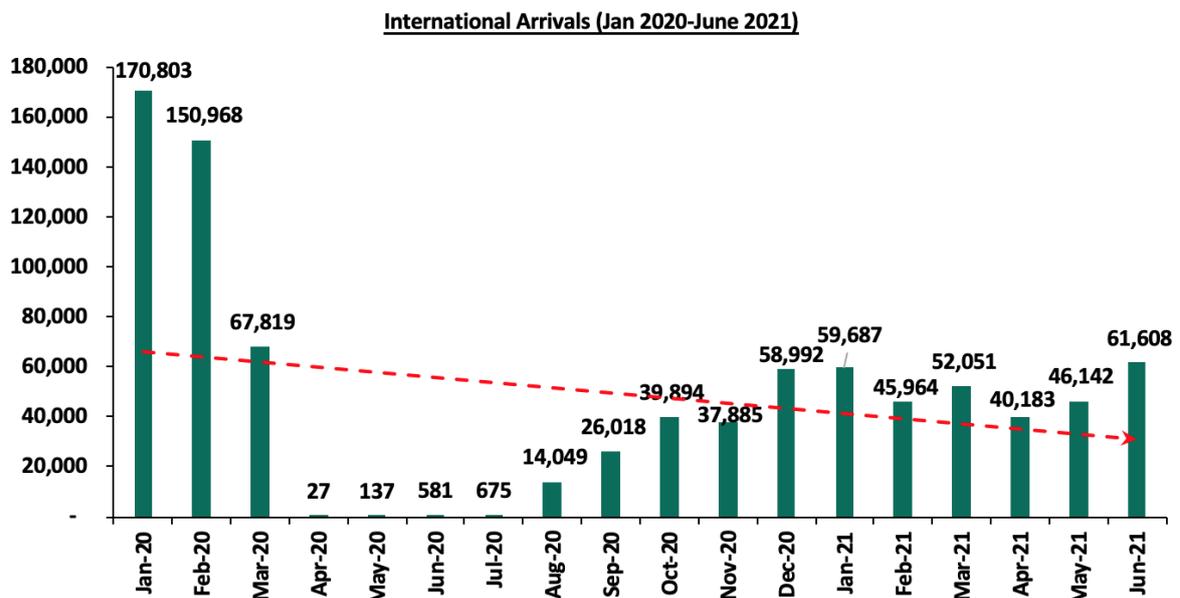
Real Estate

I. Industry reports

During the week, the Ministry of Tourism through the Tourism Research Institute released the International Tourism Performance Report January to June 2021, highlighting the performance in the number of tourism international arrivals between January and June 2021. The key highlights were;

- i. Kenya registered a 21.7% decline in the number of international arrivals to 305,635 persons between January and June 2021, when compared to a similar period in 2020, attributed to partial lockdowns and flight travel restrictions imposed in the country as containment measures for the pandemic when the first case of Covid-19 was announced in March 2020,
- ii. The highest number of visitor arrivals were from the United States of America (USA) and Uganda, which registered total number of tourists at 49,178 and 31,418, respectively, attributed to the lifting of travel advisories and bans into the country,
- iii. In terms of purpose of visit 105,057 came in for business purposes; 184,767 came in for leisure, and 15,811 were in transit. The improvement in the number of international arrivals during the first half of 2021 compared to the second half of 2020, is attributable to the gradual reopening of the country coupled with incentives to boost recovery of the hospitality and tourism sectors, and,
- iv. There has been a significant recovery on visitor arrivals post the covid pandemic.

The graph below shows the number of international arrivals from January 2020 to June 2021;



Source: Tourism Research Institute

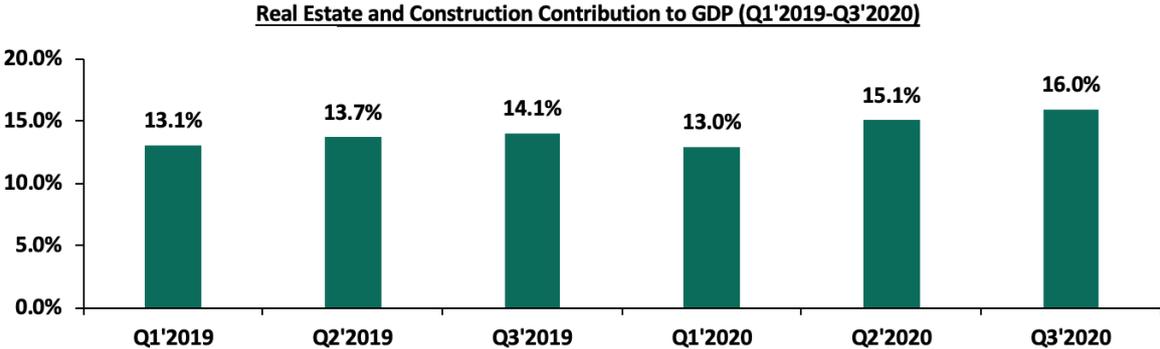
Despite the decline realized in the aforementioned period, we expect the number of international

arrivals to improve attributed to the ease in travel restrictions, with the US having eased their travel advisory to level two down from level four, and the government having lifted the travel ban between Kenya and the UK, in June 2021. The move is expected to positively influence performance of the hospitality sector which heavily relies on tourism sector.

The Architectural Association of Kenya (AAK) released the **Status of the Built Environment Report January-June-2021**, and the key take-outs were as follows;

?. The construction industry is expected grow to 4.5% in 2021 as the sector recovers from the negative impact of the COVID-19 pandemic, with medium term growth expected to be driven by large-scale road and related infrastructure projects, for which construction is likely to begin in 2022 and which will inject renewed momentum in the Kenyan transport infrastructure sector.

The importance of real estate and construction sectors as measured by their contribution to GDP continues to raise as shown in the table below;



Source: Kenya National Bureau of Statistics

Other highlights include;

- i. The cost of 70.0% of the projects undertaken during the period ranged between Kshs 5.0 mn and Kshs. 50.0 mn. Projects whose cost ranged between Kshs 500 mn and Kshs 1.0 bn were the least undertaken, attributed to the reduced activity by the large developers due to slower demand due to lower spending power brought about by the tough economic condition,
- ii. The Architectural association of Kenya (AAK), has developed a national green building certification tool dubbed Safari Green Building Index, designed to assess projects in the local built setting to establish their environmental performance. The tool will be launched in August 2021 by the association, with an aim of boosting investor confidence into green building developments hence improve the number of green buildings in Kenya, and,
- iii. Cumulatively, Shelter Afrique has delivered an estimated 22,673 units, housing 113,365 people, while committing to ensuring delivery of 4,416 EDGE Compliant affordable housing units across Africa, in line with its 2021-2025 corporate strategy.

We expect more development activities in the built environment attributable to factors such as government and private sector aggressiveness to implement major infrastructure and housing projects amidst the pandemic, improved building approval processes, and the gradual opening of the economy.

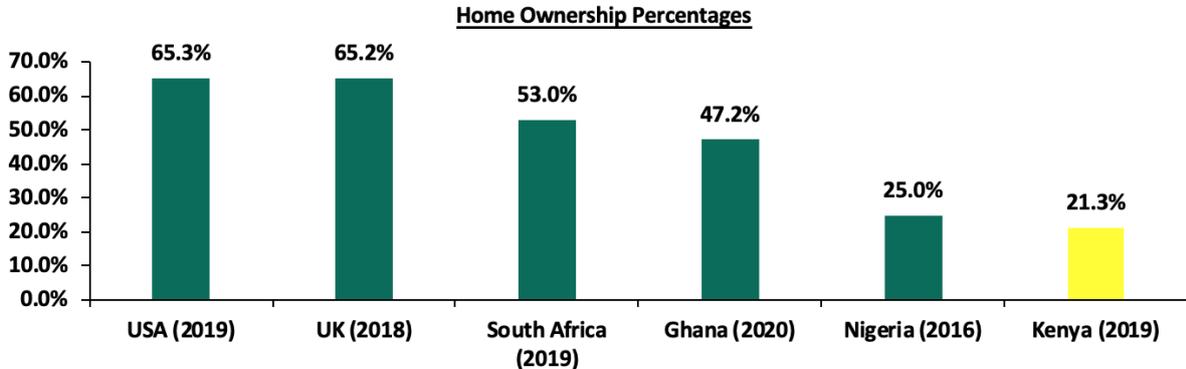
II. Residential Sector

During the week, the Harambee Investment Cooperative Society (HICS), the investment vehicle of Harambee Sacco, announced that it is seeking a joint venture partnership with African Development Bank (AfDB), a regional multilateral development finance institution, to develop affordable housing units for 596 of its members. Some of the key projects the sacco has undertaken include, the 10.0 acres at Kantafu along Kangundo Road, 40.0 acres in Nakuru, and 145.5 acres in Eldoret. The total

asset base of the Sacco stood at Kshs 616.0 mn as at December 2020, and the Society is seeking to grow its asset base to more than Kshs 1.0 bn by December 2021, through the real estate joint venture development initiative as they promote home ownership.

AfDB has been aggressively initiating strategies in support of the affordable housing initiative aimed at increasing home ownership through various ways such as; i) aiding private and public sector institutions in identification and implementation of affordable housing schemes, ii) finance provision for housing developments, and, iii) provision of technical assistance for capacity building. The institution also committed Kshs 10.0 bn in August 2020, to the planned Kenya Mortgage Refinance Commission (KMRC) green bond, to facilitate issuing of home loans by financial institutions at single digit value of approximately 7.0%, 3.9% lower than the average market lending rate of 10.9% as at 2020. Despite the efforts by the institution to support the housing initiative in Kenya, home ownership rates are still low at 21.3% as at 2020, compared to other countries in the world attributed to; i) difficulties in access to credit loans and mortgages coupled with their higher interest rates, ii) higher development costs, and, iii) inadequate infrastructure impeding property investment opportunities.

The graph below shows the percentage of home ownership in different countries compared to Kenya;



Source: Centre for Affordable Housing Finance in Africa

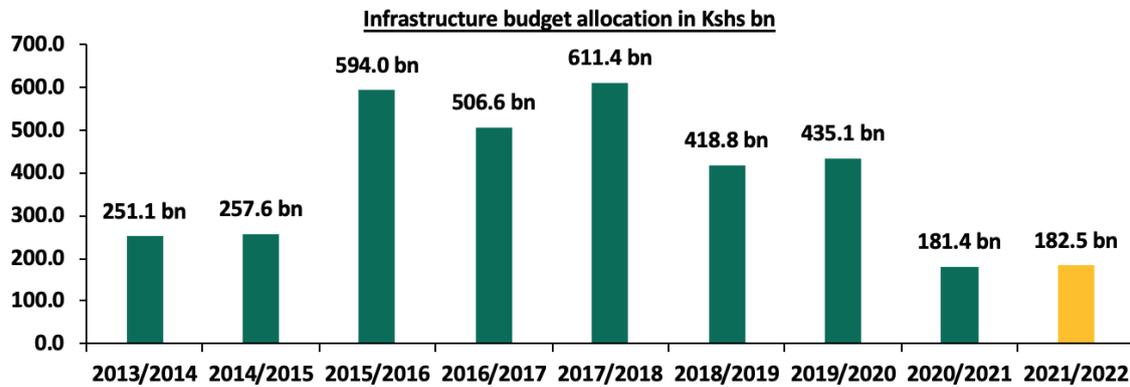
In our view, if the partnership is successful, it will be a step in the right direction towards providing affordable housing solutions at a time when the pandemic continues to affect disposable incomes thus limiting purchasing power of homebuyers. The move is expected to gain traction from other SACCOs too, which if implemented will contribute to increased home ownership in the country. The residential sector performance is expected to improve supported by focus on affordable housing with an aim of improving home ownership with the private sector aiming to provide solutions on the same while cashing in on the benefits.

III. Infrastructure Sector

During the week, the Kenya Roads Board (KRB), the agency overseeing development of roads in Kenya, announced that the estimated value of roads in Kenya is currently stands at at Kshs 3.5 tn, in a valuation tender seeking consultants to conduct a two-year survey on the condition of Kenyan roads. KRB is aiming to provide insight into the condition of the roads and help in making the right maintenance and capital plans considering the valuation is even more than Kenya’s Kshs 3.0 tn budget. According to KRB data, Kenya registered 53.5% points increase in the number of road networks from 76,100 km registered in 2014 to 163,821 km realized in June 2019 attributed to continued increased budgetary allocation towards road construction and maintenance between that period. This points out to the huge spending on public infrastructure by the government which continues to aim at increasing accessibility and reliability of transport in the country thus open up areas for investment and improvement of economic status.

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

years;



Source: National Treasury

Also, the Cabinet Secretary for Ministry of Transport, Infrastructure, Housing and Urban Development, Hon. James Macharia, announced that the 27.0 Km Nairobi Expressway project will be completed by February 2022. The Kshs 63.0 bn road project kicked off in June 2020 as a Public Private Partnership project between the national government through the Kenya National Highways Authority (KENHA) and the China Road and Bridge Construction Corporation (CRBC) on a Build-Operate-Transfer (BOT) model, and was expected to be completed by December 2022. However, the need to fast track the completion of the project arose amidst traffic concerns caused by its construction which is currently at 60.0%, hence leading to restructuring of its completion period to an earlier date.

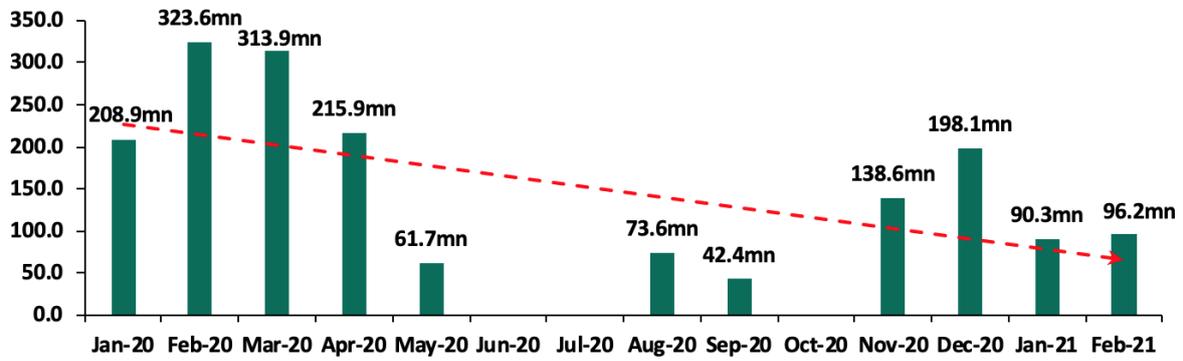
Upon its completion, Nairobi Expressway will be Kenya's first road to be tolled under a Public-Private Partnership and will comprise of 11 interchanges. The highway will; i) open up surrounding areas for investment opportunities, ii) boost property prices, and, iii) improve transport services and trade activities. With other major infrastructure projects such as the Standard Gauge Railway, Nairobi Western Bypass, and Nairobi Commuter Rail Project among others which are still ongoing, we expect improved activities to be registered in the infrastructure sector attributed to the Government's aggressiveness to implement and conclude projects despite the pandemic effects, supported by 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.

A key highlight in the real estate sector during the week is;

?. The Nairobi Metropolitan Services (NMS) through its Deputy Director General, Hon. Kang'ethe Thuku announced that the upgrade of the e-construction permit system which includes the Quick Response (QR) Code System was complete and will be ready to operate beginning August 2021. The permit system which was launched by City Hall in March 2020 to improve approval performances, was compromised in June 2021 leading to illegal approvals hence the need to further upgrade the program. With its revamp, the system will therefore eliminate the need for physical submission and stamping of hard copy development plans hence initiate easier and faster building approval process, as well as curb corruption cases. With NMS aggressiveness to facilitate easier and faster development approval processes, we expect the value of building approvals to also register improvement in performance going forward, attributed by the government and private sector aggressiveness to also implement select real estate infrastructure and housing projects despite the pandemic.

The graph below shows value for construction approvals in Nairobi from January 2020 to February 2021;

Value of building approvals in Nairobi (Jan 2020 - Feb 2021)



Source: Kenya National Bureau of Statistics

We expect an overall improvement in the real estate sector going forward supported by the expected growth of the construction industry, focus on the affordable housing initiative, and, increase in the number of international arrivals, infrastructure development activities, and building plan approvals.

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