Proposed Crowdfunding Regulations in Kenya, & Cytonn Weekly #32/2021

Real Estate

I. **Industry Reports**

During the week, Knight Frank Kenya, a real estate consultancy firm, released their Kenya Market Update H1'2021 report which highlights the performance of key real estate sectors. The following were the key take outs from the report:

- In the residential sector, average selling prices for prime residential buildings realized a 0.1% y/y marginal improvement in H1'2021 compared to 5.1% decline realized in H1'2020, mainly attributed to developers resuming their construction plans which were halted in 2020 and sellers also being more flexible with property prices through negotiations in order to facilitate their uptake. Rental rates for the prime residential buildings declined by 6.0% under the review period compared to the 7.6% decline recorded in H1'2020 as landlords adjusted rental rates to a lower price in order to retain existing tenants and attract new ones,
- The average prime commercial office rents realized a 1.8% decline to Kshs 119.8 per SQFT under the period of review, from Kshs 122.0 per SQFT recorded in FY'2020, as a result of the decline in demand for spaces thereby causing landlords to lower rental rates to favor existing and prospective clients, coupled with the existing oversupply of office spaces currently at 7.3 mn SQFT within the Nairobi Metropolitan Area. Average occupancy levels flattened coming in at 73.0% in H1'2021 same as H1'2020, however, the absorption for Grade A and B spaces increased by 64.0% when compared to H2'2020 attributed to i) reduced supply of new offices thereby driving uptake of the existing ones, ii) roll out of vaccines thereby boosting confidence of employees to working from their office spaces, and, iii) favorable rental rates from landlords, and,
- The average prime retail rents registered a 4.8% decline from Kshs 457.4 per SQFT recorded in FY'2020 to Kshs 435.6 per SQFT in H1'2021, attributed to landlords cutting down on rental prices as concession measures to retain existing tenants as well as attract new ones amidst the tough economic environment. Average occupancy rates for retail spaces ranged between 70.0% and 80.0 %, similar to last year, with more established malls such as Capital Centre registering up to 90.0% occupancies.

The findings of this report are in line with our Cytonn H1'2021 Markets Review report for two sectors- residential and commercial office whereby the selling prices in all residential segments registered appreciations averaging at 0.6%, apart from apartments in satellite towns which recorded a price correction of 0.8%. The commercial office recorded 0.1% decline in average rental rates to Kshs 92.8 per SQFT in H1'2021 from Kshs 93.1 per SQFT in FY'2020. We expect the residential and retail sectors to record more activities attributed to the improving demand for housing and aggressive uptake of space previously occupied by troubled retailers, however the commercial office is expected to continue registering low rental yields due to minimal demand for physical spaces as firms embrace working from home strategy and may make it a permanent measure as a cost saving mechanism, as well as the existing oversupply in the sector.

II. **Residential Sector**

During the week, Centum Real Estate through its subsidiary Vipingo Development Limited (VDL) completed the construction of its 10-acre Palm Ridge Estate phase one project worth Kshs 1.5 bn in Kilifi County. The phase one of the project consisted of 330 apartments units of 1, 2 and 3 bedrooms. This marks the second major residential project completed by Vipingo Development Limited after the Awali Estate project in Vipingo that was completed in October 2020, three months ahead of schedule. The table below gives a summary of the unit types, sizes and prices for the development;

Palm Ridge Estate Phase I Project

Typology	Unit size (SQM)	Unit Price (Kshs)	Price per SQM (Kshs)
1	45	2.5 mn	55,556
2	60	3.5 mn	58,333
3	75	4.6 mn	61,333
Averages	60	3.5 mn	58,407

Source: Cytonn Research

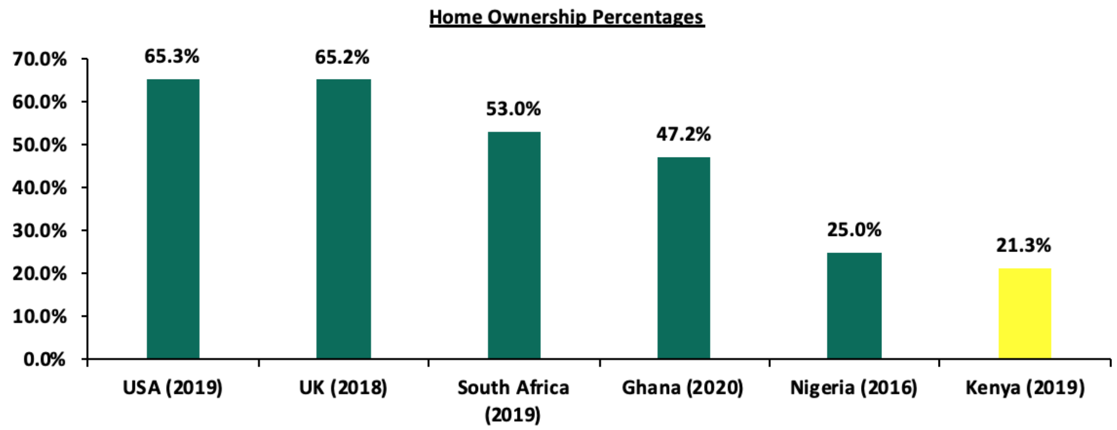
Other projects by the developer include the Kingswood Park, as well as phase 2 of the Palm Ridge Estate consisting of 110 apartments which is also nearing completion. The completion of the phase one project will be beneficial in various ways including; i) provision of descent housing to citizens living within the area thereby improving their living standards, ii) boosting investors' confidence especially for off plan sales, and, iii) boosting the residential sector performance of the area, among others.

Coastal region where the project is located has proven to attract real estate investment opportunities supported by; i) value for investment money as properties adopting the real estate tourism model generates higher returns due to their exclusivity and ready market, ii) high quality infrastructure with the development situated approximately 600 meters off the Mombasa-Malindi highway and 1 Km away from Vipingo Airstrip, iii) superior location with ability to attract tourists and investors, and, iv) availability of amenities such as shopping malls and reliable security among others. We therefore expect that the conclusion of the Palm Ridge Estate phase one project, to boost investor confidence in the region further boosting the real estate performance coupled with the overwhelming demand for units thereby encouraging more residential development projects.

Also during the week, the National Housing Corporation (NHC), a state owned firm, announced plans to build 2,000 affordable housing units in various parts of Kiambu County, in addition to also signing a land lease agreement with Konza City that will see the firm develop 5,000 units beginning November 2021. The first batch of the project in Kiambu consisting of 500 units is expected to be delivered in Ruiru by December 2021. However, this does not seem possible due to the short timeline presented, whereas the remaining units expected to be delivered in Thika, Kiambu town, Migaa, and, other towns. Kiambu and Machakos where Konza City is situated now joins Laikipia, Muranga and other counties that have signed a Memorandum of Understanding (MoU) with NHC for the development of low cost houses into their respective areas. NHC's decision to establish low cost housing projects in the aforementioned areas is mainly driven by; i) improved infrastructure with the areas being served by roads such as Thika Superhighway and Mombasa Road, ii) increasing housing demand as a result of high population and urbanization growth rates, iii) availability of land for development, iv) a fast growing middle income class, v) availability of amenities such as malls and schools servicing the areas, and, vi) high demand for affordable homes evidenced by the 320,897 registrations in the Boma Yangu portal against.

NHC which was established in 1953 has the mandate to deliver low cost housing projects in the country, stimulate the building industry, as well as assist in housing research. The corporation has been on an aggressive path to deliver projects in line with its mandate, with some of the affordable housing pipeline projects being the Stoni housing project in Athi River and the Mavoko housing project in Machakos. The government continues to initiate projects towards the Affordable Housing Program (AHP) which has been gaining traction over the past years with the aim of delivering a target of 500,000 units by December 2022, thereby also curbing the existing housing deficit of 2.0 mn units housing deficit which has been growing by 200,000 units every year against a supply of approximately 50,000 units according to Housing Finance Africa. However, the government's target of 500,000 units by the end of 2022 may not be achieved due to the challenges impeding the timely delivery of the projects such as; i) relatively longer transactions and development approval processes, ii) financial constraints leading to construction halts, and, iii) fraudulent procurement processes causing irregularities and project delays. Despite this, we expect the projects by NHC to boost the low home ownership rates of the urban regions in Kenya currently at 21.3% compared to countries such as South Africa at 53.0%, and further drive government's Big Four Agenda on affordable housing,

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



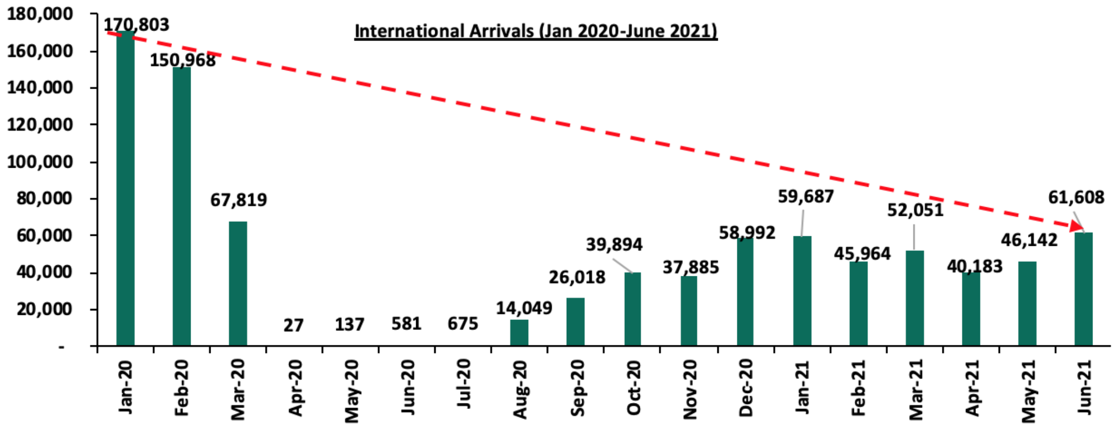
Source: Centre for Affordable Housing Finance in Africa

The residential sector is expected to continue registering robust developments due to the focus on affordable housing projects by the government, supported by factors such as the greater demand for low cost homes, improving infrastructure and amenities, and, favorable demographics.

III. **Hospitality Sector**

During the week, the United States of America (USA), raised Kenya's travel advisory alert from level two to level three, amidst concerns of the increasing Covid 19-Delta variant. The decision comes barely less than three months after the US government lowered the Kenyan advisory alert to level two in May 2021. The move by the US government is expected to weigh down the performance of the tourism and hospitality sectors in general as its citizens will minimize their travel plans to cushion themselves against the Delta variant. The United States is a top source tourism market for Kenya ranking at position one with 49,178 visitor arrivals, representing 16.1% of the 305,635 total visitor arrivals between January and June 2021 as evidenced by the International Tourism Performance Report January to June 2021 by Tourism Research Institute of Kenya.

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



Source: Tourism Research Institute

Despite the strategies implemented to promote the performance of the tourism sector such as the gradual lifting of travel restrictions and lockdowns, introduction of charter flight operations to boost tourism arrivals, World Rally Championships expected to run annually up to 2026 thereby boosting local and international tourism, among others, performance of the hospitality sector which heavily relies on the tourism sector is still expected to be weighed down. This is mainly attributed to factors such as the expected low visitor number arrivals from key source markets like UK which also still retains Kenya in its 'Red List,' and the reduced budget allocation for the tourism sector by 11.3% to Kshs 18.1 bn in FY 2021/22 from Kshs 20.4 bn in FY'2020/21.

With the gradual re-opening of the economy and roll out of vaccines, the real estate industry is expected to be on an upward trajectory registering major improved developments, such as the continued focus on the housing developments. However slow growth is expected to be witnessed in the hospitality sector due to the expected low visitor arrivals, and commercial office sector due to the oversupply of 7.3 mn SQFT space and reduced demand for physical spaces.

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