Regulatory response to Real Estate Funds in Kenya during COVID-19, & Cytonn Weekly #34/2021

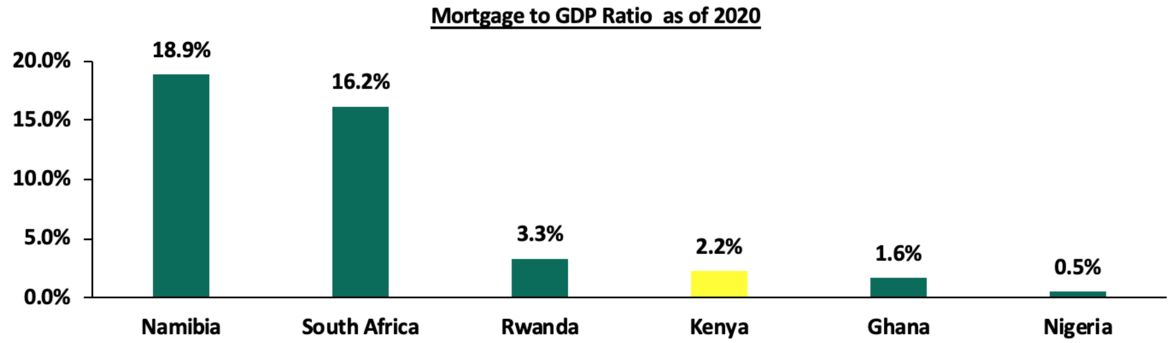
Real Estate

I. Residential

During the week, Stima Savings and Credit Cooperative (SACCO) Limited launched its Affordable Housing Mortgage Scheme in partnership with the Kenya Mortgage Refinance Company (KMRC), a treasury backed lender, targeting both individuals in formal and informal employment. The purpose of the scheme is to offer affordable mortgages to members of the SACCO with bespoke terms. For individuals who are employed, the SACCO will offer a loan up to a maximum of Kshs 4.0 mn, at 9.0% interest rate, with a 25-years repayment plan. For individuals in business or those with rental income, the loan will still be capped at Kshs 4.0 mn, at 9.5% interest rate, with a repayment tenor of up to 20 years. From our analysis, and given the aforementioned terms, an employed individual will be required to make monthly payments of about Kshs 33,600 while a business home owner will pay Kshs 37,300. For salaried Kenyans, these payments are still far from affordable since contributing Kshs 33,600 for housing given an income at Kshs 50,000 is financially unviable.

Despite the unviability of the scheme for most income earners, the move by Stima SACCO and KMRC is a step in the right direction towards improving home ownership rate in the country through offering affordable mortgages. In December 2020, Stima SACCO received Kshs 69.0 mn from KMRC in its Kshs 2.8 bn debut lending to Primary Mortgage Lenders (PMLs) at 5.0% interest rate, to boost its capital liquidity for onward lending to potential home owners. However, there lacks clarity on the funding model of the company in order to maintain lending at 5.0% given that the even the government itself access 20-year funding at 13.3% rate. Other PMLs who received funding from KMRC in that period include KCB Bank which was the largest beneficiary at Kshs 2.1 bn, while Housing Finance (HF) and Tower Sacco received an allocation of Kshs 515.0 mn and 30.0 mn, respectively. KMRC has since set aside Kshs 7.0 bn for lending to PMLs in FY'2021/22 in an aim to achieve its mandate of boosting home ownership rates through issuance of affordable mortgages.

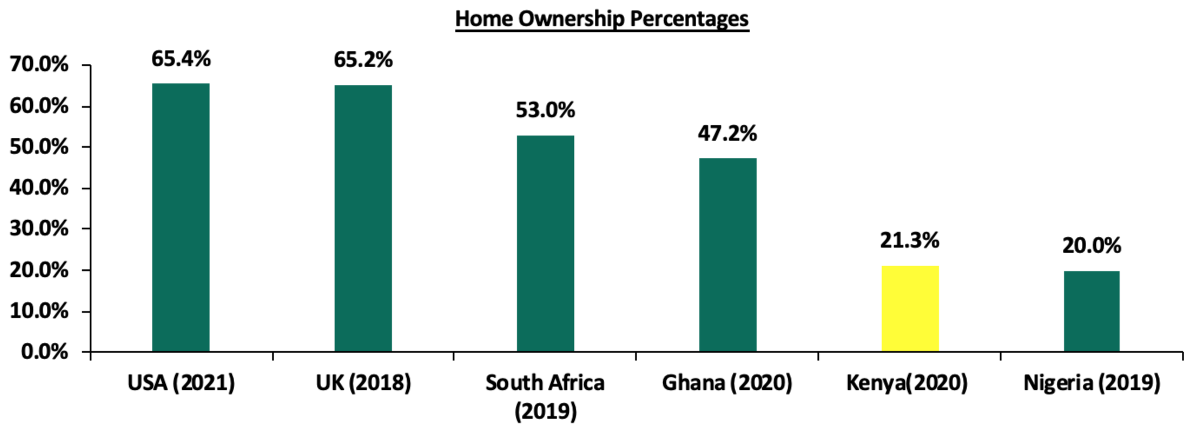
The move by Stima SACCO is likely to spark an increase in the uptake of mortgages in the country which remain constrained due to high property prices and interest rates in a country where income is very low. Given this, the Kenya mortgage to GDP ratio has continues to lag behind at 2.2% as of 2020, compared to countries such as Namibia and South Africa at 18.9% and 16.2%, respectively as shown in the graph below;



Source: Center for Affordable Housing Africa

Despite the low mortgage to GDP ratio, homeownership remains an important aspiration, hence affordable mortgages are essential to increasing homeownership, currently at 21.3% compared to Ghana at 47.2% and South Africa at 53.0%, thus creating the need for acceleration. The low home ownership rate in the country is attributable to; i) the increasing number of Non-Performing Loans (NPLS) in the real estate sector, which increased by 14.8 % to Kshs 70.5 bn in Q1'2021 from Kshs 61.4 bn recorded in Q4'2020 leading to tighter underwriting standards by banks and other lending institutions, ii) exclusion of self-employed citizens due to lack of the credit information on criteria threshold for mortgage products, iii) tough economic times reducing savings and disposable income, iv) high property costs, and, v) the high initial deposits required to access mortgages.

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



Source: Center for Affordable Housing Africa, Federal Reserve Bank

The residential sector continues to be supported by partnerships aimed at increasing the number of affordable mortgages in the country and incorporating flexible terms aimed at increasing home ownership rates.

II. Retail Sector

During the week, French retailer Carrefour, opened an outlet at the Southfield Mall in Embakasi Nairobi, taking up about 32,000 SQFT of retail space on two floors previously occupied by Choppies Supermarket. This brings its total outlets to 14, with 12 being within Nairobi county and two in Mombasa county. The move comes after the retailer announced plans to open two new stores in Kisumu's United Mall and Mega City by August 2021, in spaces previously occupied by troubled Nakumatt and Tuskys supermarkets, respectively. The retailer has been on an aggressive expansion having opened 5 branches in 2021 taking on rivals such as QuickMart and Naivas which have each opened 4 and 6 branches in 2021, respectively. The new outlet is expected to serve the residents of Imara Daima, Nyayo Estate and Syokimau with plans to transform into a hypermarket by December 2021. The decision to take up space in Embakasi is supported by; i) accessibility of the area through major roads such as Mombasa Road, ii) exit of Choppies leaving prime retail space for uptake, and,

iii) the need to reach out to the population in the area by offering e-commerce services through online sale and delivery services.

According to Cytonn H1'2021 Markets Review, Eastlands where Embakasi is classified recorded an average rent per SQFT of Kshs 136, 21.6% points lower than the market average of Kshs 169 per SQFT. The affordability of the area therefore indicates a suitable investment by Carrefour.

The table below shows the performance of the Nairobi Metropolitan Area (NMA) retail market in H1'2021;

Nairobi Metropolitan Area Retail Market Performance H1'2021

Area	Rent/SQFT H1'2021 (Kshs)	Occupancy % H1'2021	Rental Yield H1'2021
Westlands	209	80.0%	**9.7%**
Karen	217	80.6%	**9.5%**
Kilimani	173	82.8%	**8.9%**
Ngong Road	178	78.8%	**8.0%**
Kiambu road	178	68.8%	**7.1%**
Thika Road	159	73.3%	**6.7%**
Mombasa road	139	73.0%	**6.3%**
Satellite towns	134	74.0%	**6.2%**
Eastlands	136	70.0%	**5.8%**
Average	**169**	**75.7%**	7.6%

Source: Cytonn Research 2021

The table below shows the summary of the number of stores of the Key local and international retailer 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	6	0	75	4	79
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	5	0	14	2	16
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

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Total		**257**	**313**	**334**	**16**	**177**	**173**	**10**	**183**

Source: Online Research

The retail sector continues to be supported by the aggressive expansions by the local and international retailers in an aim to increase their footprint in the country. This has been aided by the availability of prime space left by troubled retailers and partnerships to increase funding and operational efficiency such as Carrefour's adopted supplier-retailer partnership technique to deal with late payment issues to the suppliers.

III. Statutory Reviews

During the week, the government of Kenya, through the Ministry of Lands and Physical Planning, published the Draft National Land Surveying and Mapping Policy, 2021 to guide the practice of land surveying and mapping in various sectors of the economy. This policy will see the amendment of the Sectional Properties Act, 2020 to make provision for;

- Phased development and mixed use developments of properties under different head titles,
- Volume of space occupied and floor area in the computation of unit factors for different uses in mixed use development, and,
- Extension and renewal of lease by unit owners.

Some of the challenges under the current regulation include; i) the lack of favor for Sectional Properties as a form of registration by developers since, if the land is under one title, then the head title cannot be surrendered to unit owners until the entire land has been developed, ii) the loss of control by land owners once the land has been developed, meaning that extra land spaces where development has not taken place cannot be accessed, iii) developmental obstacles given that land cannot be subdivided in phases to allow for surrender of separate head titles especially for large parcels where the developer is unable to carry development at once, and, iv) the lack of mechanism of maintaining minimum economically viable parcel sizes concurrently with the ability to grant individual land rights to multiple land owners especially in high density or high value areas for mixed use developments.

While the Sectional Property Act, 2020 addressed most of the bureaucratic shortcomings in land registration in the 1987 regulation, it is still focused on the separation of titles based on floor areas in a built up environment other than sectional land itself. Development through phases is therefore common in the country due to; i) unavailability of land due to speculation, ii) unaffordability of land especially in the urban areas due to the high prices, iii) financial constraints from economic recessions and hostile capital markets regulatory framework, and, iv) the need to sell finished units to fund the rest of the development stages. Once the policy is implemented, developers can undertake phased developments on large pieces of land in stages, each with a sectional title, as well as issue separate ownership documents for units of buildings on one title deed under one phase of construction, before the entire land is fully developed. Other areas that the regulation seeks to address include mining by including mining cadaster into the National Land Information Management System (NLIMS) and underground utility services to review the Survey Act and provide underground survey and mapping in order to ascertain whether the choice of new road or real estate construction will affect any existing underground installations for water, sewer or electricity. In the past, lack of information on the location of buried assets has caused practical problems that have increased costs, delayed projects and increased the risk of injury for utility owners, contractors, and road users.

The land sector continues to be supported by improved regulatory framework to not only spur development, but also reduce bureaucracies in land registration and its subsequent development.

The real estate sector performance is expected to be supported by financial institutions efforts to avail affordable mortgages to clients, expansion of local and international retailers taking up prime space left by troubled retailers, and the streamlining of the land regulations to spur development and reduce bureaucracies in land dealings.
