Cytonn Monthly – August 2021

Real Estate

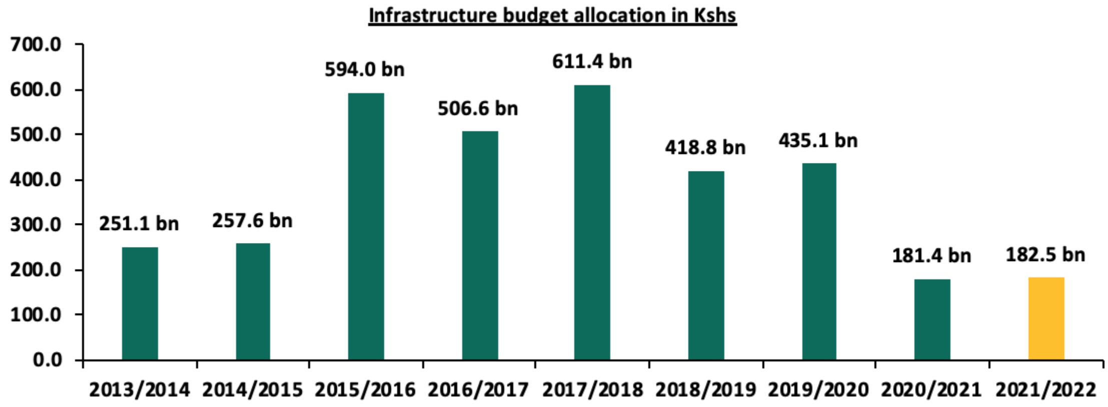
I. Industry Reports

During the month, the Kenya Roads Board (KRB), the agency overseeing development and maintenance of roads in Kenya, released the Annual Public Roads Programme 2021/2022 report and the following were the key take outs;

1. Kenya's good road networks increased from 10.0% in 2009 to 18.2% in 2018, while the poor road networks decreased to 37.0% in 2018, from the 58.9% recorded in 2009, both signifying the government's efforts to better the infrastructure roads sector in Kenya through implementation and development of various project such as the ongoing Nairobi Expressway and Western Bypass,
2. A total of Kshs 55.0 bn is set to be disbursed to various agencies namely; Kenya National Highway Authority (KeNHA), Kenya Urban Roads Authority (KURA), Kenya Rural Roads Authority (KeRRA), Kenya Wildlife Service (KWS), and Roads Sector Investment Programme Gaps (RSIPG), for the purpose of restoration and maintenance of public roads. This represents a 22.0% points increase in the funds allocated for the maintenance of roads for the FY'2021/22 compared to the Kshs 45.1 bn spent in the FY'2020/21, and an indication that more roads are expected to be renovated,
3. KeNHA, KURA, KeRRA, KWS, and RSIPG are each set to receive Kshs 26.6 bn, Kshs 6.7 bn, Kshs 14.6 bn, Kshs 0.7 bn, and Kshs 6.5 bn, respectively, for revamping and maintaining their respective road projects, with the total road network to be covered under the Annual Public Roads Programme (APRP) 2021/22 being 48.4 Km, which represents 99.0% of the classified national trunk road network and 30.0% of the total national road network, and,
4. Kenya's road network coverage is currently at 161,451 Km valued at Kshs 3.5 tn, which is even higher than the total 3.0 tn budget for FY'2021/22, indicating heavy investment on the infrastructure sector.

The government of Kenya continues to focus on the implementation and conclusion of various road projects in the country in order to make Kenya an intra-regional hub for trade in East Africa. Some of the projects in the pipeline include; i) the Nairobi Expressway expected to be completed in February 2021, ii) the Western Bypass, iii) Nairobi-Nakuru Mau Summit Highway project, and, iv) Lamu Port-South Sudan-Ethiopia Transport (LAPSSET) corridor whose first berth was completed and launched in May 2021. Upon disbursement of the funds, we expect improved conditions of road networks in the country following renovations, easier access to areas thus sparking trade and investment opportunities in the country, increasing tourism activities, and boost in property prices of surrounding regions.

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



Source: National Treasury of Kenya

Other industry reports released during the month include:

#	Theme	Report	Key Take-outs
1	General Real Estate	Kenya Market Update H1'2021	· The average selling prices for prime residential buildings realized a 0.1% y/y marginal improvement, whereas the commercial office and retail sectors recorded rental rate declines of 1.8% and 4.8%, respectively, from Kshs 457.4 per SQFT and Kshs 122.0 per SQFT recorded in FY'2020 to Kshs 435.6 per SQFT and Kshs 119.8 per SQFT, respectively, in H1'2021. For more information, see Cytonn Weekly #32/2021.
		Leading Economic Indicators June 2021	· International arrivals through Jomo Kenyatta International Airport (JKIA) and Moi International Airport (MIA) registered an improvement from 1,177 visitors in Q2'2020 to 113,307 in Q2'2021, and, · Cement consumption registered a 26.9% increase to 3.3 mn metric tonnes between January and May 2021 from 2.6 mn metric tonnes in the same period in 2020. For more information, see Cytonn Weekly #33/2021.
2	Residential Sector	Hass Consult Q2'2021 House Price Index	· House prices realized an overall 0.1% q/q and 1.7% y/y price declines. For more information, see Cytonn Weekly #33/2021.
3	Hospitality Sector	Monetary Policy Committee Hotel Survey-July 2021	· The number of operational hotels in June 2021 increased by 2.0% points to 96.0% from the 94.0% recorded in the May 2021. For more information, see Cytonn Weekly #31/2021.
4	Land Sector	Hass Consult Q2'2021 Land Price Index	· Land prices within Nairobi's suburbs and satellite towns registered a 0.3% q/q and 1.1% q/q improvement. For more information, see Cytonn Weekly #33/2021.

The real estate performance is expected to continue being boosted by; i) ongoing construction activities in the residential and infrastructure sectors facilitating uptake of land, ii) roll out of vaccines boosting confidence in flight travels thus enhancing international arrivals and operations of hotels, and, iii) continued development and uptake of retail spaces by both local and international retailers. However, performance of real estate sector is expected to be weighed down by poor performance in the commercial office sector attributed to working from home strategy still being embraced by majority of firms as a cost effective measure thus causing a decline in the demand for physical spaces and the overall rental yields.

II. Residential Sector

Notable highlights during the month include;

i. 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 more information, see Cytonn Weekly #34/2021,
ii. 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. For more information, see Cytonn Weekly #32/2021,
iii. 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. For more information, see Cytonn Weekly #32/2021, and,
iv. Centum Real Estate also partnered with NCBA Bank Kenya to provide mortgage financing for both qualified salaried and self-employed Kenyans to access over 5,000 units under development by the firm. For more information, see Cytonn Weekly #31/2021.

The residential sector continues to register increased activities hence we expect its performance to improve attributed to; i) availability of home loans, ii) the relatively high population growth rate at 2.3% p.a against the global average of 1.1% p.a according to the World Bank, which initiate more demand for housing, iii) government's focus on the affordable homes initiative, and iv) improved infrastructure developments boosting home investment opportunities and prices.

III. Retail Sector

During the week, Chandarana Food Plus, a local retail chain, opened a new outlet in Eldoret's new Highland Mall. This is the first outlet opened this year by the retailer and the second to be opened in Eldoret town, bringing its number of operating stores to 21. The retailer also announced plans to open two more stores by the end of the year in Nakuru and Naivasha, in its race to keep up with the existing competition from rivals such as Naivas, QuickMart and Carrefour supermarkets which have each opened 6, 4, and 5 stores this year, respectively. The decision to take up space in Eldoret is driven by; i) strategic location of the mall along the Uganda Road facilitating easier access to the store by clients and suppliers, ii) positive demographics initiating demand for their products as Uasin Gishu county where Eldoret town lies recorded an increase in population to 1.6 mn in 2019 from 0.1 mn in 2009, according to the Kenya National Bureau of Statistics, and, iii) stiff competition for market share by close rivals. In terms of performance, according to our Kenya Retail Report 2020, Eldoret's registered high rental rates of Kshs 130.0 per SQFT against the market average of Kshs 115.1 per SQFT. Despite this, the retailer still chose Eldoret as its new location due to the strategic location of the mall along the busy Uganda road providing easy access, coupled with the rising demand for goods and services as a result of the rising population.

The table below shows a summary of the performance of the retail sector in key urban cities in Kenya;

Summary Performance of Key Urban Cities in Kenya

Region	Rent/SQFT 2020	Occupancy% 2020	Rental Yield
Mount Kenya	125.0	78.0%	7.7%
Nairobi	168.5	74.5%	7.5%
Mombasa	114.4	76.3%	6.6%
Kisumu	97.2	74.0%	6.3%

Summary Performance of Key Urban Cities in Kenya

Region	Rent/SQFT 2020	Occupancy% 2020	Rental Yield
Eldoret	130.0	80.2%	5.9%
Nakuru	55.7	76.6%	5.9%
Average	115.1	76.6%	6.7%

Source: Cytonn Research 2020

Additionally, South African Game Stores retail chain announced plans to sell its three Kenyan based outlets located in the Waterfront Karen, Garden City Mall, and Kisumu's Mega City Mall, to undisclosed potential buyers. This will mean the retailer completely exiting the Kenyan market, having first tapped into the Kenyan market in 2015. The decision by the international retailer to exit the Kenyan market is driven by the losses generated as a result of the tough business environment caused by the ongoing pandemic, as well as the difficulties in cracking the local market due to existing competition from other retailers. The move by the retailer also follows the planned exit of other international retailers such as ShopRite due to the constrained consumer spending patterns, decline in revenue and existing competition from local retailers such as Naivas. In our view, the decision of the retailer to sell its outlets instead of closure, coupled with the reopening of the economy spurring trade activities is expected to cushion the performance of the Kenyan retail market.

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	1	0	21	2	23
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	0
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
Total		257	313	334	17	177	174	12	183

Source: Online Research

Notable highlight during the month include;

i. 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. For more information, see Cytonn Weekly #34/2021.

The aggressive move by local and international retailers taking prime retail spaces, as well as others opting to sell their stores instead of closure is expected to cushion the performance of the retail sector against the existing oversupply currently at 2.0 mn SQFT in the Kenyan retail market. This is in addition to other driving factors such the high urbanization and population growth rates of 4.0% p.a and 2.3% p.a, respectively against the global average of 1.9% p.a and 1.1% p.a, respectively according to World Bank, and the improving infrastructure construction activities making it easier to access various locations and boosting trade activities as well.

IV. Hospitality Sector

Notable highlights during the month include;

i. The Ministry of Tourism through the Tourism Fund Corporation announced plans to engage in Public Private Partnership (PPP) deal to complete the construction of Crab Utalii Hotel worth Kshs 5.9 bn, on a 20.0 are piece of land in Vipingo Kilifi County. For more information, see Cytonn Weekly #33/2021, and,
ii. 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. For more information, see Cytonn Weekly #32/2021.

The hospitality sector which was the most hit real estate sector has been registering a significant growth in its activities and its overall performance is expected to be further driven by; i) reopening of the economy coupled with the roll out of vaccines boosting confidence in international travels, ii) introduction of charter flights to boost international arrivals, and, iii) the World Rally Championship expected to be hosted in Kenya annually until 2026 thereby boosting visitor arrivals and performance of the hotel industry. However, its performance is expected to be weighed down by the slow but rising tourism numbers as a result of top source tourist markets for Kenya such as USA and UK having issued travel advisories to Kenya.

IV. Infrastructure

Notable highlight during the month include;

i. The national government through the Kenya Rural Roads Authority (KeRRA) began the tarmacking of the 55.0 Km Msau-Mbale-Werugha-Mgange-Bura road project at a cost of Kshs 2.0 bn in Taita Taveta County. Additionally, the Kenya Rural Roads Authority (KeRRA) announced plans to construct the 78.0 Km Kamukunji-Kisanana-Kipkitur-Lake Bogoria road worth Kshs 3.7 bn in Baringo County through Intex Construction Limited, a local contractor. For more information, see Cytonn Weekly #33/2021.

We expect continued construction and revamp activities to be witnessed in the infrastructure sector due to government's aggressive focus to initiate and conclude projects through various strategies such as PPP's, coupled with the increased budget allocation and for the sector by 0.6% to Kshs 182.0 bn in FY'2021/22 from Kshs 181.5 bn in FY'2020/21.

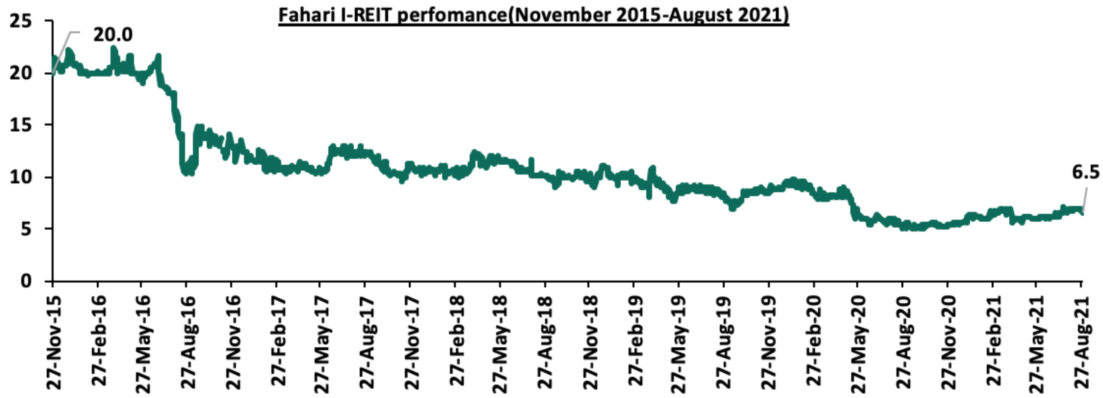
IV. Statutory Reviews

Notable highlight during the month include;

i. 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. For more information, see Cytonn Weekly #34/2021.

IV. Listed Real Estate

In the Nairobi Stock Exchange, the ILAM Fahari I-REIT closed the month trading at an average price of Kshs 6.7 per share, representing a 12.1% Year-to-Date (YTD) increase from Kshs 5.8 per share. However, the performance also represented a 3.0% Month-to-Date (MTD) and 67.5% Inception-to-Date (ITD) declines from Kshs 6.7 and Kshs 20.0, respectively. The REIT is expected to continue recording subdued performance due to; i) a general lack of knowledge on the financing instrument, ii) general lack of interest of the REIT by investors, iii) High minimum investments amounts set at Kshs 5.0 mn, and, iv) lengthy approval processes to get all the necessary requirements thus discourage those interested in investing in it. The graph below shows the REIT's performance from November 2015 to June 2021:



We expect the Kenyan real estate sector to continue recording various increased activities hence drive its growth supported by factors such as; i) government's continued focus on the infrastructure and affordable home projects, ii) provision of home loans, iii) retailer's aggressive expansion drive taking up prime spaces, iv) slowly rising numbers of international visitors, and, v) establishment of statutory laws to guide the sector's activities and overall performance. Despite this, there are challenges expected to impede performance of the sector such as the low demand for physical office spaces, and lack of investor appetite in listed REITs.
