Kenya Listed Banks H1'2021 Report, & Cytonn Weekly #36/2021

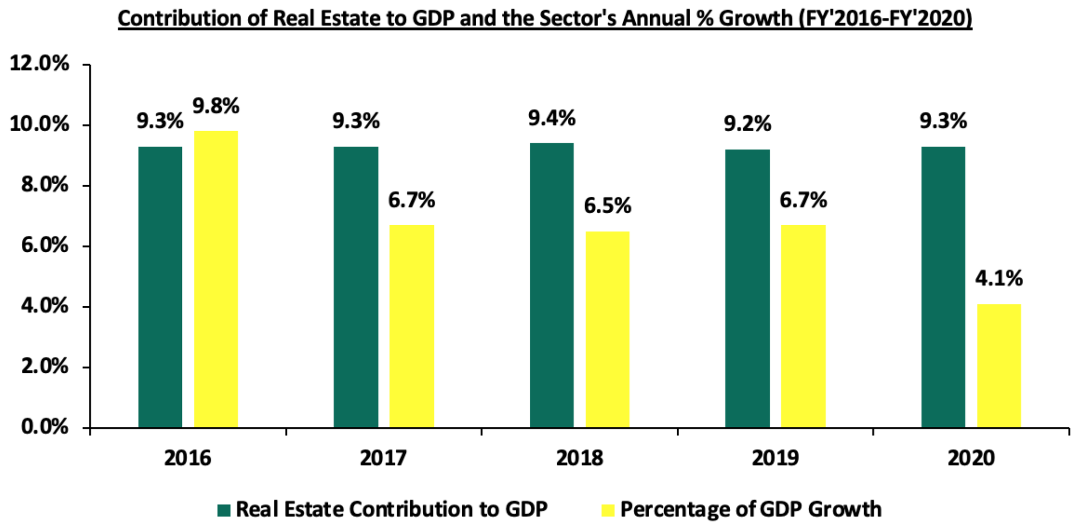
Real Estate

I. **Industry Reports**

During the week, the Kenya National Bureau of Statistics (KNBS) released the Economic Survey 2021 and below are the key take-outs related to the real estate sector;

i. Real estate contribution to GDP increased marginally by 0.1% points to 9.3% in FY’2020 from 9.2% recorded in FY’2019. However, the annual growth of the real estate sector recorded a contraction of 2.6% points to 4.1% in FY’2020 from the 6.7% growth recorded in FY’2019. Loans advanced to the real estate sector increased by 8.7% to Kshs 406.8 bn as at FY’2020 from Kshs 374.1 bn as at FY’2019,

The graphs below show the percentage contribution of real estate to GDP and the real estate sector annual percentage growth from 2016-2020;



Source: Kenya National Bureau of Statistics

ii. In the infrastructure sector, by H1’2020, the total bitumen roads were 22,600 km, an increase of 6.1% from 21,300 km in H1’2019. As at FY’2020, the construction of the Nairobi Expressway, which is a 108-kilometre lane-length, with an estimated construction cost of Kshs 63.8 bn was 16.6% complete while the Nairobi Western Bypass was 33.0% complete as the government continues to facilitate provision, maintenance and management of road infrastructure in support of Vision 2030 aspirations in order to provide safe, efficient, accessible and sustainable transportation services,

iii. The building and construction sector registered a growth of 11.8% in FY’2020 compared to a growth of 5.6% recorded in FY’2019 translating to a 6.2% points y/y growth. Cement consumption, a key input to construction activities rose significantly by 21.3% to 7.4 mn tonnes in

FY’2020 from 6.1 mn tonnes in FY’2019. Loans advanced from banks to the construction sector grew by 3.4% to Kshs 119.7 bn in FY’2020 from Kshs 115.8 bn advanced in FY’2019 and were mainly channelled towards financing of real estate developments, and,

iv. In FY’2020, the State Department for Housing and National Housing Corporation (NHC) completed 2,332 and 338 units respectively, of public residential buildings, with construction of 2,032 housing units ongoing at a cost of Kshs 3.7 bn in an aim to boost government’s efforts to actualize its housing initiative under the Big 4 Agenda.

The real estate sector has shown resilience in the various sectors from infrastructure, construction to housing, which signifies the strong underlying factors despite the effects of the Covid-19 pandemic. Going forward, we expect growth in performance by higher margins as the country is on the path towards economic recovery.

II. **Residential Sector**

During the week, Purple Dot International Limited, a local real estate developer, began the handing over of its Kshs 1.0 bn Marigold gated community development off Link Road in Lang’ata constituency.

The table below shows the analysis of Marigold Residency and other residential projects done by Purple Dot International Limited;

Purple Dot International Limited Residential Projects

Project	Location	Land Size (Acres)	Number of Units per Typology	Unit Price (Kshs)	Unit Size (SQM)	Price per SQM (Kshs)
Marigold Residency	Link Road, Lang’ata	3	42-4 Bedroom Townhouses	31.0 mn	246	126,016
Elina Housing Project	Mandera Road, Kileleshwa	0.7	66-3 Bedroom Apartments	23.0 mn	214	107,477
			4-Duplex Penthouses	55.0 mn	390	141,025
Serene Park Project	Machakos-Mombasa Junction	0.13 (for each Villa)	90-4 Bedroom Villas	24.0 mn	335	71,642

Source: Cytonn Research

The Marigold Residency development broke ground in November 2020 and is currently at its final stages. Moreover, the uptake of the units is currently at 76.0% with sale price of Kshs 31.0 mn per townhouse, translating to an average price of Kshs 126,016 per SQM which is 22.8% lower than the average market price per SQM in Lang’ata at Kshs 163,120 according to Cytonn H1’2021 Markets Review Report. The choice to invest in residential real estate in Lang’ata is informed by; i) accessibility of the area being served by both Lang’ata road and Southern Bypass, ii) proximity to social amenities like international schools and malls such as Hillcrest and Galleria, respectively, and, iii) an increasing population in Lang’ata which has grown by 12.0% to 197,489 persons in 2019 from 176,314 persons in 2009 according to the Kenya National Bureau of Statistics data hence increasing the demand for housing.

In terms of performance, according to Cytonn H1'2021 Markets Review Report, detached units in Lang’ata recorded an average uptake of 92.9% which is 6.7% points higher than the average Upper Mid-End detached unit’s performance of 86.2%, highlighting the demand for detached units in the area.

The table below shows the performance of Upper Mid-End detached units in the Nairobi Metropolitan Area (NMA) in H1’2021;

(All Values in Kshs unless stated otherwise)

Detached Units Performance H1’2021

Area	Average of Price per SQM H1'2021	Average of Rent per SQM H1'2021	Average of Occupancy H1'2021	Average of Uptake H1'2021	Average of Annual Uptake H1'2021	Average of Rental Yield H1'2021	Average of Price Appreciation H1'2021	Average Total Returns H1'2021
Upper Mid-End								
Redhill & Sigona	97,843	446	90.9%	90.9%	15.4%	5.2%	1.3%	6.5%
Ridgeways	152,100	775	84.5%	86.2%	13.4%	5.2%	1.2%	6.3%

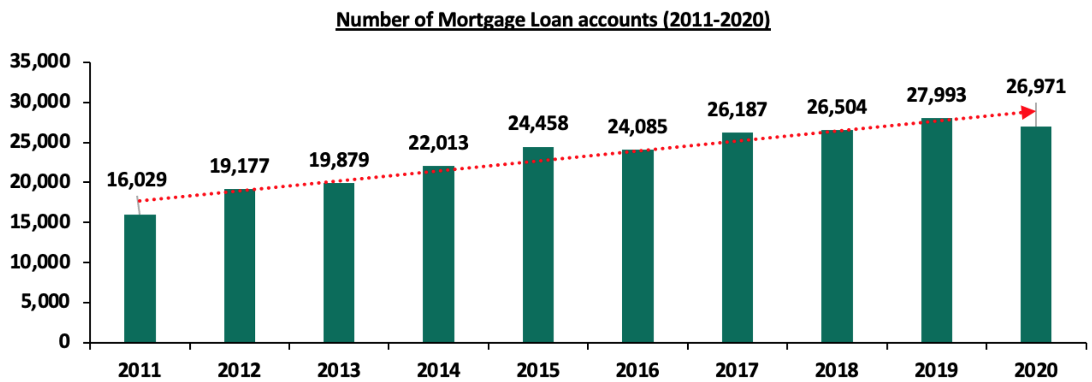
Detached Units Performance H1’2021

Area	Average of Price per SQM H1'2021	Average of Rent per SQM H1'2021	Average of Occupancy H1'2021	Average of Uptake H1'2021	Average of Annual Uptake H1'2021	Average of Rental Yield H1'2021	Average of Price Appreciation H1'2021	Average Total Returns H1'2021
Upper Mid-End								
Runda Mumwe	152,949	635	85.2%	80.1%	14.1%	4.3%	2.0%	6.3%
Loresho	148,543	673	87.8%	82.0%	10.7%	4.8%	1.5%	6.3%
South B/C	127,298	537	94.4%	88.7%	14.0%	4.8%	1.2%	6.0%
Langata	163,120	555	85.9%	92.9%	10.0%	3.9%	0.8%	4.8%
Lavington	158,686	647	86.1%	82.5%	12.9%	4.4%	0.3%	4.7%
Average	**142,934**	**610**	**87.8%**	**86.2%**	**12.9%**	**4.6%**	**1.2%**	**5.8%**

Source: Cytonn H1’2021 Markets Review

Additionally, Gulf African Bank Limited launched a mortgage facility that will see home buyers access mortgage loans at 11.8% p.a, 1.2% points lower than the 13.0% interest rate currently offered by the bank. The credit facility is expected to run for three months until December 2021, targeting both Muslim and non-Muslim clients with the lender aiming to expand its customer base and boosting mortgage uptake. The facility named ‘Getting You Home in 48 hours’, features mortgage takeovers from other financial institutions, outright purchases for new home buyers, diaspora mortgages and equity release facilities. Moreover, the bank will accept multiple payment vehicles such as pay slips, cash savings, pension lump sums and sale of investment property. Customers will also have their mortgage loan applications processed within 48 hours of application in addition to enjoying a repayment period of up to 20 years. The move by the lender comes barely less than a month after Stima Savings and Credit Cooperative (SACCO) Limited also launched its affordable housing mortgage scheme targeting both formal and informal sector players, a sign of the private sector’s resilience to boost mortgage accounts and increase home ownership rates within the country. The mortgage facility by Gulf African Bank is expected to boost its mortgage accounts and also subsequently increase the number of mortgage accounts in the country, currently at 26,971 as at 2020, a 3.5% decline from 27,943 accounts realized in 2019, attributable to the economic disruptions stemming from the Covid-19 pandemic which saw lenders adopt a conservative approach towards issuing loans.

The graph below shows the number of mortgage loan accounts in Kenya over the last 10 years;

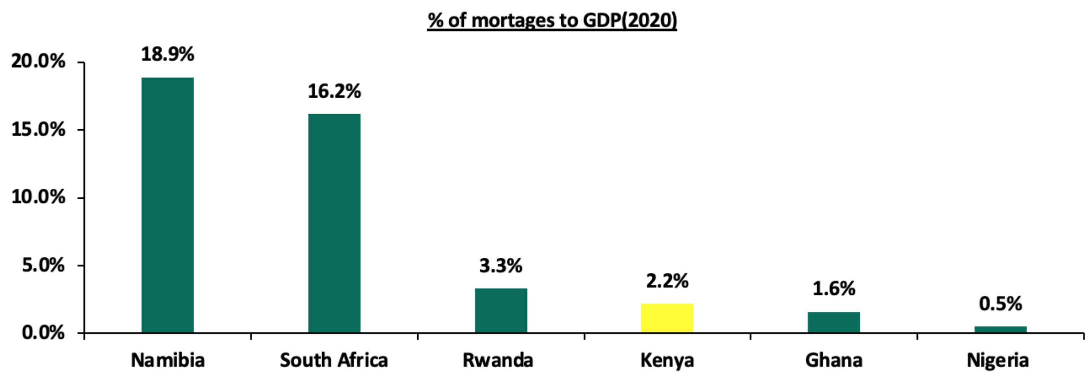


Source: Central Bank of Kenya

Kenya has continued to record slow mortgage uptake, resulting to a relatively low mortgage to GDP ratio which stands at 2.2% as at 2020, compared to other African countries such as Namibia at 18.9%. The low mortgage penetration is attributed to; i) the high interest rates and high deposit requirements, ii) soaring of property prices, iii) low-income levels making it hard to service the loans,

iv) lack of credit risk information for those in the informal and self-employed sectors leading to their exclusion, v) lack of a secondary mortgage market that would improve ability of banks and other lenders to increase their lending capacity, and, vi) underdeveloped capital markets making it hard to develop pools of capital focused on mortgage finance. However, the Kenyan government, through the Kenya Mortgage and Refinance Company (KMRC), has worked on increasing the mortgage uptake through advancement of credit to mortgage lenders at a rate of 5.0% for onward lending at single digit rates. Moreover, KMRC has tripled the lending allocation for Primary Mortgage Lenders (PMLs) to Kshs 7.0 bn for the FY'2021/22, which represents a 153.5% increase from the Kshs 2.8 bn in FY'2020/21. While the increase is notable, given the average KMRC loan size at Kshs 3.5 mn, this will lead to an increase of only about 2,000 mortgages. Additionally, Gulf African Bank Limited launched a mortgage facility that will see home buyers access mortgage loans at 11.8% p.a, 1.2% points lower than the 13.0% interest rate currently offered by the bank. The credit facility is expected to run for three months until December 2021 However, it is not clear how KMRC will sustainably access funds for onward lending at the low rates, yet even the government can only access 20-year funds at a 13.3% rate.

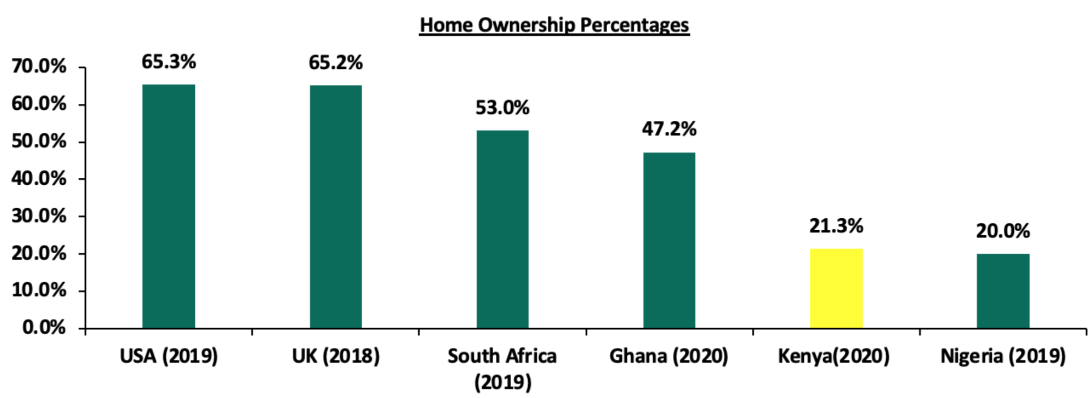
The graph below shows the mortgage to GDP ratio for Kenya compared to other countries as at 2020;



Source: Center for affordable housing

The expected increase in mortgage uptake is expected to improve the home ownership rate in Kenya which is currently low at 21.3% in the urban areas compared to other African countries such as South Africa and Ghana with 53.0% and 47.2%, respectively. The low home ownership rate is attributable to the high property prices and tough economic times reducing savings and disposable income.

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



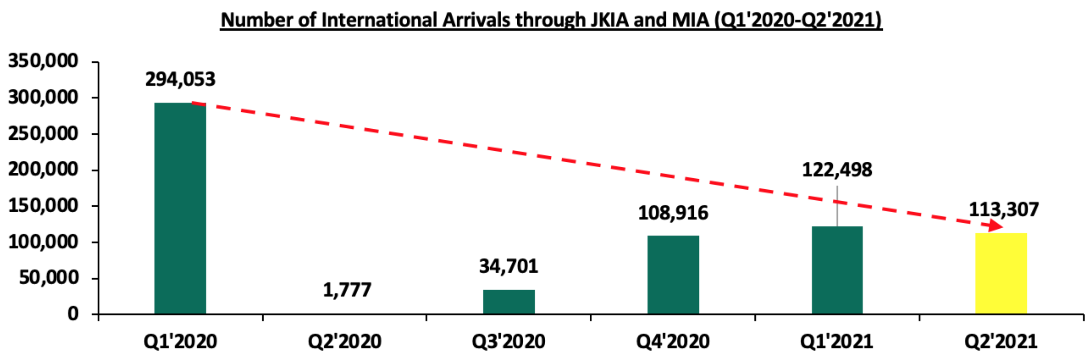
Source: Center for Affordable Housing Africa, Federal Reserve Bank

The residential sector is expected to continue recording increased activities attributed to private developer's efforts to match demand for homes coupled with financial institutions such as the banks and SACCOs availing mortgage solutions to Kenyans with an aim to increase mortgage uptake and home ownership rates in Kenya.

III. **Hospitality Sector**

During the week, British Airways (BA), announced the resumption of operations on the Nairobi-London route after a 5-month hiatus due to the Covid-19 operatory environment guidelines. This move comes barely two months after the Ministry of Foreign Affairs lifted a ban on passenger flights between Nairobi and London in June 2021. The ban on flights had been imposed by the Ministry of Foreign Affairs in April 2021 as a retaliatory move following the United Kingdom (UK) listing Kenya on its 'Red List', a list of countries whose nationals were barred from entering the UK to prevent spread of Corona-virus. BA also announced that it will fly on the route once per week down from daily flights it was operating during pre-pandemic period. This move is expected to marginally increase the number of arrivals from UK despite the current fears of the Covid-19 Delta variant, low flights' frequency and the high quarantine prices for UK nationals arriving from the Red-List countries. In terms of numbers, international arrivals through Jomo Kenyatta International Airport (JKIA) and Moi International Airport (MIA) registered an improvement from 1,177 arrivals in Q2'2020 to 113,307 arrivals in Q2'2021. However, there was a decline of 7.5% in international arrivals from 122,498 persons in Q1'2021 to 113,307 persons in Q2'2021 through the same airports. The decline in the number of international arrivals is expected to continue with Kenya currently in the Red-List of the UK and the US having raised its travel advisory from level 2 to level 3 in August 2021 since the two countries are regarded as key source markets of tourists in Kenya.

The graph below shows the number of visitor arrivals through Jomo Kenyatta International Airport (JKIA) and Moi International Arrivals (MIA) between Q1'2020 and Q1'2021;



Source: Kenya National Bureau of Statistics

The hospitality sector is expected to continue posting a low performance due to reduced activities attributable to travel bans and advisories from the top sources of visitors such as UK and USA. The Ministry of Tourism is also projecting a slower return to normalcy timeline with full normalcy to pre-pandemic levels expected in 2024. However, the Ministry of Tourism is making aggressive efforts to boost the performance of the hospitality industry such as ensuring mass vaccination against Covid-19 for industry players to boost confidence, and, aggressive marketing of the Kenyan hospitality industry through Magical Kenya platform to make it visible to the rest of the world with international promotions in countries such as the Ukraine currently underway.

The real estate sector is expected to be supported by private developer's initiatives to provide opportunities to home buyers with competitive returns to investors, and the affordable mortgage initiatives by various banks. The percentage real estate growth and contribution to GDP is also expected to increase as the country reels on the path towards economic recovery. However, poor performance of the tourism sector from the low numbers of international arrivals is expected to hurt the performance of the hotels and serviced apartments with normalcy of performance to pre-Covid levels expected in two years.

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