Kenya Retail Report 2021, & Cytonn Weekly #38/2021

Real Estate

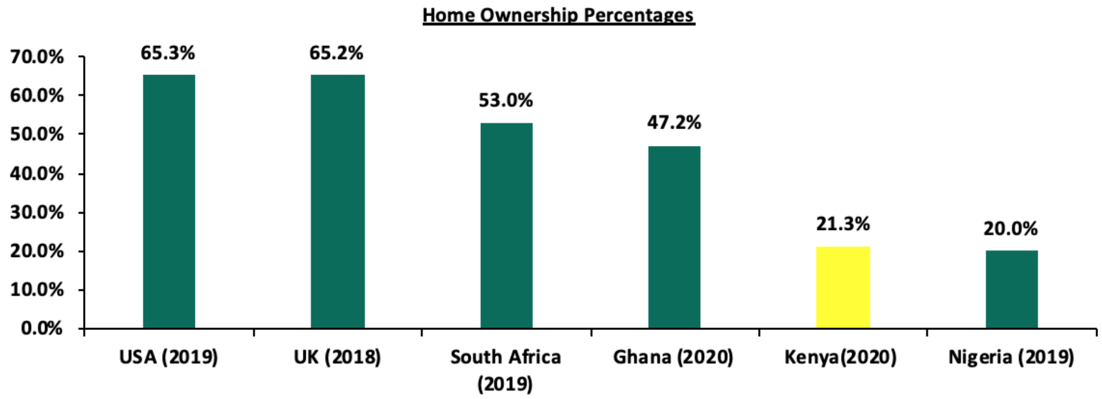
I. **Residential Sector**

During the week, the National Housing Corporation (NHC) began the demolition of 792 detached units in Changamwe Estate in Mombasa County, to pave way for Phase II upgrade of the Estate valued at Kshs 0.4 bn. The County Government of Mombasa looks to complete over 9,000 affordable housing units by 2024 through joint ventures with private developers. Phase I of the redevelopment project which consisted of 84 units is already complete and some of the tenants who have completed their rent arrears and signed tenancy agreement will move in as demolition and reconstruction of their old houses begins. The project will also include a commercial space and social amenities such as schools and recreation centers. Upon successful completion, the project is expected to; i) provide decent and affordable homes for residents of Changamwe Estate, ii) improve standards of living for residents in this Estate through the upgrade, iii) enhance Kenyans confidence in the affordable housing program, and, iv) boost home ownership rate in the country with the government planning to have the cost of the housing units deducted through an affordable Tenancy Purchase Scheme which will be equivalent to the current rent levels over a period of time.

The redevelopment comes after the County government of Mombasa began demolitions at Buxton Estate in May 2021, to pave way for 1,860 affordable houses at a cost of Kshs 6.0 bn. These estates are a part of a Kshs 200.0 bn housing plan to redevelop ten estates through a joint venture between County Government of Mombasa and private investors, with other estates such as Kaa Chonjo, Khadija, Kizingo and Nyerere in the pipeline for facelift.

Despite the efforts to support the housing initiative in Kenya, home ownership rates are still low at 21.3% as at 2020, compared to other African countries such as Ghana with a 47.2% according to Center for Affordable Housing Africa. Considering the housing deficit of 2.0 mn units which continues to grow annually by 200,000 units, and the low annual supply rate, it might not be easy to meet the targeted 500,000 affordable housing units by 2022 under the Affordable Housing Initiative, since we are yet to see a significant part of that delivered. Current hurdles constraining supply of affordable houses in the country include; i) high construction costs, ii) the pending operationalization of the Integrated Project Delivery Unit under the Ministry of Housing as a single point of regulatory approval for developments, infrastructure provision and developer incentive, iii) lack of development finance as investors hold back monies during the tough economic times coupled with a non-supportive capital markets regulatory framework, and, iv) reduced revenue inflows and disruption of supply chains due to the pandemic.

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



Source: Center for Affordable Housing Africa, Federal Reserve Bank

To address the low home ownership rate, government is providing institutional housing, slum upgrading and private affordable homes programs under the affordable housing initiative, and established the Boma Yangu online platform, which facilitates registration for housing allocations and has so far attracted at least 322,343 applications. Given the negligible number of units delivered compared to existing demand, we expect the current housing deficit to expand further driven by the relatively high urbanization growth rates of 4.0% p.a compared to Sub-Saharan Africa's at 3.5% p.a by 2030 according to World Bank.

II. **Retail Sector**

During the week, Naivas Supermarket, a local retailer, opened a new outlet in Juja City Mall taking up 37,000 SQFT of prime retail space that was previously occupied by Tuskys Supermarket. The retailer has been on an expansion spree to maintain retail market dominance with this being its 76th outlet, having opened 6 other outlets so far this year as they also recently opened a new outlet in Kisumu's Simba Hall, in July 2021. The retailer aims to increase its footprint in the Kenyan retail market amid competition from international retailer Carrefour which has opened 5 outlets in 2021, and local retailer QuickMart which has opened 4 outlets this year. The decision to invest in Juja is attributable to; i) the location of the Juja City Mall along Thika Superhighway which will enhance accessibility by both clients and suppliers, ii) the close proximity to the Jomo Kenyatta University of Agriculture of Technology (JKUAT) from which the retailer expects to form a significant part of the clientele base, iii) the availability of prime rental space left by the beleaguered Tuskys Supermarket, iv) the need to boost sales through promotions and e-commerce by tapping into the vibrant Juja market, and, v) the retailer's necessity to meet the customer tastes and preferences in the area by diversifying their a range of consumer products including a food market and an alcoholic joint.

According to our Kenya Retail Report 2021, the average rent/SQFT for Thika Road is Kshs 158.0 which is 6.0% lower than the market average of Kshs 168.0 implying affordability, hence the basis for investing along the area.

The table below shows the submarket performance in the Nairobi Metropolitan Area (NMA);

Nairobi Metropolitan Area (NMA) Sub Market Performance

Area	Rent (Kshs)/SQFT 2021	Occupancy % 2021	Rental Yield 2021
Westlands	209	80.4%	**9.7%**
Karen	214	80.8%	**9.4%**
Kilimani	172	83.6%	**9.0%**
Ngong Road	175	78.0%	**7.8%**

Nairobi Metropolitan Area (NMA) Sub Market Performance

Area	Rent (Kshs)/SQFT 2021	Occupancy % 2021	Rental Yield 2021
Kiambu road	178	70.4%	7.2%
Thika Road	158	74.2%	6.7%
Satellite towns	138	72.2%	6.1%
Mombasa road	136	70.5%	6.0%
Eastlands	135	72.5%	5.9%
Average	**168**	**75.8%**	**7.5%**

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	7	0	76	4	80
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	16	0	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	4	0	0	0
Nakumatt	Local	65	65	65	0	65	0	0	0
Total		**257**	**313**	**334**	**18**	**178**	**176**	**10**	**183**

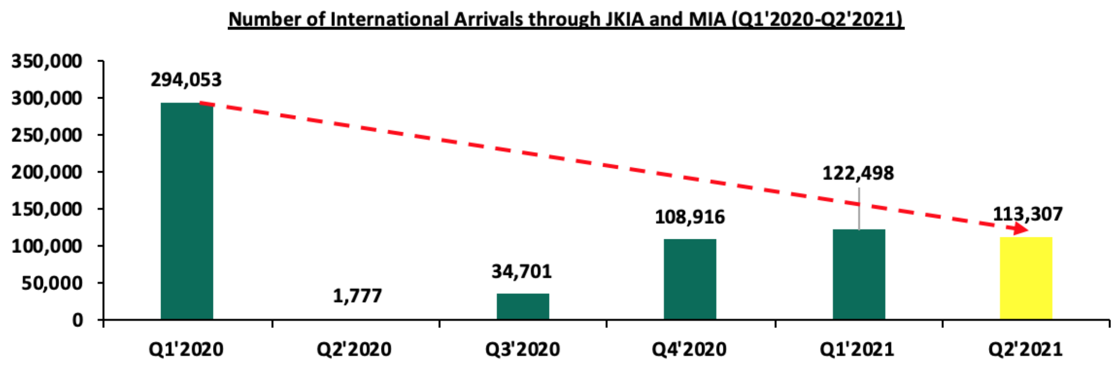
Source: Online Research

The retail sector is expected to be supported by expansion activities by the various retailers in an aim to increase their footprint and tap into extra markets by taking up spaces previously occupied by troubled retailers such as Tuskys. The rise of e-commerce market trend through online sales and deliveries is also expected to boost revenues for retailers in the country going forward. The retail sector performance is however expected to be weighed down factors such as oversupply with areas such as Nairobi, Kisumu, Uasin Gishu and Nakuru being the most oversupplied at by 3.0 mn, 0.3 mn, 0.1 mn and 0.1 mn SQFT of space as at 2021 and financial constraints limiting expansion.

III. **Hospitality Sector**

During the week, the United Kingdom (UK) government removed Kenya from the 'Red List' of countries banned from entering the UK. Kenya is now on the 'Amber-list' which has now been joined with the ‘Green-List’ to form the low risk category citing convincing data about covid-19 vaccination numbers and the efficiency of the vaccine. Kenyans will now be allowed into the UK after a 6-month ban since April 2021 due to fears of the Covid-19 Delta variant, which led to a decline in the number of international arrivals in the country since UK nationals were not allowed to travel to the ‘Red-List’ countries, while those coming from such are faced with high quarantine charges upon arrival. According to the Tourism Research Institute, UK formed the 5th source market for international tourists on Kenya in H1’2021 with 16,264 visitors which was 5.3% of the total visitor arrivals at 305,635. This performance was despite the ban in April, and therefore lifting of the travel ban is expected to increase the number of visitors going forward. For the period, United States of America (USA), Uganda, Tanzania and China formed the top four source markets with 49,178, 31,418, 31,291 and 18,069 visitors, respectively. In terms of overall performance, according to the Kenya National Bureau of Statistics (KNBS), 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 7.5% decline in international arrivals from 122,498 visitors in Q1’2021 to 113,307 visitors in Q2’2021 through the same airports attributable to travel bans and advisories from key source markets such as the UK and the United States America (USA).

The graph below shows the number of visitor arrivals through Jomo Kenyatta International Airport (JKIA) and Moi International Arrivals (MIA) between Q1’2020 and Q2’2021;



Source: Kenya National Bureau of Statistics

The hospitality sector is expected to continue on a path of recovery through the ongoing government and private sector efforts such as; i) the Ministry of Tourism ensuring mass vaccination against Covid-19 for industry players to boost confidence, ii) aggressive marketing of the Kenyan hospitality industry through Magical Kenya platform to the rest of the world with international promotions in countries such as the Ukraine currently underway, and, iii) the return of international flights to the country that had initially stalled due to travel bans and pending the actualization of Covid-19 travel guidelines. The Ministry of Tourism is however projecting a return to full normalcy to pre-pandemic levels in 2024 attributable to the slow monitoring of situations relating to the handling of the Covid-19 pandemic before the relaxation of measures that had initially been put in place.

The real estate sector is expected to record improvements supported by the government’s efforts to support Affordable Housing Initiative, retailer’s aggressiveness to expand and compete favorably, and the expected increase in international tourist arrivals which will boost the performance of the hospitality sector.