Nairobi Metropolitan Area (NMA) Mixed Use Developments Report 2021, & Cytonn Weekly #46/2021

Real Estate

I. **Industry Reports**

During the week, Hass Consult, a Real Estate Development and Consultancy firm, released the House Price Index Q3'2021, a report highlighting the performance of Real Estate Residential properties in the Nairobi Metropolitan Area (NMA) in Q3'2021. The key take outs are as outlined below;

i. Overall, residential properties within the Nairobi Metropolitan Area recorded a 1.0% q/q price appreciation and a 1.1% y/y price correction. Rents remained relatively stable over the review period, experiencing a marginal 0.1% q/q increase,
ii. Detached units recorded the highest q/q price appreciation at 1.7% attributable to the high demand in Satellite Towns such as Ruiru, as the units tend to be on more spacious parcels than similar detached units within the Nairobi Suburbs. Apartments recorded a q/q price correction of 0.7%, attributable to huge price corrections in areas such as Westlands and Kileleshwa at 2.5% and 2.2%, respectively,
iii. In the Suburbs, residential properties in Langata recorded the highest q/q price appreciation at 2.1%, while Runda recorded the lowest q/q performance with a price correction of 1.3%. Langata still recorded the highest y/y price appreciation at 11.9% with a 1.9% decline in y/y rental returns, confirming the area as more of a buyer than a renter's market. Donholm recorded the lowest y/y performance with a 3.6% price correction,
iv. In the Satellite Towns, residential properties in Ongata Rongai recorded the highest q/q price appreciation of 2.7% while Juja recorded the lowest performance with a q/q price correction of 2.1%. In terms of annual performance, Ruiru was the best performing node with a price appreciation of 7.7% while Juja recorded the lowest performance with a y/y price correction of 7.5%, and,
v. Notably, property prices along the touchpoints of the Nairobi Express Way such as Mlolongo, Athi River and Syokimau recorded a q/q price appreciation of 1.9%, 1.8% and 0.1%, respectively. This indicates that buyers expect a rise in prices when the project is completed and opt to enter the market at the current lower prices.

This report is in line with our Cytonn Q3'2021 Markets Review Report, indicating that overall y/y property prices in the Nairobi Metropolitan Area improved by 0.8%. This performance is attributable to the gradual economic recovery, supported by the return to normalcy of general economic activities thereby increasing revenues and subsequent investments in Real Estate markets.

Hass Consult, also released the Land Price Index Q3'2021, a report highlighting the performance of the Land Sector in the Nairobi Metropolitan Area in Q3'2021. Key take outs from the report are;

i. Overall, land prices in the Nairobi Metropolitan Area appreciated on a q/q and y/y basis by 0.3%

and 0.8%, respectively. This is attributable to major infrastructure projects in the Nairobi Metropolitan Area such as the Nairobi Express Way and the Western Bypass, leading to increased demand for land along the touchpoints of the development projects,

ii. Satellite Towns continued to lead in average price appreciation posting a q/q and y/y price appreciation of 2.5% and 5.6%. Affordability and availability of land triggered the investors return to Satellite Towns at a faster rate than in the Suburbs. In this category, Kiserian recorded the highest q/q and y/y increase in land prices at 5.3% and 18.3%, respectively. Ruaka on the other hand, posted a q/q price correction of 0.2%, as developer demand declined with investors adopting a wait and see approach considering the current huge supply of units with others in the pipeline, and the expectations that infrastructure developments such as the Western Bypass may open up other areas for investment
iii. The Nairobi suburbs recorded a q/q and y/y price appreciation of 0.5% and 1.4%, respectively. In this category, Land in Spring Valley recorded the highest q/q price appreciation at 2.2% while land in Loresho recorded the lowest performance q/q, with a price correction of 1.3%. In terms of annual performance, land in Nyari recorded the highest y/y price appreciation at 7.2% while that in Riverside recorded the highest y/y price correction of 5.1%, and,
iv. Overall, Kilimani recorded the highest average land value per acre at Kshs 413.1 mn while Kiserian recorded the lowest average land value per acre at Kshs 8.7 mn per acre compared to a market average of Kshs 190.5 mn per acre in the Nairobi Metropolitan Area.

This report is in line with our Cytonn Q3’2021 Markets Review Report, indicating that overall land prices in the Nairobi Metropolitan Area appreciated by an average of 1.7% y/y, in Q3’2021. According to the report, land prices in the Satellite towns realized the highest capital appreciation at 4.5% as a result of availability, affordability and prospect for development. This performance reiterates the investor confidence in land as a stable investment asset class.

Additionally during the week, Knight Frank, a Real Estate Consultancy firm, released the Africa Office Market Dashboard Report- Q3’2021, a report highlighting the performance of commercial office sector in different African Cities for the Q3’2021. The key take outs from the report are as follows;

i. Major cities in Africa recorded a 49.0% q/q increase in office demand in Q3’2021 attributable to rising levels of investment as investors moved to deploy capital amassed throughout the course of the pandemic,
ii. Lagos, Nigeria, recorded the highest rental rates at Kshs 7,011 (USD 62.5) per SQM attributable to a strong occupier demand majorly from the vibrant tech sector supported by the high Fintech start-ups,
iii. Harare, Zimbabwe recorded the lowest rental rates at Kshs 785 (USD 7.0) per SQM attributable to occupier flight to suburban offices from the CBD, with businesses keen on occupying high-quality, convenient and affordable space away from the City, and,
iv. Nairobi City recorded the highest q/q increase in office asking rents by 9.0% to Kshs 1,458 (USD 13.0), from Kshs 1,324 (USD 11.8) per SQM, leading to a 30.0% market share of the overall office requirements recorded across Africa during Q3’2021. This is attributable to the post-COVID economic expansion currently underway in Kenya coupled with a stable, but steady return of occupiers. This increase in demand has driven occupancy levels up by 3.0% points to 77.0% in Q3’2021, from 74.0% in Q2’2021.

The table below indicates the summary of the 10 cities with the highest rent rates in Africa – Q3’2021;

Summary of the 10 Cities with the Highest Rent Rates in Africa – Q3'2021

Rank	City and Country	Asking Rents (USD) per SQM
1.	Lagos, Nigeria	62.5
2.	Luanda, Angola	50.0
3.	Kinshasa, Congo	35.0
4.	Cairo, Egypt	33.0
5.	Abidjan, Cote D'Ivore	32.5
6.	Accra, Ghana	30.0
7.	Malabo, Equatorial Quinea	30.0
8.	Algiers, Algeria	28.0
9.	Maputo, Mozambique	28.0
10.	Douala, Congo	27.0

Source: Knight Frank Report NB: 1 USD=Kshs 112.2 as at 19/11/2021

The table below indicates the summary of the 10 cities with the lowest office rent rates in Africa – Q3'2021;

Summary of the 10 Cities with the Lowest Rent Rates in Africa – Q3'2021

Rank	City and Country	Asking Rents (USD) per SQM
1.	Harare, Zimbabwe	7.0
2.	Blantyre, Malawi	7.0
3.	Tunis, Tunisia	9.0
4.	Antananarivo, Madagascar	11.0
5.	Gaborone, Botswana	12.0
6.	Lilongwe, Malawi	12.0
7.	Nairobi, Kenya	13.0
8.	Kampala, Uganda	14.4
9.	Dar Es Salaam, Tanzania	15.0
10.	Johannesburg, South Africa	15.0

Source: Knight Frank Report NB: 1 USD= Kshs 112.2 as at 19/11/2021

We expect uptake of offices to increase marginally driven by the resumption of businesses activities following the reopening the economy. However, the sector's performance is expected to be weighed down by the current oversupply of offices in the Nairobi Metropolitan Area market at 7.3 mn SQFT as at 2021, and, the adoption of online meetings and work from home as a continuing norm in most companies.

II. **Infrastructure Sector**

During the week, Kenya Urban Roads Authority (KURA) announced the commencement of the conversion of the 32.0 Km Eastern Bypass into a dual carriage way at a cost of Kshs 12.5 bn. The road will be constructed by China Community Construction Company Limited and is expected to be completed by 2023. Upon completion, the road will link Mombasa Road to the Thika Superhighway through City Cabanas, Pipeline, Njiru, and Ruiru. The road is expected to:

i. Ease traffic congestion along the busy Mombasa Road by linking motorists from the Jomo Kenyatta International Airport and Mombasa-Nairobi highway to Thika Superhighway without passing through the CBD,
ii. Boost Real Estate investment along the Satellite Towns touchpoints such as Utawala and Ruiru through enhanced investor and client accessibility,
iii. Strategically serve as a link point to the planned Kshs 500.0 bn Northlands City Project in Ruiru, and,
iv. Boost trade activities along the region due to increased population residing and transiting through the areas.

The government continues to show a lot of commitment for infrastructure development in the country with current major pipeline projects in the Nairobi Metropolitan Area being the Nairobi Express Way which is 68.0% complete, and the Western Bypass (the Bypass will connect the towns of Kikuyu and Ruaka). The government has borrowed both internally by issuing infrastructure bonds, and externally through loans from countries such as China and Korea in order to finance FY’2021/2022 infrastructure budget at Kshs 182.5 bn, a 0.6% increase from Kshs 181.4 bn allocation for FY’2020/2021. We therefore expect these projects to be done to completion and open up more areas for investments through enhanced accessibility.

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

Source: National Treasury

The government’s continued focus on initiation and completion of infrastructure developments is expected to support the realization of the Vision 2030 Agenda on developing quality, safe and adequate roads to make Kenya an intra-regional hub for trade in East Africa.

III. **REIT Performance**

During the week, Fahari I-REIT declined by 2.0% to close at Kshs 6.8 per share, from Kshs 7.0 per share recorded the previous week. On a YTD basis the REIT has gained by 21.3% from the Kshs 5.6 recorded at the beginning of the year. The REIT’s closing price also represented a 65.8% Inception to Date (ITD) loss in performance, from the listing price of Kshs 20.0 per share. Additionally, latest data from NSE Unquoted Securities Platform (USP) show that the Acorn DREIT closed the week at Kshs 20.2 while the I-REIT closed at Kshs 20.6 per unit, gaining by 0.9% and 3.1%, respectively, from the Kshs 20.0 Inception price. Volumes traded for D-REIT and the I-REIT were at 5.4 mn and 12.3 mn with a turnover of Kshs 108.9 mn and Kshs 254.1 mn, respectively.

The Kenyan REIT market continues to record subdued performance, forming a mere 0.04% of the total market cap compared to the REIT Market in South Africa at 1.6% of the total market capitalization. This is due to constraining by factors such as i) lack of general knowledge about the REIT market and products, ii) high minimum investment amounts set at Kshs 5.0 mn for the D-REIT which 100x the medium income at Kshs 50,000, iii) lengthy regulatory processes discouraging promoters, and, iv) few REIT Trustees currently at 3, due to the high minimum requirements at Kshs 100.0 mn. The graph below shows Fahari I-REIT’s performance from November 2015 to November 2021:

We expect the real estate sector to be supported by i) the reopening of the economy boosting property and commercial office prices as demand improves, ii) investor confidence in land as a stable investment, and, iii) the government's continued support for infrastructure thus boosting investments through enhanced accessibility and sustainable transportation services. However, the subdued REIT performance is expected to constrain the performance of the sector.
