Cytonn Monthly – November 2021

Real Estate

I. Industry Reports

During the month, the following industry reports were released and the key take-outs were as follows:

#	Theme	Report	Key Take-outs
1	General Real Estate	Quarterly GDP Report for Q1'2021 and Q2'2021 by Kenya National Bureau of Statistics	• Real Estate sector grew by 4.9% in Q2'2021 compared to a growth of 4.6% recorded in Q2'2020 and a 4.5% growth recorded in Q1'2021. The Construction sector recorded a growth of 6.5% in Q2'2021 compared to 8.2% growth in Q2'2020. This performance represented a 1.3% points drop from the 7.8% growth recorded in Q1'2021. For more information, see Cytonn Weekly #45/2021.
2	Commercial Office Sector	Africa Office Market Dashboard Report Q3'2021 by Knight Frank	• Major cities in Africa recorded a 49.0% q/q increase in office demand, and, • 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. For more information, see Cytonn Weekly #46/2021.
3	Residential Sector	House Price Index Q3'2021 by Hass Consult	• Residential properties within the Nairobi Metropolitan Area recorded a 1.0% q/q price appreciation and a 1.1% y/y price correction. For more information, see Cytonn Weekly #46/2021.
4	Land Sector	Land Price Index Q3'2021 by Hass Consult	• Land prices in the Nairobi Metropolitan Area appreciated on a q/q and y/y basis by 0.3% and 0.8%, respectively. For more information, see Cytonn Weekly #46/2021.

The overall Real Estate sector performance continues to record improved performance supported by; i) increased development activities thereby supporting the overall growth of the sector, ii) increased demand for residential units and office spaces, and, iii) investor confidence in the land sector which has continued to show resilience despite the pandemic.

II. Residential Sector

a. Launch of the construction of Kitisuru Heights Phase II project, in Kitisuru

During the week, Almond Real Estate, a local real estate firm, began the construction of 60-one and two bedroom apartments dubbed Kitisuru Heights Phase 2, in Kitisuru Estate. This comes after the completion and opening of Kitisuru Heights phase one project in April 2021, comprising of studio and one bedroom units. Almond Real Estate also has an upcoming project dubbed Variant Homes in Gikambura-Kamangu area, comprising of 3-bedroom serviced bungalows. The increased construction activities by Almond is an indication of their confidence in the Kenyan Real Estate market and the recovery of the economy. Below is the summary of the sales prices of the Kitisuru Heights Phase 2 project which is expected to be completed in June 2023;

Kitisuru Heights Phase II

Typology	Unit size (SQM)	Unit Price (Kshs)	Price per SQM (Kshs)
1	46	3.0mn	65,217
2	69	4.5mn	65,217
Average			**65,217**

Source: Cytonn Research

The decision by Almond Real Estate to maintain Kitisuru as its project destination is supported by;

i. **Strategic location** with the area being approximately 12.5 km from Nairobi CBD,
ii. **Consumer preference** which drives demand for the units due to their affordability. The average price of the units at Kshs 65,217 per SQFT is lower than the upper mid-end market average of Kshs 127,634 per SQFT in Q3’2021, and,
iii. **Adequate infrastructure and amenities** servicing the area such as Kitisuru Road.

In terms of performance, according to the Cytonn Q3’2021 Markets Review, apartments in the upper mid end segment, where Kitisuru belongs, recorded an average total returns of 6.1% in Q3’2021, 0.1% points higher than overall performance of apartments which recorded average returns of 6.0%. Price appreciation also came in at 0.9%, which is 0.2% points higher than the market average of 0.7% in Q3’2021, further supporting the developer’s decision to re-invest in Kitisuru due to the impressive returns. The table below shows the performance summary of apartments within Nairobi Metropolitan Area in Q3’2021;

Nairobi Metropolitan Area Residential Apartments Performance Summary Q3’2021

Segment	Average of Rental Yield Q3'2021	Average of Price Appreciation Q3'2021	Average of Total Returns Q3'2021
Upper Mid-End	5.2%	0.9%	**6.1%**
Lower Mid-End	5.3%	0.8%	**6.1%**
Satellite Towns	5.3%	0.5%	**5.8%**
Average	**5.3%**	**0.7%**	**6.0%**

Source: Cytonn Research 2021

b. **CMA approves Kshs 3.9 bn Corporate Bond for investing in Affordable Housing**

During the week, the Capital Markets Authority (CMA) approved the issuance of a Kshs 3.9 bn Medium Term Note (MTN) programme for Urban Housing Renewal Development Limited. The MTN which has a Kshs 600.0 mn green-shoe option, an 18-month tenor, and an interest rate of 11.0% p.a will be used to finance the construction of the ongoing Pangani Affordable Housing Project.

The Kshs 25.0 bn affordable housing project in Pangani is a Public Private Partnership project between the Nairobi City County Government and Tecnofin Kenya Limited, comprising of 1,562 units. The construction of the Pangani Affordable Housing Project commenced in May 2020 and is expected to be completed by December 2022, with 160 units already rolled out to tenants. The table below shows the summary of the project selling prices;

Pangani Affordable Housing Project

Typology	Unit size (SQM)	Unit Price (Kshs)	Price per SQM (Kshs)
1	24	1.0mn	41,667
2	45	2.5mn	55,556
3	60	3.0 mn	50,000
3-Duplex	90	10.0 mn	111,111
Average			**64,584**

Source; Boma Yangu Portal

We expect to see a high oversubscription for the bond given the increased appetite for the corporate bond market and the high liquidity in the market. We note that the previous corporate bonds issued over the last 6 months have been oversubscribed, an indication of the improved investor confidence in the corporate bond market. For instance, EABL and Family Bank corporate bonds were oversubscribed by 344.5% and 147.3%, respectively. We believe that this corporate bond comes at the right time given that the performance of the Affordable Housing initiative continues to be weighed down due to financial constraints that has seen most projects stall. Therefore with its approval, we expect the construction of the project to be fast tracked in order for the government to realize its objective, as well as boost investor confidence in the affordable housing initiative.

c. **Launch of the construction of the Stoni Athi River Waterfront City housing project, in Machakos**

The government through the Ministry of Transport, Infrastructure Housing, Urban Development and Public Works, launched the construction of the Stoni Athi River Waterfront City housing project, in Machakos County. The affordable housing project worth Kshs 20.0 bn is being developed by the National Housing Corporation (NHC) and will comprise of 10,500 units targeting the low, middle, and high-income earners. They will be distributed as;

i. 5,000 units developed under the affordable housing initiative and ranging between Kshs 1.0 mn and Kshs 3.0 mn per unit, and
ii. 5,500 targeting the high and middle-income earners and ranging between Kshs 2.0 mn and Kshs 8.0 mn.

Affordable housing initiative continues to gain momentum in the country as evidenced by the 324,617 current registered applicants in the Boma Yangu Portal. Moreover, the government of Kenya continues to support the initiative through various strategies such as Public Private Partnerships, which have proven to be a cost effective measure for implementing projects such as the Kitui Affordable Housing Project. Other affordable housing projects include; i) Park Road Project in Ngara, ii) Buxton Housing Project in Mombasa, and, iii) Starehe Affordable Housing, among others. Despite this, there are challenges that continues to impede the performance of the initiative such as financial constraints leading to projects stalling, coupled with inadequate infrastructure.

Upon completion, the two projects are expected to; i) provide low cost homes to residents targeting affordable developments, ii) improve living standards of residents through easing the accessibility to decent homes, and, iii) improve the low home ownership rates in Kenya, which is currently at 21.3% in urban areas as at 2020, compared to other African countries such as South Africa and Ghana at 53.0% and 47.2%, respectively.

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

Source: Centre for Affordable Housing Africa, Federal Reserve Bank

Other notable highlights in the Residential sector during the month include;

i. Kenya Mortgage Refinance Company (KMRC), a treasury backed mortgage lender, announced that it is holding talks with the Kenya Bankers Association (KBA) and other relevant stake holders in the financial sector, to develop a secondary mortgage market in the country. For more information, see Cytonn Weekly #47/2021, and,
ii. Unity Homes, a Kenyan-British housing developer began the construction of 640 two- and three-bedroom apartments dubbed Unity East at Tatu City in Ruiru. For more information, see Cytonn Weekly # 44/2021.

We expect the residential sector to continue recording more development activities driven by the launching of various projects by developers coupled with the efforts by the government to make mortgages available through KMRC.

III. **Retail Sector**

During the week, Artcaffe Group, an international restaurant chain, announced plans to open 4 new outlets in Nairobi by the end of the year. The new outlets will be located at Britam Tower in Upperhill and Shell Petrol stations along Eastern Bypass, Southern Bypass and Rhapta road. This will bring the retailer's total operating outlets within Nairobi County to 39, with the Northern Bypass outlet being opened on 3rd December 2021. The decision to open the new outlets in Nairobi is supported by; i) stiff competition from close rivals such as Java Group, Subway, and Kentucky Fried Chicken (KFC), ii) positive demographics facilitating demand for goods and services, with Nairobi's population growth rate currently at 4.1% against Kenya's 2.3%, and, iii) increased financial muscle with Emerging Capital Partners (ECP) having acquired majority of its shares worth Kshs 3.5 billion in 2018. The move by the retailer also signifies improved investor confidence in the Kenyan retail market.

Notable highlights during the month include;

i. Papa John's International Inc. announced a partnership deal with Kitchen Express to open 60 new fast-food outlets in Kenya and Uganda from 2022. For more information, see Cytonn Weekly #47/2021, and,
ii. Chandarana Foodplus, a local retailer opened a new outlet at new Golden Life Mall in Nakuru, bringing its total operational outlets countrywide to 22. For more information, see Cytonn Weekly # 44/2021.

We expect the performance of the Retail sector to be driven by; i) continued uptake of spaces by local and international retailers such as Carrefour and Chandarana Foodplus, ii) Infrastructure developments opening areas for investments and as well as promoting accessibility, and, iii) positive demographics. However, factors such as e-commerce and the existing oversupply at 3.0 mn SQFT in the Nairobi Metropolitan Area (NMA) and 1.7 mn SQFT in Kenya retail market, are expected to impede performance of the sector.

IV. **Mixed-Use Developments (MUDs)**

Notable highlights during the month include;

i. Tatu City, a Mixed-Use developer, announced a partnership deal with Stecol Corporation, a Chinese construction and engineering firm, to develop supporting infrastructure in the final phase of Kijani Ridge located in Ruiru, Kiambu County. The project's cost is estimated at Kshs 1.0 bn and is expected to be completed by the end of 2022. For more information, see Cytonn Weekly #47/2021, and,

ii. Sheria Savings and Credit Cooperative Society (SACCO) announced plans to begin construction of Sheria Towers in Upperhill, Nairobi before the end of 2021. The Kshs 2.0 bn project will comprise of residential units, shopping centers, and commercial offices sitting on a one-acre piece of prime land along Matumbato Close near their offices. For more information, see Cytonn Weekly #45/2021.

We expect MUDs to register more activities due to their convenience hence driving demand and uptake, as well as Kenya's positive demographics. However, their performance is expected to be weighed down by; i) existing oversupply at 7.3 mn SQFT in the NMA office market, 3.0 mn SQFT in the NMA retail market and 1.7 mn SQFT in Kenya retail market, and, ii) longer construction timelines due to their complex nature which in the long run which may affect project returns.

V. **Infrastructure**

During the week, the Italian government through its Ambassador to Kenya, Alberto Pieri, announced plans to spend Kshs 780.0 mn on revamping dilapidated roads in Malindi such as the Mjanaheri-Ngomeni road that links Malindi to the Italian space agency San Marco. Additionally, Hon. John Mwangemi, Kenya Ports Authority (KPA) director announced that the tarmacking of the 1.2 Km Mbaraki-Nyerere Road project, and the 11.0 km Kipevu road in Mombasa County commenced on 30th November 2021. Financing of the Kipevu road project worth Kshs 1.5 bn will be done by the Kenya Ports Authority, and United Kingdom (UK) through TradeMark East Africa (TMEA) which has already contributed Kshs 0.5 bn. On the other hand, Mbaraki-Nyerere Road project worth Kshs 0.9 bn will be financed by UK and Danish International Development Agency through TradeMark East Africa who will inject 0.5 bn. The remaining Kshs 44.6 mn will be provided by Mombasa County Government. The completion of the three projects is expected to;

i. Ease transport services by curbing traffic snarl ups along the respective areas, which will enhance faster movement of goods and services,
ii. Promote trade activities in the surrounding areas,
iii. Ease accessibility to major tourist destinations in Mombasa and Malindi which are major tourism destinations in Kenya, and,
iv. Boost real estate investments in the areas.

Kenyan government continues to support the infrastructure sector by initiating and implementing various projects across the country such as; i) Nairobi Expressway, ii) Western Bypass, and iii) Nairobi Commuter Rail project. In the FY'2021/22, the government allocated Kshs 182.5 bn to the infrastructure sector through the Ministry of Transport, Infrastructure Housing, Urban Development and Public Works. This is a 0.6% points increase to Kshs 181.4 bn in FY'2020/21. The graph below shows the budget allocation to the infrastructure sector over last nine financial years;

Source: National Treasury of Kenya

Notable highlights during the month include;

i. Kenya National Highways Authority (KeNHA) announced that they had contracted Victoria Engineering Company, to tarmac the 35.8 Km Kopasi River- Lomut – Sigor- Marich link road, in West Pokot County, at a cost of Kshs 4.4 bn. The road is expected to be done by October 2024 and will connect to the Kitale – Lodwar- South Sudan Highway at Marich Pass. For more information, see Cytonn Weekly #47/2021,
ii. 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. For more information,

see Cytonn Weekly #46/2021,

iii. The Kenya National Highway Authority, (KeNHA) announced commencement of construction of the 29.0 Km Kinango-Kwale road in Kwale County. The Kshs 3.0 bn project being undertaken by China Civil Engineering Construction Corporation is set to be completed by December 2024. For more information, see Cytonn Weekly #45/2021, and,

iv. Transport Cabinet Secretary, Hon. James Macharia commissioned the construction of the 54.0 Km Mto Mwagodi-Mbale-Wundanyi-Bura road. The upgrading of the road to bitumen standard is to be done through Kenya Rural Roads Authority (KeRRA) at a cost of Kshs 2.2 bn, and expected to be completed by the end of 2024. For more information, see Cytonn Weekly # 44/2021.

We expect continued construction and revamp activities to be witnessed in the infrastructure sector due to government's aggressive focus to initiate and implement projects through various strategies such as; i) Public Private Partnerships, ii) issuing of infrastructure bonds, and iii) priority of projects through budget allocations.

VI. **Listed Real Estate**

In the Nairobi Stock Exchange, ILAM Fahari I-REIT closed the month trading at an average price of Kshs 6.7 per share, maintaining its previous month closing price. This represented a 15.5% Year-to-Date (YTD) increase from the Kshs 5.8 per share recorded at the beginning of the year. However, on Inception-to-Date (ITD) basis, the REIT's performance declined by 66.5% from Kshs 20.0.

In the Unquoted Securities Platform, Acorn DREIT closed the month trading at Kshs 20.1 while the I-REIT closed at Kshs 20.6 per unit. This performance represented a 0.5% and 3.0% gain for the DREIT and I-REIT, respectively, from the Kshs 20.0 Inception price. The volumes traded for the D-REIT and I-REIT came in at 5.4 mn and 12.3 mn shares, respectively, with a turnover of Kshs 108.9 mn and Kshs 254.1 mn, respectively since Inception-to-Date. On a Week-to-Date (WTD) basis, the I-REIT retained its closing price at Kshs 20.6 per share, whereas the D-REIT recorded a 0.1% increase from Kshs 20.2 per share realized the previous week.

Kenyan REIT continues to record 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 for D-REITs, and, iv) lengthy approval processes to get all the necessary requirements thus discouraging those interested in investing in it. The graph below shows Fahari I-REIT's performance from November 2015 to November 2021:

We expect the Kenyan real estate sector to continue recording increased activities driven by; i) improved economic environment promoting growth of the sector, ii) increased demand for office spaces, iii) increased residential development activities, iv) aggressive expansion by international retailers, v) more development activities and demand for MUD's as a result of their convenience, and vi) government's continued focus on the infrastructure developments that drive property investments. Despite this, the low of investor appetite in Real Estate Investments Trusts (REITs) continues to be a challenge facing the real estate sector.

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