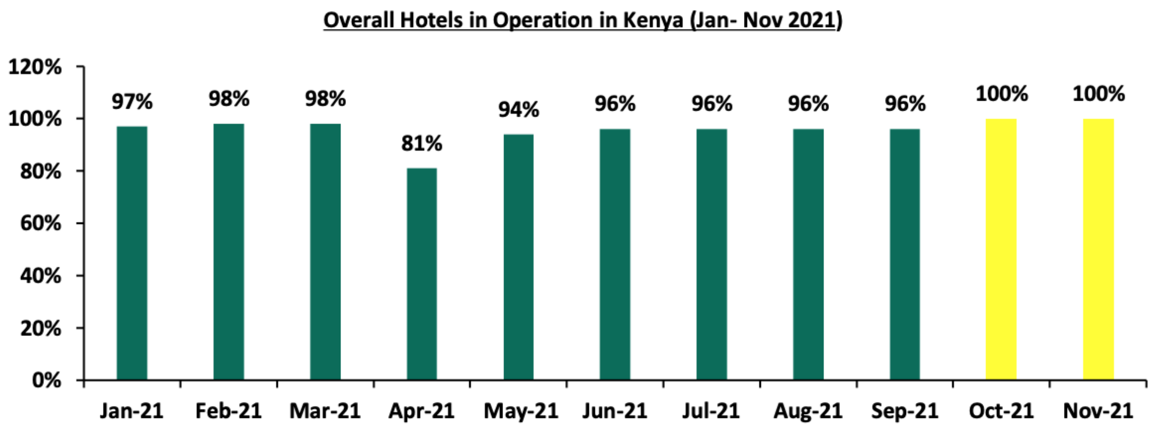
Kenya Listed Banks Q3'2021 Report, & Cytonn Weekly #49/2021

Real Estate

I. **Industry Reports**

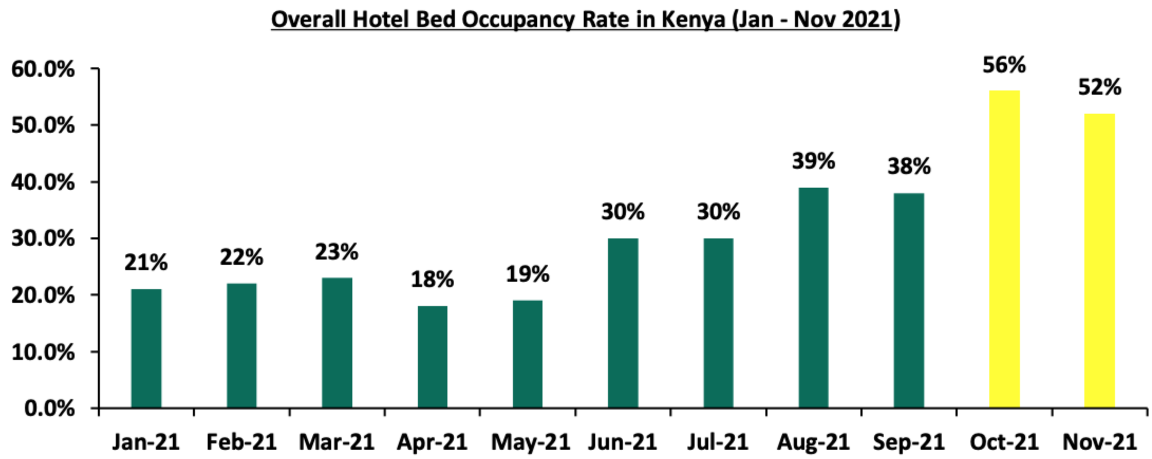
During the week, the Central Bank of Kenya (CBK) released the Monetary Policy Committee Hotels Survey - November 2021, aimed at assessing the extent of recovery of hotels between October and November 2021. The key take outs from the survey were;

i. Overall, all the sampled hotels indicated that they were in operation between October and November 2021, representing a 4.0% points increase from the 96.0% operation rate in September 2021. This was attributable to the reopening of some hotels that had previously been closed due to low business resulting to underperformance as a result of COVID-19 regulations. The graph below shows the overall percentage of the number of operating hotels in Kenya between January – November 2021;



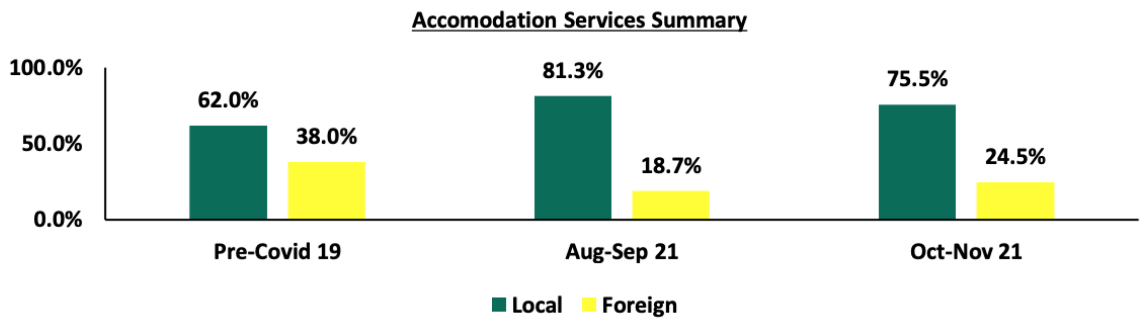
Source: Central Bank of Kenya (CBK)

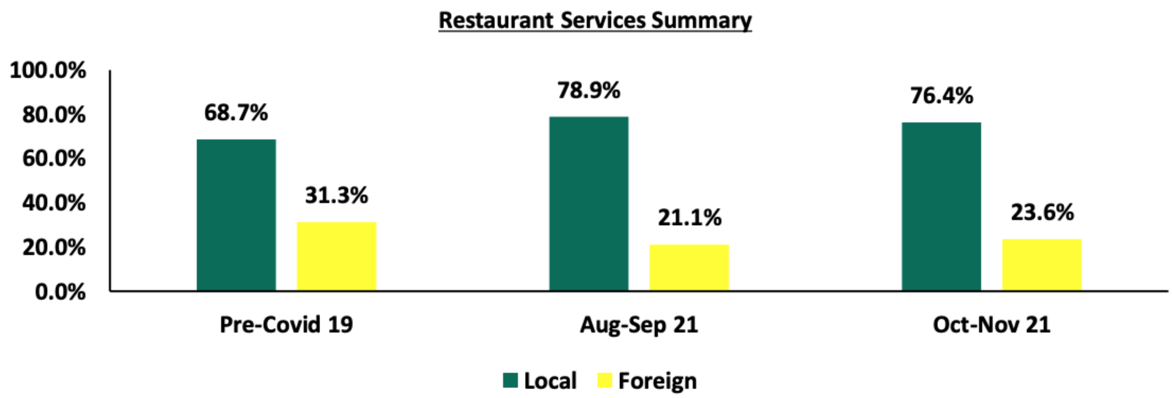
ii. The average bed occupancy in the month of October averaged at 56.0%, 18.0% and 4.0% points higher than 38.0% and 52.0% recorded in the months of September and November, respectively. This was attributable to increased demand for hotels during the school holidays in the first weeks of October, particularly in Mombasa and Nairobi. The graph below highlights the hotel bed occupancy rates in Kenya between January - November 2021;



Source: Central Bank of Kenya (CBK)

iii. Overall, local guests continued to account for majority of clientele population at 75.5% of accommodation and 76.4% restaurant services between October and November 2021, compared to 62.0% and 68.7%, respectively, during the period before the COVID-19 pandemic. The share of foreign clientele in accommodation increased between August-September and October-November by 5.8% points to 24.5%, from 18.7%, respectively. Clients in the restaurant services also increased in the same period by 2.5% points to 23.6%, from 21.1%, following the increased tourist arrivals during the period. The graphs below indicate the summaries of accommodation and restaurant clients served by hotels in Kenya;





Source: Central Bank of Kenya (CBK)

The MPC hotel survey points to an overall improvement in the general operating environment of hotels evidenced by the increased number of hotels in operations, bed occupancy levels, and share of foreign clientele. We expect the hospitality sector to register improved performance attributed to; i) continued vaccination activities boosting travel confidence into the country, ii) aggressive local and international marketing of Kenya's Hospitality Industry through price discounts and mobilization through the Magical Kenya Platform, and, iii) support events by the Ministry of Tourism such as the

World Rally Championship (WRC) expected to be hosted in Kenya annually until 2026. However, the sector is likely to be weighed down by the uncertainty brought about by COVID-19 Omicron variant which may trigger the return of measures and restrictions such as travel and public gathering bans that have been lifted for now.

II. **Retail Sector**

During the week, Naivas Supermarket opened two new outlets. The first is located at Oasis Mall in Malindi, Kilifi County, taking 28,000 SQFT of space previously occupied by Nakumatt, while the second is located in Embakasi off Airport North Road, Nairobi County taking 27,000 SQFT of space previously occupied by Tuskys Supermarket. This brings its total outlets to 79, making it the leading retailer in the country. Naivas also announced plans to open another outlet at Greenspan Mall in Donholm before the end of the year, a move that will see it take 57,000 SQFT of space previously occupied by Tuskys. The retailer has been on an expansion spree having opened 10 outlets this year, compared to other retailers such as Quickmart and Carrefour which have opened 9 and 5 branches, respectively. The signing of the Kshs 6.0 bn agreement with International Finance Corporation (IFC), private equity firm Amethis and German sovereign wealth fund DEG to sell a 30.0% stake in 2020 has also aided in accelerating growth for the retailer.

The retailer's decision to take over spaces in Embakasi is supported by presence of a good transport network as the area is served by Airport North Road which will enhance client and supplier accessibility and the presence of the prime space left by Tuskys. In terms of performance, according to Cytonn Q3'2021 Markets Review Report, Eastlands where Embakasi is classified, recorded average rent per SQFT of Kshs 135, which is 19.6% points lower than the market average of Kshs 168 per SQFT. This signifies the retailer's decision to invest in the area due to affordability of the retail spaces. The affordability of the area has continued to increase demand for space in the area but has not quite picked pace due to fewer social amenities and poor infrastructure.

The table below shows the submarket performance of nodes in the Nairobi Metropolitan Area (NMA) in Q3'2021;

Summary NMA Submarket Retail Performance – Q3'2021

Area	Rent (Kshs)/SQFT Q3'2021	Occupancy % Q3'2021	Rental Yield Q3'2021
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%**
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

For Malindi, the retailer's expansion is supported by; i) positive demographics with Kilifi county having a population of 1.5 mn persons in 2019, which was a 23.7% growth from the 1.1 mn persons recorded in 2009, ii) adequate infrastructure network as the area is served by Malindi Road, iii) availability of prime retail spaces as the firm is expected to take up space previously occupied by Nakumatt, and, iv) the area's recognition as a major tourist destination in Kenya, guaranteeing footfall.

Overall, according to our 2021 Retail Report, the Kenyan retail sector performance recorded a 0.1% increase in average rental yield to 6.8% in 2021 from 6.7% in 2020. Average occupancy rates also increased by 1.8% points to 78.4% in 2021 from 76.6% in 2020, as a result of local and international expansions facilitated by an improving business environment. 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	10	0	79	1	80
QuickMart	Local	10	29	37	9	0	46	0	46
Chandarana	Local	14	19	20	1	0	22	1	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	3
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**	**26**	**178**	**185**	**2**	**187**

Source: Online Search

We expect the continued expansion by local and international retailers to cushion the performance of the retail sector, with approximately 26 outlets so far opened in 2021. This will be supported by;

i. A favourable business environment following the lifting of the COVID-19 containment measures,
ii. Presence of prime retail spaces left by beleaguered retailers such as Nakumatt and Tuskys who have since closed most of their operations, and,
iii. Government's continued infrastructure developments which will enhance accessibility by clients, thereby increasing footfall.

However, the performance of the retail sector is expected to be weighed down by the oversupply in the retail market at 3.0 mn SQFT in the Nairobi Metropolitan Area (NMA) and 1.7 mn SQFT in Kenya's retail market, and, the rise of rival e-commerce platforms such as Jumia which are slowly gaining traction and reducing the mainstream retailers' market share.

III. **Statutory Reviews**

During the week, President Uhuru Kenyatta signed the Public Private Partnerships (PPP) Bill 2021 into law. The Act aims to address the shortcomings of the PPP Act 2013 by including a streamlined project processes with clear timelines, expanded procurement options and robust processes for privately initiated investment proposals. They key take outs from the Act are;

i. The law has established the Directorate of Public Private Partnerships to replace the PPP Unit under 2013 legislation, and conferred broad but separate functions from those of a PPP Committee. The Directorate shall be the lead institution in the implementation of PPP projects. This will include guiding the selection of PPP projects, overseeing project appraisals as well as contract management frameworks for projects. This is in an aim to establish open, efficient and equitable processes for the implementation, management and monitoring of projects,
ii. Concession period for investors involved in State-owned Build-Operate-Transfer (BoT) projects to be capped at 30 years. The timeline set is assumed sufficient for investors to recoup their major initial investments. However, in setting timelines within this range, the contracting authorities must take into account the lifespan of the technology used, investment standards required, economic and financial viability, and, the consideration for maintaining delivery standards,
iii. The new law expands the role of the private sector in PPP initiatives beyond financing to include construction, operation and maintenance of the projects. It also adds a number of permissible contract structures, including public-private joint ventures and strategic partnerships. The effect of these changes is to broaden the scope of what is classed as a PPP, funnelling more contracting arrangements between the public and private sector, and,
iv. The County Governments can enter into PPP agreements with a private party and shall be responsible for administration of the entire project after conducting a feasibility study. After approval by the county assembly, the counties are expected to submit a list of projects to the Directorate of Public Private Partnerships for inclusion in the published national list of projects. The counties will be operating under an expanded procurement process with the inclusion of direct procurement and a greater clarification on timelines. This includes the period within which bids must be evaluated and for appeals by bidders.

The table below shows some of the projects currently being undertaken through the PPP initiative in Kenya;

Major Real Estate Public-Private Partnership Projects in Kenya

Theme	Project	Partnership	Project Start Date	Project Status	Expected Date of Completion
Infrastructure	Nairobi Express Way	National Government and a Private Company	October 2020	Ongoing	March 2022
	Lamu Port South Sudan Ethiopia Transport (LAPPSET) Berth III	Kenya, Ethiopia and South Sudan, and Development Bank of South Africa, European Union and African Development Bank	June 2018	Ongoing	June 2022
	Nairobi-Western By Pass	National Government and China Exim Bank	February 2020	Ongoing	March 2022
Affordable Housing	River Estate, Ngara	National Government and Edderman Property Limited	March 2019	Ongoing	February 2022
	Pangani Housing Project	National Government and Tecnofin Kenya Limited	May 2020	Ongoing	May 2022

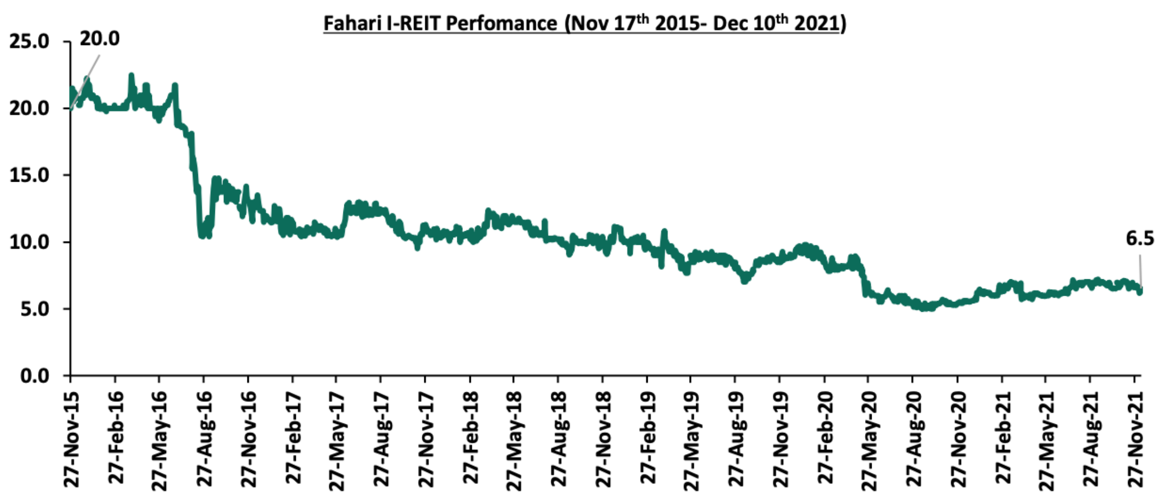
Source; Kenya PPP Platform

The Act is expected to align Kenya's PPPs with international best standards and attempt to address the shortcomings of the 2013 Act. The institutional and operational changes are expected to make a more investor-friendly process to counter the challenges currently being experienced in the sector. Some of these challenges include; i) inadequate planning, ii) insufficient regulatory framework to manage complex PPP transactions, iii) irregularities in the procurement processes, iv) high costs for funding projects, and, v) lengthy approval processes.

IV. **REIT Performance**

During the week, the Fahari I-REIT declined by 2.4% to close at Kshs 6.5 per share compared to last week’s Kshs 6.7 per share. On a YTD basis, the REIT has gained by 15.6% from Kshs 5.6 per share recorded at the beginning of the year. However, on an Inception to Date (ITD) basis, the REIT has declined by 67.4% compared to the listing price of Kshs 20.0 per share. 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 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 is 100x the median 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 the Fahari I-REIT performance from 27th Nov 2015- 10th Dec 2021;



We expect the Real Estate sector to be supported by improving business environment supporting the performance of the hospitality sector, continued expansion of the retailers taking up spaces left by struggling ones and the enactment of progressive legislations to support projects through partnerships in the country.