



Review of the Kenyan Shilling Performance, & Cytonn Weekly #50/2021

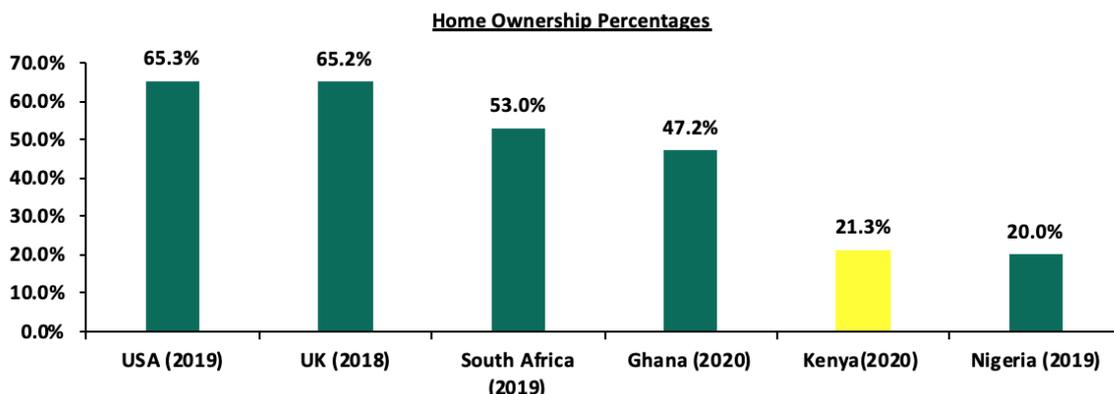
Real Estate

1. Residential Sector

During the week, the National Government through the Principal Secretary for Housing, Honorable Charles Hinga, announced plans to begin the construction of 5,360 affordable units in Machakos County, dubbed 'Mavoko Affordable Housing Programme'. The project is expected to take approximately 4 years and cost slightly above Kshs 20.0 bn. It will lie on a 55-acre piece of land adjacent to the just concluded Mavoko Sustainable Housing Development. The project is a partnership with the United Nations Habitat, with the main contractor being Epco Builders Limited, and will consist of 560-studio units, 960-one bedroom units, 2,400-two bedroom units, and, 1,440-three bedroom units.

The government of Kenya continues to initiate and implement various affordable housing projects which continue to gain momentum. This is supported by the high number of applicants registered in the Boma Yangu portal currently at 325,136. Some of the key affordable housing projects by the government include; i) Stoni Athi River Waterfront City housing project, ii) Park Road Project in Ngara, iii) Buxton Housing Project in Mombasa, and, iv) Starehe Affordable Housing project, among others. Conversely, challenges such as financial constraints, and inadequate infrastructure continue to impede the performance of the projects causing them to stall. Despite this, the completion of the project will;

- i. Provide affordable homes to citizens targeting affordable units,
- ii. Improve living standards of citizens by enabling accessibility to decent houses, and,
- iii. Boost home ownership rates in Kenya which is currently low in the urban regions at 21.3% as at 2020, compared to other African countries such as South Africa and Ghana with 53.0% and 47.2% rates, respectively. The graph below shows the home ownership percentages of different countries compared to Kenya;



We expect the residential sector to continue recording increased activities mainly supported by government’s efforts to initiate and develop affordable housing units for residents. Moreover, in November 2021, the Capital Markets Authority (CMA) **approved** the issuance of a Kshs 3.9 bn Medium Term Note (MTN) with an 18-month tenor and an interest rate of 11.0% p.a, which will be used to finance the construction of the ongoing Pangani Affordable Housing Project. This is a step in the right direction as it will boost the Affordable Housing (AH) program in the medium term.

II. Infrastructure

During the week, the national government through the Kenya Rural Roads Authority (KeRRA) announced plans to revamp the 36.4 Km Lurambi road in Kakamega County. The construction which will cost approximately Kshs 1.7 bn, will take three years to complete and will be done in 4 phases in the following order; i) 15.0 Km Ikonyero-Akatsa section, ii) 8.0 Km Lunza-Ikolomani market stretch, iii) 5.6 Km Kwisero-Eshibinga section, and, iv) 7.8 Km Manyulia-Dudi section.

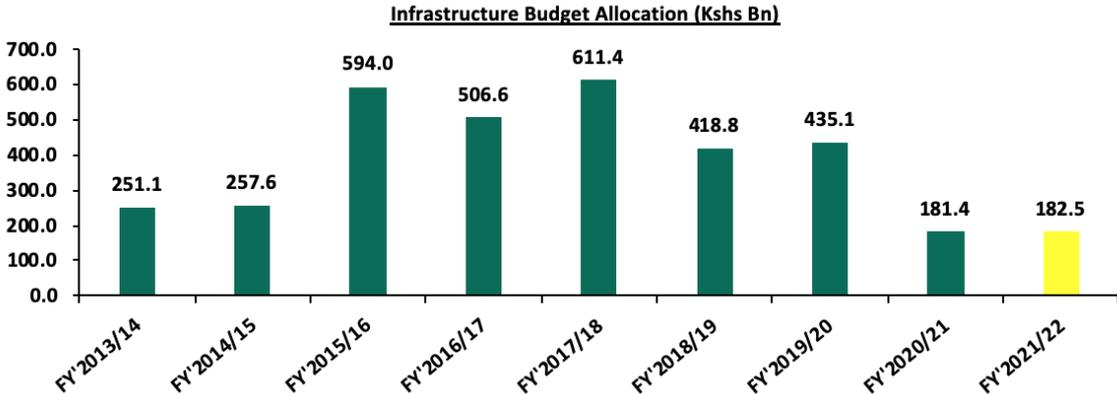
The improvement of the road infrastructure in Kakamega County is expected to spur the growth of Real Estate through;

- **Opening up Surrounding Areas for Development:** We believe that this will open up areas which were otherwise unattractive for investments through promoting accessibility,
- **Reducing Development Costs:** Infrastructural costs in Kenya account for approximately 14.0% of construction costs, according to the Centre for Affordable Housing Finance in Africa. Improving infrastructure therefore relieves the cost burden that would have otherwise been incurred by the developer, and,
- **Higher Property Values:** The existence of good road network will make the surrounding areas attractive for investments, and thus boost the demand and prices for the existing properties.

The government continues to initiate and implement numerous infrastructure projects in the country. Some of the ongoing projects include; i) Nairobi-Western Bypass, ii) Eastern Bypass dualing, and iii) Nairobi Expressway among many others. These have mainly been supported by the various strategies deployed by the government in order to realize its objective such as;

- i. Partnership strategies such as Joint Ventures and Public Private Partnerships that are cost effective ways of implementing projects,
- ii. Issuing of infrastructure bonds in order to raise funds for construction purposes, and,
- iii. Prioritizing projects in the yearly budget allocations such as the 6% points increase to Kshs 181.4 bn in FY’2020/21.

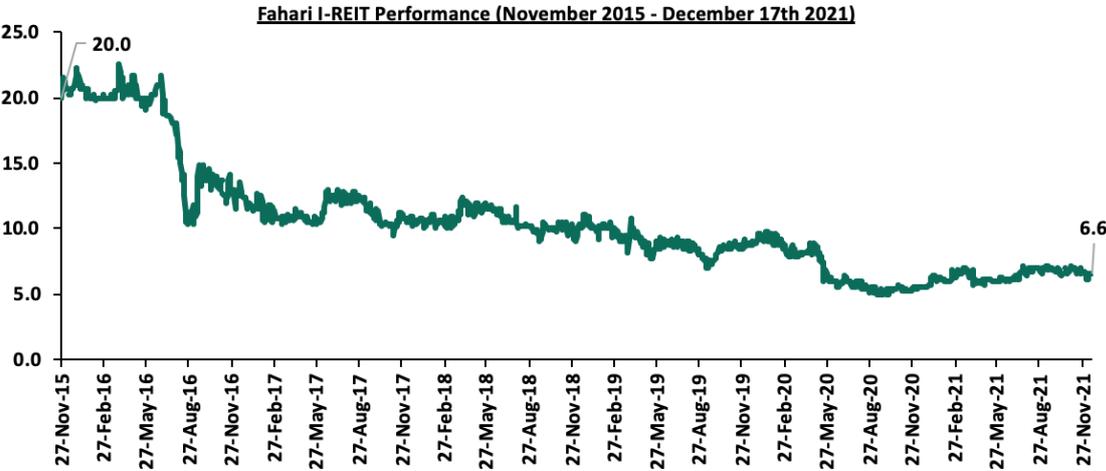
The graph below shows the budget allocation to the infrastructure sector over last nine financial years;



We expect the infrastructure sector to continue recording more construction, rehabilitation, and maintenance activities mainly driven by government’s aggressiveness to initiate and implement the same.

III. Listed Real Estate

In the Nairobi Stock Exchange, ILAM Fahari I-Reit closed the week trading at an average price of Kshs 6.6 per share. This represented a 1.5% and 13.8% Week-to-Date (WTD) and Year-to-Date (YTD) increase, respectively, from Kshs 6.5 per share and Kshs 5.8 per share, respectively. However, on Inception-to-Date (ITD) basis, the REIT’s performance continues to be weighed down having realized a 67.0% decline from Kshs 20.0. This is attributed to; i) a general lack of knowledge on the financing instrument, ii) general lack of interest of the REIT by investors, and, iii) 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 17th December 2021:



The performance of Kenyan Real Estate market is expected to be boosted by government’s continued efforts to develop low cost homes thereby improving the current home ownership rates, and continued focus on infrastructure developments opening various areas for investments. However, the low investor appetite in the Real Estate Investments Trusts (REITs) continues to be a challenge affecting real estate investments.