Nairobi Metropolitan Area (NMA) Infrastructure Report 2021, & Cytonn Weekly #51/2021

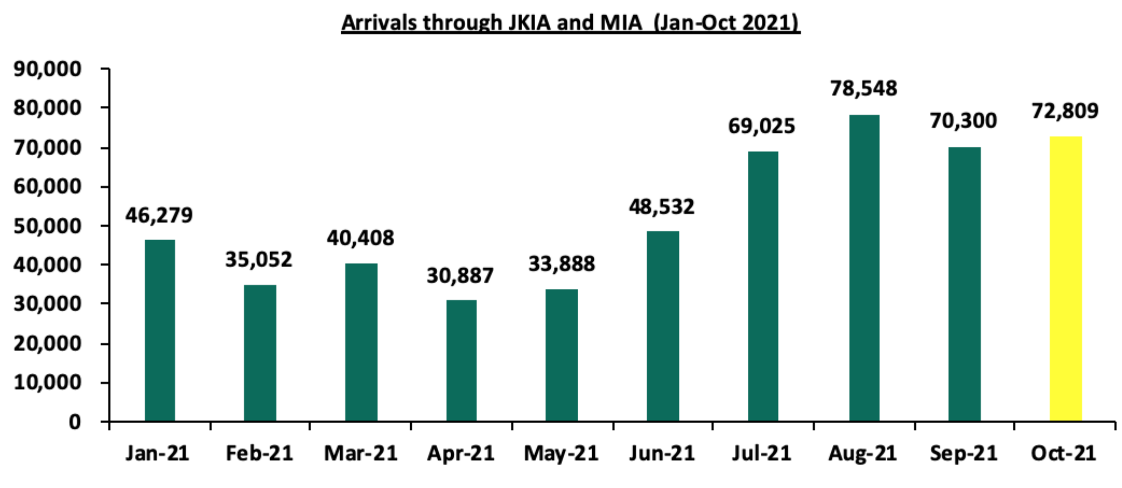
Real Estate

i. **Industry Report**

During the week, Kenya National Bureau of Statistics (KNBS) released the October 2021 Leading Economic Indicators Report. The report, which is released monthly, shows the performance of major economic indicators such as international arrivals and cement consumption. The key highlights related to the Real Estate sector include;

i. The total number of visitors arriving through Jomo Kenyatta (JKIA) and Moi International Airports (MIA) increased by 3.6% to 72,809 persons in October, from 70,300 persons in September 2021. Notably, the number of passengers arriving through the two airports has been increasing over the last six months to 72,809, from 30,887 recorded in April 2021, with a 10.5% decline between August and September. The increase was attributable to; i) the massive COVID-19 vaccination in the country, ii) aggressive local and international marketing through price discounts and the Magical Kenya Platform, and, iii) increased number of international flights resulting from the lifting of the COVID-19 restriction measures and travel bans.

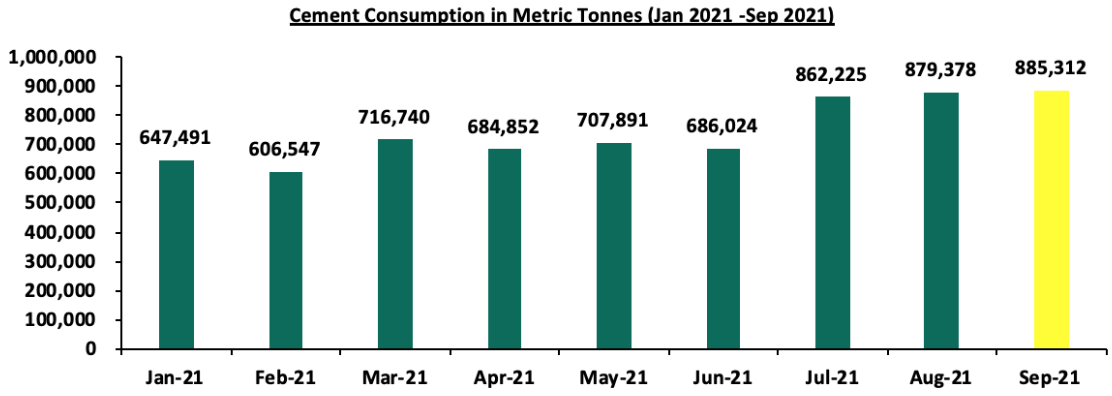
The graph below indicates the number of visitors passing through JKIA and MIA between January and October 2021;



Source: Kenya National Bureau of Statistics

ii. Cement consumption increased by 0.7% to 885,312 metric tonnes in September 2021 from 879,378 metric tonnes in August 2021. The quantity of cement consumed also increased by 29.1% in the three months to September to 885,312, from 686,024 metric tonnes recorded in June 2021 attributable to the increase in infrastructural and housing developments in the country. Some of the major infrastructure projects in progress during this period include the Nairobi Express Way and the Nairobi Western Bypass which are now about 80.0% complete. For housing projects, some of the major government led still under construction include River Estate, Ngara and Pangani Housing projects.

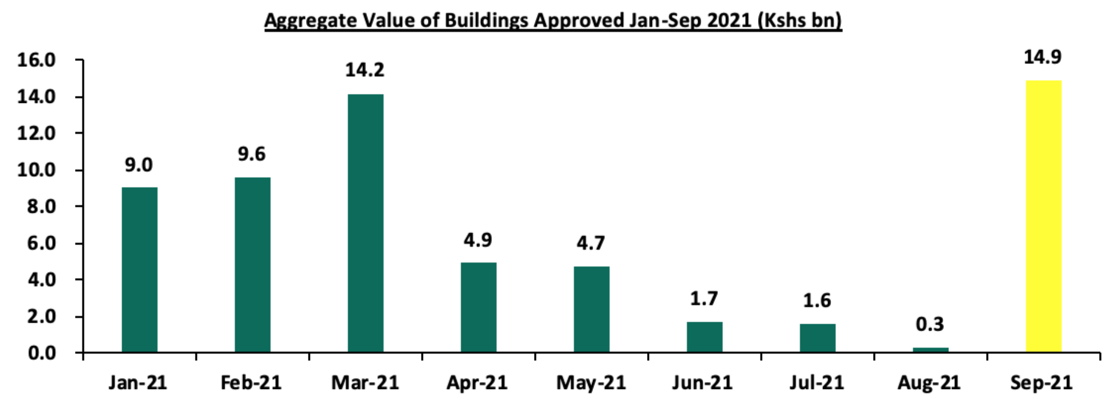
The graph below shows cement consumption between January and September 2021;



Source: Kenya National Bureau of Statistics

iii. The aggregate value of building plan approvals in the Nairobi City County increased by 5,125.8% to Kshs 14.9 bn in September, from Kshs 0.3 bn recorded in August 2021. This was majorly attributable to increased investments in the residential sector, whose value improved by 5,787.1% compared to a 4,253.2% increase in the value of non-residential buildings. The County Government has also been making huge efforts to reduce existing backlogs. The decline in aggregate value to Kshs 0.3 bn in August, from Kshs 14.2 bn in March was attributable to the low investments made in the Real Estate market due to sector uncertainties, oversupply in select themes leading to investors adopting a wait and see approach as they await absorption of the current supply and the frequent suspensions of the e-construction system due to hackings.

The graph below shows the aggregate value of buildings approved in Nairobi City County between January and September 2021;



Source: Kenya National Bureau of Statistics

The improvement in the number of visitors through JKIA and MIA is expected to continue being supported by the gradual recovery in the hospitality sector following the lifting of the COVID-19 containment measures. Cement consumption and the number of building approvals are also expected to improve due to increased economic activities supported by investor confidence in the Real Estate market and the ongoing infrastructure and housing developments. However, the emergence of new COVID-19 variants such as the Omicron variant continue to pose a risk on this recovery as stricter measures may be imposed in order to curb its spread.

II. **Retail Sector**

During the week, Rhapta Square Shopping Mall along Rhapta Road in Westlands began operations. Rhapta Square will host key retail chains such as Optica Limited, a local eye wear retailer and Artcaffe' Market. For Optica Limited, the outlet follows a series of other openings in different parts of the country in the last few months including Golden Life Mall in Nakuru, Corner House along Mama Ngina Street, Karatina Market in Nyeri, I&M branch tower in Kenyatta Avenue, United Mall in Kisumu and Highlands Mall in Eldoret, among others. For ArtCaffe' this will be the second fully fledged food market, after opening a similar outlet in Kilieleshwa along Oloitoktok Road. The food market will feature a butchery, pantry, fresh produces and a wines and spirits joint occupying 8,000 SQFT in three floors. Artcaffé Market has also announced plans to open in new prime locations along Kiambu Road and in Gigiri. Other tenants also hosted on the Rhapta Square include Peak-a-boo Kids Shop, Goodlife Pharmacy, Diamond Trust Bank (DTB) among others. The retail chains' decision to strategically invest in the area is attributable to;

i. The need to increase geographical footprint and serve more clients in an aim to grow their brand and boost revenues,
ii. Enhanced accessibility and convenience of service to clients as the area is served by good roads such as Rhapta Road. The location will also have a link to the Nairobi Express Way which is 80.0% complete and expected to be opened in March 2022,
iii. The need to take on rival chains and compete favourably for market share. For example, Artcaffe' with 50 outlets is taking on Java who are the leading coffee chain in the region with 70 outlets in Kenya.

In terms of performance, according to Cytonn Q3'2021 Markets Review Report, Westlands recorded a retail occupancy of 80.4%, which is 4.6% points higher than the market average occupancy of 75.8%. Therefore, the retailer has access to many potential clients transiting through the other retail businesses, whom they can reach through branding and marketing.

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

The continued expansions in the retail sector such as those by Optica Limited are expected to support the performance of the sector going forward. 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 shopping platforms which are slowly gaining traction and reducing the mainstream retailers' market share.

III. Mixed-Use Developments (MUDs)

During the week, President Uhuru Kenyatta, officially opened the Global Trade Center (GTC) Office Tower located along Waiyaki Way in Westlands. Global Trade Center is a Kshs 40.0 bn investment comprising of 6 towers has been developed by Avic International Real Estate from 2014. GTC Office Tower is now the tallest office tower in East Africa with a height 184 metres and comprising of 42 floors. The table below indicates a summary of the themes in GTC Mixed-Use Development.

Global Trade Centre (GTC) Mixed-Use Development Summary

Theme	Unit Coverage	Size Range (Smallest-Largest Space Offered)
GTC Residences	28 Floors	82-332 SQM
Office Towers	42 Floors	239-1,600 SQM
JW Marriot Hotel	317 Guestrooms 51 Serviced Apartments	40-200 SQM
GTC Boutique Mall	7 subsectors including banks, catering, healthcare among others.	11,529 SQM (Total Area)

Source: GTC

The decision to invest in a mixed-use theme in Westlands was informed by the high average rental yield of 7.8%, 0.6% points higher that the market average of 7.2%, according to our Cytonn NMA MUDs Report 2021. The area is also served by a good road network including Waiyaki way and the now 80.0% complete Nairobi Express Way. Mixed-Use Developments recorded an average rental yield of 7.2% in 2021, 0.7% points higher than the respective single-use themes which recorded an average rental yield of 6.5% in the same period. The relatively better performance by MUDs compared to single-use developments was attributed to the prime locations mostly serving the high and growing middle income class, coupled with the concept's convenience that incorporates working, shopping and living spaces. The table below shows the performance of Mixed-Use Developments by node in 2021;

(All Values in Kshs Unless Stated Otherwise)

Nairobi's Mixed-Use Developments Market Performance by Nodes 2021

	Retail Performance				Commercial Office Performance				Residential Performance				
Location	**Price/SQFT**	**Rent/SQFT**	**Occup. (%)**	**Rental Yield (%)**	**Price/ SQFT**	**Rent/SQFT**	**Occup. %)**	**Rental Yield (%)**	**Price/ SQM**	**Rent/ SQM**	**Annual Uptake %**	**Rental Yield %**	**Average MUD yield**
Karen	23,333	196	86.7%	**8.8%**	13,233	117	85.0%	**9.0%**					**8.7%**
Westlands	15,833	173	70.8%	**9.5%**	12,892	110	71.7%	**7.3%**	211,525	1,226	15.6%	**7.0%**	**7.8%**
Kilimani	18,500	162	79.0%	**8.3%**	13,713	106	79.0%	**6.7%**					**7.4%**
Mombasa Rd	20,000	185	70.0%	**8.4%**	13,000	100	60.0%	**5.5%**	156,079	853	13.3%	**6.6%**	**7.4%**
Thika Rd	23,750	215	82.5%	**9.2%**	13,250	105	72.5%	**6.9%**	128,545	612	17.9%	**6.1%**	**7.0%**
Upper Hill	15,485	130	62.5%	**6.4%**	12,000	102	70.0%	**7.0%**					**6.8%**
Eastlands	20,000	124	75.0%	**5.5%**	12,000	80	62.5%	**5.0%**	72,072	360	10.0%	**4.2%**	**5.1%**
Average	**18,759**	**170**	**75.9%**	**8.4%**	**12,924**	**106**	**73.6%**	**7.1%**	**142,055**	**763**	**15.0%**	**6.0%**	**7.2%**

Nairobi's Mixed-Use Developments Market Performance by Nodes 2021

	Retail Performance				Commercial Office Performance				Residential Performance				
Location	Price/SQFT	Rent/SQFT	Occup. (%)	Rental Yield (%)	Price/ SQFT	Rent/SQFT	Occup. %)	Rental Yield (%)	Price/ SQM	Rent/ SQM	Annual Uptake %	Rental Yield %	Average MUD yield

****The average MUDs performance is based on areas where sampled projects exist***

Source: Cytonn Research 2021

We expect an increase in Mixed-Use Development investments due to the integration benefits such as easier access to amenities and services, residential and working spaces all in one location. The developments also offer better returns compared to single use themes.

IV. **Hospitality Sector**

During the week, Actis Limited, a Private Equity Firm announced the completion of the acquisition of Fairview Hotel and Town Lodge Hotel both located at Bishop Road Upperhill, and, City Lodge Hotel in Two Rivers, Runda at a cost of Kshs 1.0 bn. As highlighted in our Cytonn Weekly #41/2021, the three hotels owned by South Africa's City Lodge Hotel Group were put up for sale in July 2021, together with Tanzanian City Lodge Hotel in Dar-es-Salaam, marking the exit of the Group portfolio in East African market after seven years of operation, citing losses and the need to boost liquidity in the remaining profitable hotels in South Africa, Botswana, Namibia and Mozambique. The move by Actis Limited to acquire the three hotels is strategic as the hospitality sector performance has been improving in the last few months attributable to an improved business environment, evidenced by increased number of hotels in operations and improved bed occupancy rates as analyzed in our Cytonn Weekly #49/2021.

V. **Infrastructure Sector**

During the week, Japanese Government through the United Nations Development Program (UNDP), announced a Kshs 24.0 mn funding for the reopening of Chesogon Road linking the areas of Sigor and Marakwet, in West Pokot and Elgeyo-Marakwet Counties. The road which was abandoned by users two decades ago due to banditry attacks is expected to be in full operation by July 2022. Once complete, the road is expected to spur Real Estate through;

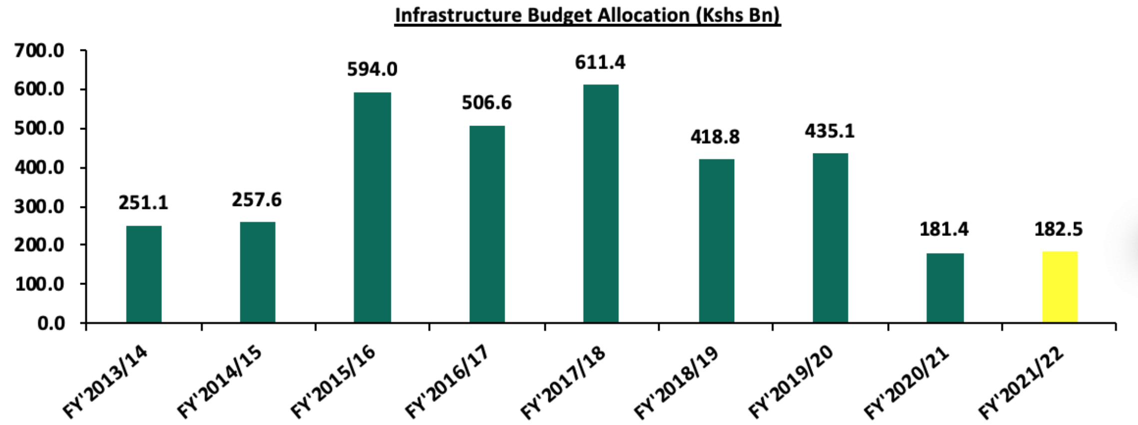
i. **Enhancing Accessibility-** The road is expected to connect the remote areas of Sigor and Marakwet which will enhance both investor and supplier accessibility,
ii. **Reducing Development Costs-**Improving infrastructure relieves the burden of transport costs and delay costs that would have otherwise been incurred by developers or investors, and,
iii. **Improving Returns through Increasing Property Prices –** Presence of a good road network will boost economic activities in the two regions which will in turn attract more demand through increased population living and transiting through the areas.

Additionally, the government announced the completion of Berth II and III of the Lamu Port- South Sudan-Ethiopia-Transport (LAPSSET) project. The two berths will begin operations in the first quarter of 2022 after the acquisition of modern equipment such as cranes by the Kenya Ports Authority (KPA). The completion comes after the inauguration of Berth I in May 2021, and puts the total length developed at 1.5 Km. The three complete berths form phase I of the entire construction and they have been done at a cost of Kshs 40.0 bn by China Communication Construction Company (CCC). However, 20 berths are yet to be completed and this therefore translates to a 13.0% level of completion of the entire project. The LAPSSET corridor is a project that targets to link Kenya to South Sudan, Ethiopia and the middle belt of Africa. The 2,500.0 km project worth Kshs 2.5 tn kicked off in March 2012 as a Public-Private Partnership (PPP) project among Kenya, Ethiopia and South Sudan, and Development Bank of South Africa, European Union and African Development Bank.

Once the project is completed, it will enhance easier and faster transport of goods and also open up surrounding areas to trade and tourism activities, as well as boost property prices and investment opportunities such as construction of residential units within Lamu and its environs.

The government has continued to implement major infrastructure projects in the country with other projects such as the Nairobi Express Way and the Western Bypass, linking the towns of Kikuyu and Ruaka, at 80.0% completion. Infrastructure projects were allocated a total of Kshs 182.5 bn in the FY’2021/22 budget which the government has continued to fund through internal and external borrowing from countries such as China and Korea, in order to see all projects to completion.

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



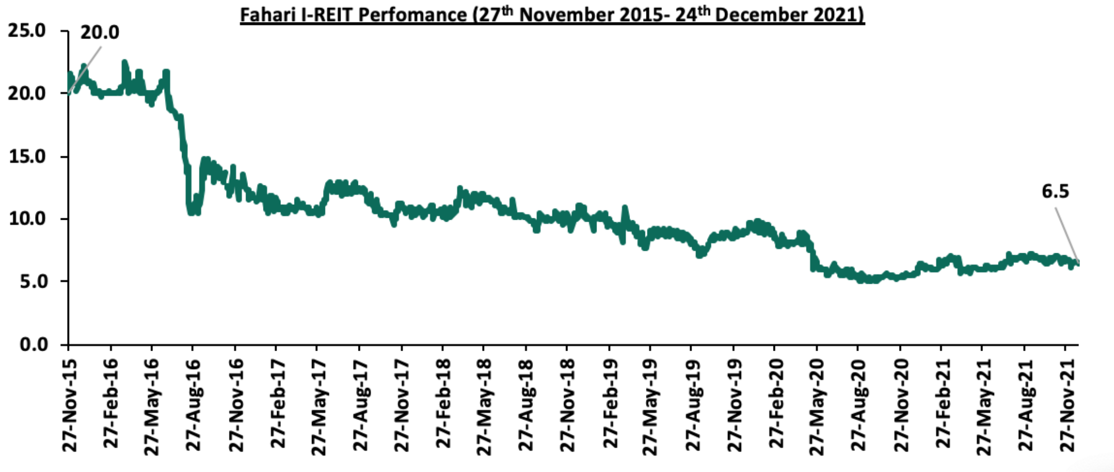
Source: National Treasury of Kenya

We expect the government’s continued focus on completion of infrastructure developments and partnerships with organizations such as the UNDP to support the realization of the Vision 2030 Agenda on developing quality, safe and adequate roads. This is in an aim to make Kenya an intra-regional hub for trade in East Africa, and support Real Estate investments through accessibility.

VI. **Listed REIT**

During the week, Fahari I-REIT declined by 2.1% to close at Kshs 6.5 per share compared to Kshs 6.6 per share recorded the previous week. On a YTD basis, the share price has gained by 14.9% from Kshs 5.6 recorded at the beginning of the year. However, on an Inception to Date (ITD) basis, the share price has declined by 67.6% compared to the listing price of Kshs 20.0 per share. The REIT market in Kenya has not picked momentum due to constraining factors such as the lack of general knowledge about the REIT market and products, high minimum investment amounts and the lengthy approval processes.

The graph below shows the performance of the Fahari I-REIT from 27th November 2015 - 24th December 2021;



Other Highlights;

During the week, the Two Rivers Lifestyle Center, the holding company of the Two Rivers Mall, announced the replacement of a Kshs 4.5 bn loan, which is part of the Kshs 10.9 bn existing loan, with a zero-interest equity-linked instrument, which will give investors ownership of the Centre and ease the company's debt service burden. Key to note, the Two Rivers Lifestyle Centre is co-owned on a 50:50 basis by Old Mutual Properties and the Two Rivers Development Ltd. The Two Rivers Development is owned by the listed Centum Investment (58.0%), AVIC international (38.0%) and Kenya Development Corporation (4.0%). This is a strategy by Two Rivers Lifestyle Center to rebalance their debt and equity in order to ease interest payments. This is in line with the plans by Centum Investment to reduce finance costs and operating expenses to below 50.0% of investment income and have the rest used for dividend distribution and reinvestment. The restructuring of the loan is expected to save the company approximately Kshs 340.0 mn per annum in interest payments as well as increase cash flows in the Center.

Key to note, in FY'2021, Centum's Two Rivers investment operations recorded a loss of Kshs 1.9 bn which contributed to the Kshs 2.3 bn loss recorded by Centum during the same period. However, in H1'2022, the listed Centum Investment reported a Kshs 425.4 mn operating profit, compared to the Kshs 479.2 mn operating loss recorded in H1'2021, mainly driven by the 206.6% increase in investment income to Kshs 1.0 bn, from Kshs 0.7 bn recorded in H1'2021, coupled with the 4.4% decline in finance costs to Kshs 0.3 bn, from Kshs 0.5 bn recorded in H1'2021. The conversion of the loan into a zero-interest equity-linked instrument will see Centum reduce its financing costs thus strengthening the company's balance sheet by reducing its debt liability and consequently improving its working capital.

The table below shows the summary of different companies that have restructured their loans with the respective amounts;

No.	Company	Industry	Amount under restructure (Kshs bn)
1	Cytonn High Yield Solutions, CHYS	Real Estate	14.5
2	Centum Investment	Real Estate	4.5

Source: Online research

The Real Estate sector is expected to be supported by; i) improving business environment for the hospitality sector, ii) increased investments in the Real Estate market evidenced by the increase in cement consumption, iii) continued expansion in the retail sector, iv) preference for mixed-use developments over single themes, and, iv) the government's

continued focus to initiate partnerships and develop adequate infrastructure in the country.

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