

Affordable Housing in the Nairobi Metropolitan Area (NMA), & Cytonn Weekly #01/2022

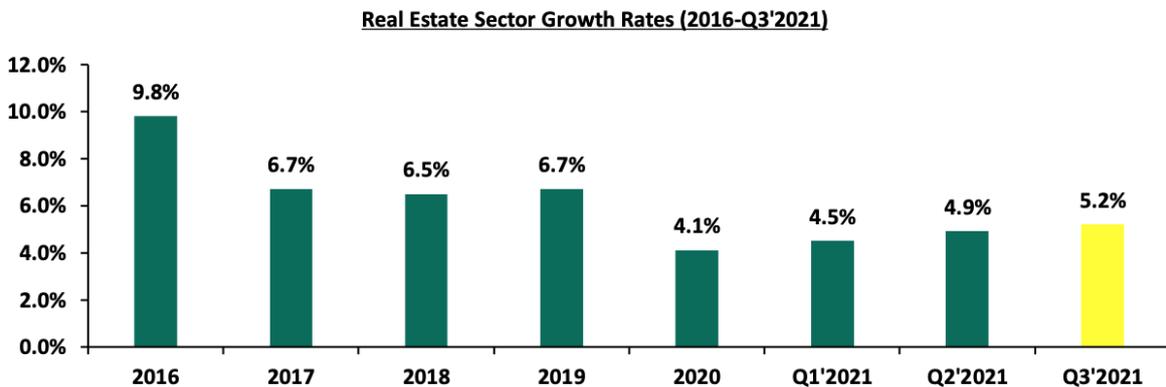
Real Estate

I. Industry Reports

During the week, the Kenya National Bureau of Statistics (KNBS) released the Quarterly GDP Report for Q3'2021. The key take-outs related to the Real Estate sector are as outlined below:

- i. The Real Estate Sector in Q3'2021 grew by 5.2%, 0.3% points higher than the 4.9% growth recorded in Q2'2021. This performance is attributed to the increased development activities as a result of a general improvement in Real Estate transactions and an improved business environment.

The graph below shows Real Estate sector growth rates from 2016-Q3'2021;

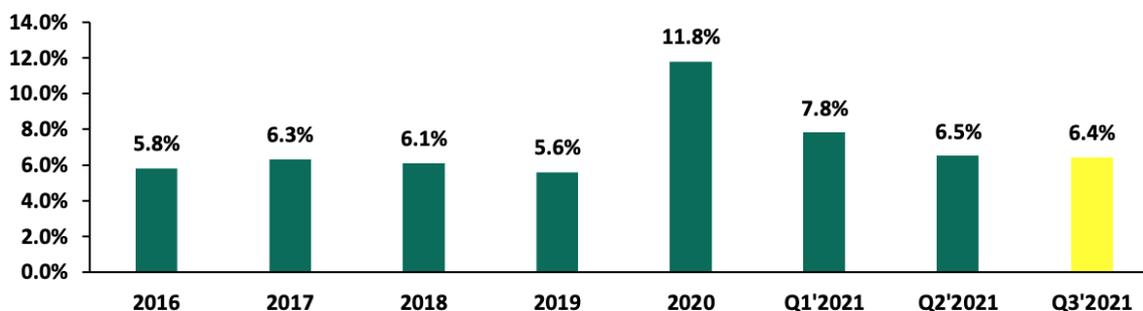


Source: Kenya National Bureau of Statistics

- ii. The Construction sector recorded a growth of 6.4% in Q3'2021, 6.1% points lower than the 12.5% growth in Q3'2020. This performance represented a 0.1% points q/q drop from 6.5% growth recorded in Q2'2021. The decline is partly attributed to the current oversupply in select themes such as the commercial office and retail sectors at 7.3 mn and 3.0 mn SQFT, respectively, in the NMA as at 2021, causing investors to halt their development plans as they await absorption of the current supply. Cement consumption on the other hand increased by 27.5% to 2.5 bn metric tonnes in Q3'2021, from 2.0 bn metric tonnes in Q2'2021. This is mainly attributed to the increased infrastructural activities such as the ongoing construction of the Nairobi Expressway.

The graph below shows the Construction Sector growth rate from 2016-Q3'2021;

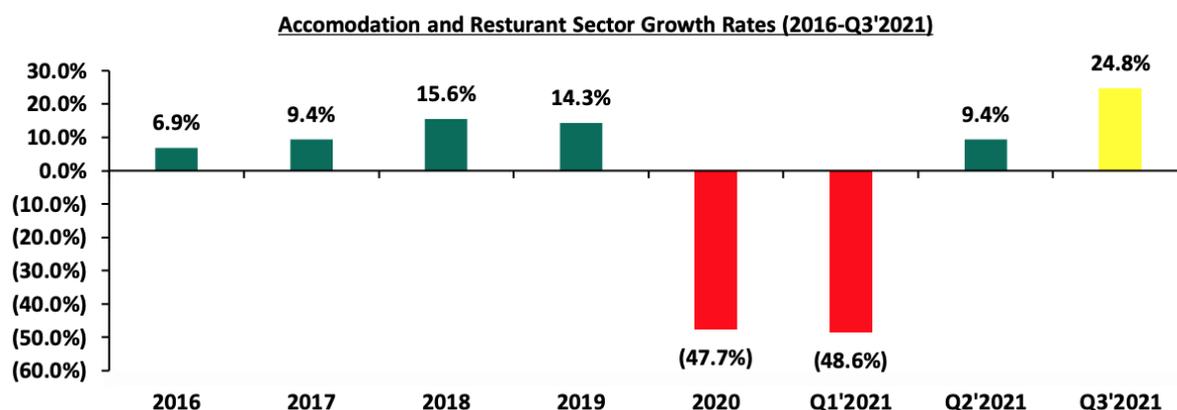
Construction Sector Growth Rates (2016-Q3'2021)



Source: Kenya National Bureau of Statistics

- iii. The Accommodation and Restaurant sector grew by 24.8% in Q3'2021 from a contraction of 63.4% in Q3'2020. This performance represented a 15.4% points q/q increase from the 9.4% growth recorded in Q2'2021. The hospitality sector was one of the worst hit by the pandemic in 2020 following declines in the overall number of international tourist arrivals, and, scaling down or complete closure of hotels and other businesses operating in the hospitality industry. However, following the reopening of the economy in 2021, the sector has shown a tremendous improvement as operations of hotels and other hospitality facilities continue to stabilize.

The graph below shows the Accommodation and Restaurant Sector GDP growth rates from 2016-Q3'2021;



Source: Kenya National Bureau of Statistics

The Real Estate sector in general is expected to continue recording improvements supported by the reopening of the economy which continues to boost Real Estate transactions and development. We expect the path to recovery of the hospitality industry to continue gaining momentum as evidenced by the growth in the supporting sectors such as Accommodation and Restaurant services. Other key drivers of the hospitality industry are the continued improvements in the number of hotels in operations and bed occupancies, as a result of the increase in the number of tourist arrivals due to the return of international flights, the aggressive marketing of the hospitality sector in Kenya to key tourist markets, and, the mass COVID-19 vaccination.

II. Residential

a. Proposed Construction of Hostel Buildings by Acorn Holdings

The National Environmental Management Authority (NEMA), gazetted the proposed development of three hostel buildings with a capacity to accommodate 4,842 students valued at Kshs 3.6 bn. The project will be overseen by Acorn Holdings, a student housing developer, who incorporated three limited liability partnerships to develop the student accommodation facilities. The three projects are estimated to be completed by Q1'2024. Below is a summary of the proposed developments

Summary of the proposed hostel Buildings

Limited Liability Partner	Project Location	Project Value (Kshs bn)	Number of Units	Number of Students to be Accommodated	Brand
Ebony Creek Properties LLP	Hurlingham	1.0	504	1,440	Qejani
Magnolia Creek Properties LLP	Northland City	1.9	924	2,348	Qwetu and Qejani
Willow Creek LLP	Gachororo Rd, Juja	0.7	378	1,054	Qejani
Averages		3.6	1,374	4,842	

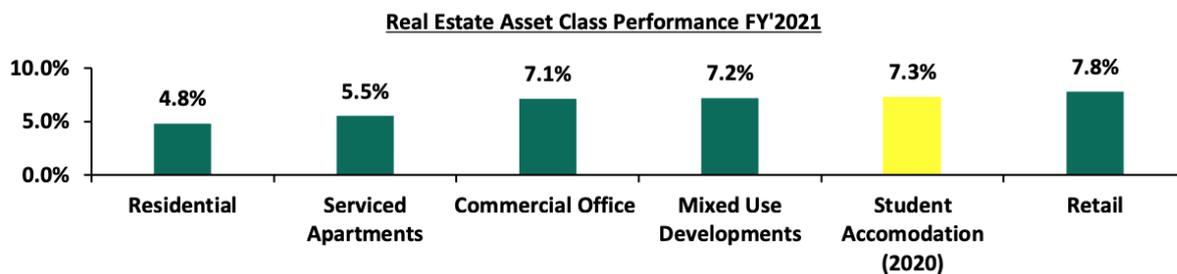
Source: Kenya Gazette and Acorn Holdings

The Acorn D-REIT (Development-Real Estate Investment Trust) is expected to finance the development of the hostels under the Qwetu and Qejani Brands. The Qwetu brand offers premium student housing facilities which are priced higher than the Qejani brand. The Qejani Brand on the other hand targets the mass markets under the affordable student housing programme. Moreover, Acorn also has the I-REIT (Income-Real Estate Investment Trusts) which is a Real Estate trust that primarily derives its revenues from rental properties. Acorn as a developer has continued to seek alternative ways of raising Real Estate funds besides traditional methods such as debt financing and equities. Alternative sources of funding include structured Real Estate notes such as project notes, Real Estate backed medium term notes, high yield loan notes, and, Real Estate Investments Trusts among others. Through the REITS, Acorn continues to gain access of funds from a pool of investors who wishes to take a specific Real Estate exposure. The Assets Under Management (AUM) as at H1'2021 for the D-REIT was Kshs 6.2 bn while the I-REIT had an AUM of Kshs 3.5 bn.

The move by Acorn to launch the three projects is in line with their target aim of 30,000 beds under management by 2030. Currently, Acorn has 5 developments under construction with more than 5,000 hostel-bed capacity. Acorn Holdings continues showing commitment towards bridging the gap between the increasing demand and the low supply of student's hostels in the country, supported by:

- i. Rising demand of student housing evidenced by the increasing student population with Kenya National Bureau of Statistics (KNBS) data indicating that the university enrolment as at 2020 was 509,473, with exclusion of technical colleges, against a supply of 300,000 student housing facilities,
- ii. The inability of individual learning institutions to host enrolled students into their premises, according to Cytonn Research, with the average higher learning institutions only being able to cater for approximately 22.6% of their student population,
- iii. The need by students to have a secure but affordable housing near the learning institutions, and,
- iv. The high returns, as the student housing thematic sector recorded a rental yield of 7.3% as at 2020 compared to other Real Estate classes such residential, serviced apartments, and, commercial which recorded rental yields of 4.8%, 5.5%, and, 7.1%, respectively as of FY'2021.

The graph below shows the performance of rental yields in student housing compared to the different Real Estate asset classes in FY'2021



Source: Cytonn Research

Investment in student housing is expected to continue gaining momentum supported by the high returns and demand evidenced by the growing student population against a limited supply. However, the increasing popularity of online learning is expected to weigh down the performance of student housing.

b. OBO Kenya Diplomatic Housing Lease by the United Nations

During the week, the United States Embassy announced plans to lease a 90-unit gated estate in Rosslyn comprising of both apartments and town houses dubbed 'OBO Kenya Diplomatic Housing' for its staff. The US Embassy will lease the development for a period of eight years at a cost of Kshs 4.3 bn with the estimated first year's rental income being Kshs 533.8 mn. OBO Kenya Diplomatic housing which is set to be completed by Q3'2022 has a total development cost of Kshs 5.5 bn and it is currently being constructed by Gateway Real Estate Africa Limited, a Mauritius-based real estate firm.

Rosslyn is an attractive residential development area supported by: i) the categorization of the area as a Blue Diplomatic Zone, ii) close proximity to social amenities such as the Rosslyn Riviera Mall, Two Rivers Mall, and Village Market, and, iii) ease of accessibility as the area is served by the Limuru Road and Kiambu Road. With regards to performance, according to the Cytonn Annual Markets Review-2021, Rosslyn was the best performing node in the high-end segment of detached units recording an average rental yield and capital appreciation of 4.7% and 2.0%, respectively, which is 0.8% and 1.0% points higher than the market average of 3.9% and 1.0%, respectively.

The table below shows the performance of the Nairobi Metropolitan Area (NMA) detached units in the high end areas.

All values in Kshs unless stated otherwise

Summary of Detached Units - FY'2021								
Area	Average of Price per SQM FY'2021	Average of Rent per SQM FY'2021	Average of Occupancy FY'2021	Average of Uptake FY'2021	Average of Annual Uptake FY'2021	Average of Rental Yield FY'2021	Average of Price Appreciation FY'2021	Total Returns
High-End								
Rosslyn	183,162	819	87.6%	94.4%	16.6%	4.7%	2.0%	6.7%
Lower Kabete	148,394	386	92.4%	80.1%	15.0%	2.9%	2.5%	5.4%
Kitisuru	245,741	736	91.4%	90.3%	15.5%	3.6%	1.3%	4.9%
Karen	179,672	678	87.0%	85.7%	14.0%	3.8%	0.1%	3.9%
Runda	211,606	789	91.0%	90.0%	10.2%	4.4%	(1.0%)	3.4%
Average	193,715	682	89.9%	88.1%	14.3%	3.9%	1.0%	4.9%

We expect the residential sector to record increased activities supported by the continued investor focus on student housing, and, the uptake of residential units sparking hopes to investors.

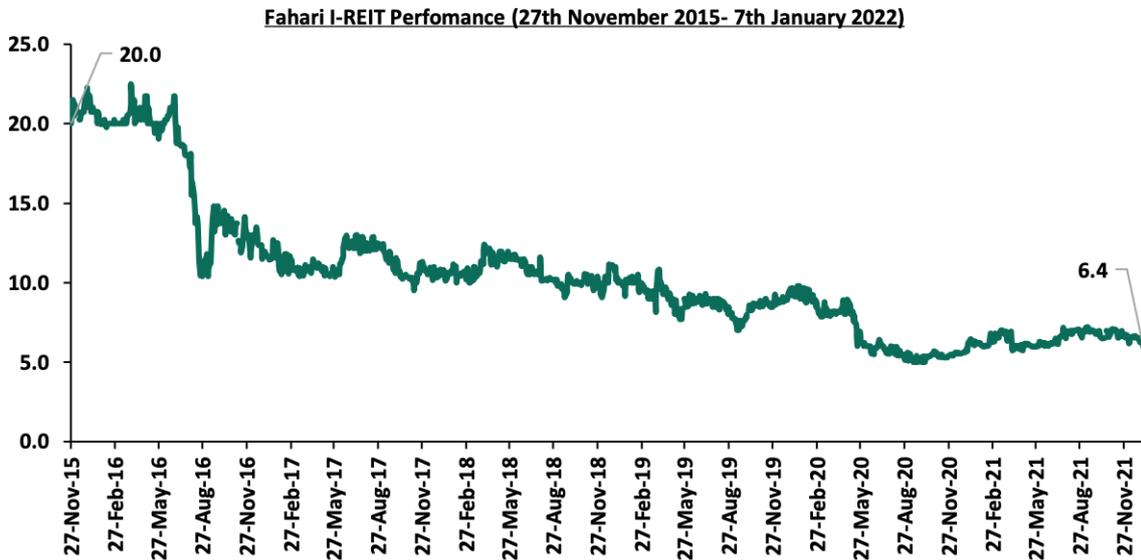
III. Statutory

During the week, the senate announced that it is seeking the public’s opinion on the Landlord Tenant Bill-2021 which was tabled in the National Assembly in February 2021. The Landlord Tenant Bill is aimed at consolidating laws relating to renting of commercial and residential properties. It is also keen on creating a balance between the interests of landlords and tenants through ensuring that landlords earn reasonable income from their investments and tenants are protected from exploitation. It sets out a procedure for increasing or decreasing the rents, providing a notice of termination of tenancy, and, dispute resolution procedures among others. For more information, please see Cytonn Weekly #11/2021.

IV. Listed Real Estate

During the week, Fahari I-REIT closed the week trading at Kshs 6.4 per share, an increase of 1.9% compared to Kshs 6.3 per share recorded the previous week. On a YTD basis, the share price recorded a decline of 0.6% from Kshs 6.42 recorded at the beginning of the year. However, on an Inception to Date (ITD) basis, the share price declined by 68.1% from the listing price of Kshs 20.0 per share. The performance of the REITS market in Kenya continues to be subdued by factors such as inadequate investor knowledge on the instrument, lengthy approval process, high minimum capital requirements for a trustee at Kshs 100 mn and, high minimum investments amount.

The graph below shows the performance of the Fahari I-REIT from 27th November 2015-7th January 2022;



The Real Estate sector in 2022 is expected to be on an upward trajectory evidenced by the improving Real Estate and Hospitality sector performance, continued uptake of residential units giving hope to investors, focus on student accommodation, and, efforts by the government to create an appropriate regulatory environment for Real Estate investors. However, the low investor appetite for Real Estate Investments Trusts (REITS), continues to be a challenge affecting Real Estate investments.

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