Student Housing in the Nairobi Metropolitan Area, & Cytonn Weekly #08/2022

Real Estate

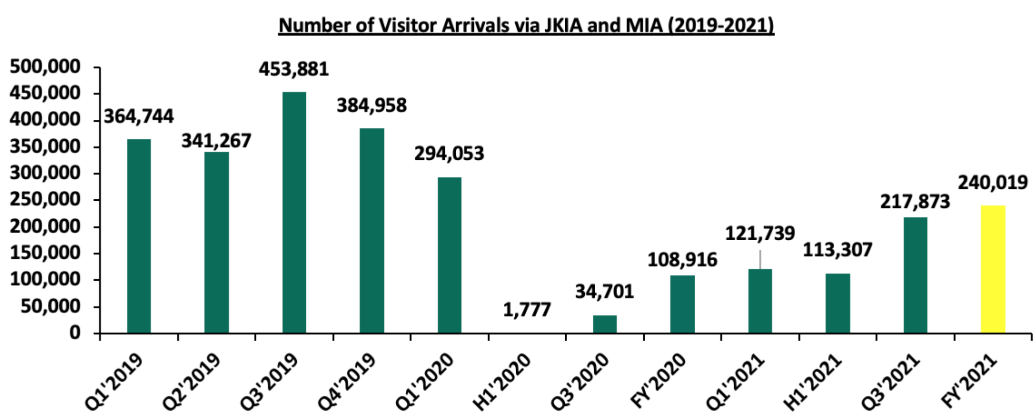
I. **Industry Report**

During the week, the Kenya National Bureau of Statistics (KNBS) released the December 2021 Leading Economic Indicators (LEI) report. The LEI report highlights the performance of major economic indicators such as international arrivals, building plan approvals, among others. The key highlights related to the Real Estate sector include;

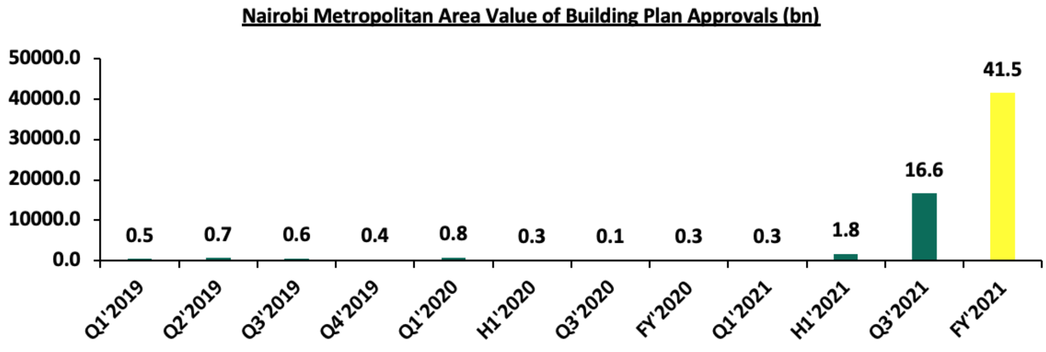
i. Overall international arrivals through Jomo Kenyatta International Airport (JKIA) and Moi International Airport (MIA) increased by 15.2% to 90,504 in December 2021, from the 76,706 recorded the previous month. The overall number of arrivals came in at 240,019 in Q4’2021, representing a 54.6% increase from the 108,916 visitors during the same period in 2020. The remarkable performance was mainly attributed to;

   a. Lowered travel restrictions and advisories from countries such as UK,
   b. Increased roll out of vaccines which boosted the confidence of visitors into the Kenyan market,
   c. Increased leisure activities amidst the festive season which in turn fueled visitor arrivals,
   d. Positive accolades with Nairobi being announced Africa’s leading business travel destination in the 2021 World Travel Awards, and,
   e. Aggressive marketing of Kenya’s tourism and hospitality market through the Magical Kenya platform to key tourism markets.

   The reopening of the economy played a huge part in improving the visitor arrivals and we expect that in the near term, the numbers will be back to the pre pandemic ones. The graph below shows the number of international arrivals in Kenya between 2019 and 2021:



ii. The value of building plan approvals increased by 14,166.7% to Kshs 41.5 bn in Q4’2021, from the Kshs 0.3 bn realized in the similar period in 2020. This was mainly attributed to the backlog clearance of pending building plan approvals, as well as increased construction activities especially in the residential and infrastructure sectors. Some of the key ongoing projects include; i) the Nairobi expressway project which is expected to be completed in March 2022, ii) Western Bypass, iii) Pangani Affordable Housing project, and iv) Athi River Waterfront affordable housing Project, among many others. The graph below shows the value of building plan approvals in the Nairobi Metropolitan Area between 2019 and 2021:



Source: Kenya National Bureau of Statistics (KNBS)

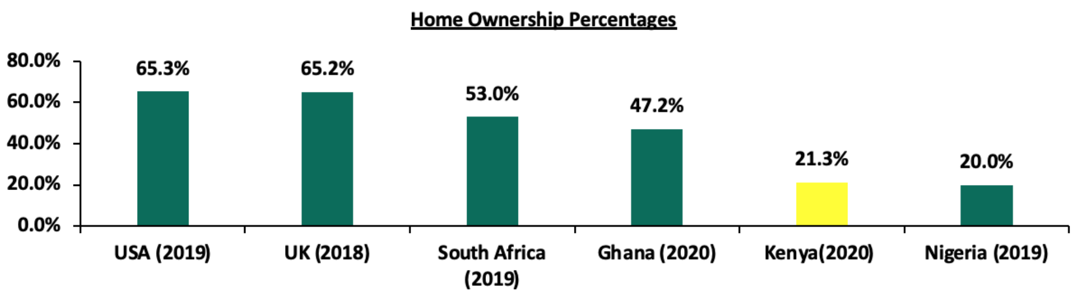
We expect the Real Estate sector to continue making remarkable growth and improved performance mainly fueled by increasing number of visitor arrivals into the country, coupled with the increased expansion and construction activities.

II. **Residential Sector**

During the week, the Nairobi Metropolitan Services (NMS) began the redevelopment of 10 various estates in Nairobi County, with an aim of constructing 60,000 affordable housing units. These units are part of the second phase of Nairobi estates redevelopment programme and will be distributed as follows; i) Woodely-6,000, ii) Bahati-12,000, iii) Maringo-8,000, iv) Lumumba-10,000, v) Embakasi-4,000, vi) California-2,500, vii) Kariobangi North-1,500, and, viii) Bondeni-774. The remaining 15,226 units will be distributed between Jericho and Ziwani estates. The first phase of the programme included seven other estates in Nairobi such as Uhuru Estate, Ngong Road phase I and II, and Old Ngara among other projects. These 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 Ban

As per our topical on Affordable Housing Program in Nairobi Metropolitan Area, the initiative continues to gain traction in Kenya evidenced by government's efforts to implement projects through various strategies such as i) issuing of corporate bonds e.g. the Kshs 3.9 bn bond for investing in Pangani Affordable Housing, ii) Public Private Partnerships, and, iii) increased budget allocation to the housing sector evidenced by the 33.9% increase in allocation to Kshs 21.8 bn in FY'2021/22, from Kshs 20.4 bn in FY'2020/21. Currently, there are 327,082 number of registered applicants in the Boma Yangu Portal with some key ongoing projects being; i) River Estate in Ngara, ii) Stoni Athi River Waterfront project, and, iii) Starehe project, among many others. Despite these efforts, the program continues to face a couple of setbacks that have caused the projects to stall such as financial constraints fueled by the high construction costs, and, inadequate infrastructure.

Additionally, during the week, the Capital Markets Authority (CMA) announced that the first tranche of the Kshs 10.5 bn Kenya Mortgage Refinance Company's (KMRC) Medium Term Note (MTN) program recorded an oversubscription of 478.6%, attributable to the attractive returns offered by the bond of 12.5%. KMRC aimed to raise a total of Kshs 1.4 bn in the first tranche, received bids worth Kshs 8.1 bn and only accepted bids worth Kshs 1.4 bn. The bond oversubscription follows East African Breweries Limited's Kshs 11.0 bn bond that was oversubscribed in October 2021 by 344.5%, a sign of investor's high appetite for the bond market. As highlighted in our Cytonn Weekly #02/2022, KMRC will disburse the capital to participating primary mortgage lenders (PMLs), such as banks, microfinance institutions and Savings and Credit Cooperatives (SACCOs) at a 5.0% rate, for onward lending to homebuyers at single digit rates.

We expect the residential sector to record more construction activities and developments supported by government's efforts to provide affordable homes which is part of the Big 4 Agenda. The efforts by the government to make mortgages available through the KMRC is also expected promote home ownership rate in Kenya.

III. **Retail Sector**

During the week, Naivas Supermarket, a local retail chain opened a new outlet at the new Imaara Mall along Mombasa road. This brings the retailer's total operating outlets to 81 and the 2nd outlet to be opened in 2022, after launching a new outlet at Greenspan Mall on 18th February 2022 in a space that was previously occupied by Tuskys supermarket. The move to open the new store at Imaara Mall is driven by; i) positive demographics, ii) stiff market competition from its rivals such as QuickMart and Chandarana stores that have each opened a branch so far in 2022, and, iii) strategic location of the mall along Mombasa road enhancing ease of accessibility to the store. In terms of performance, according to our Cytonn Annual Markets Review 2021, Mombasa road where Imaara Mall lies recorded average rents per SQFT of Kshs 148 compared to the market average of Kshs 170 per SQFT, hence supporting the retailer's decision to open the new store in the area due to affordability.

The table below shows the submarket performance of nodes in the Nairobi Metropolitan Area (NMA):

Nairobi Metropolitan Area Retail Market Performance FY'2021

Area	Rent Kshs /SQFT FY'2021	Occupancy% FY'2021	Rental Yield FY'2021
Westlands	213	78.8%	**10.0%**
Karen	202	84.0%	**9.8%**
Kilimani	183	86.0%	**9.8%**
Ngong Road	171	79.0%	**7.7%**
Kiambu road	180	74.2%	**7.7%**
Mombasa road	148	75.0%	**6.8%**
Thika Road	161	74.0%	**6.7%**

Nairobi Metropolitan Area Retail Market Performance FY'2021

Area	Rent Kshs /SQFT FY'2021	Occupancy% FY'2021	Rental Yield FY'2021
Satellite towns	142	69.0%	**6.2%**
Eastlands	133	71.6%	**5.6%**
Average	**170**	**76.8%**	**7.8%**

Source: Cytonn Research 2021

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	Highest number of branches that have ever existed as at FY'2021	Number of branches opened in 2022	Closed branches	Current number of Branches	Number of branches expected to be opened	Projected number of branches FY'2022
Naivas	Local	46	61	69	79	2	0	81	0	81
QuickMart	Local	10	29	37	47	1	0	49	0	49
Chandarana	Local	14	19	20	23	1	1	24	4	28
Carrefour	International	6	7	9	16	0	0	16	0	16
Cleanshelf	Local	9	10	11	12	0	0	12	0	12
Tuskys	Local	53	64	64	3	0	61	3	0	3
Game Stores	International	2	2	3	3	0	0	3	0	3
Uchumi	Local	37	37	37	2	0	35	2	0	2
Choppies	International	13	15	15	0	0	13	0	0	0
Shoprite	International	2	4	4	0	0	4	0	0	0
Nakumatt	Local	65	65	65	0	0	65	0	0	0
Total		**257**	**313**	**334**	**185**	**4**	**179**	**190**	**4**	**194**

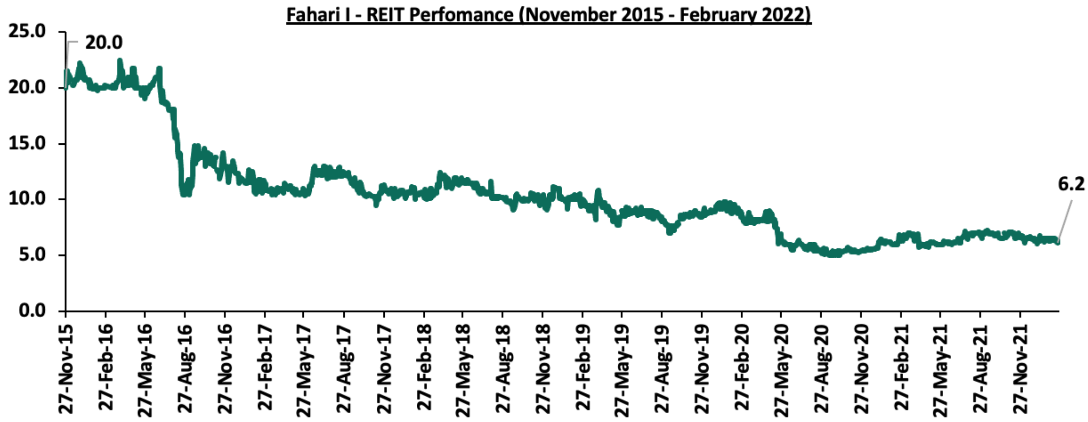
Source: Online Search

We expect the retail sector to continue witnessing expansion activities by local and international retailers such as Naivas, and Carrefour, mainly driven by; i) positive demographics, ii) infrastructure developments opening up areas for accessibility and investments, as well as, iii) the improved business environment promoting transactions and activities. However, the existing oversupply at 1.7 mn SQFT in the Kenyan retail sector and 3.0 mn SQFT in the NMA retail sector, the growing popularity of e-commerce, and, business uncertainties brought about by the incoming elections, is expected to weigh down the performance of the sector.

IV. Listed Real Estate

In the Nairobi Stock Exchange, ILAM Fahari I-Reit closed the week trading at an average price of Kshs 6.2 per share. This represented a 1.6% and 3.1% Week-to-Date (WTD) and Year-to-Date (YTD) decline, respectively, from Kshs 6.3 per share and Kshs 6.4 per share, respectively. On Inception-to-Date (ITD) basis, the REIT's performance continues to be weighed down having realized a 69.0% decline from Kshs 20.0. In the Unquoted Securities Platform, Acorn D-REIT closed the week trading at Kshs 20.2 while the I-REIT closed at Kshs 20.6 per unit. This performance represented a 1.0% and 3.0% gain for the D-REIT and I-REIT, respectively, from the Kshs 20.0 Inception price. The Kenyan REIT market performance continues to be weighed down by; 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 February 2022:



We expect the Real Estate sector to be on an upward trajectory supported by the continuous development activities in the residential sector, KMRC’s efforts to provide home loans to buyers, rapid expansion by retailers, and increased international arrivals into the country. However, the low investor appetite for the REIT market is expected to weigh down performance of the sector.

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