

Cytonn Monthly – February 2022

Real Estate

I. Industry Reports

During the month of February, two industry reports were released, namely:

| # | Theme | Report | Key Take-outs |
|---|---------------------|---|---|
| | | Leading Economic Indicators (LEI)- December 2021, by the Kenya National Bureau of Statistics (KNBS) | <ul style="list-style-type: none"> • 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, and, • 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. For more information, see Cytonn Weekly #08/2022. |
| 1 | General Real Estate | Kenya Market Update H2'2021, by Knight Frank Kenya | <ul style="list-style-type: none"> • The average selling price of prime residential spaces in Nairobi improved by 1.2% in H2'2021, compared to a 1.1% decline in the same period in 2020, attributed to the reopening of the economy as investment activities resumed and boosted property prices, • The average prime commercial office rents recorded a 9.0% increase to Kshs 136.3 per SQFT in H2'2021, from Kshs 125.0 per SQFT in H1'2021, partly attributed to the completion of several grade A office blocks in Nairobi which attracted high rental rates, and, • The average prime retail rental rates increased by 2.6% to Kshs 466.0 per SQFT in H2'2021, from Kshs 454.0 per SQFT in H1'2021, attributed to increased activities by retailers prompting the acquisition of spaces. For more information, see Cytonn Weekly #06/2022. |

The overall Real Estate sector continues to demonstrate pockets of recovery evidenced by the improving performance in key themes such as; i) the retail sector whose prime rental rates increased by 2.6% in H2'2021, ii) the commercial office sector whose prime rental rates increased by 9.0% in H2'2021, and, iii) residential sector which witnessed a 1.2% improvement in the average prime selling prices in H2'2021. This is also supported by the increasing number of visitor arrivals into the country by 15.2% to 90,504 in December 2021, from the 76,706 recorded the previous month coupled with improved construction activities evidenced by the increase in the value of approvals. As such, we expect the performance of the Real Estate sector to pick up during the year.

II. Residential Sector

Notable highlights in the sector during the month include;

- i. 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 the Nairobi estates redevelopment programme. They 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. For more information, see [Cytonn Weekly #08/2022](#),
- ii. 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. For more information, see [Cytonn Weekly #08/2022](#),
- iii. Centum Real Estate completed and handed over Riverbank apartments to clients. The project broke ground in August 2019 and has taken approximately 36 months to complete. This marks the handover of 160 units in a project that has a deal pipeline of more than 1,500 residential units planned within the 102-Acre master-planned Two Rivers Development. For more information, see [Cytonn Weekly #07/2022](#),
 - iv. Shelter Afrique, a Pan African housing company announced plans to issue a bond in East Africa, in the Kenyan Capital Market through the NSE aiming to raise USD 500.0 mn (Kshs 56.9 bn). The funds raised from the bond will be used to finance upcoming affordable housing projects within East Africa with a keen eye on the Kenyan market. (*Details about the tenor and the interest rates of the bond are yet to be disclosed.*) For more information, see [Cytonn Weekly #07/2022](#),
 - v. Property developer Acorn Group began construction of two new hostels worth Kshs 2.5 bn next to the University of Nairobi Chiromo Campus along Science Crescent Road, off Riverside Road, following an announcement they made in **November 2020**. The focus on modern student housing continues to gain traction supported by: (i) Student housing deficit, (ii) The need to accommodate and attract international students seeking higher education, and, (iii) Attractive returns evidenced by relatively high yields of 7.3% as per the [Cytonn Student Housing Market Kenya Research](#). For more information, see [Cytonn Weekly #06/2022](#), and,
 - vi. Royal Group Industries, a fully Kenyan-owned company, through its Director Yusuf Hassanali, announced that approximately 202 of the 605 units at the Bondeni Affordable Housing Project in Nakuru City, were sold to clients. For more information, see [Cytonn Weekly #06/2022](#).

The residential sector is expected to continue recording more activities as a result of; i) efforts by investors to complete and hand over developments, ii) continued focus on affordable housing, iii) efforts by the government through KMRC to provide affordable mortgages, and, iv) investor focus on student housing.

III. Retail Sector

During the week, QuickMart Supermarket, a local retail chain opened its 50th outlet in Machakos County along Wote Road. This marks the retailer's first store in Machakos County thereby expanding its presence into 14 counties within the country. The move signals stiff competition against key retailers such as Naivas and Carrefour who have also been on an aggressive expansion drive having opened 12 and 7 outlets, respectively since the beginning of 2021, compared to the 13 outlets opened by QuickMart in the same period. The move to open a new store in Machakos is supported by;

- a. Positive demographics evidenced by the 29.4% population growth in Machakos country to a population 4 mn in 2019 from 1.1 mn people in 2009 according to the [Kenya population and Housing Census Report](#) by the Kenya National Bureau (KNBS),
- b. The strategic location of the outlet, which is opposite the Machakos Level 5 hospital targeting shoppers around the region, and,
- c. Availability of infrastructure servicing the area such as Wote Road hence promoting accessibility.

In terms of performance, according to our [Kenya Retail Report-2021](#), the retail sector recorded an average rental yield of 6.8% in 2021 0.1% points higher than the 6.7% recorded in 2020 signaling improvement in the Kenyan retail market. The table below shows a summary of the performance of the retail sector in key urban Regions in Kenya;

Summary of Retail Performance in Key Regions in Kenya - 2021

| Region | Rent per SQM (Kshs) 2021 | Occupancy Rate 2021 | Rental yield 2021 |
|--------|--------------------------|---------------------|-------------------|
|--------|--------------------------|---------------------|-------------------|

Summary of Retail Performance in Key Regions in Kenya - 2021

| Region | Rent per SQM (Kshs) 2021 | Occupancy Rate 2021 | Rental yield 2021 |
|----------------|--------------------------|---------------------|-------------------|
| Mount Kenya | 128 | 81.7% | 7.9% |
| Nairobi | 168 | 75.8% | 7.5% |
| Mombasa | 119 | 77.6% | 6.8% |
| Kisumu | 101 | 74.6% | 6.4% |
| Eldoret | 131 | 80.8% | 6.3% |
| Nakuru | 59 | 80.0% | 6.1% |
| Average | 118 | 78.4% | 6.8% |

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 | 48 | 2 | 0 | 50 | 0 | 50 |
| 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 | 186 | 5 | 179 | 191 | 4 | 195 |

Source: Online Search

Additionally, Optica Limited, a local eyewear retailer opened a new outlet at Imaara Mall in Imara Daima along Mombasa Road bringing its total outlets in the country to 55. This move as part of the retailer's expansion plan is driven by:

- i. Strategic location of the store, along Mombasa Road guaranteeing a high footfall,
- ii. Availability of prime retail space for uptake, and,
- iii. Demand of eyewear as the public is also adopting prescription sunglasses for vision correction and protection against UV rays.

In terms of performance, according to the Cytonn Annual Markets Review 2021, Mombasa Road where Imaara Mall lies recorded an average rent per SQFT of Kshs 148 in FY'2021 compared to the market average of Kshs 170 per SQFT, thereby 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% |
| Satellite towns | 142 | 69.0% | 6.2% |
| Eastlands | 133 | 71.6% | 5.6% |
| Average | 170 | 76.8% | 7.8% |

Source: Cytonn Research 2021

Other notable highlights in the retail sector during the month include;

- i. Naivas Supermarket, a local retail chain opened two new outlets, one at new Imaara Mall along Mombasa road and the other one at Greenspan Mall in Donholm in a space that was previously occupied by Tusky's supermarket. This brings the retailer's total operating outlets to 81 having opened 10 outlets in 2021. For more information, see *Cytonn Weekly #08/2022*, and, *Cytonn Weekly #07/2022*,
- ii. Chicken Cottage, a UK fast-food chain announced a partnership deal with Express Kitchen, a subsidiary of AAH Limited to open 50 outlets at Hass Petroleum's service stations in Kenya, Rwanda, Tanzania and Uganda this year. The first outlet is scheduled to be opened in Nairobi in April 2022. For more information, see *Cytonn Weekly #06/2022*, and,
- iii. Chandarana Foodplus Supermarket, a local retail chain, announced plans to open 4 outlets over the next four months leading to June 2022. Three of these will be large size convenience stores which will be located in Riverside, Thigiri, and General Mathenge in Westlands, and 1 will be located in an undisclosed mall outside Nairobi. This move will see Chandarana expand its footprint in the country and increase its outlets to 28. For more information, see *Cytonn Weekly #06/2022*.

The performance of the retail sector is expected to be supported by; i) the rapid expansion by key local and international retailers taking up new and previous spaces left by troubled retailers, ii) positive demographics evidenced by Kenya's high urbanization and population growth rates of 4.0% p.a. and 2.3% p.a., respectively, against the global average of 1.8% p.a. and 1.0% p.a., respectively, as at 2020 according to the **World Bank**, iii) improvement in infrastructure promoting accessibility to retail centers, and, iv) improved business environment following the reopening of the economy. However, the sector's performance continues to be subdued by; i) the existing oversupply of 1.7mn SQFT in the Kenyan retail sector, and, 3.0 mn SQFT in the (NMA) Nairobi Metropolitan Area retail sector, ii) the growing popularity of e-commerce, and, iii) business uncertainties brought about by the incoming elections.

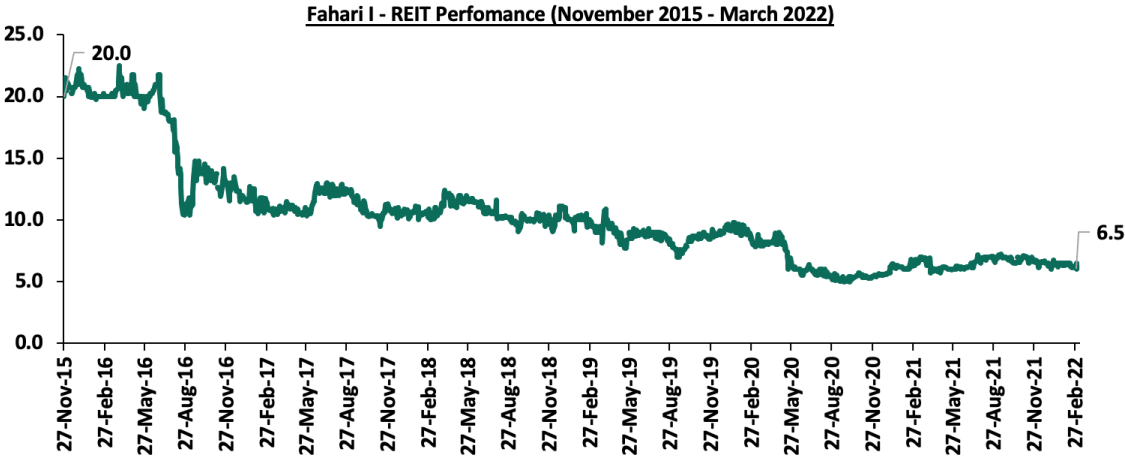
IV. Land

The Lands Cabinet Secretary, Farida Karoney announced that the digitization of the land records in

Nairobi County will be completed in June 2022 and by the end of 2024 for the entire country. The aim of digitizing land records is to ease registration of properties and to improve transparency when conducting land transactions. To facilitate the process, President Uhuru Kenyatta launched the National Land Information Management System (NLIMS) named “Ardhi Sasa” in April 2021. This new platform is also expected to reduce fraudulent transactions such as land grabbing that have plagued the sector for decades. For more analysis on the digitization of land records, see *Cytonn Monthly April-2021*

V. Listed Real Estate

In the Nairobi Stock Exchange, ILAM Fahari I-REIT closed the week trading at an average price of Kshs 6.5 per share. This represented a 4.6% and 1.5% Week-to-Date (WTD) and Year-to-Date (YTD) increase, from Kshs 6.2 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 67.5% decline from Kshs 20.0. 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 March 2022:



The Kenyan Real Estate market is expected to be on an upward trajectory driven by; i) increased visitor arrivals which is expected to boost the performance of hotels and serviced apartments, ii) an increase in construction activities, iii) continued focus on affordable housing, iv) efforts by the government to avail mortgages at affordable rates through the KMRC, v) aggressive expansion by local and international retailers and vi) efforts by the government to streamline land transactions through the National Land Information Management System (NLIMS). However, the performance of the sector is expected to be weighed down by the low investor appetite in REITS.

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