

Kenya Retirement Benefits Schemes FY'2021 Performance, & Cytonn Weekly #10/2022

Real Estate

I. Hospitality Sector

During the week, Cytonn Group, under the hospitality arm of the business, launched CySuites Hospitality Management Company, a serviced apartment hotel management company, whose primary focus is optimizing operational and managerial efficiency of serviced apartments on behalf of owners as well as investors. The firm's main goals include; i) to create a stellar industry standard when it comes to serviced apartment hotels, ii) to garner a collective market share, and, ii) enhance brand visibility.

According to Nairobi Metropolitan Area (NMA) Serviced Apartments Report 2021, Westlands where Cysuites is located was the best performing node, with a rental yield of 8.3% compared to the market average of 5.5%. This is attributed to; i) Westlands leading in terms of market share of hotels at 37.9%, ii) high occupancy rates at an average of 68.8% compared to the market average 56.4%, and, iii) relatively high monthly charges per SQM at Kshs 3,568 compared to the market average of Kshs 2,549.

The table below shows a summary of the performance of the various nodes within the NMA;

2021 NMA Serviced Apartments Performance per Node

Node	Average Unit Sizes (SQM)				Monthly Charge/Unit (Kshs)				Occupancy	Monthly Charge/SQM (Kshs)	Devt Cost/SQM (Kshs)	Rental Yield
	Studio	1 Bed	2 Bed	3 Bed	Studio	1 Bed	2 Bed	3 bed				
Westlands	37	57	87	114	175,000	208,410	262,639	300,000	68.8%	3,568	209,902	8.3%
Kileleshwa & Lavington	38	91	128	166	120,000	218,500	296,667	440,000	57.1%	2,571	206,132	6.4%
Kilimani	47	75	114	193	155,340	252,750	319,872	380,143	60.0%	2,815	202,662	5.8%
Limuru Road	44	52	79	116	119,000	187,636	217,500	240,000	60.5%	2,853	231,715	4.9%
Nairobi CBD	51	82	85	119	67,500	132,500	215,714	409,000	66.6%	2,176	224,571	4.9%
Upperhill	-	95	119	195	-	216,667	290,000	393,333	61.1%	2,109	209,902	4.5%
Thika Road	-	70	101	145	-	100,000	193,333	280,000	56.4%	1,748	200,757	3.5%
Average	43	75	102	150	127,368	188,066	256,532	348,925	61.5%	2,549	212,234	5.5%
High	51	95	128	195	175,000	252,750	319,872	440,000	68.8%	3,568	231,715	8.3%
Low	37	52	79	114	67,500	100,000	193,333	240,000	56.4%	1,748	200,757	3.5%

Overall, average occupancy for serviced apartments in the NMA increased by 13.5% points to 61.5% in 2021, from the 48.0% recorded in 2020

The move is commendable due to tapping into a market that offers a home away from home under the apartments hotel. Additionally, with the hospitality industry recovering from the COVID-19 pandemic effects and growing rapidly, tapping into the industry as a serviced Apartments hotel owner is a good investment opportunity in order to cash in on returns generated.

II.Listed Real Estate

In the Nairobi Stock Exchange, ILAM Fahari I-REIT closed the week trading at an average price of Kshs 5.9 per share. This represented a 9.2% and 7.8% Week-to-Date (WTD) and Year-to-Date (YTD) decline from Kshs 6.5 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 70.5% decline from Kshs 20.0. The graph below shows the 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 improved performance of the hospitality sector. However, the performance will be weighed down by poor performance of the REIT market 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.