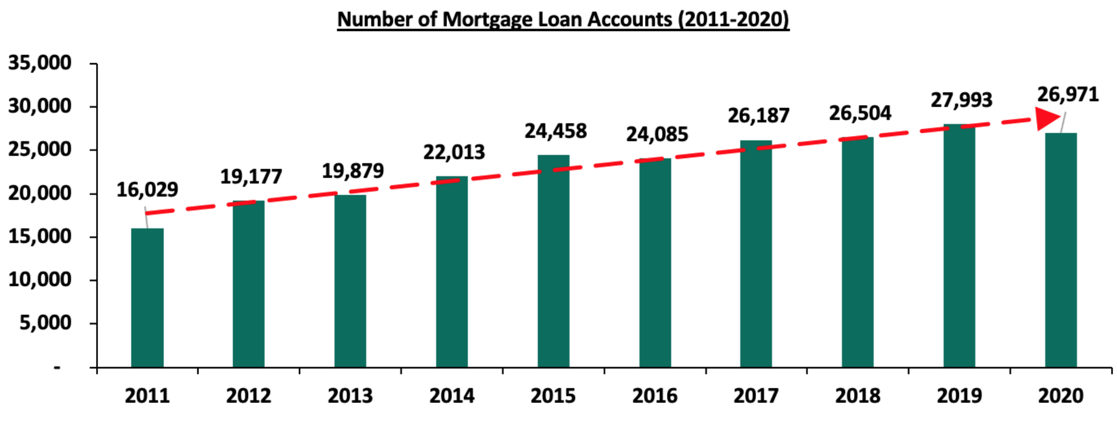
Kenya Listed Banks FY'2021 Report, & Cytonn Weekly #15/2022

Real Estate

1. **Residential Sector**

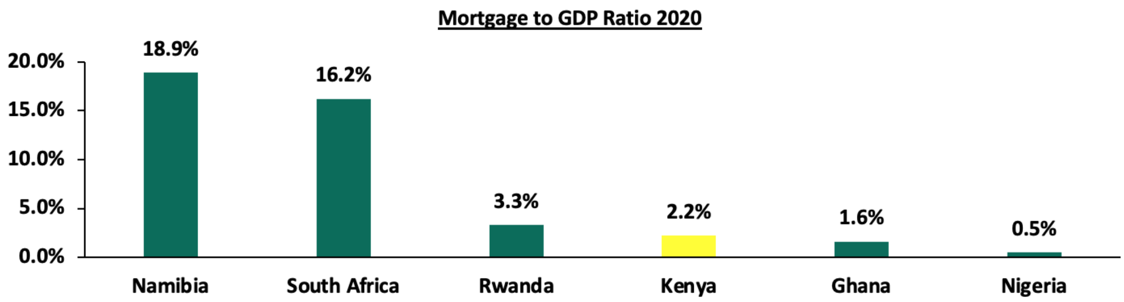
a. **Co-operative Bank Receives Kshs 549.8 mn loan to Finance Mortgages**

During the week, Co-operative Bank of Kenya revealed in its FY'2021 annual report that it had received Kshs 549.8 mn loan from the Kenya Mortgage Refinance Company (KMRC) in June 2021, with the aim of financing affordable housing mortgage loans. This represents 1.3% of the bank's total borrowed funds worth Kshs 42.9 bn as of December 2021. The banking institution which also currently accounts for 11.0% of KMRC's shares totaling 2.0 mn as of 2021 entered into an agreement with the mortgage refinancer in June 2021 for a credit facility at 5.0% p.a, for onward lending to home buyers. Co-operative bank will therefore lend the amount to home buyers earning less than Kshs 150,000 per month at single digit interest rates. Upon lending the whole amount received to home buyers, it would increase their mortgage loans to Kshs 749.8 mn. In turn, the move by the lender is expected to boost mortgage availability and loan accounts which recorded a 3.7% decline to 26,971 in December 2020 from 27,993 in December 2019 according to the Central Bank of Kenya-Bank Supervision Annual Report 2020. The graph below shows the number of mortgage loan accounts in Kenya over the last 10 years;



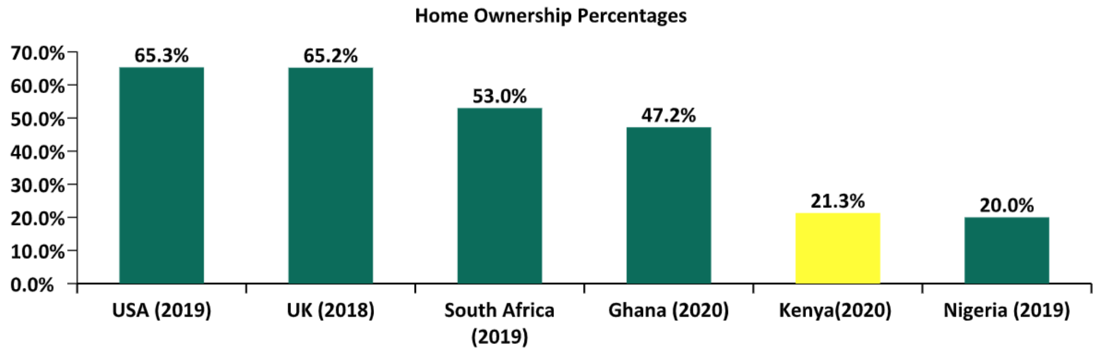
Source: Central Bank of Kenya (CBK)

With the above, the Kenyan mortgage sector performance continues to lag behind evidenced by a 2.2% mortgage to GDP ratio, compared to countries such as Namibia and South Africa at 18.9% and 16.2%, respectively as shown in the graph below;



Source: Centre for Affordable Housing Africa

Despite the above, the anticipated increase in mortgage uptake is expected to boost 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. This is in addition to KMRC's aggressive efforts to provide affordable home loans to Kenyans through various strategies such as debt sourcing and issuing of corporate bonds. In January 2022 KMRC got approval from the Capital Markets Authority (CMA) to roll out a Kshs 10.5 bn medium-term bond programme, whereby the first tranche received a 478.5% oversubscription. The graph below shows the home ownership percentages of different countries compared to Kenya;



Source: Centre for Affordable Housing Africa, Federal Reserve Ban

b. **University of Nairobi to Build 4,000 – Bed Capacity Hostels**

Additionally, during the week the University of Nairobi (UON) announced plans to build 4,000 - bed capacity hostels through a Public Private Partnership (PPP) deal with the Private Infrastructure Group (PIDG), an international infrastructure development and finance organization. According to the two parties, 1,000 slots will be built at the Chiromo campus, another 1,000 at the Kenyatta National Hospital (KNH) Campus, while the remaining 2,000 slots will be established at the university's main campus. Moreover, the hostels will be availed to the UON students at an affordable rate not exceeding Kshs 7,500 per month.

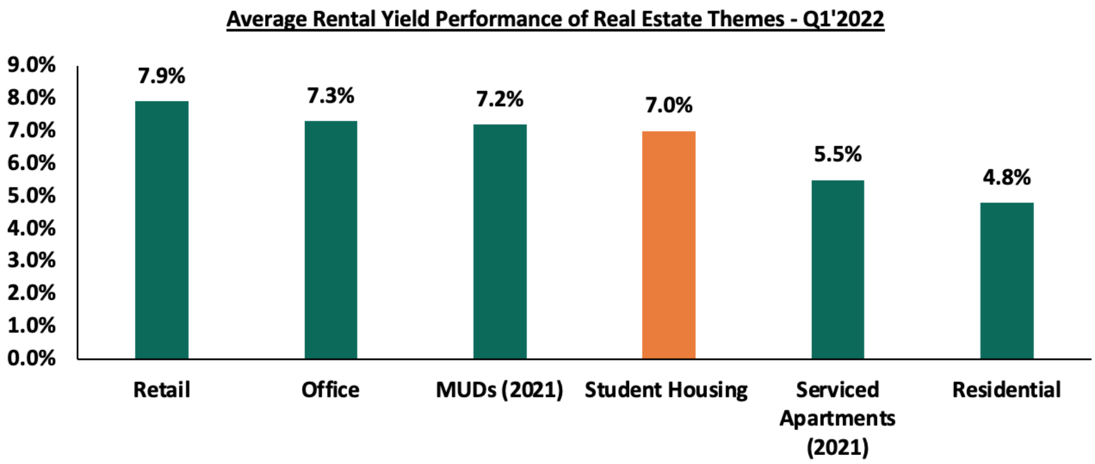
PPPs continue to gain momentum in the country having proven to be a cost effective way of implementing projects. Some of the ongoing projects under the strategy include; i) Nairobi Expressway which will be Kenya's first road to be tolled under PPP platform upon its completion by December 2022, ii) University Of Embu Hostel Project, iii) Kenyatta University Students Hostels, and, iv) Pangani Affordable Housing Project, among many others. With student housing also gaining traction in the country, we expect various developments to continue being initiated and implemented by developers due to;

i. The need to increase security levels of students,
ii. Increased Tertiary Institutions: According to the Kenya National Bureau of Statics (KNBS) 2021 Economic Survey, the overall number of Technical and Vocational Education and Training (TVET) institutions increased by 7.5% to 2,301 in 2020, from 2,140 in 2019,
iii. Rising population of students necessitating supply of hostels. According to KNBS, the student

population in universities and vocational centres stood at 997,904 in FY’2020/21 from 664,000 in FY’2014/15,

iv. Public Policy: Government measures such as scrapping visa requirements for other African countries is a boost for enrolment of international students to local institutions, and,

v. Relatively higher returns to investors, with the sector having recorded average rental yields of 7.0% in Q1’2022, compared to other Real Estate sectors like the residential sector that realized yields of 4.8%, according to our Student Housing in the Nairobi Metropolitan Area 2022 report. The graph below shows the performance of rental yields in student housing compared to the different Real Estate asset classes in Q1’2022;



Source: Cytonn Research 2022

We expect the residential sector to continue witnessing remarkable activities and developments aimed towards boosting its overall performance. This will be achieved mainly through increased mortgage availability and uptake by home buyers, increasing popularity of PPPs as a cost efficient way of financing projects, and, increased focus towards the development of student accommodation facilities.

II. **Retail Sector**

During the week, Naivas supermarket, a local retail chain, opened a new outlet in Kiambu Mall, along Kiambu Road bringing its total operating outlets to 83. This will become Naivas’ third store to be opened so far in 2022, whereas it also plans to open two more stores in Meru and Naivasha towns. As per Cytonn Weekly #12/2022, Naivas took up the prime retail space that was previously occupied by troubled Choppies Supermarket, an international retail chain. 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	3	0	83	2	85
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

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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**	**6**	**179**	**193**	**6**	**199**

Source: Online Search

Kenyan retail sector continues to witness rapid developments and expansion activities by various retailers, which in turn boost the performance of the sector. We expect a similar trend in the sector supported by factors such as; i) positive demographics driving demand for services and investments, ii) infrastructure developments enhancing accessibility to retail stores, and, iii) stiff market competition among retailers thus driving rapid expansion. However, e-commerce and the existing oversupply at 3.0 mn SQFT in the Nairobi Metropolitan Area, is expected to weigh down performance of the sector.

III. **Hospitality Sector**

During the week, hotel chain Sarova Woodlands took over management of Kisumu's Imperial hotel, after having entered into a 7-year agreement with the Gilani Family, the owners of the facility. This will bring the hotelier's number of operating hotels countrywide to 8, with the 93–bed hotel having been renamed as Sarova Imperial Kisumu. Other hotels by Sarova include; Sarova Stanley and Sarova Panafric in Nairobi, Sarova Whitesands Beach Resort in Mombasa, and Sarova Woodlands and Sarova Lion Hill in Nakuru City. The move by Sarova comes barely a week after Norfolk hotel resumed operations in Nairobi's CBD, whereas Radison Blu announced plans to resume operations in its Upperhill branch in May 2022. This is a sign that investors are confident about the sector picking up after having been one of the hardest hit sectors by the onset of COVID-19 pandemic. Sarova's decision to invest in Kisumu is driven by;

i. The need to increase its footprint in the Kenyan hospitality market,
ii. Strategic location of the hotel along Achieng Oneko Road and near Lake Victoria,
iii. Increasing modernization of Kisumu city thus boosting tourism activities in the area, and,
iv. Presence of the Kisumu International Airport facilitating access to the city and hotel by air.

According to Central Bank of Kenya's Monetary Policy Committee Hotels Survey March 2022, the overall hotel bed occupancies came in at 57.0% in March 2022, 34.0% points increase from the 23.0% realized in March 2021. Based on this and various hotels resuming and expanding their operations, we expect the hospitality sector to record improved performance driven by the lowered pandemic restrictions, as well as improved events and tourism activities boosting performance of the sector.

IV. **Statutory Reviews**

During the week, the Finance Bill 2022, a report aimed to increase the government's revenue collection base, was tabled to the parliament for debate, and the following were the key take-outs relating to the Real Estate sector;

i. Clarification on the definition of property as included in section 40 of No. 29 of 2015 Act to mean; land, building, aircraft, ship, or motor vehicle, thus sufficient to serve as security for unpaid taxes,
ii. Where a taxpayer who is also the owner of a property in Kenya fails to pay a tax by the stipulated date, the Commissioner may notify the Registrar in writing that the property, to the extent of the taxpayer's interest in the property, shall be the subject of a security for the unpaid tax specified in the notification, and,
iii. Where the Registrar has been notified by the Commissioner, the Registrar shall, without levying or charging a fee, register the Commissioner's notification as if it were an instrument of restraint on the disposal, mortgage on, or charge, as the case may be, the property specified in the notification.

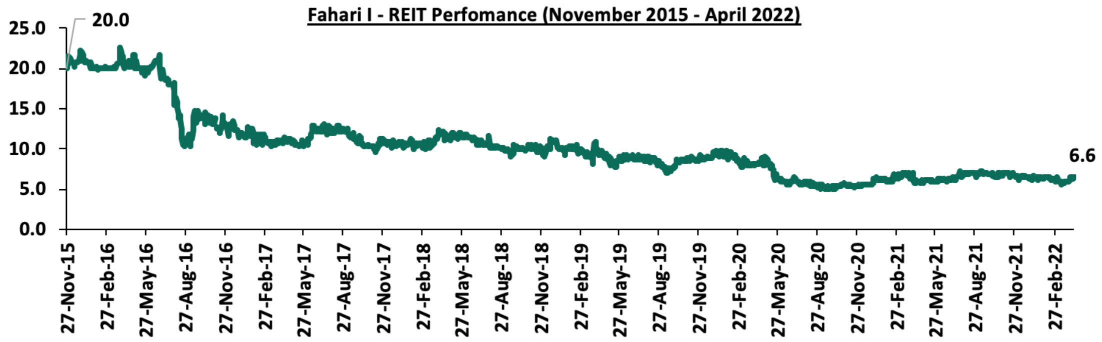
We expect these regulations to provide clarification as well as streamline activities in the Real Estate sector, thus in turn foster the growth and performance of the economy as a whole.

V. **Real Estate Investment Trusts (REITS)**

During the week, ICEA Lion Asset Management (ILAM) Limited revealed though the Fahari I-REIT FY'2021 annual report, that it had bought five million units of Fahari I-REIT's units in 2021 as normal market purchases. At the current price of Kshs 6.6, the units value stand at Kshs 33.0 mn. ICEA Lion which became Fahari I-REIT's promoter in December 2020 therefore become the 8th largest shareholder of the REIT, with a 2.8% stake. The move comes after the REIT recorded a net loss of Kshs 123.9 mn in 2021, following lowered rental income realized by its assets such as the Greenspan Mall that had its former anchor tenant Tuskys Supermarket default rents thus evicted. However, ILAM and other unit holders anticipate a restructuring of the property fund in order to improve its performance in the future, as well as boosting investor confidence in the fund. Some of the strategies in place to increase the REIT's performance include;

i. Redefining and implementation of the portfolio strategy, which manages risk through portfolio diversification, and seeks to deliver appropriately risk-adjusted returns through superior asset allocation and selection,
ii. Cash management i.e. all cash collected from rentals to continue being invested in a diversified portfolio of near cash instruments,
iii. Liquidity planning whereby once the cash is optimally invested, sufficient liquidity is available to make payments when due),
iv. Efficient use of capital at the subsidiary level, through management of capital expenditure to improve core asset value, and,
v. Deal management by ensuring that risk is managed and obligations are met through to deal execution.

In the Nairobi Stock Exchange, ILAM Fahari I-REIT closed the week trading at an average price of Kshs 6.6 per share. This represented a 1.5% and 3.1% Week-to-Date (WTD) and Year-to-Date (YTD) increase respectively, 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 67.0% decline from Kshs 20.0. Overall, 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 April 2022:



We expect Kenya's property market to be on an upward trajectory driven by; i) efforts by KMRC and banking institutions to make mortgages available to home buyers, coupled with increased construction activities in the residential sector, ii) aggressive expansion in the retail sector, and iii) increased activities in the hospitality sector thereby boosting performance of hotels and serviced apartments. However, lagging performance of REITs in Kenya is expected to continue weighing down the overall performance of the property sector.

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