

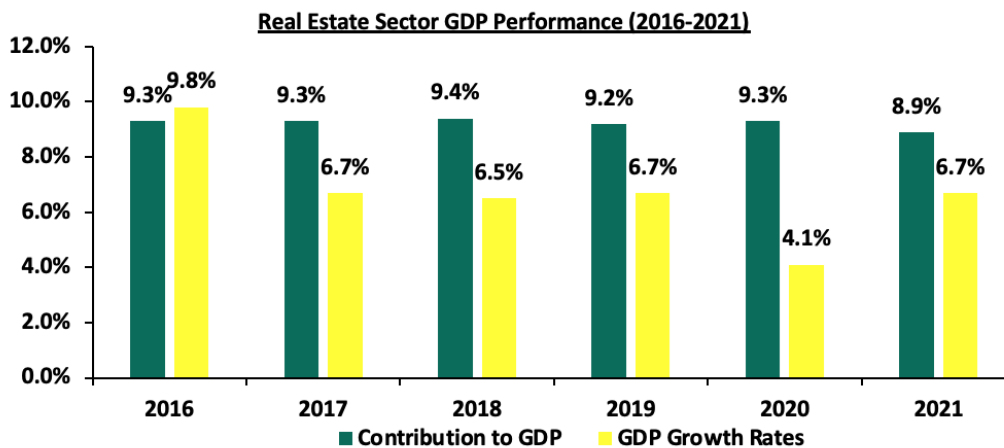
Infrastructure in the Nairobi Metropolitan Area (NMA): Roads, Water & Sewer Coverage, & Cytonn Weekly #18/2022

Real Estate

I. Industry Reports

During the week, the Kenya National Bureau of Statistics (KNBS) released the Economic Survey 2022, a report that analyses the performance of key sectors of the Kenyan economy. The key take-outs for the Real Estate sector from the report include;

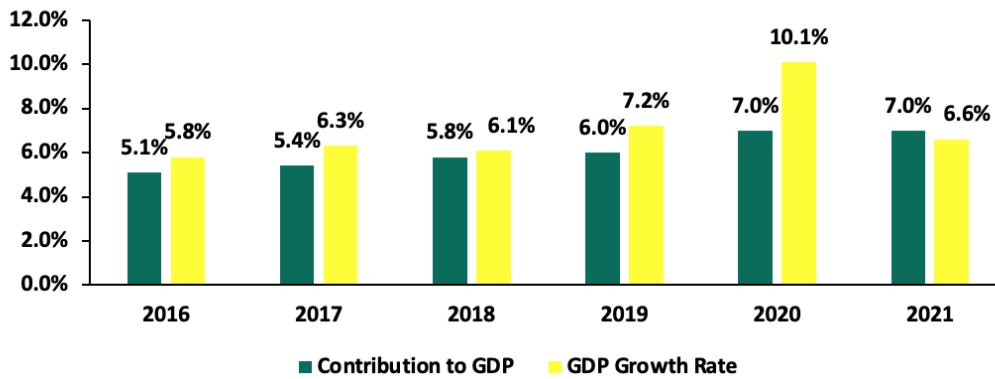
- i. The Real Estate Sector contribution to GDP came in at 8.9% in 2021, representing a 0.4% points decline from 9.3% recorded in 2020, attributed to the recovery of the sector following a tough economic environment caused by the pandemic. Real Estate sector GDP growth came in at 6.7% in 2021, a 2.6% point's increase from 4.1% in 2020. This was attributed to resumption of economic activities that boosted Real Estate transactions. The graph below shows performance of Real Estate sector GDP from 2016 to 2021;



Source: Kenya National Bureau of Statistics

- ii. The Construction sector's contribution to GDP came in at 7.9% in 2021, representing a 0.2% points decline from 8.1% recorded in 2020. Additionally, the sectors GDP growth came in at 6.6% in 2021, a 3.5% points decline from 10.1% recorded in 2020. The growth was supported by increase in cement consumption which rose from 7.4 mn tonnes in 2020 to 9.1 mn tonnes in 2021 following focus on infrastructure activities, key among them being; construction of the Nairobi expressway and rehabilitation of Longonot-Malaba railway line. The graph below shows performance of the Construction sector GDP from 2016 to 2021;

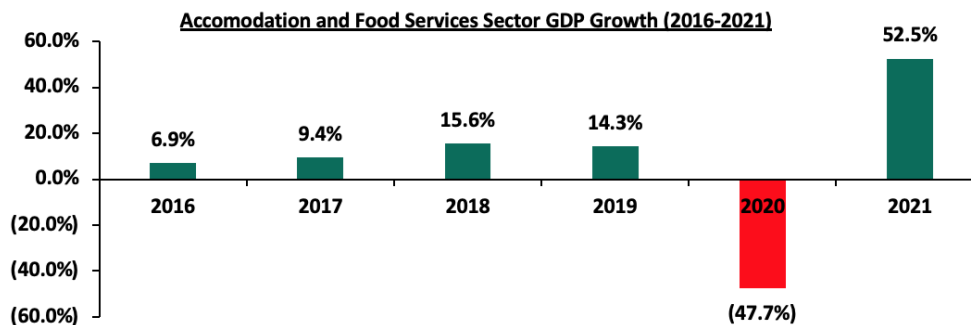
Construction Sector GDP Performance (2016-2021)



Source: Kenya National Bureau of Statistics

iii. Accommodation and Food Services Sector GDP grew by 52.5% in 2021, a 100.2% points increase from 47.7% decline in growth realized in 2020. This was attributed to the significant improvement in the hospitality sector performance 2021 despite the COVID-19 pandemic due to;

- An increase in the number of international visitor arrivals to 692,938 in 2021, representing a 57.7% increase from 439,447 in 2020,
- The relaxation of travel restrictions and the increased COVID-19 vaccination rates,
- An increase in the number of international conferences held increased to 292 in 2021 from 28 in 2020 while local conferences increased to 8,117 in 2021 from 1,176 in 2020,
- Improved number of hotel in operations which came in at 100.0% as at December 2021 from 97.0% at the start of the year in January 2021, and,
- Improved hotel bed occupancies which came in at 54.0% in December 2021 compared to 21.0% occupancy in January 2021 according to the Central Bank of Kenya. The graph below shows GDP growth rates in Accommodation and Food Services sector from 2016 to 2021;



Source: Kenya National Bureau of Statistics

The Real Estate sector in general is expected to continue recording improvements supported by the increase in activities across different themes. Focus on development projects such as affordable housing and infrastructure is expected to enhance performance of the construction sector. We also 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. However, travel bans from key tourism markets is expected to have negative effect on improving number of international arrivals.

II. Retail Sector

During the week Naivas Supermarket, a local retail chain, announced plans to open a new outlet to be located at Safari Center in Naivasha by 13th May 2022. This will mark the fifth outlet to be opened by the retailer in 2022 and it plans to open another store in Meru town. Currently, Naivas operates

83 outlets, having opened 4 outlets so far this year, with the latest being at Kiambu Mall, along Kiambu Road. The decision to open the outlet in Naivasha is supported by;

- i. The need to step up competition and garner market domination against retailers such as QuickMart that has opened 3 outlets this year,
- ii. Presence of a growing middle class population in the area that serves as a market for its products,
- iii. Positive demographics with Naivasha having a population of 355,383 in 2019 according to the Kenya National Bureau of Statistics 2019 Census Report, hence presenting a good market for goods and services, and,
- iv. Improved infrastructure such as Rironi-Nakuru-Mau Summit road which is under expansion and will facilitate accessibility and enhance supply chains.

In terms of performance, according our Kenya Retail Report 2021, Nakuru county, where Naivasha is categorized, recorded an average rental yield of 6.1%, 0.7% lower than the market average of 6.8% in 2021 with an average rent per SQFT of Kshs 59 compared to the market average of Kshs 118. The retailer is therefore leveraging on the affordability of retail space in the area which justifies its location choice. The table below shows the retail performance of the key urban areas in Kenya;

Summary of Retail Performance in Key Urban Areas in Kenya 2021

Region	Rent /SQFT(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 2020

The table below shows a 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 existed as at FY' 2018	Highest number of branches that have existed as at FY' 2019	Highest number of branches that have existed as at FY' 2020	Highest number of branches that have 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	4	0	83	2	85
QuickMart	Local	10	29	37	48	3	0	51	0	51
Carrefour	International	6	7	9	16	0	0	16	0	16
Chandarana	Local	14	19	20	23	1	1	24	4	28
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

Main Local and International Retail Supermarket Chains

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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	7	179	194	6	200

Source: Cytonn Research

We expect the retail sector to record improvement in performance attributed to; i) the rapid expansion drive by local and international retailers, ii) positive demographics evidenced by Kenya's relatively 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 World Bank, and, iii) infrastructural developments opening areas for investments and accessibility. However, factors such as e-commerce driving down the need for retail spaces, and, oversupply of retail space currently at 1.7 mn SQFT in Kenya and 3.0 mn SQFT in NMA, continues to weigh down the overall performance of the sector.

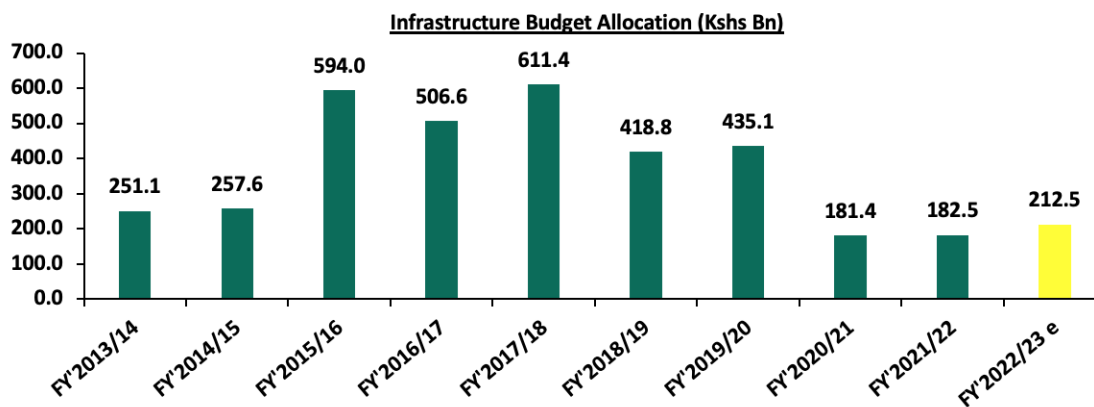
III. Infrastructure

During the week, the Principal Secretary for the Ministry of Transport, Infrastructure, Housing & Urban Development, Mr. Paul Maringa, announced that the government plans to launch the 27.1-km Nairobi Expressway by the end of May. The Kshs 88.0 bn road project kicked off in June 2020 as a Public Private Partnership project between the national government through the Kenya National Highways Authority (KENHA) and the China Road and Bridge Construction Corporation (CRBC) on a Build-Operate-Transfer (BOT) model, and is now complete. Nairobi Expressway will be Kenya's first road to be tolled under a Public-Private Partnership and will comprise of 11 interchanges. The charges will be between Kshs 120 and Kshs 1,800 depending on the size of the vehicle and the distance covered. The highway will:

- i. Open up surrounding areas for investment opportunities,
- ii. Boost property prices in the surrounding environs, and,
- iii. Improve transport services and trade activities.

Other projects expected to be launched by August 2022 include; i) the 17.0 km Nairobi Western Bypass which is 99.0% complete, ii) the Athi River-Mlolongo-Mombasa exit, and, iii) the Kshs 6.5 bn Mombasa-Kwa Jomvu Road, which starts at the junction of Kenyatta Avenue and Digo Road in Mombasa CBD and runs to Makupa area connecting the Makupa Causeway into Changamwe.

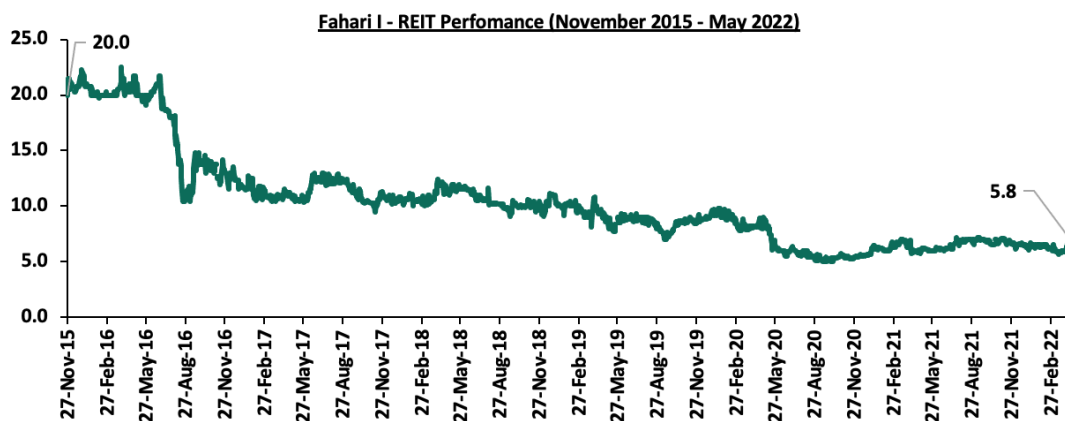
With other major infrastructure projects such as the Standard Gauge Railway, LAPPSET project and Nairobi Commuter Rail Project among others still ongoing, we expect improved activities to be registered in the sector attributed to the Government's aggressiveness to implement and conclude projects despite the effects of the pandemic. Additionally, the government plans to increase budgetary allocation to the infrastructure sector by 16.4% to 212.5 bn in FY'2022/23 from Kshs 182.5 bn in FY'2021/2022 according to the proposed FY'2022/23 Budget Estimates, highlighting that infrastructure remains a priority area for the current government. The graph below shows the budget allocation to the transport sector over last five financial years;



Source: National Treasury of Kenya

IV. Listed Real Estate

In the Nairobi Stock Exchange, the ILAM Fahari I-REIT closed the week trading at an average price of Kshs 5.8 per share, representing a 3.3% Week-to-Date (WTD) decline from Kshs 6.0 per share. On a Year-to-Date (YTD) and Inception-to-Date (ITD) basis, the REIT's performance continues to be weighed down having realized a 9.4% and 71.0% decline, respectively, from Kshs 6.4 and Kshs 20.0 per share. The graph below shows Fahari I-REIT's performance from November 2015 to May 2022:



The Real Estate sector in 2022 is expected to be on an upward trajectory evidenced by increased activities in the construction and hospitality sectors and expansion by local and international retailers taking up space left by troubled retailers. However, the low investor appetite for Real Estate Investments Trusts (REITs), continues to be a challenge affecting Real Estate investments.