Currency Outlook, & Cytonn Weekly #19/2022

Real Estate

I. **Industry Report**

During the week, Hass Consult, a Real Estate Development and Consulting firm, released their House Price Index Q1'2022, a report highlighting the performance of Nairobi Metropolitan Area's (NMA) Real Estate residential sector. The following were the key take outs;

i. The average q/q selling prices for houses increased by 2.8% in Q1'2022 compared to a 3.0% increase in FY'2021, while on a y/y basis, the average selling prices appreciated by 6.8% compared to a (0.7%) price correction that was recorded in Q1'2021. The increase in performance was mainly driven by an increase in the selling prices for detached units which came in at 4.3% q/q and 11.8% y/y,
ii. In the Nairobi Suburbs, Spring Valley was the best performing node having recorded a capital appreciation of 4.2% q/q, due to the presence of adequate infrastructure coupled with its serene environment driving demand for housing units. On the other hand, apartments in Kileleshwa recorded the highest price correction of 3.9%, following reduced uptake as clients preferred renting of apartments in the area rather than buying,
iii. In the satellite towns, houses in Ngong recorded the highest q/q price appreciation at 6.0% driven by increased demand resulting from a growing middle income population in the area. Apartments in Athi River realized the highest price correction of 3.0% resulting from tenants preference to renting of the units rather than buying,
iv. The overall asking rents in the NMA slightly increased by 1.0% q/q and 2.4% y/y, compared to a 0.2% q/q and 2.7% y/y growth recorded at the end of 2021, as a result of a gradual increase in the overall demand for units and rents. Apartments recorded the highest increase in asking rents of 2.2% q/q compared to detached units at 0.7% q/q, as majority of tenants prefer renting of apartments due to affordability,
v. In the Nairobi suburbs, houses in both Muthaiga and Loresho realized the highest q/q rent appreciations of 2.1%. This was attributed to the presence of adequate infrastructure and amenities enhancing investments, coupled with Muthaiga's close proximity to Nairobi's Central Business District thus being attractive to tenants. On the other hand, houses in Westlands realized the highest rental rates decline by 2.7% as a result of declined demand for rental units, and,
vi. For the satellite towns, houses in Athi River realized the highest rental rate increase by 7.2% during the quarter due to increased demand resulting driven by increasing infrastructure developments such as the Nairobi Expressway promoting investments. Conversely, houses Kiambu town recorded the highest rental rates declines of 3.1% resulting from competition from apartments which were more preferred by tenants (who majority are the young generation), due to affordability.

The findings of the report are in line with our Cytonn Q1'2022 Markets Review, which highlighted that the average y/y price appreciation and rental yield for houses in the NMA increased by 0.4% and

0.1% points, to 0.9% and 4.8% in Q1'2022, respectively, from the 0.5% and 4.7% that was recorded in Q1'2021, respectively. The improvement in performance was as a result of improved rates amidst an improved economic environment.

Hass Consult also released the Land Price Index Q1'2022, a report highlighting the performance of Real Estate land sector in the Nairobi Metropolitan Area (NMA). The following were the key take outs from the report;

i. The average q/q and y/y selling prices for land in the Nairobi suburbs appreciated by 0.1% and 1.1%, respectively, whereas the average q/q and y/y selling prices for land in the satellite towns of Nairobi increased by 2.2% and 7.4%, respectively,
ii. Muthaiga was the best performing node in the Nairobi suburbs with a q/q and y/y price appreciation of 3.1% and 6.5%, respectively, attributed to increased demand for land in the area that resulted from; close proximity to Nairobi CBD, adequate infrastructure such as the Thika Superhighway, serene environment as it is also surrounded by areas such as Ridgeways and Parklands, and, availability of amenities such as Muthaiga Shopping Mall. On the other hand, Upperhill recorded the highest price correction of 1.5% due to a declined demand resulting from land in the area being expensive, as an acre in Upper hill is currently averaging at Kshs 483.1 mn, 17.8% higher than the NMA commercial zones market average of Kshs 410.1 mn per acre, and,
iii. For satellite towns, Juja was the best performing node with a q/q and y/y capital appreciation of 4.6% and 17.0%, respectively, attributed to increased demand for development land particularly for student housing facilities as the area is largely inhabited by students from institutions such as the Jomo Kenyatta University of Agriculture and Technology. On the other hand, Limuru was the worst performing node with a price correction of 6.1% driven by low demand for land in the area, given that it is relatively far from Nairobi.

The findings of the report are also in line with our Cytonn Q1'2022 Markets Review, which highlighted that the average selling prices for land in the NMA appreciated by 2.4%. This was mainly attributed to; i) positive demographics driving demand for land, ii) improved development of infrastructure such as roads, railways, water and sewer lines, iii) proximity to amenities such as shopping malls, and, iv) increased construction activities particularly in the residential sector thus fueling demand for land.

Overall, we expect the Kenyan Real Estate sector to continue realizing improvements in its performance driven by; i) increased housing construction activities aimed at fulfilling the demand for housing, as Kenya's housing deficit currently stands at 2.0 mn units and growing by 200,000 units p.a, and, ii) infrastructure development boosting property prices. However, challenges such as financial constraints, and, inadequate infrastructure in some parts of the country, continues to weigh down the performance of the sector.

ii. Commercial Office Sector

During the week, CCI Group, an international contact centre operator in Africa, announced plans to develop a purpose-built state of the art office facility in Ruiru's Tatu City. The five-story facility which will be developed by Gateway Real Estate Africa (GREA), a private development company specializing in turnkey construction, is expected to be completed by December 2023, and will consist of training facilities and a career centre. This comes barely five months after CCI in collaboration with Max International Company took up approximately 60.0% of the 270,000 SQFT space at Garden City Business Park, signifying CCI's expansion appetite in the Kenyan Real Estate market. CCI's choice to maintain Thika Road as its location of establishment is mainly driven by the ecosystem in Tatu City which incorporates the live, work and play aspects, thus ideal for CCI operations, as the firm is also aiming at increasing its capacity to over 4,000 employees. Moreover, the investment decision is also driven by factors such as; adequate road network in the area which is serviced by roads like Thika Superhighway and Eastern Bypass, and, the presence of adequate amenities such as

Malls.

In terms of performance, our Cytonn Q1'2022 Markets Review highlights that the Nairobi Metropolitan Area commercial office sector retained its average rental yields and asking rents at 7.3% and Kshs 94 per SQFT, respectively, in Q1'2022. The overall occupancy rates increased by 0.3% points to 77.9% in the period of focus due to an increased demand for office spaces, as various firms resume full operations at the beginning of the year as well. The table below highlights the performance of the Nairobi Metropolitan Area (NMA) Commercial Office sector over time:

(All values in Kshs unless stated otherwise)

Nairobi Metropolitan Area (NMA) Commercial Office Returns Over Time

Year	Q1'2021	H1'2021	Q3'2021	FY'2021	Q1'2022	∆ FY'2021/ Q1'2022
Occupancy %	76.3%	75.8%	79.9%	77.6%	**77.9%**	**0.3%**
Asking Rents (Kshs) /SQFT	92	93	94	94	**94**	**0.0%**
Average Prices (Kshs) /SQFT	12,228	12,224	12,479	12,106	**12,113**	**0.2%**
Average Rental Yields (%)	6.8%	6.9%	7.2%	7.3%	**7.3%**	**0.0%**

Source: Cytonn Research 2022

We expect the sector's performance to continue recording gradual expansion activities and overall performance. However, the existing oversupply of office spaces in the Nairobi Metropolitan Area at 6.7 mn SQFT continues to weigh down the overall performance of the sector.

III. Retail Sector

During the week, ChicKing, an international fast food chain, in partnership with M/s Crispy Limited, a local franchise, announced plans to open 30 new outlets in Kenya, over the next five years. The Dubai-based restaurant chain that specializes in fried chicken, is expected to begin its expansion plans by opening two new outlets in Mombasa County, in June 2022. This will mark its official entry into the Kenyan Real Estate retail market, in addition to having plans to open two more outlets in Nairobi County by the end of the year. Currently, ChicKing operates 230 outlets across 27 countries globally including; Ireland, Indonesia, India, Hungary, the Maldives, Egypt, Oman, Saudi Arabia, and, United Kingdom, among others. The move to open the 30 new stores in Kenya is driven by:

i. Recognition of Nairobi as a regional hub thus in turn attracting foreign investments in the country,
ii. Positive demographics evidenced by Kenya's high urbanization and growth rates currently at 4.0% and 2.3%, respectively, compared to the world's 1.8% and 1.0%, respectively, according to the World Bank,
iii. Rapid economic growth, evidenced by Kenya's GDP growth of by 7.5% in 2021, according to the Economic Survey 2022 by the Kenya Bureau of Statistics, compared to Sub-Saharan African region growth of 4.0% in 2021 and,
iv. Need to step up resulting from increased competition from global fast food chains in Kenya such as Subway, Kentucky Fried Chicken (KFC), Burger King, and, Eat'N'Go, among other international players. Eat'N'Go Limited recently opened a new outlet in Westlands Square, Nairobi, bringing its total operating outlets in Nairobi to 9 and plan to open a total 100 new stores in Kenya.

In terms of performance, according to our Kenya Retail Report 2021, the Kenyan retail sector recorded 0.1% points increase in the average rental yield to 6.8%, from 6.7% in 2020. Average occupancy rates and rental rates also realized an increase of 1.8% points and 2.2%, respectively, to 78.4% and Kshs 118 per SQFT in 2021 from 76.6% and Kshs 115 per SQFT in 2020, respectively. This was mainly driven by an improved business environment, coupled with retailers' aggressive expansion drive. The gradual improvement in the performance of the sector also affirms ChicKing's decision to invest in Kenya. The performance of the key urban centers in Kenya is as summarized below:

Summary of Retail Performance in Key Urban Cities in Kenya 2021

Region	Rent (Kshs) 2021	Occupancy Rate 2021	Rental yield 2021	Rent (Kshs) 2020	Occupancy Rate 2020	Rental yield 2020
Mount Kenya	128	81.7%	**7.9%**	125	78.0%	**7.7%**
Nairobi	168	75.8%	**7.5%**	169	74.5%	**7.5%**
Mombasa	119	77.6%	**6.8%**	114	76.3%	**6.6%**
Kisumu	101	74.6%	**6.4%**	97	74.0%	**6.3%**
Eldoret	131	80.8%	**6.3%**	130	80.2%	**5.9%**
Nakuru	59	80.0%	**6.1%**	58	76.6%	**5.9%**
Average	**118**	**78.4%**	**6.8%**	**115**	**76.6%**	**6.7%**

Source: Cytonn Research

Retail sector performance in Kenya continues to be shaped by the aggressive expansion by both local and international retailers. We therefore expect the trend to continue being witnessed in the sector as a result of; i) positive demographics, ii) infrastructure developments driving investments in various parts of the country, iii) rapid foreign investments resulting from Kenya's recognition as a regional hub globally, and, iv) favorable business environment as Kenya also currently ranks position 56 worldwide in terms of ease of doing business according to World Bank. Conversely, there exists challenges that hinder the optimum performance of the sector such as e-commerce, and, the current oversupply of retail spaces in Kenya at 1.7 mn SQFT, and NMA at 3.0 mn SQFT.

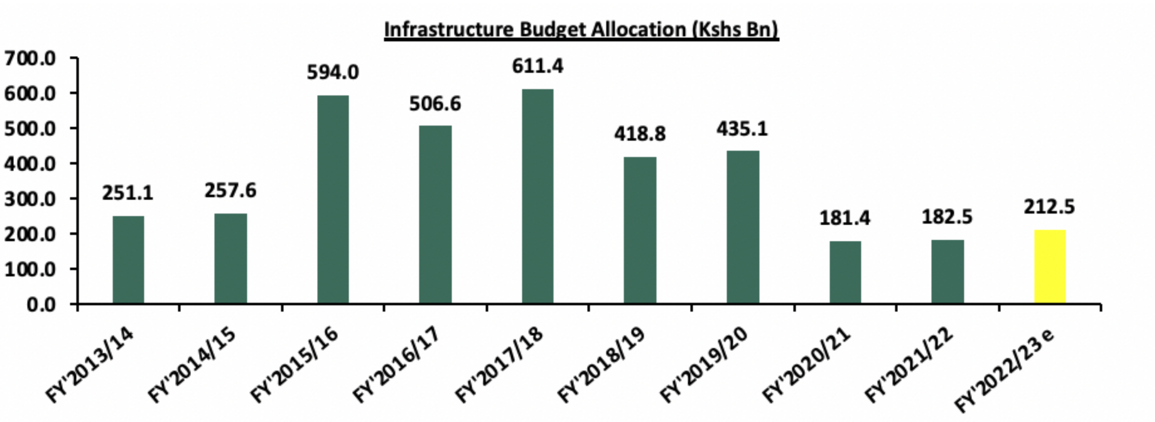
IV. Hospitality Sector

During the week, Radisson Blu, an international hotel chain, resumed its operations in Nairobi's Upperhill, after having been shut down for 16 months. As per our Cytonn Weekly #12/2022, the global five-star hotel consisting of 271 rooms was shut down in December 2020 amidst the presence of the pandemic, which led to reduced bookings and an overall decline in the performance of the hotel. This therefore makes Radisson Blu the second five-star hotel to resume operations in the country, after Norfolk hotel which reopened in April 2022. Kenya's hospitality sector continues to realize improvement in performance as a result of the ease of pandemic restrictions, and also after having been one of the worst hit economic sectors in the country by the pandemic. We therefore expect a similar trend to continue being witnessed in the sector attributed to various factors such as: i) increased tourism arrivals and activities, ii) roll out of COVID-19 vaccine thereby boosting confidence in the sector, and, iii) aggressive marketing of the tourism sector through the Magical Kenya Platform, and, Kenya Tourism Board platforms.

V. Infrastructure Sector

During the week, China Road and Bridge Corporation (CRBC) was awarded a Kshs 9.0 bn tender to rehabilitate the lower section of the 27.1 Km Nairobi Expressway. CRBC was also the contractor for construction of the recently completed Nairobi Expressway under a Public Private Partnership model with Kenyan National government. Currently, the construction of the lower section of the road linking Mlolongo to Westlands, and whose financing will be done by Kenyan government, has already commenced. Upon its completion it will further boost seamless transport services, enhance the beauty of the double deck road, and, promote Real Estate investments by boosting of property prices.

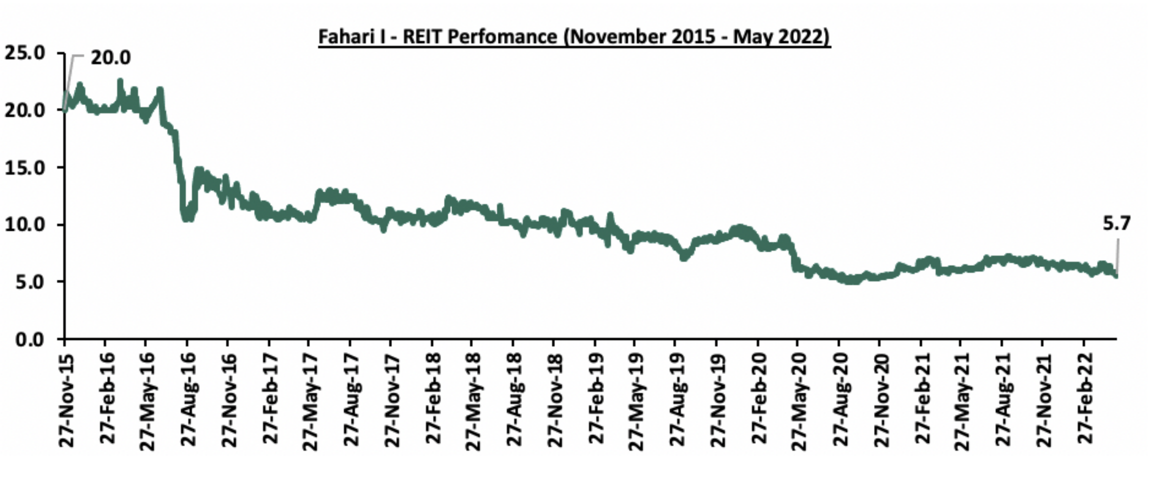
Kenya's infrastructure sector continues to witness rapid developments aimed at improving the economy's performance. This is evidenced by the numerous ongoing and completed projects in the country resulting from government's continued focus on the same. We therefore expect a similar trend in the sector with some of the projects in pipeline being: Nairobi Commuter Rail project, the Nairobi Western Bypass, Athi River-Mlolongo-Mombasa exit, and, the Eastern Bypass project, among many others. 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

VI. Real Estate Investment Trusts (REITS)

In the Nairobi Stock Exchange, ILAM Fahari I-Reit closed the week trading at an average price of Kshs 5.7 per share. This represented a 1.8% and 10.9% Week-to-Date (WTD) and Year-to-Date (YTD) decline respectively, from Kshs 5.8 per share and Kshs 6.4 per share, respectively. Also, on Inception-to-Date (ITD) basis, the REIT's performance continues to be weighed down having realized a 71.5% decline from Kshs 20.0. The graph below shows Fahari I-REIT's performance from November 2015 to 13th May 2022:



We expect Kenya's property market to be on an upward trajectory driven by increased

construction activities in the housing sector, increased expansion and development activities in the commercial office sector, aggressive expansion in the retail sector, improvement in the performance of the hospitality sector, rapid infrastructure developments, and, increasing demand for development land. However, setbacks such as financial constraints, and, investor's minimal appetite for the REIT instrument is expected to continue weighing down the overall performance of the property sector.
