Public-Private Partnerships (PPPs) in Kenya, & Cytonn Weekly #20/2022

Real Estate

1. **Industry Reports**

a. **Prime Global Cities Index Q1'2022, by Knight Frank**

During the week, Knight Frank, an international property consulting and management company, released the Prime Global Cities Index - Q1'2022, a report highlighting the performance of prime residential cities across the globe based on capital appreciation. The following were the key take-outs from the report:

i. The average selling prices for houses in the sampled prime cities globally recorded a capital appreciation of 2.2% q/q and 9.4% y/y. This was attributed to a high demand for decent houses across the globe, resulting from increasing population and urbanization growth rates, infrastructure developments which are mostly concentrated in the urban areas, and, adequate amenities enhancing investments,

ii. Dubai recorded the highest YoY capital appreciation at 58.9% with a q/q appreciation of 6.8% driven by; i) its world class infrastructure developments driving major investments in the city, such as Dubai Highway and Dubai Water Canal, among many others, and, ii) its recognition as a financial hub globally thus attracting high end investments,

iii. On the other hand, Jakarta ranked last from the sampled prime cities with a YoY price correction of 4.7% and no price q/q change, attributed to declining demand for housing units in the city, that results from challenges such as floods and congestion, and,

iv. Nairobi city ranked position 32 out of the sampled 45 cities globally, in addition to also being the only ranked African city, with a capital appreciation of 1.3% q/q and 3.5% YoY. The increase in performance driven by increased demand for housing resulting from: a growing middle income class, recognition of Nairobi as a regional hub thus promoting investments, and, a high urbanization growth rate in Kenya currently at 4.0% compared to the world's 1.8% according to the World Bank. The table below shows the house selling price performance for various prime cities in the world as at Q1'2022:

Capital Appreciations For Prime Cities in the World Q1'2022

#	City	Q/Q Change (Q4'2021-Q1'2022)	YoY Change (Q1'2021-Q1'2022)	#	City	Q/Q Change (Q4'2021-Q1'2022)	YoY Change (Q1'2021-Q1'2022)	#	City	Q/Q Change (Q4'2021-Q1'2022)	YoY Change (Q1'2021-Q1'2022)
1	Dubai	6.8%	58.9%	16	Monaco	0.0%	10.0%	31	Lisbon	2.2%	3.8%
2	Miami	6.9%	33.1%	17	Berlin	4.0%	9.4%	32	Nairobi	1.3%	3.5%
3	Toronto	6.7%	24.0%	18	Edinburgh	2.5%	8.9%	33	Singapore	(0.5%)	2.6%
4	San Fransisco	6.5%	23.4%	19	Vancouver	3.4%	8.8%	34	Bucharest	1.4%	2.3%
4	Los Angeles	6.0%	22.8%	20	Paris	2.6%	8.7%	35	London	0.9%	2.1%
6	Seoul	1.7%	20.2%	21	Shanghai	1.0%	8.5%	36	Frankfurt	(2.0%)	1.6%
7	Gold Coast	3.1%	19.3%	22	Dublin	2.9%	8.3%	37	Bengaluru	0.5%	1.4%
8	Auckland	3.1%	17.6%	23	Zurich	2.2%	8.2%	38	Mumbai	1.0%	1.4%
9	Sydney	1.8%	15.0%	24	Hong Kong	(0.4%)	8.0%	39	Delhi	0.2%	0.2%

Capital Appreciations For Prime Cities in the World Q1'2022

#	City	Q/Q Change (Q4'2021-Q1'2022)	YoY Change (Q1'2021-Q1'2022)	#	City	Q/Q Change (Q4'2021-Q1'2022)	YoY Change (Q1'2021-Q1'2022)	#	City	Q/Q Change (Q4'2021-Q1'2022)	YoY Change (Q1'2021-Q1'2022)
10	Tokyo	8.4%	15.4%	**25**	Geneva	1.2%	7.4%	**40**	Kuala Lumpur	0.6%	(0.7%)
11	Stockholm	7.0%	13.2%	**26**	Beijing	2.8%	7.3%	**41**	Manila	0.0%	(1.5%)
12	Brisbane	1.8%	11.3%	**27**	New York	0.9%	5.6%	**42**	Shenzen	(0.1%)	(2.3%)
13	Perth	7.0%	11.0%	**28**	Wellington	(2.8%)	5.2%	**43**	Bangkok	0.9%	(2.7%)
14	Melbourne	2.1%	10.9%	**29**	Madrid	1.9%	4.2%	**44**	Guangzhou	(3.0%)	(4.0%)
15	Taipei	1.6%	10.1%	**30**	Vienna	0.7%	4.0%	**45**	Jakarta	0.0%	(4.7%)
Average Change										**2.2%**	**9.4%**

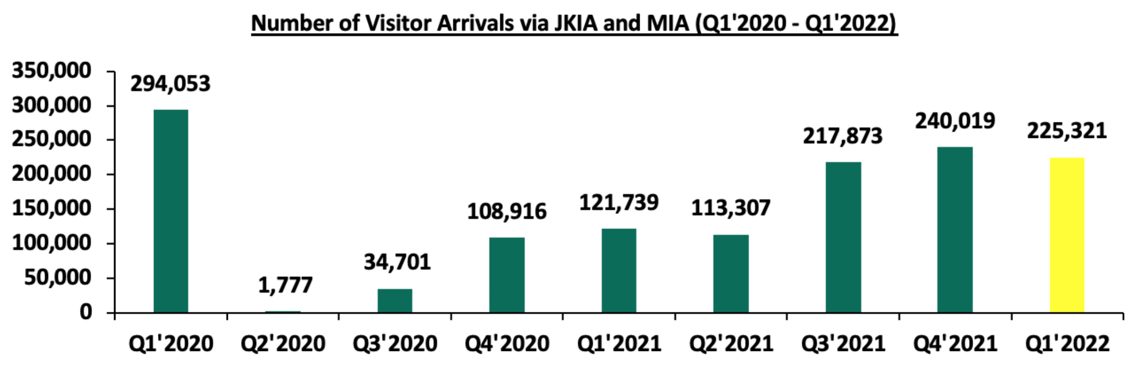
Source: Knight Frank Research 2022

Based on the above, Nairobi City positions itself as a viable area for Real Estate investments having been the only ranked African city globally. As such, we expect more properties in the city to record capital appreciations, which trickles down to the overall performance of the residential sector coupled with increased investor appetite in the sector.

b. **Leading Economic Indicators March 2022, by the Kenya National Bureau of Statistics (KNBS)**

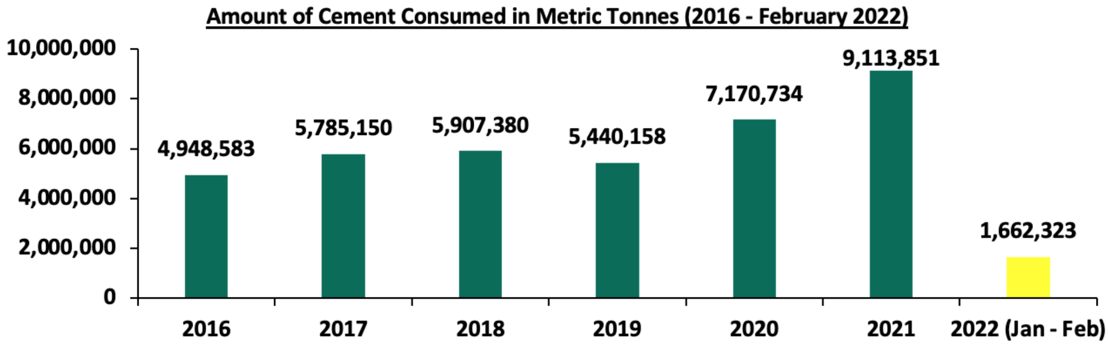
During the week, the Kenya National Bureau of Statistics (KNBS) released the Leading Economic Indicators March 2022, a report highlighting the performance of key economic indicators in Kenya. The key highlights related to the Real Estate sector include:

i. The overall number of tourist arrivals into Kenya via the Jomo Kenyatta International Airport (JKIA) and Moi International Airport (MIA) came in at 225,321 in Q1'2022. This is a 6.1% decline in the arrivals from the 240,019 visitors recorded in Q4'2021. The decline in the number of arrivals is due to the reduced tourism and leisure activities in the hospitality sector, as visitors embarked to their work and studies after the festive season. However, on a YoY basis, the performance was an 85.1% increase from the 121,739 visitors recorded in Q1'2021. The performance was due to the lowered travel restrictions, and, lifting of flight bans from major Kenya tourism markets such as the United Kingdom and the United States of America, which in turn led to increased visitor arrivals into the country. The graph below shows the number of international arrivals in Kenya between Q1'2020 and Q1'2022:



Source: Kenya National Bureau of Statistics

ii. Cement consumption increased by 34.9% to 817,726 metric tonnes in February 2022, from the 606,547 metric tonnes that was recorded in February 2021. This was because of increased construction activities particularly in the residential and infrastructure sectors, with some of the construction projects being berth one of the LAPSET corridor, the Nairobi-Western Bypass project, Nairobi Expressway, and, the Pangani Affordable Housing project, among others. However, on a MoM basis, the amount of cement consumption declined by 3.2% from the 844,597 metric tonnes that was recorded in January 2022 because of the winding up of some of the major construction projects in the pipeline such the Nairobi expressway, coupled with an overall increase in the construction costs. The graph below shows the volumes of cement consumption in Nairobi between 2016 and Jan – Feb 2022:



Source: Kenya National Bureau of Statistics

Kenyan property market continues to record significant development activities, which continues to drive the overall performance of the Real Estate sector. The performance of the sector continues to be driven by factors such as increased demand for housing which necessitates more housing construction projects, increased tourism arrivals into the country, and, continued focus on infrastructural developments.

II. **Commercial Office Sector**

Housing Finance Group (HFG), a Kenyan financial institution, announced plans to sell its head office, Rehani House, located in Nairobi's Central Business District by the end of 2022. The 13-storey building will be sold at an undisclosed amount, following the financier's need to acquire additional capital to repay its loan obligations. In its Q1'2022 Financial Results, HF Group had total loan obligations worth Kshs 5.0 bn. Moreover, HF Group aims at restructuring its business in order to comply with the regulatory requirement on fixed asset investments that should not exceed 20.0% of core capital. As at FY'2021, Housing Finance Group's investments in land and buildings as a percentage of core capital came in at 52.0%, which is 32.0% points above the regulatory requirement.

Upon the sale of the building, the financial institution will therefore shift to become a rent payer in the same building, after having been the owner for 44 years. HF Group is expected to benefit from the affordable rental rates in Nairobi CBD compared to other regions within the Nairobi Metropolitan Area. As per our Cytonn Q1'2022 Markets Review, Nairobi CBD recorded rental rates of Kshs 82 per SQFT, 12.8% lower than the market average of Kshs 94 per SQFT in the period under review. The table below shows summary of Nairobi Metropolitan Area commercial office sub market performance;

All Values in Kshs Unless Stated Otherwise

Nairobi Metropolitan Area Commercial Office Submarket Performance Q1'2022

Area	Price (Kshs) /SQFT Q1'2022	Rent Kshs/ SQFT Q1'2022	Occupancy (%) Q1'2022	Rental Yield (%) Q1'2022
Gigiri	13,500	118	83.3%	**8.8%**
Westlands	11,846	105	74.5%	**8.1%**
Karen	13,325	107	82.8%	**7.8%**
Parklands	11,562	91	82.8%	**7.7%**
Kilimani	12,440	91	80.2%	**7.1%**
Upperhill	12,409	94	76.1%	**6.9%**
Nairobi CBD	11,863	82	83.8%	**6.9%**
Thika Road	12,571	78	77.6%	**5.7%**

Nairobi Metropolitan Area Commercial Office Submarket Performance Q1'2022

Area	Price (Kshs) /SQFT Q1'2022	Rent Kshs/ SQFT Q1'2022	Occupancy (%) Q1'2022	Rental Yield (%) Q1'2022
Mombasa Road	11,250	73	64.6%	**5.1%**
Average	**12,113**	**94**	**77.9%**	**7.3%**

Source; Cytonn Research

III. **Retail Sector**

a. **Naivas Supermarket Opens a New Outlet in Naivasha**

During the week, Naivas Supermarket opened a new outlet in Naivasha's Safari Centre, along the Nairobi – Nakuru Highway. This brings the retailer's operating outlets to 84, and the fifth to be opened so far in 2022 in various counties such as Kiambu, Machakos, and, Nairobi. Naivas continues to outperform other retailers in its expansion drive to maintain market dominance, when compared its peers such as QuickMart and Chandarana Supermarkets that currently have 51 and 24 branches, respectively. In light of this, the retailer also plans to open another outlet in Meru town this year. The opening of the new outlet in Naivasha is driven by:

i. availability of prime retail space,
ii. strategic location of the retail center along the busy Nairobi Nakuru Highway which promotes quick access to the retail store, and,
iii. Nakuru's high population growth rate at 3.2% compared to Kenya's 2.3%, which in turn promotes rapid demand for goods and services.

In terms of performance, according to our Kenya Retail Report 2021, Nakuru County where Naivasha lies recorded average rental rates of Kshs 59 per SQFT, 39.9% lower than Kenya's market average of Kshs 118 per SQFT, a sign of affordability being the retailer's basis of investments. This is also coupled with high occupancy rates at 80.0%, 2.4% points higher than the market average of 78.4%, signaling more uptake of retail spaces in the area and an indication of high footfall in retail centers. 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
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 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	5	0	84	1	85
QuickMart	Local	10	29	37	48	3	0	51	0	51
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**	**9**	**179**	**195**	**5**	**200**

Source: Cytonn Research

b. **Optica Opens a New Outlet in Kitengela and Kilimani**

During the week, Optica Limited, a local eye-wear retailer, opened two new outlets at Rubis Business Block in Kitengela, and in Argwing's Arcade in Kilimani. This brings the retailer's total number of operating outlets countrywide to 62, after having opened a new outlet in Ruiru's Kamakis, in January 2022. The opening of the two new outlets was driven by:

i. its expansion strategy to further reach out its product and services to target clients,
ii. suitable locations of the outlets, along the busy Nairobi-Namanga Highway, and Argwings Kodhek Road, thus promoting accessibility to the store, and,
iii. increasing demand for prescription sunglasses which also offer protection from UV rays.

In terms of performance, according to the Cytonn Q1'2022 Markets Review, satellite towns where Kitengela lies recorded average rental rates per SQFT of Kshs 145, 14.7% lower than the market average of Kshs 170 per SQFT. The retailer is therefore leveraging on the affordability of retail spaces in Kitengela as basis of investments. For Nairobi, the retailer is leveraging on Kilimani's remarkable performance with an average investor return of 9.9% against a market average of 7.9%, as its basis for investments, and the existence of a high footfall to retail centers in the area. The table below shows the submarket performance of nodes in the Nairobi Metropolitan Area (NMA):

Nairobi Metropolitan Area Retail Market Performance Q1'2022

Area	Rent Kshs/ SQFT Q1'2022	Occupancy (%) Q1'2022	Rental Yield (%) Q1'2022
Karen	200	85.0%	**10.0%**
Kilimani	183	86.8%	**9.9%**
Westlands	214	72.9%	**9.5%**
Ngong Road	164	81.0%	**8.3%**
Kiambu road	179	77.6%	**8.1%**
Mombasa road	146	78.6%	**7.0%**

Nairobi Metropolitan Area Retail Market Performance Q1'2022

Area	Rent Kshs/ SQFT Q1'2022	Occupancy (%) Q1'2022	Rental Yield (%) Q1'2022
Thika Road	156	74.2%	**6.6%**
Satellite towns	145	70.8%	**6.2%**
Eastlands	131	73.0%	**5.8%**
Average	**170**	**77.2%**	**7.9%**

Source: Cytonn Research 2022

Kenya's retail sector continues to record rapid expansion and developments by both local and international retailers such as Naivas, QuickMart, Eat N' Go Limited, Optica Limited, and, ChicKing Limited. We expect a similar trend to continue driving performance of the sector, with some of the supporting factors being:

i. Kenya's recognition as a regional hub thus enhancing foreign investments. In light of this, ChicKing, an international fast food chain, announced plans to open 30 new outlets in Kenya, over the next five years. Also, Eat'N'Go Limited recently opened a new outlet in Westlands Square, Nairobi, and plans to open a total 100 new stores in Kenya,
ii. Favorable business environment as Kenya also currently ranks position 56 worldwide in terms of ease of doing business according to World Bank,
iii. Positive Demographics driving demand for goods and services. According to the World Bank, Kenya's urbanization and growth rates currently stand at 4.0% and 2.3%, respectively, which is high compared to the world's 1.8% and 1.0%, respectively, and,
iv. Infrastructure developments opening up areas for investments such as roads and water systems.

Despite the above driving factors, the current oversupply of retail spaces at 3.0 mn SQFT in the Nairobi Metropolitan Area, and, 1.7 mn SQFT in the Kenyan retail market, continues to weigh the optimum performance of the sector.

IV. **Hospitality Sector**

a. **PrideInn Hotels Opens a New Hotel dubbed PrideInn Mara Camp in Narok County**

During the week, PrideInn Hotels and Resorts, a local hospitality Group, opened a new hotel at the Maasai Mara dubbed PrideInn Mara Camp, in Narok County. The luxury Camp which sits on a 25-acre piece of land along River Talek banks consists of 31 cottages worth 1,000 SQFT each, a 70-seater deck restaurant, a 700-hotel room capacity, and, 15 safari tents. This comes after the hotel group signed a management contract with Azure Hotels and Resorts in 2020 to merge operations, thereby bringing its current branches to 7 branches countrywide, with the other recent opening being the Westlands PrideInn that was also rebranded from Azure Hotel. The opening of the hotel is part of PrideInn's plans to increase its footprint to all 47 counties in the country in the next 10 years, and has so far identified 10 undisclosed counties that they aim to invest in. PrideInn's decision to open the new branch is mainly driven by:

i. The strategic location of the hotel in a tourism hotspot area i.e near the Maasai Mara National Park,
ii. Availability of prime property for uptake, and,
iii. Presence of adequate infrastructure promoting investments, accessibility, and, tourism activities such as the Maasai Mara Airstrip.

b. **Hilton Hotel Announces Plans to Open a New Branch dubbed *Kwetu* Nairobi, in Westlands**

In addition, during the week, Hilton Hotel, an international hotel chain, announced plans to open a new branch in Westlands dubbed *Kwetu* Nairobi, at the junction of Peponi and Kitisuru Roads. The 100-room hotel capacity will therefore bring Hilton's operating branches in Kenya to three, with the other two being Hilton Nairobi Hurling ham, and, Hilton Garden Inn Nairobi. This will therefore affirm Hilton's stay in the Kenyan hospitality sector after having announced plans to shut down its icon Nairobi Central Business District (CBD) branch indefinitely as from 31st December 2022, in April 2022. The decision to invest in Westlands is driven by:

i. Close proximity to the Nairobi CBD,
ii. Westlands popularity as a commercial zone thus suitable for hospitality activities such as conferences and meetings,
iii. Adequate infrastructure and amenities such as the Nairobi Expressway, Westgate Mall, and Kitisuru Road,
iv. Presence of numerous international embassies and organizations that are key markets for the hospitality sector, with others being the German Embassy, Netherlands Embassy, Eastern Africa Farmers Federation, and, HD Centre for Humanitarian Dialogue, and,
v. Direct accessibility to and from Kenya's main international airport, the Jomo Kenyatta International Airport (JKIA), via the Nairobi Expressway.

Kenya's hospitality sector continues to show resilience in its performance, development, and expansion activities. This has mainly boosted by the increased international tourism arrivals into the country, conferences, leisure, and, sport activities, following the reopening of the country in 2021. In turn, the overall number of operating hotels and hotel bed occupancies in Kenya has also been increasing. In May 2022 Radisson Blu, an international hotel chain, resumed its operations in Nairobi's Upperhill, after having been shut down for 16 months, and therefore becoming the second five-star hotel to resume operations in the country, after Norfolk hotel which reopened in April 2022. Additionally, Central Bank of Kenya's Monetary Policy Committee Hotels Survey March 2022, highlights that the overall number of operating hotels in Kenya stood at 100.0% in March 2022, whereas the overall bed occupancy rates increased to 57.0% in March 2022, from the 21.0% that was recorded in January 2021. This is a sign of the hospitality sector recovery, and, the resumption of activities after having been one of the worst hit economic sectors, with the onset of the pandemic.

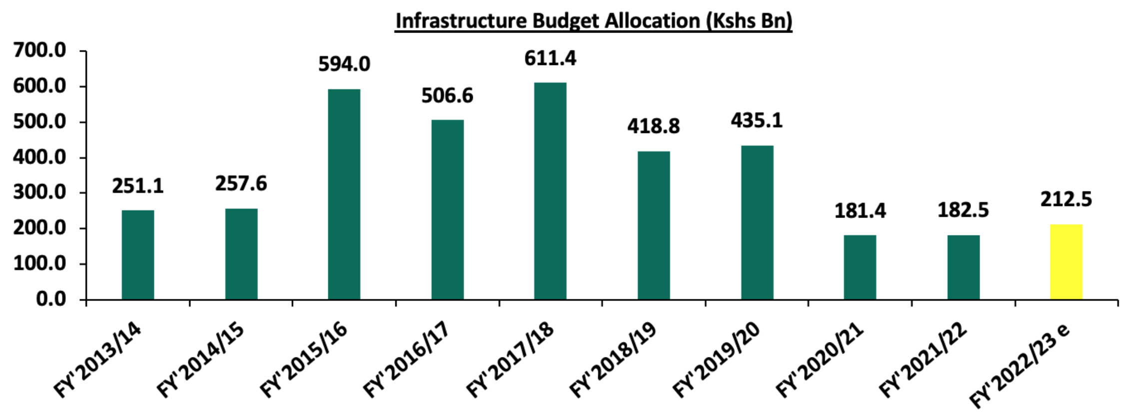
We expect the hospitality sector's performance to continue being resilient, fueled by factors such as aggressive marketing of the tourism sector, conferences and events boosting hotel and service apartments' occupancies, and, the safari rally expected to be hosted in Kenya annually until 2026.

V. **Infrastructure Sector**

In the cabinet meeting that was held on 12 May 2022, President Uhuru Kenyatta approved Laikipia County Government's request to float the 7 – year Infrastructure Bond worth Kshs 1.2 bn, at the Nairobi Stock Exchange. The infrastructure bond, which does not have a green shoe option and capped at a 12.0% interest rate per annum, will be used to finance 16 infrastructure projects including water supply for agricultural production, sewerage system establishments, street lighting, upgrade of markets, and, walkways infrastructure rehabilitation, among other projects. Some of the towns targeted for development in the subject County include Nyahururu, Nanyuki, Kinamba, Ol Jabet, Wiyumiririe, Doldol, Karuga, Naibor, Kalalu, Mouwarak and, Pesi towns. We expect to see a high subscription of the infrastructure bond given the increased investor appetite for bonds in the market, since they are also tax-free. This also comes at a time when financial constraints continue to be the major challenge incurred while undertaking infrastructural developments thus government sourcing for other financing options such as issuing of bonds. Therefore, with the approval and success of the infrastructure bond, we also expect the aforementioned projects to be fast tracked, and in turn boost the overall performance of the Laikipia economy, as well as the Real Estate sector in the area.

In addition, during the week, Transport Principal Secretary Joseph Njoroge announced that the construction of the Nairobi City Railway Project worth Kshs 27.9 bn would commence by August 2022. The infrastructure project, which is part of the wider Nairobi Railway City redevelopment program, will be jointly developed with the Kenyan and United Kingdom governments, after having signed a partnership deal during the Africa Investment Summit that was held in 2020. The railway project will cover 425 acres of the central Nairobi; have 8 railway lines and additional four lines for freight services, upon its completion by December 2024. Once completed, the project is expected to; i) spur economic growth in Nairobi County, ii) minimize transport congestion while also promoting accessibility to various areas, and, iii) boost property investments in Nairobi.

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 expect a similar trend in the sector with other 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 ten financial years;



Source: National Treasury of Kenya

VI. **Industrial Sector**

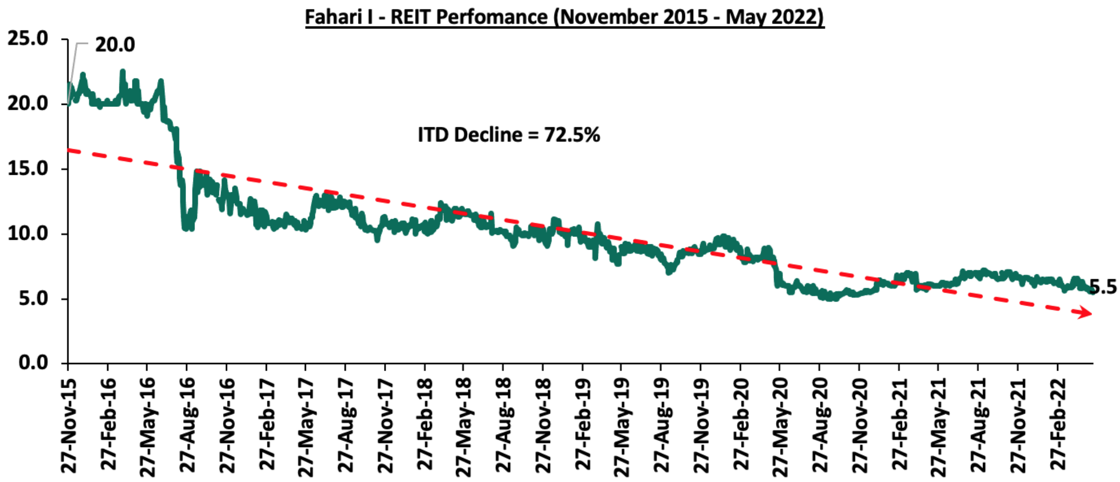
During the week, Purple Dot International Limited, a Real Estate development firm, announced plans to develop a warehousing hub worth Kshs 600.0 mn at the Harvest Industrial Park in Athi River, Machakos County. The warehouse facility, which will total 7,425 SQFT, will consist of 24 units with three level spaces. Additionally, the first phase of the project development is expected to be completed in a span of 18 months, thus adding up to the more than 300 warehouses currently owned by Purple Dot. The development move by the Real Estate firm comes barely two months after Grit Real Estate Income Group, a Mauritius based Real Estate Investment Company, completed the purchase of Orbit Products Africa, a warehouse and manufacturing facility located in Machakos County, at a cost of Kshs 6.1 bn, signifying an increasing investment appetite in Kenya's industrial sector. The decision to invest in Athi River is driven by:

i. Strategic location of the industrial park, near the Mombasa Road and Mlolongo Athi River Road, thus promoting accessibility to and from the place,
ii. Completion of the Mombasa Inland Container Depot in Syokimau thus enabling ease of access to warehousing facilities, and,
iii. Increased demand for warehouse storage facilities, because of the popularity of e-commerce in the country.

We expect the sector to continue recording a boom in activities and performance mainly as a result of the rapid infrastructural developments such as the Standard Gauge Railway and the Nairobi Mombasa Highway, that enhance transport of goods and cargo, coupled with increased demand for warehouse and storage facilities resulting from the rise in e-commerce.

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

In the Nairobi Stock Exchange, ILAM Fahari I-Reit closed the week trading at an average price of Kshs 5.5 per share. This represented a 3.5% and 14.1% Week-to-Date (WTD) and Year-to-Date (YTD) decline respectively, from Kshs 5.7 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 72.5% decline from Kshs 20.0. The graph below shows Fahari I-REIT's performance from November 2015 to 20th May 2022:



We expect Kenya's property market to continue being shaped by; increased construction activities in the housing sector, aggressive expansion in the retail sector, improvement in the performance of the hospitality sector, and, rapid infrastructure developments. However, setbacks such as financial constraints, oversupply in select property sectors, and, investor's minimal appetite for the REIT instrument is expected to continue weighing down the overall performance of the property sector.