

Nairobi Metropolitan Area (NMA) Residential Report 2022, & Cytonn weekly #23/2022

Real Estate

I. Residential Sector

During the week, the Nairobi Metropolitan Services (NMS) began the second phase of revamping housing estates in select parts of Nairobi County. This follows the completion of the first phase of the rehabilitation process in May 2022, which included 760 housing units in; Kariobangi South, Buruburu, Kariokor and Jamhuri estates. The second phase of the revamping project, funded by the Ward Development Fund (WDF), will cover 884 and 360 housing units in Uhuru, and, Outering estates, respectively. Upon the completion of the rehabilitation process, the project is expected to improve living standards of residents in the aforementioned estates, as well as boost the housing rents for the units.

The government of Kenya through its various development entities such as the NMS, continue to unveil construction and rehabilitation activities geared towards improving the living standards of citizens. In support of this, our **Cytonn Weekly #08/2022** highlights that the Nairobi Metropolitan Services began the redevelopment of 10 various estates in Nairobi County, with an aim of constructing 60,000 affordable housing units, in February 2022. We therefore expect a similar trend to be witnessed in the residential sector, mainly driven by government's efforts towards improving the phase of the sector, thus ensure the housing units are more habitable.

II. Infrastructure Sector

During the week, the African Development Bank (AfDB) announced plans to loan Kshs 17.5 bn towards the upgrade of the Nairobi-Nakuru Highway project totaling 233 Km, in July 2022. This represents 9.4% of the Kshs 180.0 bn road project, which is a Public Private Partnership (PPP) project between the National Government through the Kenya National Highway Authority (KeNHA), and, a consortium made up of Vinci Highways SAS, Meridian Infrastructure Africa Fund, and, Vinci Concessions SAS. The remaining capital is to be provided by other ten financial institutions including the International Financial Corporation (IFC), and, the World Bank, among others. This will therefore make it the second road project in Kenya to be tolled under the PPP strategy, after the Nairobi Expressway project that was completed and launched for operations in May 2022.

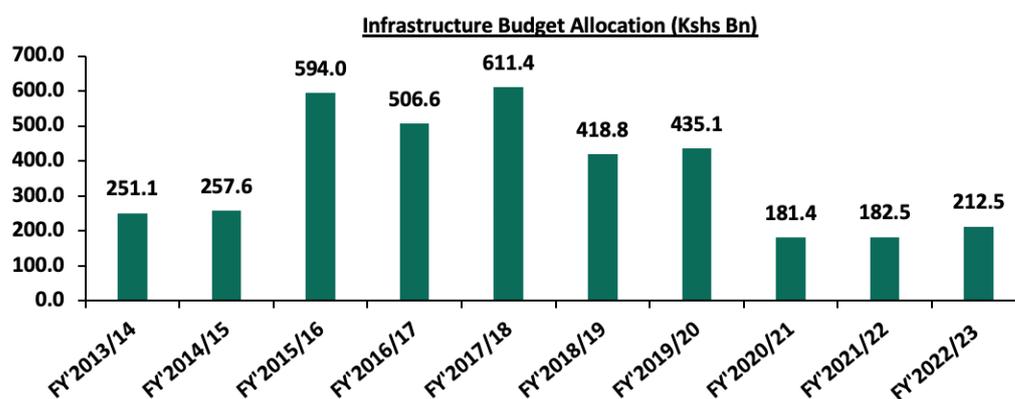
Additionally, during the week, the national government through the Kenya Rural Roads Authority (KeRRA) resumed the construction of the 54.0 Km Mto Mwagodi-Mbale-Wundanyi-Bura road project, after having stalled for more than six months due to financial constraints. As per our **Cytonn Weekly#44/2021**, rehabilitation of the Kshs 2.2 bn road, which is one of the biggest road projects in the region, began in November 2021, and is expected to be completed by December 2024.

Upon the completion of the above two projects, they will;

- i. Boost Real Estate developments in the surrounding areas,
- ii. Ease the transportation of goods and people,
- iii. Boost the selling and renting prices for existing properties in the area,
- iv. Promote trade activities in the regions, and,
- v. Promote tourism activities by enhancing accessibility to various tourism destination areas.

Based on the above, it is evident that the Kenyan infrastructure sector continues to be an attractive investment opportunity, having also witnessed rapid developments aimed at improving the economy's performance. In line with this, there exist other various ongoing projects across the country, which include but not limited to; the Nairobi Commuter Rail project, the Nairobi Western Bypass, Athi River-Mlolongo-Mombasa exit, and, the Eastern Bypass project. We therefore expect a similar trend in the sector mainly driven by government's aggressive efforts to initiate, implement, and, conclude the projects through various strategies such as;

- i. Floating of infrastructure bonds. Example, in February 2022, the Central Bank of Kenya (CBK) floated the IFB1/2022/19 infrastructure bond worth Kshs 75.0 bn, with an aim of raising funds for infrastructure developments,
- ii. Initiation of project partnership strategies such as PPPs and Joint Ventures (JVs), and,
- iii. Yearly budgetary allocations, with the sector having been allocated Kshs 212.5 bn in the **FY'2022/2023 Budget Statement**, which is a 6.4% representation of the Kshs 3.3 tn total budget. The graph below shows the budget allocation to the transport sector over last ten financial year

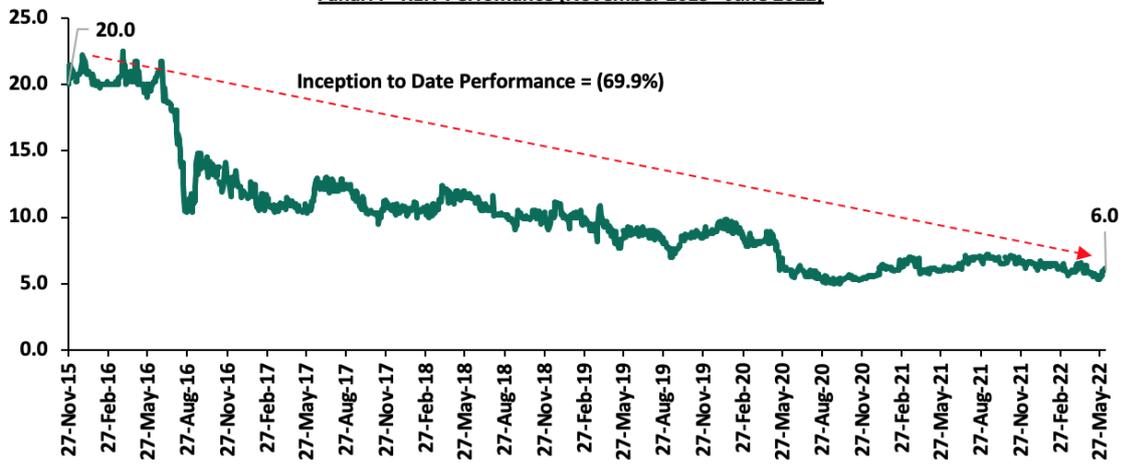


Source: National Treasury of Kenya

III. Real Estate Investment Trusts (REITS)

In the Nairobi Stock Exchange, ILAM Fahari I-Reit closed the week trading at an average price of Kshs 6.02 per share. The performance represented a 0.7% Week-to-Date (WTD) increase, from Kshs 5.98 per share recorded last week. However, on a Year-to-Date (YTD) and Inception-to-Date (ITD) basis, the REIT's performance continues to be weighed down having realized a 5.9% and 69.9% decline, respectively, from Kshs 6.4 and Kshs 20.0, respectively. The graph below shows Fahari I-REIT's performance from November 2015 to 10th June 2022:

Fahari I - REIT Performance (November 2015 - June 2022)



We expect Kenya's property market to continue being shaped by; increased construction and rehabilitation activities in the housing sector, and, rapid infrastructure developments. However, setbacks such as financial constraints and, investor's minimal appetite for the REIT instrument is expected to continue weighing down the overall investments in REITs.

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