Sub-Saharan Africa Eurobond Performance 2022, & Cytonn Weekly #27/2022

Real Estate

I. **Industry Reports**

In the Q1’2022 Gross Domestic Product report by the Kenya National Bureau of Statistics (KNBS), the following were the key take outs from the report with regards to Real Estate and related sectors;

i. The Real Estate sector grew by 6.1% in Q1’2022, representing 0.6% points decline from the 6.7% growth that was recorded in Q1’2021. The decline in performance was attributed to a slow-down in activities in the market, which resulted to a decline in transactions in the sector. The graph below shows the performance of the Real Estate sector GDP from Q1’2020-Q1’2022;

Source: Kenya National Bureau of Statistics (KNBS)

ii. The construction sector grew by 6.4% in Q1’2022, 0.4% points decline from the 6.8% growth that was realized in Q1’2021. The decline in performance was mainly driven by increased construction cost of materials that in turn caused developers to streamline their activities. However, on q/q basis, the sector grew faster compared to the 6.0% growth rate recorded in Q4’2021, following the near and completion of mega projects such as the Nairobi expressway and the Western Bypass, among others. The graph below shows performance of construction sector from Q1’2020-Q1’2022;

Source: Kenya National Bureau of Statistics (KNBS)

iii. The Accommodation & Food services sector grew by 56.2% in Q1’2022, 89.2% points higher than the 33.0% contraction recorded in Q1’2021. This was mainly driven by the lowered pandemic restrictions and flight bans, that led to increased visitor arrivals into the country as well as increased leisure and conference activities boosting the sector’s performance. However, on a q/q basis, the performance was a sharp decline by 62.4% from the 118.6% growth that was recorded in Q4’2021. The reduced growth is mainly because of the prior quarter growth we saw from depressed tourism numbers, during the height of the pandemic. The graph below shows the GDP performance of the hospitality sector between Q1’2020-Q1’2022;

Source: Kenya National Bureau of Statistics (KNBS)

We expect Kenya’s property market to be on an upward trajectory, driven by factors such as rapid infrastructure developments, increased development and expansion in the hospitality and retail sectors, and, government’s continued focus on the affordable housing initiative. However, setbacks such as oversupply in select Real Estate sectors, coupled with financial constraints is expected to weigh down optimum performance of the sector.

II. **Residential Sector**

During the week, property developer Mi Vida Homes announced plans to break ground of 800 affordable housing units project worth more than Kshs 2.0 bn in Nairobi's Riruta area, by end of the year. The project which will sit on a six-acre piece of land off Ngong Road, will consist of studios, one-bedroom, two-bedroom, and three-bedroom units, with prices ranging between Kshs 2.0 mn and Kshs 6.0 mn. Moreover, the project will be undertaken through a Joint Venture (JV) partnership strategy between Actis Limited, a private equity firm, Indian construction firm Shapoorji Pallonji Real Estate through Mi Vida Homes, and an undisclosed land owner. This comes after Mi Vida also mentioned plans to commence phase two of its Garden City housing project located along Thika Road, after the completion of phase one comprising of 221 housing units, which is expected to take place in August 2022. The decision by Mi Vida Homes to construct its project in Riruta is supported by;

i. **Strategic location** with the area being approximately 10.0 km from Nairobi CBD,
ii. **Relatively affordability land prices in the area**, with an acre currently averaging at Kshs 90.2 mn in Dagoretti constituency where Riruta is located, compared to a market average of Kshs 128.2 mn, as per our Cytonn H1'2022 Markets Review report,
iii. **Consumer demand** for housing units due to their affordability,
iv. **High concentration of middle-income class earners in the area,** which are the target population due to their favorable purchasing power, and,
v. **Close proximity to infrastructure and amenities** servicing the area such as Ngong Road.

In terms of performance, according to Cytonn H1'2022 Markets Review, Dagoretti where Riruta is located recorded average total return to investors at 5.9%, 0.1% points higher than the lower mid-end suburbs average of 5.8%. The average selling prices came in at Kshs 85,017 per SQM against a market average of Kshs 93,772 per SQM, indicating affordability of housing units in the area. The average rental yield also came in at 5.9%, 0.5% points higher than the market average of 5.4%, signifying the impressive performance and the investor's decision to invest in Riruta, as indicated in the table below;

(All values in Kshs unless stated otherwise)

Apartments Performance H1'2022

Area	Average of Price per SQM H1'2022	Average of Rent per SQM H1'2022	Average of Occupancy H1'2022	Average of Uptake H1'2022	Average of Annual Uptake H1'2022	Average of Rental Yield H1'2022	Average of Price Appreciation H1'2022	Total Returns
Lower Mid-End Suburbs								
Waiyaki Way	88,518	537	84.1%	86.6%	18.3%	6.2%	1.1%	**7.3%**
South C	117,736	723	82.3%	79.6%	18.2%	6.1%	0.4%	**6.5%**
Imara Daima	80,559	421	87.3%	89.6%	12.9%	5.2%	1.2%	**6.4%**
Dagoretti	85,017	572	88.1%	81.2%	14.4%	5.9%	0.1%	**5.9%**
Donholm & Komarock	77,683	394	93.1%	93.9%	12.5%	5.8%	0.1%	**5.9%**
Race Course/Lenana	99,676	633	81.9%	93.6%	19.9%	5.9%	(0.1%)	**5.8%**
Kahawa West	74,409	314	88.8%	92.5%	10.7%	5.2%	0.6%	**5.7%**
South B	105,460	463	82.4%	95.2%	14.9%	4.2%	0.2%	**4.4%**
Langata	114,887	537	81.2%	88.1%	13.0%	4.5%	(0.6%)	**4.0%**

Apartments Performance H1'2022

Area	Average of Price per SQM H1'2022	Average of Rent per SQM H1'2022	Average of Occupancy H1'2022	Average of Uptake H1'2022	Average of Annual Uptake H1'2022	Average of Rental Yield H1'2022	Average of Price Appreciation H1'2022	Total Returns
Lower Mid-End Suburbs								
Average	**93,772**	**510**	**85.5%**	**88.9%**	**15.0%**	**5.4%**	**0.3%**	**5.8%**

Source: Cytonn Research 2022

Joint Ventures continue to gain momentum in the country as they have proven to be cost effective ways of implementing projects such as the affordable housing projects that continue to gain traction in Kenya as well. These projects have also been realized and implemented by private developers such as Mi Vida Homes and Edderman Limited among others, thus promoting the program which is a government initiative. Some of the ongoing projects by private developers include; Pangani Housing project, Athi River Waterfront project, and, River Estate project in Ngara, among many others. We expect a similar trend to continue shaping performance of Kenya's Real estate residential sector, with some of the factors expected to drive developments in the sector being rapid infrastructure developments promoting investments, and, project partnership strategies such as Joint Ventures and Public Private Partnerships.

III. **Retail Sector**

During the week, Java House, an international restaurant chain, announced plans to open five new outlets in the country by October 2022. The new outlets will be distributed as follows: two at Nairobi's Jomo Kenyatta International Airport, one at Mombasa's Moi International Airport, one in Nairobi's Eastleigh, and, one in Machakos town. This will bring the retailer's total operating outlets to 87 in East Africa, with 75 being in Kenya, a sign of the retailer's massive appetite for Kenya's retail market. The decision to open the new outlets is driven by:

i. Increased demand for services in the market, evidenced by Kenya's 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,
ii. Increase its footprint in the country amidst its need to grow, and,
iii. Need to step up competition from its rivals such as Art café and Café Java, among others.

In terms of performance, according to our Kenya Retail Report 2021, Nairobi recorded an average rental yield of 7.5% against a market average of 6.8% in 2021, whereas Mombasa's average rental yield was at par with the average market yield of 6.8%. Additionally, Cytonn H1'2022 Markets Review highlights that satellite towns, where Machakos is categorized, recorded an average rent of Kshs 142 per SQFT against a market average of Kshs 170 per SQFT, thus the retailer is leveraging on affordability of retail spaces in the area for investments as well. The table below shows the retail performance in key urban cities in Kenya 2021;

Summary of Retail performance in key urban cities in Kenya 2021

Region	Rent (Kshs) 2021	Occupancy Rate	Rental Yield
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%**

Summary of Retail performance in key urban cities in Kenya 2021

Region	Rent (Kshs) 2021	Occupancy Rate	Rental Yield
Nakuru	59	80.0%	**6.1%**
Average	**118**	**78.4%**	**6.8%**

Source: Cytonn Research

Kenya's Real Estate retail sector is expected to record increased activities that in turn boosts its performance. This will be mainly fueled by; i) the rapid expansion drive by local and international retailers such as Naivas, Eatn'Go Limited, and Java among others, ii) recognition of Kenya as a regional hub thereby attracting massive investments, and, iii) the ease of doing business in the country. However, setbacks such as e-commerce still being adopted by some retailers, coupled with the existing oversupply of retail spaces is expected to weigh down the optimum performance of the sector. The oversupply in the retail sector is currently 3.0 mn SQFT in the Nairobi Metropolitan Area, and 1.7 mn SQFT in Kenya at large.

IV. **Hospitality Sector**

During the week, global five-star hotel Fairmont Mount Kenya Safari Club located in Nanyuki, resumed activities after having been closed for more than two years, following the onset of Covid-19 pandemic that caused cashflow challenges. This comes barely three months after Nairobi's Fairmont Norfolk, and Radisson Blu hotels resumed operations in April and May 2022, respectively, and Fairmont Mara Safari Club in September 2021. This signifies the normalcy that has been regained in the hospitality sector that was one of the worst hit economic sectors in the country with the onset of the pandemic. Some of the factors that drove the reopening of the hotel includes; i) the lowered pandemic restrictions, ii) lifting of flight bans which boosted tourism arrivals int the country, iii) increasing tourism and leisure activities in the country, and, iv) increasing vaccination activities boosting visitor arrivals and investor confidence in the sector.

We expect the hospitality sector to continue recording more activities that in turn boosts its overall performance. According to Central Bank of Kenya's Monetary Policy Committee Hotels Survey May 2022, average hotel bed occupancy in the month of May came in at 55.0 %, 4.0% points higher than 51.0% recorded in the of April 2022 indicating an improvement in the sector. Moreover, KNBS' Q1'2022 GDP report highlights that the sector grew by 56.2% in Q1'2022, 89.2% points increase from a contraction of 33.0% recorded in Q1'2021, a sign of the bouncing back. We expect the performance to be further boosted by; i) continuous roll out of COVID-19 vaccine which in turn boost tourism confidence and arrival into the country, ii) annual world rally championship program boosting hotel and serviced apartments occupancies, iii) Positive accolades such as the 28th World Travel Awards winners, where Nairobi was voted as Africa's leading business travel destination, and, iv) the aggressive marketing of Kenya's tourism sector via the Magical Kenya Platform, and, Kenya Tourism Board.

V. **Infrastructure Sector**

During the week, the national government through the Kenya National Highway Authority (KeNHA) announced plans to revamp the Thika-Garissa highway into a dual carriageway, at an estimated cost of Kshs 5.5 bn. Dualling of the 15.0 Km Road which begins from the Thika Superhighway and stretches to Makongeni, Kissi and Gatuanyanga areas is expected to kick off by October 2022. Additionally, the national government through KeNHA awarded three Chinese firms a project tender worth Kshs 15.9 bn, to rehabilitate the Kisumu-Chemelil-Muhoroni road. The three firms constructing the 63.0 Km Road project that already commenced in June 2022 include;

i. **China Railways Tenth Group** which will construct Lot I of the project which runs from

Mamboleo junction to Miwani, at a cost of Kshs 5.1 bn,

ii. **Sinohydo Company Limited** which will construct Lot II of the project which runs from Miwani to Chemelil, at a cost of Kshs 5.0 bn, and,
iii. **H-Young Company Limited** which will construct Lot III of the project which runs from Chemelil to Kipsitet, at a cost of Kshs 5.7 bn.

Upon the completion of both projects, they are expected to; i) reduce traffic snarl-ups, ii) further open up areas for Real Estate investments, and, iii) promote trade activities in the surrounding areas.

The government continues to be aggressive towards the implementation and development of quality and adequate roads to make Kenya an intra-regional hub for trade in East Africa in the country, as also evidenced by the various projects initiated and ongoing such as; i) Nairobi Commuter Rail project, ii) Nairobi-Nakuru Highway project, iii) Standard Gauge Railway Phase 2A, and, iv) Nairobi Western Bypass, among other key projects. We expect a similar trend to continue taking shape in the country bearing in mind that infrastructure is a key factor boosting performance of Real Estate market, with some of the strategies the government has used in order to realize it objectives being; i) project partnerships such as PPPs and JVs, ii) floating of infrastructure bonds in order to raise construction funds, and, iii) high priority in the budget 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 years;

VI. **Listed Real Estate**

In the Nairobi Stock Exchange, ILAM Fahari I-REIT closed the week trading at an average price of Kshs 6.0 per share, a similar price as last week as well. 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 July 2022:

We expect Kenya's property market to continue being shaped by; increasing investor confidence in Kenya's housing, retail, and, hospitality markets, coupled with government's aggressiveness towards infrastructural developments particularly roads which open areas for investments. However, setbacks such as financial constraints further fueled by the increasing construction costs, and, investor's minimal appetite for the REIT instrument is expected to continue weighing down the overall investments in REITs.

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