

Affordable Housing in Kenya, & Cytonn Weekly #42/2022

Real Estate

I. Residential Sector

During the week, property developer Unity homes completed 10.0% of its Kshs 5.4 bn housing project dubbed Unity East, which sits on a 10.4-acre piece of land at Tatu City in Ruiru Sub - County. This constitutes 64 units of the total 640 houses whose construction began in November 2021 as the second phase of the project. The project will be delivered in batches with the last batch of units expected to be delivered by September 2024. Other projects by the developer include Unity West which was completed in November 2021, Unity Gardens completed in 2018, and, Silver Hill which was launched in October 2022. The table below shows the typologies, plinth areas and unit prices for the aforementioned apartments at Unity East;

Cytonn Report: Summary of Unity East Apartments Prices

Typologies	Unit Size (SQM)	Price (Kshs)	Price Per SQM
2 bedroom	75	7.7 mn	103,012
3 bedroom	150	15.5 mn	103,012
4 bedroom	150	15.5 mn	103,012
Average	125	12.9 mn	103,012

Source: Unity Homes Sales Team

In terms of performance, Ruiru apartments recorded an average selling price of Kshs 89,418 per SQM in Q3'2022. Notably, the average price per SQM for apartments at Unity East is Kshs 103,012, which is higher than Ruiru's market average owing to their high quality and prime location within Tatu City. On the other hand, the high occupancies and uptakes realized in Ruiru positions the development viable as the developer is expected to gain higher returns. The table below shows the lower middle satellite towns residential apartment's performance during Q3'2022;

(All values in Kshs unless stated otherwise)

Cytonn Report: Nairobi Metropolitan Area Apartments Average Performance Q3'2022

Area	Price per SQM Q3'2022	Rent per SQM Q3'2022	Occupancy Q3'2022	Uptake Q3'2022	Annual Uptake Q3'2022	Rental Yield Q3'2022	Price Appreciation Q3'2022	Total Returns
Lower Mid-End Satellite Towns								
Ruaka	108,117	546	80.7%	82.8%	21.5%	5.1%	2.3%	7.4%
Ngong	64,382	360	82.3%	83.0%	11.7%	5.6%	1.7%	7.3%
Ruiru	89,418	480	87.4%	86.3%	17.8%	5.6%	1.5%	7.2%

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Lower Mid-End Satellite Towns								
Kikuyu	81,624	474	76.6%	85.8%	15.7%	5.2%	1.9%	7.2%
Athi River	58,199	329	85.2%	92.8%	15.2%	5.6%	1.4%	7.0%
Syokimau	71,302	343	86.6%	89.8%	12.5%	5.2%	1.7%	6.9%
Thindigua	101,089	498	89.9%	80.8%	17.7%	5.4%	1.2%	6.6%
Rongai	91,597	316	89.2%	76.4%	12.6%	6.1%	(0.2%)	5.9%
Kitengela	59,434	277	85.9%	97.5%	10.3%	5.0%	0.4%	5.3%
Average	80,573	403	84.9%	86.1%	15.0%	5.5%	1.3%	6.8%

Source: Cytonn Research 2022

Upon completion, the project is expected to help curb Kenya’s accumulated housing deficit which stands at 2.0 mn housing units translating to 200,000 units annually. Additionally, the initiative will provide descent homes to citizens and improve home ownership rates in the country which have remained significantly low at 21.3% in urban areas as at 2020, compared to other African countries like South Africa and Ghana with 53.0% and 47.2% urban home ownership rates respectively.

II. Retail Sector

During the week, Naivas Supermarket announced plans to open 4 new outlets in the country in the next four weeks. This will bring the retailers total number of outlets countrywide to 90, having opened 6 new outlets so far this year in a bid to maintain market dominance. The new outlets will be located at;

- i. Greenwood City Mall in Meru County which will be launched on October 31st 2022,
- ii. Kahawa Sukari opposite Engen Petrol Station, which will be launched on November 7th 2022,
- iii. Ruai town which will be launched on November 7th 2022 as well, and,
- iv. Parklands along Ojijo Road, which will be launched in mid-November 2022.

The move by Naivas Supermarket is driven by; i) availability of prime retail spaces, ii) increasing demand for goods and services from consumers further fuelled by the incoming festive season, iii) strategic location of the outlets, iv) need to step up competition from close rivals such as QuickMart supermarket, and, v) availability of new market opportunities. The new outlet in Meru will be the first Naivas Supermarket in upper Mt. Kenya region. The table below shows a summary of the number of stores of key local and international retailer supermarket chains in Kenya;

Cytonn Report: Main Local and International Retail Supermarket Chains

Name of retailer	Category	Branches as at FY' 2018	Branches as at FY' 2019	Branches as at FY' 2020	Branches as at FY' 2021	Branches opened in 2022	Closed branches	Current branches	Branches expected to be opened	Projected branches FY'2022
Naivas	Local	46	61	69	79	7	0	86	4	90
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

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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	11	179	197	8	205

Source: Online Research

We expect the retail sector to continue realizing development activities which in turn boost its performance driven by; i) continuous expansion by retailers in the country owing to stiff competition in the market, ii) improved accessibility, iii) political stability after the August general elections which has enhanced ease of doing business in the country, and, iv) rapid population and urbanization growth rates driving demand for goods and services. However, the rapid developments in the e-commerce sector and the existing oversupply of retail spaces in the country which is at 2.2 mn SQFT is expected to curtail ideal uptake and occupancy of the spaces and the overall performance of the retail sector.

III. Hospitality Sector

During the week, World Travel Awards (WTA), a global organization established to acknowledge, reward, and celebrate excellence across all sectors of the tourism industry, announced the winners of the 29th World Travel Awards at the Kenyatta International Convention Centre (KICC). In the African category, Nairobi was voted as Africa's leading business travel destination, with Kenya being voted Africa's leading destination. This was supported by the presence of renowned conferencing centres such as the KICC, prestigious lodging options such as Fairmont and the Norfolk, a stable business environment, favourable infrastructure, numerous historical sites, and, a rich cultural heritage. The table below shows some of the key awards for Kenya and the respective winners in 2022;

Award	2022 Winner
Africa's Leading Business Travel Destination 2022	Nairobi
Africa's Leading Airline 2022	Kenya Airways (KQ)
Africa's Leading Airline - Business Class 2022	Kenya Airways (KQ)
Africa's Leading City Hotel 2022	Fairmont, the Norfolk
Africa's Leading Hotel Brand 2022	Fairmont Mount Kenya Safari Club
Africa's Leading Meetings & Conference Center 2022	Kenya International Conference Center (KICC)

Source: World Travel Awards

In our view, the fact that Nairobi has received this award for the fourth consecutive year signifies the continued confidence in the city as a vibrant business destination. This is majorly attributed to the high investor confidence in Kenya's hospitality sector owing to the stable business environment, rich cultural and historical heritage, wide range of high-class hospitality centres, and, good infrastructure. We expect the award to further boost the sector's performance in terms of increased flight arrivals, hotel bookings and hotel occupancy rates, whose performance is on an upward trajectory driven by; i) aggressive marketing of Kenya's Tourism sector through the Magical Kenya

platform, ii) sustained decline in COVID-19 infections world over, iii) peaceful post-electioneering period that has enhanced business stability in the Kenyan economy, and, iv) increased activities in sports and leisure events such as the World Rally Championship expected to be held annually until 2026.

IV. Real Estate Investment Trusts

In the Nairobi Stocks Exchange, ILAM Fahari I-REIT closed the week trading at an average price of Kshs 6.5 per share. The performance represented a 3.8% Year-to-Date (YTD) increase. However, the performance represented a 65.1% Inception-to-Date (ITD) decline from Kshs 20.0. The graph below shows Fahari I-REIT's performance from November 2015 to 21st October 2022:



In the Unquoted Securities Platform, Acorn D-REIT and I-REIT traded at Kshs 23.8 and Kshs 20.8 per unit, respectively, as at 7th October 2022. The performance represented a 19.0% and 4.0% gain for the D-REIT and I-REIT, respectively, from the Kshs 20.0 inception price. The volumes traded for the D-REIT and I-REIT came in at 5.5 mn and 14.5 mn shares, with a turnover of Kshs 116.9 mn and Kshs 300.3 mn, respectively, since its Inception in February 2021.

We expect the performance of Kenya's Real Estate sector to improve owing to the anticipated growth in performance in the residential and hospitality sectors, coupled with the rapid expansion in the retail sector. Despite this, setbacks such as the minimal investor appetite for the REIT instrument continue to pose a challenge to the optimum performance of the sector.