Nairobi Metropolitan Area (NMA) Serviced Apartments Report 2022, & Cytonn Weekly #47/2022

Real Estate

I. **Residential Sector**

a. **Government to begin construction of 42,000 affordable housing units in the next 60 days**

During the week, the national government, through the Permanent Secretary for State Department for Housing and Urban Development, Charles Hinga, announced plans to commence the construction of 42,000 affordable housing units within the next two months. The projects will be developed in:

i. Makongeni, Nairobi County, which will host 30,000 units whose ground-breaking will be on 6th December 2022,
ii. Starehe, Nairobi county which will host 2,470 units,
iii. Shauri Moyo, Nairobi County, which will host 1,728 units,
iv. Ruiru, Kiambu County, which will host 1,200 units, and,
v. Mavoko, Machakos County, which will host 5,360 units.

The decision comes a time when Kenya, through the current administration, is enhancing its prioritization of delivering approximately 200,000 decent housing units annually to the low and middle-income earners at low costs through Affordable Housing Programme. The drive is expected to consequently reduce the housing deficit, which currently stands at 2.0 mn units. The initiative has gained traction in the country with some the projects in the pipeline outlined in the table below;

Cytonn Report: Summary of Notable Ongoing Affordable Housing Projects in The Nairobi Metropolitan Area

Name	Developer	Location	Number of Units
Pangani Affordable Housing Program	National Government and Tecnofin Kenya Limited	Pangani	1,562
River Estate Affordable Housing Program	National Government and Edderman Property Limited	Ngara	2,720
Park Road Affordable Housing Program	National Housing Corporation	Ngara	1,370
Mukuru Affordable Housing Program	National Housing Corporation	Mukuru kwa Njenga, Enterprise Road	15,000

Source: Boma Yangu Portal

In addition to the above, there also exist several projects initiated by private developers to hasten the program such as;

Cytonn Report: Summary of Notable Ongoing Affordable Housing Projects in The Nairobi Metropolitan Area

Name	Developer	Location	Number of Units
Samara Estate	Skymore Pine Limited	Ruiru	1,824
Moke Gardens	Moke Gardens Real Estate	Athi River	30,000
Habitat Heights	Afra Holding Limited	Mavoko	8,888
Tsavo Apartments	Tsavo Real Estate	Embakasi, Riruta,Thindigua, Roysambu and Rongai	3,200
Unity West	Unity Homes	Tatu City	3,000
RiverView	Karibu Homes	Athi River	561

Source: Boma Yangu Portal

We expect a similar trend to continue shaping the performance of residential sector by improving the living standards of the majority of the population across the country in a bid to provide decent housing units at low costs. However, in as much as the program is gaining momentum, it is still faced with a couple of challenges with the major one being financing of the developments hence weighing down its optimum performance as majority of the projects have been stalling. As such, the initiative needs well-articulated strategies on financing, planning and developments, and with increased partnership with the private sector, as well as providing accurate and sufficient information to tenants and investors, for it to work optimally, as highlighted in our recent Affordable Housing in Kenya topical. We expect financing to remain a challenge until such time that the return expectations to investors to these projects become clear.

b. **Shelter Afrique approves Kshs 1.6 bn corporate loan to Mixta Real Estate Firm**

Shelter Afrique, a Pan-African development financier based in Nairobi’s Upperhill District, recently approved an additional 5-year corporate loan worth Kshs 1.6 bn towards Nigeria’s Mixta Real Estate Plc, to finance the construction of housing projects in Cote d’Ivoire, Senegal and Morocco. This comes after the Lagos-based property firm, which has successfully developed more than 13,500 residential and retail units across 8 countries in Africa, was awarded a similar amount in March 2021 by Shelter Afrique. Additionally, Shelter Afrique also financed Mixta projects through a Kshs 732.6 mn corporate loan in 2014, granted to develop 130 apartments within 13 blocks in Lagos. The table below provides a breakdown of housing developments in the three countries;

Cytonn Report: Housing Development in Cote d’Ivoire, Senegal and Morocco by Mixta Real Estate

Country	Number of Houses	Selling Prices of the units in Kshs (mn)
Cote d’Ivoire	365	5.5
Senegal	162	4.3 - 6.3
Morocco	371	3.2
Total	**898**	

Source: Online Research

We expect the lending decisions on affordable housing projects across Africa by the lender to boost both local and foreign investors' confidence into Africa's property market, with the most recent being the approval of a Kshs 2.2 bn corporate loan in September 2022 towards Maison Super Development (MSD) firm to finance the construction of three ongoing projects in the Democratic Republic of Congo (DRC). The financier also announced plans in February 2022 to issue an East African bond in the Kenyan Capital Market through the NSE, to raise USD 500.0 mn (Kshs 56.9 bn) for financing upcoming affordable housing projects within East Africa with the main focus being on Kenyan market. The move will also promote the continued efforts to raise funds for housing projects from regional local currency bonds and uplift access to affordable housing, which has witnessed improved activities and developments in several African countries like Kenya amid recovery of their economic status after the COVID-19 pandemic.

II. **Infrastructure Sector**

During the week, African Infrastructure Investment Managers (AIIM), one of Africa's leading infrastructure private equity managers, committed Kshs 4.1 bn to Kenya's Road Annuity Programme for the development of road infrastructure in the country to be done through the AIIM's pan African AIIF4 Fund. The Roads Annuity Fund programme was established in 2015 under the Public Finance Management Regulations to ease pressure on the exchequer, by providing capital to pave approximately 10,000 Km of roads through Public Private Partnerships (PPPs). In turn, the programme enabled the government to meet its annuity payment obligations for the development and maintenance of roads. To boost investments into the annuity roads programme, the government divided Kenya's road network into investable lots that investors could acquire.

AIIM has already acquired lots 15 and 18 of the roads programme that had in 2015 been tendered and awarded to two Construction firms, which it will also partner with namely; Portuguese construction firm Mota-Engil, and Lee construction consortium by the Kenya Urban Roads Authority (KURA), as well as financing partners in Stanbic Bank and Multilateral Investment Guarantee Agency (MIGA). Upon completion, they are expected to spur Real Estate sector performance by; i) better linking regional communities to neighboring markets and the national transport networks, ii) facilitating more efficient logistics and consequently foster economic growth, iii) opening up new markets for development thereby increasing property investments, and, iv) boosting property prices hence facilitating improved returns.

Additionally, we expect the move by AIIM to; i) set precedence to private sector developers and investors to invest in the development of Kenya's road infrastructure, and, ii) boost private sector developers and investors' confidence in Public Private Partnerships (PPPs). Additionally, this will also boost Kenya's infrastructure sector performance which has witnessed numerous developments and growth over the past 10 years owing to government's continuous efforts to deliver on the same through other various strategies such as; i) the floating of infrastructure bonds to raise funds for construction, ii) project partnerships such as joint ventures, iii) debt financing, and, iv) yearly budgetary allocations, with the infrastructure sector having been allocated Kshs 212.5 bn in the FY'2022/23 budget statement. Some of the ongoing projects include; Thika-Garissa highway, Nairobi-Suguta-Maralal road, Kisumu-Kakamega highway, and, Mbita-Kiabuya-Magunga-Sori road projects.

III. **Statutory Reviews**

During the week, Nairobi City Hall issued a notice on the increment of land rates to 0.115% of the current value of undeveloped land in Nairobi County based on the 2019 Draft Valuation roll, from 1st January 2023, in line with the Nairobi City Finance Act 2022. However, all persons/entities who had objected the 2019 Valuation roll shall pay the old rates pending hearing and determination of their respective objections. The statutory review will apply to residential, commercial, and, agricultural land based on the current unimproved site value as follows;

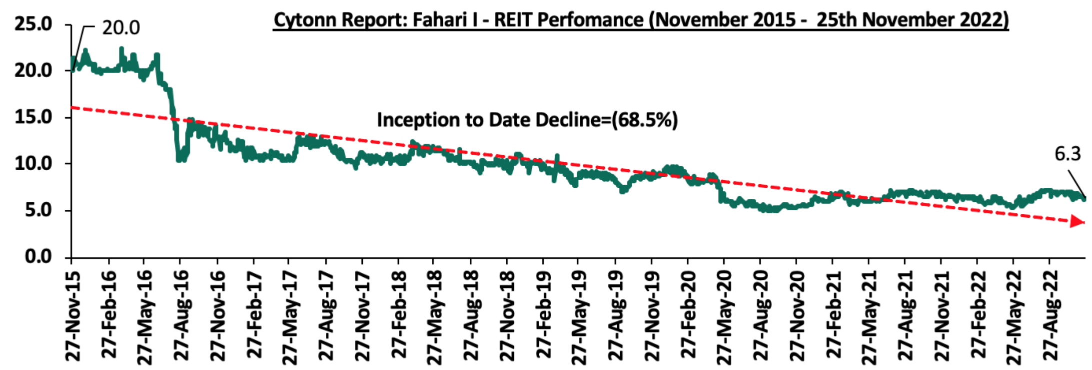
i. A charge of 0.115% on residential, commercial and agricultural plots,
ii. A flat rate charge of Kshs 2,560 on land not exceeding 0.1 HA,
iii. A flat charge of Kshs 3,200 on land greater than 0.1 HA but not exceeding 0.2 HA,
iv. A flat charge of Kshs 4,000 on land greater than 0.1 HA but not exceeding 0.4 HA,
v. A flat charge of Kshs 4,800 on land exceeding 0.4 HA.

The new rates come as a departure from the current rate of 25.0% of the undeveloped land based on the 1980 Valuation roll. On the other hand, exemption will be made on land whose current rate exceeds the new rate, whereby the current rate, based on the 1980 Valuation roll will apply. However, if the new rate is more than double the current rates, then double the current rate will be applied. The Nairobi County government targets to collect approximately Kshs 6.0 bn in land rate within the coming year, from the Kshs 2.8 bn collected in FY'2021, against a target of Kshs 5.0 bn. The new rates will also allow the County government to reap more from the continuous appreciation of land prices within Nairobi County.

We expect the statutory review to, i) provoke landowners and landlords to demand higher prices and rents within Nairobi County, in a bid to recover the additional costs from the higher rates set to be charged by the Nairobi County government, ii) provide an incentive to land owners to develop their parcels of land and discourage land speculation, and, iii) increase the cost of owning land, which will make it more difficult for people to buy land or keep up with their mortgage repayments leading to an increase in credit default rates.

IV. Real Estate Investment Trusts (REITs)

In the Nairobi Stock Exchange, ILAM Fahari I-REIT closed the week trading at an average price of Kshs 6.3 per share. The performance represented a 4.0% Week-to-Date (WTD) and 1.9% Year-to-Date (YTD) decline from the Kshs 6.6 and Kshs 6.4 per share, respectively. Additionally, the performance also represented a 68.5% Inception-to-Date (ITD) decline from Kshs 20.0. The graph below shows Fahari I-REIT's performance from November 2015 to 25th November 2022:



In the Unquoted Securities Platform, Acorn D-REIT and I-REIT closed the week at Kshs 23.8 and Kshs 20.9 per unit, respectively, as at 11th November 2022. The performance represented a 19.2% and 4.4% 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 14.9 mn shares, respectively, with a turnover of Kshs 116.9 mn and Kshs 308.8 mn, respectively, since its Inception in February 2021.

We expect Kenya's Real Estate sector performance to be on an upward trajectory supported by; i) increased financing towards the residential sector, ii) continued efforts by the government to provide affordable housing to citizens, iii) improved infrastructure across the country, and, iv) increased land rates that will incentivize land owners to develop their land parcels. However, the performance of the Real state sector in Kenya is expected to be weighed down by; i) rising construction costs amid inflationary pressures in the economy, ii) increased cost of owning land due to increased rates, and, iii) low investor appetite in

listed Real Estate due to high investment amounts and inadequate investor appetite to it.

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