



Kenya's Listed Banks Q3'2022 Report & Cytonn Weekly #49/2022

Real Estate

I. Residential Sector

During the week, the Kenyan national government in partnership with the United Nations Habitat, and, Epco Builders, a local private developer, broke ground for the construction of Mavoko Affordable Housing Project in Syokimau, Machakos County. This comes two weeks after the government announced plans to commence the construction of 42,000 affordable housing units within the next two months, in Makongeni, Starehe, Shauri Moyo, Ruiru, and the aforementioned Mavoko. The Kshs 20.0 bn project will sit on a 22.0-hectare piece of land, and will comprise of; 5,360 affordable housing units, a market, a school and a hospital. Notably, the project, which is part of the government's aggressive efforts to boost access to affordable housing, will be constructed in 3 clusters, with the number of housing units whose prices are yet to be disclosed by the government distributed as follows;

Cytonn Research: Distribution of Housing Units For The Mavoko Affordable Housing Project in Syokimau

House Typology	Number of Units
Studios	560
1 Bedroom	960
2 Bedrooms	2400
3 Bedrooms	1440
Total	5,360

Source: Cytonn Research

Upon completion, the project which is adjacent to the Mavoko Sustainable Development housing project which was completed in May 2021, is expected to; i) boost homeownership rates which have remained significantly low at 21.3% in urban areas as at 2022, ii) mitigate the existing housing deficit which stands at 2.0 mn units, iii) develop sustainable neighborhoods among the informal and the low income communities, and, iv) improving the living standards of the residents in Mavoko through provision of descent housing.

Kenya's Affordable Housing Initiative continues to gain traction with some of 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
Mavoko Affordable Housing Project	National Government and Epcobuilders	Syokimau, Machakos County	5,360
NHC Stoni Athi View (Economy Block-Rental)	National Housing Corporation	Athi River, Machakos County	50
NHC Stoni Athi View	National Housing Corporation	Athi River, Machakos County	120
Mariguini Informal Settlement	National Government	Starehe, Nairobi County	2600
Kibera Soweto East Zone B	National Government	Kibera, Nairobi County	3,000
Starehe Affordable Housing Project	National Government and Tecnofin Kenya Limited	Starehe, Nairobi County	3,000
Total			34,782

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
Kings Serenity		Ongata Rongai, Kajiado County	734

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

Name	Developer	Location	Number of Units
Joinven Estate	Joinven Investments Limited	Syokimau, Machakos County	440
Total			48,647

Source: Boma Yangu Portal

We maintain our view that the pattern will persist in sculpting the performance of the residential sector by enhancing the living standards of the majority of people in the nation with the goal of providing affordable living spaces. Nonetheless, the initiative despite gaining momentum is still exposed to a couple of setbacks which has caused various projects to stall, with the key one being the funding of the projects, thus preventing it from achieving its full potential. As such, government's push to upgrade the sector's performance still needs comprehensive plans on financing, organization and construction, with increased collaboration with the private sector, as well as providing precise and adequate data to renters and investors, as discussed in our *Affordable Housing in Kenya* topical.

II. Retail Sector

During the week, local retailer Naivas Supermarket opened two new outlets at Boardwalk Mall located in Parklands along Ojijo Road on 9th December 2022 and at Nairobi West Shopping Centre in Nairobi West on 10th December 2022. The two additional outlets bring the retailer's number of operating outlets countrywide to 90. This also comes a month after the retailer opened three new outlets at Meru's Greenwood City Mall, at Kahawa Sukari Junction, and at Ruai town. Additionally, Naivas plans to open one more outlet by the end of 2022. The outlet will be located at Express Uthiru and is expected to be launched on 15th December 2022, indicating its rapid expansion drive. The opening of the two new outlets in Parklands and Nairobi West can be attributed to:

- i. Urge to increase its presence in new regions where the retailer had not tapped into hence offering convenient shopping experience to customers,
- ii. Strategic locations of the outlets along Ojijo Road and within the expanse of Parklands residential area and within Nairobi West Shopping Centre hence enhancing the footfall and accessibility to the store,
- iii. Increased financial strength following the sale of 40.0% stake worth Kshs 18.3 bn to a consortium comprising of **IBL Group** and other firms such as DEG Group and Proparco, and,
- iv. The essential aim to stay ahead of the competition and retain a superior position in the market compared to other retailers like Carrefour and QuickMart.

The table below shows the number of stores operated by key local and international retail 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	12	0	90	1	91
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	2	0	62	2	0	2
Game Stores	International	2	2	3	3	0	0	3	0	3

Cytonn Report: Main Local and International Retail Supermarket Chains

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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	185	16	180	200	5	205

Source: Cytonn Research

Kenya's retail industry continues to see significant growth movements by various retailers as they strive for market supremacy, which improves the sector's performance. However, the retail sector's performance is hampered by rapid advancements in the e-commerce sector and an existing oversupply of retail spaces in Kenya of 1.7 million SQFT, which affects occupancy rates and total return to property investors.

III. Hospitality Sector

During the week, hotel group Hemingways Collection took over management of Eden Hotel, which featured as the only Kenyan hotel in the **Fodor Finest Hotels List, Africa 2023**. The hotel set to be renamed Hemingways Eden is located in Karen, Nairobi and will take the number of operating hotels by the group to four. Other hotels managed by the group include; Hemingways Nairobi, Ol Seki Hemingways located at Naboisho conservancy in Narok county, and, Hemingways Watamu. We attribute the opening decision by the hotel group to be; i) need to diversify and increase the group's hotel portfolio, ii) broaden its product line, and, iii) accord the group a chance to manage a distinctive and iconic property in one of Nairobi's prime locations.

Additionally, the decision by Hemingways Collection comes at a time when the Kenyan hospitality industry is witnessing increased hotel expansions with both local and global brands opening new facilities following the continued recovery of the sector. In support of this, **Hotel Chain Development Pipelines in Africa Report 2022** by W Hospitality Group highlights that 24 global hotel brands are considering opening new facilities in Kenya as of 2022. This translates to an additional 3,155 new hotel rooms ranking Kenya at position seven and among the top ten hotspots for upcoming luxury hotels in Africa as shown below;

Cytonn Report: Hotel Chain Development Pipelines in Africa 2022

		Number of Hotels Brands	Number of Rooms
1	Egypt	85	21,281
2	Morocco	50	7,209
3	Nigeria	33	5,619
4	Ethiopia	29	5,206
5	Cape Verde	17	4,639
6	Algeria	15	3,202
7	Kenya	24	3,155
8	South Africa	21	3,133
9	Tunisia	14	2,918

Cytonn Report: Hotel Chain Development Pipelines in Africa 2022

		Number of Hotels Brands	Number of Rooms
10	Senegal	13	2,693
	Total	301	59,055

Source: Hotel Chain Development Pipelines in Africa Report 2022

In our view, the continued recognition of Kenya's hospitality industry, and Kenya's ranking in the aforementioned survey positions the country as a vibrant tourism market and will have a positive trickle effect to the number of international arrivals into the country. Other factors expected to drive the upward performance of the hospitality sector include; i) intensive marketing of Kenya's tourism market through platforms such as the Magical Kenya, ii) promotion of local tourism, iii) improved security, iv) increased sporting and leisure events in the country, and, v) the oncoming festive season which will further boost bookings and leisure activities for short term period.

IV. Infrastructure

During the week, the government of Kenya in conjunction with the United Kingdom (UK), initiated the launch of Nairobi Railways City project, a multibillion transit-oriented and multi-modal urban Development within the Central Business District of Nairobi City. The Kshs 30.0 bn project is an integration of the Nairobi Integrated Urban Master Plan, Nairobi Transport Master Plan, and Nairobi Commuter Rail Master Plan. Notably, the project will be developed in two phases on the 425.0 acres of government land bordering Uhuru Highway, Ladhies Road, Bunyala Road and Haile Selassie Avenue. Additionally, the British government has also pledged Kshs 11.9 bn to construct office blocks, malls, and light industries within the project, in a bid to decongest the city and create new job opportunities. With regard to funding, the railways city project is part of the larger Kshs 225.0 bn climate oriented funding by the UK, with the repayment of the loan anchored on the developments around climatic changes in the region. The main objectives of the project are;

- i. Maximize focus on Affordable Housing Initiative (AHI) by providing space for construction of 10,000 affordable housing units in the first phase,
- ii. Create a Transit Oriented Development (ToD) to support Ridership for the Nairobi Commuter Rail,
- iii. Provide a livable and Sustainable Urban Space through creation of green public spaces and efficient railway system,
- iv. Minimize urban congestion and traffic delays by integrating non-motorized transport system and modern matatus terminus linked to Bus Rapid Transit Network (BRTN). This is expected to accommodate up to 30,000 passengers per hour,
- v. Regenerate the Central Nairobi City into an eco-friendly environment through incorporation of latest technology in green building technology, keeping of track Kenya's ambitions on sustainable climatic strategies,
- vi. Foster activity in the region's retail sector by establishing affordable spaces for small and medium enterprises which will provide increased market opportunities for retailers, and,
- vii. Establish an iconic economic development to position Nairobi as a thriving continental metropolis and serve as a template for other projects that UK seeks to further implement in Africa.

Upon completion of the ambitious project, we expect positive performance in the Real Estate sector which will be shaped by; i) increased developments in the industrial, residential, commercial and retail sectors, ii) growth of urban developments in areas surrounding the Railway city, iii) positive growth in property values of regions around the project, iv) increased investors' confidence and attraction of more foreign investors into the project hence accelerating performance of the economy, and, v) creation of regional metropolises with the project linking to other upcoming smart cities like

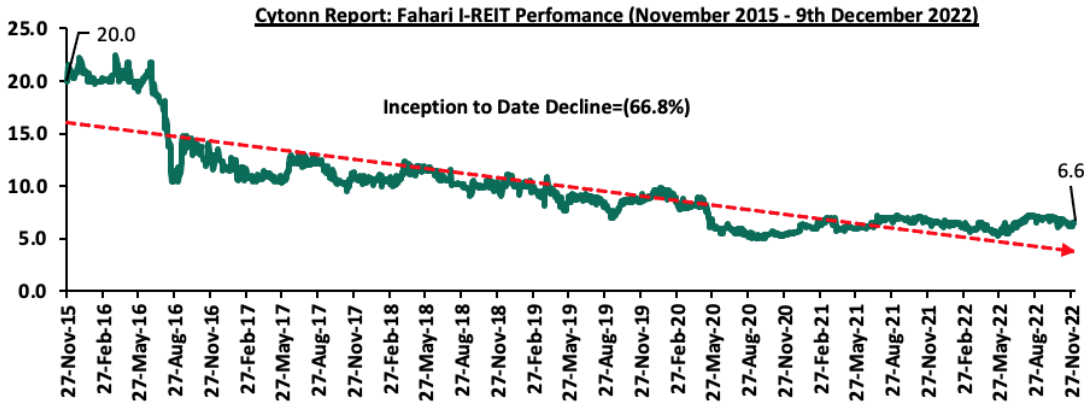
the Northlands City and Tatu City in Kiambu County, and Konza City in Machakos County.

Conversely, in as much as the funding of the project has been achieved, the crucial challenge will be on the implementation of the project to the end and management of the project to be a sustainable initiative for the country. Such projects have proved to incur high operating costs and inadequate economic benefits due to mismanagement of public investments and lack of reasonable planning control of the land uses. We therefore recommend the government to;

- i. Establish a dedicated government agency to oversee the development and management of the railway city, including the recruitment of seasoned and proficient personnel to assist in the planning and budgeting process,
- ii. Provide financial incentives and grants to local developers to encourage the construction of the city and to help create jobs,
- iii. Develop a comprehensive transportation plan to ensure efficient movement of goods and people in the city,
- iv. Establish a clear regulatory framework to ensure proper enforcement of building codes, safety standards, and quality of life standards in the city,
- v. Optimize on management of areas around the project in the preliminary stages of the project through guaranteeing reasonable, economic, and efficient use of land, and,
- vi. Formulate strategies on sourcing for more funds early enough for managing and operating the project before it is completed.

V. Real Estate Investment Trust (REITs)

In the Nairobi Stock Exchange, ILAM Fahari I-REIT closed the week trading at an average price of Kshs 6.6 per share. The performance represented a 2.5% gain from Kshs 6.5 per share recorded the previous week, taking it to a 3.4% Year-to-Date (YTD) gain from Kshs 6.4 per share. However, the performance represented a 66.8% Inception-to-Date (ITD) decline from Kshs 20.0. The Kshs. 6.6 price given the last annual dividend of Kshs 0.5 represents an annual yield of 7.53%. The graph below shows Fahari I-REIT’s performance from November 2015 to 9th December 2022;



In the Unquoted Securities Platform, Acorn D-REIT and I-REIT closed the week trading at Kshs 23.8 and Kshs 20.9 per unit, respectively, as at 2nd December 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 15.1 mn shares, respectively, with total turnovers of Kshs 117.0 mn and Kshs 313.1 mn, respectively, since inception in February 2021.

Kenya’s positive property market performance continues to be shaped by; i) continued aggressive focus and support on the residential sector through Affordable Housing Program, ii) continuous expansion drive by local and international retailers, and, iii) continued growth and resilience of the hospitality sector. However, the performance is expected to be weighed down by; i) increasing construction costs amid inflationary

pressures in the economy, ii) existing oversupply of retail spaces currently at 1.7 mn SQFT in Kenya, and, iii) low investor confidence in the listed Real Estate Investment Trusts.

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