

Real Estate Investment Trusts (REITs) Progress in Kenya & Cytonn Weekly #50/2022

Real Estate

I. Residential Sector

During the week, property developer Erdemann Limited, in conjunction with the County Government of Machakos, broke ground for the construction of the fifth phase of Great Wall Gardens project located in Mavoko municipality. The Kshs 4.2 bn project will constitute 1,128, 3-bedroom master ensuite units, which upon completion will bring the total number of units completed by the developer to 7,185 since 2003. Additionally, this comes three months after the developer completed and launched the fourth phase of the project in August 2022. Other notable projects by the developer include; Greatwall Apartments Phase 1 to Phase 3 which are located in Mlolongo, Seefar Apartments situated in High Rise Estate, Windsor View Apartments in Kiambu, Kileleshwa Executive Apartments, and, Metro Fairview Towers located in Pangani. The table below gives a summary of the unit type, size and prices for the 5th phase of the project;

Cytonn Report: Great Wall Gardens Phase 5 Project

| Typology | Unit size (SQM) | Unit Price (Kshs) | Price per SQM(Kshs) |
|----------------------------|-----------------|-------------------|---------------------|
| 3 beds (Master Ensuite) | 104 | 3.9 mn | 37,500 |

Source: Cytonn Research 2022

In terms of performance, Athi River apartments recorded an average selling price of Kshs 58,199 per SQM in Q3'2022. Notably, the average price per SQM for apartments at Great Wall Gardens is Kshs 37,500, which is 35.6% lower than Athi River's market average, cementing the affordability of the development. Athi River also recorded occupancies and uptakes of 85.2% and 15.2% respectively positioning the development viable as the developer is expected to gain total returns of up to 7.0% from rental and market appreciation, this excludes the development returns. The table below shows the lower mid end satellite towns' residential apartment's performance during Q3'2022;

(All values in Kshs unless stated otherwise)

Cytonn Report: 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% |

Cytonn Report: 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 | | | | | | | | |
| 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% |
| 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

Once completed, the project is expected to; i) provide quality and decent housing to Mavoko residents thereby improving their living standards, ii) boost home ownership rates in the country which have remained significantly low at 21.3% in urban areas as at 2022, iii) curb the existing housing deficit which stands at 2.0 mn, and, iv) develop sustainable neighborhoods among the informal and the low income communities.

Great Wall Gardens project which aims to boost communities, private sector, and local authorities' capacities in the supply of housing, infrastructure, and services, complements government's affordable housing initiative which continues to gain momentum with several projects in the pipeline as 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 Erdemann 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 Epco Builders | 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 |

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| Name | Developer | Location | Number of Units |
|------------------------------------|--|-------------------------|------------------------|
| 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 fast-track the delivery of housing projects through the program such as;

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

| Name | Developer | Location | Number of Units |
|----------------------------|-----------------------------|--|------------------------|
| Great Wall Gardens Phase 5 | Erdemann Limited | Mavoko, Machakos County | 1,128 |
| 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 |
| Joinven Estate | Joinven Investments Limited | Syokimau, Machakos County | 440 |
| Total | | | 49,775 |

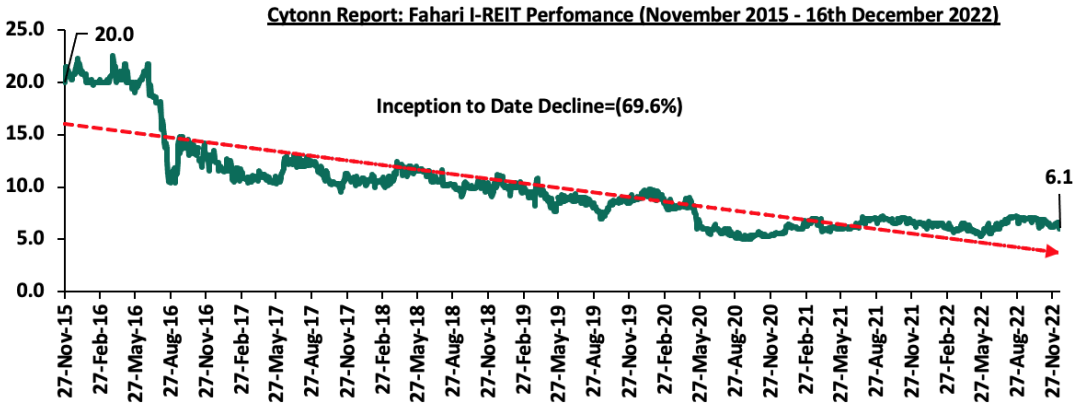
Source: Boma Yangu Portal

We believe the initiative will persist supported by private developers' engagement through various strategies such as Public Private Partnerships (PPPs), positively impacting Kenya's housing sector's performance while enhancing diverse resident's living standards. Consequently, the move will help curb the current housing deficit and facilitate the delivery of affordable housing units in the country.

II. Real Estate Investment Trusts (REITs)

In the Nairobi Securities Exchange, ILAM Fahari I-REIT closed the week trading at an average price of Kshs 6.1 per share. The performance represented an 8.4% decline from Kshs 6.6 per share

recorded the previous week, taking it to a 5.3% Year-to-Date (YTD) loss from Kshs 6.4 per share. In addition, the performance represented a 69.6% Inception-to-Date (ITD) decline from the Kshs 20.0 price. The dividend yield currently stands at 8.2%. The graph below shows Fahari I-REIT's performance from November 2015 to 16th December 2022;



In the Unquoted Securities Platform, Acorn D-REIT and I-REIT traded 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 a turnover of Kshs 117.0 mn and Kshs 313.1 mn, respectively, since its inception in February 2021.

Kenya's property market continues to realize remarkable growth and development activities particularly in the housing sector. However, setbacks such as minimal investor appetite for the REIT instrument continue to pose a challenge to the optimum performance of the sector.