

Kenya Economic Update: 2023, & Cytonn Weekly #10/2023

Real Estate

I. Residential Sector

During the week, President William Ruto **presided** over the ground breaking of 6,704 Affordable Housing units situated on 22.4 acre parcels of land in Ziwani, Starehe. The Kshs 13.0 bn project is set to be funded by GulfCap Africa Limited through a Public-Private Partnership (PPP) agreement that will see the Government provide the land. According to the initial design plan, the project was planned to consist of 370 housing units. However, following a Presidential directive, the number of units to be delivered was increased to 6,704 units with prices starting at Kshs 1.2 mn. Out of the 6,704 units, 2,000 units will be allocated to the **social housing** program which aims at improving informal settlements by reserving the units exclusively to low-income residents. The project will comprise of residential housing units, and social amenities including children’s playground, sports facilities, gym, swimming pool, green spaces, outdoor recreational facilities, food courts, community centers and an Early Childhood Development (ECD) centre. Construction of the project will be spearheaded by GulfCap Africa Limited, and is planned to be delivered in five phases over a five-year duration, scheduled for completion in February 2026. Other notable projects by the developer include Phase one of the Buxton Affordable Housing project in Mombasa which delivered 584 units. Following the design changes, the exact details for the housing units are yet to be disclosed.

The Ziwani Starehe project launch is a step towards the government’s commitment towards achieving the affordable housing agenda by supporting the construction of 200,000 units annually. Other affordable housing projects launched by President Ruto’s administration include **Kings Boma Estate in Ruiru, Shauri Moyo, Mukuru kwa Njenga, Kibera Soweto B, and Homa Bay** projects. The government also commissioned Kings Serenity Project in Ongata Rongai in October 2022. The table below shows other affordable housing projects in the pipeline;

Cytonn Report: Notable Ongoing Affordable Housing Projects by the Government

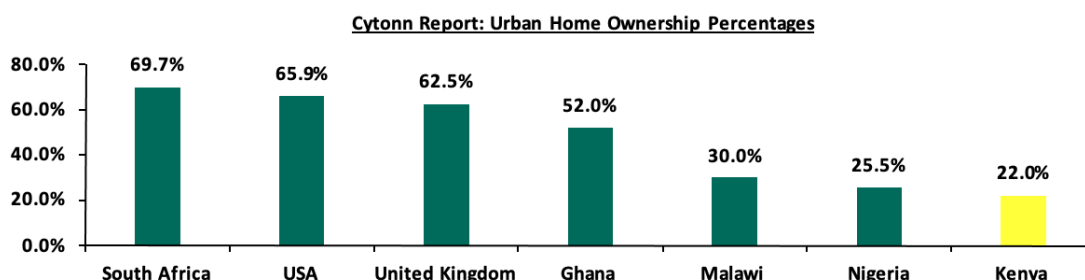
Name	Developer	Location	Number of Units
Ziwani Starehe Affordable Housing Project	National Government and GulfCap Africa Limited	Ziwani	6,704
Pangani Affordable Housing Program	National Government and Tecnofin Kenya Limited	Pangani	1,562
River Estate Affordable Housing Program	National Government and Erdemann Property Limited	Ngara	2,720
Park Road Affordable Housing Program	National Housing Corporation	Ngara	1,370

Cytonn Report: Notable Ongoing Affordable Housing Projects by the Government

Name	Developer	Location	Number of Units
Mukuru Affordable Housing Program	National Housing Corporation	Mukuru kwa Njenga, Enterprise Road	15,000
Mavoko Affordable Housing Project	National Government and Epcu 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
Mariguini Informal Settlement	National Government	Starehe, Nairobi County	2,600
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
Shauri Moyo A Affordable Housing Units	National Government and Epcu Builders	Shauri Moyo, Nairobi County	2,731
Clay City Project	Housing Finance Development and Investment and Clay Works Limited	Kasarani, Thika Road	1,800
Bachelors Jevanjee Estate	County Government of Nairobi and Jabavu Village	Ngara	720
Kings Boma Estate	National Government and Kings Developers Limited	Ruiru, Kiambu County	1,050
Total			47,787

Source: Boma Yangu

The project is expected to; i) elevate the living standards of residents through providing affordable, quality, descent housing and social amenities, ii) improve the livelihood of surrounding residents through the creation of an estimated 10,000 jobs and employment opportunities both directly and indirectly, iii) promote economic growth by supporting the local manufacturing sector through extending tenders worth Kshs 0.5 bn to local Micro Small Medium Enterprises (MSMEs) in a plan to source building materials such as doors and windows locally, iv) promote inclusion of women in the business sector as approximately 50.0% of tenders will be extended to women, v) assist curb the existing housing deficit currently standing at 80.0%, and, vi) boost home ownership rates which have remained low especially in urban areas at 22.0%. The developer is also expected to upgrade Ziwani dispensary and a local school. The graph below highlights home ownership rates in different African countries;



We expect to see the launch and completion of more affordable housing projects as the year progresses owing to the traction gained by the AHP, and more developers enter into Public-Private Partnership (PPPs) agreements with both the national and county governments in efforts to realize the affordable housing agenda.

II. Retail Sector

During the week, Tuskys Supermarket announced the closure of Tuskys Karasha branch located along Kenyatta Avenue in the Central Business District (CBD), Nairobi. This has brought down the number of the retailers operating outlets countrywide to five; Tuskys Imara, Tuskys Athi River where its headquarters are located, Tuskys Buruburu, Tuskys Ongata Rongai, and Tuskys Oltalet Narok located in Oltalet Mall. Notably, Tuskys Imara branch along Tom Mboya is the last remaining of the retailer's outlets in the CBD. Tuskys cited poor performance occasioned by reduced footfall and operations owing to the tough micro-economic environment as main factors that influenced its decision to shut down the branch. In light of the retailers exit, we expect the existing oversupply of retail spaces in the Nairobi Metropolitan Area (NMA) standing at approximately 3.0 mn SQFT to widen further. 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 as at FY'2022	Branches opened in 2023	Closed branches	Current branches	Branches expected to be opened	Projected branches FY'2023
Naivas	Local	46	61	69	79	91	0	0	91	0	91
Quick Mart	Local	10	29	37	48	55	1	0	56	0	56
Chandarana	Local	14	19	20	23	26	0	0	26	0	26
Carrefour	International	6	7	9	16	19	0	0	19	0	19
Cleanshelf	Local	9	10	11	12	12	1	0	13	0	13
Tuskys	Local	53	64	64	6	6	0	59	5	0	5
Game Stores	International	2	2	3	3	0	0	3	0	0	0
Uchumi	Local	37	37	37	2	2	0	35	2	0	2
Choppies	International	13	15	15	0	0	0	15	0	0	0
Shoprite	International	2	4	4	0	0	0	4	0	0	0
Nakumatt	Local	65	65	65	0	0	0	65	0	0	0
Total		257	313	334	189	211	2	183	212	0	212

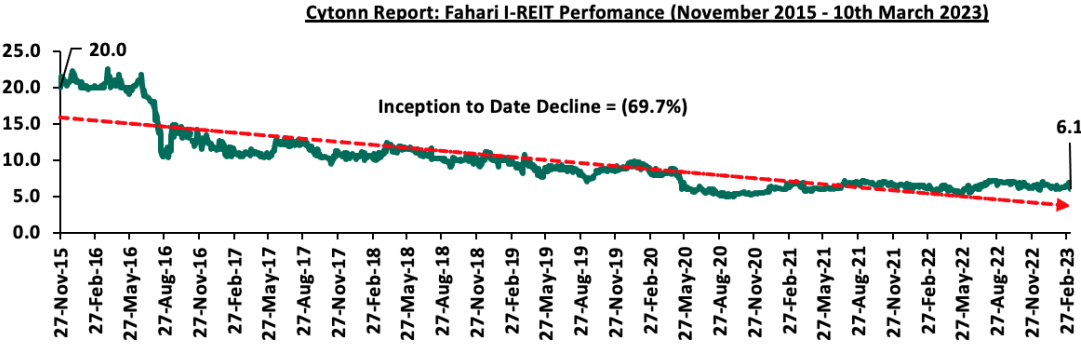
Source: Cytonn Research

Tuskys has been struggling to revive its supermarket chain since February 2020 when the its liquidation issues first surfaced, forcing the retailer to close a majority of its branches and joined the list of local retailers who have exited the market such as Nakumatt, Uchumi, Game Stores, Shoprite, and Choppies. We expect that; i) the surging inflation driving up costs of businesses and curtailing consumer purchasing power, ii) the fast paced growth of e-commerce, and, iii) the existing oversupply of retail space standing at approximately 3.0 mn SQFT in the NMA retail sector and 1.7 mn SQFT in the non-NMA regions, will weigh down performance of the Kenyan retail sector. However, we anticipate that the ongoing aggressive expansion drive by both local and international retailers such as Naivas, Quickmart, and Carrefour will help cushion the sector's performance.

III. Real Estate Investments 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 8.5% loss from Kshs 6.6 per share recorded

the previous week, taking it to a 10.6% Year-to-Date (YTD) decline from Kshs 6.8 per share recorded on 3rd January 2023. In addition, the performance represented a 69.7% Inception-to-Date (ITD) loss from the Kshs 20.0 price. The dividend yield currently stands at 8.3%. The graph below shows Fahari I-REIT's performance from November 2015 to 10th March 2023;



In the Unquoted Securities Platform, Acorn D-REIT and I-REIT traded at Kshs 23.9 and Kshs 20.9 per unit, respectively, as at 10th March 2023. The performance represented a 19.4% and 4.4% gain for the D-REIT and IREIT, respectively, from the Kshs 20.0 inception price. The volumes traded for the D-REIT and I-REIT came in at 12.3 mn and 29.4 mn shares, respectively, with a turnover of Kshs 257.5 mn and Kshs 600.4 mn, respectively, since inception in February 2021.

We expect the performance of Kenya’s Real Estate sector to remain on an upward trajectory, supported by factors such as; i) the launch and completion of various affordable housing projects across the country, ii) aggressive expansion drive of both local and international retailers, and, iii) increasing demand for Real Estate facilitated by positive demographics such as high urbanization and population growth rates. However, the existing oversupply of physical space in selected sectors, rising inflation driving up costs of businesses hindering consumer purchasing power, and low investor appetite for REITs are expected to continue subduing the optimum performance of the sector.