Nairobi Metropolitan Area Commercial Office Report 2023, & Cytonn Weekly #11/2023

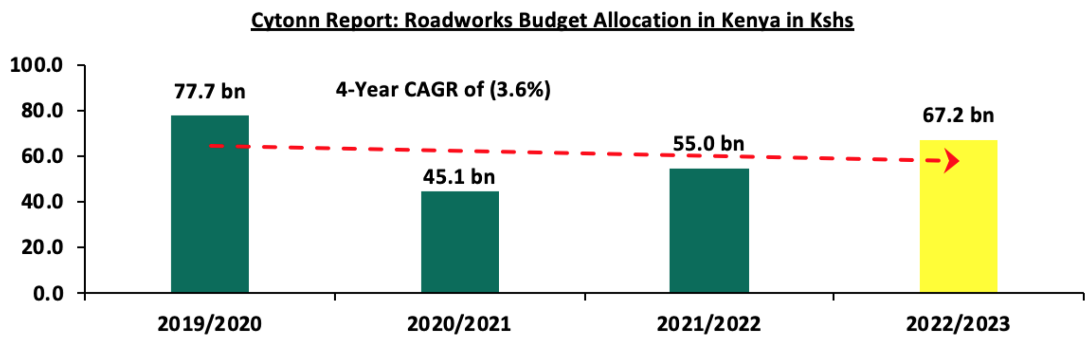
Real Estate

I. **Industry Report**

During the week, the Kenya Roads Board (KRB), the agency overseeing development and maintenance of roads in Kenya, released the Annual Public Roads Programme 2022/2023 report and the following were the key take outs;

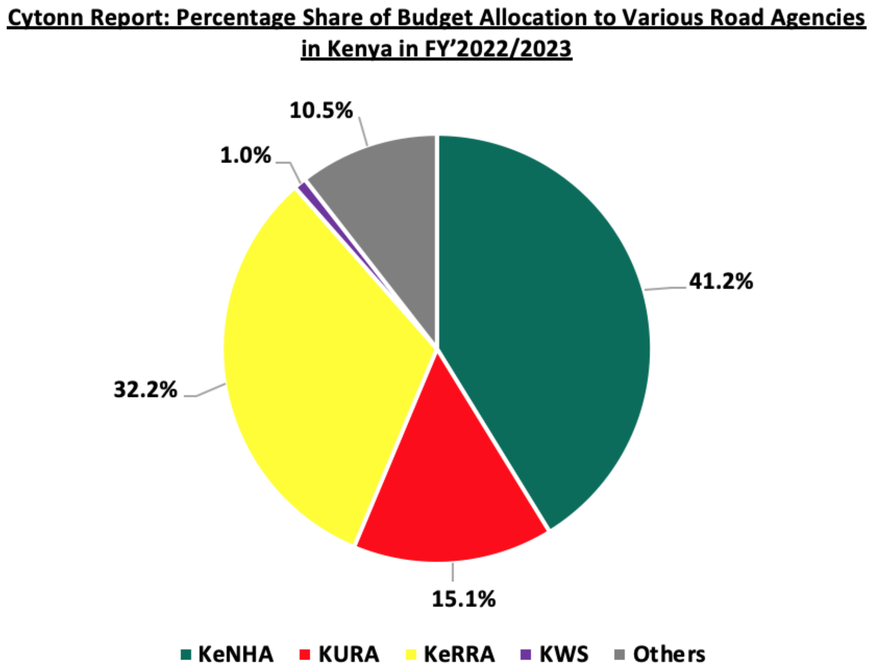
i. Kenya's good roads network increased to 18.2% in 2018 from 9.9% in 2009, while the poor road networks declined to 37.0% in 2018, from the 58.9% recorded in 2009. Both instances signify the government's efforts to better the infrastructure and roads sector in Kenya through implementation and development of various major road projects such as the completed Nairobi Expressway, Western Bypass, Northern Bypass, Eldoret Bypass, Makupa Bridge, Jomvu-Miritini-Changamwe dual carriage, Kibarani Bridge in Mombasa, and expansion and maintenance of major highways such ongoing expansion of Eastern Bypass and Kenol-Marua highways, ongoing construction of Dongo-Kundu dual carriageway, and many more,

ii. A total of Kshs 67.2 bn has been allocated in FY'2022/2023 to various agencies namely; Kenya National Highway Authority (KeNHA), Kenya Urban Roads Authority (KURA), Kenya Rural Roads Authority (KeRRA), Kenya Wildlife Service (KWS), and Roads Sector Investment Programme Gaps (RSIPG), for the purpose of maintenance and restoration of public roads. This represents a 22.2% increase in the funds allocated for the maintenance of roads for the FY'2022/23 compared to the Kshs 55.0 bn spent in the FY'2021/22, an indication that the government continues to prioritize on improved road developments across the country. However, a negative 4-year Compounded Annual Growth Rate (CAGR) of 3.6% in roadwork budget allocation is attributed to significant reduction in allocation of funds for roadworks by 42.0% to 45.1 bn in FY'2020/2021 from Kshs 77.7 bn in FY'2019/2020. The budget reduction was occasioned by the emergence of Covid-19 pandemic in 2020 as the government consolidated more finances from other sectors of the economy like the infrastructural sector to support the country's healthcare sector in containing the spread and prevalence of the pandemic in the country. Nonetheless, a gradual increase of finances from FY'2019/2020 to the current fiscal year signifies the government's bigger investment programs aligned on road infrastructure to not only sustain the upgrade and maintenance of roads but also launching and commissioning new mega projects in different parts of the country as the economy gears towards pre-COVID-19 period. The graph below shows roadworks budgets allocation in Kenya from 2019 to 2020;



Source: Kenya Roads Board (KRB)

iii. KeNHA is set to receive the largest share of the budget totalling to Kshs 27.7 bn with KURA, KeRRA, KWS, and RSIPG each set to receive Kshs 10.1 bn, Kshs 21.6 bn, Kshs 0.6 bn, and Kshs 7.1 bn, respectively, for revamping and maintaining their respective road projects. Furthermore, the total road network to be covered under the Annual Public Roads Programme (APRP) increased by 5.3% to 50,978 km in FY'2022/2023 from 48,418 km in FY'2021/2022. This represents 31.5% of the total Classified National Trunk Road Network which is at 162,055 km and 20.7% of the total national road network which is currently at 246,757 km. The graph below shows percentage share of budget allocation to various road agencies in Kenya in FY'2022/2023;

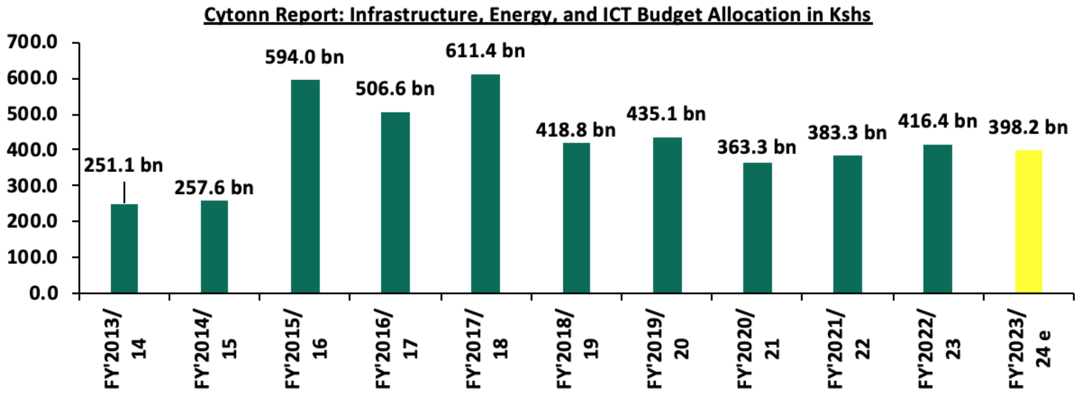


Source: Kenya Roads Board (KRB)

We expect to continue seeing the progress, execution, and completion of more road developments in FY'2022/2023 mainly supported by the current government's aggressiveness to; i) fast-track the accomplishment of key projects that stalled during the previous regime, and, ii) step up on competition for attracting regional and international investors against other countries in Eastern Africa like Tanzania through improved and quality road networks across the country.

Upon completion, the select projects are expected to open up more areas for penetration of Real estate investments across all select sub-sectors, opening up new opportunities and demand for properties, goods and services. Nevertheless, the government is still experiencing financial shortfall in its expenditure budget and therefore financing some of these projects will be costly and at higher risks of overburdening the budget. This has led to an expected reduction of the Government's allocation for Infrastructure, Energy, and Information and Technology (ICT) by 4.4% for the fiscal year 2023/2024 to Kshs 398.2 bn, from Kshs 416.4 bn in FY'2022/2023 according to Draft 2023

Budget Policy Statement. Additionally, the government has been running out of the fiscal space and cannot impose more taxes on Kenyans given that there is an existing Fuel Maintenance Levy for the maintenance of road currently imposed on motorists. Therefore, the government will have to continue adopting various sources of financing the road developments such as; Public-Private Partnerships (PPPs), issuing of Infrastructure bonds, concessional loans from multilateral organizations, grants and loans from foreign countries, and Joint Ventures (JVs) with several parastatals and agencies. The graph below illustrates infrastructure budget allocation from FY’2013/2014 to FY’2022/2023;



Source: National Treasury

II. **Hospitality Sector**

During the week, Dusit International, a Bangkok based Thai Hotel and property development company announced plans to open a hotel-serviced apartment in Westlands Nairobi in 2023 dubbed ‘*Dusit Princes Hotel Residences*’, along Mimosa Lane off Church Road. The upper-middle class property will consist of a hybrid of 56 one bedroom and 30 studio apartments and 14 deluxe hotel rooms. Other facilities at the property will include; an Italian inspire restaurant dubbed ‘*The Olive Restaurant’,* a rooftop bar dubbed *‘The Aviary Lounge’,* heated swimming pool, rooftop gym, and a 150 guest capacity theatre-styled meeting room. The opening of ‘*Dusit Princes Hotel Residences’* comes after closure of ‘*DusitD2 Nairobi*’ in 2021, a luxury hotel branch of Dusit International which was located at 14 Riverside Complex in Westlands. The closure of the hotel which was opened in 2014 was occasioned by a terror attack the 14 Riverside Complex in January 2019 and a prevailing COVID-19 pandemic in 2020 and 2021, greatly hampering its business operations in the hospitality sector. The decision is also part of an aggressive expansion move by the international hotel chain with plans to open 14 new hotels in the next three to four years, with a total estimation of 1,700 new rooms across seven countries worldwide. Westlands continues to attract more international hospitality brands in Kenya evidenced by the new entry of Kwetu Residences by Hilton Hotel in February 2023 and JW Marriot in Global Trade Centre (GTC) which will be opened in 2023. According to our Nairobi Metropolitan Area (NMA) Serviced Apartments Report 2022, Westlands still holds the largest market share of serviced apartments in NMA region as shown in the table below:

Cytonn Report: Nairobi Metropolitan Area (NMA) Serviced Apartments Market Share 2022

Area Percentage	Market Share
Westlands	33.7%
Kilimani	29.2%
Kileleshwa & Lavinton	12.4%
UpperHill	7.9%
Limuru Road	7.8%

Cytonn Report: Nairobi Metropolitan Area (NMA) Serviced Apartments Market Share 2022

Area Percentage	Market Share
Nairobi Central Business District (CBD)	4.5%
Thika Road	4.5%
Total	**100%**

Source: Cytonn Research

The investment attraction in Westlands has been attributed to;

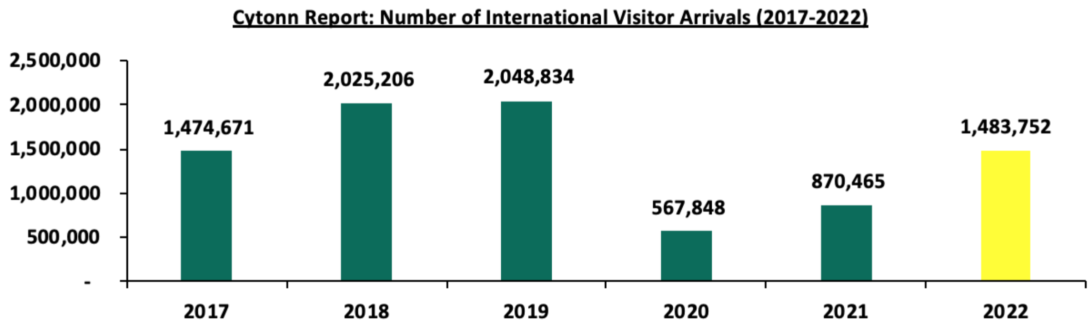
i. Its close proximity to Nairobi's Central Business District (CBD) and other business nodes such as Kilimani and Upperhill,
ii. Direct accessibility to and from Kenya's main international airport, the Jomo Kenyatta International Airport (JKIA), via the Nairobi Expressway,
iii. Its strategic location within a vibrant commercial zone thus suitable for hospitality activities such as conferences and meetings,
iv. Adequate infrastructure and social amenities such as the upgraded Waiyaki Way, Westgate Mall, Global Trade Centre and Kitisuru Road,
v. Presence of numerous international embassies and multinational organizations which attract international visitors and expatriates and are key markets for the hospitality sector, with others being the German Embassy, United Nations regional offices, Microsoft, Google regional offices, PwC, Deloitte, Netherlands Embassy, and, HD Centre for Humanitarian Dialogue, and,
vi. Presence of prime serviced apartments fetching higher rents and rental yields thus increasing investors' confidence for the region. This is according to our Nairobi Metropolitan Area (NMA) Serviced Apartments Report 2022, which highlighted that Westlands was the best performing node in terms of serviced apartments in NMA in 2022, fetching the highest monthly charges and rental yields at Kshs 3,916 and 9.3% respectively. The table below highlights the performance of the various nodes within the NMA;

Cytonn Report: NMA Serviced Apartments Performance per Node - 2022

Node	Studio	1 Bed	2 Bed	3 bed	Monthly Charge/ SQM (Kshs)	Occupancy	Devt Cost/SQM (Kshs)	Rental Yield
Westlands	193,633	284,376	343,828	353,350	3,916	70.7%	209,902	**9.3%**
Kilimani	173,062	248,122	287,174	449,987	2,937	69.3%	202,662	**7.2%**
Kileleshwa & Lavington	150,000	250,000	417,593	498,803	2,811	66.3%	206,132	**6.6%**
Limuru Road	145,713	308,725	327,424	344,500	2,976	60.6%	231,715	**5.8%**
Nairobi CBD	171,000	162,680	271,707	268,620	2,348	66.2%	224,571	**5.2%**
Upperhill		201,533	347,950	554,800	2,225	65.4%	209,902	**5.0%**
Thika Road		82,381	208,088	295,000	1,800	62.1%	200,757	**4.2%**
Average	**166,682**	**219,688**	**314,823**	**395,008**	**2,716**	**65.8%**	**212,234**	**6.2%**

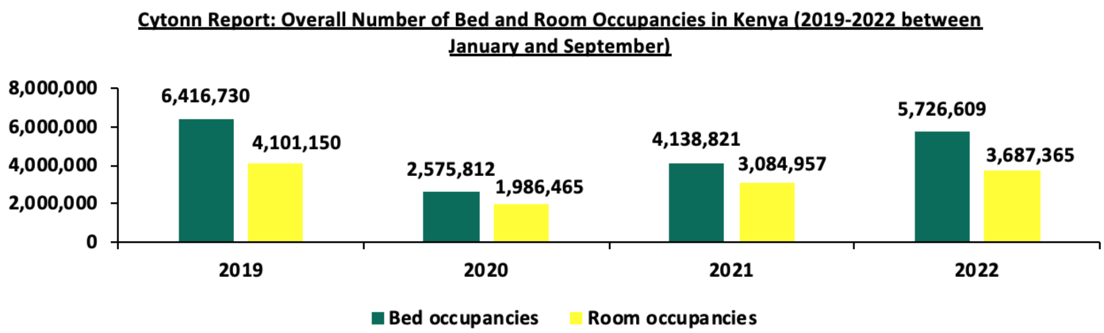
Source: Cytonn Research 2022

Kenya's hospitality sector continues to showcase positive growth in its performance, development, and expansion activities. This has mainly boosted by the increased international tourism arrivals into the country, conferences, leisure, and, sport activities, following continuous reopening of the country in the post-COVID period with the sector's performance gearing towards pre-COVID levels. According to Kenya Tourism Research Institute's Annual Tourism Sector Performance Report - 2022, Kenya registered a 70.5% increase in the number of international arrivals to 1,483,752 persons in 2022 compared to 870,465 persons in 2021. The performance in 2022, represented a 72.4% recovery level compared to pre COVID-19 levels of 2,048,834 persons in 2019, 7.4% points higher than the average global recovery rate compared against the same period. The graph below shows the number of international arrivals from 2017 to 2022;



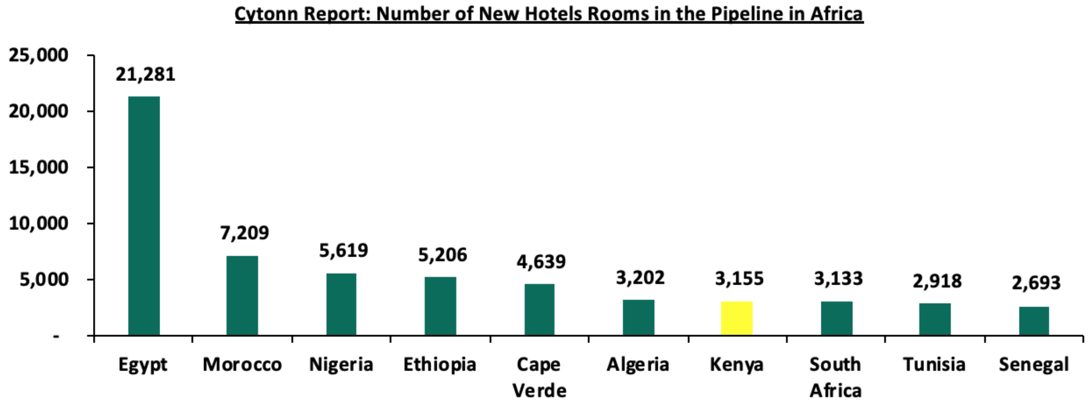
Source: Kenya Tourism Research Institute (KTRI)

Additionally, the number of both international and domestic bed occupancies grew by 38.4% to 5,726,609 beds in the period January to September 2022 from 4,138,821 beds the same period in 2021. This represented an 89.2% recovery rate against 2019 which recorded 6,416,730 occupied beds. On the other hand, rooms occupancy increased by 19.5% to 3,687,365 in 2022 from January to September from 3,084,957 in the same period in 2021, achieving a recovery rate of 89.9% against 2019 pre-COVID levels which recorded 4,101,150 rooms occupied. The graph below shows the overall number of bed and room occupancies in Kenya between January and September, from 2019 to 2022;



Source: Kenya Tourism Research Institute (KTRI)

With renewed optimism on the sector and strong indications of recovery and resilience from the pandemic's effects, the W Hospitality Group's Hotel Chain Development Pipelines in Africa 2022 reveals that 24 global hotel brands are exploring opportunities to develop new hospitality facilities in Kenya. This will result in the addition of 3,155 new hotel rooms in the country, placing Kenya among the top ten hotspot countries for new luxury hotels on the African continent, as demonstrated below. The graph below shows number of hotel rooms in the pipeline in several African countries;

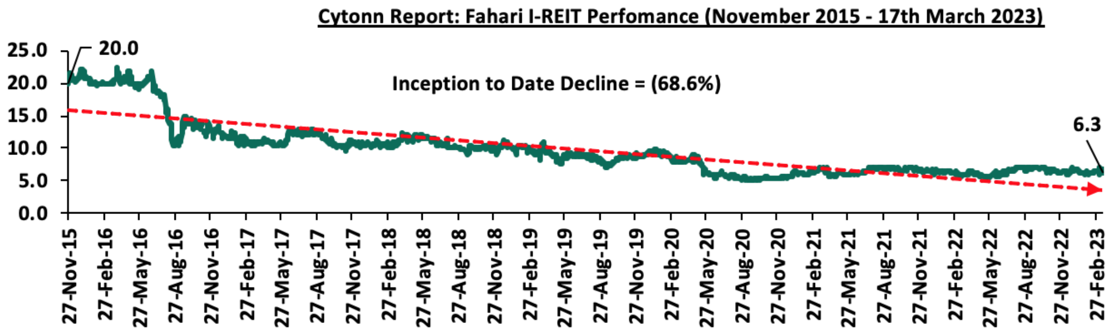


Source: Hotel Chain Development Pipelines in Africa 2022

We expect the hospitality sector's performance to continue being resilient, fuelled by factors such as: i), increased business events, conferences, and meetings from the public and private sectors owning to revamp of the economy in the post-COVID-19 and electioneering periods, ii) continued recognition of Kenya's hospitality industry through positive accolades awarded to several local and foreign hotel brands based in Kenya which have boosted investors' confidence in the sector such as the World Travel Awards 2022, MICE Awards, Fodor Finest Hotels, among others, iii) increased sporting activities and leisure such as the 2023 Annual World Safari Rally, and, iv) intensive marketing of Kenya's tourism market through platforms such as the Magical Kenya and Kenya Tourism Board to local and international tourists. However, the recent issuance of travel advisories regarding insecurity in certain regions of the country by the United Kingdom (UK), United States of America (USA), Irish, and Canadian governments in February 2023 and the current government's austerity measures to indefinitely suspend hotel meetings, conferences and trainings by Ministries, Agencies and State Departments (MADs) will further weigh down the optimum performance of the hospitality sector.

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 6.3 per share. The performance represented a 3.6% gain from Kshs 6.1 per share recorded the previous week, taking it to a 7.4% Year-to-Date (YTD) decline from Kshs 6.8 per share recorded on 3rd January 2023. In addition, the performance represented a 68.6% Inception-to-Date (ITD) loss from the Kshs 20.0 price. The dividend yield currently stands at 8.0%. The graph below shows Fahari I-REIT's performance from November 2015 to 17th 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 17th 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.

REITs provide numerous advantages, including consistent and prolonged profits, tax exemptions, and diversified portfolios, among others. Despite these benefits, the performance of the Kenyan REITs market remains limited by several factors such as; i) insufficient investor understanding of the investment instrument, ii) time-consuming approval procedures for REIT creation, iii) high minimum capital requirements of Kshs 100.0 mn for trustees, and, iv) high minimum investment amounts set at Kshs 5.0 mn discouraging investments.

We expect the performance of Kenya's Real Estate sector to remain on an upward trajectory, supported by factors such as; i) increased investment in road infrastructural developments by the government which will open up more areas for more opportunities in Real Estate across the country, and, ii) increased activities in the hospitality sector as the economy continues on its recovery path. However, the reduction in budget expenditure in the general infrastructure sector, and low investor appetite for REITs are expected to continue subduing the performance of the sector.

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