Kenya Retirement Benefits Scheme FY'2022 Review, & Cytonn Weekly #14/2023

Real Estate

I. **Retail Sector**

During the week, Naivas Supermarket opened a new outlet located at Brick Mall, Thindigua Kiambu County, bringing the total number of its operating outlets countrywide to 92. This decision by Naivas is part of the company's ambitious expansion strategy aimed at consolidating its market leadership position and gaining an edge over other major retailers in the region such as QuickMart, Cleanshelf, Chandarana Foodplus, and Carrefour. Previously, Thindigua was only served by Quickmart Supermarket as the only major retailer in the region since January 2019, and supplemented by other convenience stores and mini-marts. The entry of Naivas Supermarket in Thindigua and surrounding regions is a clear indication of the increasing demand for convenience by consumers with diverse preferences and interests, who want to be served at their close proximity by major retailers that have the necessary resources to facilitate such convenience. Furthermore, Naivas' expansion is coming at a time when several other retailers, including Nakumatt, Tuskys, Games Stores, Shoprite, Choppies, and Uchumi Supermarkets, have exited the market, widening the gap for investment in the formal retail sector. This development is happening at a time when formal retail penetration in Kenya remains low standing at 30.0% as of 2018. Naivas' decision to expand its footprint in Thindigua and surrounding areas will enable more consumers to access formal retail services and improve their shopping experiences.

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	Hybrid*	46	61	69	79	91	1	0	92	0	92
Quick Mart	Hybrid**	10	29	37	48	55	2	0	57	0	57
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

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Nakumatt	Local	65	65	65	0	0	0	65	0	0	0
Total		**257**	**313**	**334**	**189**	**211**	**4**	**183**	**214**	**0**	**214**

***40% owned by IBL Group (Mauritius), Proparco (France), and DEG (Germany), while 60% owned by Gakiwawa Family (Kenya)**

****More than 50% owned by Adenia Partners (Mauritius), while Less than 50% owned by Kinuthia Family (Kenya)**

Source: Cytonn Research

We continue to expect increased activities in the retail sector attributed to continuous growth and expansion by existing local and international retailers, increased infrastructural development enhancing accessibility in regions offering new opportunities for retail investment, and the growing demand for goods, services, and retail space driven by favourable demographics both within and beyond the Nairobi Metropolitan Area (NMA). Nevertheless, the retail sector in Kenya faces some challenges, including the oversupply of retail space in the NMA and Kenyan retail sectors (excluding NMA) at approximately 3.0 mn and 1.7 mn SQFT, respectively, the ongoing closure of the remaining retail spaces by exiting retailers, and the rapid growth of e-commerce, which could limit the optimal utilization of physical retail spaces. These negative factors may continue to hinder the optimum performance of the sector. For more information on the performance of retail sector in 2023, see Cytonn Q1'2023 Markets Review.

II. Hospitality Sector

During the week, JW Marriot, a subsidiary of the Marriot Bonvoy global portfolio of 30 extraordinary hotel brands officially opened a luxurious safari lodge in River Masai Mara, Talek, within Masai Mara National Reserve dubbed '*JW Marriott Masai Mara*'. The high-end property consists of a restaurant, lounge bar, spa, fitness centre, photographic studio, garden, and outdoor pool. Additionally, the hotel entails 20 private tented rooms and suites which offer different kind of high-end amenities and at different rates. The rooms and suites are categorized into; Deluxe, Deluxe Sunset, Executive, and Ambassadorial. The opening of '*JW Marriott Masai Mara*' was driven by; i) increased number of international visitors to the national reserve who are drawn to the spectacular natural beauty of the savannah, ii) the opportunity to observe the "Big Five" which includes lions, leopards, buffalos, rhinoceros, and elephants, and iii) the annual Great Wildebeest Migration, an event that happens between June and September. The opening also aligns with Marriott Bonvoy's global expansion plan to increase its presence in Kenya, with existing franchises such as Four Points Hotels, Autograph Collection Hotels, and W Hotel. This is at the back of increased competition from other local and international hospitality brands such as Dusit International, Hilton Hotels, PrideInn Hotels, Sarova Hotels, Serena Hotels and many more which are taking advantage of sustained recovery of the sector, with the performance in terms of bed occupancies and international arrivals tracking towards pre-COVID-19 levels. The table below shows breakdown of other Marriot Bonvoy hotels in Kenya;

Cytonn Report: Marriot Bonvoy Presence in Kenya

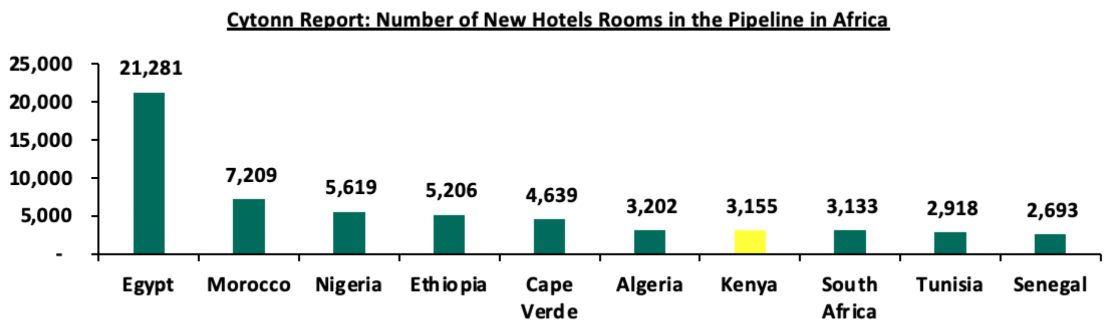
Franchise	Location	Number of Rooms and Serviced Apartments
Sankara Autograph Collection Hotel	Westlands	168
Four Points Sheraton Nairobi Airport	Jomo Kenyatta International Airport (JKIA)	172
Four Points Sheraton Nairobi Hurlingham	Kilimani	96
JW Marriott Global Trade Centre	Westlands	368

Cytonn Report: Marriot Bonvoy Presence in Kenya

Franchise	Location	Number of Rooms and Serviced Apartments
Total		**804**

Source: Cytonn Research

JW Marriott becoming part of the trend towards increased investment in Kenya's hospitality sector shows great signs of recovery and resilience of the sector in the wake of the pandemic. The W Hospitality Group's Hotel Chain Development Pipelines in Africa 2022 report reflects this optimistic trend, revealing that 24 global hotel brands are currently exploring opportunities to develop new hospitality facilities in Kenya. As a result, the country is set to see the addition of 3,155 new hotel rooms from 2023 to the coming years. This influx by global hotel brands will further cement Kenya's position as one of the top ten hotspot countries for new luxury hotels in Africa poising for growth and success of the sector. The graph below shows number of hotel rooms in the pipeline in several African countries;



Source: Hotel Chain Development Pipelines in Africa 2022

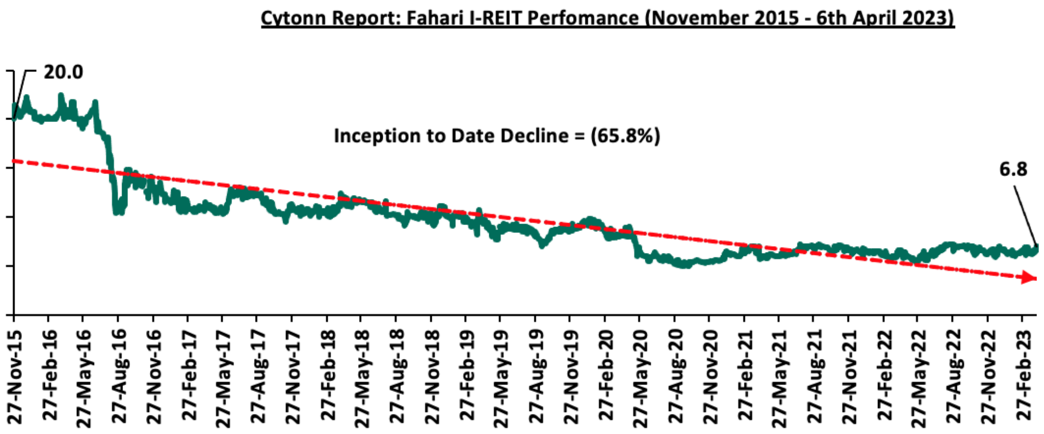
We expect continued resilience in the hospitality sector's performance, fuelled by factors such as: i) continued recognition of Kenya's hospitality industry by international hospitality agencies such as Henley and Partners Real Estate in their Africa Wealth Report 2023 and through positive accolades awarded to several local and foreign hotel brands based in Kenya such as the World Travel Awards 2022, MICE Awards, Fodor Finest Hotels, among others, which have boosted investors' confidence in the sector, ii) increased international tourism arrivals into the country, and activities in the conference, leisure, and, sport sectors, following continuous reopening of the country in the post-COVID period with the sector's performance gearing towards pre-COVID levels as highlighted by Kenya Tourism Research Institute in their Annual Tourism Sector Performance Report - 2022, iii) intensive marketing of Kenya's tourism market through platforms such as the Magical Kenya and Kenya Tourism Board under the Ministry of Tourism Strategy 2021-2025, and, iv) continuous opening, expansions, and acquisitions and mergers by local and international hotel brands in the country. 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, State Departments, Agencies (MDAs) will further weigh down the optimum performance of the hospitality sector.

III. Regulated Real Estate Funds

a. Real Estate Investment Trusts (REITs)

In the Nairobi Securities Exchange, ILAM Fahari I-REIT closed the week trading at an average price of Kshs 6.84 per share. The performance represented a 4.9% gain from Kshs 6.5 per share recorded the previous week, taking it to a 0.9% Year-to-Date (YTD) increase from Kshs 6.78 per share recorded on 3rd January 2023. In addition, the performance represented a 65.8% Inception-to-Date

(ITD) loss from the Kshs 20.0 price. The dividend yield currently stands at 9.5%. The graph below shows Fahari I-REIT's performance from November 2015 to 6 April 2023;

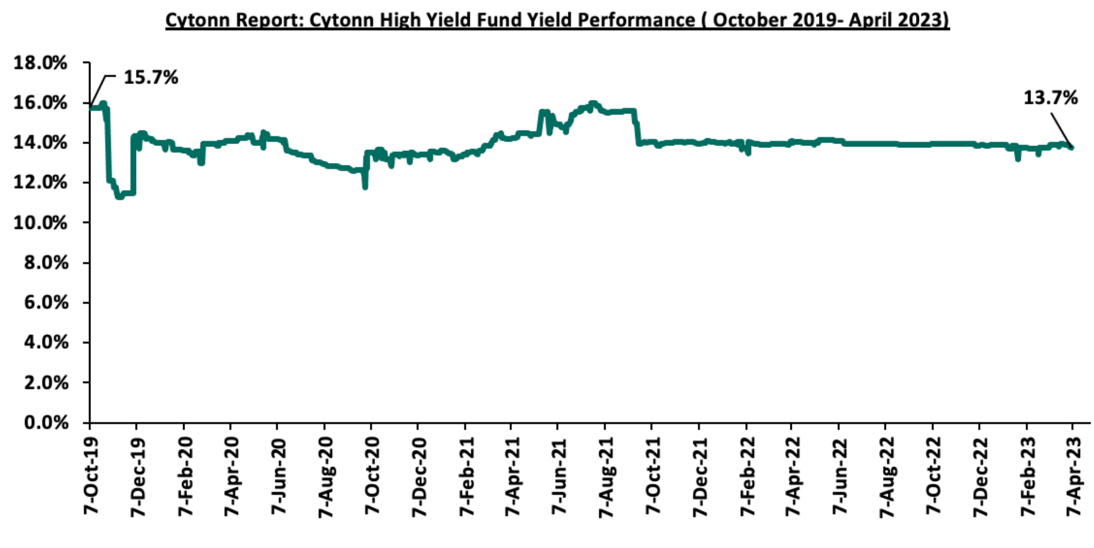


In the Unquoted Securities Platform, Acorn D-REIT and I-REIT traded at Kshs 23.9 and Kshs 20.9 per unit, respectively, as at 31 March 2023. The performance represented a 19.4% and 4.4% gain for the D-REIT and IREIT, respectively, from the Kshs 20.0 inception price. The volumes traded for the D-REIT and I-REIT came in at 12.3 mn and 29.6 mn shares, respectively, with a turnover of Kshs 257.5 mn and Kshs 603.2 mn, respectively, since inception in February 2021.

REITs provide numerous advantages, including tax exemptions, consistent and prolonged profits, and diversified portfolios. 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.

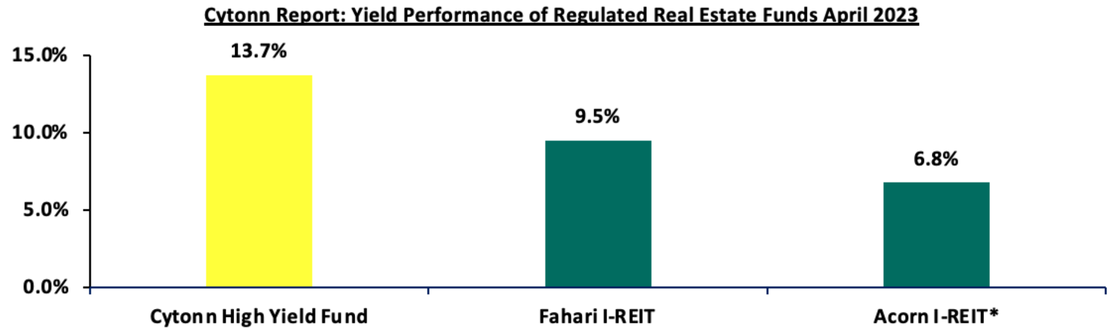
b. **Cytonn High Yield Fund (CHYF)**

Cytonn High Yield Fund (CHYF) closed the week with an annualized yield of 13.7%, 0.2% points decline from 13.9%, recorded the previous week. The performance also represented a 0.2% points Year-to-Date (YTD) decline from 13.9% yield recorded on 1 January 2023 and 2.0% points Inception-to-Date (ITD) loss from the 15.7% yield. The graph below shows Cytonn High Yield Fund's performance from November 2015 to 6 April 2023;



Notably, the CHYF has outperformed other regulated Real Estate funds with an annualized yield of 13.7%, as compared to Fahari I-REIT and Acorn I-REIT with yields of 9.5%, and 6.8% respectively. As such, the higher yields offered by the CHYF makes the fund one of the best alternative investment resource in the Real Estate sector. The graph below shows the yield performance of the Regulated

Real Estate Funds;



**FY'2022*

Source: Cytonn Research

We expect the performance of Kenya's Real Estate sector to remain on an upward trajectory, supported by factors such as; i) continuous growth and expansion exhibited by local and international retailers, ii) 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, iii) increased activities in the hospitality sector as the economy continues on its recovery path. However, the oversupply of spaces in select sectors, and low investor appetite for REITs are expected to continue optimal performance of the general real estate sector.
