

National Housing Development Fund (NHDF), & Cytonn Weekly #19/2023

Real Estate

I. Residential Sector

During the week, President Ruto presided over ground breaking of the Lapfund Bellevue Park Residences housing project consisting of 2,356 residential units worth Kshs 16.0 bn, located in South C, Nairobi. The project targeting middle-income earners will comprise of studio, 1, 2 and 3-bedroom residential units, a commercial area with offices, and amenities including a strip retail center and recreational facilities. The development of the project will be undertaken by the Local Authorities Provident Fund (LAPFund), a defined contribution retirement scheme for civil servants. The development that is estimated to be undertaken within a duration of three years will sit on a 6.0-acre piece of land located along Popo road, off Mombasa road. This will be under a contractor-financed model basis, by CRJE (East Africa) Limited, a subsidiary of the Chinese CREC Group. In addition, LAPFund is also currently undertaking Makasembo housing project located in Kisumu County.

The table below highlights Bellevue Park Residences' particulars;

Cytonn Report: Lapfund Bellevue Park Residences

| Typology | Plinth Area (SQM) | Total No. Units | Price (Kshs) | Price per SQM | |
|----------------|-------------------|-----------------|------------------|----------------|---------|
| Studio | Type 01 | 24 | 209 | 2,950,000 | 122,917 |
| | Type 02 | 30 | 38 | 3,700,000 | 123,333 |
| | Type 03 | 35 | 38 | 4,300,000 | 122,857 |
| One Bedroom | Type 01 | 45 | 969 | 5,600,000 | 124,444 |
| | Type 02 | 47 | 209 | 5,800,000 | 123,404 |
| | Type 03 | 50 | 42 | 6,200,000 | 124,000 |
| Two Bedroom | Type 01 | 64 | 186 | 7,960,000 | 124,375 |
| | Type 02 | 70 | 437 | 8,700,000 | 124,286 |
| | Type 03 | 72 | 114 | 8,900,000 | 123,611 |
| Three Bedroom | 108 | 114 | 13,400,000 | 124,074 | |
| Average | 55 | 2,356 | 6,751,000 | 123,730 | |

Source: South Front Properties, Cytonn Research

Upon completion, the project located in South C, Nairobi, will boost the Kenyan Real Estate sector by increasing urban home-ownership rates in the country, which have remained relatively low at

22.0% compared to other African countries such as South Africa at 69.7% and Ghana with 52.0%. Moreover, we anticipate that developers in the private sector will continue to launch more housing projects, thereby aiding in addressing the existing housing deficit, currently standing at 2.0 mn units. This is further expected to be supported by the government's efforts to avail sustainable financing to home buyers through the Kenya Mortgage Refinance Company (KMRC) that has been partnering with primary mortgage lenders such as banks and SACCOs in offering long-term loans at fixed rates.

I. Retail Sector

During the week, chain store Naivas Supermarket opened a new outlet located at Shell petrol station along Haile Selassie Avenue, Nairobi, bringing the retailer's number of operating outlets countrywide to 93. The retailer's decision to set up the outlet was influenced by the growing demand for convenience stores and mini-marts that offer fast and convenient shopping to customers in the busy Nairobi Metropolitan Area (NMA). In addition, the opening of the new store is part of its aggressive expansion strategy, aimed at stamping its market dominance and increasing its competitive edge against other retailers such as Quickmart and Carrefour. This comes at a time when formal retail penetration in Kenya is still low, standing at 30.0% as at 2018, coupled with existing gaps left by other retailers such as Nakumatt, Uchumi, Shoprite and Choppies Supermarkets which exited the market.

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 | 2 | 0 | 93 | 0 | 93 |
| Quick Mart | Hybrid** | 10 | 29 | 37 | 48 | 55 | 3 | 0 | 58 | 0 | 58 |
| 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 | 4 | 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 | 209 | 6 | 181 | 216 | 0 | 216 |

*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)

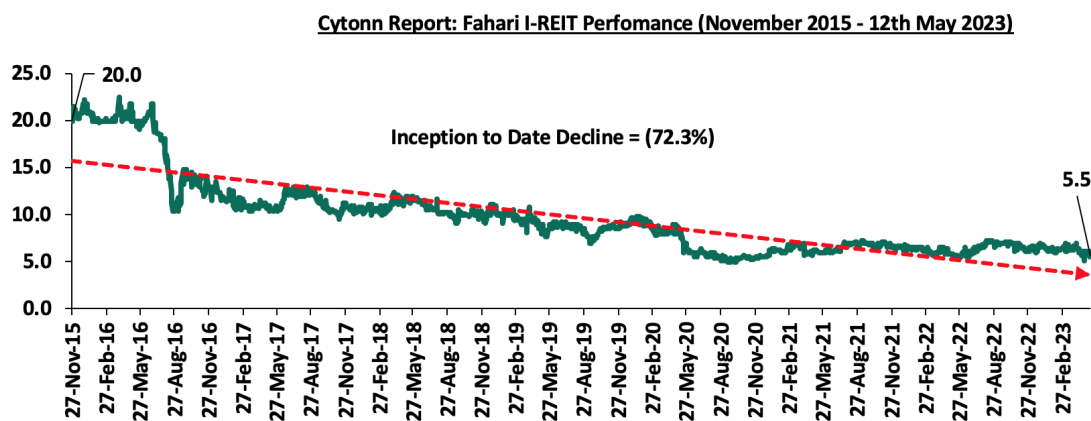
Source: Cytonn Research

We expect to see continued growth in activities within the Kenyan retail sector supported by; i) sustained expansion efforts by both domestic and foreign retailers, who are competing aggressively for a larger market share in the country, ii) increased infrastructural development enhancing accessibility in regions thereby opening up new opportunities for retail investment, and, iii) growing demand for goods and services in both the Nairobi Metropolitan Area (NMA) and beyond, attributable to favorable national demographics. However, the industry faces several challenges such as the rapid growth of e-commerce, which is changing consumer behavior and preferences, and an oversupply of retail spaces currently estimated at 3.0 mn SQFT in Nairobi Metropolitan Area (NMA), and 1.7 mn SQFT in the wider Kenyan retail sector, which continue to subdue the optimal performance of the sector.

II. 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 5.5 per share. The performance represented a 9.2% decline from Kshs 6.1 per share recorded the previous week, taking it to an 18.3% Year-to-Date (YTD) decline, from Kshs 6.8 per share recorded on 3 January 2023. In addition, the performance represented a 72.3% Inception-to-Date (ITD) loss from the Kshs 20.0 price. The dividend yield currently stands at 11.7%. The graph below shows Fahari I-REIT's performance from November 2015 to 12 May 2023;



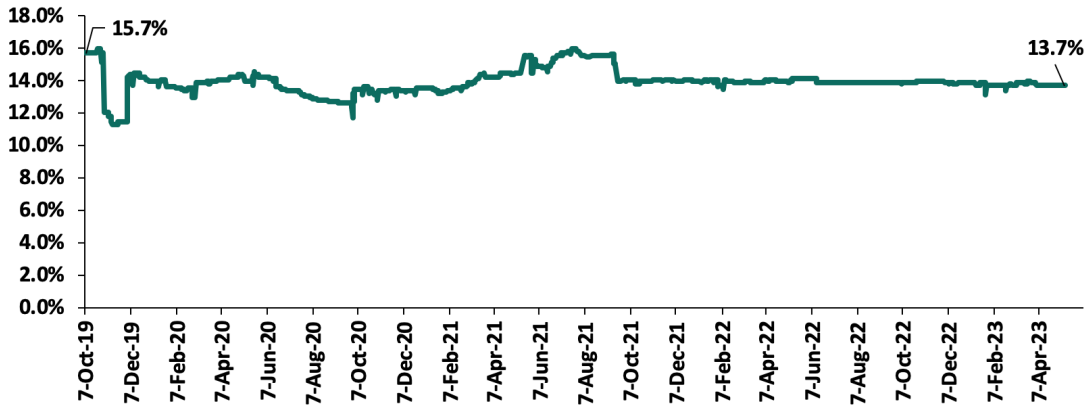
In the Unquoted Securities Platform, Acorn D-REIT and I-REIT traded at Kshs 23.9 and Kshs 20.9 per unit, respectively, as at 5 May 2023. The performance represented a 19.4% and 4.4% gain for the D-REIT and IREIT, respectively, from the Kshs 20.0 inception price. The volumes traded for the D-REIT and 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; access to more capital pools, consistent and prolonged profits, tax exemptions, diversified portfolios, transparency, liquidity and flexibility as an asset class. 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)

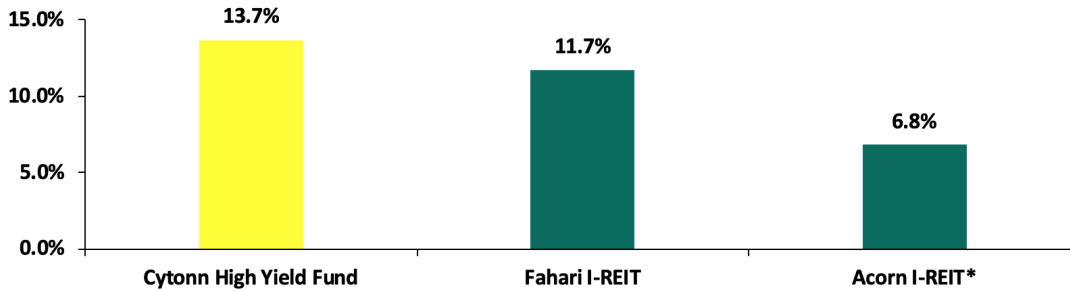
Cytonn High Yield Fund (CHYF) closed the week with an annualized yield of 13.7% remaining relatively unchanged from what was recorded the previous week. The performance also represented a 0.2% points Year-to-Date (YTD) decline from 13.9% yield recorded on 1 January 2023, and 2.0% points Inception-to-Date (ITD) loss from the 15.7% yield. The graph below shows Cytonn High Yield Fund's performance from November 2019 to 12 May 2023;

Cytonn Report: Cytonn High Yield Fund Yield Performance (October 2019 - 12th 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 11.7%, and 6.8% respectively. As such, the higher yields offered by 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;

Cytonn Report: Real Estate Regulated Funds Yield Performance May 2023



*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) the initiation and completion of various 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 operations thereby hindering consumer purchasing power, and low investor appetite for REITs are expected to continue subduing the optimum performance of the sector.