Nairobi Metropolitan Area (NMA) Infrastructure Report 2023, & Cytonn Weekly #45/2023

Real Estate

I. **Industry Report**

During the week, Hass Consult, a consulting and Real Estate Development firm based in Kenya, published its House Price Index Q3'2023 Report. The report highlights the performance of the residential Real Estate Sector in the Nairobi Metropolitan Area (NMA). The following are the main findings of the report:

i. The average quarter-on-quarter (q/q) selling prices for all the properties registered a 1.1% decline in Q3'2023, compared to 0.8% increase in Q3'2022. The performance was mainly subdued by price corrections of 1.7% and 0.9% in detached and semi-detached house prices respectively. However, the performance was supported by a 1.5% increase in the selling prices of apartments. On a year-on-year (y/y) basis, the average selling prices for properties dropped by 3.7%, compared to the 10.3% increase that was recorded in Q3'2022. The decline in property prices is attributable to the rising inflation which has subsequently eroded the purchasing power of consumers,
ii. The overall asking rents of housing units in the NMA during Q3'2023 increased slightly by 0.4% q/q, compared to a 0.2% decline recorded in Q3'2022. On a y/y basis, the average asking rent dropped 1.5% compared to the 2.1% increase recorded in Q3'2022. The decline in performance was attributable to decreased rents in detached and semi-detached houses, registering y/y corrections of 0.7% and 0.4% respectively in Q3'2023, as landlords adjusted rents to support occupancy amid renters preferring more affordable apartments, whose average rents grew by 5.9% y/y,
iii. Apartments recorded the highest y/y increase in asking rents of 5.9% in Q3'2023, a 0.3% increase from Q3'2022. Detached and semi-detached units realized price corrections of 3.6% and 5.2% respectively during the period under review. The declines were attributable to the progressive expansion of the middle class preferring to rent apartments owing to their affordability,
iv. In the Nairobi Suburbs detached and semi-detached houses market, Langata was the best performing having recorded a y/y sales price appreciation of 10.3% attributable to i) good connectivity road network facilitated by infrastructural developments such as the Southern Bypass and Lang'ata road, ii) its proximity to the Central Business District (CBD), and, iii) Langata's affordability compared to neighboring areas such as Karen. On the other hand, Runda experienced the highest y/y decline of 10.9% attributed to decrease in demand for houses in area for affordable choices,
v. In the Nairobi Suburbs apartments, Lang'ata remained to be the best performing region recording a y/y capital appreciation of 10.2%, due to i) its close proximity to social commercial, social, and recreational amenities such as The Hub, and Waterfront Karen malls ii) enhanced access due to infrastructure improvements on key connecting roads including rehabilitation of Ngong Road and link road joining Ngong Road to Lang'ata Road, iii) close proximity to Central Business District and due to good road connectivity reducing commute time, and, iv) a growing middle class

population in the areas driving demand for apartments in the area upwards. On the other hand, Riverside realized the highest y/y price correction of 10.6% attributed to city residents opting for neighboring areas such as Westlands and Spring Valley,

vi. In the satellite towns, houses in Ngong' recorded the highest y/y price appreciation at 14.7% driven by increased demand resulting from, i) proximity to commercial, social,educational institutions and recreational amenities such as Milele Mall, and The Hub, ii) its close proximity to prime areas such as Karen, leading to spill over pricing effects particularly in Miotoni and Kerarapon areas, iii) improved infrastructure development such as the Ngong' Road thus enhancing accessibility, and, iv) growing middle income population in the area supporting demand. Conversely, houses in Limuru realized the highest y/y price correction of 9.3% attributed to reduced demand owing to the region's location which is far from Nairobi CBD and other major urban business nodes, and main transportation hubs such as the Jomo Kenyatta International Airport (JKIA), Standard Gauge Railway (SGR), among others, and,

vii. In satellite towns' apartments, Kiambu recorded the highest y/y price appreciation of 7.8% which was supported by good infrastructure access and growing population. Conversely, Kitengela realized the highest y/y price correction of 10.9% attributed to stiff competition faced from neighbourhoods such as Athi River, Mlolongo, and Syokimau, which are strategically located along the Mombasa-Nairobi Highway enhancing accessibility and demand by buyers as well as their closer proximity to amenities such as Crystal Rivers and Signature malls, and the Nairobi CBD.

The findings of the report are in line with our Cytonn Q3'2023 Market Review, highlighting that the residential apartments market in NMA recorded a y/y increase of 0.1% to 6.1% in Q3'2023 from 6.0% in Q3'2022. The apartment market remains stable driven by the sustained demand for rental and subdued demand for purchasing houses attributable to reduced purchasing power of buyers as a result of tax increases and the rising inflation in the country.

Hass consult also released Land Price Index Q3'2023 Report which highlights the performance of Real Estate land sector in the Nairobi Metropolitan Area (NMA). The following were the key take outs from the report;

i. The average q/q selling prices for land in the Nairobi suburbs grew by 0.4%, compared to 0.8% drop recorded in Q3'2022. On a y/y basis the performance represented 0.8% increase, compared to the 0.3% decrease recorded in Q3'2022. Consequently, q/q and y/y land prices in satellite towns of Nairobi increased by 2.7% and 6.3% respectively, compared to the 1.6% and 9.5% growth respectively, recorded in Q3'2022. The market improvement continues to demonstrate the sector's resilience, with demand growing on the back of emerging opportunities in retail, manufacturing, and logistics needed to serve the rapidly urbanizing towns as well as the Nairobi CBD,

ii. Langata, was the best performing node in the Nairobi suburbs with a y/y price appreciation of 12.1%. This was attributed to; i) its close proximity to commercial, social, educational institutions and recreational amenities, ii) enhanced access due to good infrastructure, iii) close proximity to Central Business District and its centrality in location in relation to other key urban areas, and, iv) a growing middle-class population in the areas driving demand in the area. Conversely, land in Kileleshwa recorded the highest y/y price correction of 2.8%. This attributed to the land buyer's preference to neighboring Kilimani which proves to be more strategic for developers, and,

iii. For satellite town, Ngong was the best performing node with a y/y capital appreciation of 21.3%, followed by Thika which recorded a y/y capital appreciation of 18.0%. The improvement in performance in Ngong was driven by; i) increased demand for land due to its affordability, ii) its close proximity to the Nairobi CBD and major urban nodes as well as opulent residential areas such as Karen, and, iii) good infrastructure enhancing connectivity. On the other hand, land prices in Thika were supported by access to infrastructural facilities such as roads as well as a growing young population in the area mainly composed of students driving demand of rentals in the area upwards. Conversely, Limuru was the worst performing node with a y/y price correction of 4.9%, attributable to increased competition from the neighboring areas which are closer in proximity to the CBD and other urban areas.

The findings of the report are also in line with our Cytonn Q3’ 2023 Market Review which highlighted that the overall average selling prices for land in the NMA appreciated by 3.2% to record an average price per acre of Kshs 129.0 mn per acre in Q3’2023. This was mainly attributed to; i) increased construction activities especially in the residential sector driven by the government’s affordable housing agenda, ii) positive demographics driving demand for land upwards, facilitated by high population and urbanization growth rates of 1.9% and 3.7% respectively, and, iii) government’s increased focus on the development of infrastructure such as road which has opened up new areas increasing demand for land hence rise in land prices.

II. **Hospitality Sector**

During the week, Swiss-Belhotel International, a global hotel management chain based in Hong-Kong took over management of Nairobi Safari Club, Kenya's first all-suite luxury accommodation. The hotel, which is situated within the 16-storey Lilian Towers, located along Koinange street, Nairobi Central Business District (CBD) is set to undergo a rebranding, and will be renamed to Safari Club by Swiss-Belhotel. Nairobi Safari Club boasts of a selection of 146 suites, ranging from studio to expansive presidential suites, and caters to a clientele seeking upscale living spaces and amenities.

The deal forms part of the group’s ambitious expansion plan to expand its footprints across Africa, with already existing operations in Egypt and Tanzania. Swiss-Belhotel whose operations have mainly been concentrated in Asia, has a growing portfolio of 125 hotels, resorts and projects in countries such as China, Indonesia, Malaysia, Philippines, Vietnam, Bahrain, Egypt, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates, Australia, New Zealand, and Tanzania.

The decision by Swiss-Bel Hotel Group comes at a time when the Kenyan hospitality industry is witnessing increased hotel expansions with both local and global brands opening new facilities following the continued recovery of the sector. In support of this, Hotel Chain Development Pipelines in Africa Report 2023 by W Hospitality Group highlights that 25 global hotel brands are considering opening new facilities in Kenya as of 2023. This translates to an additional 3,729 new hotel rooms ranking Kenya at position seven and among the top ten hotspots for upcoming luxury hotels as shown below;

Source: Hotel Chain Development Pipelines in Africa 2023

Notably, in 2023 so far we have witnessed expansions by international hotel chains and hospitality brands such as such as JW Marriott of the Bonvoy Global, Pan Pacific Hotels Group and Miftah Concierge, a leading provider of tailored lifestyle management and luxury travel services. Additionally, the deal is coming at a time when the hospitality industry in Kenya is continuing to garner global positive acclaim and recognition, amid numerous positive awards and accolades won by several local and international brands based in Kenya at the recently concluded at the 30th World Travel Awards and 17th World Luxury Hotel Awards. Furthermore, Kenya recently was voted as Africa's Leading Destination at the 2023 World Travel Awards. Nairobi and Diani also emerged as Africa’s top destinations in leading business travel and beach destinations respectively.

In our view, we expect that going forward, the sector’s performance will be supported by factors such as; i) continued recognition of Kenya’s hospitality sector through positive awards and accolades, ii) aggressive marketing campaigns by the Kenya Tourism Board on the Magical Kenya platforms, iii) concerted efforts to promote local and regional tourism, iv) development of niche products such as cruise tourism, adventure tourism, culture and sports tourism, v) continuous opening and expansions by local and international hotel brands such as JW Marriott of the Bonvoy Global and Pan Pacific Hotels Group in the country, and, vi) counties efforts to boost tourism in efforts aimed at enhancing County revenue collections. However, the sector's optimal performance is expected to be subdued by challenging economic conditions such as rising operational costs attributed to the rising inflation, and, recently issued travel advisories by multiple governments, including those of China and the United States amidst concerns of possible security breaches and threats.

III. Regulated Real Estate Funds

a. Real Estate Investments Trusts (REITs)

In the Nairobi Securities Exchange, ILAM Fahari I-REIT closed the week trading at an average price of Kshs 6.0 per share. The performance represents a 1.0% decline from Kshs 6.1 per share recorded last week, taking it to a 11.2% Year-to-Date (YTD) loss from Kshs 6.8 per share recorded on 3 January 2023. Additionally, the performance represents a 69.9% Inception-to-Date (ITD) loss from the Kshs 20.0 price. The dividend yield currently stands at 10.8%. The graph below shows Fahari I-REIT’s performance from November 2015 to 10th November 2023;

In the Unquoted Securities Platform, Acorn D-REIT and I-REIT traded at Kshs 25.3 and Kshs 21.7 per unit, respectively, as of 27th October 2023. The performance represented a 26.6% and 8.3% 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 12.3 mn and 30.7 mn shares, respectively, with a turnover of Kshs 257.5 mn and Kshs 633.8 mn, respectively, since inception in February 2021.

REITs provide various benefits like tax exemptions, diversified portfolios, and stable long-term profits. However, the continuous deterioration in performance of the Kenyan REITs and restructuring of their business portfolio is on top of other general challenges such as; i) inadequate comprehension of the investment instrument among investors, ii) prolonged approval processes for REITs creation, iii) high minimum capital requirements of Kshs 100.0 mn for trustees, and, iv) minimum investment amounts set at Kshs 5.0 mn, continue to limit the performance of the Kenyan REITs market.

b. Cytonn High Yield Fund (CHYF)

Cytonn High Yield Fund (CHYF) closed the week with an annualized yield of 16.4%, remaining relatively unchanged the previous week. The performance represented a 2.5%-points Year-to-Date (YTD) increase from 13.9% yield recorded on 1st January 2023, and 0.7%-points Inception-to-Date (ITD) increase from the 15.7% yield. The graph below shows Cytonn High Yield Fund’s performance from November 2019 to 10th November 2023;

Notably, the CHYF has outperformed other regulated Real Estate funds with an annualized yield of 16.4%, as compared to Fahari I-REIT and Acorn I-REIT with yields of 10.8%, and 2.8% 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;

Source: Cytonn Research

We expect the Kenyan Real Estate sector will continue to be resilient supported by; i) increased launch and completions of affordable housing projects in line with the

government's affordable housing agenda, ii) increased demand for Real Estate and properties facilitated by positive demographics above global averages, iii) increased tourist arrivals into the country gearing towards pre-COVID levels, iv) continued recognition of Kenya as a regional business hub attracting foreign investments into the country, and, v) increased positive awards and accolades in the hospitality industry accorded to both local and international hotel brands positioning the country as a vibrant tourism market. However, rising costs of construction hindering developments, existing oversupply in select Real Estate sectors weighing down on absorption rates, reduced budgetary allocations to the infrastructure sector will hamper the optimal performance of the sector, and, dismal performance of the REIT asset class owing to various factors including inadequate comprehension of the investment instrument among investors.
