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Real Estate

Kenya has been named as one of the next hotspots for luxury hotel investments according to a report released by World Travel Market 2017. While Kenya was not ranked among the Top 100 Countries, it is poised for growth given the 13.5% growth in international arrivals recorded in 2016 to 1.3 mn from 1.2 mn persons in 2015. In addition, there is an increasing pipeline of hotels in Kenya with 3,453 rooms according to a Lagos based consultancy, W Hospitality Report 2017. In Nairobi alone, we estimate completion of at least 2,737 rooms in the next 5-years with brands such as Movenpick and Ramada set to enter the market. Some of the hotels under development include; the mixed use Cytonn Towers in Kilimani, which is expected to have 180 hotel rooms, the Kshs 2.3 bn Hilton Garden Inn along Mombasa Road that is expected to have 175 rooms, and the Kshs 10.0 bn Avic Towers in Westlands set to have 365 rooms.

In our view, the growth of luxury hotels is supported by;

i. **Increased number of international tourism arrivals** - According to the Kenya National Bureau of Statistics' Economic Survey 2017, the country experienced an increase of 13.5% in international visitor's arrival in the year 2015/2016 mainly attributed to improved security in the country and aggressive marketing in the domestic and international markets. According to the KNBS Survey 2017, holiday travellers into the country take up 77.8% of the total number of travellers into the country on a 5-year average basis,

ii. **Aggressive marketing by Kenya Tourism Board** - This has helped restore confidence in key international markets such as Europe, USA and the new emerging markets in Africa and Asia, as well as the domestic market. As part of marketing, the industry has also embraced e-commerce, which has translated to increased booking,

iii. **Conference tourism, which entails Meetings, Incentives, Conventions and Events (MICE)** - MICE is valued at Kshs 30.0 bn, with hotels accounting for 60.0% of this total value of Kshs 30.0 bn, according to the Kenya Hospitality Report, 2017 by Jumia Travel; and Kenya ranked as the second best destination for conference tourism in sub-Saharan Africa after South Africa by the International Congress and Convention Association (ICCA). Some of the high profile conferences that have been held in the country include; Tokyo International Conference of African Development (TICAD), United Nations Conference on Trade and Development(UNCTAD), and The Africa Academy of Management Biennial Conference,

iv. **Government incentives to boost the tourism industry** - This is through measures such as (i) removal of visa fees for children, (ii) elimination of VAT on park fees, (iii) introduction of Airline Charter Incentive Program, (iv) the scrapping of landing fees for a period of two and a half years, and (v) providing a subsidy of USD 30 per seat filled by international passengers who terminate or disembark in Kenya over the same period.

Despite the above factors, the hospitality sector had a set-back in the 2nd half of 2017 mainly due to insecurity concerns during the extended electioneering period. According to KNBS, arrivals declined by 7.4% in August 2017 to 89,782 from 96,958 in August 2016. Furthermore, according to data from STR Global, hotels in Nairobi recorded 35.8% occupancy in August 2017 compared to 50.2% average occupancy between January and July. We expect the market to stabilize once the elections are concluded amidst improved security.

Investors are increasingly diversifying revenues through investing in real estate, mainly driven by the high and stable returns in the sector of above 20.0% in the last 5 years, with 25.8% recorded in 2016. This week, Britam Holdings, an insurance, pensions and asset management company, announced that it will be spending half of its Kshs 9.0 bn equity fund in new real estate projects as part of the firm's strategic plan 2016- 2020. One of the project in its pipeline is the Kshs 3.3 bn serviced apartments in Kileleshwa, projected for completion in 2019. Many pension funds in Kenya are pursuing investments in real estate, with pension funds that have committed funds to the sector being National Social Security Fund (NSSF), KCB Pension Fund, Safaricom Staff Pension Scheme and KenGen among others. This is a move in the right direction given that in the past, funds have over-relied on traditional investment instruments such as equities and fixed income. While the Retirement Benefits Authority guidelines on asset allocation allows up to 40.0% allocation to alternative investments, the current allocation stands at 19.0% compared to development markets such as USA where the allocation levels are at 27.0%. Increased investment will not only provide funding and/or uptake for real estate, but also play a role in addressing the large housing deficit that stands at 2.0 mn units.

Other highlights in the real estate sector this week include;

- French based retailer Carrefour recently opened its third branch in the Thika Road Mall, following the exit of struggling retail chain Nakumatt from the premises. This is the international retailer's third branch in the country, with its previous branches in The Hub and Two Rivers Mall, where it covers 6,000 SQM and 7,200 SQM, respectively. The TRM outlet covers over 5,000 square metres of selling area and will cater for a growing population segment residing in Roysambu and Kasarani as well as those travelling along the busy Thika Road. The development will cover two floors of the mall that was completed in 2013. The retailer is also said to be eyeing the Nakumatt space in Garden city following their eviction from the premises.

We expect the real estate industry activities to remain on a slow towards the end of 2017, but will pick in 2018 as the political dust settles. This will be driven by the demand as seen through the high population and urbanization growth at 2.7% and 4.4%, respectively, and real estate's high returns of on average 25.0% p.a. in the last 5 -years and 25.8% recorded in 2016.
