

Review of the Affordable Housing Bill 2023, & Cytonn Weekly #03/2024

Real Estate

I. Industry Report

During the week, the Kenya National Bureau of Statistics (KNBS) released the **Leading Economic Indicators (LEI) November 2023 Report** which highlighted the performance of major economic indicators. Key highlights related to the Real Estate sector include;

- i. In the month of November, the value of building plans approved in the Nairobi Metropolitan Area decreased by 10.4% to Kshs 14.4 bn from Kshs 16.1 bn in October 2023. On a y/y basis, the value of approved building plans in the NMA increased by 29.4% to Kshs 173.5 bn as at November, from Kshs 134.1 bn recorded during a similar period last year. This was attributable to the clearing of a large number of pending approvals by the Nairobi County Government, and sustained demand for Real Estate development facilitated by positive demographics which are above global averages. The chart below shows the trend in the value of approved building plans in Kenya between Q1'2021 and November 2023;



Source: Kenya National Bureau of Statistics (KNBS)

Moving forward, we anticipate the Real Estate sector in Kenya will observe positive growth and enhanced performance primarily due to; i) a surge in visitor arrivals following the government's initiative for visa-free entry, expected to boost the hospitality industry by increasing room and bed occupancies, ii) improved access to financing, indicated by a 6.2% year-on-year rise in gross loans extended to the Real Estate sector, reaching Kshs 495.0 bn in Q2'2023, up from Kshs 466.0 bn in Q2'2022, and, iii) sustained demand for Real Estate development, driven by favorable population demographics exceeding global averages. Nevertheless, challenges are expected, including; i) heightened construction costs amid rising inflation, ii) oversupply concerns in specific Real Estate segments, and, iii) increased credit risk due to a 20.9% surge in gross Non-Performing Loans (NPLs) in the Real Estate sector, reaching Kshs 96.0 bn in Q2'2023, up from Kshs 79.4 bn in Q2'2022, potentially impeding the sector's optimal performance.

II. Residential Sector

During the week, President Ruto laid the foundation stone for the Emgwen Affordable Housing Project in Chesumei Sub-County, Nandi County. The project will comprise 220 units incorporating studio, one, two, and three-bedroom typologies, a well-designed landscape, adequate parking, an underground tank and pavement for pedestrian use. There will also be solar lighting in the common areas, adequate rainwater harvesting resources, the use of greywater harvesting, adequate green spaces, and trees in the social areas within the development. Development of the project shall be in compliance with **Edge Certification** and will be on a 6.4-acre piece of land. The tables below give a summary of the unit types, sizes, and prices for the project;

Cytonn Report: Emgwen Affordable Housing Project-Affordable Housing

Typology	Size (SQM)	Price (Kshs in mns)	Price per SQM	Monthly Payment
Studio	20	0.9	46,000	5,200
1-bedroom	30	1.0	33,333	5,200
2-bedroom	40	1.9	48,000	10,400
3-bedroom	60	2.9	48,000	15,600
Average	38	1.7	43,833	9,100

Source: Boma Yangu

Upon implementation, the project will create approximately 3,500 jobs, both direct and indirect. The project will also assist in stimulating economic activities in the surrounding area as Jua Kali artisans will be engaged to produce 1,200 doors valued at Kshs 26.0 mn. Other affordable housing projects launched recently include the Kapsuswa and Pioneer affordable housing projects in Uasin Gishu County and Nanyuki Affordable housing project in Laikipia County.

We expect the project will; i) improve the living standards of the residents through the provision of decent, quality housing, ii) boost housing supply in Nandi County, iii) help curb land fragmentation in the county, iv) contribute towards the bridging of the existing housing deficit in the country which stands at 2.0 mn units, and, v) boost homeownership rates in the country which have remained significantly low at 21.3% in urban areas as at 2023, compared to other African countries like South Africa and Ghana with 53.0% and 54.0% urban home ownership rates respectively.

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 6.4 per share. The performance represents a 0.3% gain from Kshs 6.3 per share recorded last week, taking it to a 1.0% Year-to-Date (YTD) gain from Kshs 6.3 per share recorded on 2nd January 2023. Additionally, the performance represents a 68.2% Inception-to-Date (ITD) loss from the Kshs 20.0 price. The dividend yield currently stands at 10.2%. The graph below shows Fahari I-REIT's performance from November 2015 to 19th January 2024;



In the Unquoted Securities Platform Acorn D-REIT and I-REIT traded at Kshs 24.4 and Kshs 21.7 per unit, respectively, as of 19th January 2024. The performance represented a 22.0% 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 hampering major investments that had previously been made. The other general challenges include; 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 18.0%, remaining relatively unchanged from the previous week and yield recorded on 1st January 2024, and represented a 2.3% 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 19th January 2024;



Notably, the CHYF has outperformed other regulated Real Estate funds with an annualized yield of 18.0%, as compared to Fahari I-REIT and Acorn I-REIT with yields of 10.2%, 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 performance of Kenya’s Real Estate sector to be driven by; i) sustained demand for Real Estate development, facilitated by positive demographics above global averages, ii) increased initiations of affordable housing projects across the country, iii) increased visitor arrivals into the country poised to boost the hospitality sector, and, iv) improved access to affordable financing. However, factors such as rising costs of construction, limited investor knowledge in REITs, and, existing oversupply in select Real Estate sectors will continue to hinder optimal performance of the sector by limiting developments and investments.