Accra, Ghana Real Estate Investment Opportunity, & Cytonn Weekly #47

Real Estate

This week, Kings Pride Properties Limited, a local real estate developer, is reported in the local dailies to have signed a deal with Milost Global Inc, a New York based private equity firm with over USD 25.0 bn in committed capital, to get Kshs 45.0 bn in equity cum debt financing for the expansion of their real estate developments. Kings Pride currently has 14 residential projects targeting the middle and upper income population, some of which include the Runda Royale Apartments in Thindigua, Capital View in South B, Glenwood Gardens in Ruaka and Telagen Gardens in Lavington. The partnership indicates positive sentiments in the real estate opportunity in Kenya, despite the slowed performance during the election period. Investors are increasingly attracted to Kenya due its strong fundamentals of (i) a high average GDP growth rate of 5.5% over the last 5-years compared to the global GDP growth of 2.6%, (ii) the huge housing deficit of approximately 2.0 mn units and growing at approximately 150,000 – 200,000 per annum, (iii) positive demographic trends with an annual population growth rate of 2.6% compared to a global average of 1.2%, and (iv) rapid urbanization at 4.3% p.a. versus a global average of 2.0%. In our view, this is a milestone for both firms as it enables coupling of investors seeking attractive returns available in real estate in high growth Sub-Saharan Africa countries such as Kenya, with developers seeking financing for real estate development; and it ultimately plays a role in reducing Kenya's housing deficit, creating employment and growing the economy.

In the retail sector, both local and international retailers are increasing their foothold in Nairobi and other counties such as Kisii, Kisumu, Mombasa and Eldoret, attracted by (i) the growing urban population, (ii) the expanding middle class with a higher purchasing power, and (iii) growth of formal retail facilities including malls with Nairobi, Kisumu and Mombasa having a total mall space supply of 5.6 mn, 0.9 mn and 0.7 mn sqft, respectively, as at 2017. This week we saw the following activities;

i. Tuskys opened 2 stores in Kisii and Kisumu with a cumulative space of approximately 40,000 SQFT at a cost of Kshs 240.0 mn reaching a total of 64 branches (57 in Kenya and 7 in Uganda, respectively),
ii. Naivas Supermarket opened a new branch in Kericho, bringing its total number of branches to 42,
iii. International fashion retailer, Manix Clothing Store, announced plans to open five branches in Mombasa, Eldoret and Kisumu at a cost of Kshs 75.0 mn in the next 2-years. This will bring its total branches to 22 excluding its franchise in Westside Mall in Nakuru, Manix Clothing Store Kisumu and City Mall in Nyali, and,
iv. Massmart Holding's subsidiary, Game, is set to open a new store at the 200,000 SQFT Waterfront in Karen, set to open in January 2018, replacing Nakumatt, the initial proposed anchor client. This will mark Game's second outlet in Kenya after the Garden City Mall branch that was opened in May 2015.

Our view is that the trend is likely to continue, given plans by the retailers to open more branches across the country. Naivas, for instance, is set to open 5 more branches in Utawala, Mountain View, Kitengela, Thika and Nairobi CBD. This will increase Kenyan formal retail penetration rate that currently stands at 35.0%, falling only 2nd in Sub-Saharan Africa after South Africa at 60.0%, according to Oxford Business Group.

In the hospitality market, Paddock Investments renewed plans to build a 220 bed, 4-star hotel on 8.4 acres in Runda Estate. The firm forwarded a new request to the National Environmental Management Authority (NEMA) to build the Kshs 1.0 bn hotel, having previously faced opposition from the Runda Gated Community Association. The plan, which will result in the amalgamation of 15 plots, will require a change of use and has seen residents file a plea to the NEMA opposing the plan, citing breach of security and the requirements of controlled development. Should the development obtain approval, it will increase the graded hotel room supply in the Kiambu/Limuru Road region from 267 rooms as at 2017 to 487 rooms, according to Cytonn Research. The Kiambu/Limuru road region has one of the lowest supply of rated hotels in Nairobi at 6.1% out of a total of approximately 33 graded hotels, compared to an area such as the CBD, which has the highest supply accounting for 27.3% of Nairobi’s supply.

We expect the real estate sector to pick up after the end of the extended electioneering period. This will be driven by the sustainable high returns generated from the sector, with real estate outperforming other asset classes in the last 5-years, generating returns of 25.0% p.a., compared to an average of 12.4% p.a. in the traditional asset classes and positive demographic trends with population growth urbanization at 2.7% and 4.4%.

Liason House, StateHouse Avenue
The Chancery, Valley Road
www.cytonn.com