Kenya Listed Banks Report FY'2023, & Cytonn Weekly #16/2024

Real Estate

I. **Statutory Review**

During the week, The Affordable Housing Regulations, 2024 were published for public participation by the State Department for Housing and Urban Development under the framework of the Affordable Housing Act, 2024 outlining crucial guidelines for the development, allocation, and management of affordable housing units. These regulations aim to provide guidance and establish procedures for the implementation of affordable housing initiatives in Kenya.

Key highlights from the regulations include:

i. **Exemption regulations:** Individuals or income classes can be exempted from the Levy under specific conditions like pension income, medical reimbursements, insurance compensation, or income tax exemptions under an Act of Parliament. Exemption requests must be made in writing to the Cabinet Secretary with reasons specified and accompanied by a tax clearance certificate. An exemption issued is valid for the period and extent specified in the notice. The Cabinet Secretary may recommend the revocation of an exemption if certain conditions are met, such as disqualification or omission of material information during the application process,

ii. **Allocation regulations:** A person eligible for allocation must be a Kenyan citizen, above 18 years, and not previously allocated an affordable housing unit. An application for allocation must be made as per the Affordable Housing Board's specified manner and accompanied by required documents like proof of identification, income, deposit, passport-size photo, and list of beneficiaries of the applicant. The deposit payable by an eligible person for an affordable housing unit allocation is set at 10.0% of the sale price. Individuals unable to raise the required deposit can apply for deposit assistance if their monthly income is below Kshs 20,000 and the estimated monthly repayment is less than 30.0% of their income. Any funds provided as deposit aid will be reimbursed without incurring any interest or administrative charges. Upon receipt of an application, the Board will decide and notify the applicant of its decision within a specified timeframe,

iii. **Changing or Reallocation of a Unit:** A person can apply for a change of an affordable housing unit if they meet specified allocation criteria, surrender the current unit in good condition, and have paid all service charges and levies. The Board will decide upon receiving the application and notify the applicant of its decision. If the application is approved, the Board will allocate an appropriate affordable housing unit to the applicant and transfer all payments made to the new unit's account. If a person fails to pay for four consecutive months, the Board can take possession of the unit, reallocate it to another eligible person, change the unit to a lower value one, or enter a restructuring arrangement with the defaulter. The Board may change a unit to a lower value one if the defaulter meets the criteria for the lower value unit and the payments made would cover the purchase price of the lower value unit. The interest rate for a loan issued under the Act should not exceed 0% per annum on a reducing balance basis,

iv. **Developing Institutional Housing:** A public institution can develop institutional housing if it proves the need for it, has available land, and has management systems in place. The institution must apply in writing to the Board for approval, accompanied by necessary decisions or resolutions. The Board will review the application, decide, and notify the applicant of its decision. If approved, the Board will include the housing in its annual investment program and enter into an agreement with the institution. In case of rejection, the Board will inform the applicant with reasons for the decision. The Board will engage an implementing agency listed in the First Schedule of the Act for the design, development, and maintenance of approved institutional housing units,

v. **Financing Regulations:** An institution or mortgage scheme must apply in writing to the Board for approval to provide financing for off-take. The application should include various documents like a copy of the certificate of incorporation, valid license, and tax compliance certificates. The interest rate or administration fee charged by an approved institution or mortgage scheme for financing should not exceed 9.0% per annum. This rate or fee is determined based on the typology and dimensions of the affordable housing units relative to the incomes of the individual applicants. Institutions or mortgage schemes eligible to enter into financing agreements must satisfy creditworthiness, tax compliance, and other conditions set by the Board. The Board decides on applications within fourteen days and notifies the applicant of its decision,

vi. **Public Participation Guidelines:** When conducting public participation, the Board must issue a notice at least 14 days in advance to the public and interested parties. The notice should specify the period, date, time, and purpose of the participation. The Board is required to publish the notice in two newspapers of nationwide circulation and also on a radio station with wide coverage within the County. This ensures transparency and broad dissemination of information regarding the public participation process,

vii. **Rural Affordable Housing Units:** An application for a rural affordable housing unit must be made in writing to the Board. The applicant needs to have an operational voluntary savings account with the Fund to be considered. The amount applied for must not exceed Kshs 4.0 mn. The applicant must prove their ability to repay the amount applied for. Voluntary savings can be withdrawn from a voluntary savings account upon verification, where the administrator of the Fund refunds the savings and any accrued interest to the person and closes their savings account. This process is in accordance with section 52(4)(a) of the Act, and,

viii. **Disposal and Sale of Affordable Housing Unit:** The purchaser cannot sell the affordable housing unit until 8 years after completing payment of the agreed price. This restriction does not apply if the unit was purchased through a mortgage. If the owner wants to sell the unit after meeting the 8-year requirement, they must seek consent from the Board and follow the Act's guidelines.

II. **Industry Report**

During the week, Hass Consult, a Kenyan Real Estate consulting and development firm, released its House Price Index Q1’2024 Report, focusing on the residential Real Estate sector's performance in the Nairobi Metropolitan Area (NMA). The following are the main findings of the report;

i. The average selling prices for all properties showed a 2.7% increase on a quarter-on-quarter (q/q) basis in Q1’2024, contrasting with a marginal 0.02% increase in Q1’2023. This rise was predominantly driven by a 3.7% increase in detached house prices and a 0.6% increase in semi-detached house prices. Additionally, apartments witnessed a 1.5% uptick in selling prices, further contributing to the overall performance. On a year-on-year (y/y) basis, property prices exhibited a 5.3% increase, compared to a 2.0% increase observed in Q1’2023. The surge in property prices is linked to rising interest rates, which have increased the cost of financing house purchases. Additionally, inflation and the depreciation of the shilling have led to higher input costs for developers. As a result, developers are transferring these heightened expenses to homebuyers by increasing selling prices,

ii. The overall asking rents of housing units in the NMA during Q1’2024 increased by 0.4% q/q, compared to a 0.5% decline recorded in Q1’2023. On a y/y basis, the average asking rent increased by 3.4% compared to the 1.2% decline recorded in Q1’2023. The increase in performance was attributable to increased rents in detached and apartments, registering q/q improvements of 0.1% and 1.4% respectively in Q1’2024, as the market remained sensitive to tough economic conditions,
iii. Apartments recorded the highest y/y increase in asking rents of 10.6% in Q1’2024, a 7.4% increase from Q1’2023. Conversely, detached units experienced a price correction of 0.1%, while semi-detached units saw a price increase of 2.9% during the period under review. The decrease in detached units and the uptick in apartments and semi-detached units can be attributed to the continuous expansion of the middle class, which favors apartment rentals due to their affordability, as well as the growing demand for semi-detached housing options,
iv. Within the Nairobi Suburbs detached and semi-detached houses market, Nyari Estate emerged as the top performer, witnessing a y/y sales price appreciation of 8.8%. This surge can be attributed to factors such as i) the area benefits from a well-connected road network, facilitated by infrastructure developments like the Waiyaki Way and Red Hill Road, and ii) its proximity to the Central Business District (CBD. In contrast, Westlands experienced the highest year-on-year decline of 1.1%, mainly due to reduced demand for houses in the area, prompted by the pursuit of more affordable housing alternatives,
v. In the Nairobi Suburbs apartments, Kileleshwa was the best-performing region recording a y/y capital appreciation of 6.8%, due to i) its close proximity to social commercial, social, and recreational amenities such as Fogo Gaucho, and the Lavington Mall ii) close proximity to Central Business District and due to good road connectivity reducing commute time, and, iii) a growing middle-class population in the areas driving demand for apartments in the area upwards. On the other hand, Upperhill realized the highest y/y price correction of 6.0% attributed to city residents opting for neighboring areas such as Westlands and Spring Valley,
vi. In the satellite towns, properties in Athi River saw the highest year-on-year price appreciation, standing at 12.2%. This surge can be attributed to several factors: i) its proximity to commercial, social, educational institutions, and recreational amenities like Signature Mall, Coloho Mall, and Whistling Morans, ii) enhanced infrastructure development such as the Athi River interchange, the Nairobi Expressway in neighboring Mlolongo, and the presence of the Standard Gauge Railway (SGR) station, all contributing to improved accessibility; iii) the growing population driven by the presence of major mining and cement companies like Bamburi Cement and East Africa Portland Cement Company, creating employment opportunities and increasing demand. Conversely, properties in Limuru experienced the lowest y/y price increase of 2.0% despite an improvement from a price correction of 3.4% in the previous quarter, mainly due to reduced demand resulting from competition from other neighboring residential areas, its distant location from Nairobi CBD and other major urban business centers, as well as key transportation hubs like Jomo Kenyatta International Airport (JKIA) and the SGR, and,
vii. In satellite towns’ apartments, Thika recorded the highest y/y price appreciation of 8.8% which was supported by good infrastructure access and a growing population. Conversely, Kitengela realized the highest y/y price correction of 1.5% 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 Markets Review – Q1’2024, highlighting that selling prices of residential properties in the Nairobi Metropolitan Area (NMA) recorded a 0.6% appreciation in Q1’2024. The performance was supported by 0.6% price appreciation realized by apartments and detached and semi-detached units each during the period under review.

Additionally, Hass Consult released their Land Price Index Q1’2024 Report which highlights the performance of the 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 1.3%, compared to a 0.3% increase recorded in Q1’2023. On a y/y basis, the performance represented a 5.0% increase, compared to the 1.4% increase recorded in Q1’2023. Consequently, q/q and y/y land prices in satellite towns of Nairobi increased by 3.0% and 11.2% respectively, compared to the 1.3% and 8.1% growth respectively, recorded in Q1’2023. 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. Lang’ata was the best-performing node in the Nairobi suburbs with a y/y price appreciation of 10.1%. 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, 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 1.5%. This is attributed to the land buyer’s preference for neighboring Kilimani and Lavington areas, which offer a wider range of amenities, including better infrastructure, proximity to commercial centers, and a more established residential community, and,
iii. For satellite towns, Ongata Rongai was the best-performing node with a y/y capital appreciation of 16.0%, followed by Syokimau which recorded a y/y capital appreciation of 15.8%. The improvement in performance in Ongata Rongai 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 Syokimau were supported by its strategic location along major transportation routes, such as the Nairobi-Mombasa highway, the Nairobi Expressway, and the Standard Gauge Railway (SGR), facilitating easy access to Nairobi and other key areas. Conversely, Limuru was the least performing node with a y/y price appreciation 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 Markets Review – Q1’2024 which highlighted that the overall average selling prices for land in the NMA appreciated by 4.3% to record an average price per acre of Kshs 133.7 mn per acre in Q1’2024. This was mainly attributed to; i) positive demographics driving demand for land facilitated by high population and urbanization growth rates of 1.9% and 3.7%, above the global averages of 0.9% and 1.6% respectively, ii) improved development of infrastructure such as roads, railways, water and sewer lines which has improved and opened up areas for investment, ultimately increasing property prices, iii) growth in popularity of satellite towns by investors and buyers which provide affordable land options in comparison to the suburbs and key commercial zones, iv) Increased construction activities particularly in the residential sector driven by the government’s affordable housing agenda thus boosting demand for land, v) limited supply of land especially in urban areas which has contributed to rising land prices, vi) rising middle-income class population with more disposable income to invest, and, vii) land is the most preferred choice of investment among a majority of people which further drives up demand for land.

III. **Industrial Sector**

During the week, NCBA Bank Kenya disclosed that it extended an additional Kshs 1.6 bn (USD 12 mn) in lending to Grit Services Limited, a Mauritius-based Real Estate firm, during the first half of the fiscal year ending December 2023. This brought the total dollar-denominated credit facilities provided by NCBA to Grit Services to Kshs 3.9 bn (USD 29.5 mn) by December 2023, up from Kshs

2.3 bn (USD 17.5 mn) in June 2023. Consequently, NCBA's share of Grit's parent company's total borrowings has increased from 3.8% to 7.1% during the period under review.

Grit's parent company, Grit Real Estate Income Group, has been expanding its investments in Kenya and other regional property markets. Grit Services Limited, a key subsidiary of the multinational, holds assets in Kenya such as Buffalo Mall in Naivasha, the US embassy's gated estate in Nairobi, Imperial Warehouse, and Orbit Africa's manufacturing facilities. The firm benefits from a revolving credit facility with NCBA, enabling it to borrow, repay, and borrow again on an ongoing basis.

The increased funding provided by NCBA to Grit Services Limited is set to have a profound effect, not just on the company's growth strategy, but also on Kenya's industrial sector as a whole. This injection of capital is expected to bolster Grit's ongoing investments, particularly through its subsidiary Bora Africa, which functions as a specialized vehicle for industrial Real Estate endeavors. Additionally, Grit is in the process of transferring a 99.9% stake in Bora Africa to its Real Estate development arm, Gateway Real Estate Africa Ltd (GREA). This strategic move aims to raise funds to finance Grit's share of a USD 100.0 mn shareholder cash call initiated by GREA, with the latter aiming to maintain a majority stake in Bora Africa.

With Bora Africa focusing on industrial Real Estate and consolidating Grit's owned assets such as Imperial, Bollore, and Orbit, among others, the increased funding from NCBA will likely facilitate the expansion of Bora Africa's project pipeline. This expansion not only strengthens Grit's presence in the industrial Real Estate market but also contributes to economic growth and job creation in Kenya. Furthermore, the confidence shown by financial institutions like NCBA in supporting large-scale Real Estate developments, particularly in the industrial sector, signals positive prospects for Kenya's Real Estate landscape.

IV. **Real Estate Investments Trusts (REITs)**

On the Unquoted Securities Platform, as per the last trading data recorded on 22nd March 2024, Acorn D-REIT and I-REIT traded at Kshs 24.4 and Kshs 21.7 per unit, respectively. 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 the performance of Kenyan REITs and the restructuring of their business portfolios 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 REIT 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.

We expect the performance of Kenya’s Real Estate sector will be supported by; i) increased initiations and development of affordable housing projects expected to boost the residential sector, ii) relatively positive demographics in the country necessitating the demand for housing and Real Estate, iii) continued infrastructural improvements opening up new areas for investments, and, iv) expansion activities in the industrial sector. 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 the optimal performance of the sector by limiting developments and investments.

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