Kenya's FY'2024/2025 Budget Review, & Cytonn Weekly #27/2024

Real Estate

I. **Industry Report**

During the week, the Kenya National Bureau of Statistics (KNBS) released the Q1'2024 GDP Report, and below are the key take-outs related to the Real Estate sector:

i. **Steady growth in the Real Estate Sector** - The Real Estate sector posted steady growth of 6.6% in Q1'2024, which is 0.7% points slower than the 7.3% growth registered in Q1'2023. This growth can be attributed to the increasing need for housing in the country. However, the growth remained subdued compared to Q1'2023 due to the sustained increase in the cost of construction materials, which posed a hurdle to investors and reduced the number of activities in the sector during the period under review. This is evidenced by the reduction in approved building plans in the Nairobi Metropolitan Area (NMA), a major contributor to the Real Estate market in the country. The value of approved buildings reduced by 31.2% to Kshs0 bn in Q1'2024, down from Kshs 56.7 bn recorded in Q1'2023. On a q/q basis, this represented a 0.4%-points increase from the 6.2% growth recorded in Q4'2023. The increased growth in the sector can be linked to heightened activities in the residential sector as investors seek to leverage the rising demand for housing in the country. The graph below shows the Real Estate sector growth rates from Q1'2020 to Q1'2024.

Source: Kenya National Bureau of Statistics (KNBS)

ii. **Subdued growth in the construction sector -** The construction sector grew by 0.1% in Q1'2024, which is 2.9% points slower than the 3.0% growth in Q1 2023. On a q/q basis, this performance represented a 2.1%-points decrease from the 2.2% growth recorded in Q4'2023. The subdued performance is attributable to; i) an increase in non-performing loans (NPLs) in the Real Estate sector, making lenders ask for more security, which has slowed projects, ii) a reduction in approved building plans, especially in the NMA, evidenced by a 31.2% reduction in the value of building plans approved in NMA to Kshs 39.0 bn in Q1'2024, down from Ksh 56.7 bn in Q1'2023, iii) a 27.0% increase in construction costs due to rising prices of major building materials such as cement, steel, and paint, now averaging Kshs 71,200 per SQM, and iv) delays in the approval of construction permits, generally impacting construction activities. The graph below shows the construction sector growth rates from Q1'2020 to Q1'2024;

Source: Kenya National Bureau of Statistics (KNBS)

iii. **Sustained Recovery in Accommodation and Restaurant Sector –** The accommodation and restaurant services grew by 28.0% during Q1'2024, representing a 19.1%-points y/y decline from the 47.1% growth recorded in Q1'2023. On a q/q basis, this performance represented a 9.9%-points increase from the 18.1% growth recorded in Q4' 2022. The year-on-year performance can be linked to increased operational expenses due to tough macro-economic pressures from the disruption of the global supply chain by the Russia-Ukraine war and the Israel-Palestine conflict. However, the performance portrays a steady recovery post-COVID-19, amid the lifting of travel restrictions. The sector is poised to gain from an increased number of international arrivals; for instance, in January 2024, the number of arrivals was 134,665, representing a 6% increase compared to 128,772 arrivals in January 2023. The graph below shows the accommodation and restaurant sector growth rates from Q1’2020 to Q1’2024;

Source: Kenya National Bureau of Statistics (KNBS)

We expect the Real Estate sector in Kenya to grow, supported by several factors such as: i) an increase in the number of international arrivals, ii) demand for housing driven by above-average demographics, such as the urbanization rate and population growth rate, which stand at 3.7% and 1.9%, respectively, iii) the continued rollout of the Affordable Housing Programme by the government, and iv) increased activities by industry players, especially in the residential sector. However, we expect the sector’s growth to be impeded by the current political environment in the country, the increased cost of construction, and the increased cost of borrowing for Real Estate projects.

II. Residential Sector

During the week, Fairdeal Properties, a private construction company, launched a Kshs 2.0 bn affordable housing project in Bamburi, Mombasa County, which will see the construction of over 500 housing units. The project will be developed in three phases and completion is expected within three and half years. The first phase project will consist of 200 units of one, two, and three-bedroom typology within a gated community, spanning a five-acre parcel of land. According to the project team there will be 68 one-bedroom units at Kshs 2.4 mn each, 182 two-bedroom units at Ksh 3.5 mn each, and 278 three-bedroom units at Kshs 4.4 mn each totaling 528 apartments. The project is estimated to cost Kshs 2.0 bn with buyers required to pay a Kshs 300,000 signing fee and a Kshs 530,000 deposit upon breaking ground. Buyers interested in two- and three-bedroom apartments will pay a signing fee of Kshs 500,000 and deposits of Kshs 710,000 and Kshs 890,000 upon breaking ground. The project is set to significantly contribute to the country’s growth and create job opportunities with the company planning further projects in Mombasa, Nairobi, and Naivasha. The table below summarizes various affordable housing projects by the private sector in Kenya;

Cytonn Report: Affordable Housing Projects Initiated by Private Sector Players in Kenya

Project Name	Location	Number of Units
Great Wall Gardens Phase 6	Athi River, Machakos County	3,000
Great Wall Gardens Phase 5	Mavoko, Machakos County	1,128
Samara Estate	Ruiru	1,824
Moke Gardens	Athi River	30,000
Habitat Heights	Mavoko	8,888
Tsavo Apartments	Embakasi, Riruta, Thindigua, Roysambu, and, Rongai	3,200
Unity West	Tatu City	3,000
RiverView	Athi River	561
Kings Serenity	Ongata Rongai, Kajiado County	734

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Project Name	Location	Number of Units
Joinven Estate	Syokimau, Machakos County	440
Kisima Park	Lukenya	17,152
Oasis Park, Athi River	Athi River	20,000
Muselele Estate	Mavoko	3,250
Joinven Investments Ltd	Syokimau	400
Jewel Heights		1,550
Benvar Estates	Juja, Kiambu	15,034
Kentek Ventures	Syokimau, Machakos	53,716
Samara Estates	Migaa, Kiambu	1,824
Edeville	Donholm	1,300
Breezewood Gardens		4,950
Centum Investments, Rea Vipingo	Vipingo, Kilifi	5,300
The Creek Village	Mshomoroni, Mombasa	968
Buxton Point	Buxton, Mombasa	1,984
Fairdeal Properties	Bamburi, Mombasa	528
Total		**180,731**

Source: Boma Yangu, Online Research

Going forward, we expect the sector to grow, supported by: i) more activities by private players, especially in the residential sector, to cater to the annual housing deficit, which currently stands at 2.0 mn housing units, ii) the initiation and completion of major infrastructure developments, opening up satellite areas for investment opportunities, and, iii) positive demographics in the country. Additionally, development by private players is expected to increase home ownership in the country. The chart below shows national home ownership percentages of other countries as compared to Kenya;

Source: Centre for Affordable Housing Africa, US Census Bureau, United Kingdom Office for National Statistics

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

On the Unquoted Securities Platform, Acorn D-REIT and I-REIT traded at Kshs 24.5 and Kshs 22.0 per unit, respectively, as per the last updated data on 28th June, 2024. The performance represented a 22.5% and 10.0% 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 several advantages, including tax exemptions, diversified portfolios, and stable long-term profits. However, the ongoing decline in the performance of Kenyan REITs and the restructuring of their business portfolios are hindering substantial past investments. Other general challenges include: i) a lack of understanding of the investment instrument among investors, ii) lengthy 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 for Investment REITs, all of which continue to limit the performance of the Kenyan REITs market.

We expect Kenya's Real Estate sector to remain on a growth trend, supported by: i) an increase in the number of international arrivals in the hospitality sector, ii) the initiation and completion of major infrastructure projects, opening up areas for development, iii) demand for housing sustained by positive demographics, such as population and urbanization growth rates, which stood at 1.9% and 3.7% respectively, above the global averages of 0.8% and 1.5% as of 2022, iv) activities by the government under the Affordable Housing Agenda (AHP), v) heightened activities by private players in the residential sector, vi) demand for quality offices, especially in the Nairobi Metropolitan Area, and vii) increased investment by local and international investors in the retail sector. However, challenges such as rising construction costs, strain on infrastructure development (including drainage systems), high capital requirements for REITs, and existing oversupply in select Real Estate sectors will continue to hinder the sector's optimal performance by limiting developments and investments.