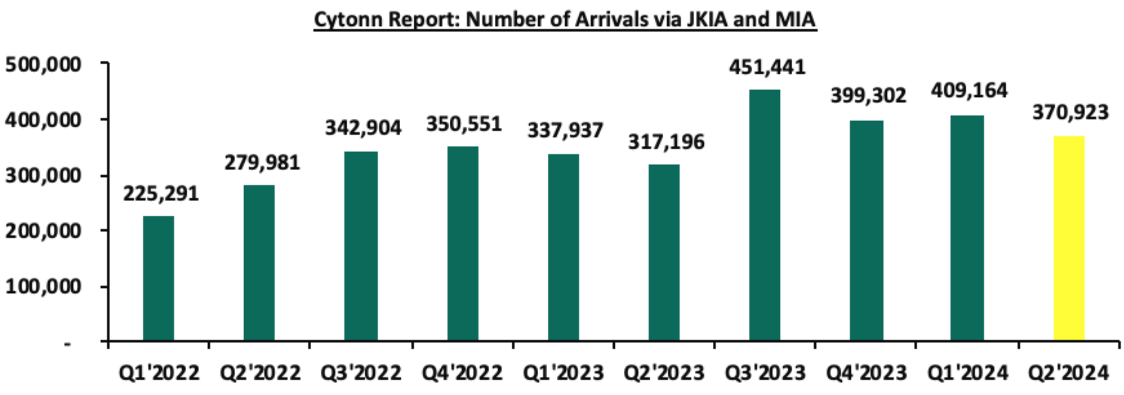
Enhancing the Effectiveness of Kenya's Housing Fund, & Cytonn Weekly #32/2024

Real Estate

I. **Industry Report**

During the week, the Kenya National Bureau of Statistics (KNBS) released the Leading Economic Indicators (LEI) June 2024 Reports, which highlighted the performance of major economic indicators. Key highlights related to the Real Estate sector include;

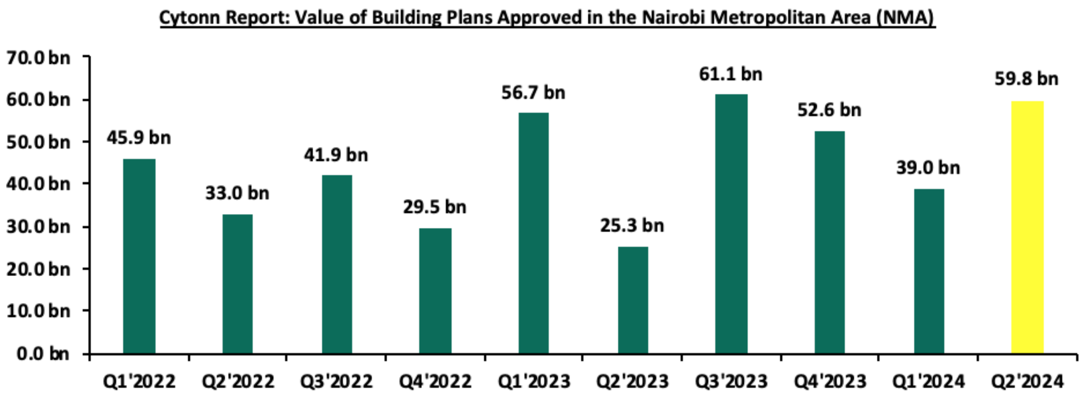
i. In June 2024, the number of arrivals was 149,922, reflecting a 27.4% increase from 117,639 in May 2024. On a year-on-year basis, this represented a 13.3% increase compared to 132,297 arrivals in June 2023. The improved performance can be attributed to several factors; i) recovery in the global tourism industry coupled with a strong marketing campaign, ii) visa openness following the introduction of the Electronic Tourist Authorization (ETA) at the beginning of the year, iii) improvements in air connectivity through introduction of new routes and more frequencies by major airlines and the introduction of direct flights by three new airlines—IndiGo (Mumbai-Nairobi), Fly Dubai (Dubai-Mombasa), and Airlink (Johannesburg-Nairobi), iv) the creation of specialized tourism offerings such as cruise, adventure, cultural, and sports tourism, and, v) expanded global promotion of Kenya's tourism by the Ministry of Tourism and the Kenya Tourism Board using platforms like Magical Kenya. On a q/q basis, the performance represented a 9.3% decrease to 370923 in Q2'2024 from 409,164 arrivals recorded in Q1'2024. The performance can be attributed to the ongoing anti-government protests. The chart below shows the number of international arrivals in Kenya between Q1'2022 and Q2'2024;



Source: Kenya National Bureau of Statistics (KNBS)

ii. The total value of building plans approved in the Nairobi Metropolitan Area (NMA) increased y/y basis by 136.1% to Kshs 59.8 bn in Q2'2024, from Kshs 25.3 bn recorded in Q2'2023. In addition, on a q/q basis, the performance represented a 53.2% increase from Kshs 39.0 bn recorded in Q1'2024. The increase in performance was attributable to; clearing of pending approvals by the

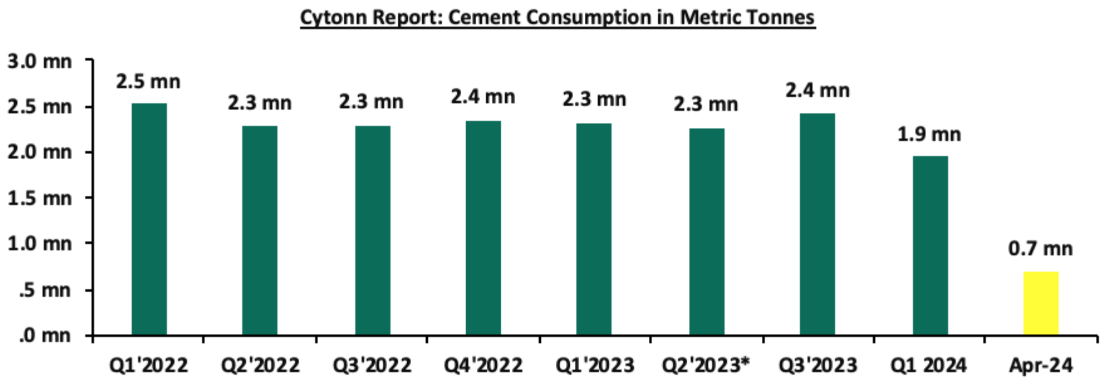
Nairobi County Government which made significant progress in clearing a backlog which led to a notable increase in the number of approved building plans; the push to address housing shortages has led to increased construction activity, there was a continued inflow of investments into the Real Estate sector, further driving the value of building plans. Investors were attracted by the potential for returns in Kenya's growing urban centers, especially in the Nairobi Metropolitan Area. The chart below shows the value of building plans approved in the Nairobi Metropolitan Area (NMA) between Q1’2022 and Q2’2024;



Sour

ce: Kenya National Bureau of Statistics (KNBS)

iii. The consumption of cement came in at 0.7 mn metric tonnes in April 2024, a 7.0% increase from 0.65 mn metric tonnes recorded in March 2024. On a y/y basis, the performance represented a 5.5% decrease from 0.74 mn metric tonnes recorded in April 2023. The decline in performance was attributable to; i) increased costs of the construction, which increased by 41.7% to Kshs 900 from Kshs 650 per 50 kg bag. The chart below shows cement consumption in metric tonnes in Kenya between Q1’2022 and April 2024;

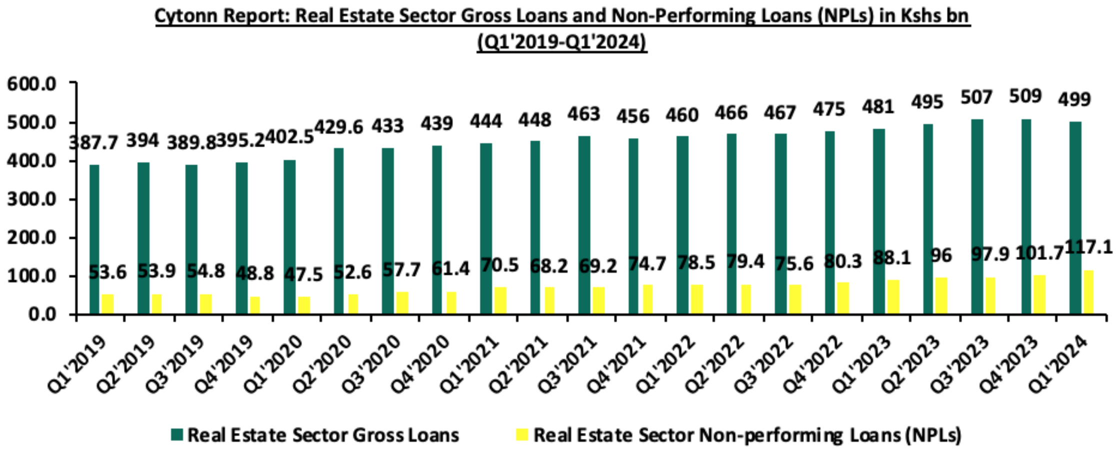


Source: Kenya National Bureau of Statistics (KNBS)

Additionally, the Central Bank of Kenya (CBK) released their Q1’2024 Quarterly Economic Review which highlighted the status and performance of Kenya’s economy during the period under review. The following were the key take outs from the report, with regard to the Real Estate and related sectors;

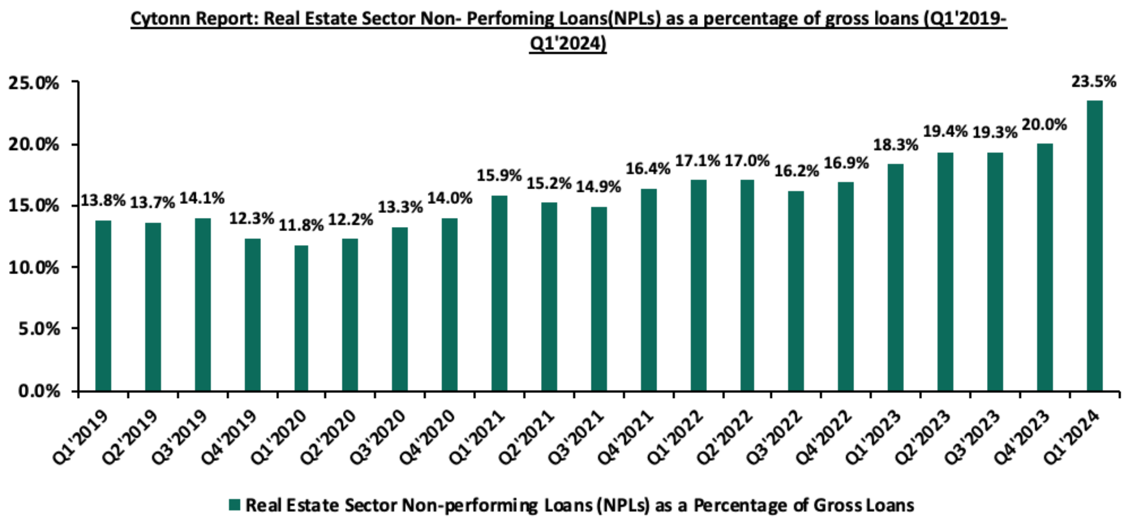
i. The year-on-year (y/y) gross loans advanced to the Real Estate sector increased by 3.7% to Kshs 499.0 bn in Q1’2024, from Kshs 481.0 bn in Q1’2023. The advanced loans also represented a 2.0% quarter-on-quarter (q/q) decrease from Kshs 509.0 bn realized in Q4’2023. The decrease can be attributable to a 25.9% decrease in value of buildings approved to Kshs 39.0 bn in Q1’2024 from Kshs 52.6 bn in Q4’2023 in the Nairobi Metropolitan Area (NMA),
ii. The gross Non-Performing Loans (NPLs) in the Real Estate sector realized a q/q increase of 15.0% to Kshs 117.1 bn in Q1’2024, from Kshs 101.70 bn in Q4’2023. This can be attributed to; i) delayed repayments resulting from a challenging business environment), iii) higher existing taxes and new tax implementations, and, iv) increased loan interest payments following central bank

rate hikes. The graph below shows the Gross Loans advanced to the Real Estate sector against Non-Performing Loans in the sector from Q1'2019 to Q1'2024;



Source: Central Bank of Kenya (CBK)

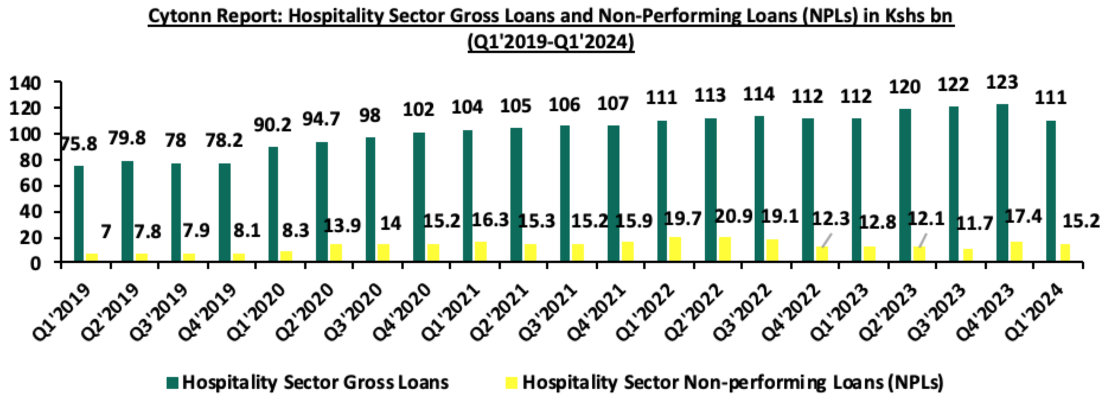
The graph below shows the Non-Performing Loans as a percentage of Gross Loans advanced to the Real Estate sector from Q1'2019 to Q1'2024;



Source: Central Bank of Kenya (CBK)

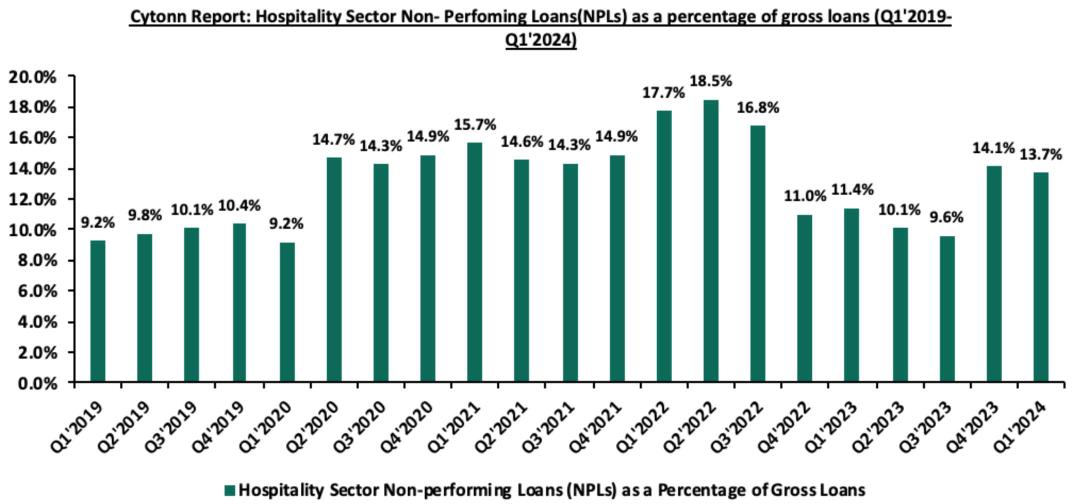
iii. The gross loans advanced to the hospitality sector decreased by 0.9% to Kshs 111.0 bn in Q1'2024, from Kshs 112.0 bn in Q1'2023 on a y/y basis. On a q/q basis, the performance also represented a 9.8%-points decrease to Kshs 111.0 bn recorded in Q1'2024 from Kshs 123.0 bn in Q4'2023. The decrease can be attributed to year-round repayment of outstanding loans, as the sector experiences recovery post-COVID-19 Pandemic, coupled with the tightening of the monetary policies whereby the MPC decided to raise the CBR rate by 50 basis points to 13.0% from 12.5% in February 2024, thus increasing the cost of borrowing for individuals and businesses in the hospitality industry during the Q1' 2024 period,

iv. Gross NPLs in the hospitality sector reduced on a y/y basis by 15.8% to Kshs 15.2 bn in Q1'2024 from Kshs 12.8 bn in Q1'2023. The performance can be attributed to; i) the sector expansion by 28.0% in Q1'2024 on the back of increased international arrivals through Jomo Kenyatta International Airport (JKIA) and Moi International Airport (MIA) on a y/y basis by 10.4% to 409,164 in Q1'2024, from the 370,570 visitors recorded in Q1'2023 on the back of receding adverse effects of COVID-19 pandemic leading to increased tourism activities in the sector. The graph below shows Gross Loans advanced to the Hospitality sector against Non-Performing Loans in the sector from Q1'2019 to Q1'2024;



Source: Central Bank of Kenya (CBK)

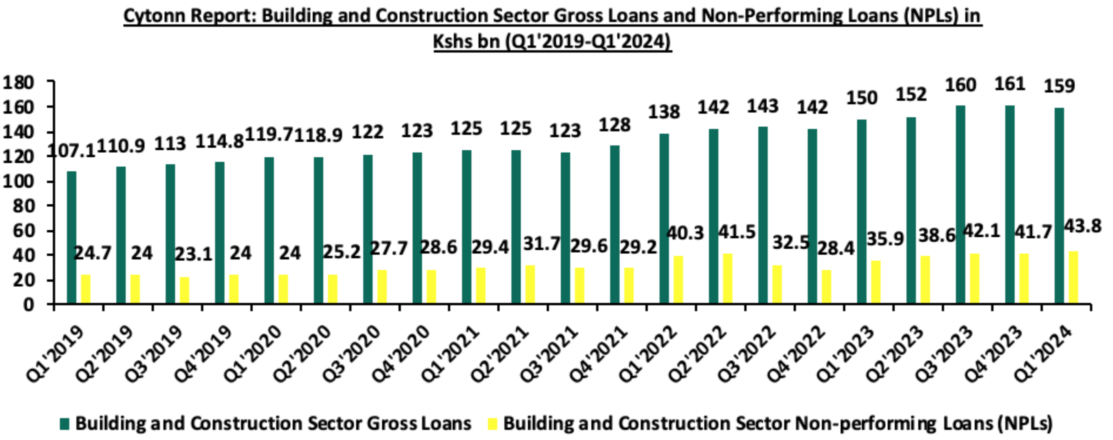
The graph below shows the Non-Performing Loans as a percentage of Gross Loans advanced to the Hospitality sector from Q1’2019 to Q1’2024;



Source: Central Bank of Kenya (CBK)

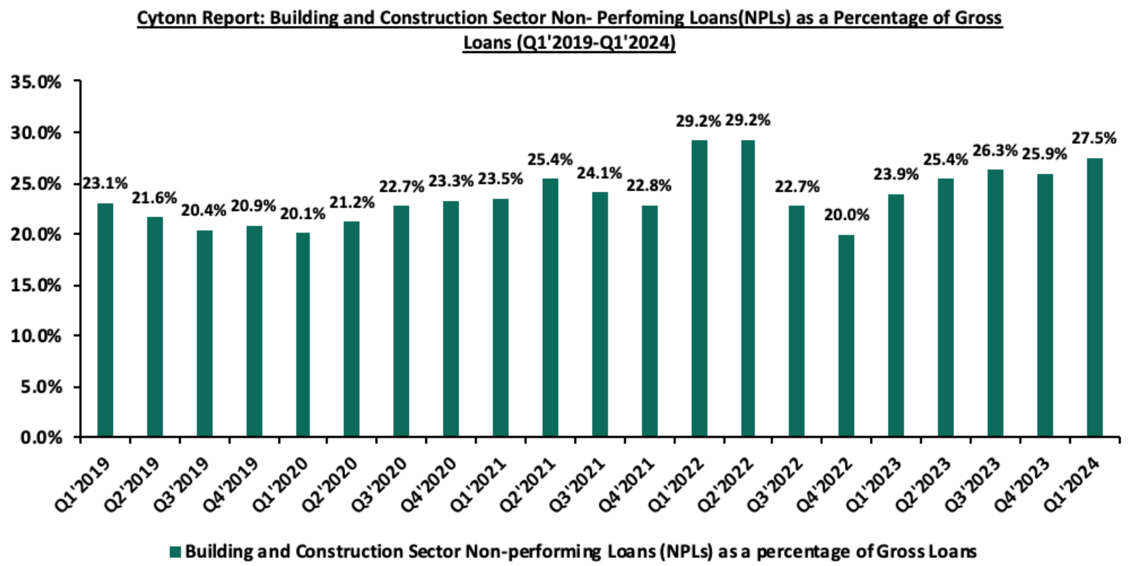
v. Gross loans advanced to the building and construction sector recorded a y/y growth of 5.7% to Kshs 159.0 bn in Q1’2024, from Kshs 150.0 bn in Q1’2023. This also represented a 1.3% q/q decrease from Kshs 161.0 bn recorded in Q4’2023. The y/y performances were mainly driven by continuous construction activities particularly in the housing and infrastructure sectors by both private and public sectors. Furthermore, construction costs per SQFT increased by 21.0% averaging at Kshs 11,414.0 in H1’ 2024 from Kshs 9,365 in H1’2023, necessitating the need for more funding, and,

vi. Gross NPLs in the building and construction sector increased by 18.0% on a y/y to Kshs 43.8 bn in Q1’2024 from Kshs 35.9 bn in Q1’2023 basis on the back of operational challenges such as project delays in the Real Estate and hospitality sectors. These challenges were exacerbated by economic challenges, including inflationary pressures and the weakening shilling, which have impacted the ability of businesses in the building and construction sector to service their loans. The performance represents a 4.8% q/q increase from Kshs 41.7 bn recorded in Q4’2023 amid delays in approval of construction projects by the relevant authorities. The graph below shows Gross Loans advanced to the Hospitality sector against Non-Performing Loans in the sector from Q1’2019 to Q1’2024;



Source: Central Bank of Kenya (CBK)

The graph below shows the Non-Performing Loans as a percentage of Gross Loans advanced to the Building and Construction sector from Q1’2019 to Q1’2024;



Source: Central Bank of Kenya (CBK)

II. Residential Sector

During the week, Beulah City, a Nairobi-based developer in collaboration with AMS properties and KCB bank as a finance partner, announced the launch of its inaugural affordable housing project along Wanyee road, off Naivasha road in Nairobi. The project, named Ikhaya Beulah Genesis, is set to commence and is expected to be complete by the end of 2.5 years. The project will comprise 1074 affordable units ranging from studios to spacious 1 and 2-bedroom residences catering to diverse lifestyle needs. The prices are set to start at Kshs 2.1 mn for a 20.0 SQM studio unit, 2.6 mn for a 25.0 SQM studio unit, 4.2 mn for a 40.0 SQM 1-bedroom unit, and 6.3 mn for a 60.0 SQM 2-bedroom unit. Additionally, the project is expected to encompass a reliable borehole system, 600,000 liters water storage facility, on-site management office, ample parking, power backup, and 24/7 manned security, among several other amenities. Kenya Commercial Bank (KCB) as the designated finance partner offers an affordable mortgage loan with flexible terms. Borrowers enjoy up to 25 years for repayment, financing of up to 105% of the property's value, and competitive interest rates tailored to their financial situation. This flexibility aims to make homeownership more accessible for Kenyans.

Cytonn Report: Ikhaya Beulah Genesis Affordable Housing Project by Beulah City

#	Typology	Size (SQM)	Price (Kshs in mn)	Price per SQM
1	Studio	20	2.1	105,000

Cytonn Report: Ikhaya Beulah Genesis Affordable Housing Project by Beulah City

#	Typology	Size (SQM)	Price (Kshs in mn)	Price per SQM
2	Studio	25	2.6	104,000
3	1-bedroom	40	4.2	105,000
4	2-bedroom	60	6.3	105,000
	Average	**36.3**	**3.8**	**104,750**

Cytonn Report: Ikhaya Beulah Genesis Affordable Housing Project by Beulah City

#	Typology	Size (SQM)	Price (Kshs in mns)	Price per SQM	Price per SQM for Government Affordable Houses	Variance in Price per SQM (%)
1	Studio	20	2.1	105,000		
2	Studio	25	2.6	104,000		
3	1-bedroom	40	4.2	105,000	33,333	215%
4	2-bedroom	60	6.3	105,000	50,000	110%
	Average	**36.3**	**3.8**	**104,750**	**41,667**	**151%**

The affordable housing project mentioned above is notably more expensive compared to the government's Affordable Housing Program (AHP). When it comes to affordability, the average unit price of Kshs 104,750 per SQM is 151% higher than the government's average of Kshs 41,667 per SQM.

Beulah City highlighted that their project aims to create a vibrant community which will foster social interaction and meaningful connections among residents. From recreational rooftop terraces to gyms and dedicated play areas for kids, the project is set to provide ample opportunities for residents to engage and enjoy.

We expect heightened activities in the residential Real Estate sector supported by the government initiatives in the residential sector, especially through the Affordable Housing Agenda and demand for housing driven by the growing population and high urbanization rate currently at 3.7% per annum. The Affordable Housing Program (AHP) in Kenya, part of the Big Four Agenda, targets building 250,000 affordable homes annually. However, homeownership still remains low, with only 21.3% of urban residents owning homes compared to a national average of 61.3%, forcing 78.7% to rely on rentals due to high property prices and limited access to finance.

III. **Infrastructure Development**

During the week, President William Ruto launched the tarmacking of the 25-kilometre Rukuriri-Kathageri-Kanyaumbora road in Embu county. Upon completion, the road is expected to further Embu's agricultural vibrancy, improve livelihoods, and unlock the region's economic potential. The upgrading of the road is in line with the President's mandate to guarantee every citizen access to resources, opportunities, and essential services such as health and education.

The Dongo Kundu Bypass was officially opened to the public following its handover by the contractor to the government. This Kshs 40 bn project, undertaken by the China Civil Engineering Construction Corporation (CCECC), began in 2018 and features a 17.5-kilometer road with three bridges. The bypass connects Miritini in Mombasa County to Kwale County, significantly enhancing the region's connectivity with the Standard Gauge Railway (SGR) and Moi International Airport in Mombasa. This new route offers direct access between the airport, Mombasa, and the SGR Miritini terminal to the South Coast, which is expected to boost tourism and hospitality in the area. Phase II of the project covers an 8.96-kilometer stretch of dual carriageway, starting from the Mwache interchange. The bypass is anticipated to be a game-changer in the region's infrastructure, facilitating smoother and more efficient travel.

We expect the infrastructure sector in Kenya will continue to play a crucial role in promoting economic activities, supported by the government's commitment to construct and rehabilitate essential infrastructure such as roads, bridges, railways, airports, and affordable housing units, and strengthen diplomatic ties and partnerships with neighboring nations to foster mutual development.

IV. **Industrial Sector**

During the week, Taita-Taveta County is set to achieve an economic milestone with the approval of a Kshs 11.0 bn steel plant by Devki Steel Mills Limited and will be completed within eight months. The plant is set to be constructed in Manga area, Voi. Narendra Raval of Devki Steel Mills was officially handed a 500-acre parcel of land to commence the construction of the plant. The plant is projected to generate thousands of direct and indirect employment opportunities, offering a lifeline to many struggling residents. 3,000 residents will be employed, with over 2,000 direct jobs expected once the plant becomes operational. In return, this will improve the economic status of the region.

We expect the establishment of the steel plant will transform lives by creating jobs, improving infrastructure, and stimulating local businesses around Taita-Taveta County.

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

a. **Acorn Holdings Cash Call**

During the week, Acorn Holdings, a student hostel developer in Nairobi announced a bid to raise Kshs 2.8 bn in new capital for its development and income Real Estate Investment Trusts (REITS) by February 2025 to fund the development and acquisition of new properties. The firm targets Kshs 1.9 bn for the Acorn student accommodation I-REIT and Kshs 810.0 mn for the D-REIT, which is set to be raised through a combination of a rights issue that closed on 31st July and an open market offer which continues until February 2025. Acorn offered an open market price of Kshs 24.54 for the D-REIT and Kshs 22.03 for the I-REIT with existing unit holders enjoying a discount of 0.6% during the rights issue offer period which has since expired.

The recent offer by Acorn Holdings forms the third supplemental cash call made by the firm since inception of the REITs, following similar issuances in 2022 and 2023 making this strategy the primary capital raising instrument for the company. As at the end of June 2024, the ASA D-REIT holds 11 properties under different development stages, with a total valuation of Kshs 10.9 bn. These properties include two hostels in Karen under the company’s Qwetu and Qejani brands, which the firm expects to offload to the I-Reit by the end of Q1’2025. Similarly, the ASA I-REIT holds a portfolio of 7 hostels with a combined valuation of Kshs 10.3 bn as at June 2024 with the most recent acquisitions being the Qwetu Hurlingham in September 2023 and Qwetu Aberdare Heights II in January 2024.

On the debt side, the D-REIT currently has an outstanding Kshs 1.86 bn green bond issued in October 2019, which financed eight hostel projects. The company had acquired Kshs 5.7 bn and has been making early repayments before the debt matures in November 2024. In February 2022, the D-REIT contracted a Kshs 6.7 bn loan from Absa Bank to fund 10 hostel projects, out of which Kshs 1.0 bn had been drawn down by June 2024 for ongoing projects at Juja, Kenyatta University and Hurlingham.

We anticipate the student accommodation market to continue improving as enrollment into universities and tertiary institutions remains resilient. The Kenya National Bureau of Statistics (KNBS) highlighted that University enrollment for the 2023/2024 academic year increased by 3.0% year-on-year to 579,046 students from 561,674 in 2022/2023. For Technical, Vocational Education, and Training (TVET) institutions, student enrollment in the 2023/2024 academic year increased by 14.0% year-on-year to 642,726 students from 552,744 in 2022/2023.

b. **REIT Weekly Performance**

On the Unquoted Securities Platform, Acorn D-REIT and I-REIT traded at Kshs 25.4 and Kshs 22.2 per unit, respectively, as per the last updated data on 9th August 2024. The performance represented a 27.0% and 11.0% 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 Kshs 12.3 mn and Kshs 31.6 mn shares, respectively, with a turnover of Kshs 311.5 mn and Kshs 702.7 mn, respectively, since inception in February 2021. Additionally, ILAM Fahari I-REIT traded at Kshs 11.0 per share as of 9th August, 2024, representing a 45.0% loss from the Kshs 20.0 inception price. The volume traded to date came in at 138,600 for the I-REIT, with a turnover of Kshs 1.5 mn since inception in November 2015.

REITs offer various benefits, such as 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 significant previous investments. Additional general challenges include: i) insufficient 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 the Investment REITs, all of which continue to limit the performance of the Kenyan REITs market.

We expect the performance of Kenya's Real Estate sector to be sustained by: i) increased investment from local and international investors, particularly in the residential sectors ii) favorable demographics in the country, leading to higher demand for housing and Real Estate, (iii) government infrastructure development projects e.g. roads, opening up satellite towns for investment, and iv) ongoing residential developments under the Affordable Housing Agenda, aiming to reduce the annual housing deficit in the country which is currently at 80.0%. However, challenges such as rising construction costs, strain on infrastructure development, and high capital demands in the REITs sector will continue to impede the sector's optimal performance by restricting developments and investments.