The State of Credit Availability in Kenya's Private Sector, & Cytonn Weekly #39/2024

Real Estate

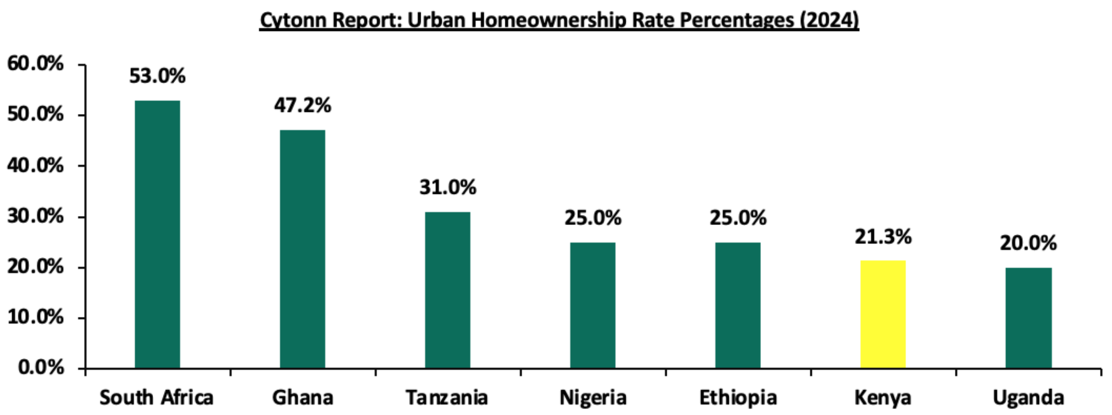
I. **Residential Sector**

During the week, the Kenya Mortgage Refinance Company (KMRC) broadened its refinancing services to include non-shareholders, such as SACCOs and microfinance institutions. This is a strategic move to improve access to affordable mortgages, particularly for low- and middle-income earners, a key target of Kenya's affordable housing agenda.

Initially, KMRC provided refinancing only to its shareholder banks and institutions. By expanding this access, smaller financial institutions can now offer their clients long-term, lower-interest mortgages, a service previously limited to larger commercial banks. KMRC offers these loans at an interest rate of 5.0%, allowing lenders to pass on the benefit to end consumers, who can access mortgages at rates as low as 9.0%.

Within the year, KMRC has implemented a number of measures to increase mortgage uptake. These measures include increasing the monthly income of eligible borrowers from Kshs 150,000 to Kshs 200,000 and also increasing the maximum amount that can be accessible from Kshs 8.0 mn and Kshs 6.0 mn for the Nairobi Metropolitan Area and the rest of the country, respectively, to Kshs 10.5 mn.

We expect this step to greatly boost home ownership, especially in a market where mortgage uptake remains low due to high interest rates and short repayment terms. The expansion supports and boosts the government's affordable housing plan, which targets constructing 250,000 housing units annually. The inclusion of more lenders will make affordable mortgage financing more widely accessible, contributing to increased homeownership rates across the country which currently stands at 21.3% in urban areas, which remains significantly low compared to other countries like South Africa (53.0%) and Ghana (47.2%) as shown in the chart below.



Source: Cytonn Research

This figure highlights the need for more affordable housing initiatives, as the country continues to face a housing deficit of approximately 2.0 mn units. The low homeownership rate is attributed to factors such as high property prices, limited access to affordable financing, and rapid urbanization. Programs like the government's Affordable Housing initiative are working to address this deficit and improve homeownership rates by offering subsidized housing options to lower-middle and middle-income earners.

II. **Commercial Sector**

During the week, the Kenya Ports Authority (KPA) announced plans to construct a multi-storeyed office tower away from the Mombasa port in a bid to ease congestion, improve security, and create new revenue streams by renting out offices and conference rooms. The proposed tower will still be located in Mombasa near the port. The proposed complex will comprise approximately 40,000 SQM of office space for KPA staff, four times the space they are using now. It will also feature 10,000 SQM of lettable office space, 4,000 SQM for commercial suites, and 10,000 SQM dedicated to a conference facility. Additionally, the building will accommodate about 1,200 parking spaces and include a helipad. Below is the space utilization for the proposed tower;

Cytonn Report: KPA Proposed Tower Space Distribution

Use	Plinth Area (SQM)
Lettable office space	10,000
Lettable commercial Suites	4,000
Conventional and conferencing facility	10,000
Parking Space	16,000
Total	**40,000**

Source: Cytonn Research

The relocation will also allow the current office space being utilized of about 10,000 SQM, to be used for container handling and storage and therefore ease congestion at the port. The new complex will be on a parcel of land that currently has mixed-use facilities supporting infrastructure for KPA. Moreover, KPA aims to increase its financial base by targeting new customers for rentals, including shipping lines, importers, exporters, and shipping agencies. The relocation will limit access to the port to essential service and operational personnel, making it easier to control and manage security.

The new office building is part of KPA's larger plan to modernize and streamline operations across its facilities. By reducing congestion, KPA expects to cut down on the time it takes to process goods, which has been a significant challenge due to the high volumes of cargo handled at the Mombasa port. Additionally, these efforts are likely to improve the Authority's financial position by increasing the capacity to handle more ships and cargo, thus attracting more business and boosting revenue.

With these developments, KPA is positioning itself to handle future increases in cargo traffic, particularly from regional partners like Ethiopia and South Sudan, which have shown interest in using Kenya’s port infrastructure. These improvements come at a critical time as the country seeks to establish Mombasa as a premier port in the region, capable of competing with other major African hubs.

The Kenya Ports Authority's (KPA) new office complex and broader decongestion strategy for the Mombasa port are expected to have a positive ripple effect on the real estate sector. By moving administrative offices away from the port, the surrounding areas in Mombasa are likely to experience increased demand for both commercial and residential real estate. With better port efficiency, more businesses, especially in logistics, warehousing, and import/export industries, will be attracted to the region, boosting demand for office spaces and warehousing facilities.

Additionally, enhanced port operations can lead to job creation, attracting a higher population to Mombasa, which would drive up demand for housing. The improvement of infrastructure around the port and the influx of businesses could lead to the development of residential estates targeting middle-income earners, fueling the growth of the housing market. Moreover, the relocation of offices might spur urban development in previously underdeveloped areas, increasing land and property values.

III. Real Estate Investments Trusts (REITs)

a. 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 27th September 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 27th September, 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) Favorable demographics in the country, leading to higher demand for housing and Real Estate, and iii) ongoing residential developments under the Affordable Housing Agenda, aiming to reduce the housing deficit in the country iv) increased recognition of Nairobi as a shopping hub boosting the retail sector, v) increased infrastructural development in the country opening up satellite towns for more investment opportunities giving rise to need of commercial spaces for business and offices.