Nairobi Metropolitan Area (NMA) Mixed-Use Developments Report 2024, & Cytonn Weekly #45/2024

Real Estate

I. **Residential Sector**

During the week, Purple Dot International Limited, a residential and commercial property developer broke ground on a high-end residential development in Lang'ata, dubbed Marigold II. The development is situated on a 7-acre plot. Marigold II will consist of 89 townhouses, offering both duplex and triplex units designed to blend modern aesthetics with a sense of community and security. Each of the units will have 4-bedrooms and triplex homes will cost Kshs 42.8 mn while duplex units will cost Kshs 34.8 mn. The development is expected to be completed in June 2025. This project aims to address the growing demand for quality, family-friendly housing in a gated community setup.

Each townhouse in Marigold II is crafted to create a serene living environment that appeals to diverse groups, from young professionals to families. Amenities are tailored to promote both comfort and sustainability, featuring a clubhouse, a gym, steam rooms, a swimming pool, a children's play area, and ample parking. With eco-friendly features like sound-reduction windows and sensor taps, Marigold II aims to lower energy consumption and align with sustainable living standards. Security is prioritized with 24-hour surveillance, an electric fence, and intercom facilities.

The strategic location of Marigold II in Lang'ata provides easy access to key amenities, including renowned schools, hospitals, and shopping centers like Galleria Mall. This proximity enhances its appeal for residents seeking both convenience and a peaceful living environment close to Nairobi's vibrant city life.

We expect heightened activities in the Real Estate residential 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 outlook for Kenya's residential Real Estate sector in 2024 indicates continued growth despite various challenges. The Real Estate market is benefiting from strong demand driven by urbanization, population growth, and government initiatives such as the affordable housing program. However, rising construction costs, high interest rates, and financing constraints due to tightened lending are dampening growth prospects.

II. **REITs 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 31st October 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 31st October 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 leading to a slower uptake of REIT products, ii) lengthy approval processes for REIT creation, iii) high minimum capital requirements of Kshs 100.0 mn for REIT trustees compared to Kshs 10.0 mn for pension funds Trustees, iv) limiting the type of entity that can form a REIT to only a trust company, and, v) minimum subscription amounts or offer parcels set at Kshs 0.1 mn for D-REITs and Kshs 5.0 mn for restricted I-REITs. The significant capital requirements still make REITs relatively inaccessible to smaller retail investors compared to other investment vehicles like unit trusts or government bonds, all of which continue to limit the performance of Kenyan REITs.

We expect Kenya's Real Estate sector to remain on a growth trend, supported by: i) demand for housing sustained by positive demographics, such as urbanization and population growth rates of 3.7% p.a and 2.0% p.a, respectively, against the global average of 1.7% p.a and 0.9% p.a, respectively, as at 2023, ii) activities by the government under the Affordable Housing Agenda (AHP) which has boosted land prices within the NMA area, iii) heightened activities by private players in the residential 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.
