

What Real Estate Bubble?, & Cytonn Weekly #51/2017

Real Estate

The Government continues to push for Public - Private Partnerships (PPP) in the country. This week, Treasury Cabinet Secretary Hon. Henry Rotich approved plans by Embu University, South Eastern Kenya University (Seku) and Moi University to build hostels through the public private partnership, the projects are open to both competent local and international bidders. The PPP models involve build operate transfer framework (BOT) which allow investors to build and collect rent over a period approximately 15-20 years before transferring the asset back to the institutions. While PPP'S have various advantages such as, (i) better public services delivery through improved operational efficiency, and (ii) timely projects delivery and within budgets, similar projects by Kenyatta University (K.U) and Moi University are yet to kick off. The key constraint has been lack of legal framework to enable transfer of public land into special purpose vehicles that can attract private capital and bank debt, since, for a PPP to attract private capital into a project, the respective land has to be separated and moved into a special purpose development vehicle that has title to the land. We therefore remain sceptical on the success of the initiative, based on the above challenge and the pilot projects such as construction of Hostels in K.U, in partnership with US fund, Africa Integra yet to break ground three years after the tender award.

The land sector has recorded various activities this week, all focussed on land reforms. These activities include;

1. The High Court granted the Ministry of Lands 30 more days to comply with an order on the regularization of over 3 mn title deeds granted since 2013 as the period earlier issued expired on Monday 18th December 2017. This is a follow up to the 12-months suspension issued by the high court to allow for public participation and consultation with the National Land Commission before declaring invalid all forms, regulations and forms of titles such as Title Deeds promulgated by the ministry of lands in an effort to bring onto operation provisions of the Land Act, 2012. The case that led to the above ruling was; the forms and regulations issued by the land Ministry since 2013 were not recognizable under Section 43 of the Lands Registration Act, 2012 due to lack of, (i) the National Land Commission's (NLC's) input, (ii) approval by parliament, and (iii) public participation as provided under Article 40 of the Constitution. The High Court has therefore agreed to offer the deadline extension in order to prevent adverse effects on the real estate sector, financial services sector and the economy in general. This judgement is, in our view, a step in the right direction to protect the real estate practitioners. However, the courts should push the Ministry of lands to comply with the ruling as part of land reforms which will provide a conducive environment for a vibrant real estate sector; and
2. High Court ordered the Ministry of Land and Physical Planning to honour a 2012 ruling on compensation to Orbit Chemicals Industries Ltd, for a 95.2-acre plot in Embakasi, Nairobi after the High Court found that Land Ministry officials had colluded to illegally take possession of and sub-divide the land.

These rulings by the High court, in our view are a clear indication of the government's efforts to reform the lands ministry in order to provide a conducive environment for a vibrant real estate sector.

Naivas supermarket opened its 3rd 24-hour store at Bank House located at the junction of Moi Avenue and Kenyatta Avenue within Nairobi's Central Business District. This effectively brings to a total of 43 outlets for the Kenyan retailer. The retailer has been on an expansion and rebranding strategy that seeks to tap into the uptown Nairobi market, which is currently served mainly by Tuskys and Nakumatt Supermarkets. The retailer continues to implement its expansion strategy despite the tough operating environment characterized by low bank credit accessibility and increased competition from international retailers such as Carrefour as it remains bullish on market performance informed by the increased demand due to growth in middle class income earners, translating to an increase in purchasing power.

The Government announced the completion of 2,000 houses for police and prisons officers located in rural and urban areas such as CID training school, GSU Recce Ruiru, Garissa police station, among others, in a period of 6 months. The project was undertaken using Industrialised building system (IBS), which included Expanded Polystyrene System (EPS), Hollow interlocking concrete blocks, waffles and precast concrete. In our view, this a move in the right direction, as an adoption of Alternative Building Technology (ABT) by the government will give the products validation and thus help in reducing the housing deficit mainly concentrated in the low-income earners bracket.

The real estate sector remains vibrant driven by sustained demand for housing, positive demographics and favourable legal policies being adopted hence reducing opacity and easing transaction processes in the real estate sector.

Liason House, StateHouse Avenue
The Chancery, Valley Road
www.cytonn.com
Generated By Cytonn Report

A product of **Cytonn Technologies**