The Total Cost of Credit Post Rate Cap., & Cytonn Weekly #02/2018

Real Estate

During the week, the Principal Secretary (PS) for Ministry of Housing and Urban Development, Ms. Aidah Munano, announced Kshs 40.0 bn worth of incentives for the private sector to help developers meet a target of 4.3 mn housing units by 2030 to the market, equating to 358,000 units per year, a 617% increase from the current annual supply of 50,000 units. Of the planned affordable homes, 52.0% will target low-income households earning Kshs 25,000.0 and below, per month, who are unable to finance a home loan.

According to the PS, the move aims at fostering Public-Private Partnerships (PPP's) towards addressing the housing shortage, which currently stands at a cumulative of 2.0 mn units growing annually by 200,000 units, according to the National Housing Corporation (NHC), through eliminating the challenges that investors cite as hindrances to the partnership model, such as:

- Difficulties in managing the multi-stakeholder nature of most of the PPP projects,
- Negative investor sentiment, especially with the lack of appropriate legal frameworks to enable transfer of public land into special purpose vehicles to be able to attract private capital and bank debt, and,
- A time-consuming, highly discretionary, and often corrupt approval and licensing system.

As per the PS, the annual demand is expected to grow to 343,232 units by 2030 from the current 200,000, a 12-year CAGR of 5.2%. According to Kenya National Bureau of Statistics, the Kenyan Government, through the State Department of Housing and NHC, delivered a total of 1,062 units countrywide in 2016. With private developers estimated to deliver 50,000 units annually, this translates to the government only providing 1.0% of the annual demand while private developers deliver at least 25.0%. For the initiative to be successful, the government will need to address the key challenges facing PPP's and on the demand side, the government needs to enable home buyers by addressing the low mortgage uptake as the current active mortgages remain at a low of 24,085, having declined by 1.5% since 2015 following stringent credit standards by lending institutions with the introduction of the 2016 interest rates cap law.

Also during the week, Kiambu County Governor, H.E. Hon Ferdinand Waititu, announced plans to unveil a policy that will ensure single-dwelling house plans are approved within 5-days, a process that has been known to take up to 3-months, as a result of inefficiencies. The move is set to clear the backlog of these approvals from the previous regime and enhance the process of obtaining approvals for developers going forward. Additionally, all property brokers operating within the county will be required to register on an e-platform, though it is yet to be launched, with the aim of ridding the region of rogue agents infamous for swindling clients. In our view, the moves are the right step towards streamlining the process and improve the experience for all real estate stakeholders in Kiambu County. To come to full effect, there's need for unwavering commitment by the new administration to address bureaucracies within the county offices.

The retail sector, this week, registered heightened activity as retailers opened shops across Nairobi, including;

i. Naivas took over 22,000 SQFT of space, previously occupied by Nakumatt, along Moi Avenue in Nairobi, making it the 44th branch in the country and the 3rd within the Central Business District,
ii. Choppies, the Botswanan retailer, also announced plans to open its 12th outlet at Southfield Mall in Eastlands, later this month. According to the retailer, the Eastlands branch will be its biggest store in the country, with 44,000 SQFT of space, and,
iii. Chinese retailer, Miniso, a low-cost variety store chain that specializes in household and consumer goods including cosmetics, stationery, toys, and kitchenware, opened its first branch in Kenya at the Village Market, with plans to open another at the Thika Road Mall, in the space vacated by Woolworths. This will mark the retailer's 3rd store in the continent, with two others in Lagos and Pretoria. Overall the retailer has a total of 2,600 branches worldwide.

The above trends show that the fundamentals that drive the retail sector, such as increased consumerism due to an expanding middle class and rapid urbanization rate, are still supportive of the sector's vitality.

The hospitality sector remains attractive as can be seen by:

i. A global travel firm, The Travel Corporation (TTC), listed Kenya as one of the top 10 transformative travel experiences in the world citing the 11-day East African Safari that heads off to the Maasai Mara as well as Tanzania's Serengeti,
ii. The United States revised its travel advisory warning against Kenya urging US visitors to exercise caution when visiting, but retained its stance against travel to certain parts such as the Kenya-Somali border, Garissa and certain parts of Nairobi such as Eastleigh due to terrorism and insecurity. This comes after the launch of direct flights to the US from Kenya where Kenya Airways will be operating daily flights to and fro New York and Nairobi, and will see the trip time reduce by about eight hours, to 15 hours from the previous 23 hours. We expect this to lead to increased daily tourist arrivals, especially for leisure as the move promotes Kenya as a leading travel destination, and,
iii. Jambojet increased the frequency of its local flights per week to 39 up from 22, while Kisumu-Nairobi flights increased to 14 from the previous 8, attributed to increased demand.

The sector is thus expected to rebound further as a result of (i) aggressive marketing by the government and consistent media coverage aimed at making Kenya visible on the international stage, (ii) improved infrastructure such as the Mombasa ports and the SGR, and (iii) improved security measures in the country.

Other highlights during the week include:

- China Wu Yi announced plans to set up a construction firm to the tune of Kshs 9.5 bn to capitalize on the current real estate boom in the country,
- The Uasin Gishu County Governor, HE. Hon Jackson Mandago announced the commencing of the Eldoret Southern Bypass that is set to ease congestion in the region which is mainly served by the Nairobi-Uganda Highway. The project funded by African Development Bank will cost Kshs 6.0 bn and will see capital investment geared towards the county growth. Last Year, the county launched the Pearl River Special Economic Zone, a high end industrial park that will cost approximately Kshs 200.0 bn, indicating a positive growth and outlook for the county,
- The only listed REIT in Kenya risks delisting if it fails to meet the Capital Market Authority's regulations to have the fund have 75% of its total asset value invested in real estate. Currently, the REIT has real estate assets valued at Kshs 2.4 bn, less Kshs 245.0 mn of the threshold and has until 31st March this year to meet this requirement. As of January 2018, the instrument has thus far shed 48% of its 2015 listing value, of Kshs 20.75.

We expect the real estate sector to remain vibrant driven by (i) sustained foreign investment, (ii) government incentives for real estate developers and investment in the tourism sector, and (iii) continued infrastructural development.

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