Nyeri Real Estate Investment Opportunity, & Cytonn Weekly #03/2018

Real Estate

During the week, the government announced several additional initiatives aimed at enabling access to ownership of housing in the country and thus reducing existing deficit by increasing development activities. These include:

i. The shortlisting of 35 private construction firms by the Ministry of Transport Infrastructure Housing and Urban Development for a Public Private Partnerships (PPP's) arrangement, which will involve the construction of 1.0 mn affordable housing units in Mavoko, Kitengela and Athi River through a PPP arrangement in which the government will provide the land and trunk infrastructure including road, water, and power with the contractors developing the houses. The pilot program will be launched in February 2018 in Mavoko. The project is expected to have a total cost of Kshs 2.6 trn, and
ii. State Department of Housing and Urban Development, announced plans to construct 620 houses in Embu, Machakos and Kiambu counties. The houses will be developed under the Civil Servants Housing Scheme Fund, which was launched in 2004 to provide loan schemes for the purchase or development of property by state officers. The initiative has benefited 3,072 civil servants. The development will comprise one, two and three bedroom apartments with Embu set to benefit with the most housing units from the initiative at 220 while Machakos and Kiambu will get 200 units each. The move is an indicator that devolution is slowly picking pace as state departments become increasingly upbeat in addressing county deficits.

These are just the latest among a number of initiatives that the government has been undertaking in a bid to reduce the housing deficit and enable access to housing in recent years with the others being;

Public Sectors Initiatives on Affordable Housing in Recent Years

State Department/ Ministry	Initiative	Target Market	Progress
State Department of Housing and Urban Development	8,000 units in Mavoko	Low and Middle-Income residents	Broke ground in 2017
Nairobi County Government	14,000 units in Nairobi (Old and New Ngara, Uhuru and Joseph Kangethe Estates)	Low and Middle-Income residents	Broke ground in 2017
Ministry of Transport Infrastructure and Urban Development	75 units in Murang'a	Civil Servants	Broke ground in 2017

Public Sectors Initiatives on Affordable Housing in Recent Years

State Department/ Ministry	Initiative	Target Market	Progress
County Government of Kirinyaga	Kshs 10 billion real estate around Thiba Dam	Low and Middle-Income residents	Expected to break ground late 2018 after completion of the Thiba Dam

In our view, the initiatives are a step in the right direction since if successfully implemented will reduce the housing deficit that currently stands at approximately 2.0 mn units, growing at approximately 200,000 units per annum. The provision of the land and infrastructure by the government will also increase the affordability of the houses and thus access to property ownership as these costs contribute significantly to the development costs and thus the eventual costs of the houses. However, we are sceptical about the working of PPP's in Kenya due to; (i) regulation hindrances such as lack of a mechanism to transfer public land to an SPV to facilitate participation by private developers and private capital, (ii) lack of clarity in terms of revenue sharing and the long-term nature of the projects that usually exceed 10 years whilst private developers typically have funding for 3-5 years, and (iii) inadequacy in off taker financing as the mortgage levels declined by 1.5% with the number of mortgages at only 24,085 as at 2016 from 24,485 in 2015. For example, one of the highly anticipated PPPs in real estate was the Kenyatta University PPP that was announced in 2015 and is yet to kick off 3 years later.

In retail, foreign retailers continue making inroads in the Kenyan retail sector capitalizing on the financial woes of some of the major local retail chains. This week, Carrefour opened its fourth store locally at the Junction mall taking up space vacated by Nakumatt. The retailer will initially take up 1,300 SQM of space expanding to 4,700 SQM once refurbishment of the space is complete. Last week, Choppies from Botswana took up space in Nanyuki Mall, where Nakumatt had been evicted due to rental arrears. Other than supermarkets, other international retailers that have been expanding locally include; Mr Price and Manix Clothes Stores. Local retailers have also been on an expansion offensive with Naivas and Tusky's opening 7 and 4 new stores last year, respectively, thus maintaining the dominance by local retailers in the retail sector as shown in the table below:

Retailers Market Share in Kenya by Number of Stores

Retailer	No of Stores	% Share
Tuskys	64	37.4%
Naivas	41	24.0%
Nakumatt	34	19.9%
Uchumi	16	9.4%
Choppies	11	6.4%
Carrefour	4	2.3%
The Game	1	0.6%
Total	171	100.0%

• Local chains still dominate the retail market in Kenya despite the inroads made by foreign retailers accounting for 90.7% of the market share by number of stores
• Tuskys has the highest number of stores that stands at 37.4%, 64 stores followed by Naivas and Nakumatt at 24.0%, 41 stores and 19.9%, 34 stores, respectively

Source: Cytonn Research

The expansion activities by retailers indicate a healthy retail sector, which is supported by; (i) positive demographics evidenced by high population growth rate of 2.6% against global average of 1.2% that has led to sustained demand, (ii) high urbanization rates of 4.4% higher than global rates of 2.1% that has resulted in the need for more retail stores, (iii) high economic growth rates with a GDP growth rate averaging above 5.0% between 2011 and 2016 thus boosting disposable incomes and increasing purchasing power, (iv) rapid growth of infrastructure making investors venture into accessible areas, (v) Kenya's growing position as a regional and continental hub hence witnessing an increase in multinationals operating in the county, and (vi) e-commerce as seen through the digitization of cash systems and a rise in mobile money and internet subscriptions. We thus have a positive outlook for the retail sector in Kenya. Retailers, especially local chains however, will have to institute better financial and supply chain management processes, and strong corporate governance framework in order to avoid pitfalls encountered by Nakumatt and Uchumi.

Other highlights in the sector include:

i. Java Group, the leading restaurant chain in Kenya, is set to invest between Kshs 0.5 - 1.0 bn in its expansion drive in Kenya as part of plans to increase its foothold in the country. The restaurant chain that recently opened its Eldoret and Kericho branches has a cumulative, 64 outlets plans to open new branches in major towns in the country as well as emerging towns. The firm seeks to open at least 2 outlets every month, with the maiden branches in the year expected to be located in Machakos and Meru counties, and
ii. Deacons is selling its Mr Price Kenya franchise to Mr Price Group South Africa. Once approved, the deal will see Mr Price Group gain 11 stores.

The retail sector is set to experience growth as seen through (i) increase in foreign investment evidenced by the high number of entrants including South African Retailers, The Game, Woolworths and Mr. Price Group, French-based retailer Carrefour and Botswana retailer Choppies as well as (ii) growth in e-commerce as seen through the growth of online shops for instance Rupu, Kilimall and Jumia that recorded increase of 366.0% in mobile sales between 2015/16 as well as the popularity of the mobile wallet and the digitization of cash systems.

In the hospitality sector, Kenya continues to attract positive global sentiments. This week, Trip Advisor a travel as well as restaurant Website Company, ranked Nairobi the 3rd best place to visit in 2018 only behind Ishigaki Island in Japan and Kapaa in Hawaii. Top sites in Nairobi according to the ranking include; Giraffe center, Karen Blixen Museum and the Black Rhinos at the National Park of Nairobi. The ranking was based on service, quality and customer satisfaction from its users based on an increase in positive rankings by the visitors in the specific cities. The visitors sited the unique combination of Nairobi's holiday spots, wildlife, nightlife and serene weather conditions as the main reason for the positive rankings. This is the latest award being won by the Kenyan tourism sector with others being; (i) The Travel Corporation (TTC) listed Kenya as one of the top 10 transformative travel experiences in the globe, and (ii) The World Travel Awards 2017 where Maasai Mara and Diani beach clinched the top national park and leading beach destination respectively, in Africa. This international recognition is likely to boost the tourism sector locally with the endorsement by Trip Advisor being particularly significant given that it is the largest travel site in the world with 460.0 mn users and more than 500 mn reviews and an international appeal. We thus expect the number of tourist arrivals to continue trending upwards having grown by 13.9% to 1.0 mn in 2016 visitors from 0.8 mn visitors in 2015.

Our outlook for the hospitality sector is positive and we expect the sector's performance to be boosted by; (i) political stability following the conclusion of the general elections, (ii) Improved security and government support for the sector and (iii) persistent marketing that should help us generate buy-in from international markets, for instance, USA and Africa, and (iv) the growing domestic tourism and Meetings, Incentives, Conventions, and

Events (MICE).

In overall, we expect the real the estate sector to pick up in 2018 as seen through: (i) the increased international investor interest in the sector, (ii) positive sentiments from the global community and (iii) direct government attention with the sector being part of the 4 main sectors of focus in the current government's transformational journey.
