Kenya's Public Debt, Should We Be Concerned? & Cytonn Weekly #7/2018

Real Estate

The hospitality sector in Kenya continued on its upward trajectory with global chain Hilton Group opening its 4-star Double Tree by Hilton brand along Ngong' Road, following the takeover and rebranding of Amber Hotel. This will be the franchise's third hotel in Nairobi, with the others being Hilton Hotel in the CBD, opened in 1969 and Hilton Garden Inn along Mombasa Road, which opened last week. The hotel will be run under a franchise arrangement and will have 109 keys and 350 SQM of conference space. It is part of the Group's 5-year strategy to convert 100 hotels in Africa into Hilton Brands at a cost of Kshs 5.0 bn. In addition to this hotel, Hilton plans to open a 5-star hotel in the upcoming Pinnacle Towers in Upper Hill. Nairobi has witnessed an increase in the number of internationally branded hotels, as international brands seek to tap into the growing tourist numbers and the increase in conferencing activities as a result of Nairobi's positioning as a regional hub, increased marketing activities by the Kenya Tourism Board and improve security situation in the country over the last 2-years. We thus expect an increase in international hotel numbers with the room supply increasing by 22.8% as per our Annual Real Estate Outlook 2018. Other international hotel chains expected to open hotels this year include Movenpick Hotel in Westlands in Q1'2018, and City Lodge to fully open in Two Rivers Mall in 2018.

The table below shows recent internationally branded hotel openings in Nairobi;

Recent Internationally Branded Hotel Openings in Nairobi

Operator	Name	Location	Rating	Rooms	Year Opened
Sarovar	Lazizi Premiere	Mombasa Rd	4	144	2017
Carlson Rezidor	Park Inn	Westlands	3	140	2017
Best Western	Four Points by Sheraton	Kilimani	4	96	2017
	Four Points by Sheraton	JKIA	4	194	2017
Accor Hotels	Pullman	Westlands	5	340	2017
City Lodge	City Lodge	Kiambu/Limuru Rd	3	170	2018

Recent Internationally Branded Hotel Openings in Nairobi

Operator	Name	Location	Rating	Rooms	Year Opened
Hilton	Hilton Garden Inn	Mombasa Road	3	175	2018
Hilton	Double Tree	Ngong Road	4	109	2018
Carlson Rezidor	*Radisson Residence	Kilimani	5	123	2018
Movenpick Hotels and Resorts	*Movenpick	Westlands	5	223	2018
	*Montave	Upperhill	5	168	2018
Total				**1,882**	

Internationally branded hotels have been on an expansion offensive in the city with a total of 1,882 internationally branded hotel rooms expected to come to the market by the end of 2018 contributing to 63.8% of total top rated (3,4 and 5 star) rooms expected to come to the market by 2020. The brands are attracted by the increase in international arrivals which have grown by 6.2% between 2016 and 2017 mainly as a result of improving security, increased marketing by the Kenya Tourism Board (KTB), and the growth in the MICE sector as Nairobi positions itself as a regional hub.
****Hotels not in operation***

Source: Cytonn Hospitality Report 2017

Still in the hospitality sector, Sarova Group of Hotels announced plans to undertake a Kshs 1.0 bn refurbishment of Sarova Panafric Hotel, Nairobi. The hotel, which first opened in 1965, has 162 keys and is the latest among several local hotels which have embarked on refurbishment and expansion, with the other local hotels being; Ole Sereni, which is increasing its room capacity with an additional 148 keys, Nairobi Serena Hotel, which is undergoing refurbishment and expansion that will see its room inventory increase from 183 to 199 keys, and Sarova Whitesands Beach Hotel, Mombasa, which has successfully been refurbished and has a total of 335 hotel rooms. In our opinion, these refurbishment and expansion activities are driven by i) the need for the hotels to match the quality standards currently being offered in the market, and improve their facilities which have depreciated over time, so as to remain competitive in the wake of stiff competition from global brands such as Radisson Blu and Mariott which are coming into the Kenyan Market, and ii) the need to increase room capacity to meet the growing demand for accommodation as a result of an increase in tourist arrivals, with international arrivals increasing to 1.5 mn in 2017 compared to 1.3 mn in 2016,

The upgrading of facilities will lead to higher quality offering in the Kenyan hospitality market and thus making the sector competitive globally and more attractive and comfortable for tourists. Last week, Fairmont Mara Safari Club in the Maasai Mara National Reserve, was ranked the 11th best in Africa and among the top 50 best hotels in the world, marketing the country’s hospitality sector.

We expect increased activities in the hospitality sector this year driven by (i) the stabilizing political situation, (ii) sustained international business and travel tourism, (iii) growth of Meetings, Incentives, Conferences and Events (MICE) tourism, where the number of conferences held in the country increased by 16.5% in 2016 compared to a 3.0% increase in 2015, iv) domestic tourism, which has also grown with Kenyans accounting for 54.2% of total bed nights in 2016 compared to 53.7% in 2015, v) government incentives to boost the sector such as removal of Value Added Tax (VAT) Charges on National Park fees, capping of Kenya Wildlife Services (KWS) Park fees at USD 60 down from USD 90 and scrapping of visa fees for children under the age of 16-years, and (vi) continued marketing to reach new markets such as Asia and America, all factors that will increase demand for hospitality services.

During the week, the government began the construction of four link roads that will connect the Garissa Highway to the upcoming Thika Bypass. The roads are: Engen to Kiganjo Junction Road, Broadway-Athena Link Road, BAT-Kiganjo Link Road and the Kivulini-Kiganjo Road. On completion, the Bypass will ease traffic on Garissa Road, Thika Town and its environs by offering alternative routes into Thika Town. This will also open up areas such as Kiganjo, Kiang'ombe, Kiandutu and Athena in Kiambu County to investors, and thus encourage real estate development. Improved trunk infrastructure especially roads improves access to various areas thus resulting in increased real estate development. For instance, Ruiru has witnessed developments such as Tatu City by Rendeavour and Riverrun Estates by Cytonn Investments, buoyed by accessibility through the Thika Superhighway, and as well Ruaka and its environs witnessed an increase in real estate development as a result of completion of the Northern Bypass with developments such as The Alma and Taraji Heights by Cytonn Investments, and Two Rivers Mall by Centum. Areas along the Thika Bypass such as Kiganjo and Kiang'ombe may thus record an increase in real estate development activities.

Other highlights of the week include;

i. Crystal Rivers, a mixed-use development by Safaricom Pension Scheme in Athi River, is set to open its doors in June this year. The Kshs 4.2 bn mixed-use-development brings to the market 200,000 SQFT of commercial space, 138 townhouses, and 260 apartments,
ii. CIC Group plans to put up a Kshs 2.8bn housing project on a 200-acre parcel of land near Tatu City. According to the master plan, 13-acres are set for high-end family units, 56-acres for medium density hosting 224 families, and 21-acres for medium density housing 168 families on quarter plots. In addition, 10-acres will host high rise apartments for 700 families while equal acreage has been marked for commercial development of offices, a retail mall as well as high rise apartments. 21-acres have also been set aside for a recreational park and 30-acres for ecological restoration. The firm has recently forwarded an environmental impact assessment (EIA) report seeking to build on the plot and is awaiting approval from National Environmental Management Authority (NEMA).

We expect increased activities in the real estate sector driven by i) Political calmness following the conclusion of 2017 elections ii) Economic recovery with the GDP projected to come in between 5.3% and 5.5% compared to the expected 4.7% in 2017 iii) Sustained Infrastructural Development and iv) Incentives such as tax relief of 15.0% for developers putting up more than 100 affordable housing units p.a, the scrapping of the land title search fees, NEMA and digitization of Lands Ministry.
