



Update on Kigali Real Estate Investment Opportunity, & Cytonn Weekly #8/2018

Real Estate

Knight Frank released their **Kenya Inside View 2018 Report**, highlighting the trends in the Kenyan real estate sector and their outlook for the market in 2018. The key take-outs from the report were;

- i. Prime residential rents in Nairobi declined during the first half of 2017 albeit at a slower rate of 2.8% compared to 3.2% during the first half of 2016. The report attributed the decline to the oversupply of prime properties for rent, which has given tenants more leverage to negotiate with landlords. Corporate budget cuts by multinational firms have also influenced the performance of the high-end residential market segment,
- ii. Prime residential prices increased by 0.9% over the first nine months of 2017 compared to a 1.0% decrease over the same period in 2016. However, there were lower transaction volumes attributed to the interest rate capping which led to low private sector lending, and,
- iii. The number of high net worth individuals (HNWI) in Kenya has doubled to around 9,400 over the last decade, making the country home to the 4th highest number of dollar millionaires in Africa. This group are the main drivers of the luxury market as they invest a significant portion of their wealth in property with focus on locations such as Karen that offer lifestyle products and greatest opportunities for capital appreciation.

The report is in line with **Cytonn Annual Market Review 2017** which indicated that the high end segment recorded low capital appreciation rates at an average of 3.7%, in 2017 compared to 4.5% in 2016, attributed to the increased surplus in the high end market which has led to price stagnation.

On the hospitality sector, the key take outs were;

- i. Kenyans game reserves and the Indian Ocean Coastline are the key tourist attractions to Kenya and hence a key driver of the entire hospitality sector, noting that Diani was voted as one of the best beaches in Africa by TripAdvisor, and,
- ii. The holiday homes market is mainly driven by local demand from wealthy families seeking 2nd homes. British and Italians are the main overseas buyers of holiday homes in Kenya, with the main areas of interest being Malindi, Watamu, Lamu and Nanyuki.

During the week, Naivas Supermarket announced plans to open a new outlet at Freedom Height Mall in Lang'ata by May this year. The store which is set to occupy 18,000 SQFT, will bring the number of Naivas outlets to 44 countrywide, and mark the retailer's first store along Lang'ata Road. Naivas Supermarket has opened several branches in the past year, with the most recent being at the junction of Kenyatta Avenue and Moi Avenue in Nairobi CBD previously occupied by Barclays Bank and Nakumatt's space along Moi Avenue. The retail chain is also set to be the anchor tenant at the Crystal mall, slated to open in 2018, along Mombasa Road in Athi River. The expansion of Naivas Supermarkets is a positive development in the retail sector, and highlights the growth of local retailers in the wake of stiff competition from international retailers seeking foothold in the Kenyan retail market including, Manix Clothes Stores, French retailer Carrefour and Botswana based

Choppies, just to mention a few. The proliferation of retailers driven by a robust GDP growth rate projected at between 5.3% and 5.5% in 2018, increased purchasing power, and shifting consumer habits are a boost to real estate investors in malls and mixed -used developments who prefer these large retail chains as anchor tenants to bring foot traffic. However, it comes at a time when some retail chains, such as Nakumatt and Uchumi, are faced with governance, financing and supply chain management challenges leading to the closure of some of their stores. Given that retail space in Nairobi alone increased by 41.6% to 5.6mn square feet in 2017 from 3.9mn square feet in 2016, with the completion of malls such as South Field in Embakasi, we anticipate continued expansion of both local and international retail chains. However, we are of the view that they ought to exercise proper governance and planning to ensure sound investments and execution of strategy.

Other highlights this week include;

- i. Hemingways Watamu, a high end residence at the Kenyan Coast, reported the sale of 3 of their luxury residential apartments, off-plan. The units, valued between Kshs 45.0 and Kshs 145.0 mn, are part of the 21 units under construction as part of the facility's refurbishment and expansion plan. The 5-star hotel located on Turtle Bay, was established in 1988 and initially had 74-rooms,
- ii. According to STR Hotel Investor Newsletter Q4 2017, Nairobi recorded the largest RevPAR decline of 27.0% across all key African cities tracked by STR. This is attributed to the political turbulence during the electioneering period, dampening hotel demand, particularly in the months surrounding the elections in August 2017. This is higher than our projection of a 12% decline in RevPAR from Kshs 6,757 in 2016 to Kshs 5,938 in 2017, according to **Cytonn Annual Market Review 2017**,and
- iii. Construction of the superhighway linking Jomo Kenyatta International Airport and Rironi, Limuru along the Nakuru- Nairobi highway, is set to cost Kshs 59.0bn, 55.3% higher than the budget of Kshs 38.0 bn, following a change in design. According to Kenya National Highways Authority (KeNHA), the current design will incorporate flyovers and underpasses on some sections of the road, unlike the previous design of an elevated highway.

Our outlook for the real estate sector in Kenya remains positive following increased economic activities in the sector and the political calmness that has resumed after the protracted electioneering period.

Liason House, StateHouse Avenue

The Chancery, Valley Road

www.cytonn.com

Generated By Cytonn Report

A product of **Cytonn Technologies**