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Real Estate

Nakumatt's Recovery path seems to be hitting some snags as the Competition Authority of Kenya (CAK) announced that Tuskys had backed out of the proposed merger deal with Nakumatt that was set to aid in the revival of the troubled retailer. Tuskys, one of the leading supermarket chains in Kenya, had signed a management contract with Nakumatt, the specifics of which have never been disclosed, with the core aim being to enable Nakumatt have stock in its remaining branches. Tuskys cited the nature of the proposed deal by Nakumatt's administrator as the reason for reconsidering the commitment. Some of the proposals that they were not comfortable with included; (i) conversion of debt to equity for some of the creditors, and (ii) a creation of a separate entity to own the Nakumatt and Tuskys shares, among others. As it is, the Administrator has a difficult task at hand in determining the manner in which the proposal, as is, will survive the loss of Tuskys. According to local dailies, Tuskys was interested in majority stake, which would see it as the lead in Nakumatt's business operations and management. The collapse of the deal could also be attributed to management disputes within the family-owned Tuskys holding company, Orakam Holdings, where a faction of the shareholding siblings cited Tuskys as financially incapable of aiding Nakumatt. The proposed merger between Nakumatt and Tuskys that was to be overseen by the Competition Authority of Kenya, has to have the full support of all key stakeholders.

On the Creditors front, the Administrator was to present a proposal to the Creditors on 23rd March 2018 however this was extended by the court during its mention on the 26th of March, to the 9th of April. The decision of the court on whether or not to extend the said term shall determine the course of Nakumatt. In the event that the term for the proposal is not extended, the most logical route would be to liquidate the company. The effect of liquidation would be that all the steps to revive Nakumatt would stop. The creditors would be entitled to a share of the assets of the company based on the percentage of the company's total debt that they are owed. The secured creditors shall have first priority of repayment. The creditors would only be able to claim interest up to the date on which the liquidation proceedings commenced.

It should be noted that majority of the creditors are in favor of liquidation as they shall be indemnified against the loss they suffered for their insured goods, moreover the creditors will be entitled to a 30% tax deduction for bad debts as per Section 15 of the Income Tax Act, as well as a 16% tax refund for bad debts under Section 31 of the VAT Act. The Suppliers therefore stand to regain up to 46% of the total amount owed, and the other creditors up to 30%, should Nakumatt be declared legally insolvent. The creditors are therefore likely to seek liquidation as there is a chance of recovery of some of their funds, rather than the proposal which may prove unprofitable in the long run. If the time for the administration is extended, the proposal will go before the creditors meeting again with the amendments that had been suggested by the creditors. The creditors will then have the choice to either vote for the proposal, vote to amend it, or reject the proposal altogether.

Also during the week, Nairobi County Government, County Executive Committee Member (CEC), Charles Kerich, announced the commencement of the 10,000-low-cost housing project to take off by May this year. The take-off is for two of the seven earmarked projects, Suna and Pangani, for the urban redevelopment plan. Suna is where the popular Toi Market will be cleared of over 5,000 traders to pave way for over 1,000 units of 1, 2 and 3-bedrooms. Other earmarked estates include the new and old Ngara, Uhuru Road and Jeevanjee-Bachelors.

The table below shows the various contracts awarded as at 2016 by the Nairobi City County Government for the project:

Nairobi Urban Redevelopment Plan				
Estate	**Location**	**Contractor**	**Number of Units**	**Development Cost (Kshs)**
Jeevanjee-Bachelors	Eastlands	Jabavu Village Ltd	1,500	9.1 bn
Ngong Road	Kibra	Lordship Africa	2,520	24.6 bn
New Ngara	Kamkunji	KCB/ S&L	1,500	9.0 bn
Pangani	Starehe	M/S Sovereign Group	1,000	Approx. 3.0 bn
Uhuru Road	Eastlands	Stanlib Group		3.5 bn
Old Ngara	Kamkunji	Kiewa Group	1,050	7.0 bn
Suna Road	Kibra	Directline Assurance Limited	1,050	3.5 bn

Source: Online Sources

Other highlights in the week include;

i. Genghis Capital, a Capital Markets Authority licensed investment Bank, in partnership with a private real estate development firm, Paradigm Projects, announced plans to aid home owners make purchases without the conventional bank loans through a tenant purchase/rent-to-own programme dubbed 'Home Ownership Made Easy" (HOME). In this programme, clients will be provided with a long-term purchasing facility with monthly payments equal to the rental rate. No more details have been revealed about this programme. However, Paradigm projects owns projects such as Wema Villas in Athi River and other upcoming developments in Utawala and Karen,
ii. Krishna Estates Limited announced plans to put up a Kshs 1.2 bn residential flats project on 2-acres, comprising of 64 two-bedrooms and 180 three-bedroom units, in Thindigua, along Kiambu Road,
iii. Transport Cabinet Secretary, Hon. James Macharia, announced the commencement of the long-awaited Bus Rapid Transport System (BRTS) with Thika Road and Mombasa Road having lanes outlined specifically for the public service vehicles that will include buses of high capacities of up to 100 passengers. According to the Cabinet Secretary, 50 buses will be deployed within the next 4-weeks and will serve areas along Thika Road and Mombasa Road with key drop off points in the CD including Tom Mboya Posta, Community, Hospital Road, Kenyatta National Hospital and GPO,
iv. The newly constructed Outer Ring Road, to be commissioned in July this year, is set for further improvements that will see interchanges, service lanes and 11 footbridges added onto the highway. This will help in easing human traffic on the road, which is meant to ease traffic to the Jomo Kenyatta International Airport and is estimated to have a total cost of Kshs 8 bn, as per the Kenya Urban Roads Authority.

We expect the real estate sector to experience a shake up with the mortgage liquidity facility enabling more home purchases, and thus, boosting investor confidence in the sector, with the continued investment in infrastructure opening up more areas for investment grade real estate.

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