Kenya Listed Banks FY’2017 Report, & Cytonn Weekly #15/2018

Real Estate

The hospitality sector continues to record increased investment and global interest, with the latest being the launch of the Movenpick Hotel in Westlands, Nairobi, on Monday 9th April 2018. The property is the first in Kenya under the Swiss hotelier brand, Movenpick Hotels and Resorts, and is owned by Golf Course Hotel based in Kampala. The 5-star hotel brings to the market 128 guest rooms, 94 suites, 54 one and two-bedroom residential apartments, and 4,000 SQM of conference space. The brand joins other top global brands, which have already established themselves in the Nairobi market, and they include; Four Points by Sheraton, Accor Hotels, Kempinski, Hilton and Radisson Hotel Group, which operates Radisson Blu Hotel in Upperhill. According to Cytonn Research, the supply of top-rated (3,4 and 5-star) hotel rooms has been growing at a 7-year CAGR of 4.6% to 1.9 mn room nights in 2017, from 1.5 mn in 2011, driven by the growing number of international arrivals, projected to increase by 11.0% in 2018, from 1.5 mn arrivals in 2017 to 1.6 mn in 2018. Through the opening of the Hilton Garden Inn Hotel and City Lodge along Kiambu Road, Nairobi currently has a total of 5,620 top-rated hotel rooms.

Below is a table showing the recent top-rated hotels opening in Nairobi and those in the pipeline;

Hotel Openings in Nairobi, 2018

Operator	Name	Location	Rating	Hotel Rooms	Opening Date
City Lodge	City Lodge	Limuru Road	3	170	January- 2018
Hilton	Hilton Garden Inn	Mombasa Road	3	175	March- 2018
Movenpick Hotels and Resorts	Movenpick	Westlands	5	*222	April- 2018
Green Hills Investments	Trade Mark Hotel	Limuru Road	4	215	February- 2018
Carlson Rezidor	Radisson Residence	Kilimani	5	123	**2018
Local	Ole Sereni (Expansion)	Mombasa Road	4	154	**2018
Total				**1,059**	

***Movenpick Hotel rooms excludes the apartments**
**** Expected completion of construction**

Source: Cytonn Research

The World Bank’s Kenya Economic Update, April 2018, highlighted that if the government is to

achieve one of its pillars, which is affordable housing , then they need to work on the key policies that will support the supply of affordable housing, which include (i) implementation of regulations that will alleviate the land registration process and unlock land for development, (ii) the establishment of a one stop shop for property registration through land records storage systems and digitalization of other processes to ease title transfers, and (iii) the amendment of the Sectional Properties Act that will allow the issuing of titles to multi-story units.

On the other hand, with the aim of boosting actionable demand for these affordable houses, the report recommends: (i) amendments of policies that constrain provision of mortgages to encourage borrowing and standardization of mortgage accounts to lower the cost of mortgages, (ii) efficient management of the bond market, which should lead rates, with the aim of unlocking housing finance, and (iii) review of stamp duty for first-time buyers, thus lowering the purchasing costs. In our view, the delivery of affordable housing will be a significant step in addressing the housing deficit that currently stands at approximately 2.0 mn units and growing at 200,000 units annually according to the National Housing Corporation. Its realization is however significantly dependent upon the effectiveness of the government in meeting its pledges and addressing the key limitations to affordable housing.

Nakumatt Holdings closed its Village Market branch, following financial constraints that have seen the retailer close down most of its branches. The crisis surrounding Nakumatt is attributed to internal challenges on financing and supply chain management. The troubled retailer has been undergoing restructuring aimed at recovering from insolvency. For more details on this see our focus on Restructuring an Insolvent Business – Case Study of Nakumatt Holdings. We currently do not see any viable path to recovery for Nakumatt given (i) the inability of the administrator to develop a credible restructuring plan, (ii) the desire by most creditors, especially trade creditors, to get a liquidation so as to achieve a bad debt tax write off amounting to 30.0% to 45.0%, if VAT refunds are factored in, (iii) the falling apart of the deal with Tuskys, and (iv) the coming together of all remaining landlords, and their resolve to see Nakumatt leave their premises even by deploying frustration tactics such as switching off basic utilities among other services. We now anticipate the expansion of other retailers in the market will pick up speed; they have been on the forefront seeking to occupy prime locations previously occupied by Nakumatt, as they look to gain from the opportunities in the retail market driven by (i) positive demographics characterized by population growth rates that currently stand at 2.6%, 1.4% points higher than global averages of 1.2%, (ii) urbanization rates of 4.4% against global averages of 2.1%, and (iii) an expanding middle class with increased purchasing power due to higher disposable incomes, which create demand for retail products.

We expect increased activities in the real estate sector during the year driven by (i) a calm political environment, (ii) economic recovery with the GDP projected to come in between 5.3% and 5.5% compared to an estimated 4.8% in 2017, and (iii) sustained infrastructural development.