

Affordable Housing in Kenya, & Cytonn Weekly #16/2018

Real Estate

During the week, Hass Consult released their Q1'2018 Land and House Price Indices Report. According to the report, the real estate market performance in Q1'2018 recorded an improvement following the conclusion of the prolonged electioneering period. The asking prices for residential property sales increased by 2.4% during the quarter, while the asking rents also increased by 1.0% during the same period. Land recorded an overall 1.4% q/q increase in asking prices, with satellite towns recording a 2.4% q/q growth in land prices, outperforming Nairobi suburbs, which recorded a 0.2% q/q increase, indicating that in the land sector, the pockets of value lie mainly in satellite towns.

In terms of specific locations, for house prices the performance was as below:

- **Apartments:** Lang'ata was the best performing suburb recording sales price appreciation of 2.5% q/q, attributed to its proximity to CBD and affordability compared to the high-end units in its neighbourhood such as Karen. Lavington was the worst performing with asking prices declining by 1.5% q/q, attributable to the increase in supply of apartments in the area and its environs,
- **Detached Housing Units:** Eastleigh was the best performing suburb with a sales price appreciation of 2.1% q/q attributable to the high demand for affordable housing in the area. Lavington was the worst performing suburb for detached houses with asking prices declining by 1.5% q/q attributable to the rezoning of the area allowing for high rise developments, hence no longer being attractive for buyers seeking detached units, due to the increase in congestion,
- **Satellite Towns:** Ngong was the best performing satellite town for both detached units and apartments, recording a sales price appreciation of 3.7% q/q and 2.8% q/q, respectively, attributable to the ongoing infrastructural developments in the area such as the expansion of Ngong Road, the Southern Bypass, and the Ngong-Kimuka SGR Station, all of which are opening up the area thereby driving demand for real estate. Juja was the worst performing town in the apartments segment with asking sales price declining by 0.3% q/q while Syokimau was the worst performing in the detached houses segment with asking sales price declining by 0.4% q/q. For both towns, the slowdown in appreciation rates was attributable to low demand due to their locations in the outskirts of Nairobi that are unattractive to potential clients,
- **Performance by Typology:** semi-detached units were the best performing typology in the market, recording a sale price appreciation of 2.8% q/q in Q1'2018. In Q4'2017, the typology recorded a sales price appreciation of 3.4% q/q compared to a decline of 1.1% q/q for apartments, and an appreciation of 0.7% q/q for detached units. This is different from the norm where typically apartments have been the best performing typology. The higher performance of the semi-detached units is attributed to the high demand for semi-detached units by the increasing upper middle-income segment against low supply for the same, as developers focus on detached units for the high-end segment and apartments for the middle-income segment.

The rental markets performance was in tandem with the sales market with asking rentals across all

property types increasing by 1.0% q/q. The performance by locations and typologies is as covered below:

- Apartments:** The best performing suburb was Langata which recorded a 4.7% q/q increase in the rental prices attributed to its proximity to Central Business District (CBD) and affordability compared to the high-end units in its neighbourhood such as Karen, with the worst performing submarkets being Lavington and Upperhill, whose asking rental price declined by 1.7%, attributable to increased supply and growing commercial nature of Upperhill,
- Detached Housing Units:** Ridgeways was the best performing submarket at a 1.5% increase in asking rents during the quarter attributable to the exclusivity guaranteed by its location, its proximity to amenities such as ridgeways mall and proximity to CBD. The worst performing submarket was Kitisuru, which recorded a 1.5% q/q decline in asking rental rates owing to its high prices hence low affordability translating to low demand,
- Satellite Towns:** For apartments, the best performing town was Kitengela, which recorded 2.9% increase in asking rental price. This is attributed to the town hosting the population working in Kajiado county. The worst performing town was Kiambu which recorded the highest rental decline of 1.5%, for detached units, Tigoni, was the best performing town recording 1.9% q/q, while Kiserian was the worst performing town recording a 3.5% decline in asking rental rates attributable to its location in the outskirts of Nairobi that is unattractive to potential clients.

The table below summarises the Q1'2018 performance:

Q1'2018 Performance According to Typologies

Typology	Q/Q Change in Asking Sale Price	Q/Q Change in Asking Rental Price
Semi Detached Houses	2.8%	3.0%
Detached Houses	2.7%	0.0%
Apartment	0.6%	1.4%
Average	2.0%	1.5%

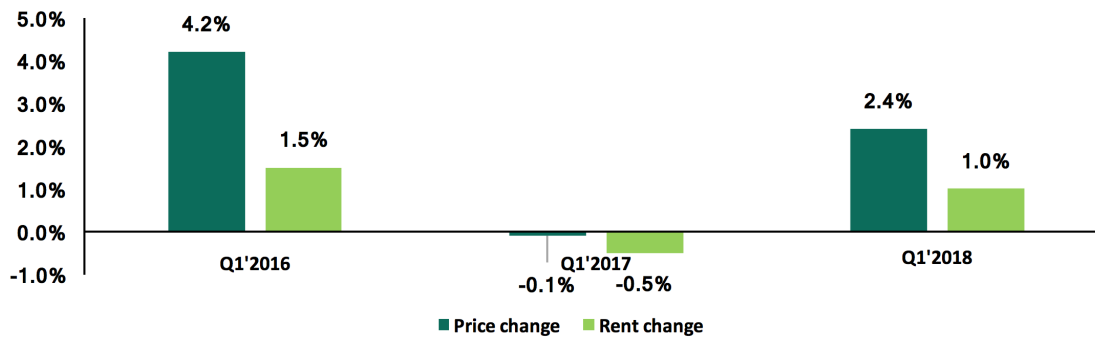
Semi-detached units outperformed other typologies in the market, recording an asking sale and rental price appreciation of 2.8% q/q and 3.0% q/q, respectively, in Q1'2018

Source: Hass Consult Research

These findings are in tandem with our Q1'2018 research, in which we noted that the market recorded a 1.3%-point increase in price per SQM q/q, indicating a recovery of the market from the effect that the electioneering period had in 2017. We expect the market performance to continue on an upward trend in 2018 given the strong fundamentals that continue to support the real estate sector, such as: (i) positive demographic trends such as population growth rate and urbanisation rate at 2.6% and 4.4% p.a against global averages of 1.2% and 2.1% p.a, respectively, that drive demand for housing, (ii) increased investor appetite due to the constantly growing housing deficit of 200,000 units p.a, and government incentives such as a 50% tax cut, from 30% to 15%, for developers who develop at least 100 affordable units annually, and the slashing of statutory fees such as NEMA and NCA, (iii) the market gaining further impetus from the government's affordable housing initiative, and (iv) continued infrastructural development.

Below is a summary of the residential market performance over the last 3-years:

Q/Q House Price and Rent Changes 2016-2018



Source: Hass Consult Research

For the land price index, the following were the key take outs:

- Land asking prices, recorded an overall 1.4% q/q increase, attributable to stabilization of the political environment. Satellite Towns outperformed Nairobi suburbs recording a 2.4% q/q appreciation rate against a 0.3% q/q increase in asking prices recorded in Nairobi Suburbs. This is attributable to the fact that land prices in Nairobi suburbs are driven mainly by demand from developers and not speculators unlike the satellite towns,
- For suburbs, Gigiri was the best performing suburb, with asking prices increasing by 4.8% q/q due to increased housing demand for high end housing in the area by the UN, Embassies and diplomats, and increased office space developments in the area, while Kilimani was the worst performing with the asking price declining by 1.9%,
- For satellite towns, Juja was the best performing town with asking prices increasing by 7.7% q/q driven by relatively affordable prices at an average of Kshs.12.0Mn per acre compared to areas such as Ruaka at an average of Kshs. 85.2Mn per acre and speculation, while Mlolongo was the worst performing satellite town, recording a drop in asking prices by 3.4% q/q attributable to the traffic congestion along Mombasa road hence unattractive to potential clients.

The performance is in line with Cytonn Research findings in our Cytonn Annual Market Outlook - 2018, where we noted that we expect the performance to remain positive, with the market expected to record an annual capital appreciation of 10.2% in 2018 from 6.5% in 2017.

Hass Consult Land Price Index Summary 2016-2018

	Q1'2016	Q1'2017	Q1'2018
Nairobi Suburbs	(0.2%)	1.3%	0.3%
Nairobi Satellite Towns	1.1%	3.4%	2.4%
Average	0.5%	2.4%	1.4%

- **Land recorded a positive annual price growth of 1.4% q/q, with Nairobi suburbs recording a 0.3% q/q growth in asking prices, while satellite towns recorded a 2.4% growth rate. The slowdown in Nairobi land prices in comparison to Q4'2017 at 0.9% q/q increase therefore reflects a subdued housing market that is yet to recover**

Source: Hass Consult Land Price Index

In retail sector, 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, French-based retailer, Carrefour, opened a 5th outlet at the Sarit Centre Shopping Mall taking up space vacated by Uchumi. In addition to this the retail store has four more stores at The Hub in Karen, Two Rivers Mall along Limuru Road, Thika Road Mall along Thika Superhighway and the Junction Mall along Ngong Road. The retailer ventured into Kenyan market in May 2016 and has recorded revenues of up to Kshs 1.5

bn in the first seven-months of operations in its first outlet in The Hub Karen, hence supporting the aggressive expansion in the Kenyan market. 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% over the last 5 years thus boosting disposable incomes and increasing purchasing power, (iv) rapid growth of infrastructure making more areas accessible to investors, (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 increased digitization of cash systems and a rise in mobile money and access to internet. We thus have a positive outlook for the retail sector in Kenya. However, retailers, especially local chains will have to institute better financial and supply chain management processes, and strong corporate governance frameworks, in order to avoid pitfalls that Nakumatt and Uchumi are struggling with.

High Court Judge Wilfrida Okwany has suspended the Ministry of Lands notice published on April 4th, 2018, discontinuing manual transactions at both the Nairobi and Central Registries to pave way for online transactions, until May 2nd, 2018 when the case filed by the Law Society of Kenya (LSK) to stop the automation of land transactions will be heard. The Ministry of Lands notice indicated that all property transactions including land searches, application for registration of documents, transfer of ownership or lease, caution and withdrawal of caution, as well as issuance of consent and valuation requests were to be done online.

The LSK is however against the automation of land transactions, terming it illegal for the reasons that: (i) it is against section 34 of the Advocates Act, which states, "no unqualified person shall, either directly or indirectly, take instructions or draw or prepare any document or instrument relating to the conveyancing of property", (ii) Parliament was yet to pass a law that supports online land transactions, (iii) many Kenyans with no access to internet and online portal risk being dispossessed of their lands, and (iv) online processing of land transactions would expose the property owners to risk of fraud and loss of property through acts such as hacking. The concerns raised by LSK are valid as The Ministry of Lands ought to involve all the stakeholders through public participation to get the views on the practicality of rolling out an online based system in a country where internet access has not attained wide coverage and user/public sensitization also need to be prioritized before rolling out the online system. Digitization however has many advantages including promoting efficiency in the Ministry of Lands and cutting on costs related to the conveyancing process.

Another highlight of the week was that the National Assembly majority leader tabled a bill in Parliament seeking to amend the Stump Duty Act to exempt first time home buyers from paying stamp duty. Stamp duty tax is paid on the market value of a property at the rate of 4.0% for urban areas and 2.0% for rural areas and is payable within 30-days of signing sale agreement. In our opinion, if the bill is passed, it will be a move in the right direction as despite the minimal effect on the total house price, it will reduce the first time home buyers' financial burden.

We remain positive on the performance of real estate sector in 2018 following the conclusion of the electioneering period that slowed activities in the sector in 2017 and the expected recovery of the economy growth with the GDP growth expected to come in at between 5.3%-5.5 % in 2018, up from the expected GDP growth of 4.7% for 2017. The pocket of value for the sector is in the residential theme boosted by fundamentals such as: (i) positive demographic trends evidenced by high population growth rate of 2.6% against global average of 1.2% that has led to sustained demand and high urbanization rates of 4.4% higher than global rates of 2.1%, (ii) Increased investor appetite due to the constantly growing housing deficit at 200,000 units p.a., (iii) government incentives such as the 50%

tax cut for developers of at least 100 affordable housing units annually, removal of statutory fees such as NEMA and NCA application fees, (iv) Kenyan Government's Big Four initiative, and (v) continued infrastructural development.

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