The Role of the Capital Markets in Economic Development & Cytonn Weekly #12 2019

Real Estate

I. **Master-Planned Developments**

Beijing Damei Investment Company, a Chinese construction firm, this week, announced plans to build a master-planned development on 1,200-acres in Athi River, Machakos County, at an estimated cost of Kshs 200.0 bn. The project dubbed "Friendship City" will comprise of residential units, industrial parks, as well as social amenities such as hospitals and schools, with construction set to start this year. As lifestyles continue to evolve leaning towards convenience, master-planned developments are becoming popular in Kenya as they enable a live-work-play environment. Major master-planned developments include Tatu City, Northlands City, Leather City, Ngelani City, Cytonn's Newtown City in Athi River and Riverrun Estates in Ruiru, and the Kenyan Government's Konza City in Machakos County. Notably, Nairobi's satellite towns, and in particular, Athi River, continue to attract such developments due to:

i. Availability of vast supplies of land for development,
ii. Affordability of development land with the Satellite Towns posting an average price of Kshs 22.6 mn per acre in 2018, in comparison to Nairobi County's average of Kshs 238.0 mn per acre,
iii. Better connectivity, creating easy access to industrial precincts for cargo transportation, especially with the Standard Gauge Railway and the ongoing plans of dualling Mombasa Road,
iv. Availability of a sewerage system in Mavoko County, allowing for densification,
v. Machakos County's designation for Special Economic Zones (SEZ), which has attracted foreign direct investments particularly in industrial developments due to the tax incentives offered to SEZs, and,
vi. Demand for residential units from the working class based in Mombasa Road and Athi River's huge industrial sector. According to Cytonn Annual Markets Review 2018, Athi River's residential market posted double-digit returns in 2018, with average total returns of 10.6% and average annual uptake of 23.6%, in comparison to the overall residential market's average of 8.9% and 22.8%, respectively.

In spite of the factors mentioned above, the main inhibitor to the fast growth of master-planned developments has been inadequate infrastructure with most interior parts of satellite towns lacking proper passable roads and sewerage systems. Considering the ongoing drive for Special Economic Zones in line with Kenya's Vision 2030 to industrialize to a middle-income country, as well as other mass housing projects that are underway, there is need for more emphasis on infrastructural improvement, being a critical enabler for development.

II. **Retail Sector**

During the week, South Africa retailer, Shoprite, opened a second shop in Kenya at the Garden City

Mall, along the Thika Superhighway, Nairobi, taking up a space of 40,000 SQFT, previously occupied by Nakumatt Holdings. The retailer launched their first Kenyan shop in December 2018 at the Westgate Mall with plans to launch in Mombasa County later in 2019 at the City Mall, Nyali. International retailers such as Shoprite, Game, and Carrefour have in the last 2-years tapped into prime stores vacated by poorly performing homegrown retailers such as Nakumatt and Uchumi, who have been facing operational difficulties including financial constraints, supply chain inefficiency, as well as poorly planned expansions. We attribute the increased interest by international retailers in mid-income countries like Kenya to the expanding middle-income class population, with increasing disposable incomes creating demand for differentiated retail products. In addition, there exists a huge opportunity for investment as formal retail penetration in Kenya remains relatively low at 30%—40%, according to a 2016 Oxford Business Group Report, in comparison to the developed markets such as South Africa with 60% penetration. The increased entry of multinational retailers is a welcome move for developers who have been experiencing increasing vacancy rates due to the traditional anchor tenants vacating huge spaces, which also leads to a decline in footfall for other mall occupants. This will also help in cushioning the market given the existing oversupply of retail space of 2.0 mn SQFT, as per Cytonn Research. According to our Annual Markets Review 2018, Nairobi retail market recorded an average occupancy of 79.9%, a 0.4% points decline from 80.3% in 2017, due to the oversupply in space and a tough economic environment particularly due to subdued private sector credit growth.

III. **Land**

During the week, the Government of Kenya announced plans to incorporate blockchain technology into the lands digitization process in a bid to end human interference in the Lands Ministry. Blockchain technology refers to a decentralized public ledger that records transactions across many different computers across the internet with no central point. This makes it hard for any one individual to interfere with the data. This will help to track all land transactions in the country, leading to an efficient, transparent and fair system in a country where issues of land fraud have been rampant.

IV. **Other Highlights:**

The government has so far secured 9,800-acres across 18 Kenyan Counties, and is in a process of reclaiming grabbed state-owned land across the country, for the affordable housing programme. Furthermore, according to Housing Secretary, Mr. Patrick Bucha, Kshs 24.4 bn has also been availed for infrastructural development of roads, sewer systems and power lines on the land on which these housing units will be constructed. According to the Centre for Affordable Housing Finance in Africa, land and infrastructure costs in Kenya make up 10%-35% of total project costs, and continue to limit the development of affordable housing units given the continued increase in land prices, and inadequacy of infrastructure in several parts of the country. Therefore, by creating a land bank and providing the requisite infrastructure, this will be an impetus to the affordable housing initiative, as it will encourage joint ventures between the government and the private sector to drive the delivery of 500,000 homes by 2022.

We expect to continue witnessing innovative products being delivered within the real estate sector with the paradigm shift from conventional real estate due to (i) infrastructure improvement across all counties, (ii) cost of land in Nairobi and space oversupply in key traditional themes, and (iii) increased foreign direct investment, which demands differentiated real estate products that offer quality as well as convenience.