Understanding Retirement Benefits Schemes in Kenya & Cytonn Weekly #19/2019

Real Estate

I. **Residential Sector**

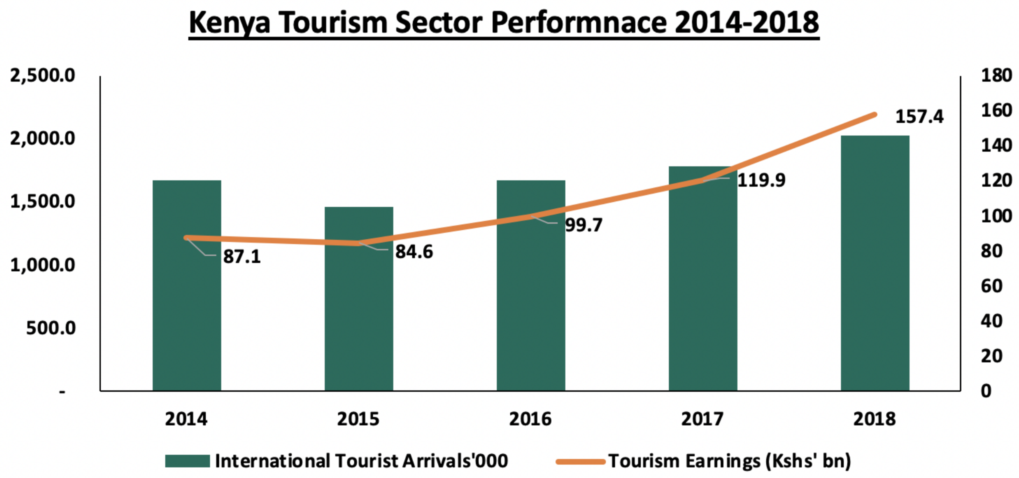
During the week, Shelter Afrique, a Pan-African Development Finance Institution owned by 44 African governments and Africa Development Bank (AfDB), invested Kshs 200.0 mn geared towards establishment of Kenya Mortgage Refinancing Company (KMRC). This follows the previous week's World Bank approval of a Kshs 25.0 bn loan facility towards Kenya Affordable Housing Financing Project (KAHFP), which also includes an undisclosed amount for supporting KMRC's establishment and operationalization The Pan-African institution which typically provides lines of credit to African Financial Institutions and specialized housing institutions for on-lending to end-buyers, also has equity investments in other mortgage refinancing companies across Africa such as Tanzania's Mortgage Refinancing Company (TMRC), and Togo's Caisse Regional de Refinancement Hipothecaire (CRRH) for 11.1% and 10.0% stake, respectively.

In addition to the National Treasury's investment, the increasing financial support from development finance institutions and the private sector, which were billed to be the key shareholders of KMRC since its incorporation in April 2018, is a step in the right direction towards the successful operationalization of the facility whose commencement has been, among others factors, delayed by stakeholder's delayed capital. The mortgage refinancing company is set to be 80.0% owned by the private sector (Banks, SACCOs and Development Finance Institutions), while the Government of Kenya will have a 20.0% stake.

The World Bank and the National Treasury's seed capital of Kshs 15.1 bn and Kshs 1.5 bn, respectively, is expected to serve as starting capital for refinancing affordable housing loans while also mobilizing capital from the private sector and the capital market. According to the National Treasury, twenty-one institutions had confirmed interest in the Company as at 2018, with Cooperative Bank also having pledged a capital injection worth Kshs 200.0 mn into the company. Therefore, we expect the recent developments to attract other stakeholders to commit their expected contributions to the mortgage refinancing company. As stated in our recent KMRC topical, the facility is expected to (i) make mortgages in Kenya more affordable by providing long-term liquidity for primary lending institutions, enabling them to advance long-term mortgages to borrowers, especially those from the lower mid-end and low end income groups, and (ii) deepen the capital market by becoming a regular bonds issuer. Other organizations that are set to invest in KMRC include International Finance Corporation (IFC) and African Development Bank (AfDB).

II. **Hospitality Sector**

Autograph Collection Hotels, Marriott International's brand of luxury hotels, added Nairobi's Sankara Hotel located in Westlands to its portfolio, as a franchise. The move increases Marriott's local portfolio to three hotel facilities, after Four Points by Sheraton Nairobi Airport, opened in October 2017, and Four Points by Sheraton Hurlingham, which was converted in April 2017. Sankara Hotel which had 168 keys was renovated to suit the Autograph Collection's brand and got an addition of 11 suites bringing the total number of keys to 179. Westlands' location has continued to attract top notch hotel brands including Park Inn by Radisson, Movenpick, and Villa Rosa Kempinski, among others. In addition to its thriving office market hosting multinational organizations, factors contributing to Westlands' attractiveness as a hospitality node include: its close proximity to the Central Business District and other commercial nodes hosting expatriates such as Gigiri, easy access to the Jomo Kenyatta International Airport and Wilson Airport, as well as availability of amenities such as shopping malls and entertainment spots. Other renowned hoteliers planning to increase their footprint in the country including Radisson group, Hyatt Hotels, Hilton, among others. Notably, Marriott also plans to launch other hotel facilities under its Protea and JW Marriott brands with 250 and 365 keys, respectively, by 2021. The increased interest is sparked by a vibrant tourism sector with tourism earnings, which have been on a steady rise since 2015 and recording a 31.3% growth to Kshs 157.4 bn in 2018 from Kshs 119.9 bn in 2017, according to KNBS Economic Survey 2019.



Source: KNBS

Additionally, hotels recorded an increase in bed-night occupancy by 20.1% attributable to a growth in domestic tourism and international conferences which also recorded a growth of 6.8% in 2018.

Other Highlights:

- In a bid to strengthen its presence in Africa, Japanese multinational firm, Toshiba, launched its first office in Nairobi, at Regus Office Park Westlands, as its second branch in Africa, after South Africa. The move affirms Kenya's position as a powerful regional hub, a factor that has been attracting multinational firms keen on accessing the Eastern and Central Africa regions. The increased entry of foreign players, which is attributable to Kenya's stable macroeconomic growth as marked by a 6.3% GDP growth rate in 2018 and improved infrastructure, creates demand for high-end residential homes, retail sector as well as Grade A offices
- Kenya Airways announced plans to resume its Malindi flights operation. The national airline cited increase in international tourist arrivals within the region, which we attribute to increased security and reduced travel bans/advisories, thus, boosting tourist confidence. According to KNBS Economic Survey 2019, the number of international arrivals increased by 14.0% to 2.0 mn in 2018 from 1.8 mn in 2017.

On the affordable housing front, with the KMRC having been registered and the CBK regulations set to be gazette by May 2019, we expect the Company to commence operations of refinancing home loans for uptake of the ongoing affordable housing projects, within the year. Overall, we expect a resurgent real estate sector in 2019 on the back of (i) stable macroeconomic environment, (ii) vibrant tourism sector, (iii) continued entry of foreign

multinational firms and improvement in infrastructure.
