National Housing Development Fund (NHDF), & Cytonn Weekly #21/2019

Real Estate

I. **Residential Sector**

During the week, the National Treasury launched the Kenya Mortgage Refinancing Company (KMRC). The KMRC is a non-bank financial institution, incorporated as a limited liability company to provide affordable long-term funding and capital market access to primary mortgage lenders such as banks and financial co-operatives. KMRC has so far mobilized Kshs 37.2 bn, meeting the minimum core capital requirement of at least Kshs 1.0 bn for operation according to the Central Bank of Kenya (Mortgage Refinance Companies) Regulations 2019. The facility has received funding support of Kshs 25bn from the World Bank, Kshs 10 bn from the African Development Bank (AfDB), and Kshs 200 mn from Shelter Afrique. These funds will be applied towards enhancing access to affordable housing finance, strengthening KMRC balance sheet, and providing requisite credit enhancements to support KMRC issuance of mortgage-backed bonds in the capital market.

In our view, the launch of the KMRC is a positive step towards addressing the housing finance shortage in Kenya, which has been a key challenge in the housing sector. Successful implementation of KMRC will, therefore, boost the Kenyan mortgage market and increase home ownership among Kenyans. For more information on KMRC, see our topical, Kenya Mortgage Refinancing Company Update.

The Kenyan Government announced plans to build a residential development on Ngong Road consisting of 3,060 apartments on a 5.1-hectares (12.6-acres) piece of land. The development will comprise of fifteen, 34-story blocks consisting of 285 1-bed, 1,768 2-bed, 1,007 3-bed units, and three levels of basement parking (*the unit sizes and selling prices are yet to be disclosed*). The project is part of the Kenyan Government's affordable housing projects under the Big Four Agenda. This marks the third low-cost housing project by the National Government with other launched projects within the Nairobi Metropolitan Area being the Park Road Estate in Ngara, comprising of 1,500 units and Pangani Estate comprising of 1,000 residential units. Other planned projects in the pipeline are Uhuru Estates, Suna Road and Old Ngara. The continued launch of affordable housing projects by the government is in a bid to meet the existing housing deficit in Kenya of approximately 2.0 mn houses according to the National Housing Corporation.

Some of the initiatives and incentives introduced by the government to drive the affordable housing initiative include:

i. Introduction of partnerships with private developers by availing public land for development,
ii. Introduction of the 15.0% tax rate on the resulting profits, instead of the normal 30.0% for developers who provide at least 100 low – cost housing units p.a,
iii. Setting up of the Kenya Mortgage Refinancing Company (KMRC) to enable longer-term mortgages at affordable rates,
iv. Establishment of the National Housing Development Fund (NHDF) aimed at enabling potential

homebuyers to save towards homeownership and consequently offer offtake for housing developments, and,

v. Establishment of a land bank whereby excess land will be gathered together in a bid to address the challenges faced by investors and developers seeking to acquire land.

We expect these measures to enhance the development of affordable housing units in the country by both the private and public sectors.

Kings Developers Limited (KDL), the development affiliate under Royal Group of Companies, announced their plan to develop 720-unit, 10-block residential apartment in Ongata Rongai, Kajiado County. The project dubbed, 'Kings Serenity' is set on eight acres and will comprise of 93 SQM 2-bed units selling at Kshs 3.2 mn each translating to a price per SQM of Kshs 34,409 per SQM. Ongata Rongai as an investment location has been particularly ideal for residential development due to high urbanization rate hence acting as dormitory area for persons working in the Nairobi Metropolitan area (NMA), availability of large tracts of affordable land at Kshs 11.4 mn per acre compared to Kshs 188.6 mn per acre in the Nairobi Metropolitan area (NMA), allowing for affordable development projects and improved infrastructure in the area.

Satellite towns have previously performed below the industry average attributable to inadequate infrastructure and distance from the major commercial nodes. According to our Cytonn Q1'2019 Markets Review, Satellite towns recorded occupancy rates and total returns of 75.8% and 4.8%, respectively, 6.6% and 0.1% points less than the market average of 82.4% and 4.9%, respectively. However, Satellite towns are preferable to the majority of Nairobi's population consisting of low middle income due to their affordability of homes which cost Kshs 82,274 per SQM and rental rates of Kshs 392 per SQM compared to the market average at Kshs 101,922 and Kshs 510 respectively.

The table below shows a summary of residential - apartments performance in Nairobi Metropolitan Area.

All Values in Kshs, unless stated otherwise

Residential - Apartments Performance in Nairobi Metropolitan Area – Q1'2019

Location	Price Per SQM Q1'2019	Rent Per SQM Q1'2019	Annual Uptake Q1'2019	Occupancy 2019	Rental Yield Q1'2019	Price Appreciation Q1'2019	Total Returns Q1'2019
Satellite Towns	82,274	392	16.8%	75.8%	4.3%	0.5%	**4.8%**
Upper-Mid Surburbs	133,910	693	23.1%	84.1%	4.8%	(0.1%)	**4.8%**
Lower-Mid Surburbs	89,582	446	25.4%	87.4%	5.5%	(0.2%)	**5.3%**
Average	**101,922**	**510**	**21.8%**	**82.4%**	**4.9%**	**0.1%**	**4.9%**

Source: Cytonn Research 2019

We expect continued activity by developers in lower mid-end markets owing to increased demand and uptake as home buyers seek affordability.

Other highlights during the week include:

The Employment and Labour Relations Court suspended the implementation of the 1.5% housing levy until May 27th May 2019, pending the hearing of a case by a number of petitioners including Consumers Federation of Kenya (CoFeK) and the Central Organization of Trade Unions (COTU), challenging the implementation of the Finance Act 2018. The further delay was due to the request by the court to have the applications consolidated for hearing.

With the increased National Government support towards the development of affordable housing and launch of the KMRC, we expect to see continued focus on the provision of affordable housing for the lower and middle-income segment of the market.
