Personal Financial Planning, & Cytonn Weekly #32/2019

Real Estate

I. **Residential Sector**

During the week, Centum Real Estate broke ground on its Riverbank Apartments Project, consisting of 160-units, within the Two Rivers development complex, along Limuru Road. According to the firm, the project, which is to be completed within 24-months, marks the first phase of a deal pipeline of 1,560 residential units planned for the 102-acre master-planned development, which also entails the 65,000 SQM Two Rivers mall, the largest mall in East and Central Africa, a City Hotel, and an office tower. The Riverbank project will comprise of one, two, and three-bedroom units with plinth areas of 89 SQM, 130 SQM and 195 SQM, respectively, selling at an average price per SQM of Kshs 172,746 (Kshs 16.0 mn, Kshs 24.0 mn, and Kshs 30.0 mn for one, two, and three bedroom units, respectively), in comparison to the market average for Ruaka and Ridgeways at Kshs 98,098 and Kshs 99,270, respectively. Such mixed-use development (MUD) projects as Two Rivers create operational synergy across the various themes as they complement each other, thus boosting the performance and returns to investors. Consequently, this leads to a higher price per SQM than the market average due to the additional value created by other themes. According to our MUD Report 2018, MUDs encompassing office, retail and residential themes registered an average rental yield of 8.0%, with Limuru Road posting the highest rental yields at 9.6% attributable to its proximity to high-end neighborhoods such as Gigiri, Runda, Rosslyn, Kitisuru, hosting Nairobi's middle-end and high-end populations, with higher purchasing power and who are willing to pay a premium for class and extra amenities.

In terms of residential performance, apartments along Kiambu/Limuru Roads posted average total returns of 7.1% (Ruaka at 8.0% and Thindigua/Ridgeways at 6.1%), in comparison to the residential market average of 4.7%, as per the Cytonn 2019 Residential Report. The performance of these nodes is attributable to (i) relatively good infrastructure, enhancing accessibility to commercial nodes such as Gigiri, Westlands and the CBD, thus boosting demand from Nairobi's working class, (ii) demand from expatriates serving in international organizations located along Limuru Road, (iii) presence of amenities such as Two Rivers, Village Market, Rosslyn Riviera, Ridgeways Mall, as well as learning institutions such as Potterhouse Runda, Sabis International, and Braeburn Ridgeways, and (iv) relatively high levels of security due to proximity to the UN Blue Zone.

In addition, during the week, Chinese developers Erdemann Properties launched Phase III of their Greatwall Gardens Project in Athi River. The affordable housing project is set to have 288, 104 SQM three-bedroom units selling at an off-plan price of Kshs 2.9 mn, translating to a price per SQM of Kshs 27,885. Based on monthly rental rates of Greatwall Gardens I for three-bedroom units, at Kshs. 265 per SQM (Kshs 27,000 per three-bedroom unit) investors stand to gain rental yields of 11.2% at full occupancy, in comparison to the Athi River apartments' average of 5.0%. Other projects by Erdemann Properties include Seefar Apartments on Mbagathi Way, Greatwall Gardens One and Two in Athi River, and the recently launched River Estates in Ng'ara, which is set to deliver 2,720 apartments to the market. Athi River, as a real estate investment node, continues to attract affordable housing developments owing to:

i. Affordable land for development with a price per acre of Kshs 12.0 mn as at 2019, in comparison to other satellite towns such as Ruiru and Ruaka Kshs 22.0 mn and Kshs 84.0 mn, respectively,
ii. Improved infrastructure, especially with the Standard Gauge Railway, the incoming terminus in Mlolongo, and planned dualling of Mombasa Road,
iii. Demand for residential units from the working class based in Mombasa Road's and Athi River's huge industrial sector, and,
iv. Relatively sufficient sewerage systems in Mavoko County, in comparison to other satellite towns, thus attracting high-rise developments.

(*All Values in Kshs Unless Stated Otherwise*)

Nairobi Metropolitan Area Residential Performance 2018/2019: Satellite Towns

Area	Average Price per SQM	Average Rent per SQM	Annual Uptake	Average Occupancy	Average Price Appreciation	Average Rental Yield	Total Returns
Ruaka	98,098	454	20.6%	91.9%	2.4%	5.6%	8.0%
Kitengela	60,124	341	16.5%	76.3%	2.2%	4.5%	6.6%
Thindigua	99,270	499	21.1%	88.4%	1.8%	4.2%	6.1%
Athi River	66,156	356.4	17.6%	84.8%	0.7%	5.0%	5.7%
Rongai	63,064	350	19.1%	68.5%	1.1%	4.6%	5.7%
Syokimau	59,242	289	15.6%	88.2%	0.0%	4.9%	4.9%
Kikuyu	77,269	409	21.7%	72.1%	0.0%	4.3%	4.3%
Lower Kabete	96,876	449	20.8%	86.5%	(1.1%)	4.3%	3.3%
Ruiru	89,421	433	31.1%	74.0%	(0.8%)	3.9%	3.2%
Thika	46,722	331	24.2%	71.0%	(2.0%)	4.6%	2.6%
Average	**75,624**	**391**	**20.8%**	**80.2%**	**0.4%**	**4.6%**	**5.0%**

- ***Athi River ranked #4 among Satellite Towns with returns to investors at 5.7%, 1.7% points higher than the Satellite Towns' average of 5.0% and 1.0% points higher than the overall residential average of 4.7%. With continued urbanization in Nairobi and thus, growing need for affordable housing, we expect more mass housing projects to continue being unveiled in towns like Athi River where land is relatively affordable, and infrastructure constantly improving***

Source: Cytonn Research 2019

II. Hospitality Sector

Global hospitality group Accor announced plans to open its first M Gallery Hotel Chain Collection in Gigiri, Nairobi, set to be opened by Q1'2021. The 105-keys hotel in partnership with Jit Group (a local investment firm in commercial sectors across East Africa) will grow Accor's footprint in Nairobi to five properties, with three Accor brands already operating namely, Fairmont the Norfolk in CBD, ibis Styles Hotel and Mövenpick Residences and Hotel in Westlands, with Pullman brand on track to open in Q4'2019, also in Westlands. Outside of Nairobi, the hospitality group also operates two facilities: Fairmont Mara Safari Club and Fairmont Mount Kenya Safari Club. The new addition in Gigiri is an indicator of the node's attractiveness for hospitality, which is attributble to: (i) relatively low supply of hotels in comparison to nodes such as Westlands, Upperhill and CBD, (ii) relatively high population of expatriates creating demand for hospitality services, (iii) relatively good infrastructure with the Northern Bypass as well as the Westlands Link Road and the ongoing Western Bypass, which boost its accessibility, (iv) Blue diplomatic Zone, thus, high levels of security, and (v) presence of recreational amenities along Limuru Road such as the Village Market and Two Rivers Mall that create shopping convenience to the residents.

Overall, the hospitality sector in Nairobi has continued to attract multinational hotel operators keen on expanding their portfolio in Africa. This is due to (i) Nairobi's status as a key financial hub in Africa, which attracts many foreign workers on short stays, as well as room for Meeting, Incentives, Conferences and Exhibitions (MICE) initiative, (ii) relatively good infrastructure, and (iii) vibrant recreational scene including game and museum parks, which attract tourists globally. According to KNBS, international visitors reported in 2018 increased by 14.0% to 2.0 mn from 1.8 mn in 2017.

According to W Hospitality Group's Hotel Chain Development Pipelines in Africa 2019 Report, Kenya ranked #5 among African countries with the highest hotel room pipeline with 27 hotels and 4,232 keys in total, as at 2019, ranking it behind Egypt, Nigeria, Morocco and Ethiopia. Key hotel operators that form the deal pipeline include Marriott, Best Western, Radisson Group, Accor, Hyatt, among others.

Our outlook for the real estate sector remains neutral with a bias to positive. We expect the sector's performance to be cushioned by increasing investment by international players, growth of infrastructure which is bound to continue driving real estate investments to satellite towns, and growth of middle-income earners creating demand for real estate.

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