



Investment Options for Your Pension Upon Retirement, & Cytonn Weekly #34/2019

Real Estate

I. Residential Sector

During the week, the Central Bank of Kenya (CBK) gazetted regulations aimed at guiding operations of Mortgage Refinancing Companies (MRCs) in Kenya. As per the regulations, shareholders, with the exception of public entities and multilateral development banks, are limited to maximum ownership of 25.0%. To protect the facility from a decline in the value of the collateral, which might be brought about by market fluctuations, Mortgage Refinancing Companies are required by the CBK Act to address this by over-collateralization of refinancing loans by 120.0% of the level of advances, which translates to a Loan to Value of about 83.3%. For capital requirements, minimum core capital of Mortgage Refinancing Companies (MRCs) is set at Kshs 1.0 bn, which is the same level as that of commercial banks.

This marks a great milestone for Kenya's undeveloped secondary mortgage market and generally paves way for the actual operationalization of the Kenya Mortgage Refinancing Company (KMRC), delayed by lack of a license despite having secured Kshs 37.2 bn from the World Bank and the African Development Bank (AfDB), alongside pledges from Shelter Afrique and 19 local institutions. Once operational, KMRC is expected to revitalize the mortgage market through long-term funding by linking the primary mortgage market with the capital market. This should enable the lending institutions to increase mortgage tenures from the current average of 12-years to about 20-years, thus relieving borrowers of heavy repayment pressures and generally increasing the pool of mortgage borrowers to include low-income earners. According to our **KMRC Note**, increase in tenures will reduce payments by at least 14.0% with the prevailing interest rates of about 13.6%.

II. Hospitality Sector

During the week, ACME Dream Ltd, a Chinese conglomerate firm, announced plans to build a 25-room, luxury hotel in Embakasi, Nairobi. The hotel, which will be on 5.2-acres, will be in close proximity to the Jomo Kenyatta International Airport (JKIA), is expected to cost approximately Kshs 1.4 bn inclusive of the land cost (*delivery timelines undisclosed*). Nairobi's vibrant hospitality sector boosted by presence of good quality infrastructure, growth of business tourism due to government's aggressive marketing of the Meeting, Incentives, Conferences and Exhibition (MICE) sector, and an overall vibrant tourism sector, has continued to attract international hotel investors seeking to tap into the growing number of international tourists.

Also, during the week, Diani Reef Beach Resort in Mombasa County announced plans to construct an additional 114 rooms to increase its capacity to 257 rooms from the current 143 rooms. The hotel, which was feted by World Travel Awards as Africa's Leading Beach Resort in 2018 and awarded the five-star status by Kenya's Tourism Regulatory Authority in 2019, has also expanded its conference

facilities to tap into the growing number of delegates. According to KNBS Economic Survey 2019, the number of hotel bed-nights occupied in the Coastal Beach area rose by 22.2% from 2.7 mn in 2017 to 3.3 mn in 2018. The rebound in Mombasa's hospitality scene is attributable to improved security, better infrastructure especially with the Standard Gauge Railway and the Dongo Kundu Bypass, and better hotel facilities with hoteliers improving their facilities so as to tap into the growing number of visitors in the region especially ahead of the December-April peak seasons. Additionally, Diani's sandy beach remains one of the most renowned beaches in the world attracting a continuous flow of tourists throughout the year.

We expect moderate growth in the real estate sector driven by the continued focus on the provision of affordable housing for the low and lower-middle-income segment of the market and growth of the hospitality sector supported by improved infrastructure and vibrant tourism sector.

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