

Home Ownership Savings Plan, “HOSP”, Schemes in Kenya, & Cytonn Weekly #37/2019

Real Estate

?. Residential Sector

During the week, Safaricom Investment Co-operative (SIC) unveiled its gated community development, dubbed “The Zaria Village”. The development located in Kiambu County off the Ruiru-Kiambu bypass is set on 120-acres and will consist of a commercial centre, kindergarten and 331 quarter-acre plots, with guidelines on the particular detached units to be developed on the plots provided. The project is sub-divided into three distinct zones namely Green Gem, Grey Pearl and Golden Rod, with starting prices of Kshs 6.95 mn, Kshs 7.15 mn, and Kshs 7.35 mn per quarter-acre, respectively. Buyers will then select their preferred detached unit designs from the four pre-approved house plans i.e. Zara, Zaira, Zayana and Zazi with plinth areas of 288 SQM, 416 SQM, 292 SQM and 386 SQM, respectively, and the prices of the respective units are yet to be disclosed.

This is an indication that Kiambu County as an investment node continues to attract developers. This is attributed to: (i) the affordability of land for development with the price per acre of Kshs 21.3 mn as at H1’2019 in comparison to other satellite towns such as Ruaka at Kshs 80.3 mn, (ii) infrastructural developments with the Northern Bypass completed in 2016, enhancing ease of access to areas such Ruiru and the Thika Superhighway, (iii) a growing demand for residential units from the working class from Nairobi CBD and Thika towns environs, (iv) attractive returns on investments, and most importantly, (v) the compelling demographics of the county where 6 of the 10 fastest-growing mid-sized towns in Kenya are located in Kiambu County.

Top 10 Fastest-growing Mid-sized Towns in Kenya (Number of People)

#	Area	1999	2009	Growth	County
1	Kikuyu	10,000	190,208	1,802.1%	Kiambu
2	Karuri	11,228	99,739	788.3%	Kiambu
3	Ngong	12,110	104,073	759.4%	Kajiado
4	Limuru	10,000	61,336	513.4%	Kiambu
5	Kitengela	10,000	58,167	481.7%	Kajiado

Top 10 Fastest-growing Mid-sized Towns in Kenya (Number of People)

#	Area	1999	2009	Growth	County
6	Kiambu	13,832	76,093	450.1%	Kiambu
7	Mavoko	22,716	110,396	386.0%	Machakos
8	Juja	10,000	40,446	304.5%	Kiambu
9	Kimilili	10,279	41,115	300.0%	Bungoma
10	Ruiru	79,935	236,961	196.4%	Kiambu

Source: Afrika Economics

According to Cytonn (NMA) Residential Report 2018/2019, Ruiru posted attractive returns in 2018, with an average total return of 6.0% in comparison to the overall residential market's average of 4.7%.

The table below shows the performance of detached units in satellite towns in H1'2019:

(All Values in Kshs Unless Stated Otherwise)

Detached Units Performance H1'2019 - Top 5: Satellite Towns

Area	Price per SQM H1'2019	Rent per SQM H1'2019	Annual Uptake H1'2019	Occupancy H1'2019	Rental Yield H1'2019	Annual Price Appreciation H1'2019	Total Returns H1'2019
Ruiru	99,064	353	17.1%	79.6%	5.1%	0.9%	6.0%
Athi River	92,054	406	19.3%	79.6%	4.5%	0.6%	5.0%
Ngong	64,843	238	19.4%	72.8%	3.2%	1.6%	4.8%
Kitengela	73,919	446	17.7%	66.1%	3.1%	1.2%	4.3%
Juja	73,182	260	16.6%	61.9%	2.7%	(2.1%)	0.7%
Average	80,612	341	18.0%	72.0%	3.7%	0.4%	4.1%

Source: Cytonn Research 2019

We expect the residential sector in satellite areas to continue gaining popularity in Kenya, supported by (i) relatively high returns to investors, (ii) growing middle class creating demand for housing units, and (iii) infrastructure improvements, and thus attractive performance going forward.

ii . Commercial Office Sector

Abbott, a US-based healthcare company, announced the opening of its first Kenyan office at The Watermark Business Park, in Karen. The office will serve as the organization's headquarters for operations within East Africa. Karen is among the best performing office nodes within the Nairobi Metropolitan Area. According to Cytonn NMA Commercial Office Report 2019, it recorded rental yields of 9.2% in 2018, 1.1% points above the average yield of 8.1%. The Karen office market appeals to a number of businesses and multinational companies supported by (i) its proximity to the CBD and other business nodes, (ii) relatively good infrastructure network, (iii) availability of social amenities

with shopping malls such as the Hub and Waterfront, and (iv) exclusivity enabled by the restricted zoning regulations thereby attracting differentiated high quality and serviced office concepts.

The table below shows the Commercial Office Market performance in 2018:

(All Values in Kshs Unless Stated Otherwise)

Commercial Office Market Performance 2018

Commercial Nodes	Price Kshs/ SQFT FY 2018	Rent Kshs/SQFT FY 2018	Occupancy FY 2018 (%)	Rental Yield (%) FY 2018
Gigiri	13,833	141	88.3%	10.5%
Karen	13,666	118	88.6%	9.2%
Westlands	12,050	110	82.1%	9.0%
Parklands	12,494	102	86.0%	8.4%
Kilimani	13,525	99	88.3%	8.0%
Upperhill	12,560	100	80.7%	7.9%
Nairobi CBD	12,425	89	88.3%	7.6%
Thika Road	12,517	86	81.5%	6.7%
Msa Road	11,400	79	65.6%	5.8%
Average	12,719	103	83.3%	8.1%

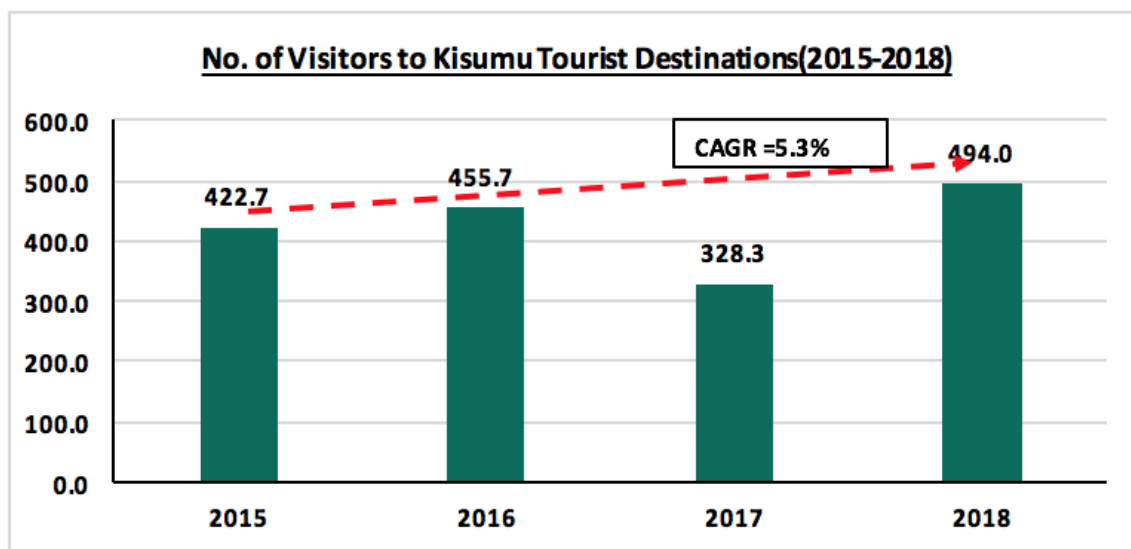
Karen was among the best performing nodes recording rental yields of 9.2%, 1.1% higher than the average yield of 8.1%. This was attributed to increased demand by businesses and multinational companies due to proximity to CBD and other business nodes, high-quality office space and relatively good infrastructure network

Source: Cytonn Research 2019

iii . Hospitality Sector

During the week, Marriott International, an American multinational hotel chain, signed a franchise agreement with Aleph Hospitality, a Dubai-based hotel management company to add Bluewater Hotels located in Kisumu to its portfolio. The franchise that will operate under the name, "Protea Hotel by Marriott", has 125 rooms and includes amenities such as food outlets, swimming pool gym and meeting space.

The increased interest in Kisumu's hospitality sector by hospitality firms such as Marriott International and Simba Hospitality Group is sparked by a vibrant tourism sector, which has shown a steady rise in tourism numbers since 2015, recording a CAGR of 5.3% in tourist numbers visiting museums, historical sites and the Impala Sanctuary, to 494,000 in 2018 from 422,700 in 2015 according to KNBS Economic Survey 2019.



Source: KNBS 2019

Kisumu is recognized as one of the major tourist destinations in Kenya, partly due to its numerous attractions such as Lake Victoria, national parks such as the Impala Sanctuary and its rich cultural heritage.

The tourist activities have resulted in a vibrant economy boosting the hospitality and retail sectors as a result of long-stay visitors.

Marriott International intends to increase its footprint in Africa to 200 hotels by the end of 2023 through its diverse brand portfolio which includes Sheraton Hotels & Resorts, Protea Hotels, St. Regis and JW Marriott brands. The increased interest in Africa is driven by (i) an improved macroeconomic environment, (ii) positive demographics, (iii) rising income amongst the middle class, and (iv) increased political stability. The hotel chain made its entry into the Kenyan market with the opening of Four Points by Sheraton Nairobi. Properties added into its Kenyan portfolio are as shown below:

Marriott International Portfolio in Kenya

	Hotel	Location	Year
1	Four Points by Sheraton	Nairobi Airport	2017
2	Four Points by Sheraton	Kilimani, Nairobi	2017
3	Sankara Hotel	Westlands, Nairobi	2019
4	Bluewater Hotels	Kisumu	2019
5	JW Marriott*	Westlands, Nairobi	2020

***Set to open in 2020**

We expect the Kenyan hospitality sector to continue recording increased activities supported by: (i) improved hotel standards with the entry of global hotel brands, (ii) the continued marketing of Kenya as an experience destination, and (iii) improved security, which continues to boost tourists' confidence in the country and thus making it a preferred travel destination for both business and holiday travelers.

We expect the real estate sector to continue recording activities fuelled by the continued entry and expansion multinational firms, availability of development class land and the existing demand for housing units in the middle- and low-income bracket.

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