

Unit Trust Funds Performance in First Half 2019, & Cytonn Weekly #38/2019

Real Estate

Hospitality Sector

During the week, Sun Africa Hotels Group announced plans to put up luxury serviced apartments in Hurlingham, Kilimani, at an estimated total cost of Kshs 1.0 bn. The project whose completion is set for Q3′2020, will comprise of twenty studios and one-bedroom units (unit sizes undisclosed) and will target business and leisure travelers. Serviced apartments have continued to gain traction in Kenya especially for use by holiday guests who are travelling as families and for business travelers looking for mid to long-term accommodation. Unlike a hotel, a serviced apartment can easily accommodate a family in addition to giving occupants the comfort and permanence of a home but with the full benefits offered by a hotel. Generally, the demand for high-end hospitality facilities in Nairobi has been high evidenced by data from the KNBS Economic Survey Report 2019, according to which, upmarket facilities recorded 1.4 mn bed-nights in 2018, 108.7% higher than other lower class facilities within Nairobi, which recorded 657,000 bed-nights. Investors are therefore increasingly focusing on serviced apartments due to their enhanced performance, which is driven by:

- i. **Higher Occupancy** As per the KNBS Statistical Abstract 2017, serviced apartments registered average occupancy of 70.0%, in comparison to traditional hotels with 35.5% (KNBS). This means higher revenues for serviced apartments investors,
- ii. Diversification Renowned brands stand to benefit from branded serviced apartments as they
 attract brand-loyal clientele. Other notable hotel groups with a serviced apartments pipeline
 include Marriott and Radisson Group,
- iii. **Demand by High Net Worth** Individuals According to AfrAsia Bank Wealth Report 2019, Kenya had 8,600 high net worth individuals, out of which 6,200 were from Nairobi, with a total wealth of USD 93.0 bn, the fifth highest in Africa after South Africa, Egypt, Morocco, and Nigeria. According to the report, prime residential property constitutes 25.0% 30.0% of these individuals' wealth, and,
- iv. **Growth of Meetings, Incentive, Conferences and Exhibitions (MICE) Tourism in** Kenya According to Economic Survey 2019, the number of international conferences held in Kenya expanded by 6.8% to 204 in 2018 compared to 191 in 2017. This was boosted by high profile international conferences held in the country and visits by foreign dignitaries during the year.

In terms of performance, according to our 2018 Serviced Apartments Report, studios and one-bedroom units were the best performing with relatively high yields of 13.5% and 9.4%, respectively, in comparison to the overall market average of 7.4%. Kilimani and Westlands were the best performing nodes with yields of 10.9% and 10.6%, respectively, an indicator of their potential as investment opportunities for serviced apartments.

(all values in Kshs unless stated otherwise)

2018 Serviced Apartments Performance

| Node | Occupancy 2018 | Rental Yield 2018 |
|-----------------------|----------------|-------------------|
| Kilimani | 86.0% | 10.9% |
| Westlands& Parklands | 76.0% | 10.6% |
| Limuru Road | 84.0% | 9.7% |
| Kileleshwa& Lavington | 83.0% | 7.8% |
| Nairobi CBD | 74.0% | 5.7% |
| Upperhill | 60.0% | 5.3% |
| Mombasa Road | 85.0% | 5.0% |
| Thika Road | 90.0% | 4.4% |
| Average | 80.0% | 7.4% |

Kilimani was the best performing node recording high occupancy rates of 86.0%, and rental yields of 10.9%.

Cytonn Research - 2018

Other Highlights:

Hotpoint, a locally-based home electronics firm, launched its new headquarters in Sukari Industrial Estate, off the Eastern Bypass. The complex (size undisclosed) will house the firm's main offices as well as industrial park. The move is testament to the continued relocation by big firms and industrial investors in Kenya to less crowded areas such as Ruiru for development of customized industrial spaces that are in line with modern business requirements such as modernized logistics system, incorporation of mixed-use (office and industrial), and ease of access especially to key logistic hubs such as the Jomo Kenyatta International Airport, the Inland Container Depot (ICD), and the Standard Gauge Railway (SGR) station, which is facilitated by the ongoing infrastructural improvements such as the Eastern Bypass.

We remain neutral on the real estate sector's performance largely due to reduced activity from major sectors as investors realign with alternative concepts such as serviced apartments and affordable housing. We also expect more investor focus towards mixed-use developments as a means to diversify their returns.

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