Cytonn Monthly October 2019

Real Estate

I. Industry Reports

During the month, Hass Consult, a local real estate agency, released the Hass Property Sales and Rental Index Q3'2019. As per the report, the residential sector continues to be influenced by weak private sector credit growth, which has constrained access to financing for homebuyers and developers alike. Overall, the market recorded a q/q price growth of 0.9% and an annual depreciation of 3.4%, with semi-detached houses leading the market with an annual price growth of 6.0% and a q/q growth of 3.4%. Other key take-outs were:

?. In the detached units market, Nyari Estate and Ridgeways recorded the highest annual price growth in the suburbs category, at 12.4% and 10.6%, and a q/q change of 2.1% and 3.9%, respectively; while in Satellite Towns, Kiambu and Limuru posted the highest annual growth at 8.8% and 7.1%, and a q/q growth at 1.3% and 1.0%, respectively. This is in comparison to the detached markets overall performance with a price depreciation of 7.0% and a marginal q/q growth of 0.3%. Juja registered the lowest growth with prices depreciating at an average annual and quarterly rate of 7.8% and 3.0%, respectively,

i. In terms of rents, detached houses in Kilimani and Ngong recorded the highest annual increase in asking rents at 3.2% and 4.7%, respectively,

ii. In the apartments market, Upperhill and Westlands registered the highest annual growth in asking prices at 5.7% and 2.5%, respectively, and a q/q growth of 1.3% and 0.1%, respectively. This is in comparison to average depreciation of the overall apartments market at annual and q/q rates of 1.7% and 0.5%, respectively,

iii. Apartments in Lang'ata registered the highest annual growth in asking rents at 14.9% and q/q growth at 2.2%,

iv. In Satellite Towns, apartments saw the highest price growth in Athi River and Kitengela at 11.6% and 10.1%, respectively. However, Athi River and Kiambu recorded the highest q/q price growth at 3.2% and 2.4%, respectively, and,

v. Ngong and Thika Satellite Towns registered the highest annual growth in rents at 15.8% and 13.3% while Ruaka posted the highest q/q rent growth at 1.7%.

The report is in tandem with the Cytonn Q3'2019 Markets Review, according to which, while prices depreciated across the market by 0.2% with the tough economic environment exerting pressure on the prices and market uptake, rental yields notably improved across the residential market with apartments recording average rental yields of 5.2%, in comparison to 4.9% in H1'2019, whereas detached markets recorded an average of 4.6%, in comparison to 3.9% in H1'2019, largely attributable to increase in occupancy rates as homebuyers took advantage of the pricing discounts as demand for affordability continue to aggravate. We expect appetite for the rental market to continue growing, especially in the high-end and upper mid-end markets. The growing appetite for affordable homes should stimulate uptake in the lower mid-end markets in areas such as Athi River, Thindigua and Ruaka as they continue to exhibit high demand from end buyers, due to their proximity to commercial nodes such as the CBD, Westlands, and Upperhill.

The firm also released the Hass Land Index Q3'2019. According to the report, land prices over the quarter rose marginally amidst anticipations of the repeal of the interest rate cap, which is expected to see increased lending to the private sector, thus stimulating the general economy. The key take-outs from the land report were as follows:

?. Land prices in Nairobi suburbs rose marginally over the quarter at 0.2% and annually at 1.7%. Loresho registered the highest annual growth at 9.4%, while Kitisuru recorded the highest quarterly growth at 2.7%. Both areas continue to benefit from the Westlands Link Road, which has made the areas more accessible. On the tail end, Upperhill recorded the lowest annual growth with prices depreciating by 2.6% on the back of waning demand as developers slowed down on construction activity following an office space glut in the node, and,
i. The highest increase in land prices was recorded in Satellite Towns, which recorded an annual growth of 5.1% and a q/q growth of 1.4%. Syokimau posted the highest annual growth at 10.6% while Tigoni recorded the highest growth over the quarter at 1.4%. The lowest growth was recorded in Kiambu where land prices depreciated at an average annual rate of 1.7%.

This is in line with our Cytonn Q3'2019 Markets Review, according to which land in satellite areas recorded the highest annual appreciation at 6.1%, in comparison to Nairobi suburbs' average of 0.8%. We expect the continued focus on affordable housing to boost land prices in Satellite Towns such as Ruiru, Ruaka and Utawala supported by the ongoing infrastructural improvements.

Other reports released during the month included:

?. Jones Lang LaSalle (JLL) Q4'2019 Spotlight on Africa Report, which tracks vital trends impacting hotel investment in Sub-Saharan Africa. According to the report, hotel investors in Sub-Saharan Africa are likely to attract investment for hotel projects that are set up as mixed-use developments. This is as transactions for mixed-use properties increased by 42.0% whereas other sectors such as Office, Retail, Industrial and Hotels, as single-use, declined by 4.0%, 20.0%, 6.0%, and 18.0%, respectively. For analysis, see Cytonn Weekly #43/2019
i. The World Bank's 'Doing Business Report 2020', a report that compares business regulation across economies from 190 countries. According to the report, Kenya's ranking in terms of property registration dropped twelve positions to #134 in 2019 from #122 in 2018 attributed to additional payment slip generation, and increased online consent application and title search fees. In terms of construction permits, the country improved twenty-three ranks to position #105 in 2019 from position #128 in 2018 attributed to increased transparency by making building permit requirements publicly available online. For analysis, see Cytonn Weekly #43/2019.

II. Residential Sector

?. During the month, the Kenya Mortgage Refinance Company invited bids for the design, configuration, installation, and hosting of a Mortgage Refinance Information System. This follows a long-term loan facility of approximately Kshs 10.4 bn from the African Development Bank (AfDB) to the Kenyan Government for on-lending to the refinancing company. Once fully operational, KMRC is expected to deepen the Kenyan capital markets and mobilize local savings for the purposes of long-term mortgage financing and housing development in the country. According to AfDB, the institution is expected to stimulate the local mortgage market by 4,000 new mortgages, directly impacting 24,000 beneficiaries. For more on the KMRC, see our Kenya Mortgage Refinancing Company Update;
i. The County Government of Nakuru also invited bids from local and international developers and financiers for the development of the Naivasha Affordable Housing Project (NAHP). The project is expected to see 2,400 units delivered to the market on a 55-acre parcel of land in Naivasha, along the Nairobi-Nakuru Highway. The project targets income earners within the bracket of between Kshs 15,000 and 150,000. This is a step towards realization of the Government's Affordable Housing Initiative, and is in line with other affordable housing projects unveiled in areas such as Mavoko, Nyeri, and Kiambu,

ii. During the month, the Ministry of Transport, Infrastructure, Housing and Urban Development and the Nairobi City County Government unveiled plans for Nairobi's Eastlands Regeneration. The Urban Renewal for Eastlands, Nairobi Project is set to run up to 2036, having begun in 2016 and will see approximately 177,139 units put up under a more diverse densification plan for the 3,123-acres part of Nairobi County. In the detailed plan for the low-income area, which is characterized by dilapidated housing, poor and inadequate infrastructure, uncontrolled development, as well as congestion, 70.0% of the units will be accessed through tenant purchase schemes while 30.0% will be under a sales option. The plan is geared towards alleviating housing shortage in Nairobi and the country at large, and is a step in the right direction towards ensuring formal and decent housing for low income earners. For more, see Cytonn Weekly #41/2019,
iii. Tilisi Developments Plc, a real estate developer, announced plans to begin construction of 186 high-end villas on a 41-acre parcel of land within the Tilisi masterplan development located in Rironi, Limuru area. The project will consist of 3-bed, 4-bed and 5-bed villas of 212 SQM, 232 SQM, and 585 SQM, and priced at Kshs 18.5 mn, Kshs 20.0 mn and Kshs 59.0 mn, respectively, translating to an average of Kshs 91,442 per SQM. For analysis, see Cytonn Weekly #43/2019, and,
iv. In line with the Kenyan Government's target to have at least 2,000 affordable housing units at county level, Nyeri County Government announced plans of developing its first affordable housing units, a public-private partnership project between Tekimamo Company Ltd, a Teachers' Sacco based in Nyeri County, and Sampesa Agency, a property development and management firm, which will see sixty-four two-bedroom units put up at an estimated cost of Kshs 143.6 mn, exclusive of land, which belongs to the Sacco. For analysis, see Cytonn Weekly #41/2019

Amidst the affordability concerns in Kenya, we expect the affordable housing sector to continue shaping up, attracting local and international investments. We also expect the overall residential market to improve especially on the back of anticipated growth of private sector lending once the interest rate cap is repealed.

III. Commercial Office Sector

?. During the month, Kofisi, a subsidiary of Sunbird Group, opened a new office in Karen. The company, which is an aspirational work spaces provider, has offices in Lagos, Dar es Salaam, Kampala, London, and Johannesburg, with other local branches in Upperhill and Westlands. For analysis, see Cytonn Weekly #41/2019, and,
i. An undisclosed pension scheme through GenAfrica Asset Managers, announced plans of purchasing a developed commercial property at Kshs 600.0 mn or below for rental income purposes. This also follows Southern Eastern Kenya University Pension scheme invitation for bids from property owners in a bid to purchase investment commercial property budgeted at Kshs 60.0 mn, signalling a growing trend of pension schemes increasing their real estate investment portfolios attributable to the sector's attractive returns in comparison to traditional asset classes. For analysis, see Cytonn Weekly #41/2019

We expect to see a slowdown in commercial office space building activity, with the current stock being converted to modern concepts such as co-working spaces in a bid to attract tenancy and institutional buyers as concepts such as serviced offices attract relatively high rental yields of up to 13.4% in comparison to mainstream offices which generate average rental yields of 8.0%.

IV. Retail Sector

?. During the month, Naivas Supermarket announced plans to open four additional branches in the next few months, bringing the total number of outlets to fifty-nine. The additional branches will be situated in Mombasa, Embu, near Yaya Centre and along the Eastern Bypass. The move is in line with the retailer's expansion strategy aimed at tapping into the Nairobi outskirts and urban cities in the wake of increased competition from international retailers such as Carrefour and Shoprite, and local players such as Quickmart. For analysis, see Cytonn Weekly #42/2019

i. Botswana-based Choppies announced plans of exiting its Nanyuki Mall branch, which is to be taken up by local retailer Tuskys. The closure of Choppies branches and its planned exit from the Kenyan market is a result of stock shortage and corporate governance issues facing the retailer hailing from its parent companies in Botswana and Zimbabwe. For analysis, see Cytonn Weekly #41/2019
ii. In the face of stiff competition among retailers, during the month, Java introduced a new restaurant business line to its existing portfolio, which includes the coffeehouse, Planet Yoghurt, and 360 Degrees Pizza, to now include fried chicken in a new restaurant, Kukito, which is located in Nairobi, along Kimathi Street. The new opening marks Java's 77th store in East Africa and also follows Java's announcement to open more express outlets in schools and hospitals likes of which it operates in United States International University (USIU) off Thika Road, and Aga Khan and MP Shah Hospitals in Nairobi. This is as other retailers, namely Artcaffe, continue to step up the competition setting up new stores in the CBD. For analysis, see Cytonn Weekly #41/2019

We expect the retail sector to remain vibrant on the back of a growing middle class and increased retailer expansion, which means more space uptake for developers.

V. Hospitality Sector

?. South African hotel group, City Lodge opened the last phase of its City Lodge Hotel, which is located at Two Rivers, along Limuru Road. The 171-room hotel, which was constructed at a cost of Kshs 2.0 bn, marks the third facility under City Lodge's Kenyan portfolio, after 127-room Fairview Hotel and 84-room Town Lodge, both located in Upperhill. Kenya's hospitality sector continues to attract international investment due to relatively high demand for international quality accommodation facilities from international leisure and business tourists, and continued infrastructural improvements such as the Northern Bypass and the recently launched JKIA-James Gichuru Express Highway,
i. Also during the month, seven Kenyan hotels received various awards at the World Luxury Hotel Awards 2019 in Finland, attesting to Kenya's competitiveness on the global stage in terms of international quality hospitality facilities, thus making a top global tourist destination. The awards included Best Luxury City Hotel, Best Luxury Beach Resort, and Best Luxury Hotel Group to Sarova Stanley, Sarova White Sands Beach Resort & Spa, and Sun Multinational, respectively. For analysis, see Cytonn Weekly #43/2019, and,
ii. Also during the month, the Tourism Cabinet Secretary, Hon. Najib Balala, inaugurated the National Convention Bureau. The main mandate of the bureau includes serving as the focal point of the Meetings, Incentives, Conventions, and Exhibitions (MICE) activities, as well as marketing and selling Kenya as a business events destination.

We expect the hospitality sector's performance to remain on an upward trajectory supported by increased interest from international investors, and a vibrant tourism sector.

VI. Infrastructure Sector

?. President Uhuru Kenyatta, launched Phase 2 of the Standard Gauge Railway (SGR) project, bringing to operationalization the rail between Nairobi and Suswa, Naivasha. The 120.5 km (Phase 2A) project, will cut across Nairobi, Kajiado, Nakuru, and Narok with four passenger stations - Ongata Rongai, Ngong, Mai Mahiu and Suswa. For analysis, see Cytonn Weekly #42/2019, and,
i. The President also launched the construction of the Jomo Kenyatta International Airport (JKIA) - Westlands Expressway, an 18.6-kilometer road project, which will start at JKIA and terminate at James Gichuru, along Waiyaki Way Road, in Westlands. For analysis, see Cytonn Weekly #42/2019

With the Government's Kenya economic transformation agenda, we expect to see more infrastructural projects being unveiled, which in turn will boost the real estate sector’s performance and also lead to opening up of more areas for real estate development.

VII. Listed Real Estate

During the month, the Fahari I-REIT closed the month at Kshs 8.8, a 13.2% increase from the month’s opening price of Kshs 7.8. On average, during the month, the I-REIT traded at an average of Kshs 8.4, 5.9% lower than its YTD average of Kshs 8.9. The I-REIT’s performance and continued drop in its value is as a result of poor market perception and thus, low investor appetite.

We anticipate an improvement in the real estate sector on the back of (i) steady economic growth, with the World Bank projecting a 6.0% GDP growth in 2020, (ii) continued infrastructural improvements, and (iii) stable economy and private sector credit growth once the interest cap law is repealed.

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