Kenya Listed Insurance H1’2019 Report, & Cytonn Weekly #46/2019

Real Estate

I. Industry Report

During the week, the Central Bank of Kenya (CBK) released the Bank Supervision Annual Report 2018, which tracks the Kenyan residential mortgage market, including a residential mortgage market survey, which noted increased demand for mortgage loans in 2018 due to perceived affordability of the interest on mortgage loans. Key take-outs from the report were:

?. The number of mortgage loan accounts increased by 1.2% to 26,504 mortgage loans in 2018 from 26,187 in 2017, with average interest rates at 12.4% in 2018, 6.3% points down from an average of 18.7% in 2017,
i. The value of mortgage loan assets outstanding increased by 0.8% to Kshs 224.9 bn in 2018, from Kshs 223.2 bn in 2017, attributable to an increased appetite for homeownership,
ii. Mortgage uptake is expected to record an increase with the implementation of the affordable housing program and the formation of Kenya Mortgage Refinance Company (KMRC) by the Kenyan Government.

A summary of the trend in the mortgage market is as below:

(all values in Kshs unless stated otherwise)

7-year Mortgage KPI Trends in Kenya

Year	2011	2012	2013	2014	2015	2016	2017	2018	7-year CAGR
Outstanding Mortgages	**90.4 bn**	**119.6 bn**	**138.1 bn**	**164.0 bn**	**203.3 bn**	**219.9 bn**	**223.2 bn**	**224.9 bn**	**13.9%**
Non- performing Mortgages	3.0 bn	6.8 bn	8.5 bn	10.8 bn	11.7 bn	22.0 bn	27.3 bn	38.1 bn	43.8%
Average Mortgage Size	5.6 mn	6.4 mn	6.9 mn	7.5 mn	8.3 mn	9.1 mn	10.9 mn	8.48 mn	6.1%
Number of Mortgages	16,029	18,587	19,879	22,013	24,458	24,058	26,187	26,504	7.4%
Annual Change in No. of mortgages		16.0%	7.0%	10.7%	11.1%	(1.6%)	8.8%	1.2%	

Source: Central Bank of Kenya

Despite the major challenges slowing the mortgage market including the high cost of housing units, high cost of land for construction, and difficulties with property registration, the overall mortgage market is expected to improve driven by, (i) implementation of affordable housing program by the government, (ii) the availability of low cost housing solutions, (iii) availability of affordable long term loans through initiatives such as the Kenya Mortgage Refinance Company (KMRC), and, (iv) government incentives for low cost housing solutions.

II. Residential Sector

During the week, Superior Homes Kenya launched its Kshs 7.0 bn residential development dubbed “Pazuri” located on 105-acres at Vipingo Ridge in Kilifi County. The project will consist of 372 units of 2-bed, 3-bed bungalows, and 4-bed villas of 110 SQM, 163 SQM, and 220 SQM, respectively. The units will be priced at Kshs 11.9 mn, Kshs 14.9 mn and Kshs 18.9 mn, respectively, translating to an average price of Kshs 95,695 per SQM. The prices are 20.3% lower than the upper mid-end residential average of Kshs 115,199 per SQM in neighboring Mombasa County according to the Cytonn Mombasa Investment Opportunity Report 2018, attributed to more affordable development land. The prices are however 16.1% higher than a similar project in Vipingo dubbed Awali Estate which are part of a mixed-use project ‘Vipingo Development’ by Centum, which are currently selling an average price of Kshs 82,411 per SQM.

Price Comparison of Mombasa & Vipingo Residential Developments

	Average Size (SQM)	Average Price Per SQM (Kshs)
Pazuri	164	95,695
Awali Estate	182	82,411
Mombasa	189	115,199

Cytonn Research

Vipingo area in Kilifi County is a major attraction to Kenya’s middle class and holiday travelers and has seen the continued demand for luxury residential homes supported by, (i) the area’s recognition as a major tourist destination in Kenya, due to its rich cultural heritage and proximity to the Indian Ocean, and (ii) the improving infrastructure in the region including charter flights from Nairobi to Vipingo airstrip.

Continued investment in the area is also attributed to high land capital appreciation, which recorded 6.9% in 2017, compared to the average appreciation of 7.4%, according to Hass Consult County Land Report 2018. Land prices in Kilifi County are also considerably lower, averaging Kshs 15.7 mn per acre compared to land in neighboring Mombasa County at Kshs 49.8 mn per acre.

The table below shows the counties with the highest land appreciation in 2017

(all values in Kshs unless stated otherwise)

Top 10 Counties with Highest Land Appreciation 2017

	County	Average Land Price 2017	Annual Capital Appreciation
1	Kisumu	6.9 mn	14.1%
2	Mombasa	49.7 mn	9.9%
3	Nakuru	4.6 mn	9.5%
4	Machakos	13.3 mn	8.4%
5	Kiambu	32.3 mn	7.3%
6	Kilifi	15.7 mn	6.9%
7	Kwale	10.0 mn	6.6%

Top 10 Counties with Highest Land Appreciation 2017

	County	Average Land Price 2017	Annual Capital Appreciation
8	Nairobi	189.0 mn	4.2%
9	Uasin Gishu	5.2 mn	3.8%
10	Kajiado	9.7 mn	3.0%

Hass Consult Land Report 2018

iii. Retail Sector

During the week, Quickmart, a local supermarket chain, opened their latest outlet on Magadi Road in Ongata Rongai, Kajiado County. The 24,000 SQFT standalone structure built by the retailer is its twelfth outlet after Lavington and Waiyaki Way opened in January 2019 and August 2019, respectively. Satellite towns such as Ongata Rongai, Ruiru and Ruaka are increasingly attracting retailers driven by (i) affordability of land prices at Kshs 25.5 mn per acre compared to the average land prices of Kshs 134.0 mn per acre within Nairobi as at September 2019, (ii) positive demographics with these areas acting as the Nairobi dormitory areas thus creating demand for consumer goods & retail services, and, (iii) relatively low-priced retail spaces at Kshs 131.4 per SQFT.

According to the Cytonn Retail Sector Report 2019, the average rents in satellite towns came in Kshs 131.4 per SQFT in 2019, 28.3% lower than the market average of Kshs 168.6 per SQFT in 2019. However, occupancy rates in the formal retail market in satellite towns declined by 3.4% points to 70.3% in 2019, from 73.7% in 2018, attributed to competition from informal retail spaces. In the past few months, we have witnessed increased retail activity in satellite towns by local retailers such as Naivas Supermarket and Artcaffe, a restaurant chain, who opened locations in Ongata Rongai Town and Kitengela Town, respectively. We expect the continued interest in satellite towns to boost the formal retail sector leading to higher occupancies and improved performance of the retail sector.

The table below shows the performance of the Nairobi Metropolitan Area (NMA) retail market between 2018 and 2019:

(all values in Kshs unless stated otherwise)

Summary of NMA's Retail Market Performance 2018-2019

Location	Rent Per SQFT 2019	Occupancy Rate 2019	Rental Yield 2019	Rent Per SQFT 2018	Occupancy Rate 2018	Rental Yield 2018	Change in Rents	Change in Occupancy	Change in Rental Yields
Kilimani	170.4	87.2%	**9.9%**	167.1	97.0%	**10.7%**	2.0%	(9.8%)	**(0.9%)**
Ngong Road	179.4	83.1%	**9.2%**	175.4	88.8%	**9.7%**	2.3%	(5.7%)	**(0.5%)**
Westlands	203.6	84.6%	**9.2%**	219.2	88.2%	**12.2%**	(7.1%)	(3.6%)	**(3.0%)**
Karen	207.9	77.0%	**9.1%**	224.9	88.8%	**11.0%**	(7.6%)	(11.8%)	**(1.9%)**
Eastlands	145.0	74.5%	**7.5%**	153.3	64.8%	**6.8%**	(5.4%)	9.7%	**0.7%**
Thika road	165.4	73.5%	**7.5%**	177.3	75.5%	**8.3%**	(6.7%)	(2.0%)	**(0.8%)**
Kiambu Road	166.0	61.7%	**6.8%**	182.8	69.5%	**8.1%**	(9.2%)	(7.8%)	**(1.4%)**

Summary of NMA's Retail Market Performance 2018-2019

Location	Rent Per SQFT 2019	Occupancy Rate 2019	Rental Yield 2019	Rent Per SQFT 2018	Occupancy Rate 2018	Rental Yield 2018	Change in Rents	Change in Occupancy	Change in Rental Yields
Msa Road	148.1	64.0%	**6.3%**	161.5	72.4%	**7.9%**	(8.3%)	(8.4%)	**(1.6%)**
Satellite Towns	131.4	70.3%	**6.0%**	142.1	73.7%	**6.7%**	(7.5%)	(3.4%)	**(0.7%)**
Average	**168.6**	**75.1%**	**8.0%**	**178.2**	**79.8%**	**9.0%**	**(5.4%)**	**(4.7%)**	**(1.0%)**

Occupancy rates in the formal retail market in satellite towns declined by 3.4% points to 70.3% in 2019 from 73.7% in 2018 attributed to competition from informal retail spaces

Source: Cytonn Research 2019

IV. Infrastructure Sector

During the week, Transport Secretary James Macharia announced that the railway track from Nairobi to Kisumu would be upgraded at a cost of Kshs 3.8 bn. The project, which is expected to start in the coming months, will connect from Nakuru to the Kisumu port and will mainly be used to ferry cargo to neighboring countries. The announcement comes after the Chinese Government declined to fund Phase 2B (Nakuru-Kisumu) of the Standard Gauge Railway (SGR). We expect the project to play a key role in economic growth by enhancing connectivity, increasing revenue generation and creating employment opportunities. It will open up previously inaccessible areas improving connectivity and thus lead to increased demand for property resulting in an increase in property prices.

Other highlights include:

- Irish investors were in Nairobi this week for a two-day trade mission worth Kshs 4.8 billion in investment deals with more than 40 companies dealing in education, construction and financial technology. Kenya's demographic trends and growth has attracted large amounts of foreign direct investments (FDI) with Kenya being among the top five recipients of foreign direct investments in Africa thus driving domestic investment projects, according to EY Attractiveness Report 2018. We expect continued foreign participation and direct investments in Kenya driven by the improving macroeconomic environment, with the country's GDP growing by 6.3% in 2018, 1.4% points higher than 4.9% recorded in 2017, and Kenya's positioning as a regional and continental hub thus making it a preferred investment destination.

We expect a continued increase in activities in the real estate sector driven by; (i) Kenya's improving macroeconomic environment, with the country's GDP growing by 6.3% in 2018, 1.4% points higher than 4.9% recorded in 2017, (ii) increased foreign direct investments, (iii) positive demographics such as a high population growth rate of 2.5%, 1.4% point higher than global averages of 1.2%, and, (iv) the relatively high urbanization rate in Kenya at 4.4% compared to the global average of 2.1%, necessitating the need for adequate housing and retail facilities in the urban areas.