Cytonn Monthly November 2019

Real Estate

I. **Industry Reports**

i. During the month, the Kenya Bankers Association released the Housing Price Index Q3'2019, highlighting the dominance of apartments in the real estate market fueled by their affordability, compared to detached units. The key take-outs from the report were as follows;
ii. House prices declined by 2.3% in Q3'2019, compared to 1.7% in Q2'2019, attributed to lack of effective demand. According to the report, the demand remains relatively low attributed to tough credit conditions that have resulted in declines in credit advances towards home ownership, in addition to constrained household disposable incomes in the wake of tough economic times,
iii. The housing market recorded a 25.0% increase in housing units' transactions despite the housing supply being characterized by the dwindling of housing approvals and a decline in cement production and consumption, and an overall softened growth of the construction sector. This indicates that the transactions were mainly for units previously in the market rather than new properties,
iv. Apartments remained popular accounting for 84.8% of total units in the market, compared to maisonettes and bungalows at 9.7% and 5.6%, respectively. This is attributed to preference of apartments given the relatively low cost of construction, in addition to being relatively affordable to potential homeowners in the wake of financially- constrained households.

The report is in tandem, with the Cytonn Q3'2019 Markets Review, which highlighted that housing units prices depreciated across the market by 0.2% with the tough economic environment exerting pressure on the prices. Nevertheless, we noted that rental yields notably improved across the residential market during Q3'2019, with apartments recording average rental yields of 5.2%, a 0.3% points increase from 4.9% in H1'2019, whereas detached markets recorded an average of 4.6%, 0.7% points higher the 3.9% in H1'2019, mainly attributable to increase in occupancy rates as homebuyers took advantage of the pricing discounts. Therefore, we expect continued focus on relatively affordable housing units, mainly apartments given the current tough financial environment, and an overall improvement in the real estate performance once the economy gets back on track.

Other real estate related reports released during the month include;

	Industry	**Report**	**Take-outs**
1.	Hospitality	Leading Economic Indicators (LEI) September 2019 by Kenya National Bureau of Statistics (KNBS)	· The total number of international visitors arriving through Jomo Kenyatta (JKIA) and Moi International Airports (MIA) increased by 5.4% to 1.2 mn persons for the period between January and September 2019, from 1.1 mn persons during the same period in 2018. This was mainly attributed to the improved confidence by visitors as a result of a calm political environment and improved security, · The quantity of cement consumed dropped by 0.5% to 3.91 mn metric tons in August 2019, from 3.93 mn metric tons in August 2018, attributed to reduced activities in the construction sector, as a result of a tough economic environment. For more information, see Cytonn Weekly#45/2019

	Industry	Report	Take-outs
2.	General	2019 Kenya Population and Housing Census Volume I by Kenya National Bureau of Statistics (KNBS)	· The current total population in Kenya stands at 47.6 mn as of 2019, a 2.2% annual growth rate from the previous 37.7 mn as at 2009, indicating a decline in the inter-censual growth rate by 0.7% points from 2.9% in 2009, · At the county level, Nairobi, Kiambu and Nakuru counties recorded the highest populations at 4.3 mn, 2.4 mn and 2.1 m, respectively, while the number of households stood at 1.5 mn, 0.8 mn and 0.6 mn, respectively. For more information, see Cytonn Weekly#45/2019
3.	General	Bank Supervision Annual Report 2018, by Central Bank of Kenya (CBK)	· The number of mortgage loan accounts increased by 1.2% to 26,504 mortgage loans in 2018 from 26,187 in 2017, with the average interest rates coming in at 12.4% in 2018, 6.3% points down from an average of 18.7% in 2017, · 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 home ownership · 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. For more information, see Cytonn Weekly #46/2019

II. Residential Sector

i. During the month, the Finance Act 2019 was assented to by the President. In addition to the Act introducing policy and taxation measures for revenue generation in the financial year 2019/2020 for government’s expenditure, it as well focused on supporting the Big Four Agenda, mainly the provision of affordable housing, with some of the key amendments intended to support the same being:
   a. Inclusion of Fund Managers or Investment Banks registered under the Capital Markets Act as approved institutions which can hold deposits of a Home Ownership and Savings Plan (HOSP). This thus means that inspiring home owners can now make savings for purchase of a home through Money Market Funds, through which their money gains interest over time, with the current money market fund yield averaging at 10.0%. This lightens the burden for the homeowners, in addition to benefiting from the tax rebates associated with the HOSP program. We thus expect this to result in more homebuyers registering for units through Boma Yangu portal, noting the current low number of people who have paid up the 12.5% of the home value required for unit allocation which has hindered the running of the lottery of the Park Road Affordable Housing Project. Please see our topical on Home Ownership Savings Plan, "HOSP" Schemes in Kenya for more information on how the HOSP program operates,
   b. Stamp duty exemption on the transfer of a house constructed under the affordable housing scheme from the developer to the National Housing Corporation, and,
   c. Exemption of goods supplied for the direct and exclusive use in the construction of houses under the affordable housing scheme (AHS) from Value Added Tax (VAT).
   d. We expect this to enhance home ownership in Kenya, by not only supporting potential home owners but also developers. For more information, see Cytonn Weekly#45/2019.

ii. The Government of Kenya announced that the first lottery on the Park Road affordable housing project in Ng’ara was set to be conducted at the end of this month, following the completion of the first phase of the project, comprising of 228 housing units. However, this did not happen and according to Principal Secretary for Housing, Hon. Charles Hinga, approximately sixty people have paid up the 12.5% of the home value required for unit allocation under Boma Yangu, which translates to 0.4% of the 14,800 Kenyans who are actively making contributions, through the National Housing Development Fund. For more information, see Cytonn Weekly#47/2019,

iii. Vaal Real Estate, an Egyptian and Turkish owned developer, launched a 15-floor residential development along Elgeyo Marakwet road in Kilimani Area, Nairobi. The development dubbed “Wilma Towers” will comprise of 227- 1, 2- and 3-bedrooms units, built on half an acre, and is set for completion in October 2020. The units, sized at 45 sqm, 80 sqm and 100 sqm, are priced at Kshs 4.9 mn, Kshs 11.6 mn and Kshs 14.6 mn, respectively, which translates to an average of Kshs 133,296 per SQM. The price is 8.6% higher than the Kilimani market average of Kshs 121,845 per

SQM as per the Nairobi Metropolitan Area Residential Report 2018/2019. For more analysis, see Cytonn Weekly#45/2019,

iv. 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. For more analysis, see Cytonn Weekly #46/2019,
v. Belasi, a local real estate developer, announced plans of putting up a 30-unit project off Kenyatta Road in Juja. The project, dubbed Summer Green, will entail three-bedroom bungalows with a plinth area of 135 SQM. For analysis, see Cytonn Weekly #47/2019, and,
vi. Nairobi County Government held a meeting aimed at kicking off redevelopment of Jevanjee Estate as part of the Nairobi Urban Renewal Project. The redevelopment which is slated to start in a month will see 3,000 units put up at an estimated cost of Kshs 9.1 bn (timelines undisclosed). For analysis, see Cytonn Weekly #47/2019.

We expect the residential sector to continue recording increased activities fueled by the continued focus on the Big Four Agenda on provision of affordable housing units by both the government and the private sector. However the sector continues to face challenges such as the low contribution towards homeownership through the Boma Yangu portal.

III. **Retail Sector**

i. During the month, 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, 28.3% lower than market average of Kshs 168.6 per SQFT. For more analysis, see Cytonn Weekly #46/2019
ii. Local retailer, Nakumatt, closed its Kisumu branch located at Megacity Mall, leaving the retailer with just five remaining branches countrywide. Such closures have led to increase in entry of international players who continue to make inroads in the country taking over locations operated by the cash-strapped local retailers. Nakumatt's closure, follows the entry of South Africa-based retailer, Game, which set up shop at Mega City Mall earlier in 2019. For more analysis, see Cytonn Weekly #47/2019
iii. An unfinished mall located along the Eastern Bypass was put up for sale at an asking price of Kshs 200.0 mn. The 116,000 SQFT development whose construction has stalled is set to have space for two anchor tenants as well as office space. For analysis, see Cytonn Weekly #47/2019

Despite the existing oversupply of space, we expect increased market activities within the retail sector, driven by the continued expansion of the local retailers such as Quickmart to cushion the sector's performance.

IV. **Hospitality Sector**

i. In line with their regional expansion strategy, Jambojet airline made its inaugural flight to Kigali on Tuesday, 26th The airline, a subsidiary of Kenya's National Carrier, Kenya Airways, will be flying once daily from its hub at Jomo Kenyatta International Airport, Nairobi to Kigali International Airport, Rwanda. Currently, Jambojet flies to 5 local destinations - Malindi, Ukunda, Mombasa, Kisumu and Eldoret, as well as one regional destination - Entebbe, Uganda - from its hub in Nairobi. The move is in a bid to enable more passengers to fly affordably and reliably between Kigali and Nairobi. This is a plus for the hospitality sector in Kenya, as we expect this to attract more tourists from Rwanda, and other corners of the world connecting through Kigali International Airport, and,

ii. During the month, Kenyatta International Conference Center (KICC) was marketed at the IBTM (Global Incentive and Business, Travel and Meetings) Event, a leading global event for the meetings, incentives, conferences and events industry, which takes place annually in Barcelona, Spain and attracts approximately 15,000 global conference industry players. This follows the recent formation of the National Convention Bureau by the Kenya Tourism Board, whose main objective 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. For more analysis, see Cytonn Weekly #47/2019.

We expect the stable political environment and improved security, in addition to the improving air transport services and continued marketing of Kenya as a business destination to continue driving the performance of the hospitality sector.

V. **Infrastructure Sector**

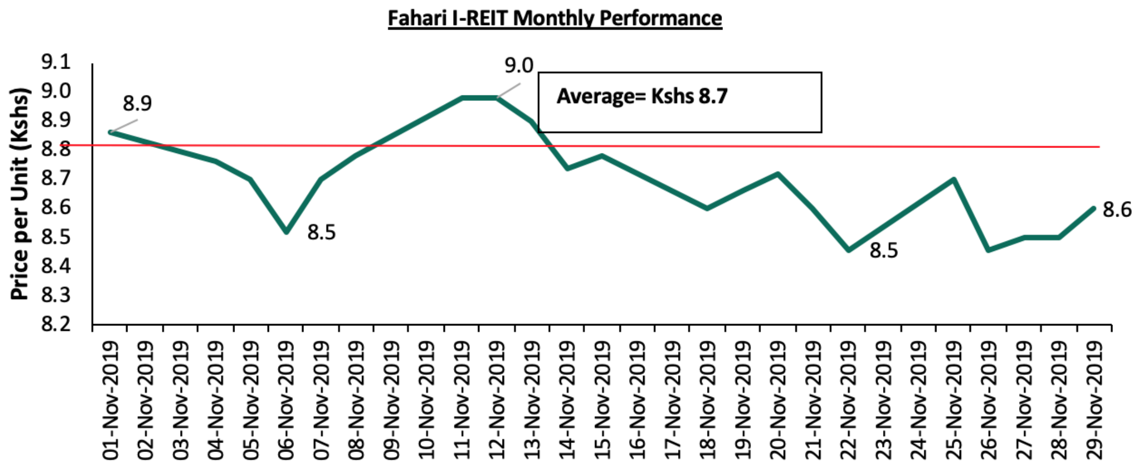
i. Transport Secretary James Macharia announced that the railway track from Nakuru to Kisumu would be upgraded at a cost of Kshs 3.8 bn. The project, which is expected to start in the coming months, will connect from Nakuru to the Kisumu port and will mainly be used to ferry cargo to neighboring countries. For more information, see Cytonn Weekly #46/2019,
ii. Kenya Urban Roads Authority (KURA) announced the completion of the newly constructed Outer Ring Interchange, set to be commissioned in one month, and is aimed at creating a seamless link to Thika Road, hence, easing traffic snarl ups on the two major roads. For analysis, see Cytonn Weekly #47/2019, and,
iii. The Kenyan Government launched the construction of a 40-km 400kv power line which is set to power Konza City, as well as Kajiado, Makueni, and Machakos Counties. The project is a partnership between the Ministry of Energy and China Aerospace Construction Group, a Chinese company, and is aimed at ensuring a steady power supply, especially for the upcoming Konza City. For analysis, see Cytonn Weekly #47/2019.

We expect the continued government focus on infrastructural improvement to play a key role in boosting the country's economic growth, and real estate development by opening up areas for development.

VI. **Listed Real Estate**

During the month, ICEA Lion Asset Management, a Kenya based fund manager, signed an agreement to acquire Stanlib Kenya, a Kenya based fund manager as well, from South Africa based Liberty Holdings Ltd. The implementation of the Agreement is subject to the fulfillment of conditions, which include, but are not limited to, the approval of the Competition Authority of Kenya, the Capital Markets Authority of Kenya, and the Trustee, by no later than 29th February 2020. For more analysis, see Cytonn Weekly#45/2019

In terms of performance, during the month, the Fahari I-REIT closed the month at Kshs 8.6, 2.9% lower than the month's opening price of Kshs 8.9. On average, during the month, the I-REIT traded at an average of Kshs 8.7, 2.4% 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, in addition to unsteadiness in the market following the recent sale to ICEA Lion Asset Management.



We expect the real estate sector to continue recording increased activities supported by; (i) the continued focus on provision of affordable housing by both the government and the private sector, (ii) continued infrastructural improvements, and (iii) vibrant retail and hospitality sectors.