



Master-Planned Communities, & Cytonn Weekly #06/2020

Focus of the Week

Homebuyers in the residential and hospitality markets, which have experienced tremendous change over the years, are now keen on serene locations and developments that provide them with comprehensive lifestyle amenities such as retail center, gym, clubhouse, open community spaces, and a swimming pool; with the choice of housing having shifted from the traditionally preferred bungalows to Master-Planned Communities. When you think of a master-planned community, what comes to mind? Things like massive developments, security, safety and exclusivity will probably feature somewhere on that list. But what else lies behind those beautiful gates and the seemingly perfect quaint homes?

The concept has been gaining significant popularity in the Kenyan market, during the week, Cytonn's master-planned development affiliate, Superior Homes Kenya, launched their hospitality master-planned community, Pazuri at Vipingo, situated at the exclusive Vipingo Ridge. Therefore, for this week, we shall focus on the master-planned concept, by looking into;

- i. An Introduction to Master-Planned Communities (MPCs)
- ii. Master-Planned Communities in Kenya & Factors Driving Them
- iii. The Pros & Cons of Having a Master-Planned Community
- iv. Summary of Thematic Performance in Mixed-Use Developments in Comparison to Single-Use Themes Performance
- v. Future of Master- Planned Communities in Kenya & Conclusion

I. An Introduction to Master Planned Communities (MPCs)

A master-planned community is a large-scale residential neighborhood with a large number of recreational and commercial amenities, such as golf courses, tennis courts, lakes, parks, playgrounds, swimming pools, commercial stores, and restaurants. Some master-planned communities may have schools, office parks, large shopping centers and other businesses that add value to the entire development and provide a live-work-play environment for those that frequent or live in those communities.

II. Master-Planned Communities in Kenya & Factors Driving Them

In the past, neighborhoods were built with only the “neighborhood” in mind. Little to no thought was given—and still isn't in many instances—to the surrounding area. This means the schools, parks, shopping, banking, and other regular needs developed after or during the same time, but there wasn't any synergy between them. In addition, amenities such as grocery stores, banks, restaurants, retail, schools, parks, and all the other things were an independent afterthought.

However, in the recent years, Kenya's real estate market has registered the development of master-planned communities, with developers aiming to offer a more comprehensive community, with some the key master-planned Communities in Kenya being;

- Pazuri at Vipingo:** This is master-planned estate located 35 KM north of Mombasa on the Mombasa to Malindi highway. The development comprising 372 units is located on a 105-acre plot and has three house types with a choice of two, three and four-bedroom units with all bedrooms ensuite. The units are of 132.5 SQM, 191.8 SQM and 226 SQM, priced at Kshs 12.98 mn, 16.98 mn and 20.98 mn, respectively, and this translates to Kshs 93,108 per SQM. The amenities within the development include the 18-hole golf course, a clubhouse, tennis courts, stables and beach club,
- Green Park Estate:** The 650-unit development is located in Athi River off Mombasa Highway. The development comprises of 4 bedroom detached and semi-detached units priced between Kshs 18.4 mn and Kshs 34.9 mn, depending on the design, unit and land size. The amenities include; a clubhouse, Swimming pool, Gym, Tennis court, Football pitch, School and boreholes, among others,
- Tilisi Development:** It is a 400-acre mixed-use and master-planned development located 30 KM from the Nairobi CBD, off the Nakuru- Nairobi highway. The project comprises of light industrial, residential, educational, medical, recreational, hospitality, commercial and retail uses, and commenced construction in 2017. The residential development in Tilisi consisting of 186 units of 3, 4 and 5 bedroom villas set on eighth, quarter and half-acre plots, with price points of Kshs 19.0 mn to Kshs 60.0 mn,
- RiverRun Estates:** RiverRun Estates is a master-planned development to be undertaken on a 100-acre parcel in Ruiru, Kiambu County. The residential development consists of 3 & 4 bedroom maisonettes and 2 & 3 bedroom apartments. The development provides green spaces, outdoor play areas and recreational facilities including swimming pools, a water park, and access to a dam with a water frontage of 800m and clubhouse facilities. The development also offers approximately 1,000 SQM of retail space and 24-hour CCTV surveillance and ample recreational amenities.

Master- Planned Developments Summary

Name of development	Residential Unit Sizes (SQM)	Residential Unit Price (Kshs)	Price per SQM (Kshs)	Amenities/Facilities
Pazuri at Vipingo	2 bedroom (villas)= 132.5 SQM	13.0 mn	93,108	An 18-hole golf course, a clubhouse, tennis courts, stables and beach club
	3 bedroom (villas)= 191.8 SQM	17.0 mn		
	4 bedroom (villas)= 226.0 SQM	21.0 mn		
Green Park Estate in Athi River	3 bedroom quarter villa=157 SQM	9.6 mn	103,772	A clubhouse, swimming pool, gym, tennis court, football pitch, school and boreholes
	3 bedroom semi- detached maisonette (1/8 acre)= 157 SQM	14.0 mn		
	4 bedroom bungalow (1/4 acre)=146 SQM	18.4 mn		
	4 bedroom super bungalow (1/4 acre)=184 SQM	23.1 mn		
	4 bedroom villa (1/4 acre)=320 SQM	37.7 mn		

Master- Planned Developments Summary

Name of development	Residential Unit Sizes (SQM)	Residential Unit Price (Kshs)	Price per SQM (Kshs)	Amenities/Facilities
RiverRun Estate in Ruiru	Villa (1/4 acre)= 250 SQM	29.6 mn		Outdoor play areas and recreational facilities including swimming pools, a water park, access to a dam with a water frontage of 800m and clubhouse facilities
	Townhouses (1/8 acre)= 190 SQM	20.5 mn	108,289	
	Semi Detached (1/16 acre)= 140 SQM	13.8 mn		
Tilisi Development in Limuru	The residential estate comprises of 3, 4 and 5 bedroom villas with price points of Kshs 19.0 mn to Kshs 60.0 mn, depending on the size of the unit			The project comprises of light industrial, residential, educational, medical, recreational, hospitality, commercial and retail uses

Source: Cytonn Research

Some of the major factors supporting the growth of Master Planned Communities include:

- 1. Relatively Higher Developer Returns:** Over the past two years, rental yields in sole use high-end residential properties have slowed down owing to an oversupply in the wake of relatively low demand. This downturn in performance has resulted in less speculative investment leading to an upturn in the new trend of Master-Planned Communities which promise better-diversified portfolio and returns from a project mix comprising of sectors that perform differently in the market,
- 2. Demographic Growth:** According to the World Bank, Kenya's urban population grows at an average annual rate of 4.3%. This is in comparison to the Sub-Saharan and global rates of 4.1% and 1.2%, respectively. The rapid population growth calls for innovative real estate solutions that promote operational synergies and accommodate the population pressures with themes that complement each other,
- 3. Growth of the Middle Class:** Kenya's middle class continues to grow which means increased disposable income and demand for convenient lifestyles such as the ability to live, work and play in an environment that meets business, residential and social demands of modern lifestyles. This has created a niche for developers to connect workstations and residences promoting productivity and peak functionality to end buyers,
- 4. Benefits of Economies of Scale to the Developer and the Buyer-** Due to relatively large scale, amenities and key utilities are easily provided at a relatively lower unit cost, with the benefit passing to the end-user in fewer prices. For instance, the provision of sewer, and,
- 5. Lack of Key Facilities in Upcoming Development areas -** Lack of facilities such as trunk sewer, water, and amenities like retail and schools has seen developers create master-plan communities and dedicate these services to their occupants at affordable prices.

iii. The Pros & Cons Of Having A Master Planned Community

The benefits of master-planned developments include;

- 1. High Returns to Investors-** As mentioned in the introduction, master-planned communities may include several themes within the same development i.e. residential apartments, detached units, a hospitality facility, and retail space. According to Cytonn Research, themes within such a mixed-use concept attract better returns to investors, unlike single-themed developments. Therefore, investors in master-planned developments leverage from the relatively good returns achieved from the developments. For example, residential single-themed units recorded rental yields of approximately 5.0%, compared to 5.4% recorded by residential units within mixed-use

developments in 2019,

2. **Security:** Homeowners prefer living in a compound with a perimeter wall and manned gates reducing the chances of crimes such as robbery and kidnapping. In addition, parents also feel safer with children playing in a safe environment provided within master-planned communities,
3. **Affordability:** Buying a house in Master-Planned Communities is considerably cheaper than a stand-alone house. In addition, economies of scale are achieved by constructing several houses thereby units in gated communities are considerably cheaper than putting up single units,
4. **Sharing Services and Facilities:** Common services such as solar-powered panels, boreholes, swimming pools and gyms can be shared among residents making them more accessible and affordable to homeowners,
5. **Lifestyles:** Master-Planned Communities provide for proximity to various social amenities that homeowners put into consideration such as schools, gyms and swimming pools, shopping malls and medical clinics thereby bringing convenience to the residents' doorstep,
6. **Beautiful Landscaping-** In these developments, the common areas are meticulously cared for by a dedicated team of landscapers. In addition, these communities often include amenities such as walking, jogging and biking trails, playgrounds, among other amenities,
7. **Competitive Prices-** Given that the homes within a master-planned community are similar from floor plan to the floor plan, the prices can be competitive. This thus means that investors are bound to reap good returns from the housing units in addition to gaining from the capital appreciation over time,
8. **Stabilized Values-** Given that the property is within a controlled development set up, there is guaranteed stability of the property prices as the property owners must keep their houses in good condition that matches the neighborhood standards, thus one neighbor can't devalue another's property,
9. **Quality Neighbourhoods-** Typically, these neighborhoods are developed by top-notch contractors with years of experience. That translates into quality construction, which is a huge benefit for investors.

Despite the above benefits, there exist a few cons of master-planned developments and these include;

- a. **Less Freedom for Decorating and Design-** For some, Master-Planned Communities guidelines regarding home's exteriors, landscaping, and maintenance how-to's and must-do's, represent too much control and some homeowners feel they are being deprived of their right to freedom of expression,
- b. **High Density-** Planned communities host a great number of similar properties, which could mean that there is not much space left for a back or a front yard. This raises the density rates in high levels and may result in traffic and congestion problems, and,
- c. **Limited Privacy-** Since planned communities host a great number of properties and people into a relatively small area for some developments, residents live very close to one another and there is limited privacy.

iv. **Summary of Thematic Performance in Mixed-Use Developments in Comparison to Single Use Themes Performance**

In terms of performance, in 2019, Mixed-Use Developments recorded average rental yields of 7.3%, 0.4% points higher than the respective single-use retail, commercial office and residential themes with 6.9%. The retail, offices and residential spaces in these developments recorded rental yields of 8.4%, 7.9%, and 5.4%, respectively, compared to the single-use average of 8.0%, 7.7%, and 5.0%, respectively. This is attributed to increasing popularity for differentiating the mixed-use concepts due to convenience as a result of incorporated working, shopping, and living spaces.

The table below shows the performance of single-use and mixed-use development in 2019:

Thematic Performance of Mixed-Use Developments in 2019

Themes	Mixed-Use Themes Average	Single-Use Themes Average
	Rental Yield % 2019	Rental Yield % 2019
Retail	8.4%	8.0%
Commercial Office	7.9%	7.7%
Residential	5.4%	5.0%
Average	7.3%	6.9%

• *Mixed-Use Developments recorded average rental yields of 7.3%, 0.4% points higher than the respective single-use retail, commercial office and residential themes with 6.9% in 2019*

Source: Cytonn Research 2019

V. The Future of Master Planned Communities and Conclusion

The benefits mentioned above outweigh the challenges and this has continued to drive the popularity of master-planned communities in the Kenya real estate sector with Kenyans no longer just buying a home but a lifestyle as well. Therefore, we expect the market to witness increased development of such communities in the coming years as investors aim to gain from the relatively high returns achievable. In terms of demand, we expect the availability of a more comprehensive lifestyle for homebuyers in Master-Planned Communities to continue fuelling the uptake of property within such developments. Given the relatively large parcels of land required for Master-Planned Communities, we expect to witness more of the developments coming up in satellite towns where development land is available in bulk unlike within the Central Business District, in addition to the affordability of land in the Nairobi outskirts, coupled by the improving infrastructure which enhances accessibility and supports liveability.

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