Education Investment Plans in Kenya, & Cytonn Weekly #07/2020

Real Estate

During the week, Housing Principal Secretary, Mr. Charles Hinga, announced the Kenyan Government's plans to streamline building approval processes and fees across the 47 counties. This follows lobbying from real estate stakeholders in a bid to improve processes in the construction environment. The harmonization of building approval processes would enhance the developer experience across different counties and we expect this will encourage investment in different regions as well as efficiency of the e-permit system, which according to Architectural Association of Kenya (AAK), remained down for a prolonged period in 2019 across various counties, resulting to a slowdown in the construction sector's growth which came in at 6.6% as at Q3'2019 in comparison to 7.0% growth in the same period in 2018 whereas cement consumption decreased to 1.4 mn tons in 2019 from 1.5 mn tons in 2018, demonstrating the continued decline of activity in the construction sector. Notable affected projects include Lordship Africa's 88 Apartments in Upperhill and Mida Vida apartments in Garden City, along Thika Road, whose construction permits have been in delay for at least eight months. Such massive delays often lead to cost increments and loss of revenue while also leading to some developers flouting the approval requirements, thus contributing to the construction of illegal structures. In addition, the tedious process, which also tends to be ambiguous, creates a barrier for potential investors, thus discouraging investment. However, we continue to see stakeholders working towards improving the system such as the recently launched Buildhub Portal, by Architectural Association of Kenya, which seeks to create an efficient system with consolidated information regarding approvals and permits such as the processes followed, fees, and requirements, for the public and also for developers to track their applications. With such strides being made by both private and public sector stakeholders, we therefore, expect the built environment to continue picking up coupled by (i) continued foreign investments, (ii) improved infrastructure, and (iii) expanding middle class, which is expected to grow by a 4-year CAGR of 5.6%, in Nairobi alone, according to research firm, Sagaci.

Nairobi County Government continues to gain momentum in the development of its affordable housing projects. According to the Housing Ministry, construction of Jevanjee Estate is set to start soon (dates undisclosed), marking the third of the seven flagship projects under the Nairobi Urban Renewal Project. The project will have a total of 1,800 units at an estimated cost of Kshs 9.1 bn, with the contract having been awarded to Jabavu Limited, a Ugandan-based real estate developer, in 2016. Upon completion, the eighty initial tenants are guaranteed allocation priority while the rest 1,720 units will be acquired through a tenant purchase scheme at approximately Kshs 8,000 per month for a period of 30 years. This follows the completion of Phase I of the New Ngara Project and the Pangani project, whose first phase is set for completion in 45 weeks. Other upcoming projects include Old Ngara, Ngong Road Phase I and II, Uhuru Estate, and Suna Road. Upon completion, the urban renewal programme will deliver 100,000 units in the county with the projects designed to bridge the gap between demand and supply for housing in the county where less than 35,000 new homes are constructed annually, barely meeting the demand estimated to grow at 120,000 every year, thereby causing a rapid rise in informal settlements.

Also during the week, local microfinance institution, Harambee Sacco, announced plans to facilitate the construction of a 1,000 affordable housing units following the extension of a Kshs 3.0 bn loan facility from the Kenya Mortgage Refinancing Company (KMRC), marking the secondary mortgage company's first portfolio. The loan will be used for on-lending to the Sacco's members, at interest rates of below 10.0% and repayment periods of 15 to 20-years. According to our KMRC Topical, extending loan repayment period from the current average of 12-years, as reported by Central Bank of Kenya, to 20-years will reduce the monthly mortgage repayments by approximately 14.0%, making mortgages more affordable. Overall, KMRC is expected to provide a major boost for the state's Affordable Housing agenda by helping lending institutions to offer affordable mortgages to low-income populations. So far, the institution has mobilized capital from local institutions and multinational institutions such as the World Bank and African Development Bank (AfDB) and it's expected that the company will stimulate the local mortgage market by 4,000 new mortgages, directly impacting 24,000 beneficiaries.

We expect affordable housing to continue shaping the real estate sector in the short-term as demand continues to grow supported by a rapidly growing population amidst prevailing low incomes for majority of Kenyans. To this end, we expect to continue seeing the government make efforts to streamline the construction environment processes in a bid to encourage engagement from the private sector in realizing the affordable housing initiative.