Nairobi Commercial Office Report, & Cytonn Weekly #10/2018

Real Estate

During the week, Knight Frank released the 2018 Wealth Report, which tracks individuals' growth in wealth around the globe. Key highlights from the report include:

i. Kenya's ultra-high net-worth individuals (UHNWI), that is, individuals worth USD 50.0 mn excluding their primary residence, increased by 13.0% to 90 in 2017 from 80 in 2016, while high net-worth individuals (HNWI), that is, individuals with a net worth of over USD 5.0 mn, increased by 16.2% to 1,290 in 2017 from 1,110 in 2016, which we attribute to Kenya's stable and diversified economy and the performance of property investments,
ii. The number of wealthy Kenyans worth at least USD 5.0 mn is expected to grow by 60.5% by 2022, from 1,290 currently as at 2017, while persons worth over USD 50.0 mn is expected to grow by 56.0% by 2022, from 90 currently as at 2017. Those with a net worth of over USD 500.0 mn remain below 10 and are projected to remain below 10 for the next 5-years,
iii. Investors continue to see real estate as an attractive part of their overall investment portfolios for benefits such as diversification, stable income returns and the potential for capital growth. According to their attitudes survey, 39.0% of investment portfolios in Africa were allocated to property in 2017, a 14.0% points increase from 25.0% in 2016.

We attribute the increase in Kenya's high net-worth individuals to (i) Kenya's stable and diversified economy with 2018 GDP growth expected to come in at between 5.3% - 5.5%, and (ii) good performance from the real estate sector with average returns of 24.3% over the last 6-years.

In other reports, Central Bank of Kenya (CBK) released the Credit Survey for 2017, which tracks credit standards in the Kenyan banks and developments in the domestic credit market. According to the report, 42.0% of the surveyed institutions tightened credit standards to the real estate sector and 45.0% to the construction sector citing an increase in non-performing loans, which in our view is due to the decline in transaction volumes following the wait-and-see approach adopted by investors during last year's prolonged electioneering period. There is therefore need for endorsement of alternative fundraising options such as Real Estate Investment Trusts, structured real estate products and pre-sales, to enable developers meet their capital requirements for real estate developments.

In the retail sector, Carrefour recorded Kshs 8.2 bn worth of revenues in Kenya for the period May 2016 to December 2017, by which the retailer had a total of 3 retail outlets and an indoor entertainment unit at Two Rivers. The high revenues are attributable to increased sales following the international retailer's expansion strategies that have seen its current number of branches grow to 4 with locations at The Hub, Two Rivers, Thika Road Mall, and Junction Mall, with a 5th branch set to open by mid-2018 at the Sarit Centre. Its first outlet at Karen's The Hub had recorded Kshs 1.5 bn of sales revenues for the same period. As at December 2017, Carrefour's total assets in Kenya stood at Kshs 3.1 bn. This follows similar expansion drives as seen through local retailers such as Naivas and Quickmart as well as Botswana's Choppies who are also increasingly growing their footprint in

Kenya. In our view, the growth is largely attributable to (i) Kenya's expanding middle class, (ii) changing tastes and preferences that incline towards quality and international brands, and (iii) infrastructural development that has made it possible to invest in other areas away from Nairobi's CBD. It is a boost to the retail real estate sector given the growing retail space supply, with Nairobi set to get an additional 6.9 mn SQFT by 2020 from the current 5.6 mn SQFT, as these retailers serve as anchors to malls and Mixed Use Developments due to the footfall they generate.

The hospitality and tourism sectors are set for further improvement as Members of Parliament push for a bill that could see the tourism sector get a Kshs 6.0 bn injection through the Kenya Airports Authority Fund established through the Air Passenger Charge Act 2016. The Ministry's key projects include the construction of the Kshs 29.0 bn Mombasa International Convention Centre and the Kshs 27.0 bn Nairobi International Convention Centre . The move is expected to increase capacity boosting local and international conference tourism, which as per the Cytonn Nairobi Hospitality Report 2017 grew by 17.4% and 4.1%, respectively in 2016. We expect the increased efforts to improve the tourist numbers in Kenya through MICE tourism thus leading to an improved performance of the hospitality sector by raising hotel occupancy rates through demand for bed spaces.

Other highlights during the week include:

- Local Authorities Pensions Trust (Laptrust) announced plans of due completion of the fund's Kshs 3.0 bn mixed-use development located in Langata entailing the 120,000 SQFT Freedom Mall and 252 residential units that comprises of 2, 3 and 4 bedroom units, which are set to be complete by end of 2018. The mall is set to be anchored by local retailer Naivas.

We expect the real estate sector to continue on its upward growth trajectory following (i) Continued improvement on infrastructure, (ii) demand for institutional grade quality properties by local and international investors, and (iii) growth of the tourism sector following the continued efforts by the government to upgrade the country to a world-class tourist destination

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