CENTUM re

REALTIES *of* KENYA'S HOUSING MARKET

VOL: 2

25%
% INCREASE OF THE FIXED BASE HOUSE PRICE INDEX

80%
OF NAIROBI'S RESIDENTS ARE RENTING

50,000 units
ANNUAL HOUSING **SUPPLY**

250,000 units
ANNUAL HOUSING **DEMAND**

The housing prices in Kenya have consistently been increasing over the past 5 years. Data from Kenya Bankers Association show that the fixed base House Price Index increased by 25% from 2013 to 2018. This continual increase of prices over 5 years has slowed in the last 10 months which has been echoed by the HassConsult House Pricing Index.

According to the Hass Sales Index, housing property values have increased by 4.31 times, in 19 years, since 2000. However, the index recorded a property price fall of -3.2% fall in the last year. This decrease in property prices cannot be compared to the sharp decreases that characterize the bursts after a housing bubble. Within the current economic environment, they serve as a symptom to reduced economic activity on the back of rationed credit.

Additionally, as established earlier, the true price signal that ought to be examined when evaluating the underlying health of the housing market is rent. Housing rental prices have remained stickier than property prices as shown on Figure II below. The housing market in Kenya, is primarily a rental market and not a sale market. 80% of Nairobi's residents rent the homes that they live in, of which 60% live in informal housing. With an annual housing demand of 250,000 units and a supply of 50,000 units, the housing gap is expected to remain significant in Kenya in the years to come and concentrated in the affordable and low-income segments.

> "The housing market in Kenya, is primarily a rental market and not a sale market."

An analysis of Housing Finance's recent bold auction campaign reveals that the distressed assets under sale were scattered over 8 counties with a distressed sale value of circa KES 1.23 billion. The auction campaign is part of the lender's wider strategy to clean up its non-performing mortgage book in readiness for the aggressive move to the affordable housing segment and is not indicative of widespread distress in the real estate sector. Below is a drill down of the list of properties on sale through auction campaign.

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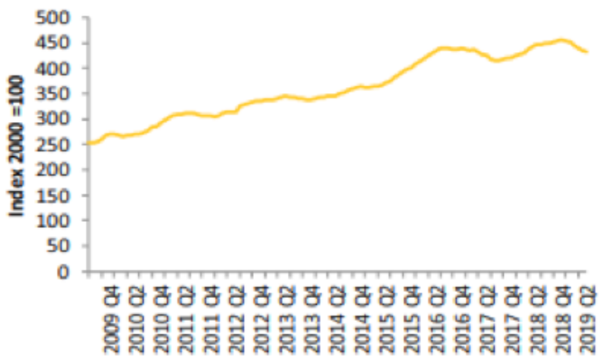
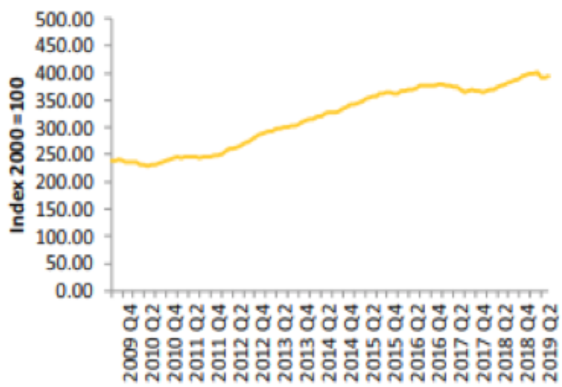
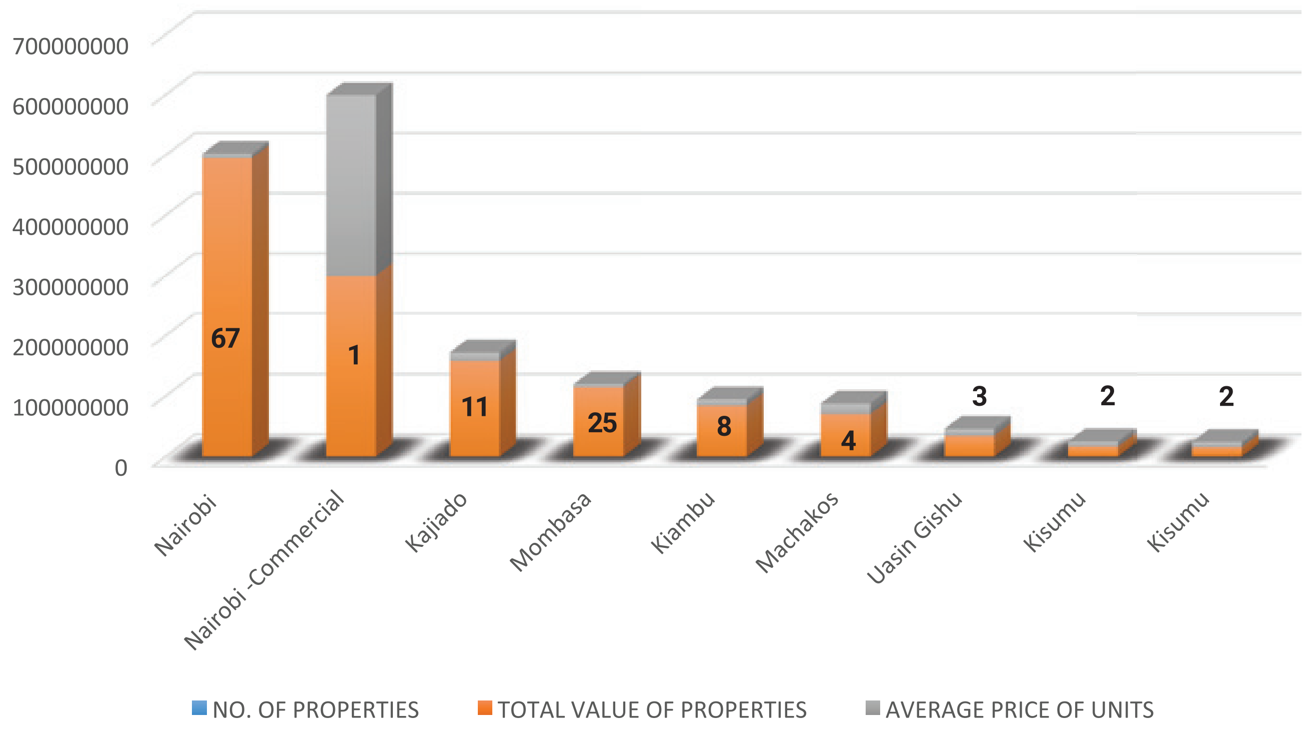


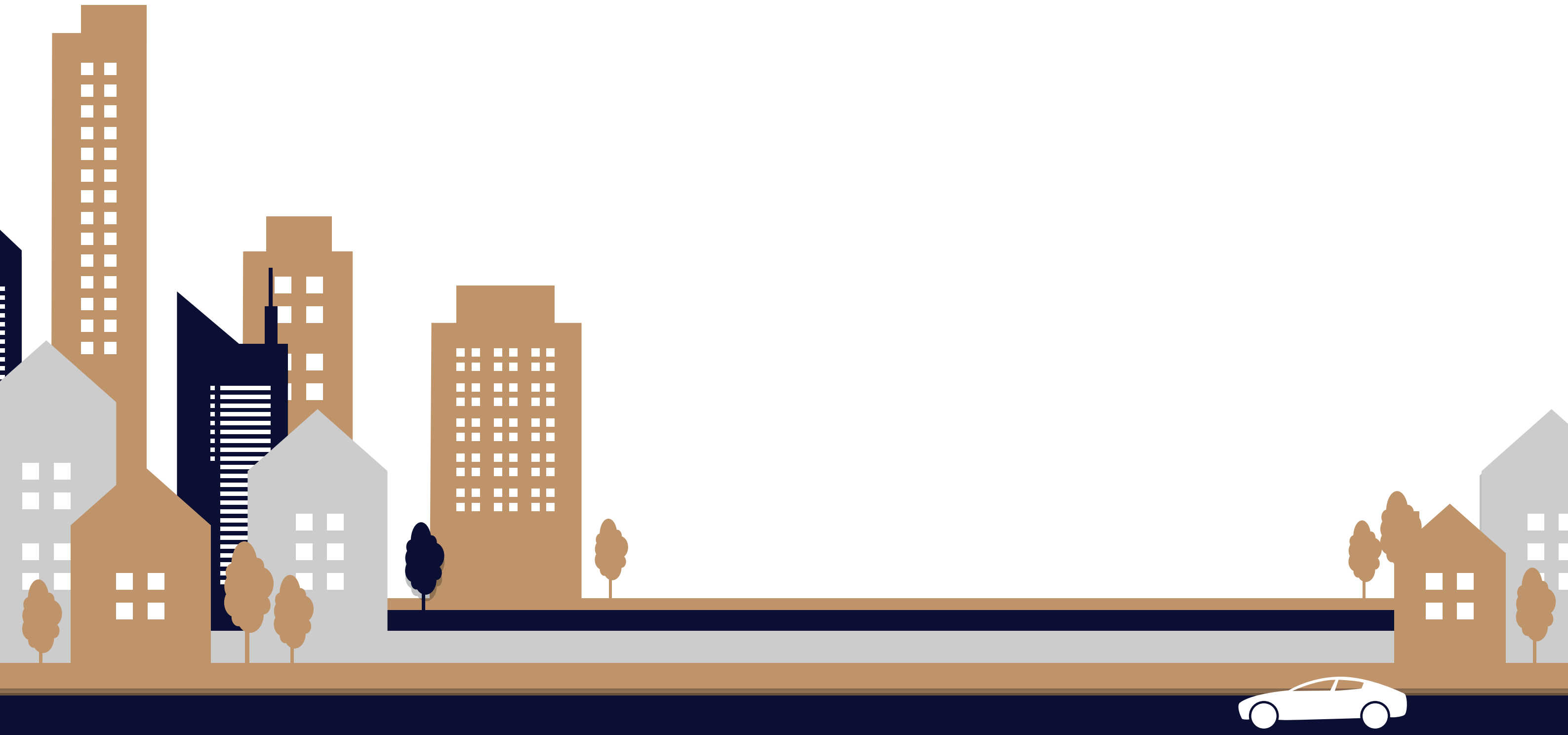
The Hass Sales Index, Figure I



The Hass Rental Index, Figure II

Below is a drill down of the list of properties on sale through auction campaign





Emerging Focus on Affordable and Mid-Market Segment is the Future of the Housing Market

This presents a market opportunity which Centum Real Estate plans on addressing through its Affordable Node Program. Under this program, Centum Real Estate plans to roll out 5,000 residential units in the affordable to mid-market segment within selected locations in Nairobi, such as Embakasi, Ngong Road and along Thika Road. The program will provide with potential home owners alternative financing solutions that are close to rental prices. Herein lies the future of sustainable sales strategy for affordable and mid-market housing units, through innovative and customer friendly financing solutions such as Tenant Purchase Schemes.

This shift to the affordable housing segment has been adopted by several players in the market, including banks. Housing Finance Chief Executive Officer Robert Kibaara, in an interview stated that, Kenya's second leading mortgage financier, is focusing on affordable housing, with the implication of issuing loans of between Sh4 million and Sh4.5 million. The shift to this segment for real estate players is attractive, due to the lower probability of default due to lower monthly instalments and an insatiable demand. Housing Finance is adopting this new strategy, on the back of having the highest non-performing mortgages in market of KES 7.66 billion (16% of mortgage portfolio) compared to Kenya Commercial Bank with KES 4.73 billion (7% of mortgage portfolio).

> "The program will provide with potential home owners alternative financing solutions that are close to rental prices."

OCCUPANCY

Occupancy rates are relatively high across the city – with the exception of the high-end market – as possible oversupply in this segment has depressed prices and rental rates in 2018. Occupancy rates across affordable and mid-end segment nodes in the Nairobi metropolis are usually above 90% for the established developments.

ABSORPTION

- Throughout 2018 and 2019, absorption has been slow with a growing stock of available residential units and an average overall drop in sales prices alongside rental rates across Nairobi.
- Further, the interest rate cap implemented in 2016 has dramatically curbed lending and contracted the availability of mortgages, excluding potential buyers from the market and thus perpetuating slow uptake.

CONCLUSION:

We expect that some real estate markets will face supply/demand imbalances through 2019 and 2020. We also know that real estate, particularly the housing market, is a cyclical industry, but booms do not always end in busts. As always we need to scan the horizon beyond real estate markets for approaching external shocks. Amber lights are glowing at the macro-economic level. But for now, there is no smoking gun, no systemic factors that anticipate a broad-based market downturn. Below is a summary of the current status of market indicators

SALE MARKET TO RENTAL MARKET

- Short-term returns guide the largest proportion of buyers being speculative investors, and thus most developments sell aggressively off plan and during the construction period.
- It is common practice for a developer to keep a contingent of the development for rental purposes and for land owners entering Joint Ventures Agreements with developers to get their returns in apartments, equally for rental purposes.

SALES FORECASTS

- Given lower than expected uptake and conversely high occupancy rates, developers and owners are anticipated to engage in innovative marketing techniques to increase uptake. A possible product could be the tenant purchase scheme which is likely to be introduced by some developers in the short and medium term.
- Housing is chronically undersupplied in Nairobi. The estimated shortage is c.1.2 million units. Notably, there are issues of affordability, and solving the price matrix of supply and demand factors will unlock returns for astute investors.

SHORT TERM

- Sale and rental prices are expected to remain relatively the same in Q3 2019. relatively stable economic conditions and the usual supply onto the market will contribute to this unchanged trend.

Rental Rates → Sales Prices →

MEDIUM TERM

- The supply market will tighten as absorption and uptake are expected to take a hit in the anticipated boost in supply of largescale affordable and mid-end units by the both the public and private sectors. Rental rates will remain unchanged until the lower and mid-income market is oversupplied.

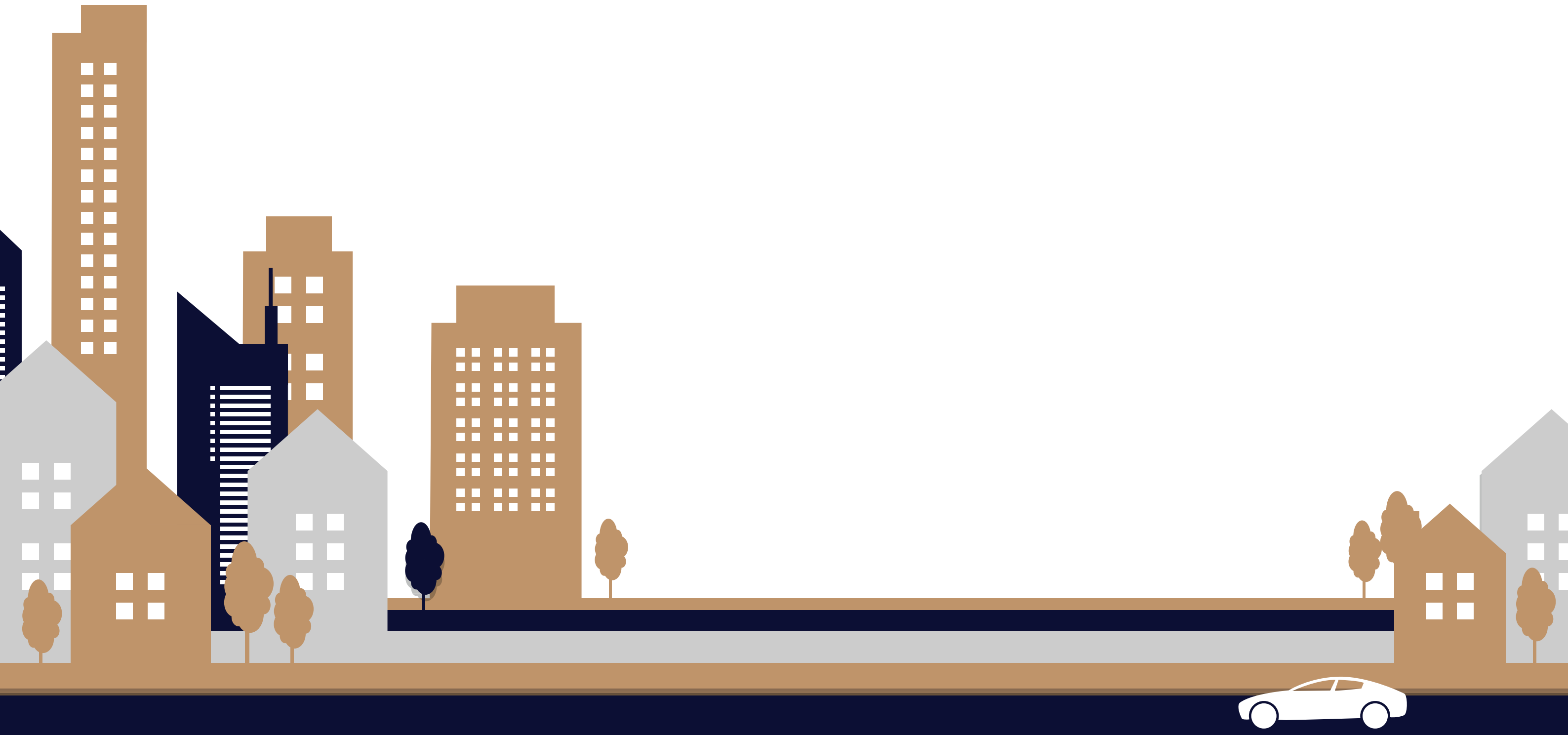
Rental Rates → Sales Prices ↓

LONG TERM

- In the long-term, the macroeconomic view on Nairobi and Kenya is positive with projected annual urban growth rates of 3.3 percent and a housing deficit that grows by approximately 40,000 units a year.

- With the Affordable Housing Program gaining foothold, it is expected that a significant portion of the 60% population in informal housing shall be housed in formal housing whether through outright purchase or renting the new stock..

Rental Rates ↑ Sales Prices ↓



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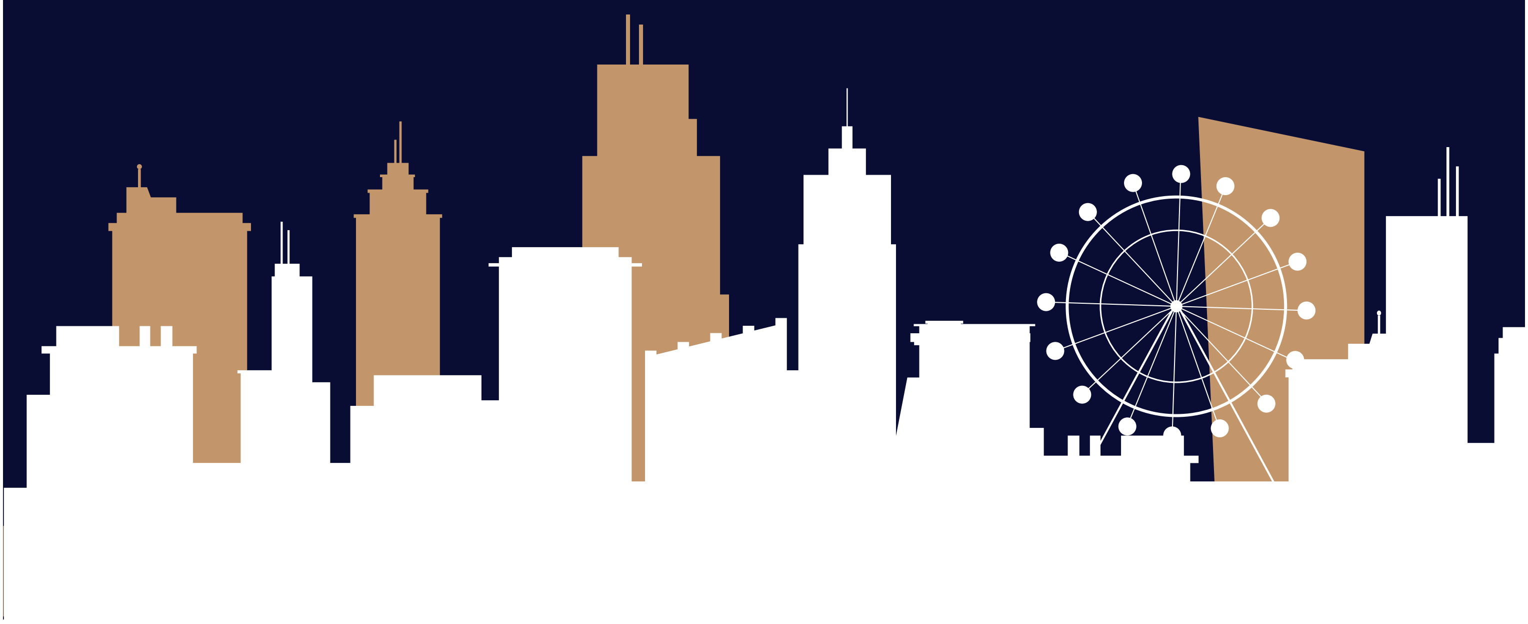

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