



Centum Real Estate

The Challenging Kenyan Economy: Prospects in Real Estate

October 2019

Kenya's Challenging Economy

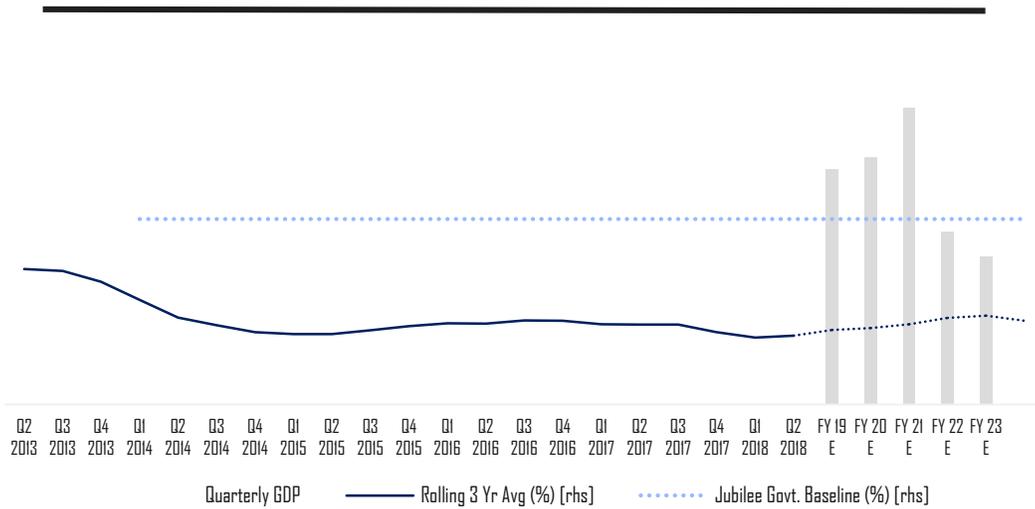


*"There is a recession coming and we have chosen not to participate."
- Wise Man-*

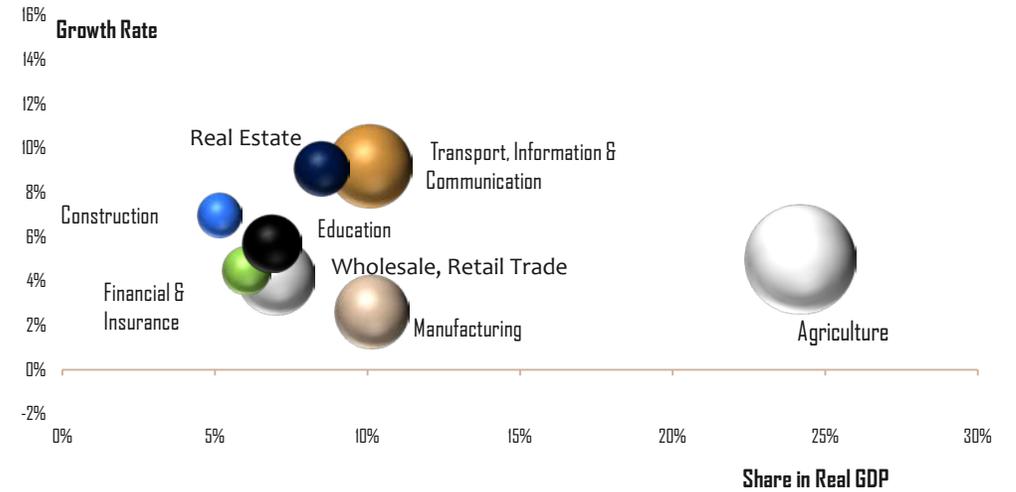


GDP Growth: Slowing Growth

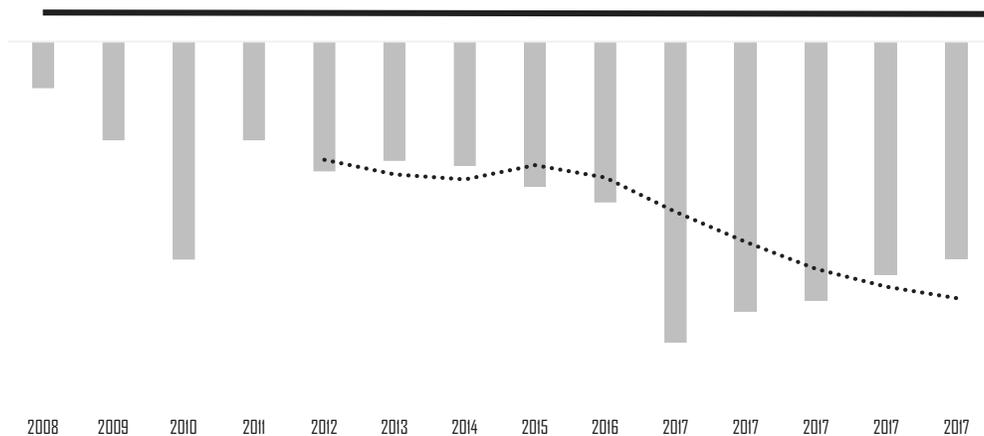
Real GDP Growth (%)



Sectoral Analysis (%)



Fiscal Deficit / GDP (%)



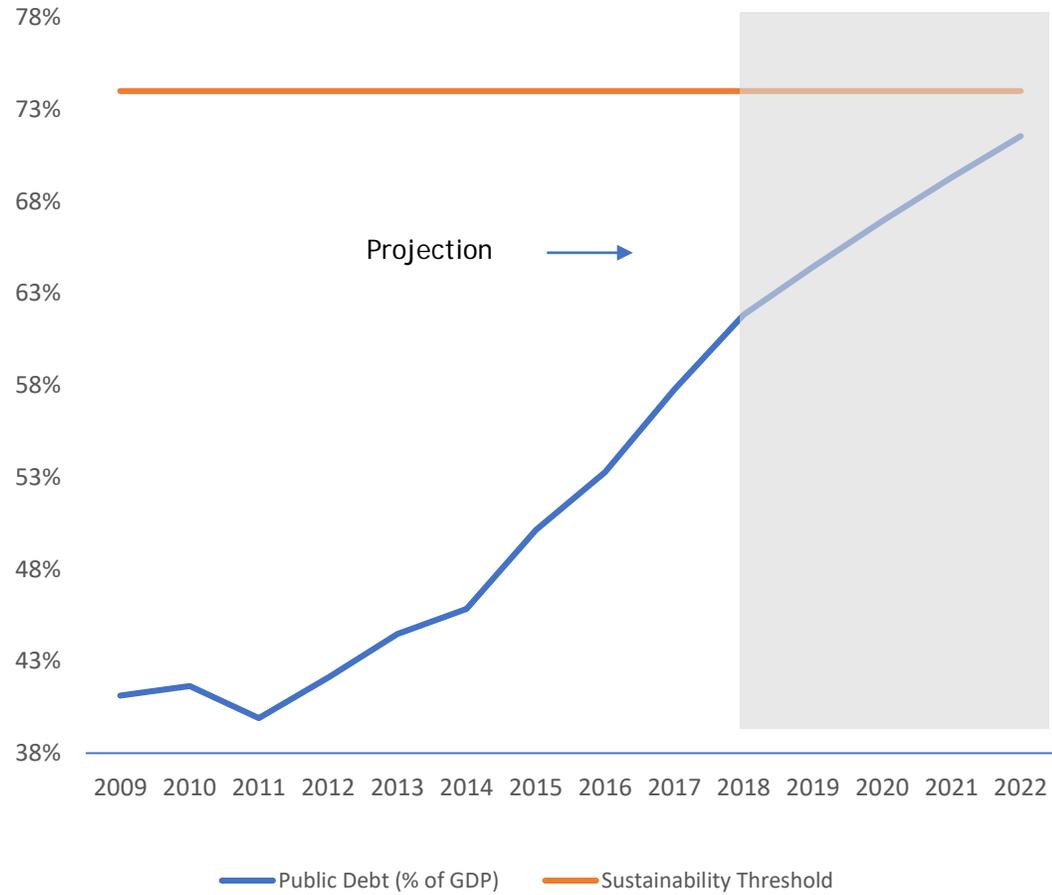
Insights

- ➔ The underlying economic growth, stripped of government expenditure is weak.
- ➔ Future correction of fiscal deficit is inevitable to a fiscal surplus



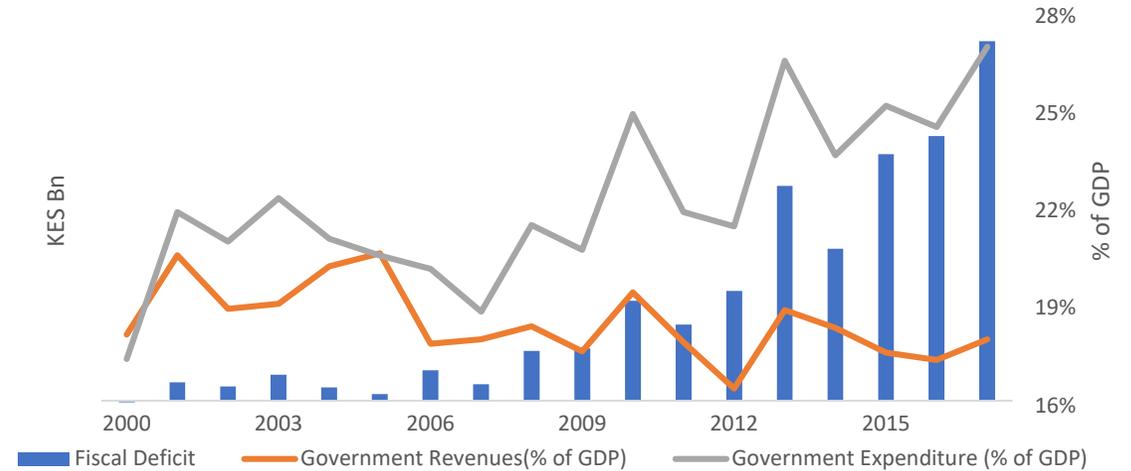
Fiscal Policy: Unsustainable levels of government debt

Public Debt Sustainability

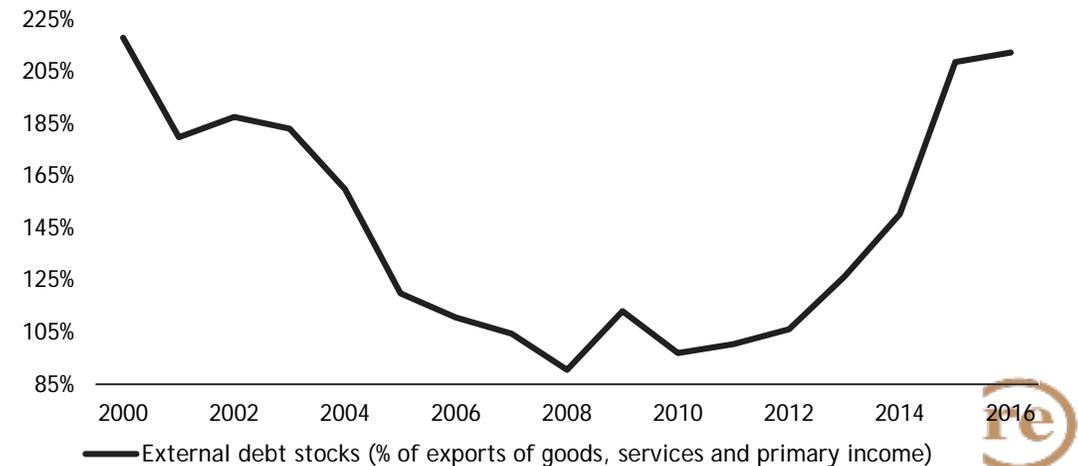


Moody's downgraded Kenya's Credit Rating to B2 from B1;
 Augusto & Co rate Kenya as 'moderately high risk' (Bb-)

Ballooning Fiscal Deficit

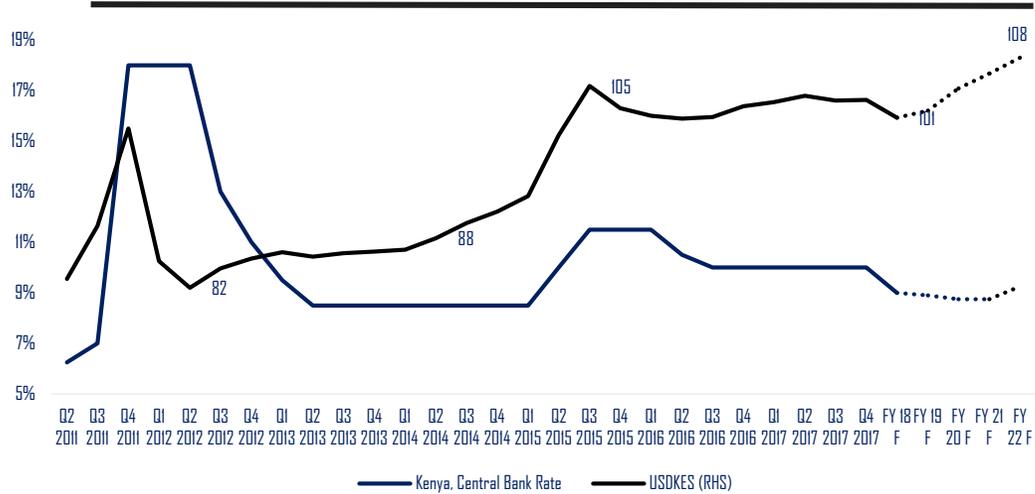


Expected Strain in External Debt Service

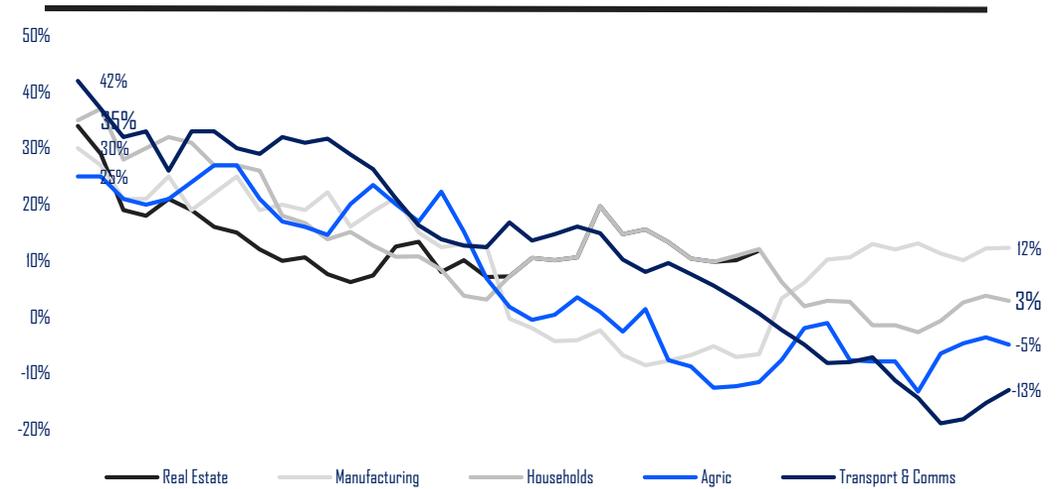


Monetary Policy: Fails to stimulate growth

CBK Policy Rate vs. USD/KES



Credit Extension by Sector (%)



Private Sector Credit Growth YoY (%)



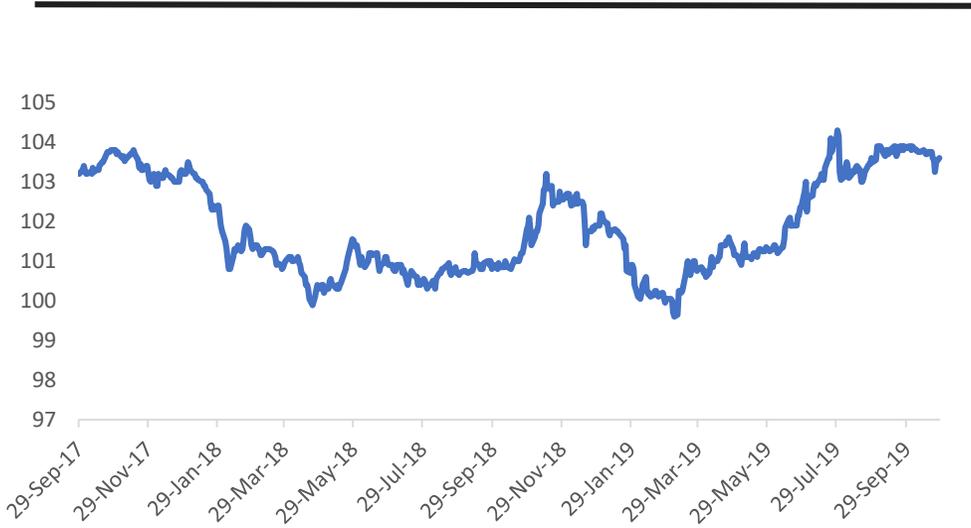
Insights

- ➔ Interest rate cap has led to significant credit crunch from main stream banks to real estate developers
- ➔ Reversal of the rate cap is likely to spur economic growth via increase credit extension
- ➔ Monetary policy stance is key in unlocking funding for affordable housing projects

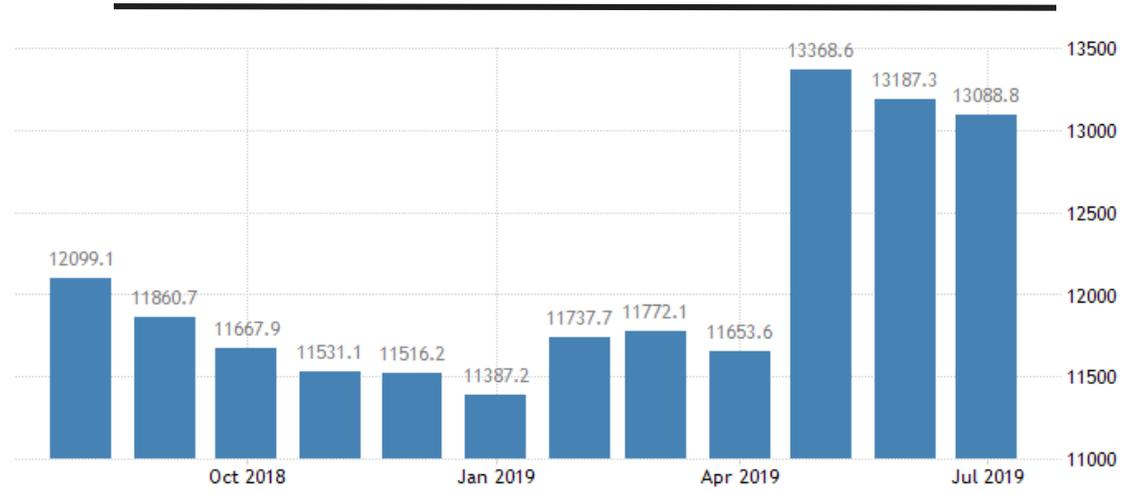


Currency Risk: Opportunity for other sources of funding

USD/KES Exchange Rate



Foreign Exchange Currency Reserves (KES'000)



Insights



Active intervention by CBK to maintain value of Kenya shilling

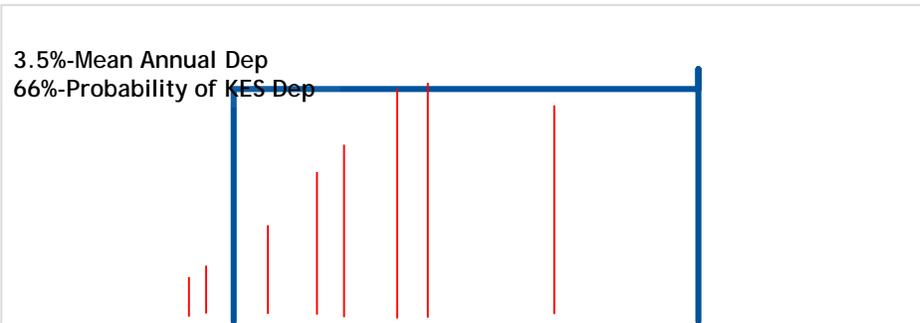


Opportunity for developers to borrow at a better cost of funding from international investors



Tapping into the private placement market for quasi debt hybrid structures of financing

3.5%-Mean Annual Dep
66%-Probability of KES Dep

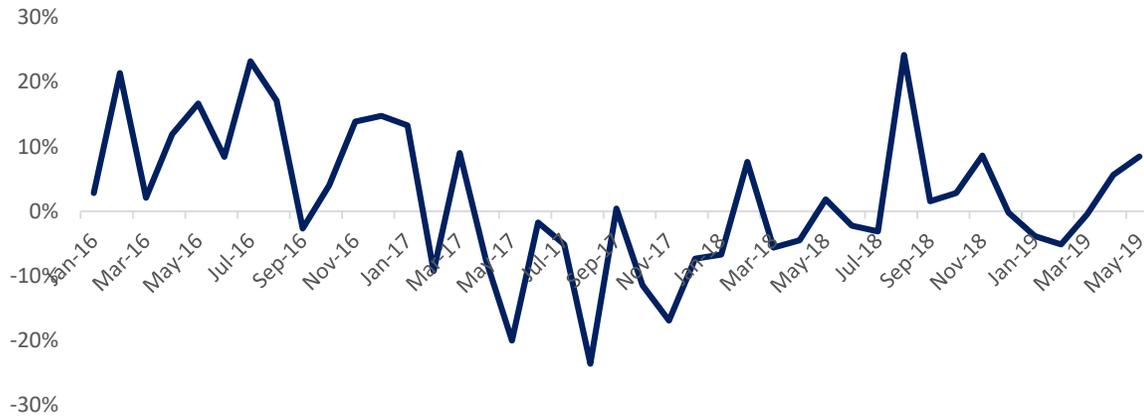


YoY KES/USD Change

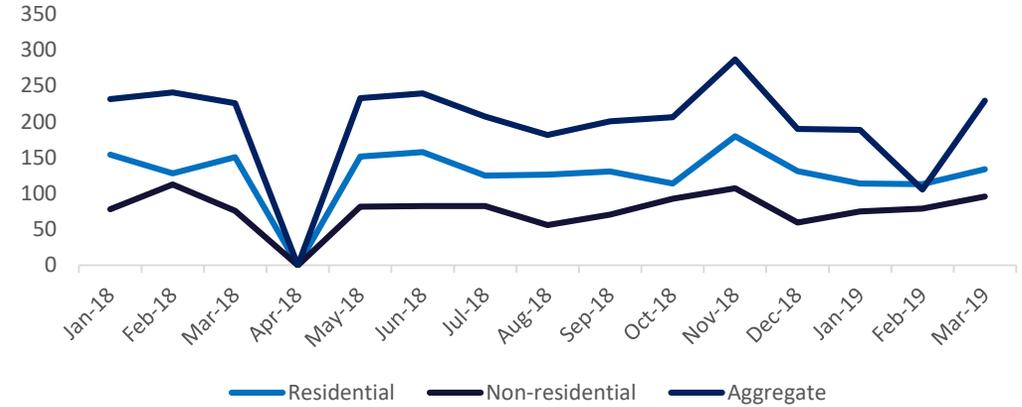


Cyclical Indicators: Evidence of Slow down

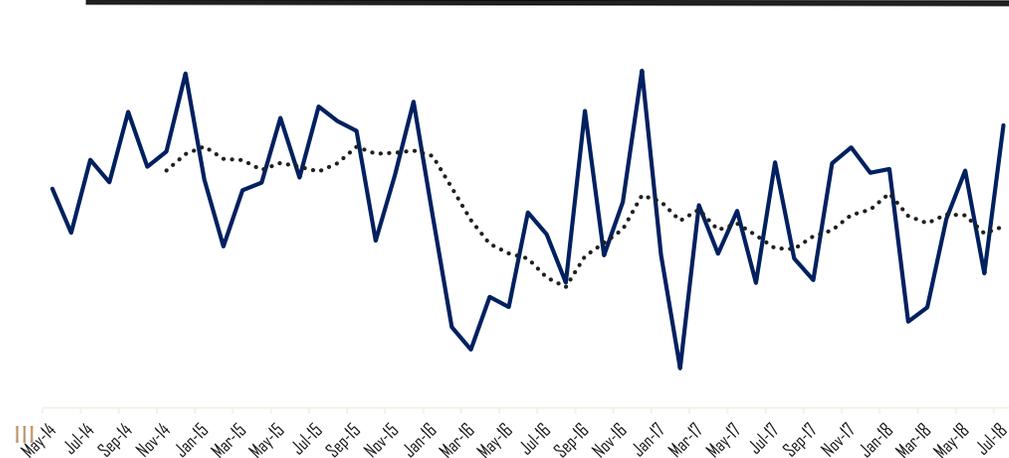
Cement Consumption ('000MT)



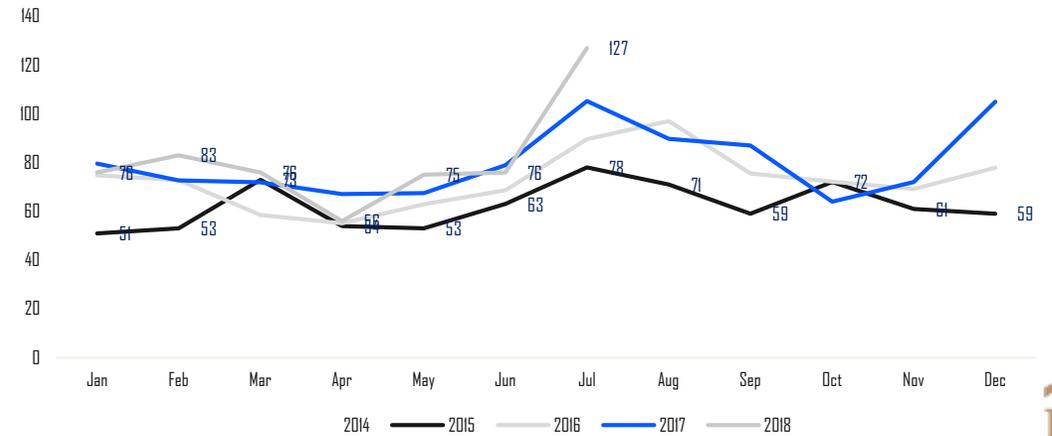
Value of Building Plans Approved (1972 = 100)



New Vehicle Registration ex- Motor Cycles



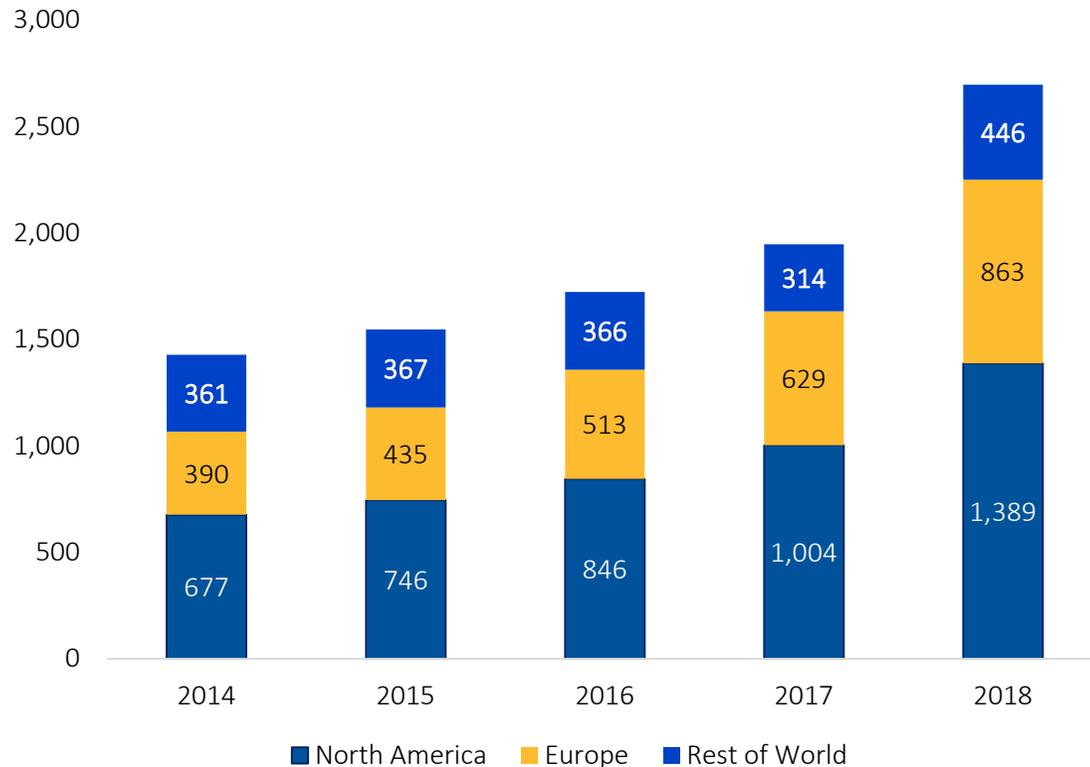
Tourist Arrivals ('000's)



Diaspora Inflows: Next Sales Frontier

Kenyans Living and working abroad sent home a total of USD 9.3 Billion between 2014 and 2018 with 53% of total inflows coming in from North America.

Diaspora Inflows per region
USD '000



Remittance uses	(% of total inflows)	2018 Remittance Distribution (USD '000)
Investments	24.2%	652,786
Construction of Houses	17.0%	445,081
Food	12.8%	345,275
Education	9.6%	258,956
Purchase of Land	8.4%	226,587
Health	7.3%	196,915
Other	7.2%	194,217
Rent	5.7%	153,755
Business	3.9%	105,201
Agriculture	2.3%	62,042
Cars	1.3%	35,067
Marriage/Funerals	0.8%	21,580
Totals	100%	2,697,462

Market Outlook: Looking Forward

Risks

- Subdued private sector credit growth, recurrence of adverse drought shocks, and fiscal slippages leading to macroeconomic instability could dampen growth prospects;
- An unanticipated oil price spike, Global trade tensions, and ongoing monetary policy normalisation may lead to reversal of capital flows from emerging and frontier markets, including Kenya;
- Ineffective and/or inefficient fiscal consolidation program that is unable to manage between development and recurrent expenditure leading to potential tax increases in future;
- Continued downward trend in revenue mobilization, leading to low allocations to development expenditure given the already ballooning debt service and recurrent expenditure requirements;
- Political risk -talk of a constitutional referendum gaining ground among the political class.

Policy options we are likely to see

- Reprioritising and enhancing efficiency of Government spending to create more room for the Big 4. Perhaps a tighter fiscal stance.
- The continued support of the KES by the CBK is expected to cushion the economy against imported inflation on the general price level;
- Further macroeconomic policy and structural reforms to boost inclusive growth and advance the Government's Big 4 agenda;
- Broadening of the tax base, rationalisation of tax expenditures and governance frameworks that check the creeping-up of tax exemptions;
- Increasing the level of budgetary execution to realise optimal returns to investments in the Big 4 agenda;
- Improvement of debt management by rebalancing the maturities, pricing and accountability of the use of proceeds;

Prospects in Real Estate



*“He is not a full man who does not own a piece of land.”
- Hebrew Proverb -*



Real Estate Sector Trends



Affordable Real Estate

- Emerging real estate opportunities lie in serving the bottom of the pyramid needs such as affordable housing with accompanying organized retail spaces. “Micro-real estate” priced through rental yields



Return & Price Growth

- As an asset class, over the last 5 years Real Estate has attracted average returns of 24% per annum
- Land prices have grown with a 6-year CAGR of 17%



Infrastructure

- Phase 2A of the SGR between Nairobi and Naivasha commenced
- Phase 1 of the Dongo Kundu bypass in Mombasa commenced
- Expansion of several road networks e.g. Dualing of Limuru Road, Northern and Eastern Bypass dualing, Nairobi Express way, Ngong Road, and Malindi (KE)-Bagamoyo (TZ)



Funding Strategies

- New frontier is securitization of rental yields and rolling out local structured funds
- No new RE listings in the Capital Markets
- Consolidation of real estate developers for funding syndication of large scale projects

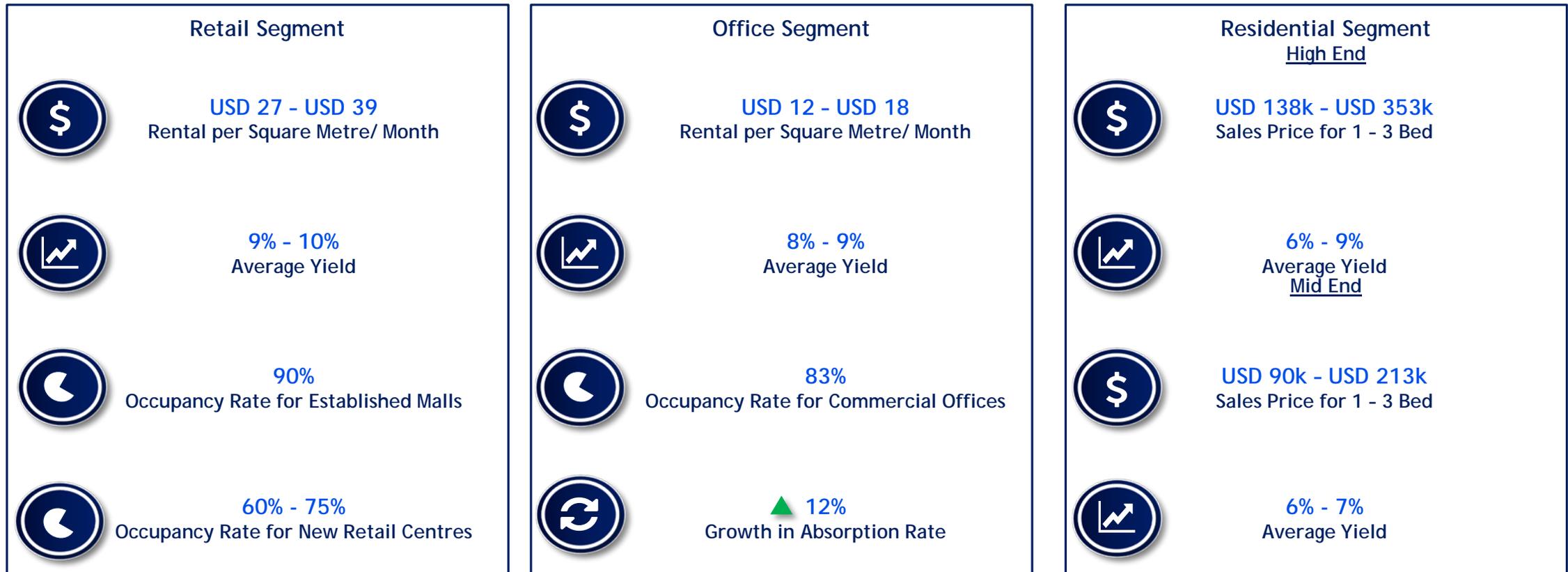


Institutional Off-takers

- Due to dampening of real estate market in South Africa, East African real estate market has received increased interest from institutional off takers of residential and retail assets of scale

Real Estate Segment Macros – Nairobi, Kenya

Retail segment offers the most attractive yields due to the development of mixed used development that attract higher occupancy levels.



Real Estate Segment Macros – Residential

Absorption has been slow in the high to mid market housing segment with a growing stock of available residential units, going forward, affordable real estate assets will be the new market frontier



Supply Factors

- Kenya currently has an accumulated housing deficit of more than two million units.
- Lack of data on completed developments due to the informal nature of housing segment



Demand Factors

- 2018 average occupancy rates in Nairobi, stood at 88%, underpinned by drop in sales prices and stagnant rental rates
- Absorption has been slow in the high and medium tier segment.
- Interest rate cap has curbed lending and contracted the availability of mortgages.



Segment Performance

- Decline in housing prices with a 1.72% decline recorded in Q2 2019 according to the Kenya Bankers Association Housing Price Index
- Expected better performance attributed to a reversal in rate cap and improved political climate leading to a thawing of the wait-and-see attitude among buyers and occupiers.



Opportunities

- Incentives to facilitate private sector investments in affordable housing, include reducing the corporate tax and scrapping levies charged by the NCA and NEMA
- Set up the National Housing Development Fund (NHDF) and Kenya Mortgage Refinancing Company

Real Estate Segment Macros – Office

Supply of office space has outstripped demand in the market



Supply Factors

- Supply of office space has outstripped demand. In Kenya oversupply is estimated at 320,000 sqm and more than 70,000 sqm in Rwanda
- Existing stock of office buildings is primarily concentrated within the central business districts of capitals



Demand Factors

- General increased demand for Grade A offices across the region, with vacancy rates for Grade B/C offices increasing.
- Emerging location segmentation in EA capital cities of Core Central Business Districts (saturated), Secondary Business District (near saturation) and Tertiary Business Districts (market opportunity)



Opportunities

- Products should be developed with proximal users in mind and seek to offer competitive rentals balancing these with good basic offerings.
- Securing an anchor occupier for a fair portion of a development to take up the product via sale or rental would be the best entry strategy. (market validation)

Real Estate Segment Macros – Retail

Significant increase in mixed used shopping malls has changed the urban landscapes of Sub-Saharan Africa especially in Kenya



Supply Factors

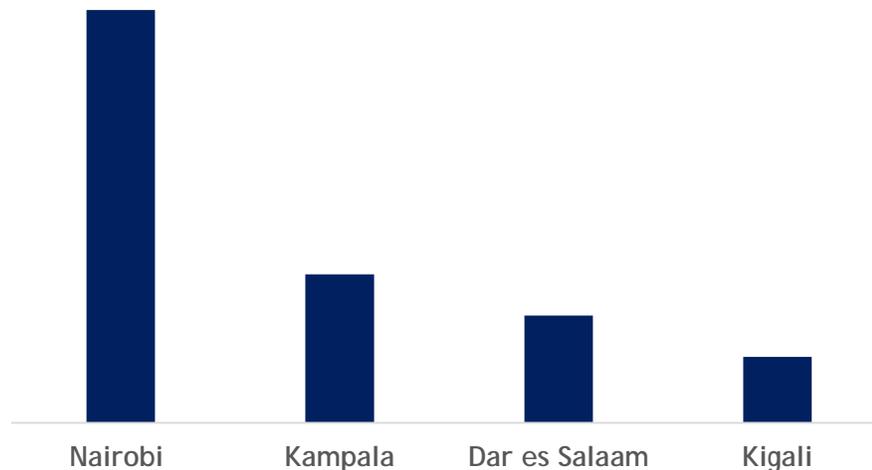
- Continued oversupply of retail space in certain EA capital cities



Demand Factors

- Shopper competition and slower uptake of new space are expected to remain a constant feature of the changing retail landscape.
- Local and international supermarket chains continue to take up retail spaces in East Africa with Kenya experiencing a wave of change due to the distress of Nakumatt's and Uchumi's.

Completed GLA (sqm) 2018



Opportunities

- Intensified competition between retailers in the growing EA cities is evidence that developers should seek to differentiate their malls by offering leisure facilities and upscale consumer experiences. E.g. Eye of Kenya
- Selecting the right micro-locations for development will be crucial to the success of new centers.

Real Estate Segment Macros – Logistics and Warehousing

Logistics and Warehousing is an emerging property class for developers and RE investors



Supply Factors

- EA is generally undersupplied with modern logistics space
- Stock is primarily composed of 'go-downs' which are simple structure which have multiple purposes applied to them



Demand Factors

- Current Demand is at 2.2million SQM of GLA in Kenya
- Demand is mainly concentrated around the demand generators that are transient-oriented and level of trade activity in the economy



Opportunities

- Opportunities for various sizes and segments of industrial, warehousing, logistics and manufacturing facilities greater emphasis should be given to manufacturing elements of the park in the form of light to medium industrial facilities.
- Unique offerings e.g. cold storage should be introduced and zoning that allocates sections of industrial scheme to different pursuits



Thank You

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Centum Real Estate

The Real Estate Portfolio Overview

October 2019

Overview of Centum Business Units



“East Africa’s foremost investment channel”
- Centum Group Vision -



Centum Group

Our portfolio consists of 3 business units with total assets of USD 716 Million as of 31st March 2019

Real Estate Portfolio (USD 360 million)
managed by



Land Banks



Infill Developments



Facility & Security Management



Private Equity Portfolio (USD 256 million)
managed by



Fast Moving Consumer Goods



Financial Services



Others



Marketable Securities Portfolio
(USD 44 million) managed by



Cash; Equity; Mutual Funds; Fixed Income

Development (USD 56 million) managed by



Centum Real Estate Previous Track Record

Previous Track Record



Centum Real Estate Current Track Record

Current Track Record



Centum Real Estate

The execution of the value creation process has resulted in significant growth for the real estate portfolio



Centum 1.0

"Generalist" real estate investor holding commercial high rise buildings for rental yield

Commercial Highrise Buildings

Total RE Assets: < KES 1 Billion



Centum 2.0

Focus on launching the commercial impetus for mixed used developments
Developed in house capabilities to execute real estate developments on behalf of the Centum Group

Two Rivers Development
(100 acres)



Pearl Marina Development
(385 acres)

*Total RE Assets FY14:
KES 5.1 billion*



Centum 3.0

Focus on attracting 3rd party capital to de-risked large mixed use developments

Two Rivers Development
(c. 1,209,482 bulk sqm)



Vipingo Development
(10,254 acres)



Pearl Marina Development
(385 acres)

*Total RE Assets FY19:
KES 35 billion*

How has Centum Real Estate been Successful?

.....

“Opportunities don't happen. You create them.”

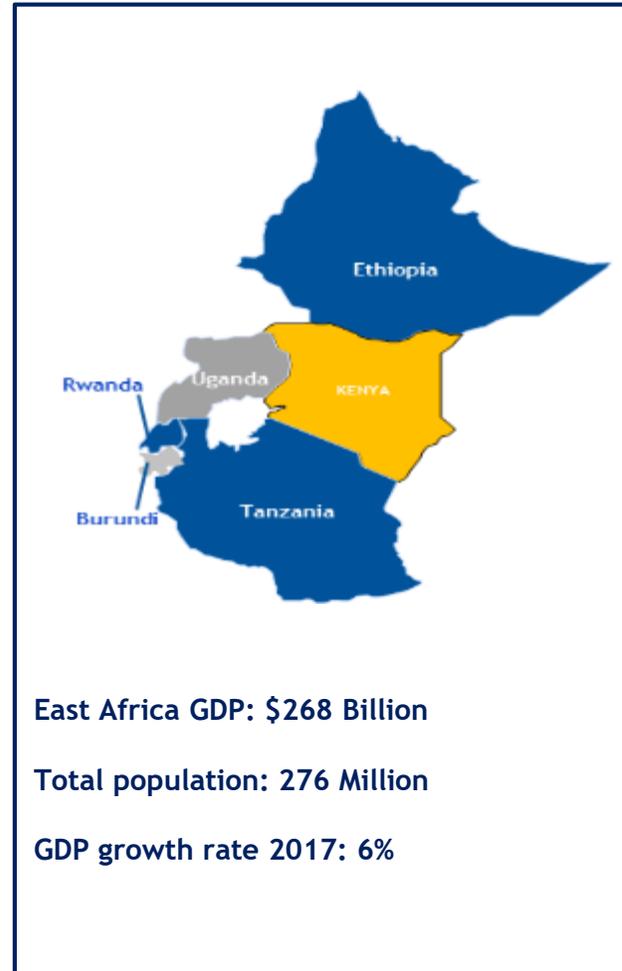
- Chris Grosser -



Centum Real Estate has been well positioned to take advantage of East Africa's attractiveness as an investment destination

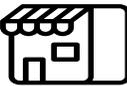
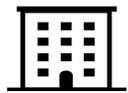
Multiple factors are driving East Africa's growth

- 1 Large and Growing Market**
 - Region has a population of ~300 mn
 - Growing middle class spurring private and household consumption
- 2 Ease of doing business ranking**
 - Rwanda and Kenya highly ranked in the ease of doing business index at position 29 and 61 respectively
- 3 Infrastructure Development**
 - Large infrastructure projects underway to boost regional connectivity
 - Example: Lamu Port-South Sudan-Ethiopia Transport Corridor (LAPSSET)
- 4 Natural Resources Endowment**
 - 2.3 billion barrels of oil discovered in Uganda and Kenya,
 - 50 trillion cubic feet of natural gas discovered in Tanzania



Real estate continues to offer stable and attractive investment yields to East African investors

Centum Real Estate has portfolio exposure across different real estate assets i.e. retail, residential, commercial and industrial (mixed used developments) which has resulted in delivering a higher blended yield to investors

	Kenya	Tanzania	Uganda	Rwanda	Ethiopia
	6%-7% Residential Yield	6% Residential Yield	8% Residential Yield	9%-10% Residential Yield	8%-9% Residential Yield
	8% Retail Yield	10% Retail Yield	12% Retail Yield	10% Retail Yield	6% Retail Yield
	8% Office Yield	9% Office Yield	10% Office Yield	11% Office Yield	6% Office Yield
	8.5% Industrial Yield	10% Industrial Yield	13% Industrial Yield	13% Industrial Yield	10% Industrial Yield
	61 WB Doing Business Rank	132 WB Doing Business Rank	115 WB Doing Business Rank	29 WB Doing Business Rank	159 WB Doing Business Rank

* All yields are USD denominated

Centum Real Estate secured equity partnerships and attracted international brands to our developments

1 Attracted Foreign Direct Investment

USD 133 million

Co-investors

Real Estate



2 Aligned developments to government policy

- TR is Vision 2030 flagship project
- Vipingo registered as an SEZ and EPZ
- Residential projects aligned to Big 4 Agenda

Investee
Company
Partners

Retail



LC Waikiki



ZADEA



3 Employment Opportunities Created

> 2 500 direct jobs have been created

Master-planning and securing of regulatory approvals has been key in de-risking sites for infill developments and 3rd party sales

Two Rivers Development



Secured 3rd party sales

Two Rivers Development

- Victoria Commercial Bank
- City Lodge Hotel
- Residential Developers

Vipingo Development

- Industrial park off takers
- Controlled development developers

Vipingo Development



Provision of quality infrastructure is at the core of the Centum Real Estate Strategy coupled with ongoing urban management

Road Infrastructure at Two Rivers: KES 500 Mn

Limuru Road Overpass: Access 2



Northern Bypass: Access 2

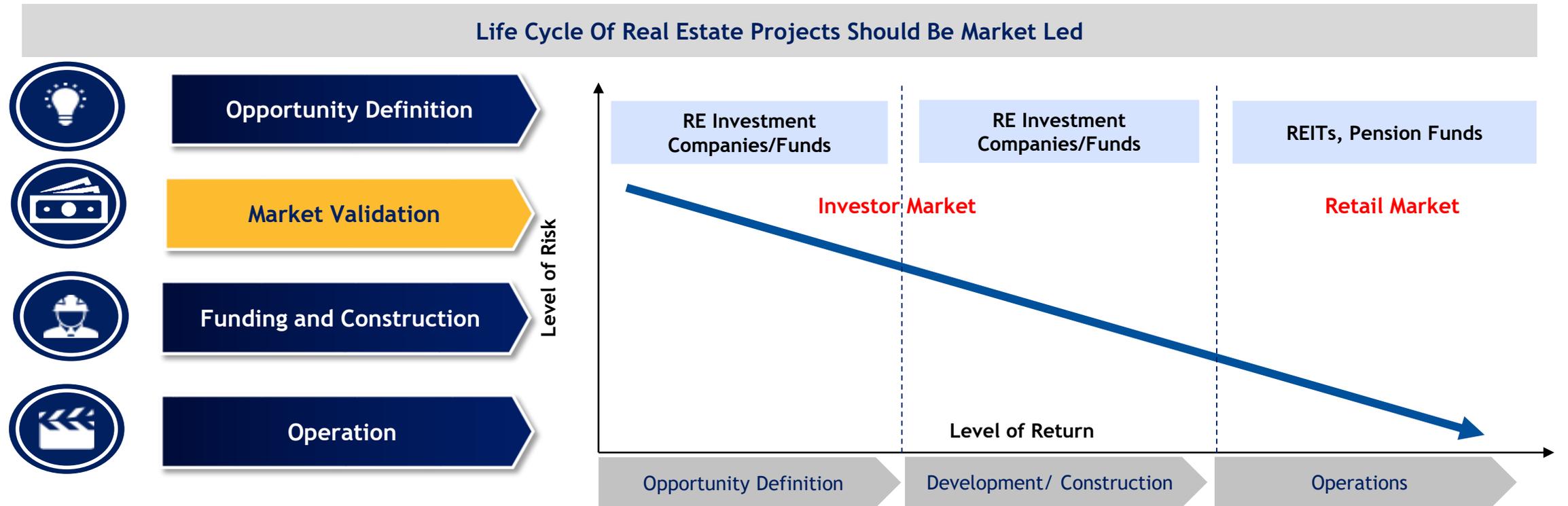


Utilities Infrastructure at Two Rivers and Vipingo: + KES 600 Mn

- Two Rivers Power Company, a licensed electricity distributor, supplies power to the development
 - 66 KVA line to supply power to a 46 MVA substation
 - 7.5MW diesel generated power plant has also been installed
 - 1.2 MW solar farm on the rooftop parking of the Mall
- Two Rivers Water and Sanitation Company will cater for the development's water needs
 - Includes the region's largest reverse osmosis water treatment plant with capacity to treat 2 million litres of water per day
 - ~80% of gray water will be recycled and treated to World Health Organisation standards
- Vipingo Sea Water Desalination Plant will cater for the development's water needs:
 - This is the region's largest sea water desalination plant
 - Capacity to reticulate 3,000 cubic meter/day



Market validating our investment opportunities has aided in creating bankable real estate assets



Return: At the end of the cycle real estate assets ought to generate steady income (like a bond) and appreciate (like an equity)

Rental Yield

Capital Appreciation

- Stable and predictable cashflows

- Potential value enhancement through sale
- Average capital appreciation yields: TMB 2-3



Our Current Portfolio



Centum Real Estate

Our Assets



Two Rivers, a Kenya Vision 2030 flagship project, is a 102-acre development located within the Diplomatic Blue Zone of Gigiri, Nairobi. The development integrates a retail, entertainment and lifestyle centre, Grade A offices, 3 and 5 star hotels, conferencing facilities, a residential offering and medical facilities



10,254 acres mixed-use development anchored by an industrial zone dubbed the Vipingo Investment Park, the site is located in Kilifi County, Kenya. Industrial plots of 20 acres are to be zoned out and fully serviced with residential, commercial, medical and educational facilities already master planned



389 acre mixed-use development located in Entebbe, Uganda in close proximity to Entebbe airport. Located 10kms East of Entebbe and 20kms from Kampala, the site is set on a partially developed peninsula that has a 3km shoreline on Lake Victoria. Linked to both Kampala and Entebbe by Lake Victoria, the site is located in what is considered a resort destination region



Two Rivers Development

About the Precinct

The development is set on 100 acres (42% of Nairobi's CBD) with a total developable bulk of 1.5m square meters of developable bulk.

Phase 1 of the development set on 55 acres has been significantly developed, this includes

- *Two Rivers Lifestyle Centre – Two Rivers Mall, launched in February 2017 (79% let)*
- *Two Rivers Office Towers – Currently letting*
- *Riverfront Entertainment Area and Theme Park*
 - *Complete*
- *City Lodge Hotel at Two Rivers Complete*
- *Victoria Bank Office Towers) – Complete*
- *Riverbank Apartments – Construction underway*
- *Cascadia Apartments – Construction underway*



- **The anchor of the development is Two Rivers Mall, the largest mall in East & Central Africa and mall.**
- **It has approximately 200 retail stores, offering a mix of both global and local experiences.**
- **Two Rivers has two office towers that sit atop the mall with 9 and 8 floors each, providing 27,000 square meters of grade A office space**



Theme Park - Operational
*55-meter Ferris Wheel
 17 meter drop tower
 Airborne shot drop
 GP Karting*



Conference Dome - Planned
3,600 seater dome



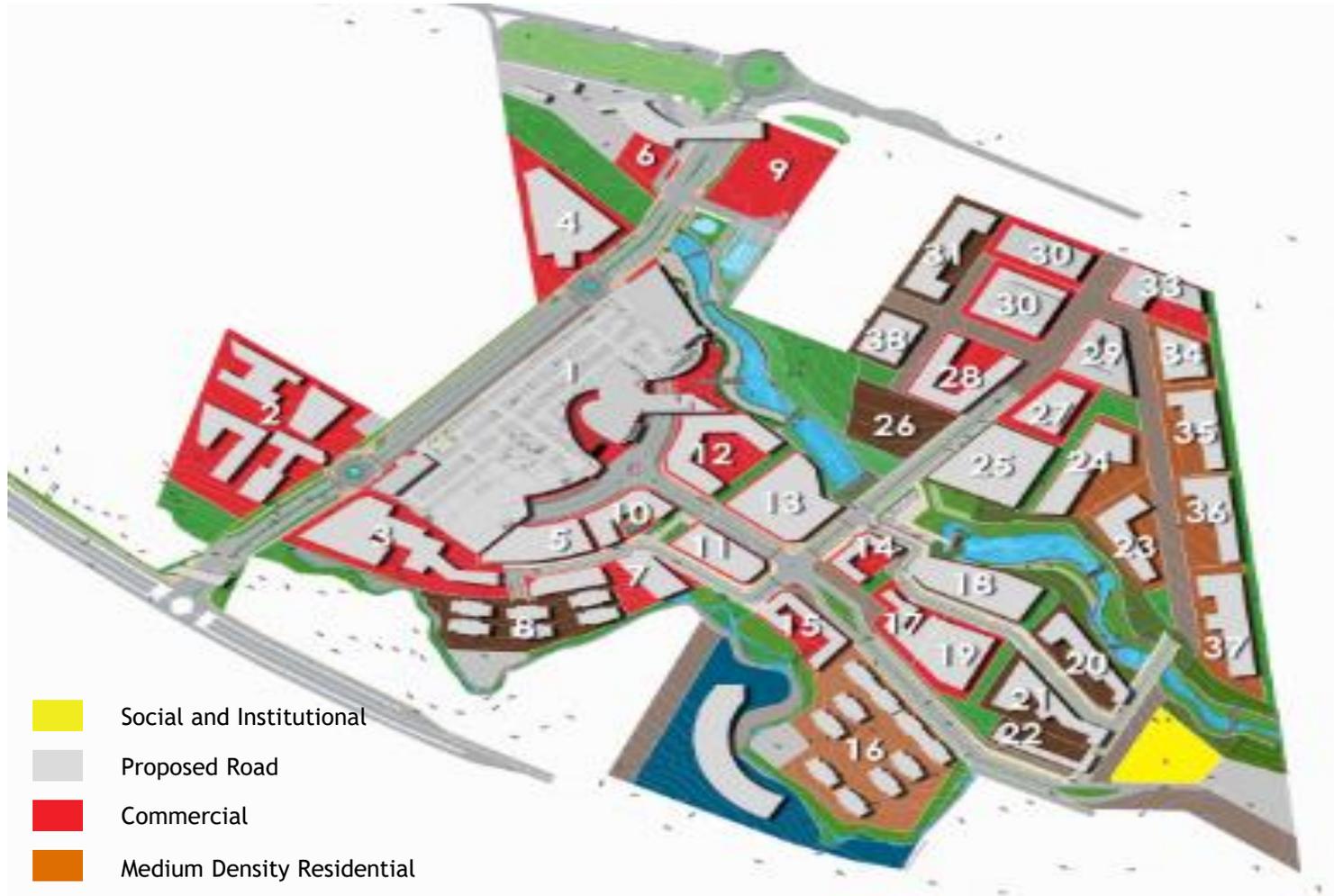
City Lodge Hotel - Operational
170 key hotel opening soon



Victoria Commercial Bank- Completed, ready for occupation
14,500 sqm Grade A office

Two Rivers Development

Opportunities Available



Shovel Ready Investment Opportunities

Plot Number	Area (Acres)	Ground Bulk (GBA)	Planned Land Use
2	4.65	150,548.40	Office
3	2.68	86,767.68	Office
4	2.1	67,989.60	Mixed- use
5	0.85	27,519.60	Office
6	0.64	7,770.24	Office
8	1.99	56,374.71	Residential
9	1.762	49,915.70	Residential
11	0.7	19,830.30	Office/ Social
12	1.48	41,926.92	Hotel
13	1.35	38,244.15	Residential
15	0.83	26,872.08	Mixed-use
16	4.32	122,381.28	Mixed-use
17	0.73	23,634.48	Commercial/ Mixed-use
19	1.06	34,318.56	Commercial/ Mixed-use

Two Rivers Development

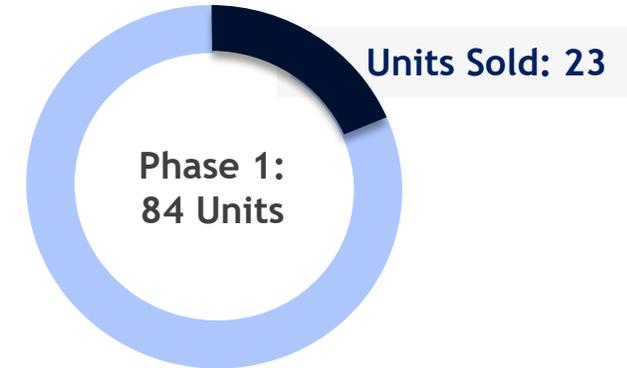
Residential Development Opportunities

Riverbank Apartments



168 units

Product mix (High-end Product)	28 – one-bedroom 36 – two-bedroom 84 – three-bedroom
Phase 1 product mix	14 – one-bedroom units @ USD 150k 28 – two-bedroom units @ USD 240k 42 – three-bedroom units @ USD 300k
Total project outlay	USD 33 million
Sources of funds	Sales – 25%, Equity – 33% Debt – 42%
Status	Phase 1 under construction



Cascadia Apartments



400 apartments

Product mix (Mid-market Product)	93– one-bedroom units @ USD 85k 210 – two-bedroom units @ USD 125k 64 – three-bedroom units @ USD 140k 33 – three-bedroom duplexes @ USD 220k
Total project outlay	USD 43 million
Sources of funds	Sales – 30%, Equity – 30% Debt – 40%
Status	Under construction



Vipingo Development

About the Precinct



- Vipingo development, located at the Kenyan Coast, is an integrated economic hub development that will be a model for new East African cities
- The vision is to develop the lowest cost and most competitive location to set up and do business in Kenya
- The project is spread over 10,254 acres and is anchored by an investment park and residential projects
- Phase 1 construction commenced in July 2018
- Vipingo presents a rare and unique opportunity to provide debt and mortgage financing for
 1. Awali Estate – 50% sold off plan
 2. 1255 Palm Ridge – 100% sold off plan

Strategic Location

- Located in close proximity to Mombasa town
- Strategically located between the growing towns of Mtwapa and Kilifi
- Interconnected to Mombasa Port, Mombasa Airport and LAPSET Project
- Access to proposed Standard Gauge Railway (SGR) enabling regional reach
- Adjacent to the Vipingo airstrip with daily flights to Nairobi



Vipingo Development

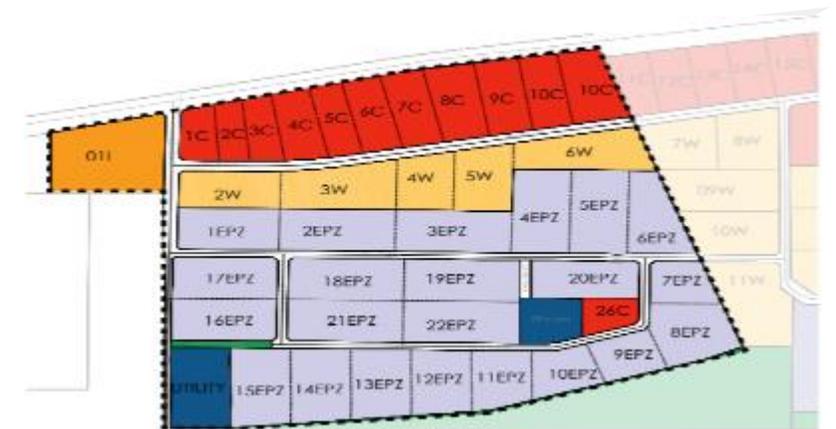
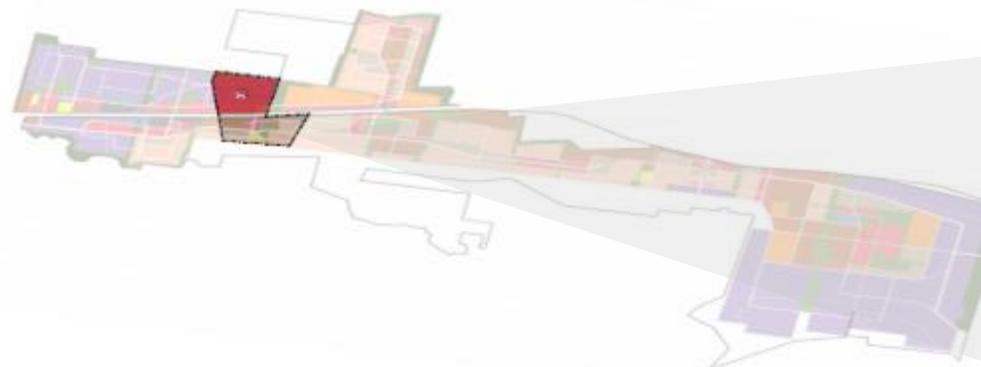
Industrial Park

Opportunity Summary

Total acreage	1,150 acres
Phase 1 acreage	250 acres
Total project outlay (phase 1)	USD 9.9 million
Sources of funds	Plot sales – 64% Equity – 30% Debt – 6%
Status	<ul style="list-style-type: none"> Infrastructure construction ongoing Plot sales ongoing

- The development will be supported by high quality infrastructure, amenities, services, urban environment with access to quality skilled and non-skilled labour
- The investment park is offering construction ready, serviced land for
 - Light manufacturing
 - Export processing zones (EPZ)
 - Warehousing
 - Commercial properties
 - Business, research and development parks
 - Vocational training institute supported by an international technical and vocational education and training authority operator

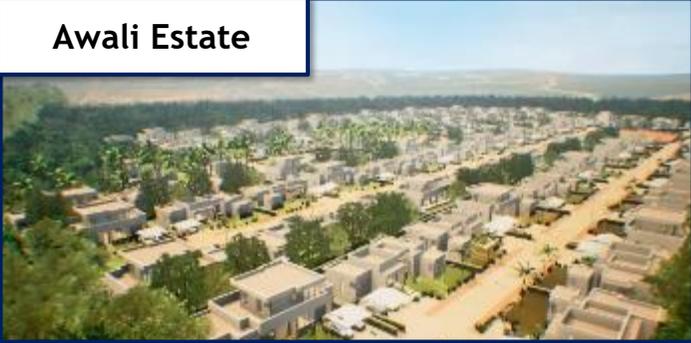
Phase 1 Site Plan:



Vipingo Development

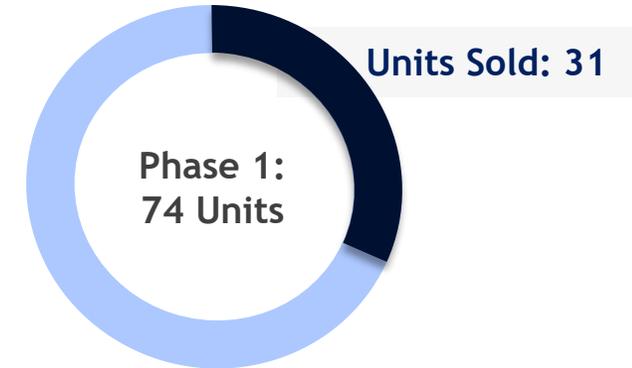
Residential Development Opportunities

Awali Estate



152 units on 30 acres

Product mix (Mid Market Product)	90 bungalows 62 maisonettes
Phase 1 product mix	40 bungalows @ USD 129k 32 maisonettes @ USD 169k
Total project outlay	USD 15 million
Sources of funds	Sales – 28%, Equity – 27% Debt – 45%
Status	Phase 1 under construction



1255 Palm Ridge



1,255 apartments on 20 acres

Product mix	125 – one-bedroom 755 – two-bedroom 375 – three-bedroom
Phase 1 product mix (Affordable Housing Product)	75 – one-bedroom units @ USD 20k 110 – two-bedroom units @ USD 30k 135 – three-bedroom units @ USD 40k
Total project outlay	USD 30 million
Sources of funds	Sales – 23%, Equity – 21% Debt – 55%
Status	Phase 1 under construction



Pearl Marina Development

About the Precinct

- Pearl Marina development, is a 389 acre lakefront mixed used development located at the Garuga Peninsula on the shores of lake victories in Entebbe Uganda.
- The development has over 3km of lake frontage offering magnificent views of the largest lake in Africa.



Pearl Marina Development

Opportunities Available



Land Conversion (Value Creation)	Pearl Marina
Total Gross acreage	389.00
Phase 1 Land	165.98
Parks, roads, reserves, common area spaces	50.87
Developable land	115.12
Fully serviced - developed or sold	2.34
Fully serviced land available for development	27.58
Partially Serviced land available for development	85.20

Pearl Marina Development

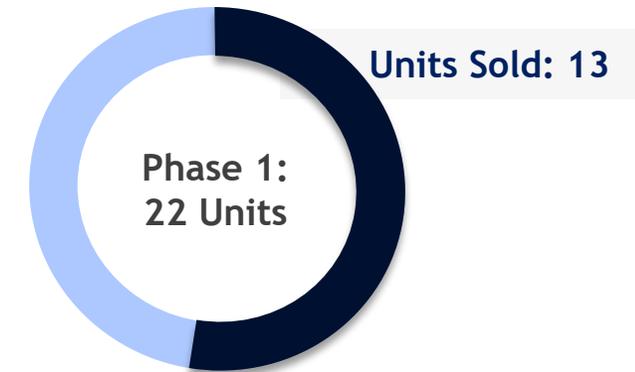
Residential Development Opportunities

Mirabella Residences



40 units on 9.4 acres

Product mix (Mid Market Product)	40 villas
Phase 1 product mix	22 villas @ USD 330k
Total project outlay	USD 10 million
Sources of funds	Sales – 49%, Equity – 51%
Status	Phase 1 under construction

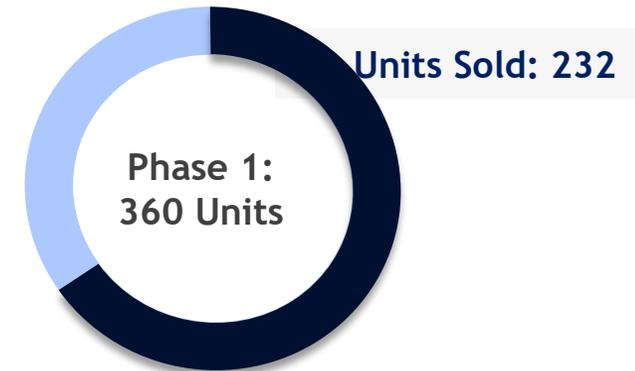


Bella Vista Apartments



750 units on 20 acres

Product mix	75 – one-bedroom 225 – two-bedroom 450 – three-bedroom
Phase 1 product mix (Affordable Housing Product)	36 – one-bedroom units @ USD 34k 108 – two-bedroom units @ USD 54k 216 – three-bedroom units @ USD 68k
Total project outlay	USD 40 million
Sources of funds	Sales – 23%, Equity – 21% Debt – 55%
Status	Phase 1 under construction

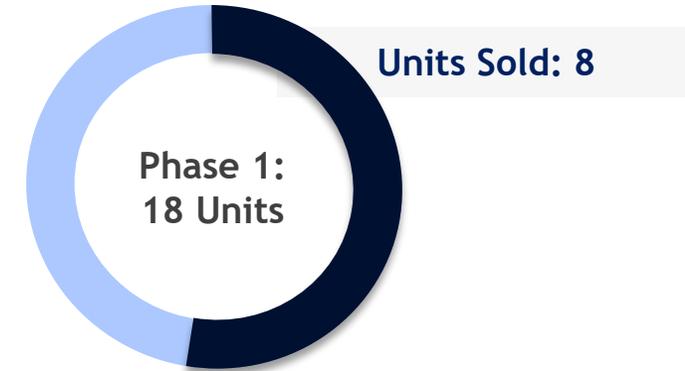


Pearl Marina Development

Residential Development Opportunities



Product mix (Mid Market Product)	53 villas
Phase 1 product mix	18 villas @ USD 185k
Total project outlay	USD 8.5 million
Sources of funds	Sales – 40%, Equity – 60%
Status	Phase 1 under construction



Centum Real Estate

Overview: Affordable Node Program

Project Details

Overview



- Centum RE is developing 5,000 residential units, in different locations within Nairobi. with a specific focus on the affordable to mid-end market segments.
- Over 60% of Nairobi's residents live in slums and informal settlements, while c. 90% are tenants.
- 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. It will remain concentrated in the affordable and low-income segments of the market and in the main cities, especially Nairobi¹.

Investment Thesis

Attractive Return



- An attractive annual yield of 8%

Strategic Locations



The sites for the affordable node program are within a 20 kilometer radius of the Nairobi central business district

Available Infrastructure



- Tarmacked internal roads and Footpaths
- Streetlighting
- Drainage, Sewer Piped Water

Ready Rental Market



- Insatiable demand for quality apartments stock in the Embakasi area, given all the dilapidated government houses in the locality

Centum Real Estate

Investment Criteria: Target of 5,000 Units

- 1 Ticket size**
 - Total revenue of > USD 20 Million per project
- 2 Profitability**
 - Net profit of > USD 5 million per project
- 3 IRR**
 - Project IRR of >20%
- 4 Scale**
 - Number of units: 500 - 1000
 - Minimum land size: 4 acres
- 5 Project lifecycle**
 - Maximum of 4 years from concept to final delivery.
- 6 Unit pricing (affordable)**
 - 1 bedroom: USD 0.3m - 0.45m
 - 2 bedroom: USD 0.46m - 0.55m
 - 3 bedroom: USD 0.55m - USD 0.65m
- 7 Commercial node**
 - For every 1,000 units - a commercial node of 5000sqm comprising convenience store, grocery and kindergarten;
 - Either develop and exit the commercial node or sell development rights;
 - Target project IRR 20%.



Centum Real Estate

Live Projects: 4,000 Units Secured



1

Name: Project Ngong Road

Full Phase Units: 1,500 units

No. of Acres: 10 acres

Status: Design Phase

Expected Ground Breaking: Sep 2020

2

Name: Project USIU

Full Phase Units: 975 units

No. of Acres: 4.5 acres

Status: Design Phase

Expected Ground Breaking: Sep 2020

3

Name: Project Embakasi

Full Phase Units: 1,525 units

No. of Acres: 5 acres

Status: Design Phase

Expected Ground Breaking: Jun 2020



Thank You

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(Office Mobile) +254 709 902 000
PO Box 10518 – 00100 Nairobi
<http://www.centum.co.ke>

The Outlook for 2020.....

Hosted by Anthony Havelock

Head Of Agency - Knight Frank Kenya

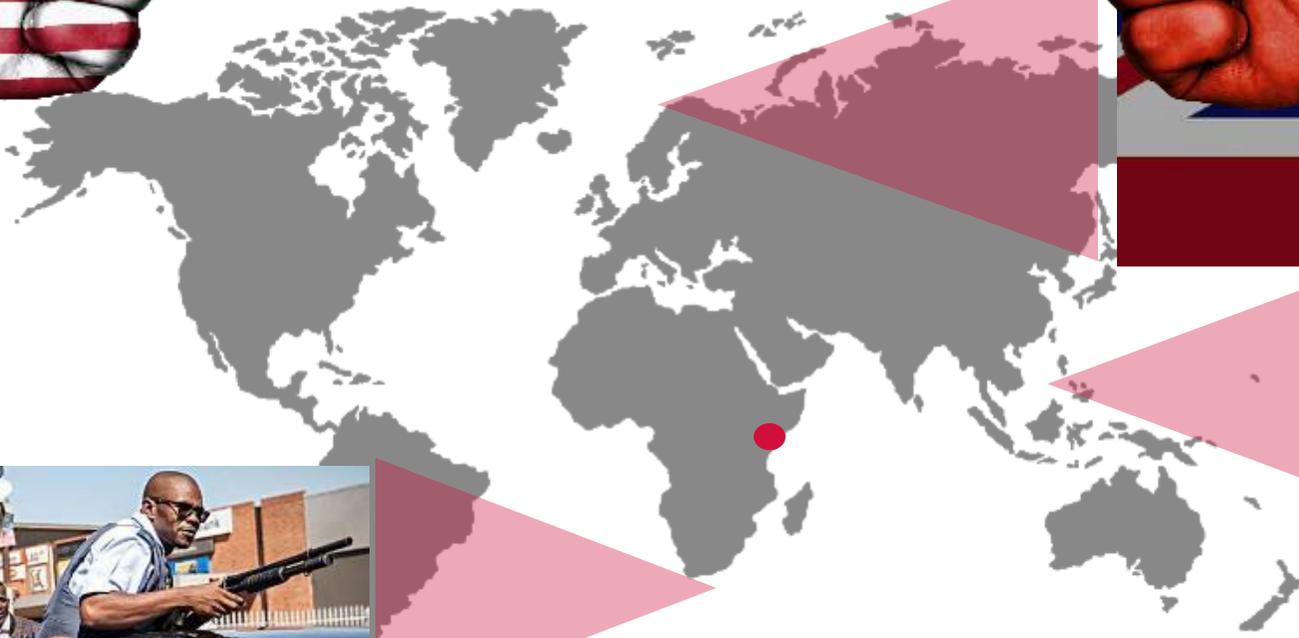


Content

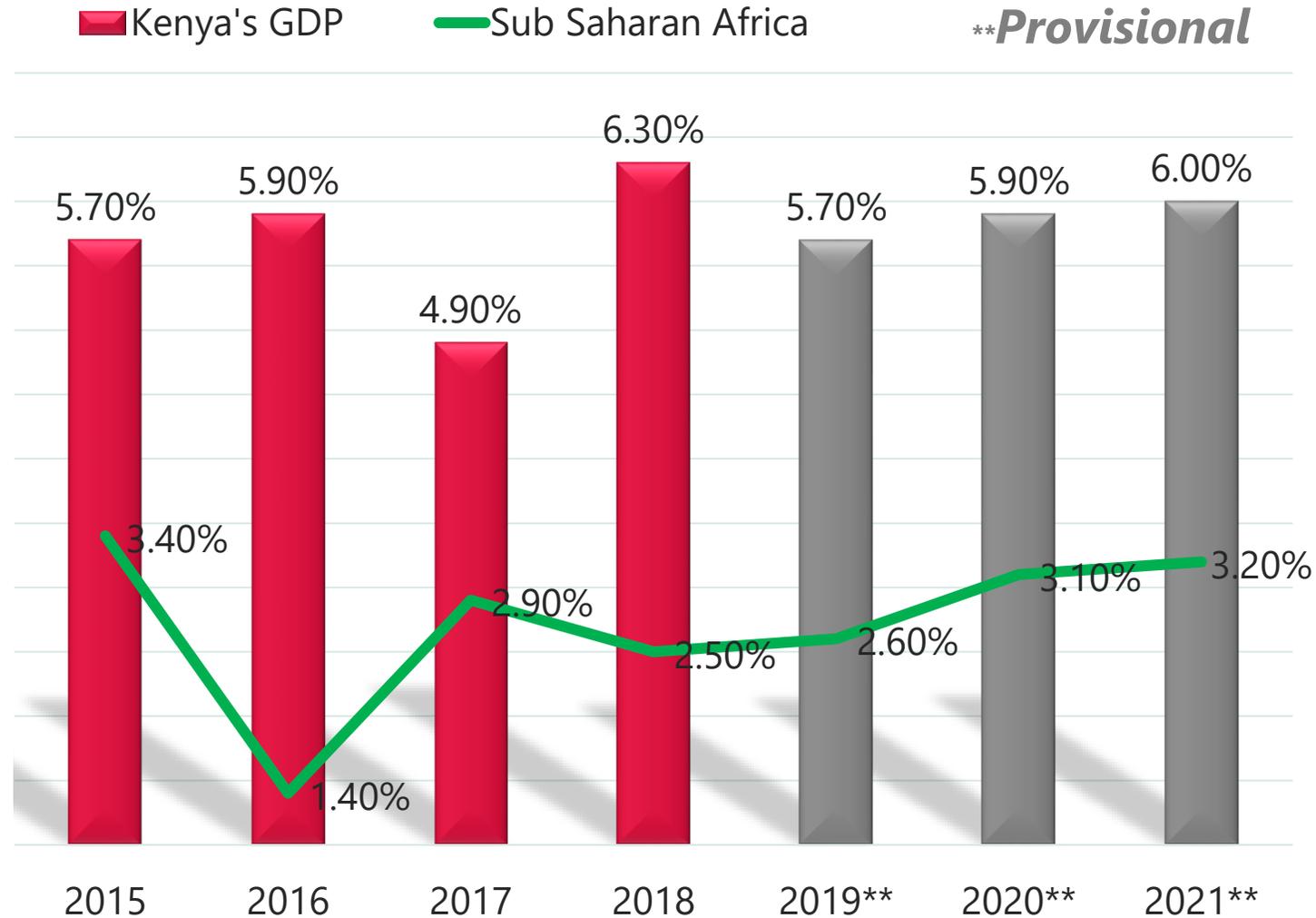


- I. Economy-Global/Local
- II. Commercial Office
- III. Retail Market
- IV. Industrial/Logistics
- V. Residential
- VI. Hospitality
- VII. Land Values
- VIII. Conclusions

Global Factors

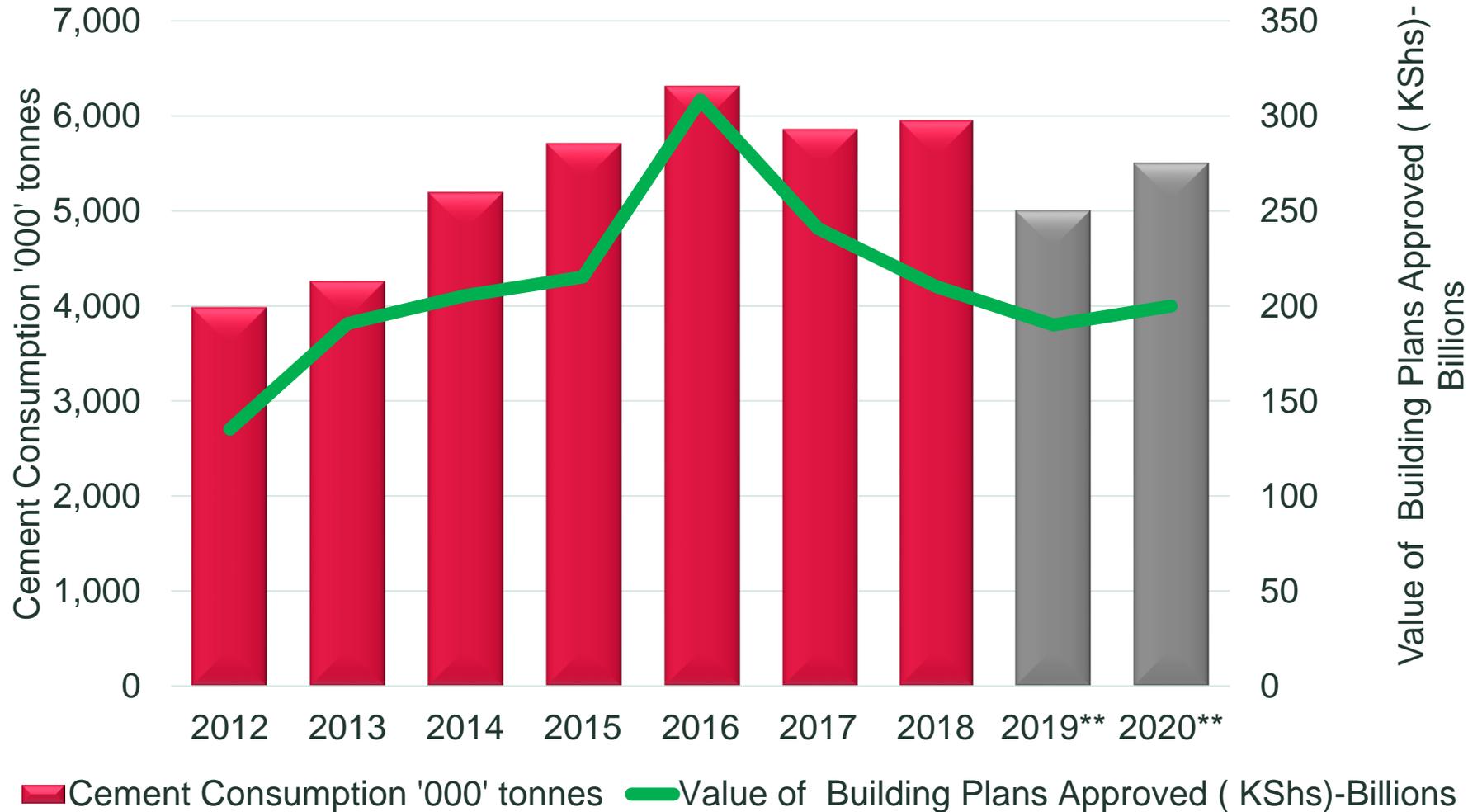


Economy - GDP



5.9%
**Expected
Growth in
2020**

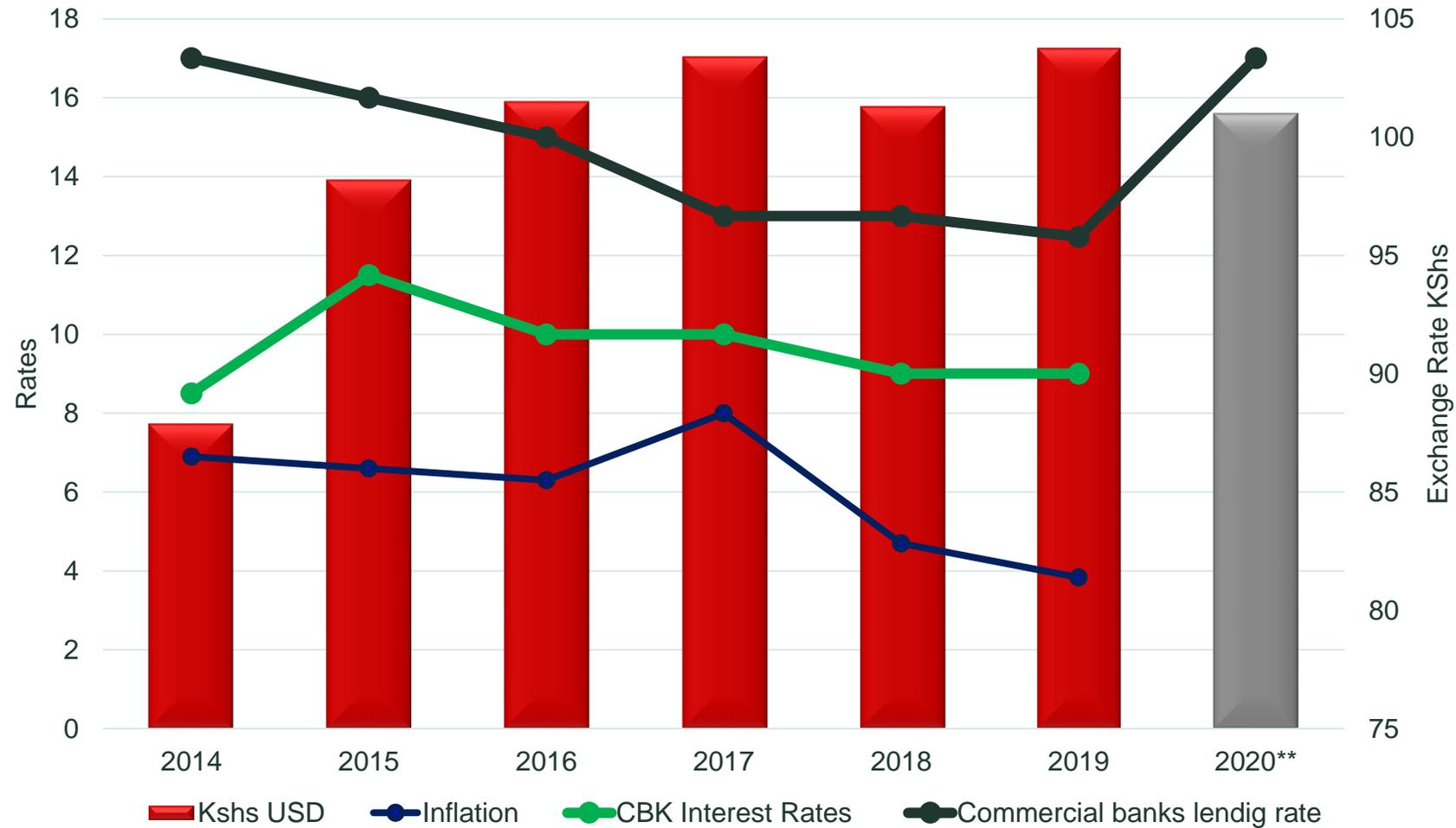
Economy - Building Plans/ Cement Consumption



Source: Kenya National Bureau of statistics(KNBS)



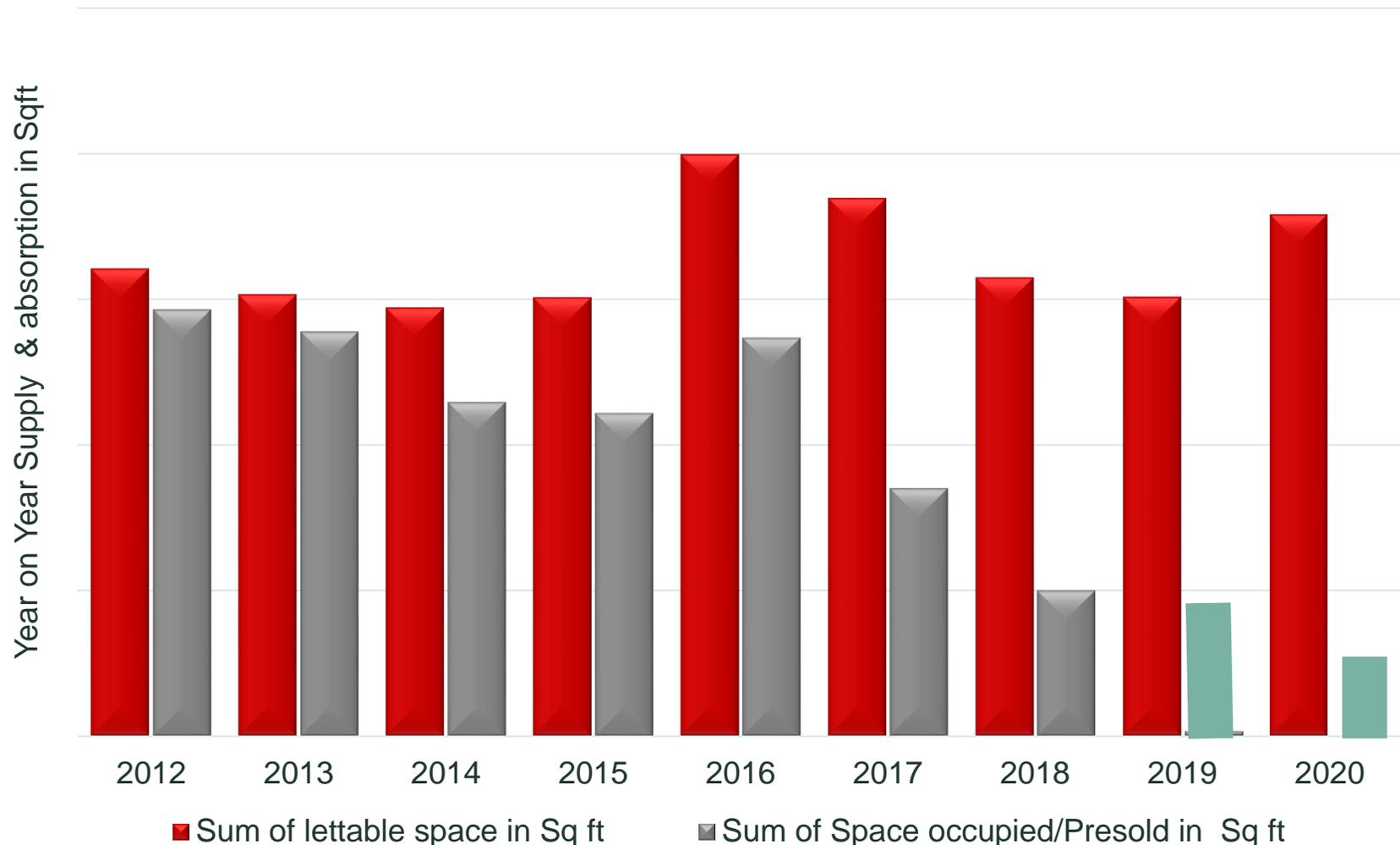
Economy Cont.- Key Indicators



Source: Central Bank of Kenya (CBK)



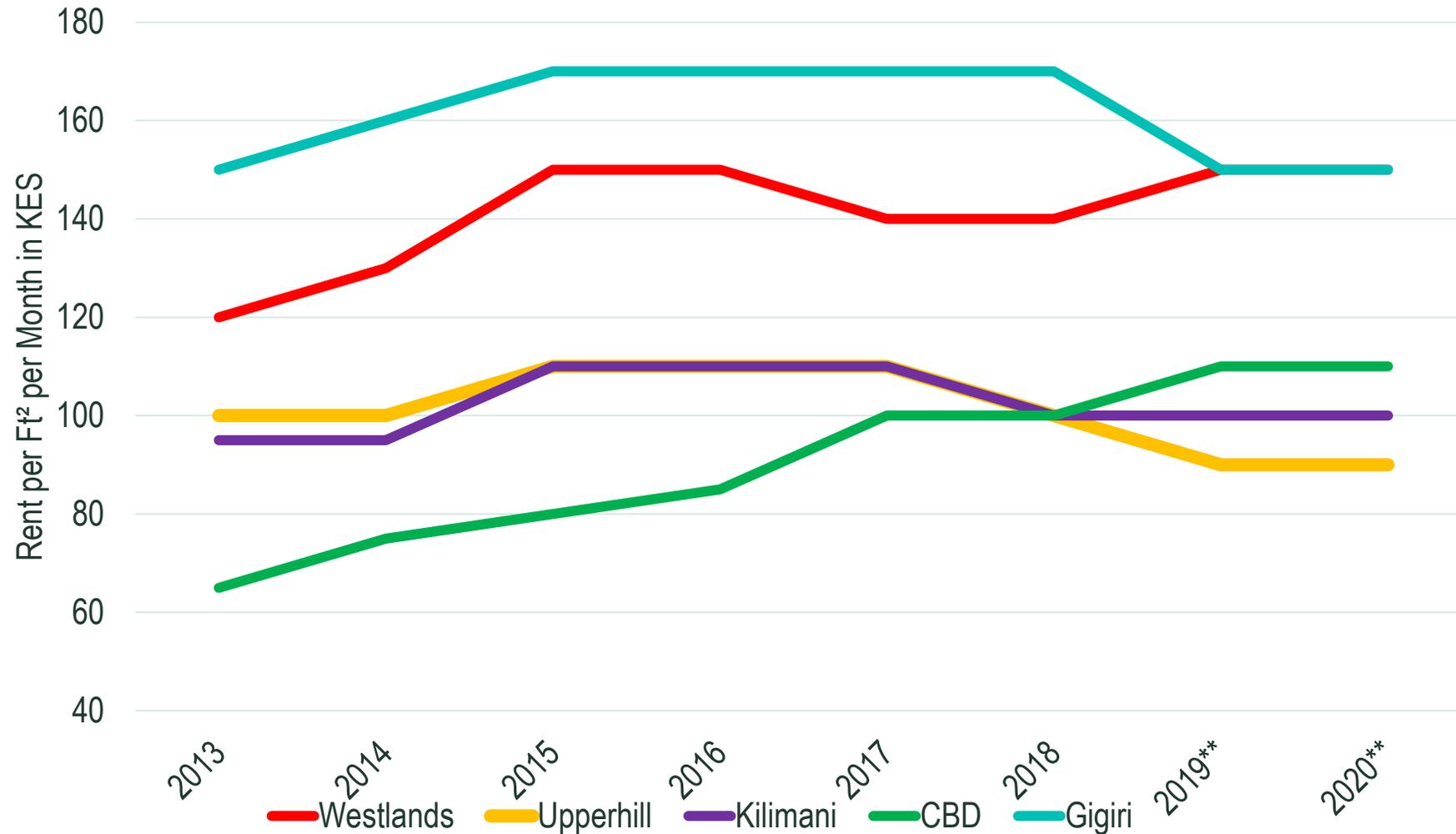
ii) Commercial Office Supply/ Demand-Nairobi



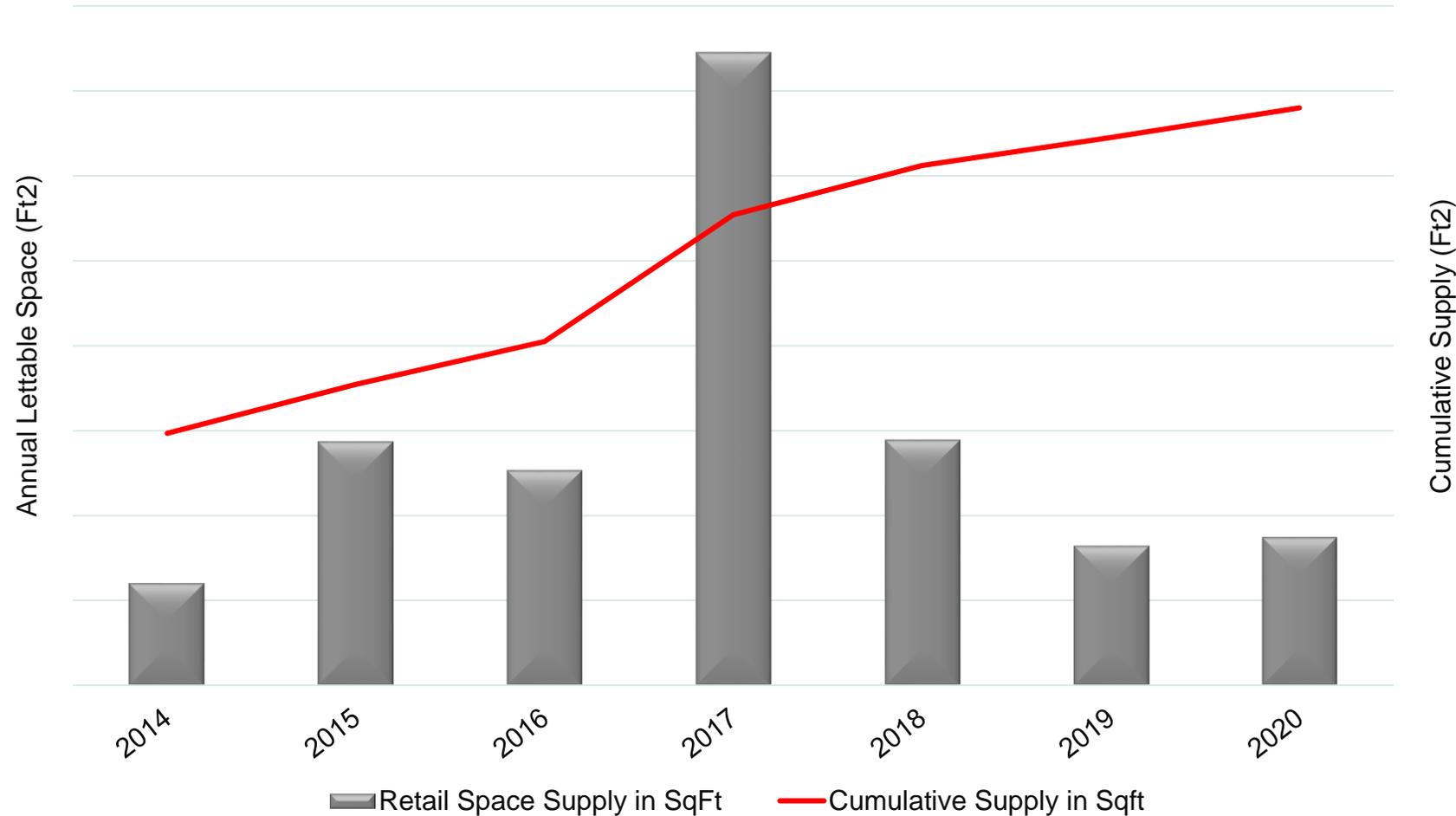
Source: Knight Frank Kenya



ii) Prime Office Rental Trends-Nairobi



iii) Retail - Nairobi Supply Trend over Time



Local Brands



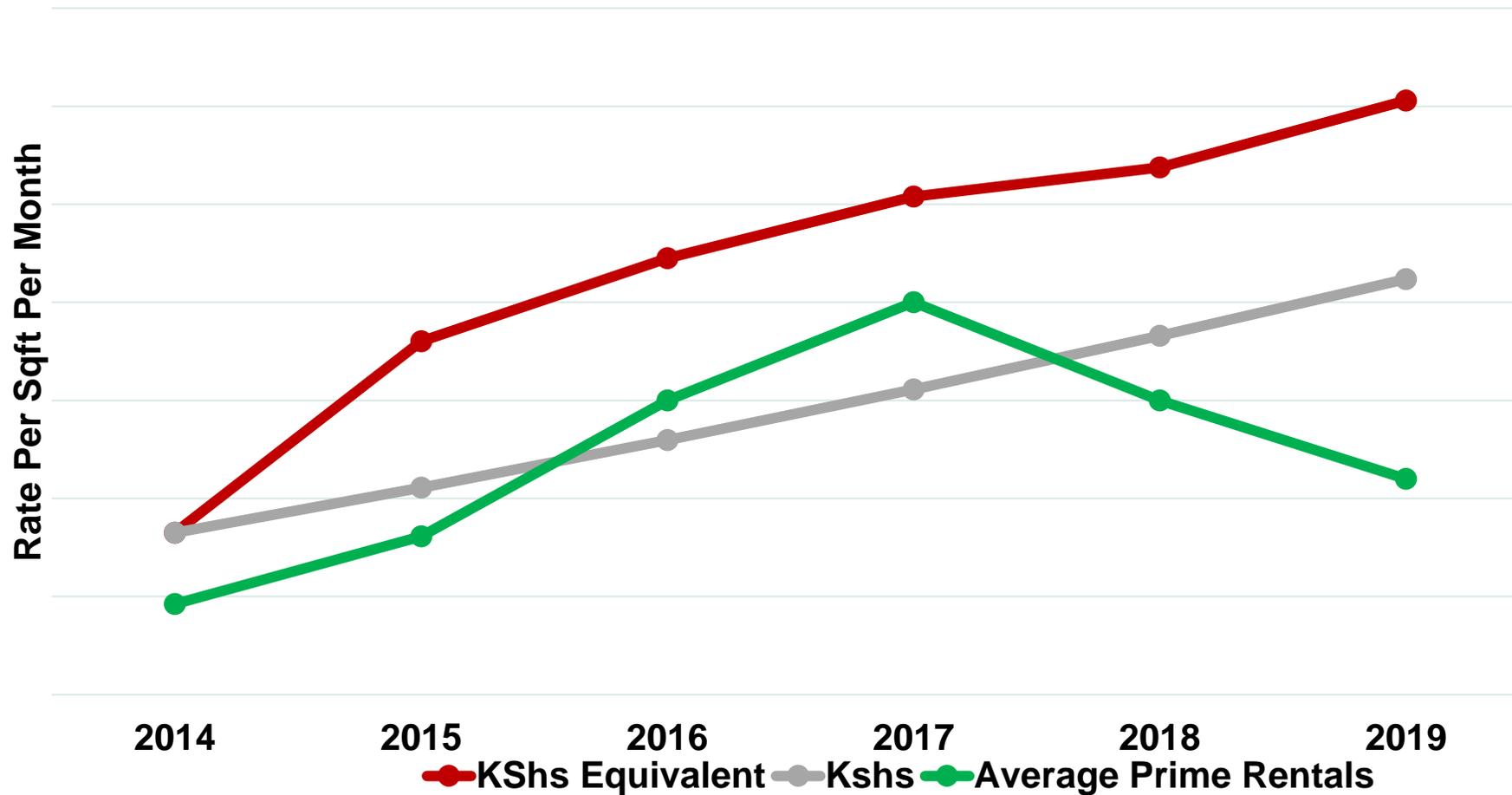
International Brands



International Brands Looking to enter the market

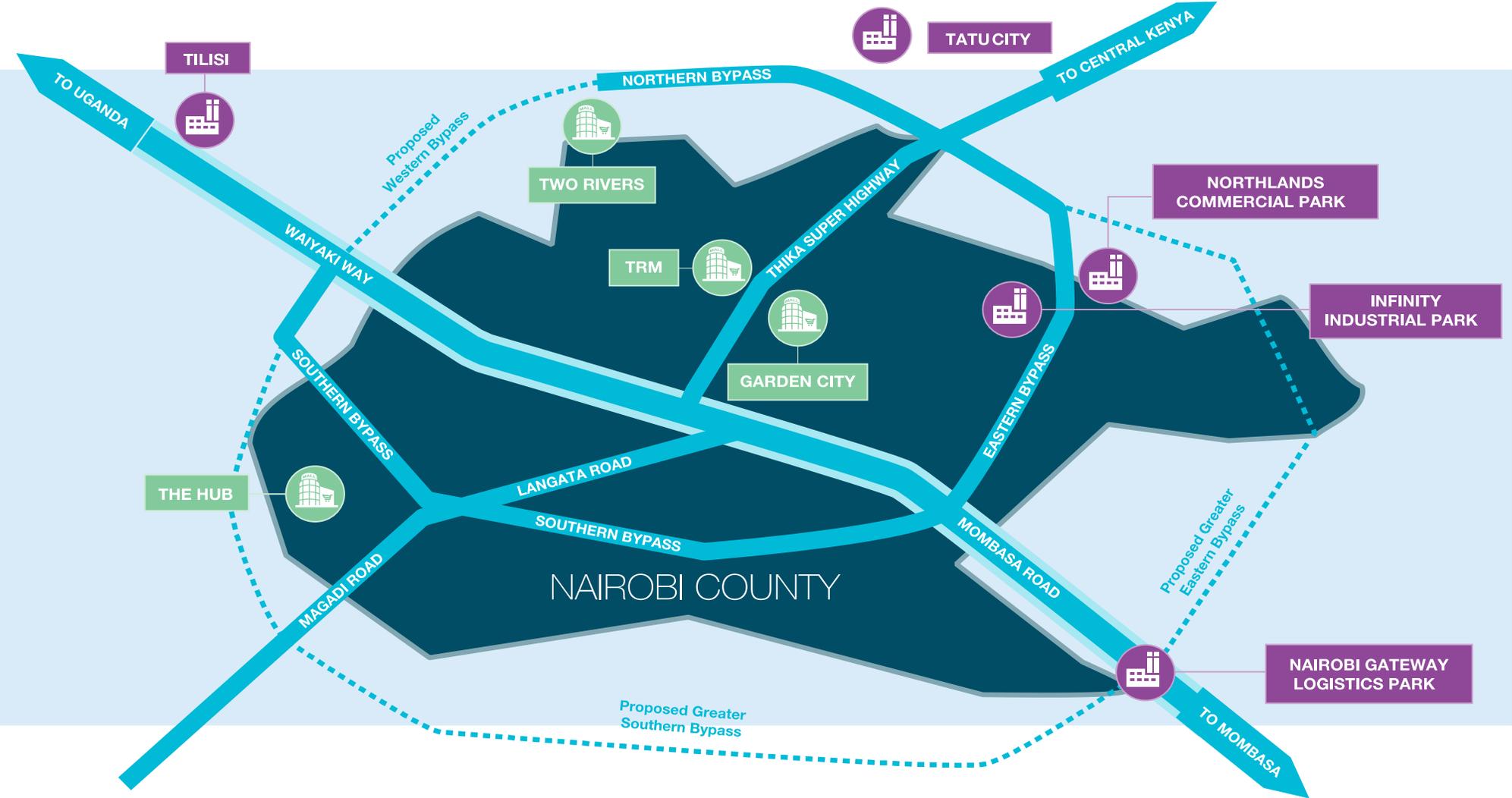


Prime Retail Trends KShs –Vs US\$



+18%

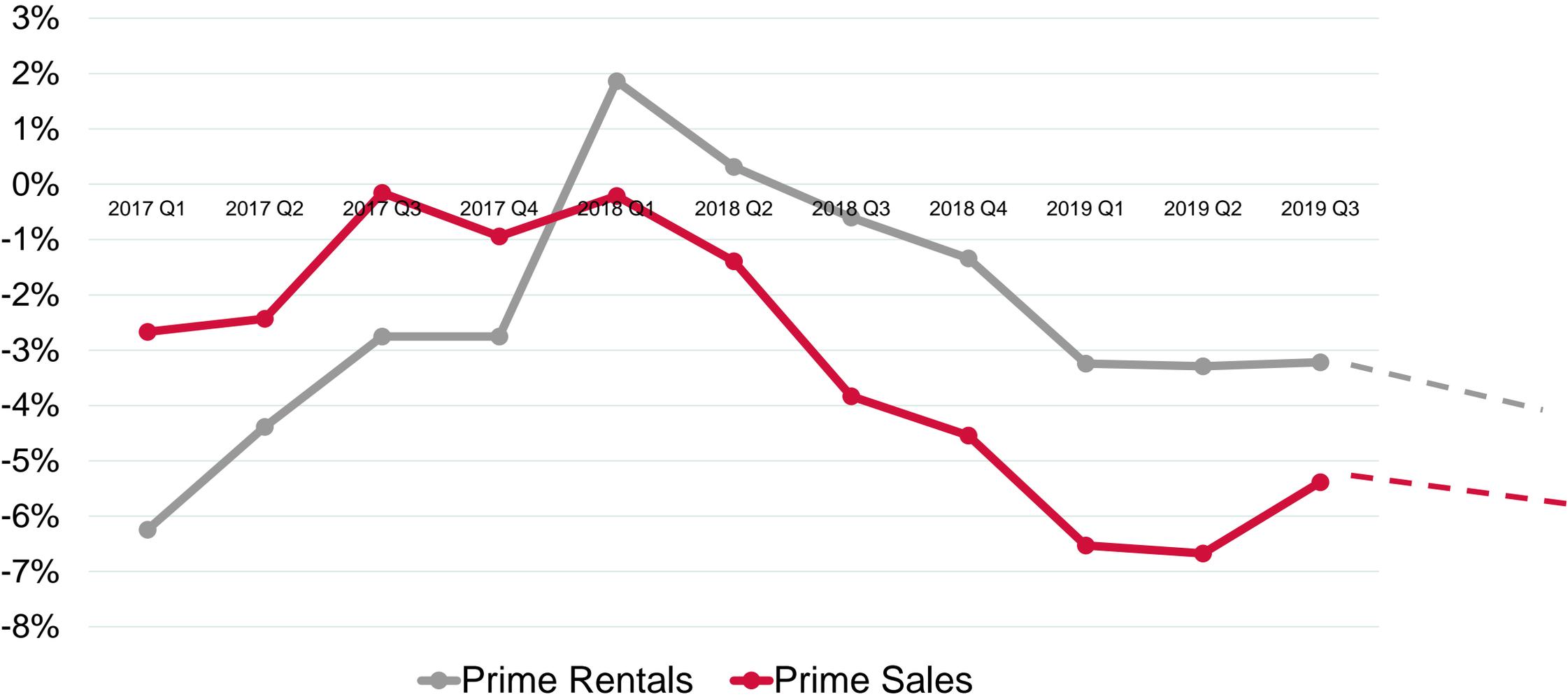
iv) Industrial/ Logistics



v) Prime Residential Prices- Sales & Rents



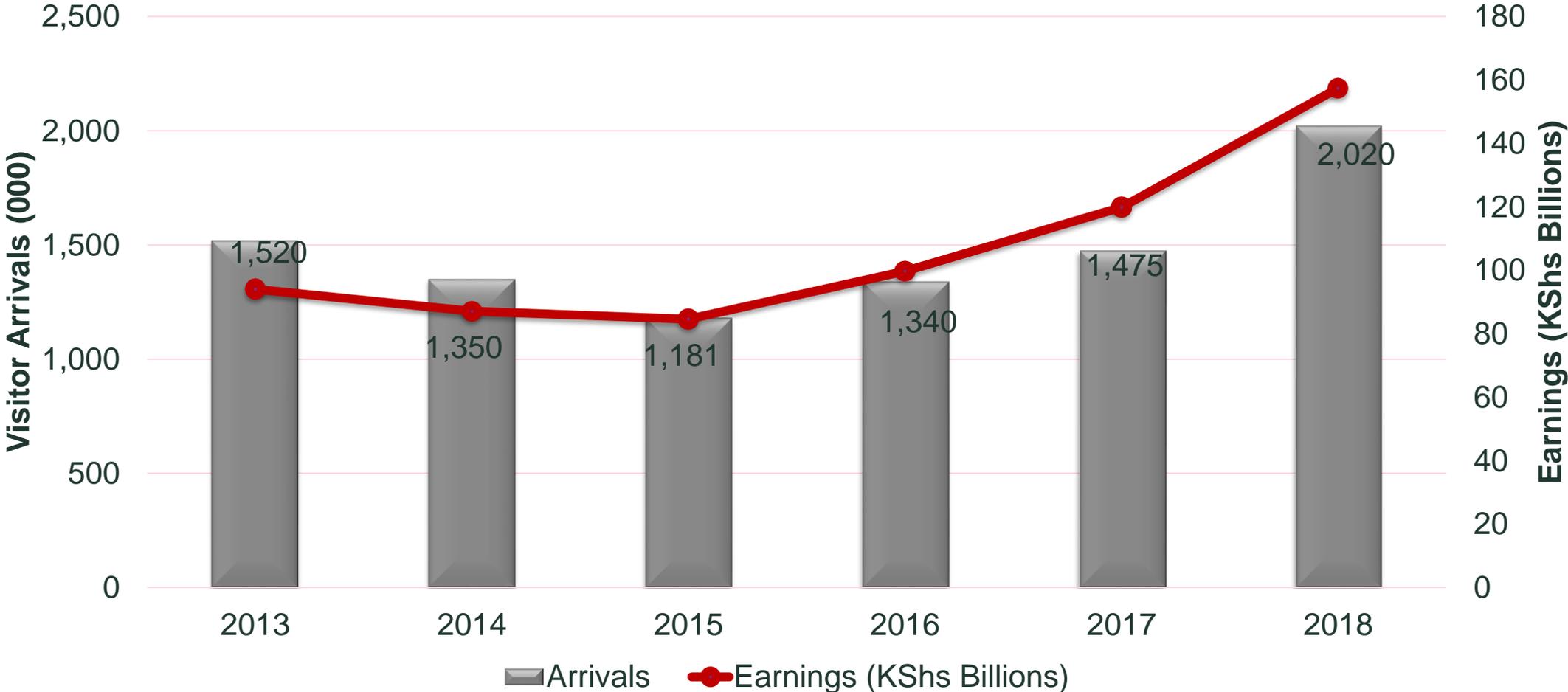
Annual Change in Prices



Government's Affordable Housing Role out



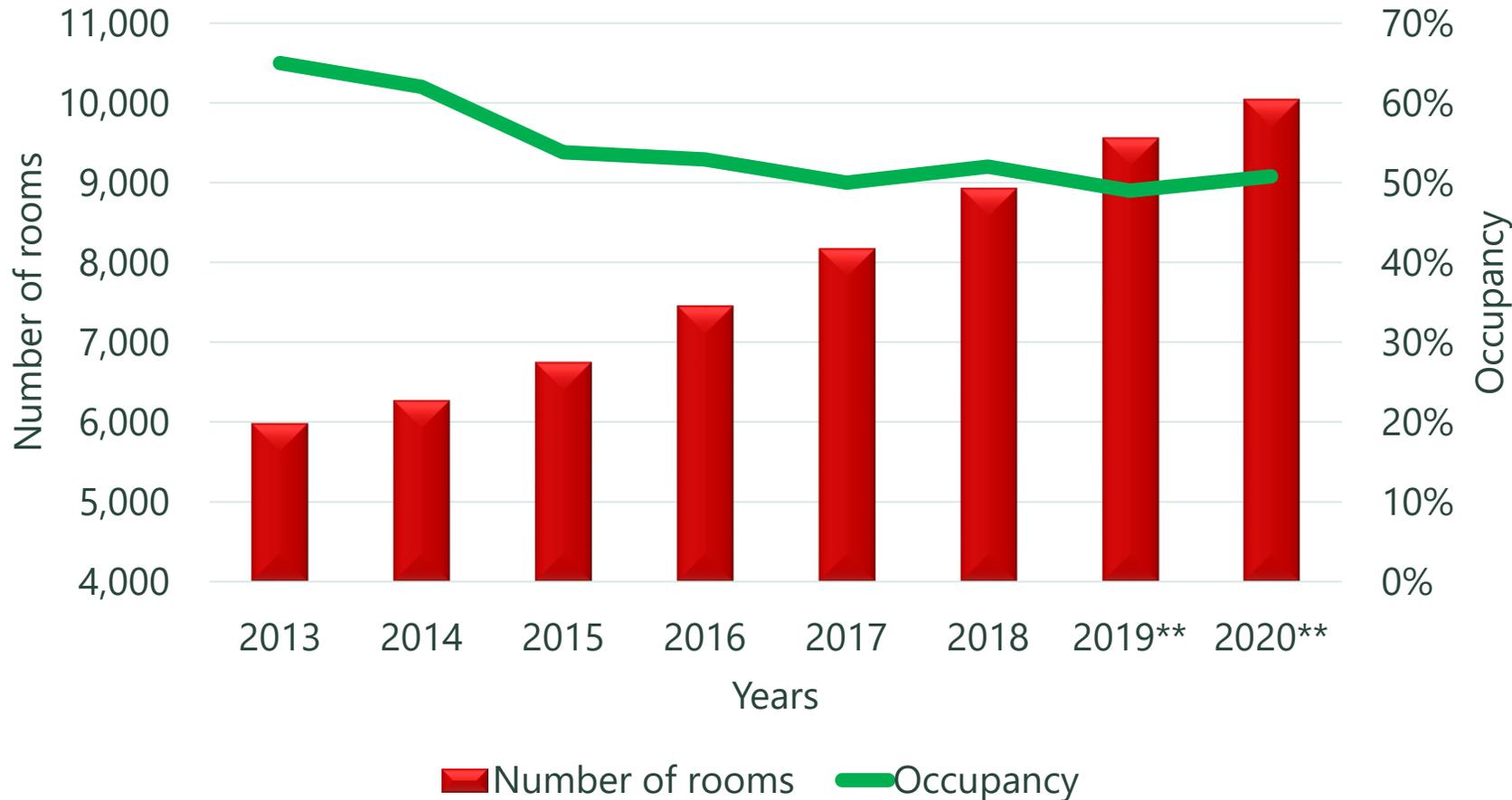
vi) Hospitality



Source: Kenya National Bureau of statistics

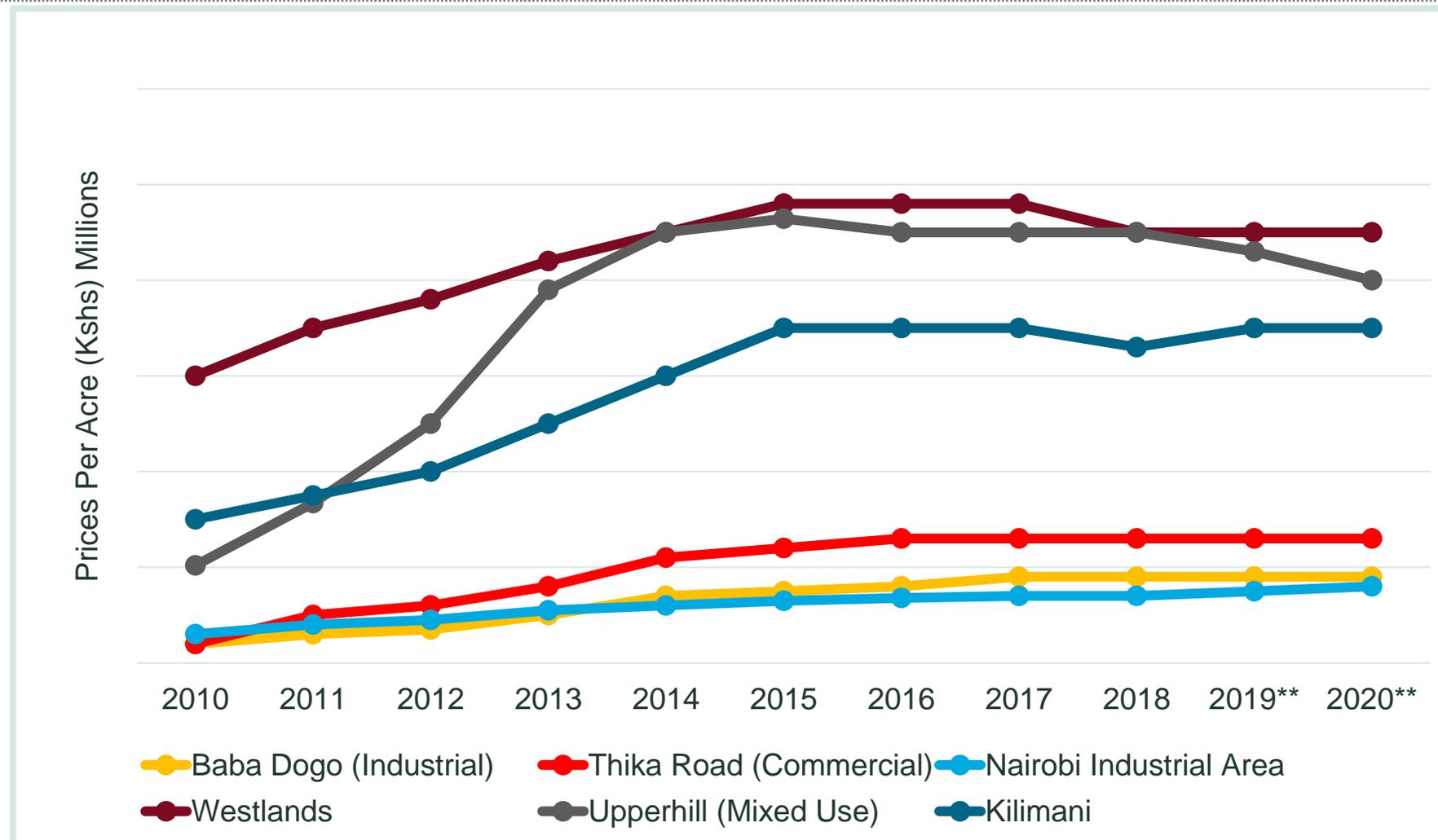
vi) Hospitality- Nairobi

Cumulative Room Supply Vs Occupancy



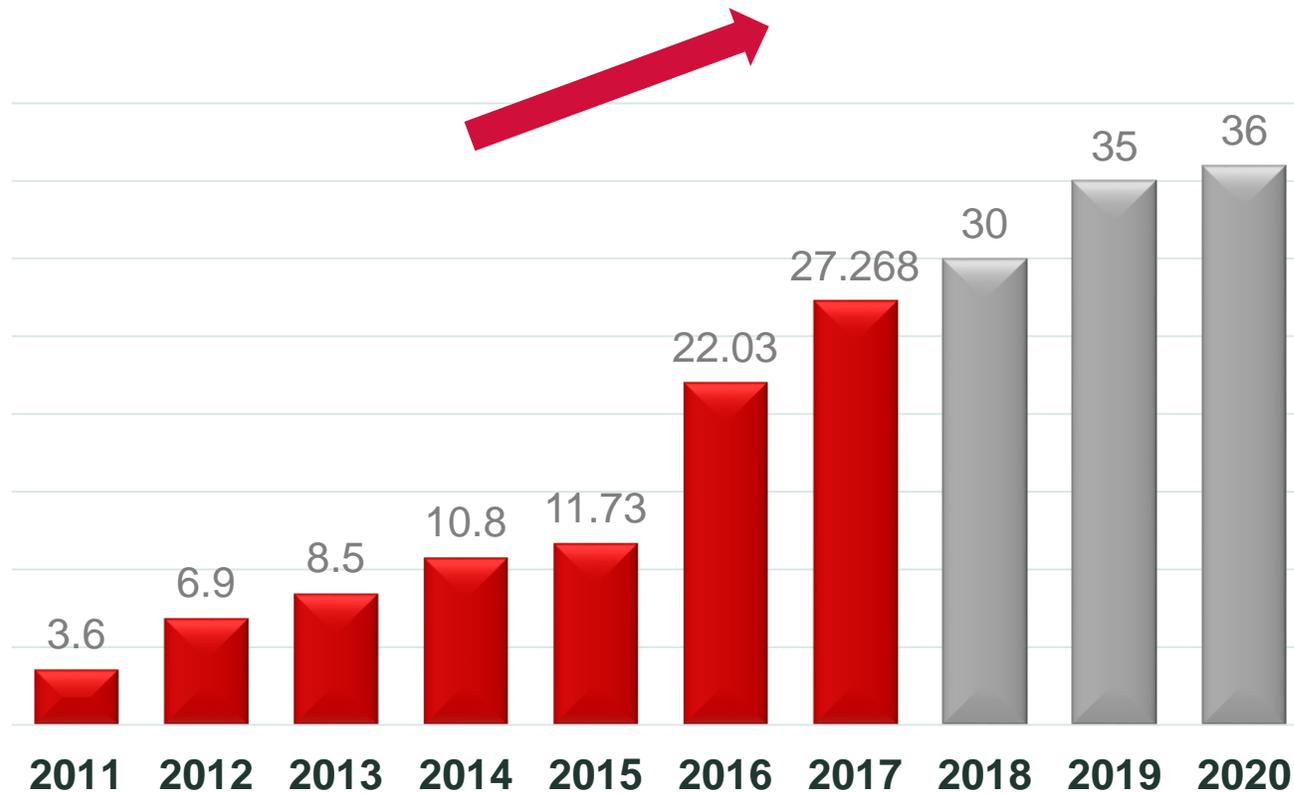
**90% Increase
in the total
number of
rooms since
2010.**

vii) Land Values Over Time



Non Performing Mortgages

Non Performing Loans (In Billions) Mortgage (KShs)



Conclusions

- Market has been steadily declining since 2016
- The key question - is this a “correction” or a fundamental shift
- Signs of a more stable, less volatile and maturing market
- Best in class still performing
- Infrastructure changes/improvements creating opportunities
- Deals are happening but slow and volumes are a long way down
- Bargain hunters are at work price sensitive.



Panel discussions.....



KENYA PROPERTY DEVELOPERS ASSOCIATION (K.P.D.A) THEME - THE CHALLENGING KENYAN ECONOMY – PROSPECTS IN REAL ESTATE

ALTERNATIVE FINANCING OPTIONS

29th October 2019

Mr. George Pande
KCB Bank (K) Limited – Mortgage Division
Head, Strategy & Product Development
Radisson Blu Hotel, Nairobi, Kenya



First principles - what is Real Estate?

Real Estate refers to a physical/tangible asset be it land, buildings/property as well as all associated rights above and below the ground

Real Estate can fall into the following categories;

- Residential
- Commercial
- Industrial
- Land

How to Finance Real Estate/Purpose

Real Estate acquisition is through;

- Purchase/Development
- Renting
- Inheritance

Purpose(s) of acquisition;

- Own occupation
- Cash flow generation

Challenge of Real Estate Financing

Main Challenge;

Requires large capital outlay – difficult to meet from personal savings

Conventional Sources; Supply

- Debt (Commercial Banks/Institutional Lenders/Life Insurance Companies/Off Shore Capital)
- Equity (self-financing)
- Presales (down payments for housing projects)

Conventional Sources; Demand

- Debt/Formal mortgage finance (Commercial Banks/Institutional Lenders)
- Equity (self-financing)
- Tenant Purchase Schemes (TPS) – Rent To Own
- Non-mortgage finance (personal & SACO loans)

Real Estate Financing Alternatives

Proposed alternative sources; Supply

- Joint Ventures
- Peer lending
- Mezzanine finance sources

Proposed alternative sources; Demand

- REIT's - Asset class that provides both small and large investors with a platform to own real estate either directly or indirectly through a collective scheme.
- ABS would involve the sale of part of a lenders mortgage loan book to investors in the form of tradable securities listed on the Nairobi Securities exchange through securitization. *[securitization is the process of transformation of an illiquid financial asset such as loan receivables into a tradable security]*

Role of Kenyan Banks in Real Estate Funding

Current practice

- Predominantly Debt financing - both as a supply and demand side intervention.

Proposed

- Address affordability – under developed medium-to-low income housing market due to increased price of units as well as increased cost of land and building materials limits the Banks roles in formal mortgage finance as seen in the number of active mortgages (26,000)
- Long-term funding – address the challenge of mismatch of long term assets to short term deposits in the market. KMRC, Long Term Bonds/Off Shore Capital are options.
- Lobby GOK to establish well-developed infrastructure and social amenities to support estate development out of key towns where land is cheaper.
- Taking an active role in housing policy formulation noting that the right to housing is a key deliverable that will help Kenya in its quest to attain middle income status, this is through;
 - Lobby for a policy framework that supports the entire real estate value chain which will in turn spur real estate finance uptake
 - Innovation – in conjunction with other stake holders Banks need to take a lead role in championing use of alternative technology in construction to drive efficiency and make more housing affordable.
 - Incentivizing first time home buyers by reducing the initial closing costs that are still a big challenge to home ownership.

Attracting Capital for Real Estate Development

Considerations for attracting Real Estate investment capital

- Will I get my money back?
- Is the proposed ROI realistic?
- Is the potential for returns proven?
- Is there a proven track record of similar successful ventures

Making a difference in the Kenyan Real Estate Market

- Traditional model of housing finance will have the least friction but will not have a significant impact on the Kenyan housing market.
- Few players and new entrants will continue to reap high margins on their small projects without alleviating the housing crisis.
- We need to consider an option that will re-evaluate the entire real estate eco-system.
- We need to critically look at the entire value chain and seek to provide alternative and practical solutions in;
 - ✓ Affordable development finance (project funding)
 - ✓ Efficient / Alternative building technology
 - ✓ Government subsidy to contractors
 - ✓ Higher tax breaks on construction inputs for scale projects.
 - ✓ Affordable end buyer finance that will tap into different financing models like incremental and multi-generational mortgages.

What can we do differently – Supply side interventions

- Project Structuring – In addition to direct project funding, consider joint ventures (JV) and equity partnerships
- Balance Sheet Constraints – Syndication/Guarantees/SBLC instruments as alternatives for use by lenders.
- Scalability of Projects – large scale projects are the way of the future and will have greatest impact but given our present circumstance we might need to scale down to begin implementation.
- Market Risk – Clear Exit Mechanisms – undertake demand analysis to map out effective demand and implement real estate projects for sale through a demand-driven-supply model
- Long term sustainability is a consideration that must be at the core of the planning and implementation of any real estate projects (Environmental & Social Due Diligence/Green Agenda)
- Facilitate industrial production of housing units – investment in technology will improve the efficiency in production of housing units, and by setting up industrial production plants we can develop a wide array of possible construction alternatives.
- A value chain approach is also necessary and GOK/Developers should consider investment in the whole construction value chain to have control over inputs and have an opportunity to control margins and in turn reduce house prices

What can we do differently – Demand Side Interventions

- Facilitating measuring affordability/demand analysis to inform supply strategies
- Adopt a segmented approach to housing development to meet the needs of different individuals on the basis of their income levels
- Use of the sweat equity concept in project execution – local communities can act as a source of skilled, semi-skilled or unskilled labor as part of their contribution to the project with a view to securing units in lieu of wages.
- Support through the implementation of an integrated approach to housing development that will create master planned communities to serve the needs of all targeted home buyers under social, affordable and open market housing.

GOK as an enabler

We need to establish a balance between project implementation and the dependencies required of GOK

- Confidence in Government Agencies & Institutions needs to be restored to ensure that the sanctity of government sanctioned projects/developments is beyond reproach - recent spate of demolitions for developments on riparian land and road reserves being a case in point.
- Greater use of local materials and more innovative use of cheaper, more readily available materials could significantly help to bring down overall construction costs.
- Private Mortgage Insurance remains a limited product. A larger scheme potentially supported by a public sector institution could assist in taking some of the credit risk associated with lending to those on lower incomes and expand access.
- Establishing a mortgage liquidity facility as a medium to long term option for providing longer term resources. A mortgage liquidity facility under Kenya Mortgage Refinance Company (KMRC) is already being established and will be an effective, low cost institution with the main purpose of providing long term funding to the banking sector.
- Subsidy on inputs/tax relief – by allowing tax and import duty waiver on inputs towards provision of affordable housing, GOK can create an enabling environment for developers to pass on this benefit to the eventual home buyers.

Conclusion

The confluence between the identified demand and supply side interventions alongside the support from the Banking sector, anchored by GOK as an enabler will be the recipe that will catalyze housing demand and the real state sector in general

With this, the required off-take to address the perceived market risk will be apparent.

This will in turn give confidence to contractors and stakeholders in the real estate supply space to double their efforts and create an opportunity for both regional and global capital to come in and support the real estate industry in Kenya and in this way we can have an opportunity to implement and apply all the alternative real estate financing options we have detailed here in.

THANK YOU