Introduction

Real estate in Kenya has been on an increase in recent years, driven by both the need to develop proper shelter for the population and to tap into the financial viability of the sector. Several firms in the country have undertaken the set-up of buildings, which range from apartment complexes to bungalows and even shopping complexes. Individuals with adequate financing have also ventured into real estate, with most preferring to construct rental bedsitters or apartments. Home Afrika is one such entity operating in Kenya. this report will cover Home Afrika's operations, including its core business, the challenges it faces and will provide a detailed analysis of the business.

Overview

As the world embraces urbanization, the number of people moving into cities and towns has been on the increase. By 2030, the United Nations estimates that up to 40% of the global population will be in need of proper housing, with about 96,150 housing units per day being required. Sub-Saharan Africa which includes Kenya, has a population of about 199.5 million slum dwellers, a situation which has underscored the need for housing upgrades as well as the development of new units. Home Afrika has not only taken advantage of the prevailing situation to put up residential units, it has also ventured into more commercial projects.

In Kenya, apartments average KES20,000 in rental payments monthly for two or three bedroom units while purchase prices average about KES7 million depending on the location. With regards to housing units, purchase prices average between about KES8.8 and KES14.7 million, with rental prices averaging about KES50,000 monthly. Commercial spaces for establishments such as banks, restaurants and supermarkets have also gained popularity. Purchase prices average about KES18 million while monthly rental fees average about KES100,000.

Corporate Analysis

About Home Afrika

Home Afrika was founded in 2008, and was incorporated in the same year. It is located in Morning Park, Ngong Road, Nairobi.The company operates in Kenya as a property development company and as at March 2016 is the only real estate company listed in the Nairobi Securities Exchange, and it is abbreviated HAFR. It falls under the growth enterprise market segment (GEMS) at the bourse and was the first to be listed when the segment was launched in the country in 2013. In its year of listing, Home Afrika was valued at KES8 billion ($78.7 million).

Property Portfolio

The company has a number of projects in the country. Its strategy has been a county approach, where is has shifted its attention from the Nairobi area. Migaa is a golf estate currently under development and is one of the company’s most outstanding projects. It is located in Kiambu County. Within Migaa is Mitini Scapes, a project which consists of cottages and apartments. Other projects which are under the Home Afrika are the Tamarind Tree Residence also under Migaa and Kantafu Gardens, the latter of which is 45 minutes from the central business district. Across all counties in the country, Home Afrika has projects valued at KES20 billion ($197 million).

Financial Performance

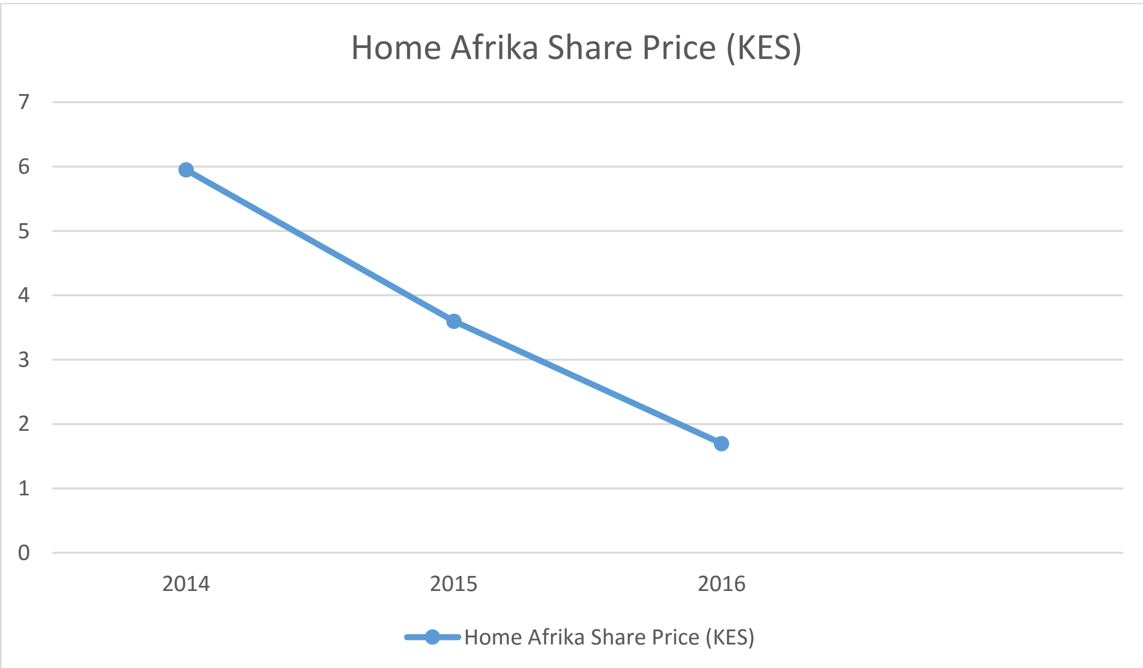
Home Afrika's financial performance has fluctuated over the years since its listing on the bourse in 2013. Despite the aforementioned revenues and profit postings, real estate in the country has proved quite a challenge for the firm. In 2013, Njoroge Ng'ang'a was appointed chief xecutive officer, replacing Gerald Chege. In the same year, the company reported a revenue increase of 46% post-listing to KES650 million, with about 40 million shares listed for trading. Between 2013 and 2013, Home Afrika's gross profit increased from KES101.9 million to KES388.9 million, a 73.8% upturn. In 2014, revenues grew further according to the company's financial statements to stand at KES687 million from KES651 million in 2013. Total assets also increased to KES3.7 billion in 2014 from KES3.1 billion the previous year. However, despite the upturn in revenues and assets, the operating costs incurred by the company also increased, moving up from KES262 million in 2013 to KES447 million in 2014.

The situation took a turn for the worse for the real estate company going into 2015. Between January and June 2015, Home Afrika made losses which amounted to KES118.15 million. The firm's financial performance dipped to the extent of leaving the company with no choice but to issue a profit warning in the same year. This also saw its share price reduce significantly and struggle to regain its value. When it listed in the securities exchange, the Home Afrika share was valued at KES12 a share.

In the third quarter of 2015, the real estate developer fired Mr Ng'ang'a after posting poor financial results. Between January and June 2013, the company made KES112.8 million in losses, despite reporting a KES31 million profit in 2012. Due to the fluctuation in revenue, Home

Afrika’s share price has significantly dropped in value as has been previously graphically illustrated. With shareholders losing their trust in the company and opting to sell off their shares, Home Afrika’s financial difficulties have become further aggravated.

The following illustration presents Home Afrika’s share price performance. It is important to note that during listing, the Home Afrika share was valued at KES12 each.



Management Analysis

Home Afrika’s organization structure includes a board of directors, flowed by executives and general managers in a hierarchical system.in 2013, several new general manager positions were created in line with the company’s 2013-2018 strategic plan.

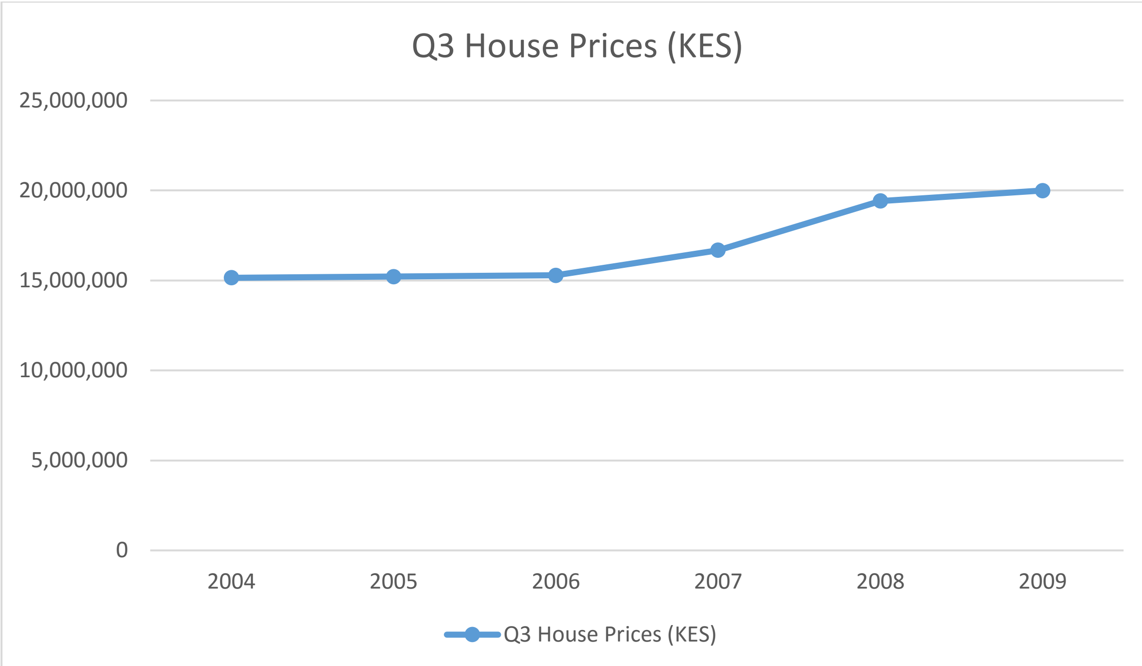
The management of Home Afrika take a cautious and risk-averse approach to their investment decision. Rather than develop properties throughout the country, they have opted to focus on key flagship projects, the most noteworthy being the Migaa project. The major disadvantage of this is that since Migaa is Home Afrika's flagship project, the delays that have plagued its completion has diminished investor confidence in the developer. Management has failed to diversify the company's portfolio by concentrating almost solely on housing units as opposed to venturing into commercial spaces and thus spreading its footprint countrywide.

With regard to financial performance, the company's management has done a wanting job. Despite having been listed for 3 years, the company is yet to anchor itself steadily in the Kenyan market. Its losses have dealt a blow to the share price, affecting market capitalization and very significantly adversely affecting investor confidence. Linked to financial performance is Home Afrika's operational streak, over which management is in charge. The poor financial performance as have been aforementioned directly point to poor or misinformed operational skills within the company's ranks.

Industry Risks

Business Cycles and Demand

Business cycles in Kenyan real estate are relatively stable. Due to the shortage of housing units especially for low and middle income earners who make up a majority of the population, demand has been steady. The following is a representation capturing house prices, and therein, demand.



Source: HassConsult Limited

The Kenyan real estate market is yet to experience any bust, and therefore the ever-increasing demand trend presents a viable situation which Home Afrika can take advantage of. However, the downside of the upward price trend is that middle and low income earners are increasingly getting locked out of the list of potential purchasers. This has left only a marginal number of wealthy individuals with the financial capability to invest in property, a factor which has negatively affected Home Afrika. With competitors actively looking to enter long term arrangements with such wealthy persons and corporates, Home Afrika faces stiff competition in marketing its product portfolio, and its supply is grossly unmatched by commensurate demand. Furthermore, the absence of sufficient high end clientele has seen the company drag its feet in completing most of its projects, thereby depleting its finances significantly and forcing added leverage for it to remain a going concern.

Entry Barriers

A significant industry risk is the establishment of barriers to market entry. With more entry barriers, a firm risks making marginal profits and losses in the most extreme cases. However, such entry barriers also serve to protect the interests of established market players in some instances. In the Kenyan scenario, the lack of a regulatory body lifts one of the major entry barriers, which allows any individual of firm interested in real estate development in Kenya to enter the market. This has both made players more liberal in their operations and increased competition for clientele in the sector due to the many involved firms.

Competitive Environment

Real estate development in Kenya has a number of players who present competition to Home Afrika. They have embarked on various long term projects, and the company's strategic plan should devise ways of staying ahead of them if it is to remain relevant and improve its financial standing.

Suraya Property Group Limited

Suraya Property Group Limited is a private Kenyan firm which deals with real estate, both acquiring and putting up buildings. It is owned by Pete and Sue Muraya and was incorporated in 2006. The company has a string of projects which range from residential units to business premises. Examples include completed projects like Loneview Maisonettes, Rosslyn Gardens and Spring Valley Business Park, and ongoing projects such as Lynx, Tiara and Terrace. A large majority of Suraya's projects are within Nairobi and its environs. The company's target clientele is the middle to high income bracket, with luxury apartments, maisonettes and bungalows on offer.

Knight Frank Kenya Limited

Knight Frank Kenya Limited is a real estate company in Kenya, and was established locally in 1998. The main offices are at Lion Place in the upmarket Westlands area of Nairobi. It has a portfolio of several high profile entities as its clients, including The British High Commission, the Korean Embassy, Shell, the Embassy of Japan, Price Waterhouse Coopers and NIC Bank, among others. Knight Frank is involved in residential and commercial space provision both on rental and purchase basis. Its international status provides it with a steady supply of capital to fund its operations. Knight Frank offers high end property in Nairobi and the coastal region.

Myspace Properties

Myspace Properties is a real estate firm that specializes in property development and marketing. It operates primarily in Mombasa. The firm facilitates renting and purchase of buildings, as well as land purchases and property management for its clients. Some of its properties include Nyali Bridge Creek, Darad Gardens and Windsong Apartments, among others.

Greenspan Housing

Greenspan Housing is a real estate firm located in Nairobi. The firm was established in 2008. Its properties range from maisonettes and apartments, and it also has the Greenspan Shopping Mall under its portfolio. The properties are located in Donholm, in Nairobi’s Eastlands area.

In 2014, the real estate developer issued corporate bonds to plug its cash deficit. Its flagship Migaa project at the time was estimated to require KES2.5 billion, along with additional funds to complete other projects at the coast and in Nyanza. The delay in completion of key projects has been attributed to the projected cash deficit that the company has experienced, despite bringing shareholders on board post-listing.

Regulation

There are no specific regulatory bodies in Kenya as at 2016 which regulate property developers. In addition to that, property sellers are only governed by land-related legislation, allowing a number of loopholes to exist owing to the fact that the laws are specifically tailored to handle land and not property. There are often cases of unscrupulous agents who sell the same property to a number of buyers, in most cases without the knowledge of the owner or developer. This has led to ownership disputes but owing to the absence of a central regulatory body, most of these cases go unaddressed. Home Afrika is, therefore, bound to operate according to business ethics and adhere to a general code of conduct which is observed by property developers in totality.

Rivalry

The lucrative nature of the real estate development sector in Kenya has increased rivalry in recent times. This is especially so with the entrance of small scale and individual developers into the market. In addition to this, the government’s Vision 2030 development blueprint has increased investor interest in Kenya, spurring a need for increased housing and commercial unit set-up. As such, rivalry in the market has become intensified, with such establishments as business parks and shopping malls becoming popular projects. The shortage of housing units has also seen market entrants setting up serviced apartments in several parts of the country, especially in urban areas. Home Afrika has a limited advertising and marketing chain and hence, its reach has been limited to its own advertising efforts as opposed to sourcing external advertisers and marketers, further aggravating the rivalry situation the company finds itself in.

Conclusion

Real estate in Kenya is on the rise, with demand for housing and commercial units increasing over time. This has been contributed to in part by the rural-urban migration in search of employment in the formal sector by the high number of university and college graduates. Additionally, the government's long term strategic development plan that is Vision 2030 has stirred foreign investors' interest, thus making real estate development more lucrative. Home Afrika, however, has been faced with financial difficulties which have slowed down the completion of its flagship project, on which it depended to catapult itself into mainstream development locally. The lack of a sufficient advertising chain as well as highly risk-averse approach by management has in part affected the company's performance. Concentrating on high end property without diversifying to cushion itself in the event of losses as the company has done has further diminished hopes of recovery without seeking additional leverage. As at March 2016, there is no central body which regulates real estate development in Kenya, a fact which has brought with it a number of disadvantages. Key among these is the allowance for fraud by realtors with or without collusion with developers. The establishment of a specialized oversight body is thus necessary, so as to cut down on the liberal nature of the local sector. With improved management skills, a more risk tolerant philosophy and a more diversified product portfolio, Home Afrika can potentially turn its fortunes around and make a mark in Kenyan real estate development.