Cytonn 2025 Markets Outlook

Cytonn

Date: Sunday, January 12th 2025

Table of Contents

VI. Real Estate Market Outlook

Market Outlook 2025 - Real Estate in Kenya Overview

We have a NEUTRAL outlook for the Real Estate sector in 2025

- In 2024, the general Real Estate sector continued to witness considerable growth in activity in terms of property transactions and development activities. Consequently, the sector's activity contribution to Gross Domestic Product (GDP) grew by 5.5 % to Kshs 283.8 bn in Q3'2024, from Kshs 268.9 bn recorded during the same period in 2023. In addition, the sector contributed 10.8% to the country's GDP, 0.3% points increase from 10.5% recorded in Q3'2023. Cumulatively, the Real Estate and construction sectors contributed 16.5% to GDP, 0.2% points decrease from 16.7% in Q3'2023, contributable to decline in construction contribution to GDP by 0.4% points, to 5.7% in Q3'2024, from 6.1% recorded in Q3'2023.
- In the Nairobi Metropolitan Area (NMA), various Real Estate sectors, including Residential, Commercial Office, Retail, Hospitality, and Mixed-Use Development, realized average rental yields ranging from 5.4% to 8.4% in FY'2024. This resulted in an overall rental yield of 7.2%, showing a 0.1% increase from FY'2023. The sector maintained a **NEUTRAL** outlook for 2025, driven by factors like ; i) infrastructural development, ii) government and private sector focus on affordable housing, iii) focus on mortgage financing through the KMRC, iv) improved investor confidence amid recovery of the hospitality sector, v) aggressive expansion by both local and international retailers in a bid to maintain market dominance, and, vi) Kenya's positive demographics driving housing demand. However, factors such as increased construction costs on the back of inflation, constrained financing to developers with increased underdeveloped capital markets, oversupply in select sectors and low of investor appetite in Real Estate Investments Trusts (REITs) are expected to continue impeding performance of the sector.

Key Factors Driving the Real Estate Sector

Improving infrastructure, recovery of the hospitality sector, expansion by retailers and positive demographics continue to drive Kenya's Real Estate sector performance

Factors	DESCRIPTION
Infrastructural development	The government has continually prioritized infrastructural development in efforts aimed at positioning the country as a regional hub through the implementation of several key projects including, Makupa Bridge, Nairobi Expressway, Nairobi Western and Eastern Bypasses among others. Notable projects delivered in 2024 include phase two of the Dongo Kundu bypass project,
Affordable housing initiative	The Kenyan government has continued to put its best foot forward towards delivering affordable housing to its citizens. Currently, the AHP pipeline boasts an estimated total of 730,062 housing units under construction by both the government and private sector. This is according to the Architectural Association of Kenya (AAK's) Status of the Built Environment Report 2024. In addition, the government is developing a pool of resources geared towards the provision of affordable housing through the affordable housing levy, which the Affordable Housing Bill 2023 which was accented into law and took effect in 2024
Focus on mortgage financing by the KMRC	Kenya Mortgage Refinance Company (KMRC) has continued to drive the availability and affordability of home loans to Kenyans by providing single-digit fixed rate, and long-term finance to Primary Mortgage Lenders (PMLs) such as banks and SACCOs. Recently, KMRC, broadened its refinancing services to include non-shareholders, such as SACCOs and microfinance institutions. This is a strategic move to improve access to affordable mortgages, particularly for low and middle-income earners, a key target of Kenya's affordable housing agenda.
Recovery of the hospitality sector	Increase in investor confidence has greatly influenced hospitality sector and this is evident through mergers, acquisitions and expansions of hotels. Furthermore, the number of international arrivals into the country registered a 7.2% year-to-year (y/y) increase to 144,996 persons as of September 2024 from 135,248 arrivals recorded in September 2023. Notably, the Hotel Chain Development Pipelines in Africa 2024 Report ranked Nairobi at 7th position by planned number of hotels and rooms with 31 hotels and 4,268 rooms in the pipeline
Aggressive expansion in the retail sector	The retail landscape has seen a surge in growth, with both domestic and international retailers like Naivas, QuickMart, China Square, and Carrefour aggressively expanding their market presence. These retailers are capitalizing on the opportunities created by the exit of distressed chains like Choppies, Nakumatt, Tuskys, and Uchumi.
Positive Demographics	With relatively high urbanization and population growth rates of 3.8% p.a and 1.9% p.a, respectively, against the global average of 1.5% p.a and 0.8% p.a, respectively, as at 2022, there is a sustained demand for more housing units in the country, and Real Estate in general

Key Challenges Facing the Real Estate Sector

Constrained financing to developers is a challenge affecting the Real Estate sector's performance

Factors	DESCRIPTION
Oversupply in Select Sectors	With approximately 5.8 mn SQFT in the NMA commercial office market, approximately 3.0 mn SQFT in the Nairobi Metropolitan Area (NMA) retail market, with the rest of the Kenyan retail market having an oversupply of approximately 1.7 mn SQFT. This has led to prolonged vacancy rates in the respective Real Estate sectoral themes.
Constrained Financing for Developers	Constrained financing to developers as lenders continue to tighten their lending requirements and demand more collateral from developers as a result of the high credit risk in the real estate sector. This is evidenced by an increase in gross non-performing loans in the building and construction sector which increased by 18.0% on a y/y to Kshs 43.8 bn in H1'2024 from Kshs 35.9 bn in H1'2023.
Underdeveloped Capital Markets	It is difficult to develop pools of capital focused on projects, particularly in the private markets, to supplement government efforts in providing housing. Banks in Kenya are the primary source of funding for real estate developers, providing nearly 95.0% of funding as opposed to 40.0% in developed countries. This means that capital markets contribute only 5.0% of Real Estate development funding, compared to 60.0% in developed countries.
Subpar performance of listed Real Estate	The REITs market in Kenya continues to be subdued owing to various challenges such as the large capital requirements of Kshs 100.0 mn for trustees compared to Kshs. 10 mn for pension fund Trustees, which limits the role to banks, prolonged approval process for REITs, only a few legal entities capable of incorporating REITs, high minimum subscription amounts or offer parcels set at Kshs 0.1 mn for D-REITs and 5.0 mn for restricted I-REITs and lack of adequate knowledge of the financial asset class by investors.

Real Estate Themes Outlook

Cytonn

2025 Real Estate Sector Outlook

The overall outlook for the sector in 2025 remains NEUTRAL

Thematic Performance and Outlook		
Themes	**2025 Outlook**	**Effect**
Residential	• The demand for housing is anticipated to remain strong in 2025, fueled by favorable population demographics. The government's increased focus on executing its affordable housing agenda is likely to stimulate further growth in the sector. Moreover, the expansion and development of infrastructure projects are expected to boost the sector, along with government initiatives to provide low-cost loans to Kenyans through the Kenya Mortgage Refinance Company (KMRC), which aims to improve homeownership opportunities. Conversely, we expect the sector to be weighed down by the prevailing tough economic environment such as the low penetration of mortgages, soaring cost of building materials and land prices affecting construction cost in the long run	**Neutral**
Commercial Office	• We expect the sector to remain stable with a slight improvement by 0.2% in rental yields recorded in FY'2025, attributable to an expected increase in overall rental rates by 3.0% in FY'2025. However, the sector continues to face challenges due to a significant oversupply of office space, currently standing at 5.8 mn SQFT as at FY'2023.	**Positive**
Retail	• We expect a slight increase in rental yields by 0.3% points as a result of continued expansion by local and international retailers, driven by evolving consumer preferences and market trends, infrastructure improvements, including ongoing road and railway projects, are set to increase accessibility to key retail zones, unlocking further investment opportunities, and favorable demographic trends, such as a growing urban population, will sustain demand for retail goods and services. However, oversupply of physical space, increased adoption of e-commerce, and limited financing options for retail businesses are expected to undermine the performance of the sector in turn affecting rental yields of the sector during the year	**Neutral**
Hospitality	• We expect the sector to continue registering improved performance moving forward in terms of overall hotels in operation, hotel bookings, and hotel occupancies by factors like aggressive marketing campaigns by the government and strategic partnerships with partners in the global tourism industry such as Airlines. However, we remain cautiously optimistic due to stiff competition from neighbouring countries and travel advisories issued by countries like United States and Canada to their citizens due to threat of terrorism and elevated crime rates.	**Positive**

2025 Real Estate Sector Outlook, Cont'…

We expect a positive outlook in the land sector with an annual capital appreciation of 3.0%

Thematic Performance and Outlook		
Themes	**2025 Outlook**	**Effect**
Land	• We retain a **POSITIVE** outlook for the land sector in the Nairobi Metropolitan Area (NMA). we anticipate that land in the NMA will continue on upward trajectory to coming in at a sector average price of Kshs 131.2mn in FY'2025 a 3.0% increase, from Kshs 130.9 mn recorded in FY'2024 supported by continued activities by players on both the demand and supply sides.	**Positive**
Infrastructure	• We anticipate the government will continue with its aggressive efforts toconstruct and rehabilitate roads, bridges, railways, airports, and affordable housing units, among others, in a bid to attract and position Kenya as a regional business hub for investors. • However, this efforts may be slowed down by the reduction in allocation to state department of roads by 7.6% in the supplementary budget FY'2024/25, to ksh 178.7 bn from the ksh 193.4 bn set in the FY'2024/25 budget. we anticipate there will be a decline in the number of infrastructure projects completed, while the number of stalled infrastructure projects across the country is expected to continue rising due financial constraints.	**Neutral**

2024 Real Estate Sector Outlook, Cont'…

With 2 themes having a positive outlook and 6 neutral, the general outlook for the sector therefore is NEUTRAL

Thematic Performance and Outlook		
Themes	**2025 Outlook**	**Effect**
Industrial	• We expect continued growth in the sector as investors continue to respond to the growing demand for industrial space. Data centers, cold rooms, growth in e-commerce and fast-moving consumer goods will drive growth in the industrial sector • we expect a slight increase in development activities in the industrial sector through government support in line with its Bottom Up Economic Transformation Agenda (BETA) which aims to tap into the manufacturing sector to create wealth, employment and reduce poverty levels among Kenyan citizens.	**Neutral**
Real Estate Investment Trust	• In 2024, the Kenyan REIT market foresees limited activity, with ILAM Fahari I-REIT planning to delist from the NSE and move to the USP. This decision aligns with the operational restructuring strategy of the REIT manager, ICEA Lion Asset Management, placing Fahari I-REIT alongside Acorn REITs on the USP. The sector, facing challenges like restricted investor access and a lag behind other African nations, aims to improve through initiatives such as the proposed Kenya National REIT (KNR) and business restructuring efforts by industry players, contributing to the overall enhancement of the real estate capital markets • Challenges persist, including low investor awareness, prolonged approval procedures, a high minimum capital requirement for trustees, and a steep minimum investment amount. Nevertheless, initiatives like KNR, operational restructuring, and the Vuka Investment Platform launched in late 2022 are anticipated to neutralize these challenges, fostering improved performance in Kenya's real estate capital markets	**Neutral**
With 3 themes having a positive outlook and 5 neutral, the general outlook for the sector therefore is NEUTRAL. The sector's performance will be supported by; i) infrastructural development, ii) government and private sector focus on affordable housing, iii) focus on mortgage financing through the KMRC, iv) improved investor confidence amid recovery of the hospitality sector, v) aggressive expansion by both local and international retailers in a bid to maintain market dominance, and, vi) Kenya's positive demographics driving housing demand. However, factors such as increased construction costs on the back of inflation, constrained financing to developers with increased underdeveloped capital markets, oversupply in select sectors and low of investor appetite in Real Estate Investments Trusts (REITs) are expected to continue impeding performance of the sector.		

2025 Key Areas of Opportunities in the RE Sector

The table below shows the investment opportunities across the themes

Cytonn Report: The Key Areas of Opportunities by Theme in Real Estate Sector			
Sector	**Themes**	**Locations**	**FY'2024 Performance**
Residential	High End (Detached)	Lower Kabete and Rosslyn	Relatively high annual returns averaging 6.0%, and 5.2%, respectively, compared to the high-end market's average of 4.9%, while the average rental yields stood at 4.9% and 5.2%, respectively, compared to the market average of 4.8% and price appreciations averaging 1.1% and 0.0%, respectively
	Upper Middle (Detached)	South B/c and Loresho	Relatively high annual returns averaging 6.3% for South B/C and 5.7% for Loresho, compared to the Upper-Middle market's average of 5.3%, with price appreciations of (0.1%) and 0.1%, respectively, compared to the market average capital appreciation of 0.3%
	Lower Middle (Detached)	Kitengela and Ngong	Relatively high annual returns for Kitengela and Ngong at 6.7% and 6.4% respectively, compared to the Lower-Middle market's average of 5.5% total returns to investors
	Upper Mid-End (Apartments)	Westlands and Parklands	Relatively high annual returns averaging 10.6% and 7.7%, respectively in comparison to the Upper Mid-End market's average of 7.1 % with relatively high rental yields averaging 6.3% and 6.2%, respectively, while price appreciation came in at 4.4% and 1.5%, respectively
	Lower Mid-End (Suburb Apartments)	Kahawa west and Gagoretti	Relatively high annual returns averaging 12.0% and 11.5%, respectively, compared to the market's average of 6.5% with relatively rental yields averaging 3.6% and 9.6%, respectively, while price appreciation came in at 8.3% and 1.9%, respectively
	Lower Mid-End (Satellite Apartments	Ngong and Ruaka	Relatively high annual returns averaging 9.3% and 8.3% respectively, compared to the Lower Mid-End market's average of 5.7% with relatively high rental yields averaging 6.2% and 5.1%, respectively, while price appreciation came in at 3.1% and 3.2% respectively

2025 Key Areas of Opportunities in the RE Sector Cont’

The table below shows the investment opportunities across the themes

The Key Areas of Opportunities by Theme in Real Estate Sector			
Sector	**Themes**	**Locations**	**2024 Performance**
Commercial Office Sector	**Grade A Offices**	**Gigiri, Westlands and Kilimani**	They offered rental yields of 8.8%, 8.5% and 8.3%, compared to the market average of 7.8% as a result of their superior locations characterized by Grade A spaces that attract high-end clients and offer premium rental rates
Retail Sector	**Suburban Malls**	**Karen, Kilimani and, Westlands**	Relatively higher returns of 10.0%, 9.8%, and 9.1% respectively, compared to the market average of 8.4%, attributed to presence of high-quality retail spaces fetching the high rents, coupled with the availability of quality infrastructure services. Additional opportunity also lies in the undersupplied regions of the country such as Mount Kenya, Western and the Coast
Hospitality Sector	**Serviced Apartments**	**Westlands, Limuru Road, and Kilimani**	The areas recorded average rental yields of 11.0%, 9.1%, and 8.8%, respectively, surpassing the market average of 7.3% in 2024. This was due to their proximity to the CBD, the existence of top-tier serviced apartments commanding premium rates, convenient accessibility, and their closeness to international.
Land Sector	**Unserviced Land**	**Juja, Utawala, Limuru**	The areas recorded annualized capital appreciations of 6.3%, 5.7% and 4.8% respectively compared to market average of 4.5%.
	Serviced Land	**Rongai,Athi-river and Ruai**	The areas recorded the highest annualized capital appreciations of 7.1%, 3.3% and 3.2% against an average of 3.2%.

V. Real Estate Market Outlook

Cytonn

2025 Residential Sector Outlook (Demand)

Of the five factors we track on the residential demand, one positive, three are neutral and one is negative, thus our outlook for demand in 2025 is neutral with a bias on the positive

Cytonn Report: Residential Demand Outlook		
Metric	**2025 Outlook**	**Effect**
Demographics	• According to World Bank Kenya has relatively high urbanization and population growth rates averaging 3.8% and 2.0% respectively, compared to the global averages of 1.7% and 0.9%, respectively, as of 2023. This will continue to provide sustained demand for more housing units in the country	**Positive**
Infrastructure	• The government aims at completing various infrastructural projects in the country including Makupa Bridge, Nairobi Expressway, Nairobi Western and Eastern Bypasses and various satellite areas improvement programs. Nairobi-Addis Ababa Railway project is slated to begin this year as part of LAPSSET corridor	**Neutral**
Investor Returns	• Residential sector in 2024 recorded a slight decrease in average total returns to 5.8%, from 6.1% in 2023. This is linked to the decrease in price appreciation at 0.4% in FY'2024, 0.2%-points lower than the 0.6 % appreciation recorded in FY'2023. Investors also increased their asking rents in order to hedge themselves against the tough economic conditions • We expect more investments in the lower mid-end Suburbs towns with average total returns of 5.5% performing better than detached units average of 5.2%. Apartments in Kahawa west, Dagorreti and Westlands recorded the highest returns at 12.0%, 11.5%, and 10.6% respectively, higher than the market average of 6.4%	**Neutral**

2025 Residential Sector Outlook (Demand), cont'd…

Of the five factors we track on the residential demand, one positive, three are neutral and one is negative, thus our outlook for demand in 2025 is neutral with a bias on the positive

Purchasing Power	• As the tough macro-economic environment persists evidenced by the high taxes, buyer's purchasing power will continue to be weakened. This will weigh down the performance in the residential sector by hindering uptake	**Negative**
Access to Credit	• The government has continued to promote access to affordable credit through the Kenya Mortgage Refinance Company (KMRC) which has been crucial in providing Kenyans with low-cost loans increasing home ownership • However, lenders continue to ask for more collateral against loans advanced to the real estate sector due to the increase of Non-performing loans. In Q2'2024 the Non-Performing loans advanced to the real estate sector stood at Kshs 114.3 bn compared to Kshs 117.1 bn in Q2'2023, which is a 2.4% decrease, and the developers are still struggling to payback their loans	**Neutral**

2025 Residential Sector Outlook (Supply)

Of the five factors that we expect to shape residential supply, one is negative, three are neutral, and one is positive, and thus our outlook is neutral with a bias on the positive

Cytonn Report: Residential Supply Outlook		
Metric	**2025 Outlook**	**Effect**
Developer Returns	• In 2024, residential sector recorded a slight downtrend in performance, with the average total returns to investors coming in at 5.8%, a 0.3%-point decline from 6.1% recorded in FY'2023. The performance was attributed to a decrease in the residential average y/y price appreciation which came in at 0.4% in FY'2024, 0.2%-points lower than the 0.6% appreciation recorded in FY'2023, driven by slowed property transactions during the year. On the other hand, the average rental yield came in at 5.4% in FY'2024, recording a 0.1%-points decline from the 5.5% rental yield recorded in FY'2023. This was driven by a decline in the average rent per SQM by 5.3 % to Kshs 567, from Kshs 599 recorded in FY'2023. • Going forward, we expect developers will eye on lower-middle segment offering an average total return of 5.5% for detached and Upper Mid-End offering a return of 7.2% for the apartment units. This is attributable to relatively higher average price appreciation of 0.6% and 1.2% respectively, 0.2 % and 0.8% points, for detached and apartments respectively, higher than the detached market average appreciation of 0.4% • Conversely, developers' activities are expected to be hit by the soaring cost of constructions amid a rise in the prices of key construction materials despite eased inflation and currency appreciation	**Neutral**
Access to Financing	• Accessing funding remains a hurdle for developers in Kenya due to the underdeveloped capital markets. As a result, majority of developers heavily depend on traditional funding sources like banks which accounts for 95.0%, unlike 60.0% in developed countries. Due to the increase in loan defaulting, the banks require high securitization blocking off developers from accessing financing • In 2025, we expect developers will continue to seek alternative financing options to fund their projects including equity financing, seeking for Public-Private Partnerships (PPPs), pushing for off-plan sales as conventional lending rates continue to be high	**Neutral**

2025 Residential Sector Outlook (Supply), cont'd…

Of the five factors that we expect to shape residential supply, one is negative, three are neutral, and one is positive, and thus our outlook is neutral with a bias on the positive

Development Costs	• In 2025, developers will be hit by the rising cost of major construction materials such as cement and steel which registered a 10.0% increase in FY' 2024, majorly driven by high taxes which has continued to act as hindrance in Real Estate investment	**Negative**
Infrastructure	• The rejection of the Finance Bill 2024 introduces potential challenges. The bill's withdrawal may lead to a significant shortfall in projected revenue for the financial year 2024/2025, which could impact funding for essential services, including infrastructure development. Despite this, the Kenya's infrastructure development outlook for 2025 is poised for growth as the government has expressed a commitment to robust infrastructure development in 2025, indicating that the government plans to focus on implementing key projects to stimulate economic growth, but securing alternative funding sources will be crucial to achieving these objectives. • Infrastructural development will be a big boost in the residential sector, driving the cost of properties up as well as encouraging developers to commit their resources to development projects. Some of the projects in the pipeline such as; Nairobi-Naivasha SGR phase 2, affordable housing projects, expansion of major roads in the urban areas to ease congestion.	**Neutral**

2025 Residential Sector Outlook (Supply), cont'd…

Of the five factors that we expect to shape residential supply, one is negative, three are neutral, and one is positive, and thus our outlook is neutral with a bias on the positive

Government Incentives	• The government has made efforts to developers in a bid to reduce house deficit in the country, Some of the incentives initiated by the government includes; i) reduction of corporate tax for developers who build a minimum of 100 low cost units from 30.0% to 15.0% under affordable housing program, ii)) exemption of VAT on importation and local purchase of goods for the construction of houses under the affordable housing scheme, iii) forging for reforms in property registration in order to fast track approvals for developers in the affordable housing program, iv) increased efforts by the government to provide land to county governments for construction of affordable housing units, v) reduced tariffs on imported inputs for the construction of housing under the affordable housing scheme, (vi) VAT exemptions for construction inputs for affordable housing program, and, (vii) exemption from 4.0% (urban areas) and 2.0% (rural areas) stamp duty for first time buyers of houses under the affordable housing scheme • These incentives will go a long way in promoting home ownership as well solving housing deficits in the country	**Positive**

2025 Residential Sector Outlook, cont'd…

Our outlook on residential sector performance in 2025 remains NEUTRAL

Cytonn Report: Residential Performance Review and Outlook			
Theme	**2024 Performance**	**2025 Outlook**	**Outlook**
Residential Sector	• During FY'2024, the NMA residential sector recorded a slight downtrend in performance, with the average total returns to investors coming in at 5.8%, a 0.3%-point decline from 6.1% recorded in FY'2023. The performance was attributed to a decrease in the residential average y/y price appreciation which came in at 0.4% in FY'2024, 0.2%-points lower than the 0.6% appreciation recorded in FY'2023, driven by slowed property transactions during the year. • On the other hand, the average rental yield came in at 5.4% in FY'2024, recording a 0.1%-points decline from the 5.5% rental yield recorded in FY'2023. This was driven by a decline in the average rent per SQM by 5.3 % to Kshs 567, from Kshs 599 recorded in FY'2023.	• The demand for housing is anticipated to remain strong in 2025, fueled by favorable population demographics. The government's increased focus on executing its affordable housing agenda is likely to stimulate further growth in the sector. Moreover, the expansion and development of infrastructure projects are expected to boost the sector, along with government initiatives to provide low-cost loans to Kenyans through the Kenya Mortgage Refinance Company (KMRC), which aims to improve homeownership opportunities. Conversely, we expect the sector to be weighed down by the prevailing tough economic environment such as the low penetration of mortgages, soaring cost of building materials and land prices affecting construction cost in the long run	**Neutral**

Our outlook remains NEUTRAL for the residential sector. On the supply side, our outlook is neutral as we expect the government to intensify its affordable housing activities country wide as it aims to deliver 200,000 units annually. We also expect the private sector to play a crucial rule in supplementing government efforts to bridge the housing deficit. In addition, infrastructural development will play a pivotal role in supporting the development of residential projects. On the demand side, our outlook remains neutral, owing to the tough macro-economic conditions currently being experienced in the country which has weakened buyers' purchasing power.

2025 Commercial Office Sector Outlook

We expect the sector to remain stable

Cytonn Report: Summary of Commercial Office Returns in Nairobi Metropolitan Area (NMA) Over Time

Year	FY'17	FY'18	FY'19	FY'20	FY'21	FY'22	FY'23	FY'24	Forecasted Annualized Change	2025 F	Reason for Focus	Outlook
Occupancy (%)	82.6%	83.3%	80.2%	77.7%	77.6%	79.4%	80.3%	80.7%	(0.9%)	79.8 %	We expect 0.9% points decrease in occupancy rates which may be attributable to an incoming supply of new offices compared to a similar period last year. Moreover, the existing oversupply estimated at 5.8 mn SQFT in the Nairobi Metropolitan Area (NMA) is expected to further weigh down on the absorption rates. However, we expect occupancy levels to be supported by an anticipated entry of new renters such as entry of multinationals and start-ups into the country	Negative
Asking Rents (Kshs/Sqft)	101	101	96	93	94	96	103	105	3.0%	108	In FY'2025, we expect a 3.0% increase in asking rents which may be attributed to an increased supply of prime offices fetching higher rents such as the Highway Heights, The Atrium, Purple Tower, and Mandrake in Westlands.	Positive
Average Prices (Kshs/Sqft)	12,649	12,573	12,638	12,280	12,106	12,223	12,673	12,614	0.7%	12,69 6	Asking prices are expected to realize a 0.7% increase in FY'2025 as construction prices continue to soar and also an increase in demand for co-working spaces by multinationals and startups in the country.	Positive
Average Rental Yields (%)	7.9%	8.1%	7.5%	7.0%	7.3%	7.6%	7.7%	7.8%	0.2%	8.0%	We expect the yields to realize a slight improvement of 0.2% points attributed to the expected improvements in the overall rental rates. However, we expect the projected decline in occupancies to weigh down the sector's optimal performance	Positive

2025 Commercial Office Sector Outlook, cont….

We expect a slight increase in performance by 0.2% points

Cytonn Report: Retail Performance Review and Outlook			
Theme	2024 Performance	2025 Outlook	Outlook
Commercial Office sector	• In FY'2024, the average rental yields showed resilience with 0.1%-points increase, coming at 7.8% in FY'2024 from 7.7% in FY'2023. This is attributable to an increase in asking rents by 1.7% to Ksh 105 in FY'2024 from Ksh 103 in FY'2023. • The improvement in performance was mainly driven by; high number of Grade A offices which are highly preferred especially by multinational companies, high demand for quality offices by embassies, international organizations and multinational companies in prime areas that are have ease of access to the capital.	• We expect the sector to remain stable with a slight improvement by 0.2% in rental yields recorded in FY'2025, attributable to an expected increase in overall rental rates by 3.0% in FY'2025.The improved performance may be supported by; i) the increasing presence of multinational companies in Kenya is likely to drive up occupancy levels, ii) co-working spaces are gaining in popularity in the region iii) the gradual return to "working from office" after the Covid-19 pandemic, iv) more start-ups are expected to drive demand for commercial spaces, and v) a considerable uptake of prevailing commercial office spaces. However, the sector continues to face challenges due to a significant oversupply of office space, currently standing at 5.8 mn SQFT as at FY'2023.	**Positive**

From the above, our overall outlook for the Nairobi Metropolitan Area commercial office sector is POSITIVE. We expect the sector to remain stable with a slight improvement attributable to: i) increased entry of multinationals companies into the country, ii) Kenya's continued recognition as a regional business hub which continues to attract multinational companies expanding into the continent, iii) increasing number of start-ups.We expect that an increased incoming supply compared to a similar period last year and the existing oversupply estimated at 5.8 mn SQFT in the Nairobi Metropolitan Area (NMA) will weigh down on the sector's performance by stifling absorption rates

2025 Retail Sector Outlook

We expect retail space supply to increase to 8.8 mn per SQFT in 2025 due to new developments

Cytonn Report: Nairobi Metropolitan Area (NMA) Retail Sector Performance 2017-2024F											
Item	**FY' 18**	**FY'19**	**FY'20**	**FY'21**	**FY'22**	**FY'23**	**FY'24**	**Forecasted Annualized Change**	**2025F**	**Reason for Forecast**	**Outlook**
Asking Rents (Kshs/SQFT)	178	176	169	170	174	182	**184**	**2.2%**	**188**	We expect asking rents to increase by 2.2% mainly driven by enhanced business confidence among investors, influencing demand for available retail spaces and consequently leading to higher rental rates. This is expected to coincide with the ongoing economic recovery from the shilling depreciation against the dollar and easing of inflationary pressures. In addition, there are various upcoming retail developments in the pipeline such as the Cove and Kilimani Retail Mall.	**Positive**
Supply in Nairobi (mn SQFT)	6.5	7.3	7.3	7.3	8.2	8.3	**8.5**	**3.9%**	**8.8**	We expect retail space supply to increase to 8.8 mn per SQFT in 2025 with the addition of an estimated 42,977 SQM through malls such as The Cove in Lavington, Lana Plaza in Kileleshwa, Park Place Avenue in Parklands and Beacon mall in Upperhill. During the year, we expect the Kilimani Retail Centre to be delivered to the market, providing approximately 50,000 SQFT of gross area. The project targets the middle class in the area as it neighbors a relatively populated residential zone. Other notable developments expected in NMA include the Kenya Mall "The Beacon" in Upper Hill, and the Cove, which will deliver 1,137 SQM of gross space and will be located in Lavington.	**Positive**

2025 Retail Sector Outlook

We expect an increase in rental yields by 0.3% in 2025 due to increased rental charges for spaces

Cytonn Report: Nairobi Metropolitan Area (NMA) Retail Sector Performance 2017-2024F											
Item	FY' 18	FY'19	FY'20	FY'21	FY'22	FY'23	FY'24	Forecasted Annualized Change	2025F	Reason for Forecast	Outlook
Occupancy (%)	79.8%	75.9%	75.2%	76.8%	77.6%	79.3%	**82.2%**	**1.8% points**	**84.0 %**	The current oversupply of 3.6 mn SQFT, coupled with escalating rental charges on retail properties, a challenging economic environment marked by tax hikes on goods and businesses, may lead businesses to consider reducing their operational spaces or taking a more cautious approach to expansion. This is likely to put pressure on the occupancy rates of physical spaces in the formal retail sector. Nevertheless, there is a positive outlook, driven by the expectation of ongoing expansion and the entry of new local and international retailers. This optimism is fueled by the expansion of operations and the discovery of opportunities in underexplored areas, which is positively impacting occupier demand.	**Neutral**
Average Rental Yields	9.0%	7.8%	7.5%	7.8%	7.9%	8.3%	**8.4%**	**0.3% Points**	**8.7%**	We expect a slight increase in rental yields by 0.3% points due to rising rental costs for retail spaces and the aggressive expansion of retailers into new and previously occupied areas. Additionally, infrastructure developments that open up new investment opportunities, along with favorable demographics, are expected to bolster sector performance. However, challenges such as oversupply, the growing adoption of e-commerce, a challenging economic environment for businesses, and the presence of informal retail spaces are likely to undermine the sector's performance, ultimately impacting rental yields.	**Neutral**

2025 Retail Sector Outlook, cont….

We have a NEUTRAL outlook for the sector with performance expected to be cushioned by continuous expansion campaign of both local and foreign retailers

Cytonn Report: Retail Performance Review and Outlook			
Theme	**2024 Performance**	**2025 Outlook**	**Outlook**
Retail Sector	• The sector recorded 3.6% points to 82.2% in FY'2024, from 78.7% recorded in FY'2023. Average rents and occupancies also increased by 1.2% and 3.6% points to Kshs 184 per SQFT and 82.2%, respectively • The improved performance was due to; i) aggressive growth strategies implemented by both domestic and international retailers such as Naivas, QuickMart and Carrefour,and, ii) continuous demand for consumer goods and services supported by positive demographics, encouraging further expansions from current retailers,	• We expect a slight increase in rental yields by 0.3% points as a result of; i) continued expansion by local and international retailers, driven by evolving consumer preferences and market trends, ii) infrastructure improvements, including ongoing road and railway projects, are set to increase accessibility to key retail zones, unlocking further investment opportunities, and iii) favorable demographic trends, such as a growing urban population, will sustain demand for retail goods and services. However, oversupply of physical space, increased adoption of e-commerce, and limited financing options for retail businesses are expected to undermine the performance of the sector in turn affecting rental yields of the sector during the year • Investment opportunity lies in areas such as Westlands, Karen, and Kilimani which continue to record impressive returns. This is in addition to the undersupplied regions of the country such as Mount Kenya, western and the Coast	**Neutral**

We maintain a NEUTRAL outlook on the retail sector's performance for 2025, influenced by several factors; i) continued expansion by local and international retailers, driven by evolving consumer preferences and market trends, ii) infrastructure improvements, including ongoing road and railway projects, are set to increase accessibility to key retail zones, unlocking further investment opportunities, and iii) favorable demographic trends, such as a growing urban population, will sustain demand for retail goods and services. However, growth could face challenges from: i) oversupply issues, with around 3.6 n SQFT of retail space available in Nairobi and an additional 1.9 mn SQFT countrywide, leading to low occupancy rates and rental yields, ii) e-commerce adoption, increasingly shifting retail demand online, pushing brick-and-mortar outlets to adapt, and iii) limited financing options for retail developments, along with high costs, are likely to hinder investment, especially for small and medium-sized enterprises (SMEs) that need to adopt technology to stay competitive

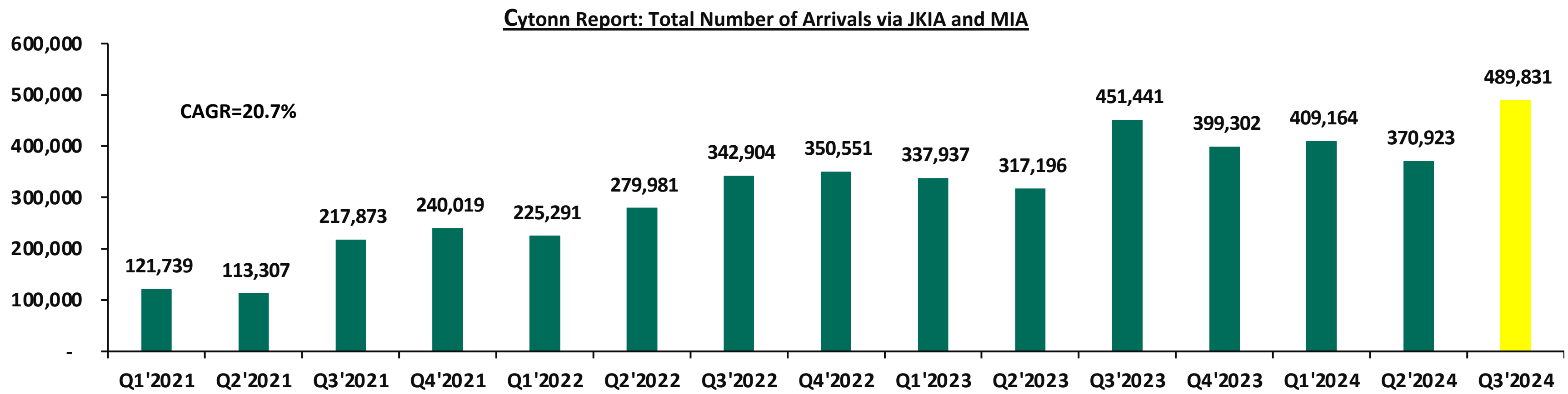
2025 Hospitality Sector Outlook

We maintain a Positive outlook for the hospitality sector,

- The hospitality sector achieved notable advancements, as indicated by the Kenya National Bureau of Statistics' Leading Economic Indicators – September 2024 report which highlighted that arrivals through Jomo Kenyatta International Airport (JKIA) and Moi International Airport (MIA) registered an increase of 8.5% to 489,831 visitors in Q3' 2024 from 451,441 visitors recorded in Q3' 2023.
- Serviced apartments improved on y/y, with the occupancy rates coming in at 72.2% in 2024, a 5.8%-points increase from the 66.4% recorded in 2023. The average monthly charges for 2024 increased by 4% to Kshs 3155 per SQM from 3,044 recorded in 2023. Consequently, the average rental yield increased to 7.3% in 2024, a 0.5%- points increase from the 6.8% recorded in 2023.The graph below shows the number of international arrivals in Kenya between Q1'2021 and Q3' 2024;
- We maintain a positive outlook for the hospitality sector, supported by several key drivers: i) aggressive marketing campaigns promoting Kenya's tourism, expected to boost tourist arrivals and improve occupancy rates at hospitality venues, ii) continued international recognition of Kenya's tourism industry, enhancing its status as a leading tourist destination and drawing more global visitors.
- However, while the sector demonstrated resilience in its overall performance in 2024, the outlook remains cautiously optimistic due to i) Kenya continues to face significant competition from neighboring markets, ii) difficulty in accessing finance as lenders demand more collateral to cushion themselves owing to elevated credit risk, and iii) occasional release of cautionary statements by governments like China and United States to their citizens advising them against travelling to Kenya due to threats like terrorism and elevated crime rates.

2025 Hospitality Sector Outlook cont.…

Expected increased international arrivals to be among the key factors that will cushion the hospitality sector in 2025



Source Kenya National Bureau of Statistics (KNBS)

- The Kenya National Bureau of Statistics' Leading Economic Indicators – September 2024 report which highlighted that arrivals through Jomo Kenyatta International Airport (JKIA) and Moi International Airport (MIA) registered an increase of 8.5% to 489,831 visitors in Q3' 2024 from 451,441 visitors recorded in Q3' 2023.
- This was attributable i) aggressive marketing campaigns promoting Kenya's tourism, boosting, ii) continued international recognition of Kenya's tourism industry, enhancing its status as a leading tourist destination and drawing more global visitors, iii) strategic partnerships within the tourism sector, fostering innovation and collaboration to capitalize on new opportunities, iv) events and initiatives aimed at increasing tourism activity and improving guest experiences.

2025 Hospitality Sector Outlook, cont'd…

Sector investment opportunities in 2025 lie in Westlands, Kilimani and Kileleshwa/Lavington

Theme	2024 Performance	2025 Outlook	Effect
Hospitality Sector	• In 2024, serviced apartments' year-on-year (y/y) performance improved, with the occupancy rates coming in at 72.2% in 2024, a 5.8%-points increase from the 66.4% recorded in 2023. The average monthly charges for 2024 increased by 4% to Kshs 3155 per SQM from 3,044 recorded in 2023. Consequently, the average rental yield increased to 7.3% in 2024, a 0.5%- points increase from the 6.8% recorded in 2023. • The sector's overall performance improved attributable to increasing number of visitor arrivals in the country by 8.5% to 489,831 visitors in Q3' 2024 from 451,441 visitors recorded in Q3' 2023 Which increased the number of hotels in operation, hotel bookings and bed occupancies during the year,	• We expect the sector to continue registering improved performance moving forward in terms of overall hotels in operation, hotel bookings, and hotel occupancies supported by; : i) aggressive marketing campaigns promoting Kenya's tourism, expected to boost tourist arrivals and improve occupancy rates at hospitality venues, ii) continued international recognition of Kenya's tourism industry, enhancing its status as a leading tourist destination and drawing more global visitors, iii) strategic partnerships within the tourism sector, fostering innovation and collaboration to capitalize on new opportunities, iv) events and initiatives aimed at increasing tourism activity and improving guest experiences. • However, while the sector demonstrated resilience in its overall performance in 2024, the outlook remains cautiously optimistic due to i) Kenya continues to face significant competition from neighboring markets, ii) difficulty in accessing finance as lenders demand more collateral to cushion themselves owing to elevated credit risk, and iii) occasional release of cautionary statements by governments like China and United States to their citizens	Neutral

- ***Our outlook for the hospitality sector is POSITIVE. We expect the sector to continue registering improved performance moving forward in terms of overall hotels in operations, hotel bookings, and hotel occupancies. However, we anticipate the above mentioned factors to weigh down sector performance***

2025 Land Sector Outlook

We expect average selling prices land in the NMA to experience an improvement to Kshs 131.2mn

All Prices in Kshs (mn) Unless Stated Otherwise										
Nairobi Metropolitan Area Land Performance Trend										
Location	Price in 2017	Price in 2018	Price in 2019	Price in 2020	Price in 2021	Price in 2022	Price in 2023	Price in 2024	2025F	Annual Capital Appreciation 2025 F
Unserviced land- Satellite Towns	20.4	22.7	24.9	12.7	13.5	15.1	15.4	16.1	17.0	5.8%
Serviced land- Satellite Towns	14.4	14.3	14.3	14.8	16.4	17.8	18.7	19.3	20.6	6.6%
Nairobi High End Suburbs- Low- and High-Rise Residential Areas	120.4	124.7	127.2	126.8	130.3	137.4	135.7	137.3	140.0	2.0%
Nairobi Middle End Suburbs- High Rise Residential Areas	77.6	77.8	81.7	83.6	83.0	80.9	82.3	85.3	85.7	0.5%
Nairobi Suburbs - Commercial Areas	429.8	447.3	428.5	413	410.8	403.4	392.6	396.4	392.4	-0.1%
Average	132.5	137.4	135.3	130.2	130.8	131.0	128.9	130.9	131.2	3.0%

- The Nairobi Metropolitan Area (NMA) land sector recorded an average annualized capital appreciation of 2.7% in FY'2024 to Kshs 130.9 mn from Kshs 128.9 mn recorded in FY'2023.
- Going forward we anticipate that land in the NMA will continue on an upward trajectory to come in at Kshs 131.2mn in FY'2025 a 3.0% increase, from Kshs 130.9 mn recorded in FY'2024. This may be attributable to increasing demand for land in satellite towns, positive demographics, and government focus on infrastructural development opening up satellite towns for investment.

2025 Land Sector Outlook, cont.…

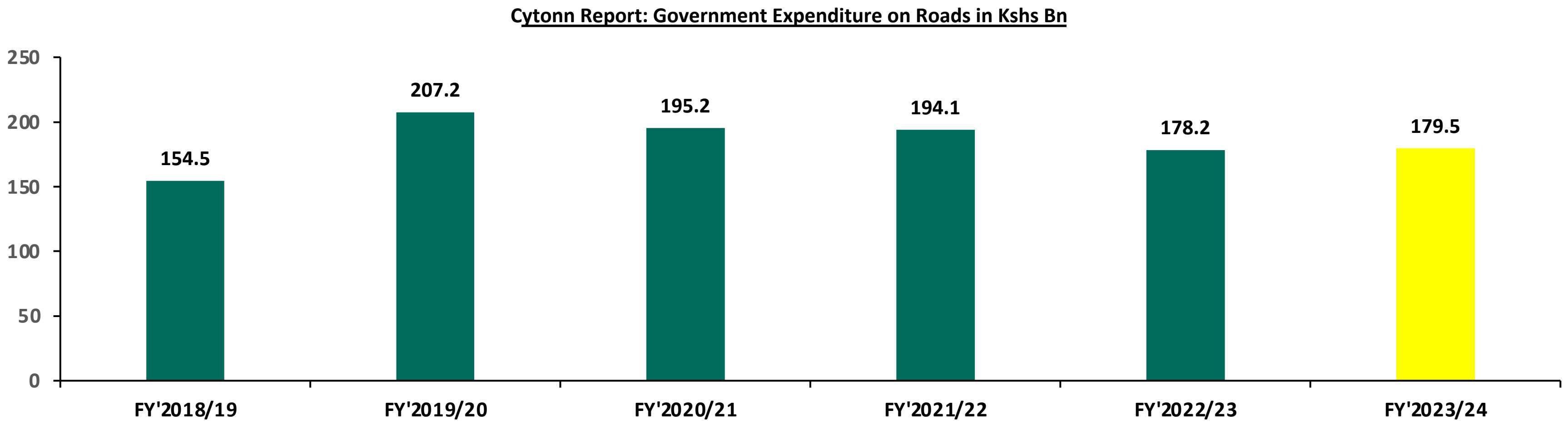
We retain a POSITIVE outlook for the land sector which has displayed great resilience even during times of economic hardship

Sector	2024 Performance	2025 Outlook	Outlook
Land Sector	• The Nairobi Metropolitan Area (NMA) land sector recorded an average annualized capital appreciation of 2.7% in FY'2024 to Kshs 130.9 mn from Kshs 128.9 mn recorded in FY'2023. • The overall asking prices for unserviced land in the satellite towns and High-rise residential areas in Nairobi recorded the highest average capital appreciations of 4.5% and 3.5%, higher than the overall sector appreciation of 2.7%. • This was mainly attributed to increased demand for land in satellite towns to their relative affordability at an average of 16.1mn compared to the market average of Kshs 130.9 in the NMA and the potential for capital appreciation for land around high rise residential areas. Moreover, infrastructure developments enhancing accessibility to these areas, availability of amenities and high concentration of learning institutions around and within the areas necessitating demand land for development of student housing.	• We retain a **POSITIVE** outlook for the land sector in the Nairobi Metropolitan Area (NMA), considering it a dependable investment opportunity that has shown improving performance year on year. Going forward, we anticipate that land in the NMA will continue on upward trajectory to coming in at a sector average price of Kshs 131.2mn in FY'2025 a 3.0% increase, from Kshs 130.9 mn recorded in FY'2024. We expect the sector's performance to be driven by several factors: i) government efforts to streamline land transactions through innovative solutions such as Ardhi Sasa, ii) continued activities by players on both the demand and supply sides, iii) growing demand for land driven by positive demographics, iv) the launch of infrastructure development projects opening up satellite towns for investment opportunities, and v) the continued rollout of the Affordable Housing Program (AHP) by the government, driving further demand for land. • The investment opportunity lies in Juja, Limuru and Utawala for unserviced land, which recorded annualized capital appreciations of 6.3%, 5.7% and 4.8% respectively compared to market average of 4.5%. For serviced land, Rongai and Athiriver recorded the highest annualized capital appreciations of 7.1% and 3.3%, respectively against the serviced average of 3.2%;	**Positive**

We maintain a POSITIVE outlook for the land sector in the Nairobi Metropolitan Area (NMA), considering it a dependable investment opportunity that has shown improving performance year on year. Going forward. We anticipate that land in the NMA will continue on upward trajectory to come in at Kshs 131.2mn in FY'2025 a 3.0% increase, from Kshs 130.9 mn recorded in FY'2024.

2025 Infrastructure Sector Outlook

The expenditure on roads increased by 0.7% to ksh 179.5bn in FY’2022/23 from Ksh 178.2bn in FY’ 2023/24.



- In the FY’2024/25, the total budget allocation for infrastructure, energy and ICT stood at a substantial Kshs 477.2bn, recording a 1.9% increase from the Kshs 468.2 bn recorded for the preceding FY’2023/24. On another hand, the expenditure on roads increased by 0.7% to ksh 179.5bn in FY’2022/23 from 178.2bn in FY’ 2023/24.
- This highlights the recognition of the capital-intensive nature of infrastructure projects and their direct impact on job creation and regional economic growth. This increase aligns with the government's efforts to enhance critical infrastructure in the road, rail, energy, and water sectors, with the aim of improving transportation, lowering business costs, increasing access to amenities, facilitating cross-border trade, regional integration, and boosting Kenya's competitiveness on the global stage.

2025 Infrastructure Sector Outlook, cont….

The government has indulged in adoption of various alternatives to fund the infrastructural budget such as Issuing of Infrastructure bonds, grants, and PPPs

i) **Public-Private Partnerships with local and foreign private firms** like the upgrading to Bitumen standards and maintenance of the 90.0km Kiambu-Raini, Junction, KaspatRoad, Nduota-Gathanga-Kiguaro, and other roads funded by the Chinese African Development Bank.

ii) **Issuing of Infrastructure bonds:** Issuing of infrastructure bonds has emerged as an important financial strategy for the government in a bid to raise additional resources for infrastructure projects beyond the limits of annual budgets. In September 2024, the Central Bank of Kenya has released the auction results for the IFB1/2023/017 tap sale with a tenor to maturity of 15.7 years. The bond was oversubscribed with the overall subscription rate coming in at 234.6%, receiving bids worth Kshs 35.2 bn against the offered Kshs 15.0 bn.

iii) **Grants and loans from foreign countries** The government of Kenya continues to rely on credits and grants from international development partners as a crucial funding source for its infrastructure initiatives. These collaborations provide not only financial support but also technical expertise and knowledge sharing. Key contributors include the World Bank, which, through programs like the Kenya Urban Support Program (KUSP), has played a significant role in advancing urban infrastructure development.

2025 Infrastructure Sector Outlook, cont….

Kenya National Highways Authority (KeNHA) 2023-2027 Strategic Plan highlights that the Authority targets to construct 2,349 km of roads.

- On road network, the Kenya National Highways Authority (KeNHA) 2023-2027 Strategic Plan highlights that the Authority targets to construct 2,349 km of roads, comprising 1,183 km new road construction, capacity enhancement of 674 km and rehabilitation of 492 km. Additionally, the authority aims to cumulatively maintain 75,891 km of the national trunk road network and design 5,575 km of the road network during this period. The implementation of the Strategic Plan requires Kshs 708.7 Bn of which Ksh 99.3 Bn will be funded through PPPs, Kshs. 1.7 Bn through climate funding, and Kshs 8.2 Bn through own source revenue. Due to the governments continued efforts to improve infrastructure it is estimated that currently the road network in the country stands at 246,757 Kms out of which 162,055 Kms are classified as one of the country's largest investment.

2025 Infrastructure Sector Outlook, cont....

Our outlook for the sector is neutral supported by the government's commitment to construct affordable units but weighed down by recent budgetary cuts

Sector	2024 Performance	2025 outlook	Effect
Infrastructure Sector	• The government continued to make considerable efforts in advancing infrastructural developments across the country amid focus on achieving the Vision 2030 and Big Four Agenda • In the FY'2024/25, the total budget allocation for infrastructure, energy and ICT stood at a substantial Kshs 477.2bn, recording a 1.9% increase from the Kshs 468.2 bn recorded for the preceding FY'2023/24. • Some of the key projects implemented in 2024; launching the tarmacking of the 25-kilometre Rukuriri-Kathageri-Kanyaumbora road in Embu County, ground breaking for the tarmacking of 65.0-Kilometre-long link roads in Sombogo, Kitutu Chache and opening of the Dongo Kundu Bypass to the public among other several notable projects.	• In 2025, We anticipate the government will continue with its aggressive efforts to; i) construct and rehabilitate roads, bridges, railways, airports, and affordable housing units, among others, ii) increase its diplomacy and partnerships in development among neighbouring nations, and, iii) step up on the competition for attracting regional and international investors against other countries in Eastern Africa like Tanzania through railway connections and ports infrastructure. • However, this efforts may be slowed down by the reduction in allocation to state department of roads by 7.6% in the supplementary budget FY'2024/25, to ksh 178.7 bn from the ksh 193.4 bn set in the FY'2024/25 budget. Consequently, going forward to 2025 we anticipate there will be a decline in the number of infrastructure projects completed, while the number of stalled infrastructure projects across the country is expected to continue rising due financial constraints. Although the government acknowledges the importance of Public-Private Partnerships (PPPs) in tackling financing challenges, we believe that prioritizing PPPs is fundamental in addressing funding shortfalls. By leveraging the resources and expertise of the private sector, PPPs can support sustainable infrastructure development and stimulate economic growth.	**Neutral**

We have a NEUTRAL outlook for the sector as we expect to continue seeing the progress, and completion of more infrastructural developments in 2025 mainly supported by the above factors. However, recent budgetary cuts to the state department for housing, and a general reduction in the country's development expenditure will potentially hinder optimal performance of the sector

2025 Industrial sector outlook

We expected increased investments and activities in the industrial sector

- Kenya's industrial sector continued to demonstrate slight improvement in performance through government support, including the establishment of Special Economic Zones (SEZs) and Export Processing Zones (EPZs) to attract investments in 2024. In terms of performance, the Nairobi Metropolitan Area has been on the front line and a major contributor to the Industrial Real Estate Sector accounting for approximately 90.0% of the country's industrial space known for its high concentration of industrial projects in areas like Nairobi, Kiambu, Machakos and Kajiado; with Nairobi County holding the largest share at 66.0%, largely due to its status as the capital city. Kiambu follows, housing key industrial investments such as Tatu City, Nairobi Gate Industrial Park (NGIP), Tilisi, and Northlands City.

- Data centers and cold rooms have also been the key drivers in the industrial sector in Kenya, especially around Nairobi. This is attributable to increase in business activities are around Nairobi creating a demand for these facilities. Data centers serve as hubs that link on-site infrastructure to cloud based infrastructure, enabling visualization of networks, applications, and workloads across private and public clouds. In addition, investors in Kenya have adapted to growing demand for quality warehouses in Africa.

2025 Industrial sector outlook, Cont …

We expect continued growth as investors continue to respond to growing demand

Sector	2024 Performance	2025 outlook	Effect
Industrial sector	• In 2024, Kenya's industrial sector continued to demonstrate slight improvement in performance through government support, including the establishment of Special Economic Zones (SEZs) and Export Processing Zones (EPZs) to attract investments. In terms of performance, the Nairobi Metropolitan Area has been on the front line and a major contributor to the Industrial Real Estate Sector accounting for approximately 90.0% of the country's industrial space known for its high concentration of industrial projects in areas like Nairobi, Kiambu, Machakos and Kajiado;.	• In 2025, we expect a slight increase in development activities in the industrial sector through government support in line with its Bottom Up Economic Transformation Agenda (BETA) which aims to tap into the manufacturing sector to create wealth, employment and reduce poverty levels among Kenyan citizens. However, optimal performance in this sector may be weighed down by factors like high development costs for industrial facilities, low technological adoption and inadequate infrastructure to support operation of these facilities.	**Neutral**

We expect the sector to continue on an upward trajectory driven by: i) the rising demand for data centers in the country, ii) an increasing demand for cold rooms, especially in the Nairobi Metropolitan Area, iii) demand for quality warehouses due to the growing e-commerce business in the country, iv) support from the government, as evidenced by the establishment of Special Economic Zones (SEZ) and Export Processing Zones (EPZ), v) increased development activities by industry players such as ALP Africa Logistics, vi) Kenya's continued recognition as a regional hub, hence attracting international investors, and, vii) efforts

2025 Real Estate Investment Trust Sector Outlook

Acorn D-REIT and I-REIT opened the year trading at same unit prices recorded as at 31st October 2024

- On the Unquoted Securities Platform, Acorn D-REIT and I-REIT traded at Kshs 25.4 and Kshs 22.2 per unit, respectively, as per the last updated data on 31st October 2024. The performance represented a 27.0% and 11.0% gain for the D-REIT and I-REIT, respectively, from the Kshs s 20.0 inception price. The volumes traded for the D-REIT and I-REIT came in at Kshs s 12.3 mn and Kshs 31.6 mn shares, respectively, with a turnover of Kshs 311.5 mn and Kshs 702.7 mn, respectively, since inception in February 2021. Additionally, ILAM Fahari I-REIT traded at Kshs 11.0 per share as of 31st October 2024, representing a 45.0% loss from the Kshs 20.0 inception price. The volume traded to date came in at 138,600 shares for the I-REIT, with a turnover of Kshs 1.5 mn since inception in November 2015.
- In 2025 we expect REITS to gain popularity as developers such as Future construkt being licenced as REIT managers by the Capital Market Authority. Centum Real Estate are looking forward to launch a dollar based Income REIT and we expect that the dollar based I-REIT will: i) increase foreign investments by boosting investors' confidence against local currency uncertainties, ,ii) dollar-denominated REITs provide an alternative for investors seeking more liquid and globally recognized investment options, iii) the dollar based move is likely to set a precedent for other players in the market, encouraging the development of more innovative and investor-centric financial products, and, iv) the fund could force policy regulatory framework improvement to ensure transparency and investments protection.

2025 Real Estate Investments Trust Sector Outlook, cont'd…

The Kenyan REIT market is poised to experience minimal activity throughout 2025

Sector	2024 Performance	2025 Outlook	Outlook
Real Estate Investment Trust	• The underperformance of the Kenyan REIT sector is attributable to various factors such as; i) Insufficient understanding of the investment instrument among investors leading to a slower uptake of REIT products, ii) Lengthy approval processes for REIT creation, iii) High minimum capital requirements of Kshs 100.0 mn for REIT trustees compared to Kshs 10.0 mn for pension funds Trustees, essentially limiting the licensed REIT Trustee to banks only, iv) The rigidity of choice between either a D-REIT or and I-REIT forces managers to form two REITs, rather than having one Hybrid REIT that can allocate between development and income earning properties, v) Limiting the type of legal entity that can form a REIT to only a trust company, as opposed to allowing other entities such as partnerships, and companies, vi) We need to give time before REITS are required to list – they would be allowed to stay private for a few years before the requirement to list given that not all companies maybe comfortable with listing on day one, and, vii) Minimum subscription amounts or offer parcels set at Kshs 0.1 mn for D-REITs and Kshs 5.0 mn for restricted I-REITs. The significant capital requirements still make REITs relatively inaccessible to smaller retail investors compared to other investment vehicles like unit trusts or government bonds, all of which continue to limit the performance of Kenyan REITs.	• In 2025 we expect REITS to gain popularity as developers such as Future construkt being licenced as REIT managers by the Capital Market Authority. Centum Real Estate are looking forward to launch a dollar based Income REIT and we expect that the dollar based I-REIT will: i) increase foreign investments by boosting investors' confidence against local currency uncertainties, ,ii) dollar-denominated REITs provide an alternative for investors seeking more liquid and globally recognized investment options, iii) the dollar based move is likely to set a precedent for other players in the market, encouraging the development of more innovative and investor-centric financial products, and, iv) the fund could force policy regulatory framework improvement to ensure transparency and investments protection.	**Neutral**

2025 Real Estate Investment Trust Sector Outlook, cont'd…

We retain a NEUTRAL outlook for the Kenyan REIT sector

Sector	2024 Performance	2025 Outlook	Outlook
Listed Real Estate		• In addition, we expect the sector will continue to lag behind in comparison to other African countries such as South Africa, attributable to several challenges facing the sector such as; i) lack of sufficient investor awareness regarding the potential of REITs as an investment tool, ii) lengthy approval procedures for establishing REITs have hindered their formation and deployment in the market, iii) high minimum capital requirement of Kshs Kshs 100.0 mn for REIT trustees compared to Kshs 10.0 mn for pension funds Trustees, essentially limiting the licensed REIT Trustee to banks only,, and, iv) steep minimum subscription amounts or offer parcels set at Kshs 0.1 mn for D-REITs and Kshs 5.0 mn for restricted I-REITs. • However, we also expect the trend of strategic acquisitions to persist, with REITs actively seeking opportunities to broaden and diversify their portfolios, cater to evolving market demands and also set standards in promoting environmental sustainability such as execution of green bonds by Acorn holding.	**Neutral**

We maintain Neutral outlook for the REITs sector and we expect Kenya's Real Estate sector to remain on a growth trend, supported by: i) demand for housing sustained by positive demographics, such as urbanization and population growth rates of 3.8% p.a and 2.0% p.a, respectively, against the global average of 1.7% p.a and 0.9% p.a, respectively, as at 2023, ii) activities by the government under the Affordable Housing Program (AHP) iii) heightened activities by private players in the residential sector. However, challenges such as rising construction costs, strain on infrastructure development (including drainage systems), high capital requirements for REITs, and existing oversupply in select Real Estate sectors will continue to hinder the sector's optimal performance by limiting developments and investments.

Q & A

Cytonn

Cytonn