



## **ATHI RIVER REAL ESTATE INVESTMENT OPPORTUNITY 2017/2018**

In our [December 2017 Research Note](#), we took a look at Athi River, the township in which [Newtown](#) is located and evaluated the performance of the area as at H1' 2017. According to the note, Athi River market had an average rental yield of 6.9% with an average price appreciation of 5.7% and a total return of on average 11.4%. This week, we revisit the area to assess the real estate opportunity in the area in terms of rental yields and price appreciation as at H1' 2018. We begin with an overview of the area, factors driving real estate development and challenges facing real estate investment in the area. We also look at the performance of residential real estate in the area before winding up with the investment recommendation on the Athi River node.

### **Overview of Athi River**

Athi River is a town located 26 km South East of Nairobi, Kenya in Machakos County. The town has grown rapidly due to a number of factors including: (i) its administrative role as it is the headquarters of Mavoko Division in Machakos County, (ii) improved infrastructural development with recent developments such as the Standard Gauge Railway (SGR) train station based in the town, (iii) industrial activities that attract population to the area; the town hosts a number of factories in the cement and construction industry such as Bamburi Cement, East Africa Portland Cement Company, Blue Triangle Cement and Mabati Rolling Mills.

### **Factors Boosting Real Estate Investments in Athi River**

- **Availability of affordable development land** – Athi River has adequate land to facilitate development unlike some suburbs in the city, where development land is in low supply, leading to congestion. The land is also relatively affordable with a price per acre of on average Kshs 4.1 mn compared to other satellite Towns such as Juja, Ruiru and Ruaka with average price per acre of Kshs 9.6 mn, 19.7 mn and 77 mn, respectively according to [Cytonn Nairobi Metropolitan Area Land Report 2018](#). This has made it attractive for real estate developers and investors,
- **Industrialization** – Athi River is one of the leading industrial nodes in Nairobi Metropolitan Area, hosting major mining and cement companies such as Bamburi Cement and East Africa Portland Cement Company. This has in turn led to an incursion in terms of population and new real estate developments to accommodate the influx,
- **Improving infrastructure** – with planned expansion of Mombasa Road, presence of the SGR station in the town and construction of Athi River interchange, the town continues to witness improved infrastructure which eased access to the area hence attracting home buyers to the area which in turn has continued to attract developers to the area,
- **Beautiful views** – Athi River offer serenity and scenic views to residents of the area without necessarily compromising the proximity to the CBD as it is near Lukenya Hills. This has made it an attractive destination especially for potential home buyers and in turn developers to cater for the demand.

### **Challenges Facing Real Estate Investments in Athi River**



- **Traffic congestion** – Mombasa Road’s traffic congestion makes Athi River unattractive for potential home buyers hence reducing the overall demand for housing in the area,
- **Poor Access Roads** – Despite Mombasa road being tarmacked, majority of the feeder roads to real estate developments are untarmacked hence reducing accessibility especially during the rainy season.

### **Market Performance**

In evaluating Athi River Market performance, we looked at the following key metrics:

1. **Plinth Area:** Research on the size of the units found in the market allows us to gauge the current offering, and put into consideration the home buyer’s preferences for sizes of houses,
2. **Prices:** Research on prices will be used in comparison of the products in the market over a given time period to allow us to demonstrate capital appreciation,
3. **Rental Rates:** Research on rental income allows us to inform potential investors on the current rental rates in other developments and also inform the investors on the rental yield they can gain from buying houses in Athi River,
4. **Annual Uptake:** This allows the investor to appreciate the rate at which available homes are sold over a specific period of time. This helps him or her gauge on whether it is profitable to invest in a given area,
5. **Rental Yield:** is a metric that indicates what an investor will generate annually if he rented the unit. A high rental yield shows that the investor will recoup his money faster,
6. **Capital Appreciation:** This is a metric that indicates the rate at which prices are increasing in the development or market. A high price appreciation shows that the prices of the development/ market are increasing quickly,
7. **Total Returns:** This is basically what the percentage of investment investor stands to gain from renting and selling the development. It is usually a summation of the rental yield and price appreciation.

The findings were as follows:

### **Performance of Apartments in Athi River H1' 2018**

In H1' 2018 Apartments in Athi River market had total returns of 10.3% with an average rental yield and price appreciation of 6.6% and 3.7%, respectively. This is a 0.8% points decline in average total returns with rental yields decreasing by 0.9% points and price appreciation by 1.3% points. The decline in returns is attributed to the extended 2017 electioneering period whose effects spilled over into the first half of 2018 reducing purchase of units by investor as they adopted a wait and see attitude.

In reference to typology, 1 bedroom units had a better performance recording average total returns of 14.4% with average rental yields and price appreciation of 6.8% and 7.6%, respectively. On average, the total returns increased by 1.7% points driven largely by the 0.7% points increase in price appreciation indicating an increase in the buyers' market for the typology attributed to their low absolute price of Kshs 3.4mn compared to the 22.7% higher absolute price of 2 beds at Kshs 4.4mn and 44.3% higher absolute price of 3 beds at Kshs 6.1mn

3 bedroom units on the other hand recorded the least returns of 7.9% with average rental yields of 6.7% and a price appreciation of 1.2%. Additionally, they saw the largest drop of total returns of 2.4% points driven by a 2.7% points decline in price appreciation. This is largely attributed to the fact that the lower middle-income market in the area are prone to go for the more affordable units in the area like the 1 bed and 2 bed apartment units with absolute prices of Kshs 3.4mn and Kshs 4.4mn which are 44.3% and 27.9% lower, respectively than the 3 bedroom units at Kshs 6.1mn.

2 bedroom units had on average total returns of 8.5%, rental yields of on average 6.3% and average price appreciation of 2.2%. They recorded the highest annual sales in 2018 of 28.3% attributed to their low price per SQM of Kshs 60,845, 4.7% points lower than the market average of Kshs 63,847 for apartments.

The performance of apartment units in Athi River is as summarized below;

(All Values in Kshs Unless Stated Otherwise)

| <b>Athi River Apartments Performance H1' 2018</b>  |                       |                           |                |                   |                   |                |                   |                    |               |                   |                |                   |                    |                 |                     |
|--|-----------------------|---------------------------|----------------|-------------------|-------------------|----------------|-------------------|--------------------|---------------|-------------------|----------------|-------------------|--------------------|-----------------|---------------------|
| Type   | Unit Plinth Area (SM) | Price per SQM (2018) Kshs | Rent 2018 Kshs | Annual Sales 2018 | Rental Yield 2018 | Price App 2018 | Total Return 2018 | Price Per SQM 2017 | Rent 2017     | Rental Yield 2017 | Price App 2017 | Total Return 2017 | Y/Y Δ Rental Yield | Y/Y Δ Price APP | Y/Y Δ Total Returns |
| 1 BR   | 50                    | 67,379                    | 18,500         | 22.5%             | 6.8%              | 7.6%           | 14.4%             | 59,219             | 1,733         | 8.1%              | 6.9%           | 12.7%             | (1.3%)             | 0.7%            | 1.7%                |
| 2 BR   | 72                    | 60,845                    | 22,600         | 28.3%             | 6.3%              | 2.2%           | 8.5%              | 58,809             | 26,250        | 7.2%              | 4.2%           | 10.4%             | (0.9%)             | (2.0%)          | (1.9%)              |
| 3 BR   | 96                    | 63,315                    | 33,000         | 25.6%             | 6.7%              | 1.2%           | 7.9%              | 62,968             | 33,000        | 7.1%              | 3.9%           | 10.3%             | (0.4%)             | (2.7%)          | (2.4%)              |
| <b>AVG</b>   | <b>73</b>             | <b>63,847</b>             | <b>24,700</b>  | <b>25.5%</b>      | <b>6.6%</b>       | <b>3.7%</b>    | <b>10.3%</b>      | <b>60,332</b>      | <b>20,328</b> | <b>7.5%</b>       | <b>5.0%</b>    | <b>11.1%</b>      | <b>(0.9%)</b>      | <b>(1.3%)</b>   | <b>(0.8%)</b>       |
| <ul style="list-style-type: none"> <li>• Apartments in Athi River market during H1' 2018 recorded a 0.8% points decline in returns from 11.1% to 10.3% driven largely by the 1.3% points decline in price appreciation indicating a decline in purchases attributed to the extended 2017 electioneering period, whose effects spilled over into first half of 2018 reducing purchase of units by investor as they adopted a wait and see attitude</li> <li>• 1 bedroom was the best performing typology recording average total returns of 14.4% with average rental yields and price appreciation of 6.8% and 7.6%, respectively, attributable to their low absolute price of Kshs 3.4mn compared to the 22.7% higher absolute price of 2 beds at Kshs 4.4mn and 44.3% higher absolute price of 3 beds at Kshs 6.1mn</li> </ul> |                       |                           |                |                   |                   |                |                   |                    |               |                   |                |                   |                    |                 |                     |

- 3 bedroom on the other hand recorded the least returns of 7.9% with average rental yields of 6.7% and a price appreciation of 1.2%. This is attributable to the fact that the lower middle-income population in the area are prone to go for the more affordable units in the area like the 1 bed and 2 bed apartment units with a prices of 3.4mn and 4.3mn, respectively

Source: Cytonn Research 2018

### Performance of Detached Units in Athi River H1' 2018

Detached units recorded total returns of 6.7% with a price appreciation of 2.4% and rental yield of 4.3%. This is a 1.1% points decline in the returns with an average decrease of 1.8% points in price appreciation, an indication of a decrease in the buying activities in the market attributable to the spillover effects of extended electioneering period in 2017, that led to a decline in purchases as investors adopted a wait and see attitude.

3 bedroom detached units in the Athi River market were the best performing in first half of 2018 with an average total return of 7.7%, rental yield of 4.8% and price appreciation of 2.9%. Additionally, the units recorded the highest annual sales of 23.9% attributed to the low price per SQM of Kshs. 83,484, 16.9% points lower than the price per SQM of Kshs. 100,530 for 4 bedroom units in the market.

4 bedroom units on the other hand, recorded average total returns of 5.6% with average rental yields and price appreciation of 3.8% and 1.9%, respectively. The lower performance is attributed to the high price per SQM and rent of Kshs. 100,530 and 55,000, which is 8.48% and 15.5% higher, respectively than the market average with a price per SQM of Kshs. 92,007 and an average rent of Kshs. 46,500 hence doesn't attract the lower – middle income market that prefers affordable units.

The performance of Detached units in Athi River is as summarized below;

(All Values in Kshs Unless Stated Otherwise)

| Athi River Detached units Performance H1' 2018  |                  |                           |                |                   |                   |                |                   |                    |               |                   |                |                   |                    |                 |                     |
|---|------------------|---------------------------|----------------|-------------------|-------------------|----------------|-------------------|--------------------|---------------|-------------------|----------------|-------------------|--------------------|-----------------|---------------------|
| Unit Type   | Plinth Area (SM) | Price per SQM (2018) Kshs | Rent 2018 Kshs | Annual Sales 2018 | Rental Yield 2018 | Price App 2018 | Total Return 2018 | Price Per SQM 2017 | Rent 2017     | Rental Yield 2017 | Price App 2017 | Total Return 2017 | Y/Y Δ Rental Yield | Y/Y Δ Price APP | Y/Y Δ Total Returns |
| 3 BR  | 119              | 83,484                    | 38,000         | 23.9%             | 4.8%              | 2.9%           | 7.7%              | 84,064             | 51,667        | 4.9%              | 7.9%           | 11.7%             | (0.1%)             | (5.0%)          | (4.0%)              |
| 4 BR  | 193              | 100,530                   | 55,000         | 22.4%             | 3.8%              | 1.9%           | 5.6%              | 99,026             | 53,500        | 3.1%              | 0.5%           | 3.9%              | 0.6%               | 1.4%            | 1.7%                |
| <b>AVG</b>  | <b>156</b>       | <b>92,007</b>             | <b>46,500</b>  | <b>23.2%</b>      | <b>4.3%</b>       | <b>2.4%</b>    | <b>6.7%</b>       | <b>91,545</b>      | <b>52,584</b> | <b>4.0%</b>       | <b>4.2%</b>    | <b>7.8%</b>       | <b>0.3%</b>        | <b>(1.8%)</b>   | <b>(1.1%)</b>       |
| <ul style="list-style-type: none"> <li>3 bedroom detached units attained the highest annual sales of 23.9% with average total returns of 7.7%, rental yields of 4.8% and price appreciation of 2.9% this is largely attributable to their low price per SQM of Kshs. 83,484, 16.9% points lower than the price per SQM of Kshs. 100,530 for 4 bedroom units in the market</li> <li>4 bedroom recorded the lowest performance with total returns coming at 5.6, rental yields at 3.8% and price appreciation of 1.9% largely attributed to the high price per SQM and rent of Kshs. 100,530 and 55,000, which is 8.48% and 15.5% higher, respectively than the market average with a price per SQM of Kshs. 92,007 and an average rent of Kshs. 46,500 hence doesn't attract the lower – middle income market that prefers affordable units</li> </ul> |                  |                           |                |                   |                   |                |                   |                    |               |                   |                |                   |                    |                 |                     |

Source: Cytonn Research 2018



**Overall Performance of Athi River in H1' 2018**

In H1' 2018 the Athi River market had an average rental yield of 5.5%, an average price appreciation of 3.0% and a total return of 8.5%. This is a 1.0% points decline in total return y/y, from the 9.5% total return recorded in H1' 2017. The decline is attributable to the extended electioneering period in 2017, with the effects spilling over into the first half of 2018 which led to a decrease in purchases as investors adopted a wait and see attitude.

In terms of typologies, apartments had average total returns of 10.3%, 3.6% points higher than detached units. This is attributable to the low price per SQM of Kshs. 63,847 that apartments offer, 30.6% lower as opposed to Kshs. 92,007 for the detached units attracting the lower middle income market of the area that is price conscious hence preferring the more affordable units.

The performance of Athi River is as summarized below;

*(All Values in Kshs Unless Stated Otherwise)*

| Athi River Performance Summary H1' 2018 |                       |                           |                    |                   |                   |                |                   |                    |               |                   |                |                   |                    |                 |                     |
|---|-----------------------|---------------------------|--------------------|-------------------|-------------------|----------------|-------------------|--------------------|---------------|-------------------|----------------|-------------------|--------------------|-----------------|---------------------|
| Type                                    | Unit Plinth Area (SM) | Price per SQM (2018) Kshs | Rent 2018 ("000 ") | Annual Sales 2018 | Rental Yield 2018 | Price App 2018 | Total Return 2018 | Price Per SQM 2017 | Rent 2017     | Rental Yield 2017 | Price App 2017 | Total Return 2017 | Y/Y Δ Rental Yield | Y/Y Δ Price APP | Y/Y Δ Total Returns |
| Apartments                              | 73                    | 63,847                    | 25                 | 25.5%             | 6.6%              | 3.7%           | 10.3%             | 60,332             | 20,328        | 7.5%              | 5.0%           | 11.1%             | (0.9%)             | (1.3%)          | (0.8%)              |
| Detached                                | 156                   | 92,007                    | 47                 | 23.2%             | 4.3%              | 2.4%           | 6.7%              | 91,545             | 52,584        | 4.0%              | 4.2%           | 7.8%              | 0.3%               | (1.8%)          | (1.1%)              |
| <b>AVG</b>                              | <b>114</b>            | <b>77,927</b>             | <b>36</b>          | <b>24.3%</b>      | <b>5.5%</b>       | <b>3.0%</b>    | <b>8.5%</b>       | <b>75,938</b>      | <b>36,456</b> | <b>5.7%</b>       | <b>4.6%</b>    | <b>9.5%</b>       | <b>(0.3%)</b>      | <b>(1.6%)</b>   | <b>(1.0%)</b>       |

- Apartments had average total returns of 10.3%, 3.6% points higher than detached units. This is attributable to the low price per SQM of Kshs. 63,847 that apartments offer, 30.6% points lower as opposed to Kshs. 92,007 for the detached units attracting the lower middle income market of the area that is prone to affordable units.

**Recommendation**

The market has experienced an overall slight decline in performance evidenced by the 1.0% drop in returns with the drop majorly attributed to the 2017 electioneering period that extended to the first half of 2018 discouraging purchase of units by investors as they adopted a wait and see attitude. The opportunity in the market is in provision of affordable apartment units preferably 1 - bedroom and 2 - bedroom apartments units as investors can attain returns as high as 23.2% and 17.3%, respectively. We have a neutral outlook on the performance of the area, on the positive side, the real estate performance and investment in the area will be boosted by i) political calm in the country, and ii) planned expansion of Mombasa Road that will open up the area for investment and attract more potential home buyers to the area. On the negative side, real estate performance in the area, will be constrained by competition as buyers move to towns along Limuru and Kiambu Road such as Ruaka and Thindigua, respectively which have more amenities such as malls, and are more easily accessible due to infrastructural development, particularly roads such as the Northern Bypass. For more information on the Cytonn Newtown Project, visit the [website](#).

