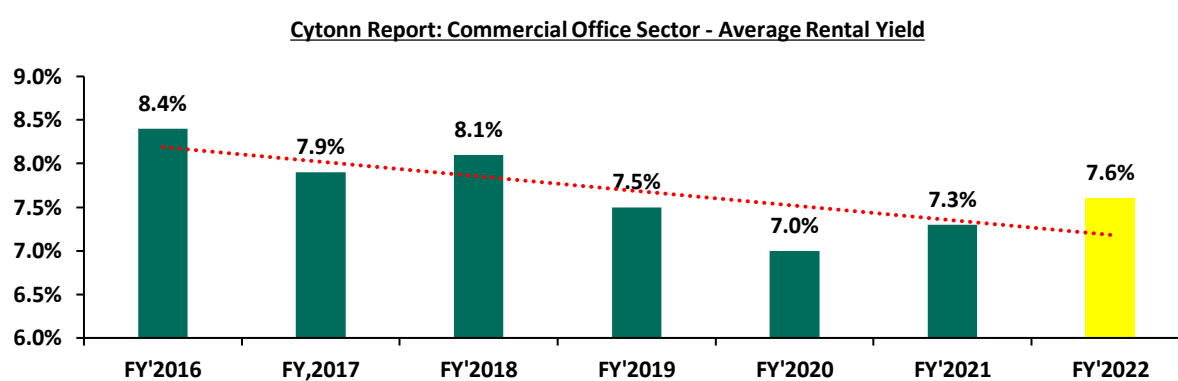


Commercial Office Sector FY'2022 Markets Review Note

Gigiri recorded the highest rental yield of 8.7% in the Nairobi Metropolitan Area (NMA) in FY'2022. Westlands and Karen were the second-best performing nodes, both registering average rental yields of 8.3%. In FY'2022, the NMA commercial office sector realized an improvement in the average rental yield of 0.3% points to 7.6%, from 7.3% that was recorded in FY'2021. This was mainly driven by a 2.1% increase in the average rent per SQFT to Kshs 96 from Kshs 94, owing to increased supply of Grade A offices fetching higher rents such as Karen Green and Global Trade Centre (GTC) Office Tower. Similarly, the average occupancy increased by 1.8% points to 79.4%, from 77.6% realized in FY'2021, attributed to slow but rising demand for physical space on the back of various firms resuming full operations, coupled with the expansion strategy by various firms such as Nairobi Garage and Call Centre International (CCI) Group. Additionally, the average selling prices per SQFT increased by 1.0% to Kshs 12,223, from Kshs 12,106 in FY'2021, attributed to the increasing costs of construction materials.

The graph below shows a seven-year rental yield performance summary of the commercial office sector;



Source: Cytonn Research

The table below highlights the performance of the Nairobi Metropolitan Area (NMA) Commercial Office sector over time;

<i>All values in Kshs unless stated otherwise</i>									
Cytonn Report: Nairobi Metropolitan Area (NMA) Commercial Office Returns Over Time									
Item	Q1'2021	H1'2021	Q3'2021	FY'2021	Q1'2022	H1'2022	Q3'2022	FY'2022	Δ FY'2021/ FY'2022
Occupancy %	76.3%	75.8%	79.9%	77.6%	77.9%	77.9%	78.2%	79.4%	1.8%
Asking Rents (Kshs/SQFT)	92	93	94	94	94	95	96	96	2.1%
Average Prices (Kshs/SQFT)	12,228	12,224	12,479	12,106	12,113	12,142	12,221	12,223	1.0%
Average Rental Yields (%)	6.8%	6.9%	7.2%	7.3%	7.3%	7.4%	7.4%	7.6%	0.3%

Source: Cytonn Research

Gigiri was the best performing node realizing an average rental yield of 8.7% in FY'2022 compared to the market average of 7.6%. Westlands and Karen were the second-best performing nodes, both registering average rental yields of 8.3%. These locations continue to record the best yields as a result of; i) high concentration of top-notch office spaces fetching premium rental rates and attractive yields for investors, ii) availability of adequate infrastructure and amenities in the areas enhancing investments, and, iii) presence of international organizations, multinational companies and embassies within the areas which drive up demand for quality offices. On the other hand, Mombasa Road was the least performing node with an average rental yield of 5.1% in 2022, 2.5% points lower than the market average of 7.6%, attributed

to; i) low quality offices which attract low average rents at Kshs 73 per SQFT, ii) its recognition as an industrial area thus making it less attractive to office businesses and, iii) stiff competition from other sub-markets. The table below shows the Nairobi Metropolitan Area (NMA) submarket performance;

All values in Kshs unless stated otherwise									
Cytonn Report: Nairobi Metropolitan Area Commercial Office Market Performance FY'2022									
Area	Price/SQFT FY 2021	Rent/SQFT FY 2021	Occupancy FY 2021(%)	Rental Yields FY 2021(%)	Price Kshs/SQFT FY 2022	Rent Kshs/SQFT FY 2022	Occupancy FY 2022(%)	Rental Yield FY 2022(%)	Δ in Rental Yields (% points)
Gigiri	13,500	119	81.3%	8.6%	13,500	118	81.6%	8.7%	0.1%
Westlands	11,972	104	75.5%	8.1%	12,032	108	76.4%	8.3%	0.2%
Karen	13,325	106	83.0%	7.7%	13,431	111	82.9%	8.3%	0.6%
Kilimani	12,364	91	79.8%	7.1%	12,260	92	84.1%	7.7%	0.6%
Upperhill	11,336	91	80.1%	7.6%	11,662	91	81.5%	7.7%	0.1%
Parklands	11,787	82	82.8%	6.8%	11,971	83	85.2%	7.3%	0.5%
Nairobi CBD	12,409	94	78.0%	7.0%	12,586	96	76.5%	7.1%	0.1%
Thika Road	12,571	79	76.3%	5.7%	12,571	79	80.1%	6.0%	0.3%
Mombasa Road	11,250	73	64.2%	5.1%	11,325	71	66.9%	5.1%	0.0%
Average	12,106	94	77.6%	7.3%	12,223	96	79.4%	7.6%	0.3%

Source: Cytonn Research

Our outlook for the NMA commercial office sector is NEUTRAL owing to the existing oversupply of office spaces at 6.7 mn SQFT in the NMA thereby crippling the overall demand for physical spaces. Conversely, given the reduced developments in the pipeline, coupled with the slow but rising expansion in the sector, we expect that this will help curb the oversupply challenge by allowing room for the absorption of available and fewer incoming spaces.

For more information, please see our [Cytonn FY'2022 Annual Markets Review Report](#)