Kenya's Retail Sector Report 2018

"Retail Sector Recovers in Key Urban Cities Except Nairobi"

3rd September, 2018

Table of Contents

Cytonn REAL ESTATE

I. Introduction to Cytonn Investments

What We Stand For

Our Mission

We deliver innovative & differentiated financial solutions that speak to our clients' needs

Our Vision

To be Africa's leading investment manager by consistently exceeding clients' expectations

Our Values

People
Passionate and self-driven people who thrive in a team context

Excellence
Delivering the best at all times

Client Focus
Putting clients' interest first at all times

Entrepreneurship
Using innovation and creativity to deliver differentiated financial solutions

Accountability
We take both corporate and personal responsibility for our actions

Integrity
Doing the right things

Strategy is straightforward – just pick a general direction and implement like hell

— Jack Welch

About Us

Cytonn Investments Management Plc is an alternative investment manager with presence in East Africa, Finland and the US. We provide investors with exposure to the high growth East Africa region. Our investors include global and local institutional investors, individual high net-worth investors and the diaspora. We also service retail investors through our Cytonn Co-operative

82 bn Over Kshs. 82 billion worth of projects under mandate

8 Eight offices across 3 continents

500 Over 500 staff members

10 10 investment ready projects

A unique franchise differentiated by:

Independence & Investor Focus

Focused on serving the interest of clients, which is best done on an independent platform to minimize conflicts of interest

Alternative Investments

Specialized focus on alternative assets - Real Estate, Private Equity, and Structured Solutions

Strong Alignment

Every staff member is an owner in the firm. When clients do well, the firm does well; and when the firm does well, staff do well

Committed Partners

Strong global and local partnerships in financing, land and development affiliate

Why We Exist

Africa presents an attractive investment opportunity for investors seeking attractive and long-term returns. Despite the alternative markets in Africa having high and stable returns, only a few institutional players serve the market. Cytonn is focused on delivering higher returns in the alternative markets, while providing the best client service and always protecting our clients' interests.

WE SERVE FOUR MAIN CLIENTS SEGMENTS:

- High Net-worth Individuals through Cytonn Private Wealth
- East Africans in the Diaspora through Cytonn Diaspora
- Global and Local Institutional clients

WE INVEST OUR CLIENT FUNDS IN:

- Real Estate
- Private Equity
- Fixed Income Structured Solutions
- Equities Structured Solutions

We collect funds from our clients

We invest them in high growth opportunities

We deliver the best possible returns

Our Business

Where We Operate

Our Business Lines

Investments

Alternative investment manager focused on private equity and real estate

Real Estate

We develop institutional grade real estate projects for investors

Diaspora

We connect East Africans in the diaspora to attractive investment opportunities in the region

Technology

We deliver world-class financial technology solutions

Our Solutions

To unearth the attractive opportunity that exists in alternative markets in Africa, we offer differentiated investment solutions in four main areas:

HIGH YIELD SOLUTIONS

Our expertise in the alternative markets enables us to offer investors high yielding investments. Our robust credit analysis coupled with our quick dealing capabilities, our extensive research coverage and our innovative structuring helps to ensure consistent and above market returns to investors.

REAL ESTATE INVESTMENT SOLUTIONS

Our comprehensive real estate capabilities enable us to find, evaluate, structure and deliver world-class real estate investment products to our investors in the East African region. Our capabilities include fundraising, market research and acquisition, concept design, project management and agency and facility management.

PRIVATE REGULAR INVESTMENT SOLUTIONS

Attractive returns in the alternative segments have typically been accessible to institutional and high net-worth investors. Our regular investment solutions provide access to the alternative investments to members of the Cytonn Co-operative.

PRIVATE EQUITY

We seek to unearth value by identifying potential companies and growing them through capital provision, partnering with management to drive strategy and institutionalizing their processes. Our areas of focus are Financial Services, Education, Renewable Energy and Technology Sectors.

Our Products

We serve three main types of clients namely, high net-worth individuals, institutions and retail, each with diverse needs. Below are the suitability criteria for the various products.

	INSTITUTIONAL CLIENTS	HIGH NET WORTH INDIVIDUALS (HNWI)	RETAIL CLIENTS
Cash Management Solutions	●	●	
Regular Investment Plan • Education Investment Plan • Regular Investment Solution • Land Investment Plan	●	●	●
Real Estate Development • Real Estate Developments • Sharpland	●	●	●

Our People

If you could get all the people in an organization rowing the same direction, you could dominate any industry, in any market, against any competition, at any time.

— Patrick Lencioni

Board of Directors

To ensure that we remain focused on the clients' interests, we have put in place proper governance structures. We have a board of directors consisting of 11 members from diverse backgrounds, each bringing in unique skill-sets to the firm.

Board of Directors, Continued …

Governance Committees

We have four main board committees to ensure all of Cytonn's functions are done in a fair and transparent manner:

Investments and Strategy Committee

The committee oversees and provides strategic investment direction, including the implementation and monitoring process. The members are:-

- James Maina (Chair)
- Antti-Jussi Ahveninen, MSc
- Madhav Bhalla, LLB
- Edwin H. Dande, MBA
- Elizabeth Nkukuu,CFA

Audit, Risk and Compliance Committee

The committee establishes and oversees risk and compliance, including the implementation and monitoring process. The members are:-

- Madhav Bhalla, LLB (Chair)
- Nasser Olwero, Mphil
- Madhav Bhandari, MBA
- Patricia N. Wanjama, CPS

Governance, Human Resources and Compensation Committee

The committee establishes, oversees and implements governance structure, human resource policies and firm wide compensations. The members are:-

- Antti-Jussi Ahveninen, MSc (Chair)
- Prof. Daniel Mugendi Njiru, PhD
- Michael Bristow, MSc (Chair)
- Edwin H. Dande, MBA

Technology and Innovation Committee

The committee establishes, oversees and implements technical expertise and innovative processes as a driver towards competitiveness. The members are:-

- Nasser Olwero, Mphil (Chair)
- Michael Bristow, MSc
- Patricia N. Wanjama, CPS

II. Overview of Real Estate in Kenya

Introduction to Real Estate in Kenya

Real estate sector expected to continue growing on the back of improved macroeconomic conditions, sustainable high returns, and a changing operational landscape as developers strive to satisfy the huge housing deficit

Macro-Economic Contribution

- The real estate sector expanded by 6.8% in Q1'2018, 0.7% points higher than in the Q1'2017 growth of 6.1% (KNBS), attributable to a recovery of the macroeconomic environment from the effects of the 2017 electioneering period
- A relatively stable political environment, as well as favourable macroeconomic conditions leading to sustained GDP Growth, averaging above 5.0% over the last 5 years and a stable exchange rate have led to positive development in the sector

High Returns

- Real estate has consistently out performed other asset classes in the last 5 years, generating returns of on average 24.3% p.a, compared to an average of 13.2% p.a for overall asset classes
- Land prices have grown with a 6 year CAGR of 17.4%, with real estate recording an average rental yield of 8.2% in H1'2018 that is 9.7% in retail, 9.3% in commercial office, and 5.5% in the residential sector

Recent Developments

- The real estate sector has witnessed the entry of institutional as well as international players. For instance, in H1'2018, UK based Mace acquired YMR and Turner and Townsend acquired a majority stake in MML Kenya
- Government initiatives such as: the digitization of the land ministry, the scrapping off of the land search fees and inclusion of affordable housing as part of the Big Four Pillars of focus for the next 5-years are likely to boost real estate development

Market Outlook

- We expect continued growth of the sector boosted by improved macroeconomic conditions, sustainable high returns, and a changing operational landscape as developers strive to address the huge housing deficit
- Key challenges include: high land and infrastructure development costs, high finance costs and inadequate sources of funding

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Introduction to Real Estate in Kenya – RE Contribution to GDP

Real Estate and construction sectors contribution to GDP has been on a rising trend from 10.5% in 2000 to 12.6% in 2010 to 14.1% as at 2017

	2000	2010	2017
Agriculture	31.3%	23.7%	31.5%
Manufacturing	17.0%	11.5%	8.4%
Wholesale & Retail Trade	16.5%	7.1%	7.6%
Hospitality & Tourism	16.5%	1.7%	1.2%
Real Estate & Construction	10.5%	12.6%	14.1%

Source: KNBS

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III. Kenya's Retail Report

Executive Summary

The retail sector recorded an average rental yields of 8.6%, and occupancy rates of 86.0%, which are 0.3% and 5.8% points y/y increase from average rental yield of 8.3% and occupancy rates of 80.2% in 2017

- We carried out a research on the retail real estate sector in Nairobi Metropolitan Area, North Rift, South Rift, Coast, Western/Nyanza and Mt Kenya regions

- The report aims to inform investors and retailers on the current state of the retail market in Kenya in terms of supply, demand, drivers, challenges and performance in 2018 and compare with 2017 performance to gauge trends and hence outlook

- From the research and analysis, in 2018, Nairobi has a retail space of approx. 6.5mn SQFT, a 4.8% increase from 6.2 mn SQFT in 2017, as a result of the opening of malls including Southfield Mall along Airport North Road, and expansion of Village Market, which added cumulative retail space of 0.3 mn SQFT

- The retail sector recorded an average rental yields of 8.6%, and occupancy rates of 86.0%, which are 0.3% and 5.8% points y/y increase from average rental yield of 8.3% and occupancy rates of 80.2% in 2017. This is as a result of the recovery of the market from the tough economic environment in 2017 characterized by prolonged electioneering and reduced credit to the private sector, with private credit growth reducing from a five year average of 14.0 to 4.3% and prudent marketing methods employed by developers such as targeting international anchor tenants to attract clientele and enhance footfall

- Mt. Kenya and Kisumu were the best performing regions, with average yields of 9.9% and 9.7%, respectively. This is attributable high occupancy rates of 84.5% and 88.0% for Mt. Kenya and Kisumu regions, respectively compared to a market average of 86.0% driven by increased retail business to serve the increasing urban population, driven by devolution

- Nairobi Metropolitan Area records an average rental yield of 9.4% with average occupancy rates of 83.7%. This is a 0.2% points decrease y/y in rental yields from the 9.6% recorded in 2017 as a result of a 3.4% decrease y/y in rental charges attributed to increased competition due to increased supply, that has led to developers decreasing rents to attract retailers

- Destination and Community malls are the best performing malls with an average rental yield of 9.6%, compared to a market average rental yield for the retail sector of 9.4%

- The opportunity in the real estate retail sector in Kenya is in county headquarters in Mombasa and Mt. Kenya regions that have retail space demand of 0.3mn and 0.2mn SQFT, attractive yields at 8.3% and 9.9% and occupancy rates at 96.3% and 84.5%, respectively, compared to market average rental yield of 8.6% and occupancy rates of 86.0%

Retail Sector Performance Summary

In 2018, the retail sector's performance recovered from the 2017 slump, recording average rental yields of 8.6%, a 0.3% point increase from the 8.3% recorded in 2017

Item	2016	2017	2018	Δ Y/Y 2016/2017	Δ Y/Y 2017/2018
Average Asking Rents (Kshs/SQFT)	154.9	140.9	132.1	(9.0%)	**(6.2%)**
Average Occupancy (%)	82.9%	80.2%	86.0%	(2.7%) points	**5.8% points**
Average Rental Yields	8.7%	8.3%	8.6%	(0.4%) points	**0.3% points**

- In 2018, the retail sector's performance recovered from the 2017 slump, recording average rental yields of 8.6%, a 0.3% point increase from the 8.3% recorded in 2017 and average occupancy rates of 86.0%, 5.8% points higher than the 80.2% recorded in 2017
- The recovery is attributable to;
  - ❖ Prudent methods employed by developers to attract clientele and enhance footfall such as targeting international anchor tenants
  - ❖ Entry and expansion of international retailers such as Carrefour, Game, taking up space left vacant by troubled local chains, and
  - ❖ Recovery of the market from the tough economic environment in 2017 characterized by prolonged electioneering and reduced private sector credit growth from a five year average of 14.0 to 4.3% as at June 2018
- Rental rates bucked the trend declining by 6.2% in 2018 from an average of Kshs 140.9 per SQFT in 2017 to an average of Kshs 132.1 in 2017, this is attributable to increased competition due to increased supply, that has led to developers decreasing rents to attract retailers

Source: Cytonn Research

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"Kenya's Retail Report – Retail Sector Recovers in Key Urban Cities Except Nairobi"

Mt. Kenya and Kisumu outperform other regions with average rental yields of 9.9% and 9.7%, respectively, while Nakuru area has the lowest average rental yield of 6.9%

Value Area	Summary	Effect on Retail Market
Increasing Supply	• Nairobi and Mombasa Counties have the largest mall space supply with market shares of 52.1% and 11.0%, respectively • Nairobi's supply is expected to grow with a 2-year CAGR of 9.5% to 7.8mn SQFT in 2020 from 6.5mn SQFT in 2018	• Increased supply in Nairobi County has led to developers focusing on the Nairobi Metropolitan Areas and other counties, such as Mombasa, Uasin Gishu and Nakuru, whose retail space supply is expected to grow by 2 year CAGR of 8.0%, 32.3% and 32.3%, y/y • The surge in mall spaces has resulted in 'ghost malls' retailers move onto the next best malls
Returns	• The retail sector offers attractive rental yields of on average 8.6%, which is a 0.3% points increase y/y from the 8.3% recorded in 2018 • Mt. Kenya and Kisumu outperform other regions with average rental yields of 9.9% and 9.7%, respectively, while Nakuru area has the lowest average rental yield of 6.9%	• This continues to attract developers into the retail market, which has resulted in a growth of retail space at a 10-yr CAGR of 15.9% • Nairobi has sufficient retail space supply factoring in incoming supply in the next 1-2 years and thus investors are venturing into other regions such as Mt. Kenya which has relatively low supply with a market share of 9.6%
Market Sentiments	• Most consumers – 88.3% prefer to shop in formal retail space as opposed to informal channels as a result of product availability	• This has led to the increase in development of retail space in the country, with which has a retail supply of 11.7 mn SQFT and a deal pipeline of more than 3.6 mn SQFT

The outlook for the sector is positive and we expect to witness reduced development activity in Nairobi, with developers shifting to county headquarters in some markets such as Mombasa and Mt. Kenya regions that have retail space demand of 0.3mn and 0.2mn SQFT, attractive yields at 8.3% and 9.9% and occupancy rates at 96.3% and 84.5%, respectively

A) Introduction

Introduction

The research aims to provide an insight into Kenya's retail real estate market

- Retailing is a distribution channel function, where one organisation buys products from supplying firms or manufactures them and then sells these directly to consumers
- Kenya's retail market is attracting increased interest from local and international investors as witnessed through expansion of local stores, entry of international retailers and increased construction of malls
- Market studies rank Kenya as the country in Sub-Saharan Africa with the largest shopping centre space of 1.4Mn SQM after South Africa at 23.0Mn SQM
- While kiosks, market stalls, supermarkets and cosmetic shops are still the most prevalent stores, the formal retail market has grown with several malls being constructed to offer consumers the convenience of a one-stop shop
- We therefore carried out this study with an aim of providing insight into Kenya's retail market market and provide an opinion on the following:
  - Supply of retail space in Nairobi Metropolitan Area, North Rift, South Rift, Coast, Western/Nyanza and Mt Kenya regions
  - Trends and recent developments in the retail sector
  - Prevailing market rents, yields and occupancy of retail space
  - Retail market outlook
  - Investment opportunity in retail real estate

Factors Driving Growth of the Retail Sector in Kenya

Kenya's growing middle class has been the main driving force behind the growth of retail sector

Positive Demographics

- Kenya's high population growth of 2.6% p.a against world's 1.2% p.a has created demand for retail good and services
- The rising middle-class has increased purchasing power as well as varying tastes and preferences for different goods and services has created demand for international brands hence attracting multinational brands
- Kenya's urbanization rate at 4.3%, which is relatively high compared to the world's 2.1%, has resulted in a need for retail stores and entertainment spots

Foreign Investment

- Due to the current growth of the Kenyan economy, that has averaged at over 5.0% for the past 5 years, the country has continued to receive increased interest from multinational corporations
- International retailers such as carrefour, Yves Rocher, Shoprite and Miniso from France, South Africa and Japan, respectively, have set up shop in the country with international retail developers such as Actis and AVIC and CATIC, being behind the country's largest malls such as Garden City, The Hub and Two Rivers Malls, respectively

Infrastructural Development

- The country has seen a rapid improvement of its infrastructure making it accessible for investors to venture in otherwise inaccessible areas
- As a result, malls have cropped up along major Kenyan routes, for instance, malls such as Rupa Mall along Uganda Road, NextGen Mall along Mombasa Road, and Buffallo Mall along Nakuru – Nairobi highway

E-Commerce

- Digitalization of cash systems and popularity of mobile wallets, bar coding to help in security measures, and a high internet penetration rate of 71.6% in 2017, 21.8% points increase from 58.8% in 2016 have supported the growth of e-retailing
- As a result, successful online shops such as Jumia, Kilimall, Rupu, just to mention a few are cropping up with shops like Jumia recording an increase of 25.0% in sales via mobile phones between 2016/2017
- As per the KNBS Economic Survey 2018, in 2017, internet subscription and mobile penetration rate in Kenya stood at 71.6% and 91.9%, respectively, an increase from 58.8% and 85.9% in 2016, respectively

Factors Affecting Supply of Retail Space in Kenya

High financing costs negatively affect retail space development, but improved infrastructure is opening up satellite towns to mall development

Availability of Land	• Availability of development land has been low within towns and urban centres resulting in relatively high prices with areas such as Upperhill selling at Kshs 500Mn per acre • Developers are however shifting focus to Nairobi Satellite Towns such as Kiambu, Rongai, and Kitengela, and county headquarters where land is available at relatively affordable prices on average Kshs 14Mn, thus resulting in increased supply
Access to Funds	• Malls being large developments require a huge capital outlay. Lack of proper funding for developments has resulted in excessive debt funding • The implementation of the Banking Amendment Act 2015 continues to impact on development activity, as it has led to decline in private sector credit which stood at 4.3% as at June 2018, compared to a 5-year average of 14.0% (2013-2018)
Competition	• Increased supply of malls in the same region has resulted in stiff competition between malls leading to a decline in occupancy rates, For example in Kiambu road, as a result of an 3.0% increase in space, occupancy rates have decline by 11.2%. This is likely to result in decreased development of malls in the City, already seen as supply increased by 4.8% between 2017 and 2018, compared to growth with a CAGR of 15.9% between 2010 and 2017 • Mall developers face the risk of obsolescence of retail space, thus losing tenants to newer malls. They therefore have to continually revamp their malls so as to meet the tenants’ and consumers’ expectations
Infrastructure	• Improved infrastructural developments such as improved roads, electrification, and main sewer connections have opened up Nairobi satellite towns and county headquarters to increased development resulting in construction of malls such as Signature Mall in Athi River and Mega Mall in Kakamega
Fragmented Markets	• Kenya’s retail market is mostly concentrated in urban areas due to higher consumption expenditure, 1.2x higher than rural areas according to KNBS and good infrastructure • Poor infrastructure in rural areas makes accessibility difficult hence low retail space supply

Factors Affecting Demand For Retail Space

Location, security and competition significantly affect the demand for retail space in Kenya

Location

- Ease of access results in increased consumer traffic, making the location attractive to retailers
- Proximity to urban areas, densely populated areas or high-end settlement will result in a large consumer base for retailers' products

Purchasing Power

- Increasing purchasing power, with GDP per Capita growing at a rate of 7.9% p.a over the last 5 years, from Kshs. 113, 539 in 2013 to Kshs. 166, 314 in 2017, hence sustained demand for retail products
- This has translated to increase in purchasing power that creates sustained demand for retail products

Competition

- An oversupply of 2.0mn SQFT retail space in the capital has led to the creation of 'ghost malls' as the retailers move unto the next best malls
- On the other hand, expansion of formal retail chains such as fashion retail stores has been difficult due to competition from informal retailers
- Formal retail space penetration is approximately 35% in Kenya, compared to 60% in developed countries such as South Africa according to a Nielsen Report

Online Retail

- The shift from shopping physically in retail stores to making orders online, may result in reduced demand for retail space in the long run as retailers will opt to save on costs for leasing retail space
- According to Jumia, mobile money transactions in June 2016 are 3x the total transactions done in 2011
- However, Kenyans still prefer physical shopping due to insecure delivery systems, cyber crimes and lack of proper physical addresses especially in rural areas necessitating the need for physical retail stores

B) Trends in the Retail Sector in Kenya

Trends in Kenya's Retail Sector

Entry of international retailers, retailers expansion across the country and online shopping are some of the key trends in the retail market in Kenya in 2018

Retailers' Expansion Strategies

- In a bid to tap into the retailing industry, Naivas Supermarket,Tuskys and Carrefour have aggressively expanded across the country taking up space previously occupied by Nakumatt and Uchumi
- The aggressive expansion by the retailers is being driven by shifting consumer habits as Kenyans increasingly shop in formal retail centres, are increasingly appreciating international brands and stable economic growth

Entry of International Retailers

- According to Nielsen report, Kenya's formal retail penetration is 30.0% making it the second highest in Africa, after South Africa's 60.0%, which has served as an incentive for foreign retailers
- Over 20 notable local and international retailers have aggressively penetrated the Kenyan market within the last 6-years, including, Carrefour, Shoprite and Game of French and South Africa, respectively, supported by a widening middle class and provision of high-quality spaces in line with international standards as well as infrastructure

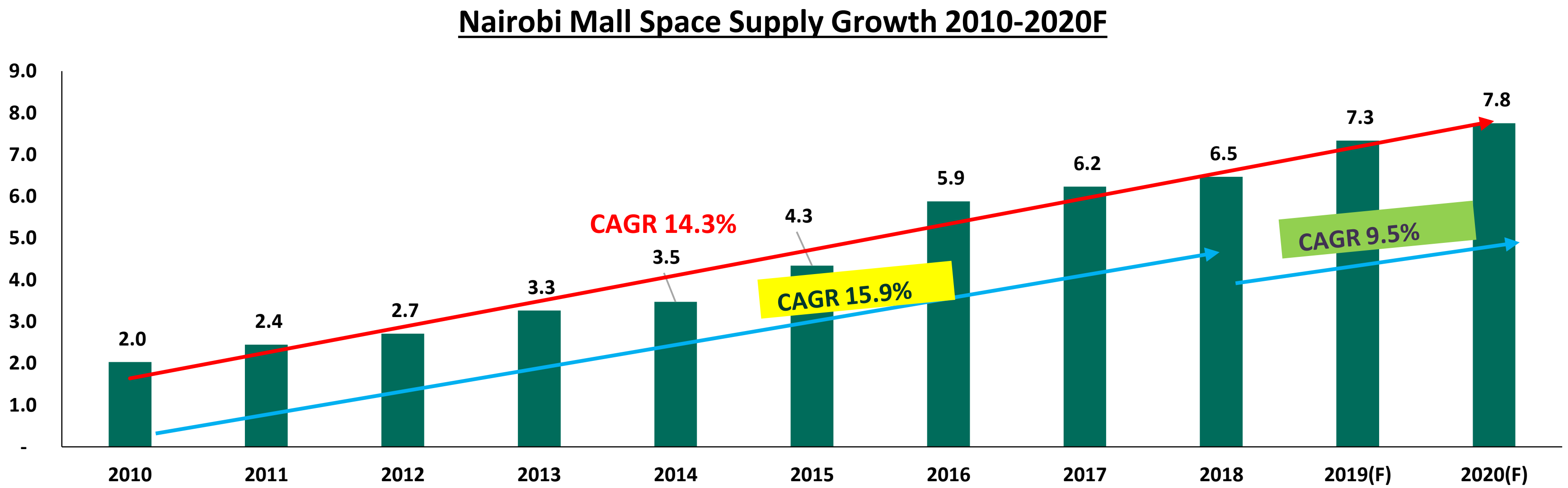
Online Shopping

- According to Economic Survey 2018, in 2017, internet subscription and mobile penetration rates stood at 71.6% and 91.9% , respectively, an increase from 58.8% and 85.9% in 2016, respectively
- This has led to the growth of e-retailing with online shops such as Jumia, Rupu and social media growing rapidly
- This has further been enabled by mobile wallets gaining popularity, hence making online shopping more convenient

C) Retail Space Supply in Kenya

Retail Space Supply Nairobi – Growth Rates

Nairobi has a total retail space supply of 6.5mn SQFT, expected to grow with a 2 year CAGR of 9.5% to 7.8mn SQFT in 2020



- Nairobi currently has a mall space supply of 6.5 mn SQFT, having grown from 2.0 mn SQFT in 2010 with an 8-yr CAGR of 15.9% making it the largest shopping centre in Sub-Saharan Africa after South Africa, which has approx. 23.0 mn SQFT of mall space according to Knight Frank Shop Africa Report 2018

- The increase in mall space has been largely driven by intensive investment by mall developers seeking to tap into the widening middle class whose purchasing power has been on a rise and have an appetite for sophisticated lifestyles, as well as infrastructural development

- We project that by 2020, the retail space supply will have grown to over 7.8mn SQFT, growing with a 2 year CAGR of 9.5% from 2018, and cumulatively a 10-yr CAGR of 14.3%, with the addition retail space such as The Well Karen, Cytonn Towers, The Karen Water Front, among others

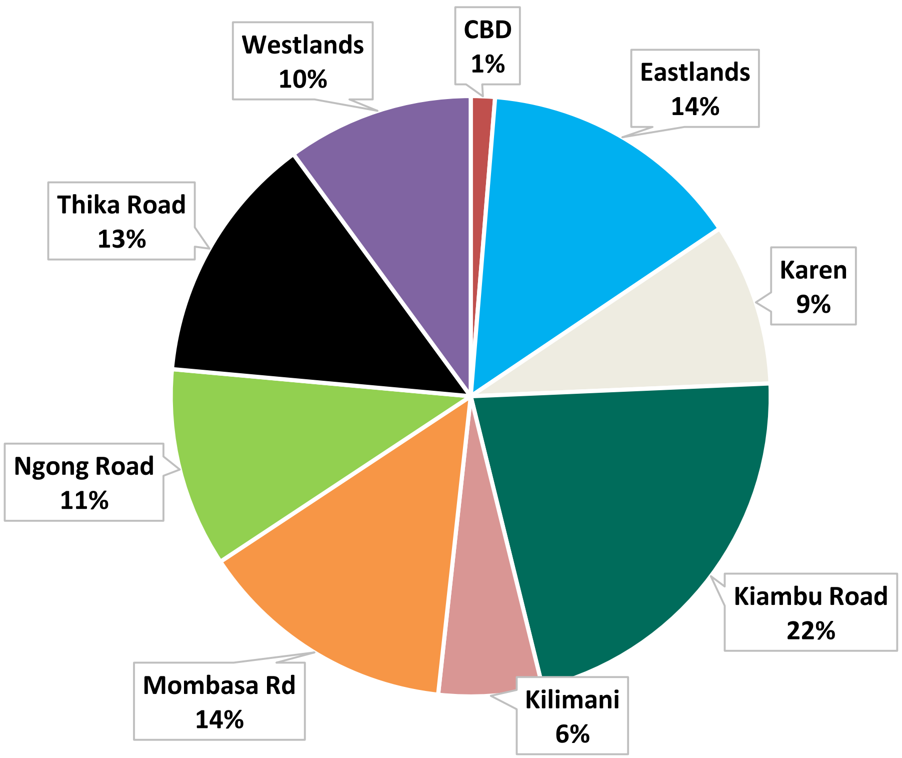
- The retail supply is increasing at a decreasing rate, signifying that developers are cautious given the increased supply of approximately 4.5mn SQFT in the last 8 years

Source: Cytonn Research

Retail Space Supply Nairobi – Current Distribution by Nodes

Kiambu and Limuru Road Area has the largest mall space of 1.3mn SQFT, a 22.0% market share

Nairobi Distribution



In our sample;

- *Kiambu Road includes Limuru Road*
- *Kilimani includes Kilimani,Kileleshwa & Lavington and their environs,*
- *Ngong & Lang'ata Road covers area between Community, Lang'ata Road up to Dagoretti Corner*
- *Westlands includes Parklands and Mountain View*

Source: Cytonn Research

- Kiambu and Limuru Road Area, Mombasa Road, and Eastlands nodes have the largest mall space with market share of 22.0% and 14.0%, respectively out of the total market supply
- This is due to the presence of Two Rivers the largest mall in East Africa, opening of the Ciata City Mall along Kiambu Rd and expansion of Village Market on Limuru Road
- Kiambu and Limuru Road witnessed with largest supply have good road connectivity and also serve middle and high end suburbs such as, making them attractive investment opportunities for mall investors
- CBD and Kilimani, Kileleshwa & Lavington areas had the least market share of 1,3% and 5.6%, respectively, attributable to lack of development land in the CBD and previously-zoning purely for residential use in Kilimani, Kileleshwa & Lavington areas

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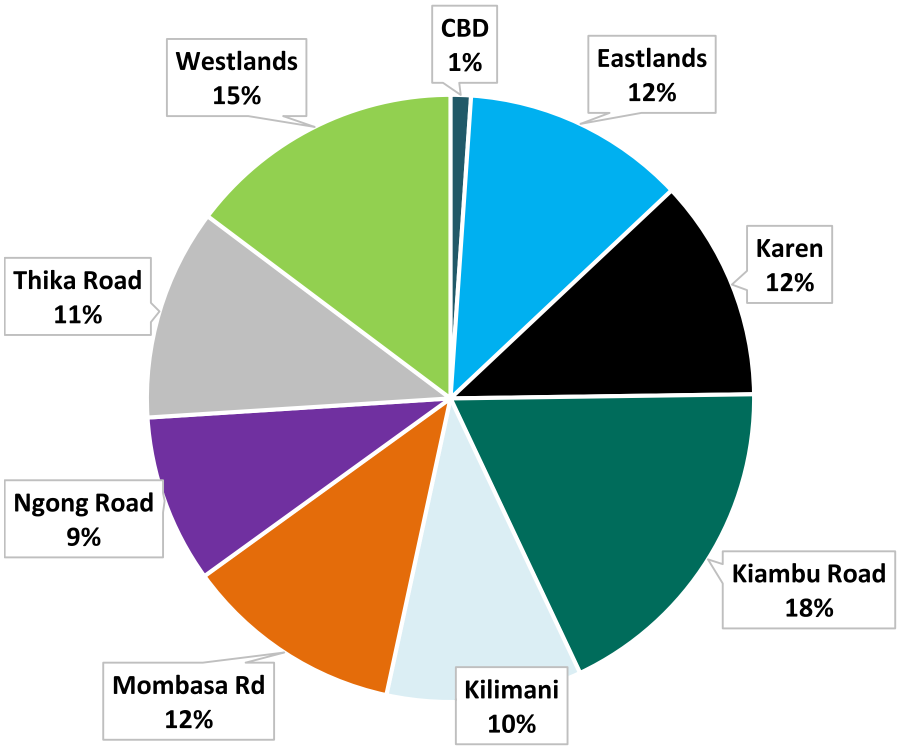
Retail Space Supply Deal Pipeline in Nairobi by Nodes in the Next 2-Years

By 2020, Kiambu and Limuru Road will still have the largest market share, at 18.0% with a total of 0.4mn SQFT

Mall Supply in the Next 2 Years



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- *Westlands includes Parklands and Mountain View*

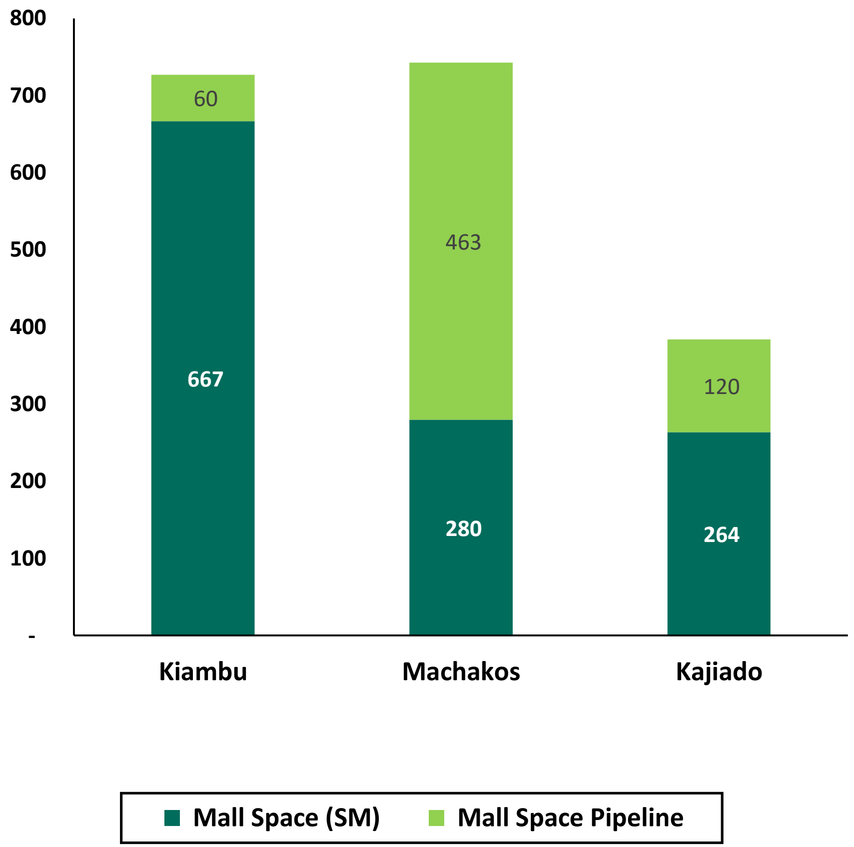
Source: Cytonn Research

- Kiambu and Limuru Road will still have the largest mall space, with a total market share of 18.0%, 1.3mn SQFT
- Westlands will account for the second largest market share at 14.8%, upon completion of Mountain View Mall, and the expansion of Sarit Center and Westgate Malls
- Karen's contribution to Nairobi's total supply will increase by 3.0% points to approximately 11.8% from 8.8% due to upcoming malls such as Karen Waterfront and The Wells Karen which will add a total of 0.4mn SQFT
- Kilimani's contribution to Nairobi's total supply will increase to approx. 10.0% due to upcoming malls such as Kileleshwa mall, Cytonn Towers and Fairview Plaza Mall

Retail Space Supply in Nairobi Metropolitan Area

Machakos County has the largest deal pipeline with 463,000 SQFT of retail space under construction

Mall Space Supply in Nairobi Satellite Towns
'000 SQFT



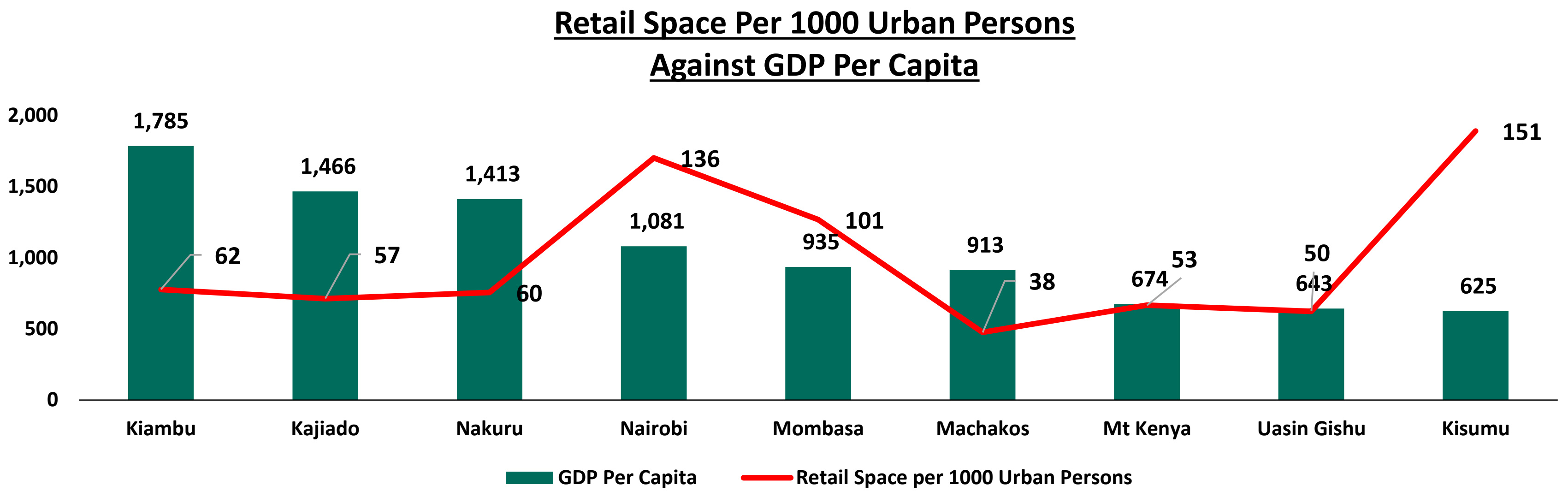
- Kiambu County has the largest mall space supply with 667,000 SQFT of mall space and a deal pipeline of 60,000 SQFT due to the upcoming Limuru mall
- The County enjoys a large urban population and has been ranked the wealthiest county in Kenya with a GDP per capital of USD 1,785 which is 22.7% higher than the country's which is USD 1,455, as well as a booming real estate market
- Machakos County has a large development pipeline of 463,000 SQFT with the construction of The Crystal Rivers Mall and Signature mall underway bringing the total mall space in the county to 742,440 SQFT
- Development in Machakos County is supported by improving infrastructure, affordable land and population exodus from Nairobi's suburbs to Satellite towns
- From our sample, Kajiado County, has a deal pipeline of 120,000 SQFT and is served by Maasai Mall, Milele Mall and Red Heron in Rongai, Ngong and Kitengela, respectively

Source: Cytonn Research

Cytonn REAL ESTATE

Retail Space Supply in Kenya – GDP Per Capita Vs Supply

Machakos has the least retail space per 1,000 people at 38 SQM of retail space per person, while Kisumu has the highest at 151 SQM



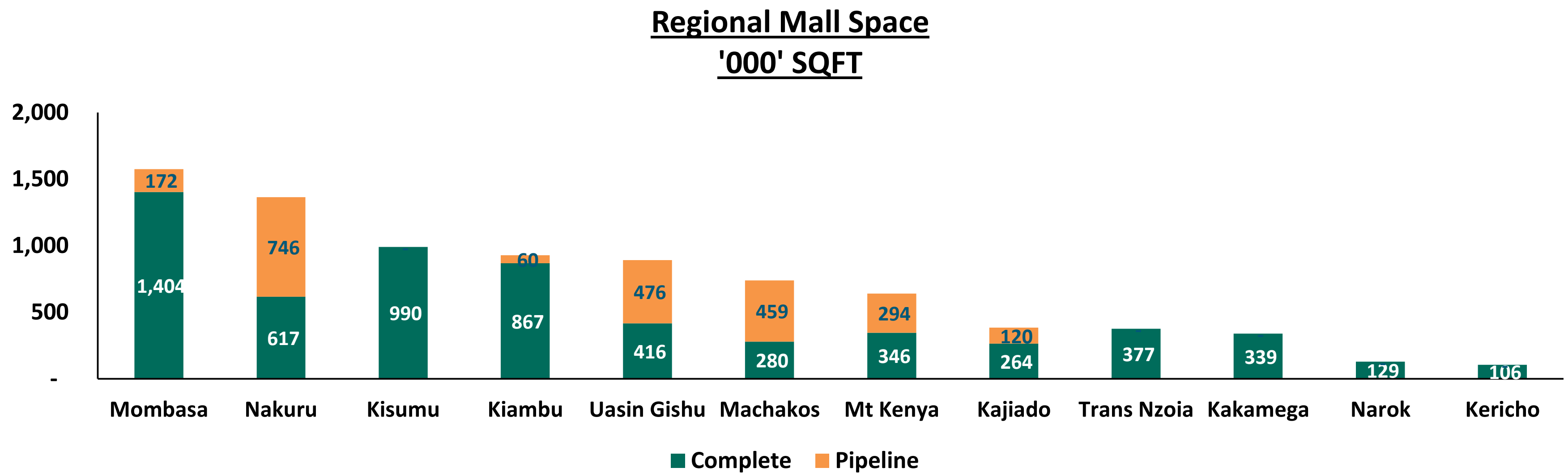
Source: Cytonn Research

- Kisumu and Nairobi have the highest retail space per a 1,000 urban persons at 151 and 136 SQM per 1,000 persons, respectively attributable to the city status hence high population and entry of multinationals that have created demand for formal retail resulting in an increase in supply
- Machakos and Uasin Gishu have the lowest retail space per a 1,000 urban persons at 38 and 50 SQM per 1,000 persons respectively attributable to low retail space supply as residents are slowly embracing formal retail shopping

Source: Word Bank "Bright Lights Big Cities" Policy Paper 2015

Retail Space Supply in Kenya – Regional Distribution and Pipeline

Mombasa has the largest mall space in Kenya after Nairobi with 1,404,000 SQFT of retail space



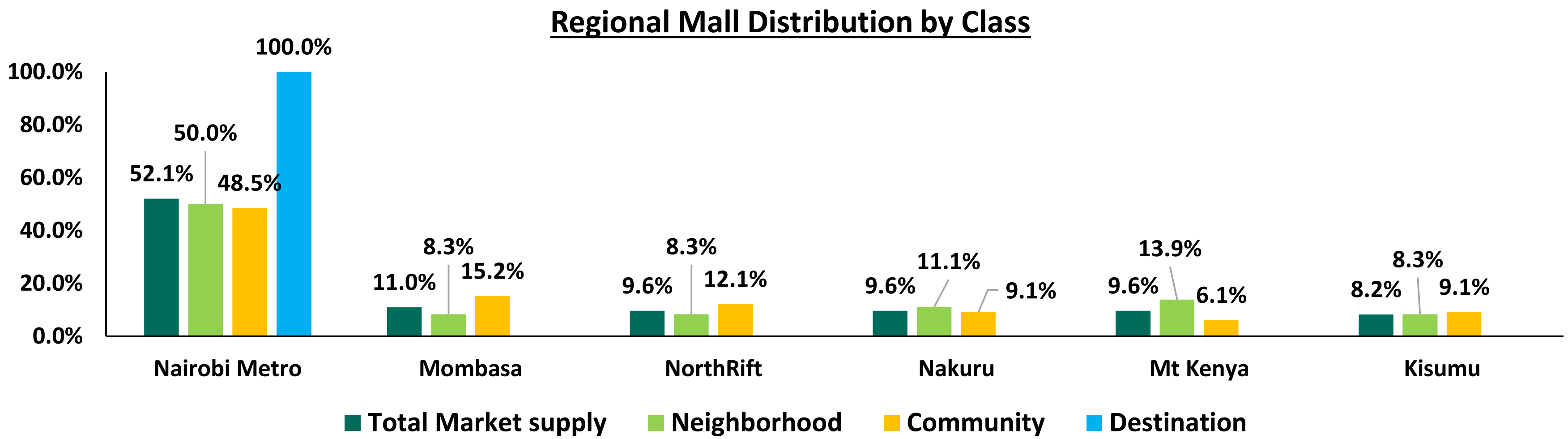
- Mombasa, Kisumu, Kiambu and Nakuru have the largest mall supply in Kenya after Nairobi with 1.4 mn, 1.0 mn, 0.9 mn and 0.6 mn SQFT, respectively. Mombasa, Kisumu, Kiambu and Nakuru are the biggest towns in Kenya after Nairobi hence a high urbanized population with urbanized population ratios of 100.0%, 52.0%, 62.0% and 45.4%, respectively

- Nakuru, Uasin Gishu, Machakos and Mt. Kenya regions have the largest deal pipelines, attributable to the fact that they are fast growing regions, with a population growth rate of 3.1%, 3.9%, 2.0% and 2.0%, respectively

Source: Cytonn Research

Retail Space Supply in Kenya – Regional Distribution by Class

Neighborhood malls are the most common in Kenya accounting for 49.3% of the total mall space



- Neighbourhood malls have the highest market share with 49.3% while community and destination malls take up 45.2% and 5.5% of the market share, respectively

- Nairobi is the only county with all types of malls, accounting for 50.0%, 48.5% and 100.0% of the total market share of neighbourhood, community and destination malls, respectively

- Neighbourhood and community malls are the dominant types with a presence in all counties which is attributable to the fact that they attract the middle and lower middle income groups due to their affordability in amenities offered as well as construction costs in comparison to regional malls

Source: Cytonn Research

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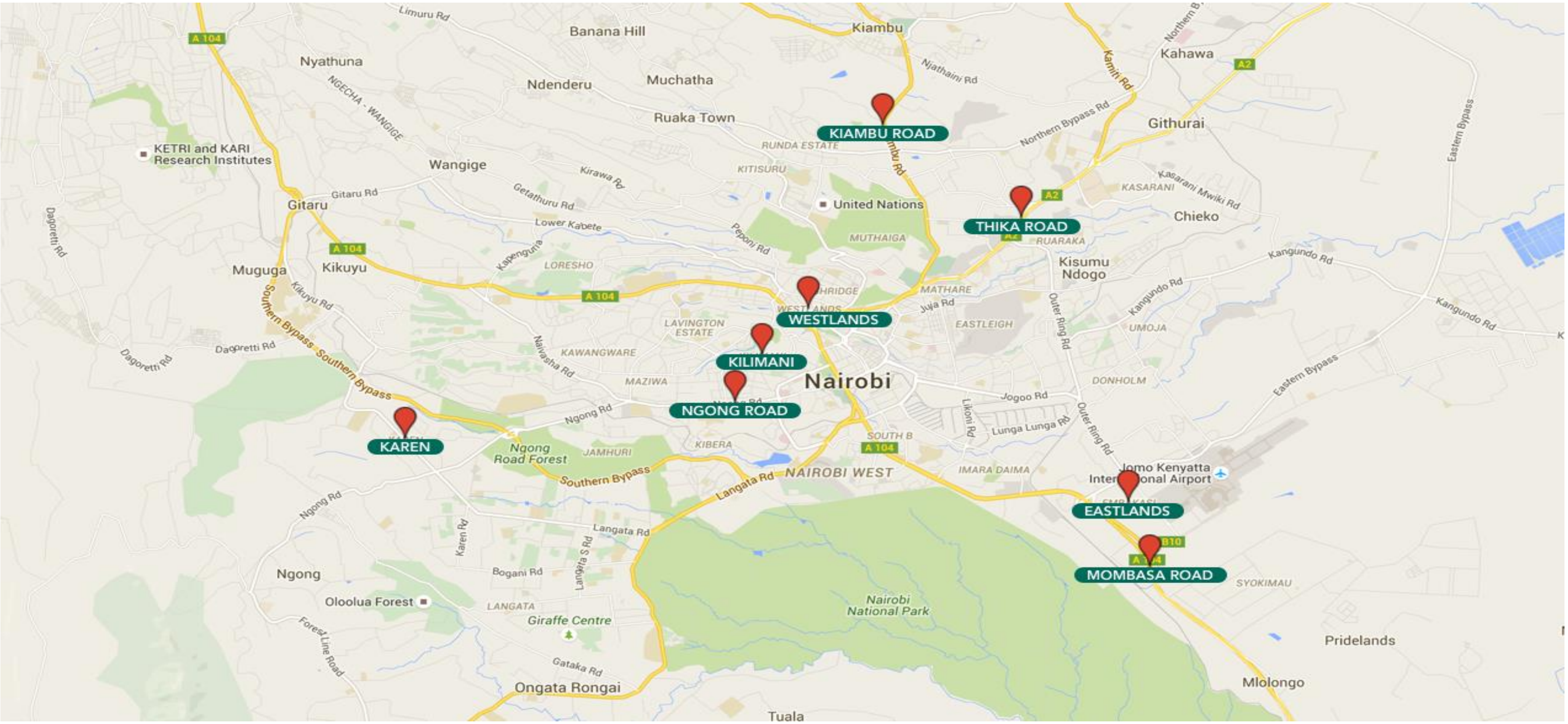
IV) Retail Market Performance

A) Performance By Nodes

Retail Sector Nodes in Nairobi

Karen, Westlands, Kiambu Road Kilimani and Thika Road are the main formal retail nodes in Nairobi



In our sample;

- *Kiambu Road includes Limuru Road*
- *Kilimani includes Kilimani,Kileleshwa & Lavington and their environs,*
- *Ngong & Lang'ata Road covers area between Community, Lang'ata Road up to Dagoretti Corner*
- *Westlands includes Parklands and Mountain View*

Cytonn REAL ESTATE

Nairobi Metropolitan Area Retail Market Performance

Westlands, Kilimani and Karen were the best performing retail suburbs in Nairobi with average rental yields of 12.4%, 11.8% and 10.8%, respectively due to the fact that they are high end neighbourhoods hosting most of Nairobi's middle end and high-end populations

Node	Average Rent/SQFT /Month 2018	Average Occupancy Rate 2018	Rental Yield 2018	Average Rent/SQFT/ Month 2017	Average Occupancy Rate 2017	Rental Yield 2017	Y/Y Change in Occupancy	Y/Y Change in Yield
Westlands	218.8	90.2%	12.4%	234.7	91.0%	13.5%	(0.8%)	(1.1%)
Kilimani	184.1	97.5%	11.8%	181.0	87.0%	10.3%	10.5%	1.5%
Karen	212.8	96.0%	10.8%	206.2	96.3%	11.2%	(0.3%)	(0.4%)
Ngong Road	170.5	94.4%	10.1%	170.7	81.8%	8.7%	12.6%	1.4%
Thika road	194.3	76.5%	8.8%	199.2	75.3%	8.7%	1.3%	0.1%
Kiambu Road	199.9	67.0%	8.7%	216.1	78.2%	10.6%	(11.2%)	(1.9%)
Mombasa road	156.2	74.4%	7.8%	180.4	68.8%	8.3%	5.7%	(0.5%)
Eastlands	149.1	68.2%	7.0%	148.9	61.8%	6.1%	6.5%	1.0%
Satellite Towns	124.5	89.3%	6.6%	130.1	82.5%	7.7%	6.8%	(1.0%)
Grand Total	178.9	83.7%	9.4%	185.3	80.3%	**9.6%**	3.4%	(0.2%)

- The retail real estate sector in Nairobi has relatively high yields of on average 9.4% compared to other real estate themes such as the residential sector with average rental yields of 5.6% and commercial office sector with average rental yields of 9.2%
- In 2018, Nairobi's retail market performance softened, recording a 0.2% points decrease in rental yield y/y from 9.6% in 2017 as a result of 3.4% decrease in rents y/y. The decline in rental charges is attributable to an oversupply of mall space, currently at 2.0mn SQFT, hence price wars by developers in a bid to attract retailers and increase occupancy rates
- Kilimani, Ngong road and Nairobi Eastlands, recorded the largest increase in rental yields y/y of 1.5%, 1.4% and 1.0% points, respectively, attributable to increase in occupancy levels of 10.1%, 12.6% and 6.5% points, for Kilimani, Ngong road and Nairobi Eastlands, respectively
- The increase in occupancy rates is attributable to prudent methods employed by developers, such as targeting international retailers as anchor tenants, these include; Carrefour and Shoprite to fill vacancies left by struggling retailers such as Nakumatt and Uchumi
- The worst performing nodes are the Eastlands and Satellite Towns recording average rental yields of 7.0% and 6.6%, respectively attributable to low rental charges as a result of competition from informal retail space

Source: Cytonn Research

Performance by Nodes

Westlands was the best performing submarket, with a yield rate of 12.4% and an occupancy of 90.2%

Westlands

- Westlands was the best performing submarket with high yields of on average 12.4% and occupancy rates of on average 90.2% attributable to its high rents averaging at Kshs 218.8 per SQFT, 23.3% higher than the market average of Kshs 178.9 per SQFT. The high rents and occupancy rates are as a result of being an affluent neighborhood with high consumer purchasing power and thus investors are willing to pay higher rents for retail space in the area

Kilimani, Kileleshwa & Lavington

- The area was the second best performing submarket, with an average rental yield 11.8% and occupancy rates of 97.5%, 10.5% points higher than the 87.0% recorded in 2017. This is attributable to commercialization of Kilimani area, making it a new retail node, hence stabilization of occupancy rates to market average rates

Karen

- In 2018, Karen recorded an average rental yield of 10.8%, which was a 0.4% points decrease from the 11.2% recorded in 2017, occupancy rates in the node averaged at 96.0%, a decline of 0.3% points from the 96.3% recorded in 2017. Despite the slight softening in performance, the formal retail market in performance in Karen is still above average, being 1.5% points higher than the market, attributable to its affluent population, prime rents and lower competition compared to low end areas where the malls compete against second tier supermarkets

Ngong & Lang'ata Road

- In 2018, average yields increased by 1.4% points y/y, to 10.1% from 8.7% in 2017 attributable to a 12.6% points increase in occupancy y/y to 94.4% from 81.8% in 2017. This is attributable to international retailers such Carrefour taking up spaces left in 2017 by struggling retailers such as Nakumatt in the malls n this node

Thika Road

- In 2018, formal retail sector performance improved slightly, with the node recording a 0.1% points increase in average yields y/y to 8.8% in 2018 from 8.7% in 2017, and 1.3% points increase in occupancy rates over the same period from 75.3% in 2017 to 76.5% in 2018. Despite the slight increase, the node still underperforms the market, with its yields being 0.5% points lower than the market average of 9.4%. This is to an oversupply of retail space, with Thika Road having 0.8 mn SQFT of retail space over an 24.7 km stretch

Performance by Nodes

Satellite Towns was the worst performing submarket with average yields of 6.6%, attributed to the low rent of Kshs 124.5 per SQFT, 30.4% lower than market average at Kshs 178.9 per SQFT charged on the spaces

Kiambu & Limuru Road

- Average yields declined by 1.9% points to 8.7% from 10.6% in 2017 attributable to an 11.2% points decline in occupancy rates as a result continued increase in retail space supply, in 2017, retail space supply increased by 95%, from 0.7mn SQFT to 1.3mn SQFT as a result of 0.6mn SQFT Two Rivers mall coming to the market, and in 2018, this increased by a further 40,000SQFT as a result of the opening of Ciata City Mall. Cumulatively, over the last two years, supply in this node has increased by 41.9%, thus constraining the performance

Mombasa Road

- Malls in Mombasa road have an average occupancy of 74.4% and relatively low yields of 7.8%, 1.6% points lower than the market average of 9.4%. The low performance is attributable to its zoning as an industrial zone as well as traffic jams which tend to discourage footfall, hence attracting low rental charges, rental rates in this node are on average Kshs 156.2 per SQFT, 12.7% lower than the market average of Kshs 178.9 per SQFT

Nairobi Eastland's

- In 2018, Nairobi Eastland's recorded 1.0% points increase in average yields y/ y to 7.0% in 2018 from 6.1% in 2017. This is attributable to 6.5% points increase in occupancy to 68.2% in 2018 from 61.8% in 2017 as the lower middle and low income classes continue embracing the formal retail sector

Satellite Towns

- Satellite towns maintained a high occupancy rates of 89.3%, this is as the malls are mainly neighbourhood and most towns tend to have one mall, hence relatively low competition in the formal retail sector. However, these malls have relatively low rental yields of on average 6.6% compared to other areas along major routes like Thika or Ngong & Lang'ata Road that recorded a rental yield of 8.8% and 10.1%, respectively. This is attributed to the low rent of Kshs 124.5 per SQFT, 30.4% lower than market average at Kshs 178.9 per SQFT charged on the spaces due to their location away from key commercial nodes

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B) Performance By Regions

Key Urban Centers Retail Market Performance

Mt. Kenya and Kisumu are the best performing regions, with average yields of 9.9% and 9.7%, respectively

Region	Average Rent/ SQFT/ Month 2018	Average Occupancy Rate 2018	Rental yield 2018	Average Rent/SQFT/ Month 2017	Average Occupancy Rate 2017	Rental yield 2017	Change in Occupancy Y/Y	Change in Yield Y/Y
Mt kenya	141.3	84.5%	9.9%	136.0	80.0%	9.1%	4.5%	0.8%
Kisumu	148.2	88.0%	9.7%	157.2	76.4%	9.1%	11.6%	0.6%
Nairobi	178.9	83.7%	9.4%	185.0	80.3%	9.6%	2.0%	(0.3%)
Mombasa	103.7	96.3%	8.3%	130.3	82.8%	7.3%	13.5%	1.0%
Eldoret	137.5	78.5%	7.6%	96.0	83.3%	6.6%	(4.8%)	1.0%
Nakuru	83.3	85.0%	6.9%					
Average	132.1	86.0%	8.6%	140.9	80.2%	8.3%	5.60%	0.6%

- The retail sector recorded an average rental yields of 8.6%, and occupancy rates of 86.0%, which are 0.3% and 5.8% points y/y increase from average rental yield of 8.3% and occupancy rates of 80.2% in 2017. This is as a result of the recovery of the market from the tough economic environment in 2017 characterized by prolonged electioneering and reduced credit to the private sector, with private credit growth reducing from a five year average of 14.0 to 4.3% as at June 2018

- Mt. Kenya and Kisumu were the best performing regions, with average yields of 9.9% and 9.7%, respectively. Mt. Kenya performance is attributable to 4.5% points y/y increase in occupancy rates due to low supply of retail space, accounting for 9.6% of market share, while Kisumu performance is driven by high occupancy rates of 88.0%, 2.0% points above market average at 86.0% driven by increased retail business to serve the increasing urban population at 52.0% of the population compared to country average at 26.5%

- Nakuru had the lowest rental yield of 6.9%, which is due to the low rental rates charged within that market of on average Kshs 83.3 per SQFT , 38.0% lower than the market average of Kshs 134.3 per SQFT, as a result of competition from MUDs that are older

Source: Cytonn Research

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C) Performance By Class

Malls Classification

Shopping Malls are classified mainly according to size and number of anchor tenants

- A shopping Mall is a group of retail and other commercial establishments that is planned, developed, owned and managed as a single property, typically with on-site parking provided
- A shopping center will have a minimum retail gross lettable Area (GLA) of 20,000 SQFT
- Shopping Malls are usually classified according to occupancy, brands, tenants, achievements and awards, facilities, building materials, sizes and trade area size
- In our classification we have majored on classification by sizes and number of anchor tenants, and classified into three categories
- We classified malls according to the following criteria

Type	Size (SQFT)	No. of Anchors
Regional Center/ Destination	400,001 - 800,000	2+
Community Center	125,001 - 400,000	0-2
Neighborhood Center	20,000 - 125,000	0-1

Source: Cytonn Research

Malls Classification, Continued…

Destination malls are those with GLA of 400,000 SQFT – 800,000 SQFT such as Garden City

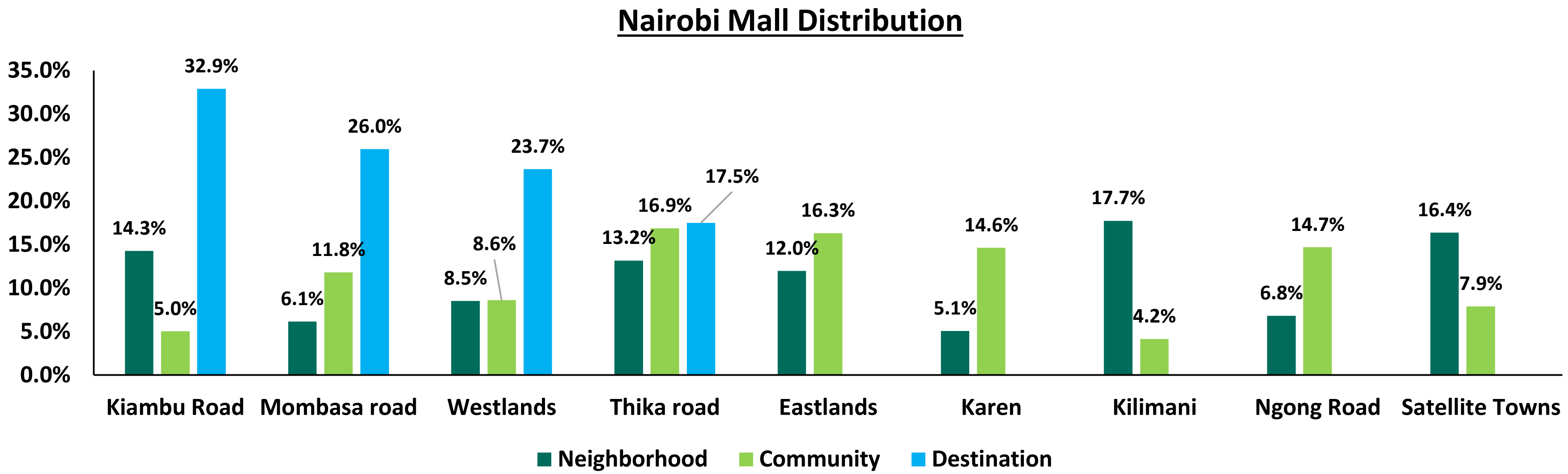
Mall Classification					
Neighborhood		Community			Destination
Hazina Trade Centre	Mountain View Mall	Greenspan	Capital Centre	Spur Mall	Two Rivers Mall
K-Mall	Red Heron	Shujaa Mall	Gateway Mall	Juja City Mall	Nextgen mall
Ridgeways Mall	Milele Mall	The Point	Highway Mall	Crystal Rivers	Garden City
Ciata	Maasai Mall	Comesa Mall	Tmall	Nakumatt Meru	Sarit Centre
Rosslyn Riviera	Nanyuki Mall	Village Market	Junction Mall	Mtwapa	
Lavington Mall	Cedar Mall	Valley Arcade	Greenhouse Mall	United Mall	
Crossroads Mall	Naivas Mall	Yaya Centre	TRM	Mega City	
Prestige Plaza	Mega Plaza	Galleria	The Mall	Lake Basin Mall	
				Zion Mall	
Mountain Mall	West End	The Hub	Westgate	City Mall	
Unicity	Tuff Foam	Southfield mall			
	Khetia Hse				
Sky Mall	Ananas				
Eldo Centre					

- Destination malls in Kenya include Two Rivers, Sarit Centre and Garden City among others that attract international retailers and have large built up areas
- In Kenya only Nairobi has destination malls. This is attributable to the fact that Nairobi is the capital city, attracting both local and international consumers, hence high population as well as high consumer purchasing power

Source: Cytonn Research

Malls Classification, Continued…

Kiambu and Limuru Road have the highest proportion of destination mall space in the market at 32.9%



- From our sample size, neighborhood malls are the most common in Nairobi in 2018, accounting for 48.9%, followed by community malls at 42.6% ,while regional/destination malls account for only 8.5% of formal retail space in Nairobi Metropolitan Area
- However, basing on mall space, Kiambu Road has the highest market share of destination malls with 32.9%, Thika Road has the highest market share of community malls at 16.9% while Kilimani has the highest market share of neighborhood mall space at 17.7%

Source: Cytonn Research

Cytonn REAL ESTATE

Performance by Class – Nairobi Metropolitan Area

Destination and Community malls are the best performing malls with an average rental yield of 9.6% attributable to the high rental charges and high occupancy rates, respectively

Class	Rent 2018	Occupancy Rate 2018	Rental yield 2018	Rent 2017	Occupancy Rate 2017	Rental yield 2017	Change in Occupancy Y/Y	Change in Yield Y/Y
Destination	217.9	81.0%	9.6%	234.4	77.3%	10.3%	3.7%	(0.7%)
Community	176.9	84.5%	9.6%	159.5	82.9%	9.0%	1.6%	0.6%
Neighborhood	170.0	80.2%	9.0%	170.8	76.9%	7.5%	3.3%	1.5%
Average	178.3	83.4%	9.4%	**171.2**	**79.8%**	8.9%	2.9%	0.5%

- Destination and Community malls are the best performing malls with an average rental yield of 9.6%
- Destination malls performance is attributable to the high rental charges on average Kshs 217.9 per SQFT, 22.2% above the market average of Kshs 178.3 per SQFT due to a premium for class, amenities provided and higher footfall in the malls as a result of presence of international retailers mainly as the anchor tenants
- Community malls recorded a 0.6% increase in rental yields due to 1.6% points y/y and 10.9% increase in occupancy rates and rents, respectively attributable to community malls competing with destination malls by providing quality amenities and attracting international anchor tenants to boost footfall
- Neighborhood malls register a lower rental yields of 9.0% mainly because of competition from retailers such as supermarkets and other small scale retailers. They also have fewer amenities as compared to destination malls

Source: Cytonn Research

Performance by Node & Class – Nairobi Metropolitan Area

Westlands offers the highest yields for destination malls at 12.2%, while Kiambu & Limuru road offers the best returns for community malls at 13.0%

	Neighbourhood Malls		Community Malls		Destination Malls	
	Occupancy	Yield	Occupancy	Yield	Occupancy	Yield
Karen	90.0%	12.7%	99.0%	9.9%		
Westlands	92.5%	12.4%	83.5%	12.5%	99.0%	12.2%
Ngong Road	99.0%	12.3%	92.8%	9.4%		
Thika road	82.0%	11.5%	64.5%	7.1%	95.0%	9.7%
Kilimani	97.0%	11.3%	97.9%	12.4%		
Eastlands	65.0%	7.0%	70.3%	7.1%		
Mombasa road	75.0%	6.9%	82.3%	8.9%	50.0%	5.4%
Satellite Towns	89.3%	6.6%				
Kiambu Road	53.3%	6.4%	95.0%	13.0%	80.0%	11.1%

- Westlands offers the best returns for Destination malls at 12.2%, with average occupancy rates of 99.0%, respectively as the area serves upper middle end population in neighborhoods such as Riverside, Parklands and Westlands and has relatively low competition from small scale retailers

- Kiambu & Limuru road offers the highest yields for Community malls due to the presence high quality malls such as Village Market, serving the high end regions of Runda and Rossylyn

- Karen on the other hand offer the best returns for neighborhood malls, recording an average rental yield of 12.7%

Source: Cytonn Research

Cytonn REAL ESTATE

Performance by Node & Class – Key Urban Centers

Kisumu offers the best yields for neighborhood malls at 10.2%, while Nairobi offer the best yields for community and destination malls at 9.6%, respectively

	Neighborhood		Community		Destination	
Region	Occupancy	Yield	Occupancy	Yield	Occupancy	Yield
Nairobi	80.2%	9.0%	84.5%	9.6%	81.0%	9.6%
Kisumu	93.3%	10.2%	80.0%	8.9%		
Mt Kenya	84.5%	9.9%				
Mombasa	97.2%	9.6%	95.7%	7.4%		
Nakuru	90.0%	7.1%	82.5%	6.8%		
Eldoret	97.0%	6.8%	60.0%	8.3%		

- Destination malls are only located within Nairobi, offering the highest yields of 9.6% at an occupancy rates of 81.0%. The destination malls record high occupancy rates due to presence of international retailers, attracting clientele and high footfall

- Community malls in Nairobi offer the highest rental yields of 9.6% at an occupancy rates of 84.5%, attributable to the increased demand by increasing middle class in the city

- Neighborhood malls in Kisumu regions have the highest yields of 10.2%, and average occupancy rates of 93.3%, as consumers gravitate towards convenience when shopping, hence more demand for neighborhood malls which are mostly in residential neighborhoods

Source: Cytonn Research

Cytonn REAL ESTATE

D) Retail Market Opportunity

Retail Space Opportunity – Methodology

To determine the retail space opportunity in Kenya, we used three metrics, that is market performance, retail space demand per region and household expenditure, which is an indication of purchasing power

- To determine the retail space opportunity in Kenya, we used three metrics, that is market performance (rental yield), required retail space per region measured/ computed as net space uptake less the current mall supply and household expenditure according to KNBS, which is an indication of purchasing power
- To determine the retail space demand per region we looked at **Net Space Uptake** per person in SQM, shopping population, current retail supply and current retail space deal pipeline
- **Total Demand**/ **Gross Uptake** is the total retail space adequate to serve a region dependent on the population. This is calculated by multiplying the net space uptake per person by the total shopping population
- **Net Demand/Uptake** is the gross uptake less the vacancy rates in malls in a specific region. This is calculated by multiplying the Gross uptake by respective market occupancy rates
- **Supply** is calculated by summing up the completed retail stock and the retail space under construction or in deal pipeline
- To get the over/undersupply (**Gap**) in the market, the supply is subtracted from the net uptake
- If its is a positive figure then the market has an under supply that is demand is more than supply and if it is a negative figure then the market has an oversupply that is supply is more than demand

Retail Space Opportunity – Demand Analysis

Based on our analysis, the oversupplied regions are Nairobi, Eldoret, Kisumu and Nakuru regions by 2.0mn, 0.3mn, 0.2mn and 0.1mn SQFT, respectively, while the undersupplied regions are Kiambu, Mombasa, Kajiado, Mt. Kenya and Machakos by 0.6mn, 0.3mn, 0.2mn,0.2mn and 0.1mn respectively

Demand Analysis - Space Uptake	
Assumptions	
No of persons per Household (2009 Census)	3.6
% of Shopping Population (14 years and above)	58%
No of Shopping Persons per household	2.1
Net Space Uptake per Pax in SQM (Based on Uptake per pax in Kilimani)	2.5

Region	Population 2018 (F) (Mn)	Urban Population	Urban population 2018 (Mn)	Shopping Population(Mn)	Net Space Uptake per Pax in SQFT (Mn)	Occupancy (2 year Average)	Gross Space Uptake per Pax (Required Space Kilimani) SQFT (Mn)	Net Uptake (Space Required) for Each Market SQFT (Mn)	Total Supply	GAP at Current Market Performance
Kiambu	2.1	62%	1.3	0.8	1.9	71%	2.1	1.5	0.9	0.6
Mombasa	1.3	100%	1.3	0.7	1.9	88%	2.1	1.8	1.6	0.3
Kajiado	1.0	41%	0.4	0.2	0.6	91%	0.7	0.6	0.4	0.2
Mt Kenya	2.7	22%	0.6	0.4	0.9	81%	1.0	0.8	0.6	0.2
Machakos	1.3	52%	0.7	0.4	1.0	79%	1.1	0.9	0.7	0.1
Nakuru	2.1	45%	0.9	0.6	1.4	85%	1.5	1.3	1.4	(0.1)
Kisumu	1.2	52%	0.6	0.4	0.9	82%	1.0	0.8	1.0	(0.2)
Uasin Gishu	1.3	39%	0.5	0.3	0.7	80%	0.8	0.6	0.9	(0.3)
Nairobi	4.4	100%	4.4	2.6	6.4	81%	7.1	5.7	7.8	(2.0)
Total	**17.4**		10.8	6.2	15.6		17.3	14.1	15.3	(1.2)

- Nairobi, Eldoret, Kisumu and Nakuru regions are oversupplied by 2.0mn, 0.3mn, 0.2mn and 0.1mn SQFT, respectively
- Kiambu, Mombasa, Kajiado, Mt. Kenya and Machakos are undersupplied by 0.6mn, 0.3mn, 0.2mn,0.2mn and 0.1mn respectively

Source: KNBS, Cytonn Research

Cytonn REAL ESTATE

Retail Space Opportunity - Kenya

To find the investment opportunity for real estate retail development in Kenya, we used three key factors, that is performance (Rental yield), required retail space and household expenditure as a proxy for purchasing power

- To find the investment opportunity for real estate retail development in Kenya, we used three key factors, that is performance (Rental yield), required retail space and household expenditure as a proxy for purchasing power, which have been allocated 30%, 30% and 40% weights respectively
- The points have been allocated based on the performance of a region per each factor. Oversupplied regions are allocated 0 points. The higher the ranking the higher the points allocated as shown below

Retail Space opportunity ranking

Region	Average Rental Yield	Rank	Required Retail Space	Rank	Household expenditure (per adult)	
Weight	0.2		0.3		0.2	Rank
Machakos	9.9%	9	125,912	5	4,690	5
Mt Kenya	9.9%	8	151,331	6	5,211	3
Kisumu	9.7%	7	(184,189)	3	5,292	7
Nairobi	9.4%	6	(2,010,830)	1	7,200	9
Mombasa	8.3%	5	250,902	8	5,800	3
Kajiado	7.6%	4	242,742	7	4,570	1
Uasin Gishu	7.6%	3	(256,441)	2	4,450	8
Nakuru	6.9%	2	(63,504)	4	4,811	5
Kiambu	4.9%	1	555,225	9	6,133	2

Source: Cytonn Research

Retail Space Opportunity - Kenya

Mombasa, Mt. Kenya and Kiambu offer the best investment opportunities to mall developers

Retail Space Opportunity					
Region	Average Rental Yield	Required Retail Space	Household expenditure (per adult)		
Weight	0.3	0.3	0.4	Weighted Score	Rank
Mombasa	5	8	7	6.7	1
Mt Kenya	8	6	5	6.2	2
Kiambu	1	9	8	6.2	3
Machakos	9	5	4	5.8	4
Nairobi	6	0	9	5.4	5
Kajiado	4	7	3	4.5	6
Kisumu	7	0	6	4.5	7
Nakuru	2	0	2	1.4	8
Uasin Gishu	3	0	1	1.3	9

- Mombasa, Mt. Kenya and Kiambu offer the best investment opportunities to mall developers. This is mainly due to low retail space supply, high household expenditure and high yields
- The lowest ranking regions are Uasin Gishu, Nakuru and Kisumu due to high retail space supply, low rental yields and low household expenditure

Source: Cytonn Research

V. Retail Market Opportunity and Outlook

Retail Market Opportunity and Outlook

The opportunity in the retail sector lies in specific markets that have high retail space demand , high household expenditure and high rental yields such as Mombasa, Mt. Kenya and Kiambu

Kenya Retail Sector Outlook				
Measure	**Sentiment 2017**	**Sentiment 2018**	2017 Outlook	2018 Outlook
Retail Space Supply	•Increasing supply with Nairobi currently having a mall space supply of approximately 5.6 mn SQFT, a having grown from 2.0mn SQFT in 2010 at 7-yr CAGR of 16.9%. Expected to grow with a 3-year CAGR of 7.3% to 6.9mn square feet of retail space by 2020	•Increasing supply with Nairobi currently having a mall space supply of approximately 6.5 mn SQFT, a having grown from 2.0mn SQFT in 2010 at 8-yr CAGR of 15.9%. Expected to grow with a 2-year CAGR of 9.5% to 7.8mn square feet of retail space by 2020	Neutral	Neutral
Retail Market Performance	•Retail sector still offers attractive returns especially in Nairobi with average rental yields of 9.6% and occupancy of 80.3% higher than the commercial office yield of 9.2% and residential market yield of 5.6%	•The retail sector recorded an average rental yields of 8.6%, and occupancy rates of 86.0%, which are 0.3% and 5.8% points y/y increase from average rental yield of 8.3% and occupancy rates of 80.2% in 2017 •Mt. Kenya and Kisumu were the best performing regions, with average yields of 9.9% and 9.7%, respectively indicating that the investment opportunity is tilted to the counties outside Nairobi Metropolitan Area	Positive	Positive
Retail Space Demand	•Nairobi has sufficient retail space supply factoring in incoming supply of 1.3mn in the next 2-3 years and thus investment opportunity is in other regions such as Mombasa which has relatively low supply	•Kiambu, Mombasa, Kajiado, Mt. Kenya and Machakos are undersupplied by 0.6mn, 0.3mn, 0.2mn,0.2mn and 0.1mn SQFT, respectively, presenting an investment opportunity in these areas	Positive	Positive

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Retail Market Opportunity and Outlook

For 2018, three of the metrics under consideration are positive and one neutral and thus we retain our positive outlook for the retail sector supported by the improved macro-economic environment

Kenya Retail Sector Outlook				
Measure	**Sentiment 2017**	**Sentiment 2018**	2017 Outlook	2018 Outlook
Market Sentiments	•Positive expectations about the retail sector growth due to a widening middle class and a growing economy	•The market is adopting to formal retail, as consumers are increasingly preferring to shop in formal retail space as opposed to informal channels as a result of product availability	Positive	Positive
Market Outlook	**The outlook for the sector is positive and we expect to witness reduced development activity in Nairobi, with developers shifting to county headquarters in some markets such as Mombasa and Mt. Kenya regions that have retail space demand of 0.3mn and 0.2mn SQFT, attractive yields at 8.3% and 9.9% and occupancy rates at 96.3% and 84.5%, respectively**			

For the 2017 retail sector outlook, we had three out of the four metrics considered as positive and one neutral and thus a positive outlook for the retail sector. For 2018, three of the metrics under consideration are positive and one neutral and thus we retain our positive outlook for the retail sector, given the higher yields at 8.6% from 8.3% in 2017, supported by the improved macro-economic environment. The opportunity is in county headquarters in some markets such as Mombasa and Mt. Kenya regions that have retail space demand of 0.3mn and 0.2mn SQFT, attractive yields at 8.3% and 9.9% and occupancy rates at 96.3% and 84.5%, respectively

Thank You!

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