

## Karen Residential Investment Opportunity 2018/19

Following the successful completion and handover of “[Amara Ridge](#)”, Cytonn’s flagship project located in Karen near the Bomas of Kenya, and Cytonn Real Estate’s launch of “[Applewood](#)”, a 10.4-acres signature gated community development comprising of 18 luxury homes in Miotoni, Karen, we update our research findings on the Karen residential market performance from our [H1’2018 topical](#). According to the topical, Karen’s residential market registered average annual returns of 8.5%, with an average rental yield of 4.9% and an average price appreciation of 3.5%. However, as per our research conducted in December 2018, Karen residential sector’s performance improved slightly with average total returns coming in at 8.8% (average rental yield of 4.1% and average capital appreciation of 4.7%). In this note, we look at the fundamentals supporting Karen’s residential performance concluding with our outlook on investment opportunity. In our analysis of Karen, we shall cover the following:

- A. Overview of Karen
- B. Residential Sector Performance in Karen
- C. Conclusion

### **A. Overview of Karen**

Karen is a high-end neighborhood in Nairobi located approximately 16 km South West of the Nairobi CBD. Previously, it was predominantly a residential area but relaxation of zoning regulations has seen an increase in commercial developments, the most notable ones being The Hub Mall along Dagoretti Road, Galleria Mall at the junction of Magadi and Lang’ata Road and the recently opened, Karen Waterfront along Lang’ata Road. As a result, we have seen land values in the area growing at a 7-year Compounded Annual Growth Rate (CAGR) of 12.2% since 2011, from an average of Kshs 25.0 mn per acre in 2011 to Kshs 55.8 mn per acre in 2018, fueled by the continued attractiveness of the area to investors and developers.

The main factors that have made Karen an attractive area for real estate development include:

1. **Good Transport Network** – Karen is accessible by such main roads as Ngong Road, Lang’ata Road and also the Southern Bypass, which was completed during the second half of 2016. Additionally, the ongoing dualling of Ngong Road, currently in its second phase of development, that will also see some feeder roads in Karen, such as Karen Road, expanded, is likely to further improve accessibility of the area,
2. **Relaxation of Zoning Regulations** – Zoning regulations have been relaxed in Karen to allow for commercial development in some nodes and single dwelling up to a half an acre in some areas thus increasing real estate activity and increasing property values. From our research, land prices in Karen have grown by a 7-year CAGR of 12.2% between 2011 and 2018, from Kshs 25.0 mn per acre in 2011 to Kshs 55.8 mn per acre in 2018,
3. **High-end Schools** – Karen’s appeal to wealthy individuals is also driven by the presence of some of the most elite international schools in the country such as Banda School, Gems School, Brookhouse, and Hillcrest. In 2018, Knight Frank’s Wealth Report listed Karen as one of the top investment hotspots globally,
4. **Serene Environment** - With the continued relaxation of zoning regulations and increased development activity, many high-end areas are losing their appeal to high net worth individuals. Karen, located at the foothills of Ngong Hills and in close proximity to forests such as Ngong Sanctuary Forest and Oloolua Forest has maintained its appealing environmental serenity, and,
5. **Recreational Facilities** – Karen has a unique historical heritage preserved in museums such as the Karen Blixen Museum. It also hosts the Bomas of Kenya, the Giraffe Manor, Karen Country Club and malls including The Hub and Galleria, making the place an ideal home for individuals seeking exclusivity, luxury and convenience.

### **B. Residential Sector Performance in Karen**

In evaluating Karen Market performance, we will look at the following key metrics:

- ❖ **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,
- ❖ **Prices:** Research on prices will be used in comparison of the products in the market over a given time period and allow us to demonstrate capital appreciation,
- ❖ **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 Karen,
- ❖ **Annual Uptake:** This allows the investor to appreciate the rate at which available homes are sold over a specific period. This helps them gauge how fast they can exit a development,
- ❖ **Occupancy:** Refers to the units rented out in a development and therefore, indicates the product uptake of an area,
- ❖ **Rental Yield:** Informs on the returns investors get from a property based on the monthly rental income and hence, the time it will take for an investor to get back the money invested,
- ❖ **Price Appreciation:** Shows the return on real estate investments though the annual increase in the value of a property/land,
- ❖ **Total Returns:** This shows the returns investors get back from a real estate investment (Rental yield+ Price Appreciation).

The Karen residential scene has notably changed over the years as we see more gated communities being delivered to the market. This is in response to demand created by the growing wealthy class of individuals and incoming multinational staff constantly seeking long-term accommodation in exclusive neighborhoods with fitting social amenities as well. Furthermore, Karen remains relatively affordable for developers in the high-end market, in regards to land for development, with the price per acre averaging at Kshs 55.8 mn as at 2018 in comparison to Runda, Kitisuru, and Rosslyn with Kshs 68.8 mn, Kshs 77.3 mn, and Kshs 100.0 mn, respectively.

In terms of performance, five bedroom units recorded the highest annual uptake and annual returns in Karen with an average of 27.6% and 10.9%, respectively, in comparison to four bedroom units with 20.8% and 5.5%, respectively, as high-income investors and homeowners prefer larger units.

(All Values in Kshs Unless Stated Otherwise)

Karen Residential Performance Summary 2018															
Typology	Avg Size (SQM)	Avg Price 2018	Avg Rent 2018	Avg Price per SQM 2018	Avg Rent per SQM 2018	Avg Annual Uptake	Avg Rental Yield Q4'2018	Avg Price Appreciation Q4'2018	Avg Total Returns Q4'2018	Avg Rental Yield Q2'2018	Avg Price Appreciation Q2'2018	Avg Total Returns Q2'2018	Rental Yield	Price Appreciation	Total Returns
4-Bedroom	440	81.3m	326,250	180,724	618	20.8%	4.4%	1.1%	5.5%	4.7%	3.2%	7.9%	(0.3%)	(2.1%)	(2.4%)
5-Bedroom	508	99.8m	380,000	185,642	826	27.6%	4.0%	7.1%	11.0%	5.0%	3.7%	9.0%	(1.0%)	3.4%	2.0%
<b>Average</b>	<b>474</b>	<b>91.5m</b>	<b>350,000</b>	<b>189,535</b>	<b>742</b>	<b>24.2%</b>	<b>4.1%</b>	<b>4.7%</b>	<b>8.8%</b>	<b>4.9%</b>	<b>3.5%</b>	<b>8.5%</b>	<b>(0.8%)</b>	<b>1.2%</b>	<b>0.3%</b>
<ul style="list-style-type: none"> <li>• Karen residential market improved slightly in q4'2018 posting average total returns of 8.8% on average, a 0.3% points increase from 8.5% in Q2'2018. The market improvement is attributable to a recovery in investor confidence especially after declined investor appetite in 2017</li> <li>• Five bedroom units recorded the highest annual uptake of 27.6% on average in comparison to four bedroom units with 20.8%. This indicates that five bedrooms units have a much higher demand in the area especially from investors as they also continue to show better returns with 2018 registering average total returns of 11.0% whereas four bedroom units registered an average of 5.5%. The performance is also attributable to wealthy investors and home-buyers preference for large units, thus driving prices up</li> </ul>															

Source: Cytonn Research

In terms of sub-markets, sub-nodes in close proximity to key social amenities such as shopping malls, nature parks as well as major access routes exhibit more demand as indicated by the relatively high annual uptake. For example, Miotoni, Dagoretti Road and Bogani Road posted the highest annual uptakes with 29.2%, 24.5% and 24.0%, respectively.

(All Values in Kshs Unless Stated Otherwise)

Karen Sub-nodes Residential Performance 2018											
Location	Avg Plinth Area (SQM)	Avg Price 2017	Avg Price 2018	Avg Rent 2018	Avg Price per SQM	Avg Rent per SQM	Average Annual Uptake	Average Occupancy	Average Rental Yield 2018	Average Price Appreciation 2018	Average Annual Total Returns 2018
Langata Rd	459	84.2m	87.5m	355,000	211,793	850	22.8%	69.7%	4.9%	8.9%	13.7%
Miotoni	533	110.0m	120.0m	426,667	226,667	803	29.2%	75.0%	4.2%	9.3%	13.5%
Hardy	335	72.0m	75.0m	308,750	224,167	746	20.0%	75.0%	4.0%	4.2%	8.2%
Bogani Rd	481	89.3m	93.0m	400,000	169,116	909	24.0%	73.6%	2.8%	4.7%	7.6%
Ololua Ridge	447	73.0m	74.5m	322,500	157,889	684	22.3%	70.0%	4.4%	2.0%	6.4%
Windy Ridge	509	90.0m	97.0m	345,000	177,664	631	24.5%	76.3%	3.8%	2.0%	5.8%
<b>Average</b>	<b>474</b>	<b>86.7m</b>	<b>91.5m</b>	<b>350,000</b>	<b>189,535</b>	<b>742</b>	<b>24.2%</b>	<b>73.8%</b>	<b>4.1%</b>	<b>4.7%</b>	<b>8.8%</b>
<ul style="list-style-type: none"> <li>Gated communities along Langata Road and Miotoni area registered relatively high returns with averages of 13.7% and 13.5%, attributable to the proximity to facilities such as shopping malls, international schools and major routes such as Langata Road, Ngong Road and the Southern Bypass</li> <li>Miotoni posted the highest annual uptake in 2018 with 29.2% attributable to its relatively higher exclusivity rendering the area more prestigious especially to wealthy individuals</li> </ul>											

Source: Cytonn Research

Overall, Karen recorded average total returns to investors of 8.8% in comparison to the residential high-end market average of 6.4% and relatively high annual uptake of 24.2% against the market's average of 20.7%.

(All Values in Kshs Unless Stated Otherwise)

High-End Markets Residential Performance 2018							
Location	Average Price per SQM	Average Rent per SQM	Average Annual Uptake	Average Occupancy	Average Rental Yield	Average Price Appreciation	Average Annual Total Returns
Kitisuru	184,097.5	834.9	22.0%	71.7%	4.8%	4.1%	8.9%
Karen	192,053.7	790.9	24.2%	73.8%	4.1%	4.7%	8.8%
Runda	211,486.5	810.5	19.8%	57.7%	2.9%	5.5%	8.4%
Lower Kabete	174,350.4	438.9	21.8%	89.5%	2.8%	4.2%	7.0%
Rosslyn	175,737.1	754.7	15.9%	71.3%	3.3%	(4.2%)	(0.9%)
<b>Average</b>	<b>187,545.0</b>	<b>726.0</b>	<b>20.7%</b>	<b>72.8%</b>	<b>3.6%</b>	<b>2.9%</b>	<b>6.4%</b>
<ul style="list-style-type: none"> <li>In terms of annual total returns, Karen ranked second with 8.8% after Kitisuru with 8.9%</li> <li>Notably, Karen registered the highest annual uptake in 2018 with an average of 24.2% compared to the high-end market average of 20.7%</li> </ul>							

Source: Cytonn Research

### **C. Conclusion**

The market recorded a growth in returns to investors from 8.5% in 2017/2018 to 8.8% in 2018/2019, attributable to a recovery in investor appetite, thus, improved transaction volumes. Five bedroom units notably registered a 3.4% points increase in price appreciation from 3.7% in 2017/2018 to 7.1% in 2018/2019 and relatively high annual uptake of 27.6% in comparison to the market average of 24.2%. The opportunity in the market, therefore, lies with five bedroom units, which attract high net worth individuals seeking large spaces and willing to pay the extra cost for high quality finishes as well as amenities such as a clubhouse and a swimming pool. The best performing sub-nodes are in Miotoni and areas along Lang'ata Road with double-digit returns of up to 13.7%. Therefore, a good combination of the right product to the right market through pricing and amenities will earn a developer high returns.

For more details on our projects in Karen, please see [Applewood](#), [Situ Village](#), and [Amara Ridge](#).