Kenya Real Estate Retail Sector Report 2020

E-commerce Shaping the Retail Sector

Cytonn

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1. Overview of Real Estate in Kenya

Introduction to Real Estate in Kenya

Our outlook for the sector is neutral, with tough economic environment remaining a key challenge

Factor	Characteristics
Macro-economic contribution	• As at Q2' 2020 the real estate and construction sectoral contribution to GDP was 15.1% ,an increase of 2.6% from that of FY' 2019 which was 12.5%. We expect the sector's contribution to grow gradually going forward supported by government's continued implementation of the affordable housing initiative and turn around in the mortgage market as a result of operationalization which is set to encourage building and construction activities
High Returns	• Real estate sector has continued to record relatively high average returns compared to other traditional asset classes • The 5-year average stands at 13.1% compared to other asset classes at 7.7% • The sector recorded rental yields of 7.7% in the commercial office sector, 6.7% in the retail sector, 5.0% in the residential sector, and 7.6% in serviced apartments in 2020
Recent developments	• Focus on affordable housing with the 1,562 low-cost housing units within the government's affordable housing project in Pangani Estate set for completion in December 2020 • Exit by some retailers such as Choppies, Shoprite, and expansion of both local and international retailers such as Naivas, Quickmart and Carrefour • Resumption of activities especially in the hospitality sector which was mostly affected by the pandemic
Market Outlook	• Our ooutlook for the real estate sector is neutral, supported by; positive demographics, improving infrastructure, improved access to mortgage, and, continued focus on affordable housing. Some factors likely to constrain the growth of the sector include; business restructuring and downsizing thus affecting uptake of office and retail spaces, constrained finances for developers, tough economic environment which has limited consumer spending and existing oversupply in the office and retail sectors

Introduction to Real Estate in Kenya – Contribution to GDP

Real Estate and construction sectors contribution to GDP increased by 2.1% points to 15.1% in Q2'2020 from 13.0% in Q1'2020

	2010	2019	Q1'2020	Q2,2020
Agriculture	24.8 %	34.1 %	26.0 %	25.7 %
Manufacturing	11.3 %	7.5%	9.3%	9.9%
Wholesale &Retail Trade	7.7%	7.6%	6.9%	7.3%
Hospitality & Tourism	1.7%	0.7%	1.3%	0.2%
Real Estate & construction	12.8 %	12.5 %	13.0 %	15.1 %

2. Kenya Retail Sector summary

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Executive Summary

The Kenya retail sector's performance dropped slightly with average rental yields declining by 0.3% points to 6.7% in 2020, from 7.0% in 2019

- The report is based on findings from research conducted in 8 nodes in the Nairobi Metropolitan Area, as well as key urban cities and regions in Kenya, including North Rift, Coastal Region, Western/Nyanza, and Mt. Kenya
- The report highlights the performance of the retail real estate sector in Kenya in 2020, based on rental yields, occupancy rates, as well as demand and supply, all in comparison to 2019 and the years before to identify the trends, and hence, provide investors with an investment opportunity outlook for the sector
- The Kenyan retail sector's performance dropped slightly with average rental yields declining by 0.3% points to 6.7% in 2020, from 7.0% in 2019. Occupancy rates declined by 0.7% points to 76.6% in 2020, from 77.3% in 2019. The decline in performance is attributed to a 2.1% drop in rental rates, shifting towards e-commerce which has resulted to reduced demand of physical retail space, and, constrained spending power among consumers due to a tough financial environment attributable to the Coronavirus pandemic
- Rental yields within the Nairobi Metropolitan Area declined by 0.5% points to 7.5% in 2020, from 8.0% in 2019. This was mainly driven by a 0.6% points decline in occupancy rates from 75.1% in 2019 to 74.5% in 2020. The decline is mainly attributed to an reduced demand of physical retail space with shift towards e-commerce
- Mt. Kenya was the best performing region, with average yields of 7.7% and rental rates of Kshs 125.0 per SQFT. The region accounts for 4.6% retail market share and its performance was mainly attributable to low supply of malls in the region
- The opportunity remains in mid-tier counties which are undersupplied such as Kiambu County and Mt Kenya region, with space demand of 0.6 mn SQFT and 0.7 mn SQFT, respectively

Kenya Retail Performance Summary

The Kenyan Retail sector performance recorded a drop in the rental yields by 0.3% points to 6.7% in 2020, from 7.0% in 2019

(All values in Kshs unless stated otherwise)

Kenya's Retail Performance Summary-2020						
Item	2016	2017	2018	2019	2020	Δ Y/Y 2020/2019
Asking rents (Kshs/SQFT)	154.9	140.9	132.1	118	115.1	**(2.1%)**
Average Occupancy (%)	82.9%	80.2%	86.0%	77.3%	76.6%	**(0.7%) points**
Average Rental Yields	8.7%	8.3%	8.6%	7.0%	6.7%	**(0.3%) points**

In 2020, the Kenyan retail sector's performance dropped slightly with average rental yields declining by 0.3% points to 6.7% in 2020, from 7.0% in 2019, while the occupancy rates declined by 0.7% points to 76.6% in 2020, from 77.3% in 2019. The decline in performance is mainly attributed to:

i. Constrained access to credit by businesses and reduced spending power among consumers, due to a tough economic environment,
ii. Tough economic times leading to the scaling down of operations by retailers, and,
iii. The existing oversupply of retail space in select submarkets which has resulted in pressure on landlords to provide concessions and other incentives to attract new clientele and/or retain existing tenants

Nairobi Metropolitan Retail Report

The retail sector recorded an average rental yield of 6.7% and occupancy rate of 76.6% in 2020

Value Area	Summary	Effect
Supply	• Few areas are oversupplied such as Nairobi and Kisumu leaving majority of the Kenyan regions such as Kiambu County and Mt Kenya region, undersupplied and therefore, we expect to see developers shifting their focus to these regions	• We expect developers to focus on Satellite Towns and areas that are undersupplied such Mt. Kenya and Kiambu County as they scale back on the top-tier regions that are oversupplied, that is, Nairobi and Mombasa. This will be supported by demand from international retailers and expansion by local retail chains
Returns	• The retail sector performance recorded a decline of 0.3%, and 0.7% points in average rental yield and occupancy rate, coming in at 6.7% and 76.6%, respectively • Nairobi and Mt. Kenya were the best performing regions with average rental yields of 7.7% and 7.5%,respectively	• We expect to see increased market activity with the expansion efforts by local retailers such as Naivas taking up space left by troubled retailers such as Tuskys, Nakumatt and Shoprite
Opportunity & Outlook	• The opportunity remains in mid-tier counties which are undersupplied such as Kiambu County and Mt. Kenya region, with space demand 0.6 mn SQFT and 0.7 mn SQFT, respectively	• We expect to see investors shifting focus to county headquarters with higher retail demand such as Kiambu and Mt. Kenya

The outlook for the sector is neutral and we expect to witness reduced development activity in Nairobi, with developer shifting to county headquarters in some markets such as Kiambu and Mt. Kenya that have retail space demand of 0.6 mn and 0.7 mn SQFT, respectively

a. Factors Shaping the Retail Sector in Kenya

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Factors Influencing Supply of the Retail Sector in 2020

Constrained access to credit coupled with poor governance affects supply of retail space

Factor	Characteristics
Access to Credit	• Caution on lending especially to businesses due to the high risk of credit default amid a tough economic environment has led to constrained credit availability with private sector credit growth coming in at 7.6% in June 2020, similar to the 5 year average of 7.6%. This will affect mall developers ability to access financing for development purposes thus affecting supply of retail space
Availability of land	• There has been scarcity of development land 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 15.0 mn, thus resulting in growing supply of retail space
Competition	• The growing supply of malls has led to low occupancy rates with 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
Poor Governance	• Lack of accountability and transparency in handling finances has led to cash flow issues resulting in exit of retailers • For example Tuskys which has been facing financial woes evidenced by mounting rent arrears and supplier debts has faced closure of approximately 14 branches

Factors Influencing Demand of the Retail Sector in 2020

Demographics, infrastructure and competition significantly affect the demand for retail space in Kenya

Factor	Characteristics
Positive Demographics	• Kenya's urban population continues to expand at an annual rate of 4.0% compared to the global average of 1.9% as per the World Bank, increasing the need for formal retail due to increase in demand for consumer goods
Infrastructure	• The continued investment in infrastructure has encouraged growth in mall space as this enhances the opening up of areas for development • For example the presence of Thika Road Superhighway encouraged building of Garden City Mall
Low Penetration of Formal Retail	• Formal retail space penetration stands at approximately 30% in Kenya, compared to 60% in developed countries such as South Africa according to a Nielsen Report and expansion of formal retail chains such as Spanish fashion retailer Tendam Group has crippled competition from informal retailers • Competition in the retail sector has also been crippled by the relatively high supply of retail space
Changing Consumer Tastes & Preferences	• Growth in the middle-class with increased disposable income has made Kenyan shoppers more aware of global retail trends and more demanding of the local shopping experience, goods and services
Recognition as a Regional Hub	• This has attracted many international organizations and retailers into the country thus the continued growth of the shopping population in addition to a growing demand for retail space

Trends in Kenya Retail Sector in 2020

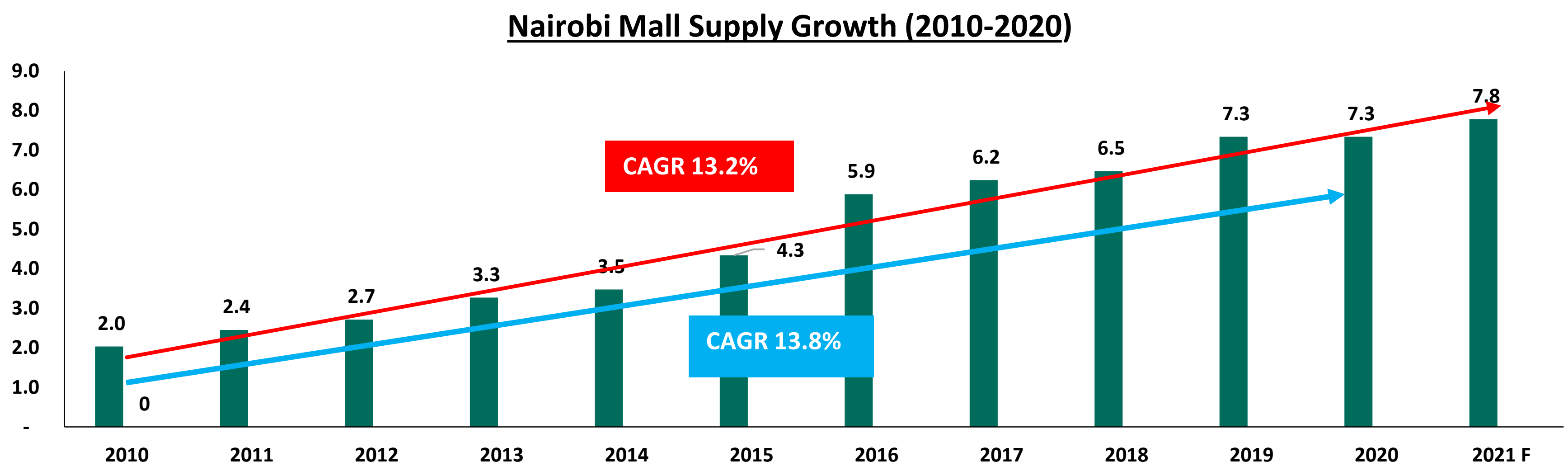
Entry by international retailers and online shopping have been the main trends during the period under review

Factor	Characteristics
Entry and expansion by International Retailers	• A number of new retailers have entered the Kenyan market or expanded their footprint • Istikbal, a Turkish home furnish retailer, opened its first Kenyan outlet at Panesar Centre along Mombasa Road in March 2020, while Turkey's LC Waikiki opened its seventh Kenyan outlet in Nairobi in August 2020 • In September 2020 Carrefour announced plans to open three stores in Mombasa, to be located at City Mall in Nyali, Centre Point Plaza in Diani and Shanzu Mall in Shanzu
E-commerce	• As a result of the government's guidelines on social distancing during the coronavirus pandemic retailers embraced online shopping evident by 8.6% growth in internet subscription rates according to Economic Survey 2020.This has further been enabled by mobile wallets gaining popularity, hence making online shopping more convenient. E-commerce is also supported by most businesses scaling down on physical retail space to reduce expenses incurred on rent

B. Nairobi Metropolitan Area (NMA) Retail Supply

Nairobi Metropolitan Area (NMA) Retail Supply – Growth

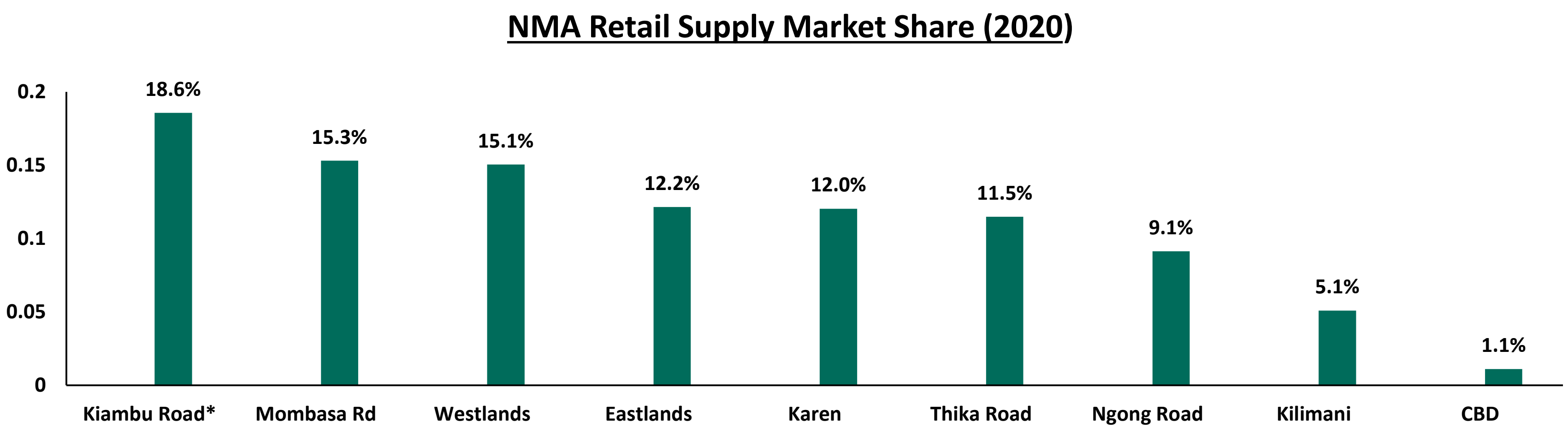
Nairobi Metropolitan Area (NMA) retail sector currently has a mall space supply of 7.3 mn SQFT,



- Nairobi Metropolitan Area (NMA) retail sector currently has a mall space supply of 7.3 mn with a 10-year CAGR of 13.8%
- The development over time was driven by increased uptake of retail space as a result of entry by international retailers such as Carrefour and Game stores, and expansion efforts by local retailers such as Naivas
- We project that by 2021, the retail space supply will have grown to over 7.8 mn SQFT, with the expected retail space addition of Britam Mall in Kilimani and the Beacon Mall which is expected to be constructed in Nairobi CBD area
- The retail supply remained flat in 2020 owing to current retail space oversupply in Nairobi Metropolitan Area at approximately 3.1 mn SQFT

NMA Retail Space Supply – Current Distribution by Nodes

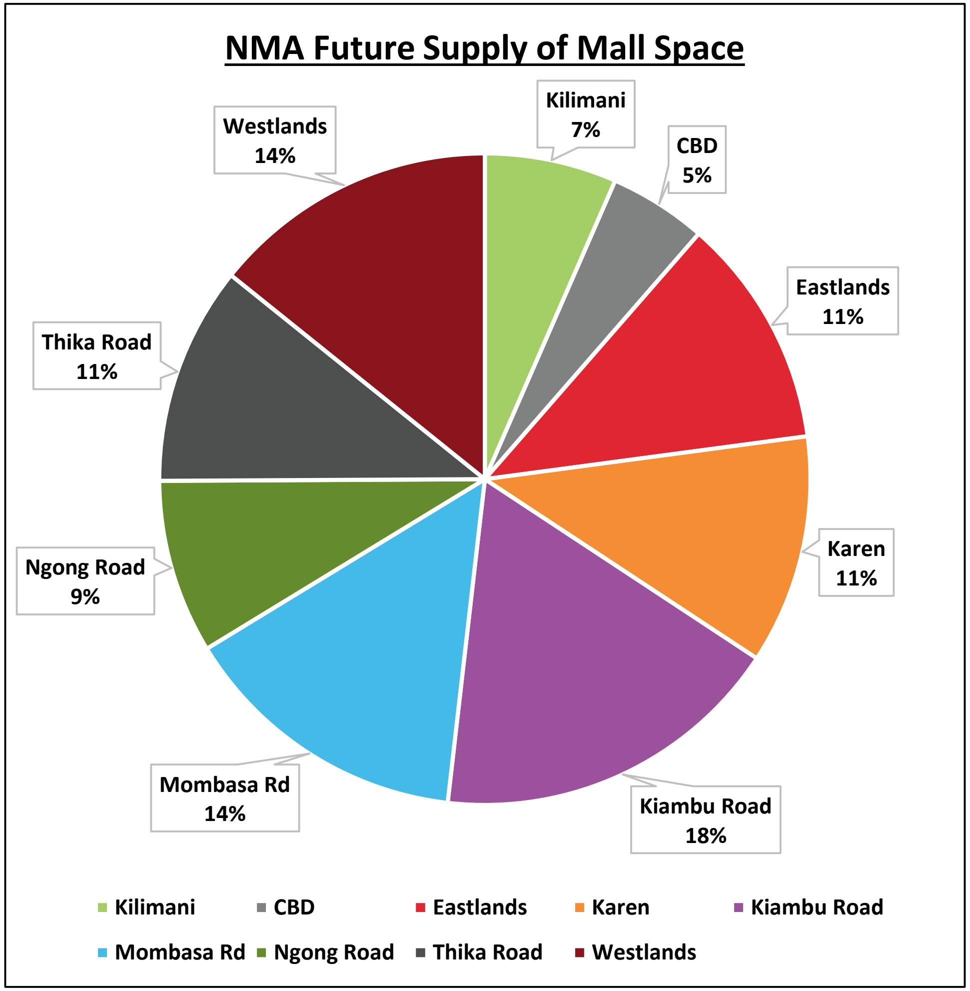
Kiambu Road and Mombasa Road recorded the highest market share in retail spaces recording 18.6% and 15.3%, respectively



- Kiambu Road which is also classified under Limuru road and Mombasa Road recorded the highest market share in retail spaces attributed to the availability of destination malls within the area, that is Two-Rivers mall which is the largest mall in the country along Kiambu Road among other malls such as Ridgeways mall and Ciata City mall, and Next Gen mall and Capital Centre along Mombasa Road
- Kilimani area and CBD still maintain the lowest market share recording 5.1% and 1.1% in 2020 attributed to the lack of development land in the CBD and previously-zoning purely for residential use in Kilimani, Kileleshwa & Lavington areas

NMA Expected Distribution of Retail Space Supply in 2021

We expect Kiambu Road, Mombasa Road and Westlands to maintain highest retail space supply in the Nairobi Metropolitan Area (NMA)

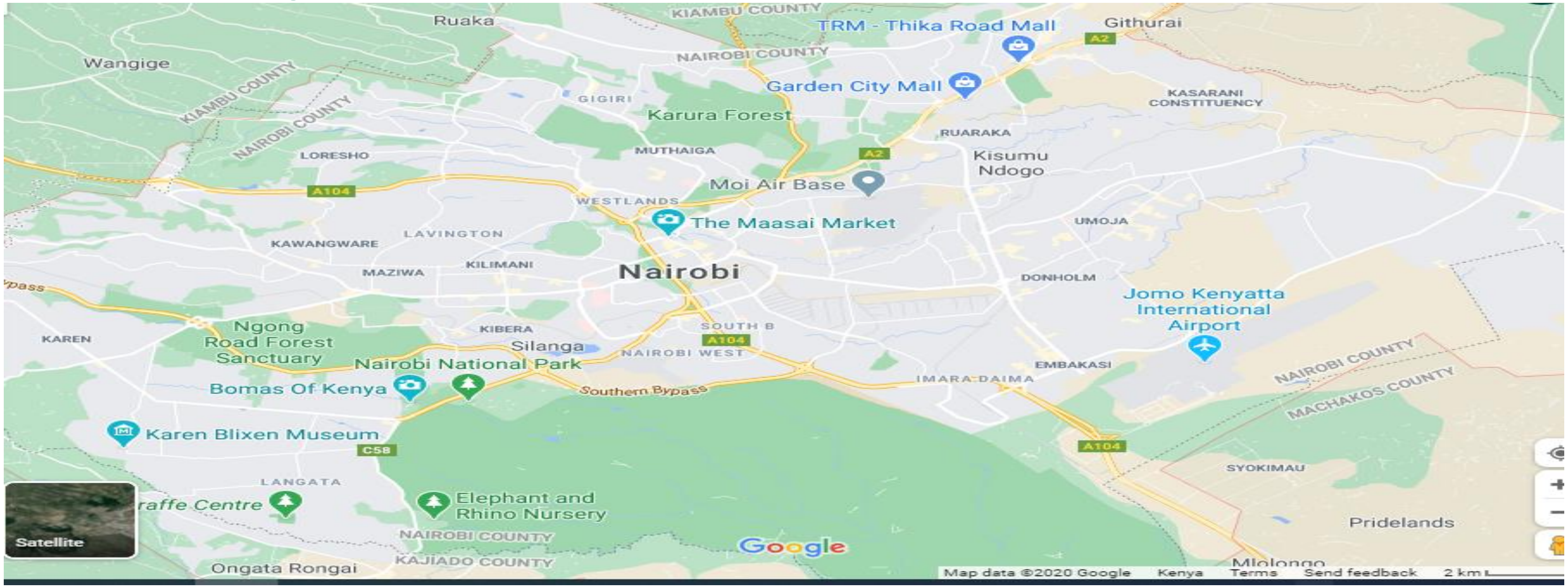


- We expect Kiambu Road, Mombasa Road and Westlands to maintain highest retail space supply in the Nairobi Metropolitan Area (NMA) recording a market share of 18.0%, 14.0% and 14.0% attributed to the availability of destination malls within the areas
- CBD is expected to record an increase in the malls market share attributed to the expected development of Beacon Mall that will bring approximately 300,000 SQFT
- Completion of Britam Mall is expected to add about 140,000 SQFT increasing the market share of Kilimani area to 7.0% from 5.0%

3. Retail sector performance summary in 2020

Nairobi Metropolitan Area Retail Sector Nodes

The retail nodes included in our research are Kilimani, Ngong Road, Kiambu Road, Westlands and Karen among others



- Our research sample includes the following;
- 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
- Thika Road and Mombasa road

A. Performance by Nodes Nairobi Metropolitan Area

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Performance by Nodes

Westlands, Karen were the best performing retail nodes recording yields of 9.8%, 9.2% respectively

All values in Kshs unless stated otherwise

Nairobi Metropolitan area (NMA) 2020 Retail Performance									
Area	Rent/SQFT 2020	Occupancy% 2020	Rental Yield 2020	Rent Kshs/SQFT FY' 2019	Occupancy FY' 2019	Rental Yield FY' 2019	Fy' 2020 Δ in Rental Rates	Fy' 2020 Δ in Occupancy (% points)	Fy' 2020 Δ in Rental Yield (% points)
Westlands	207.5	80.9%	**9.8%**	203.6	84.6%	**9.2%**	1.9%	(3.7%	**0.6%**
Karen	215.5	79.1%	**9.2%**	207.9	77.0%	**9.1%**	3.5%	2.1%	**0.1%**
Kilimani	169.5	83.0%	**8.6%**	170.4	87.2%	**9.9%**	(0.5%)	(4.2%	**(1.3%)**
Ngong Road	179.8	79.3%	**8.5%**	179.4	83.1%	**9.2%**	0.2%	(3.8%	**(0.7%)**
Kiambu Road	174.8	65.3%	**6.8%**	166.0	61.7%	**6.8%**	5.0%	3.6%	**0.0%**
Mombasa Road	140.8	70.8%	**6.2%**	148.1	64.0%	**6.3%**	(5.2%)	6.8%	**(0.1%)**
Thika Road	160.1	69.0%	**6.2%**	165.4	73.5%	**7.5%**	(3.3%)	(4.5%	**(1.3%**
Eastlands	138.3	69.2%	**6.1%**	145.0	74.5%	**7.5%**	(4.8%)	(5.3%	**(1.4%**
Satellite towns	130.0	73.6%	**5.8%**	131.4	70.3%	**6.0%**	(1.1%)	3.3%	**(0.2%)**
Average	**168.5**	**74.5%**	**7.5%**	**168.6**	**75.1%**	**8.0%**	**(0.1%)**	**(0.6%)**	**(0.5%)**

- In 2020, the rental yields within the NMA declined by 0.5% points to 7.5% from 8.0% in 2020 attributable to decline in demand for space evidenced by a drop in occupancies by 0.6% points from 75.1% in 2019 to 74.5% in 2020 and marginal decline in rent of by 0.1% to Kshs 168.5 from Kshs 168.6 per SQFT
- The subdued performance is also attributed to the current oversupply of retail report spaces by 3.1 mn SQFT, shifting focus to e-commerce leading to decline in demand for physical retail spaces, constrained consumer spending given the tough economic environment and exit by some retailers to cushion themselves against the negative effects of the Coronavirus pandemic

Performance by Nodes

Westlands, Karen were the best performing retail nodes recording yields of 9.8% and 9.2%, respectively

Westlands

- Westlands was the best performing submarket within the Nairobi Metropolitan area recording yields of 9.8% against a market average of 7.5%. This is attributed to an increase in rental rates by 1.9%. The occupancies however declined by 3.7% due to reduced demand of physical rental spaces

Karen

- Karen was the second best performing retail node recording rental yields of 9.2% from 9.1 in 2019. this is attributed to increase in rental rates from Kshs 207.9 per SQFT in 2019 to 215.5 per SQFT in 2018, an increase by 3.5%. The occupancies also increased by 2.1% points from 77.0% in 2019 to 79.1% in 2020

Kilimani

- Kilimani recoded a decline in rental yields by 1.3% points from 9.9% in 2019 to 8.6% in 2020. This decline is as a result of decline in rental rates and occupancies by 0.5% and 4.2% points to Kshs 169.5 per SQFT and 83.0% from Kshs 170.4 per SQFT and 87.2%, respectively

Ngong road and Langata road

- Ngong Road and Langata road recorded declines in rental yields by 0.7% points from 9.2% in 2019 to 8.5% in 2020. The rental rates recorded a slight increase by 0.2% to Kshs 179.8 per SQFT from Kshs 179.4 per SQFT, the occupancies however declined from by 3.8% points from 83.1% in 2019 to 79.3% in 2020 respectively

Kiambu Road

- Kiambu road recorded a 0.1% points increase in average rental yield. The rental rates increased by 5.2% to Kshs 174.8 per SQFT from 166.0 SQFT in 2019, while the occupancies increased by 3.6% points from 61.7% to 65.3% in 2020

Mombasa Road

- Mombasa road recorded declines in rental yields by 0.1 points from 6.3% in 2019 to 6.2%. The rental rates declined by 5.2% from Kshs 148.1 per SQFT to Kshs 140.8 per SQFT. The occupancies however increased to 70.8% from 64.0% in 2019

Performance by Nodes

Malls in Satellite towns recorded declines in rental yields by 0.2% points from 6.0% in 2019 to 5.8% in 2020

Thika Road:

- Thika road recorded declines in the rental yields by 1.3% point from 7.5% in the previous year to 6.2%, the rental rates also declined. attributed to declines in rental rates from by 3.3% form Kshs 165.4 per SQFT in 2019 Kshs160.1 Per SQFT on the other hand, the occupancies also declined by 4.5% points from 73.5% in 2019 to 69.0%

Eastlands

- Eastlands recorded declines in rental yields by 1.4% points from 7.5% in 2019 to 6.1% in 2020 while on the other hand the prices declined by 4.8% from Kshs 145.0 per SQFT and Kshs 138.3 per SQFT. The occupancies declined by 5.3% points from 74.5% in 2019 to 69.2% in 2020

Satellite towns

- The satellite towns were ranked last, recording declines in the rental yields by 0.2% points from 6.0% in 2019 to 5.8% in 2020. The rental rates declined by 1.1% from Kshs 131.4 Per SQFT to Kshs 130.0 per SQFT, the occupancies however increased by 3.3% points to 73.6% from 70.3% in 2019.

B. Performance by Regions

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Performance by Regions

Mount Kenya and Nairobi were the best performing regions with average yields of 7.7% and 7.5%, respectively

All values in Kshs unless stated otherwise

Summary of Retail Performance in Key Urban Cities in Kenya								
Region	Rent/SQFT 2020	Occupancy% 2020	Rental Yield 2020	Rent Kshs/SQFT 2019	Occupancy 2019	Rental Yield 2019	2020 Δ in Occupancy (% points)	2020 Δ in Rental Yield (% points)
Mount Kenya	125.0	78.0%	**7.7%**	129.8	80.0%	**8.6%**	(2.0%)	**(0.9%)**
Nairobi	168.5	74.5%	**7.5%**	168.6	75.1%	**8.0%**	(0.6%)	**(0.5%)**
Mombasa	114.4	76.3%	**6.6%**	122.8	73.3%	**7.3%**	3.0%	**(0.7%)**
Kisumu	97.2	74.0%	**6.3%**	96.9	75.8%	**5.6%**	(1.8%)	**0.7%**
Eldoret	130.0	80.2%	**5.9%**	131.0	82.3%	**7.9%**	(2.1%)	**(2.0%)**
Nakuru	55.7	76.6%	**5.9%**	59.2	77.5%	**4.5%**	(0.9%)	**1.4%**
Average	**115.1**	**76.6%**	**6.7%**	**118.1**	**77.3%**	**7.0%**	**(0.7%)**	**(0.3%)**

- The performance in key urban towns slightly softened with declines in rental yields by 0.3% points to 6.7% from 7.0% in 2019. This is attributed to declines in the occupancy rates by 0.7% points from 77.3% in 2019 to 76.6% in 2020 and a 2.1% drop in rental rates. The slowdown in performance is attributed to reduced demand of physical retail space as a result of shifted focus to e-commerce, constrained consumer spending as a result of tough economic times and competition from informal retail spaces in some submarkets. In addition, rental rates have declined as landlords use strategies such as discounts to woe new clients and maintain existing tenants
- Mount Kenya was the best performing node with an average rent of Kshs 125.0 per SQFT and average rental yields of 7.7%. However, the rental yields dropped by 0.9% points from 8.6% in 2019, while the occupancy rates declined from 80.0% to 78.0%, a decline by 2.0% points. The relatively good performance of the region is attributable to relatively high demand for quality retail space amid an undersupply of 0.7 mn SQFT. Nakuru was the lowest performing node recording an average yield of 5.9% against the market average of 6.7%. The decline is attributed to low rental rates of Kshs 55.7 per SQFT due to the limited supply of quality retail space and competition from informal retail market

C. Performance by class Nairobi Metropolitan area

Retail Mall Classification

Shopping malls are classified according to their sizes, brands, occupancies, tenants, achievements and awards, facilities, building materials and trade area

- A mall is defined as a large retail complex containing a variety of stores and often restaurants and other business establishments housed in a series of connected or adjacent buildings or in a single large building
- A typical mall has a minimum retail gross Lettable area of 20,000 SQFT
- The shopping malls are classified according to their sizes, brands, occupancies, tenants, achievements and awards, facilities, building materials and trade area
- In our classification, the main area of focus are the anchor tenants and sizes, hence, we classified the malls into three main categories according to the criteria below:

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

Retail Mall Classification

Based on our research findings, destination malls composed of the least number at 4, neighborhood at 47 and community malls at 40

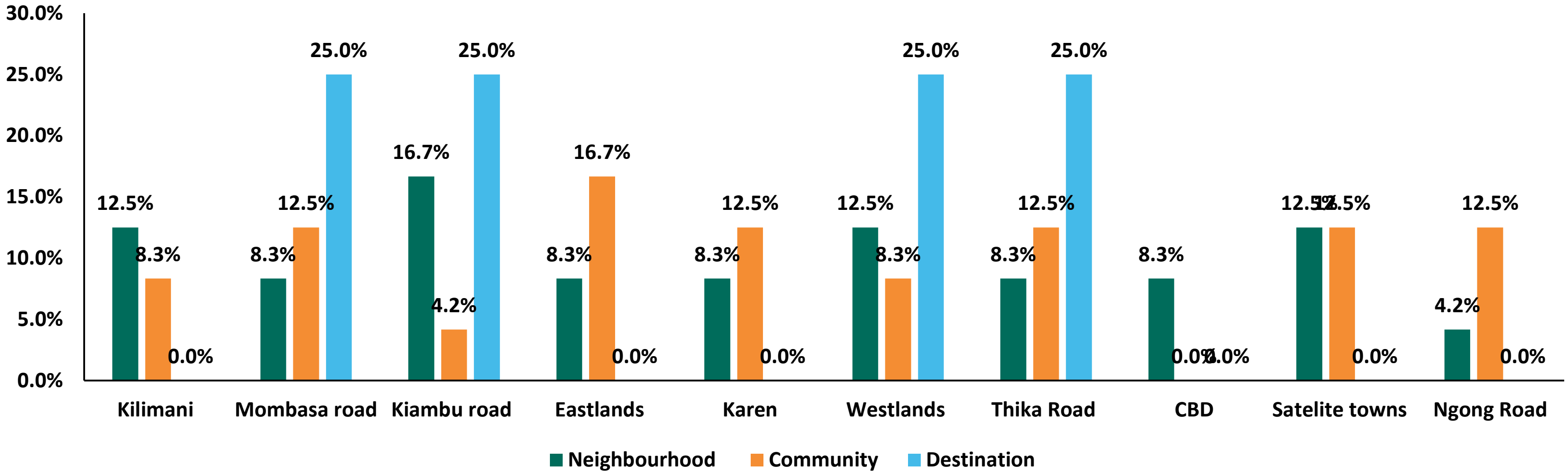
- Based on our research finding destination malls composed the least number at four while neighborhood and community malls recorded 47 and 40, respectively

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

Performance by class, Nairobi Metropolitan area

Destination malls were the least in number with Kiambu Road, Mombasa Road, Thika Road and Westlands having an equal market share

Nairobi Metropolitan area, (NMA) mall distribution



- Within the Nairobi Metropolitan Area (NMA), neighborhood malls comprised the majority of the malls at 23 with Kiambu Road recording the largest market share at 16.7% and Eastlands recording the lowest market share of 4.2%
- Destination malls were the least in number with Kiambu Road, Mombasa Road, Thika Road and Westlands sharing an equal market share
- Eastlands composed of the highest market share of community malls at 16.7%, followed closely by Karen and Ngong road recording 12.5% each

Performance by Regions

Destination malls were the best performing mall typologies recording average rental yields of 8.6%

All values in Kshs unless stated otherwise

Retail Market Performance in Nairobi by Class 2020			
Class	Rent 2020 per SQFT	Occupancy 2020	Rental Yield 2020
Destination	201.9	76.4%	8.5%
Community	169.2	75.1%	7.4%
Neighbourhood	163.7	73.4%	7.4%
Average	178.2	75.0%	7.8%

- On performance by class, destination malls were the best performing recording average rental yields of 8.5%, attributable to high rental charges averaging at Kshs 201.9 per SQFT, 11.7% higher than the market average of Kshs 178.2 per SQFT. This is as the malls charge premium rents for the high-quality retail space, facilities provided, and have higher footfall attracted by the presence of international retailers
- Community malls recorded an average rental yield of 7.4% slightly lower than the market average of 7.8%, while neighborhood malls recorded an average rental yield and occupancy rate of 7.4% and 73.4%, respectively, attributed to lower rental rates averaging Kshs 163.7 per SQFT compared to the market average of Kshs 178.2 per SQFT

Performance by Regions

Westlands offers the best returns for destination malls at 11.8%

All values in Kshs Unless stated Otherwise

Nairobi Metropolitan area (NMA) 2020 Retail Performance									
	Neighbourhood			Community			Destination		
Area	Rent	Occupancy	Rental Yield	Rent	Occupancy	Rental Yield	Rental	Occupancy	Rental Yield
Westlands	182.5	85.2%	9.3%	224.2	76.6%	9.5%	207.5	85.0%	11.8%
Karen	210.0	74.6%	8.6%	219.2	82.2%	9.6%			
Kilimani	170.8	81.7%	8.5%	167.5	85.1%	8.8%			
Ngong Road	184.7	79.1%	8.7%	165.0	79.7%	7.9%			
Kiambu road	159.0	62.2%	6.2%	207.5	64.0%	8.0%	205.0	79.0%	8.0%
Mombasa road	140.2	76.5%	6.4%	140.2	72.5%	6.5%	142.5	61.6%	5.3%
Thika Road	135.1	65.5%	6.6%	145.9	67.7%	5.1%	252.5	80.2%	9.1%
Eastlands	140.0	73.3%	6.2%	137.5	67.1%	6.0%			
Satellite towns	151.3	62.4%	6.3%	115.8	81.1%	5.5%			
Average	**163.7**	**73.4%**	**7.4%**	**169.2**	**75.1%**	**7.4%**	**201.9**	**76.4%**	**8.5%**

- Westlands offers the best returns for Destination malls at 11.8%, with average occupancy rates of 85.0%, the area serves upper middle end population in neighborhoods such as Riverside, Parklands and Westlands and has relatively low competition from small scale retailers making it competitive
- Karen offers the highest yields for Community malls at 9.6% attributed to improving infrastructure and the area hosting upper and middle income earners
- Westlands offer the best returns for neighborhood malls recording average rental yields of 9.3%

Performance by node and class-Key Urban centers

Destination malls are only located within Nairobi, offering the highest yields of 8.5% at an occupancy rates of 76.4%

Nairobi Metropolitan area (NMA) 2020 Retail Performance						
	Neighbourhood		Community		Destination	
Area	Occupancy	Yield	Occupancy	Rental Yield	Occupancy	Rental Yield
Nairobi	73.4%	7.4%	75.1%	7.4%	76.4%	8.5%
Mount Kenya	77.3%	7.1%	79.5%	9.1%		
Kisumu	77.0%	6.5%	72.0%	6.2%		
Mombasa	78.9%	6.3%	74.7%	6.7%		
Nakuru	78.0%	5.8%	75.3%	6.1%		
Eldoret	86.7%	6.3%	70.4%	5.3%		
Average	**78.5%**	**6.6%**	**74.5%**	**6.8%**		

- Destination malls are only located within Nairobi, offering the highest yields of 8.5% at an occupancy rates of 76.4%. The destination malls record high occupancy rates due to presence of international retailers attracting clientele and in addition to the relatively high footfall
- Community malls in Mt. Kenya offer the highest rental yields of 9.1% and an occupancy rates of 79.5%, attributable to the low supply of retail space and an increasing middle-income population in the region
- Neighborhood malls in Nairobi regions have the highest yields at 7.4%, and average occupancy rates of 73.4%, as consumers move towards convenience shopping at residential neighborhood malls

4. Retail Market Opportunity

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Retail Space opportunity-Methodology

To determine the retail space demand per region we looked at Net Space Uptake per person in SQFT, shopping population, and current retail market occupancy rates

- We worked out a retail space demand analysis to help track retail market gaps across the country, and therefore inform investors on both overserved and underserved markets. Our demand analysis is based on the current and incoming retail space supply and the required retail space demand per region dependent on the population
- To determine the retail space demand per region we looked at net space uptake (the total retail space adequate to serve a region dependent on the population less the vacancy rates in malls) per person in SQFT, shopping population, and current retail market occupancy rates. For calculation of the net space uptake, we used the average uptake in Kilimani as a guideline. In this analysis:
    - **i. 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,
    - **ii. 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,
    - **iii. Supply** is calculated by summing up the completed retail stock and the incoming retail space, and,
    - iv. To get the over/undersupply (gap) in the market, the supply is subtracted from the demand/net uptake.

Key assumptions are:

- Number of persons per household at 3.6 based on the average household size in urban areas as per Kenya Population and Housing Census 2019, and,
- Percentage of shopping population (14 years and above)

(If the figure is positive, then the market has an undersupply I.e, demand is more than supply and if it is a negative figure then the market has an oversupply, i.e. supply is more than demand).

Performance by Regions

Based on our demand analysis, Nairobi, Kisumu and Nakuru are the most oversupplied areas by 3.1 mn SQFT, 0.3 mn SQFT and 0.2 mn SQFT, respectively

Demand Analysis of Retail Spaces in Key Urban Cities										
Region	2019	Urban Population	Urban population 2019	Shopping People	Net Space Uptake per pax in SQFT (Based on Uptake per pax in Kilimani) (mn SQFT)	Occupancy (2 year Average)	Gross Space Uptake per Pax (Required Space Kilimani) (mn SQFT)	Net Uptake (Space Required) for each market(mn SQFT)	Current supply(mn SQFT)	GAP at current market performance (mn SQFT)
Mt Kenya	2.8	38.0%	1.1	0.6	1.5	79.2%	1.7	1.3	0.4	0.7
Kiambu	2.1	60.0%	1.3	0.7	1.9	74.8%	2.1	1.6	0.9	0.6
Machakos	1.3	52.0%	0.7	0.4	1.0	74.8%	1.1	0.8	0.3	0.1
Kajiado	1.1	41.0%	0.5	0.3	0.7	74.8%	0.7	0.5	0.3	0.1
Mombasa	1.3	100.0%	1.3	0.8	1.9	74.8%	2.1	1.6	1.4	0.0
Uasin Gishu	1.3	44.0%	0.6	0.3	0.8	81.3%	0.9	0.8	0.4	(0.1)
Nakuru	2.2	45.0%	1.0	0.6	1.4	77.1%	1.6	1.2	0.6	(0.1)
Kisumu	1.2	50.0%	0.6	0.3	0.9	74.9%	1.0	0.7	1.0	(0.2)
Nairobi	4.6	100.0%	4.6	2.7	6.7	74.8%	7.4	5.5	7.3	(3.1)
Total	18.		11.6	6.7	16.8		18.6	14.1	12.5	(2.0)

- Based on our demand analysis, Nairobi, Kisumu and Nakuru are the most oversupplied retail markets by 3.1 mn SQFT, 0.3 mn SQFT and, 0.2 mn SQFT, respectively

Retail Space Opportunity Kenya

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

To determine the investment opportunity within the retail sector in Kenya, we analyzed the regions based on three metrics, which is performance (rental yield), required retail space and household expenditure as a proxy for purchasing power, which have been allocated 30.0%, 30.0% and 40.0% weights, respectively

Methodology Used:

- **Rental Yield** – Measures the expected return from development hence the higher the better. This carried 30% of the weight. The area with the highest yield was given the highest score of 9, while the area with the least yield was given the least score of 1,
- **Household Expenditure** - It shows the ability of the population to spend and thus the higher the better. This carried a 40% weight, hence, the area with a high household expenditure was given the highest score of 9, while the area with least household expenditure was given the least score of 1, and,
- **Retail Space Demand** – Measures the amount of space a region can take up at the current market occupancy rates. The higher the better. This carried a 30% weight, hence, an area with a high retail space demand was given the highest score of 9, while the area with least retail space demand was given the least score of 1

Retail Market Opportunity

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

- Based on our analysis, Kiambu and Mt. Kenya offer the best investment opportunities to retail space developers attributed to as the areas achieved a higher weighted score of 7.6, 7.1,respectively
- Uasin Gishu ranked the lowest as a result of implying that as of this time, it is not the best investment area and this is attributed to lower yields, relatively low retail space demand and lower household expenditure

Retail Space Opportunity 2020					
Region/Weight	Retail Yield Score	Retail Space Score	Household expenditure (per adult) score		
	30.0%	30.0%	40.0%	Weighted score	Rank
Kiambu	8	8	7	7.6	1
Mt Kenya	8	9	5	7.1	2
Mombasa	4	5	8	5.9	3
Nairobi	5	1	9	5.4	4
Machakos	5	6	3	4.5	5
Kajiado	5	7	2	4.4	6
Kisumu	3	2	6	3.9	7
Nakuru	1	3	4	2.8	8
Uasin Gishu	1	4	1	1.9	9

5. Outlook

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Retail Sector Outlook

Our outlook for retail space supply remains neutral affected by the existing undersupply in some areas such as Kiambu and Mt. Kenya regions, we expect developers shifting their focus to these areas

Kenya Retail Sector Outlook 2020				
Measure	**Sentiment 2019**	**Sentiment 2020**	**2019 Outlook**	**2020 Outlook**
Retail Space Supply	Majority of the Kenyan regions that is Kiambu County, Mt Kenya region, Machakos, Mombasa and Kajiado are undersupplied and therefore, we expect to see developers shifting their focus to these regions. However, in the short-run we expect developers to scale back on the top-tier regions that are oversupplied, that is, Nairobi, Kisumu, Uasin Gishu and Nakuru with more development picking up based on demand from international retailers and investors as well as improved financial environment	Main urban cities such as Nairobi and Kisumu have an existing oversupply of space while regions such as Kiambu County and Mt Kenya region are undersupplied and therefore, we expect to see developers shifting their focus to these regions. This will be supported by demand from international retailers and expansion by local retail chains	Neutral	Neutral

Retail Sector Outlook

The outlook for the sector is **NEUTRAL** and we expect to witness increased development activity in Satellite towns and county headquarters in some markets such as Mt. Kenya

Retail Market Performance	The retail sector performance in the Nairobi Metropolitan Area declined by 5.4% and 4.7%, respectively to record rental yields of 8.0% and occupancy rates of 75.1%, respectively. Nairobi and Mt Kenya were the best performing region with average rental of 8.6% and 8.0%, respectively. Kisumu's performance dropped significantly due to increased mall supply	The retail sector performance recorded a decline of 0.3% and 0.7% points in average rental yields and occupancy rates, respectively, coming in at 6.7% and 76.6%, respectively Nairobi and Mt. Kenya were the best performing regions with average rental yields of 7.7% and 7.5%, respectively, attributable to relatively high demand for quality retail space demand for space in malls. We expect the sector's performance to be cushioned by entry of local and international retailers taking up prime retail space left by their troubled counterparts	**Neutral**	**Neutral**
Retail Space Demand	Despite four major cities i.e. Nakuru, Uasin Gishu, Kisumu and Nairobi being oversupplied, the rest are undersupplied including Kiambu with a retail space demand of 0.8mn SQFT	Nairobi, Kisumu and Nakuru are the most oversupplied areas by 3.1 mn, 0.3 mn and 0.2 mn SQFT of space, respectively while areas such as Mt Kenya are under supplied by 0.7 mn SQFT	**Neutral**	**Neutral**
Market Outlook	***The outlook for the sector is NEUTRAL and we expect to witness increased development activity in areas outside Nairobi, with developers shifting to satellite towns and county headquarters in markets such as Kiambu and Mt. Kenya that have an existing retail space demand of 0.6 mn and 0.7 mn SQFT, respectively***			

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