Kenya Real Estate Retail Sector Report 2023

Cytonn

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1. Overview of Real Estate in Kenya

Introduction to Real Estate in Kenya

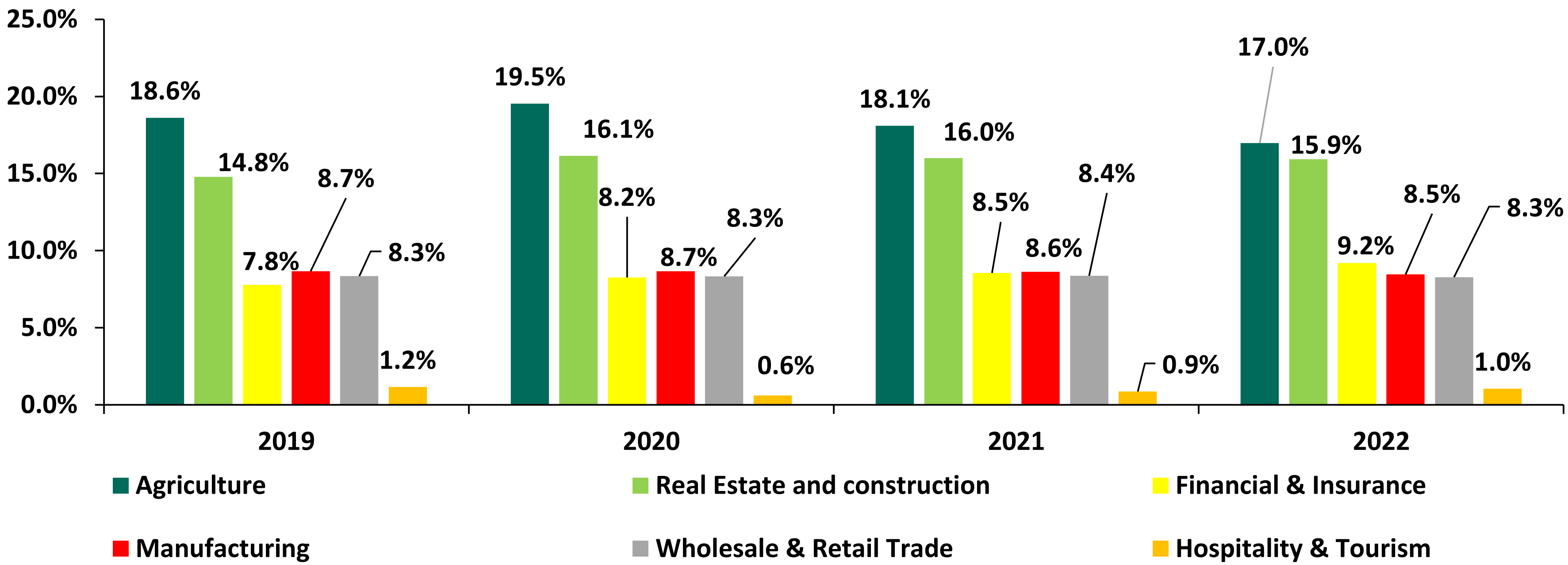
Real Estate performance is expected to be driven by increased investor appetite for the property market, positive demographics driving demand for properties, and, rapid infrastructure developments

Factor	Characteristics
Macro-economic Contribution	• Real Estate and construction sectors grew by 5.2% and 3.1% respectively in Q1'2023, 2.3% and 0.7% points up from 2.9%% and 2.4% growth that was registered in Q1'2022, attributable to increased property transaction volumes in the market, coupled with the increased construction and expansion activities • We expect the sector to continue registering an upward trajectory performance mainly due to; i) the increased investor confidence in the property market hence driving developments, ii) government's continued focus on infrastructure and affordable housing developments, iii) aggressive expansion in the retail sector, and, iv) recovery of the hospitality sector
Returns	• In H1'2023, the Real Estate sector recorded improved performance, attributed to increased Real Estate property transactions and developments • the residential sector recorded improved performance with a 0.2% points y/y increase in average total returns to 6.0%, from the 5.8% recorded in H1'2022. The commercial office sector recorded average rental yields of 7.8% in H1'2023, representing a 0.4% points y/y increase from 7.4% recorded in H1'2022. • The retail sector recorded average rental yields of 8.2% in H1'2023, representing a 0.4% points y/y increase from 7.8% recorded in H1'2022. The land sector recorded an average annualized capital appreciation of 4.5% in H1'2023, with the average prices per acre in the NMA coming in at Kshs 128.5 mn in H1'2023, from Kshs 128.4 mn recorded in H1'2022.
Recent Developments	• Government's continued focus on affordable housing and infrastructure projects with some of the ongoing projects being; i) Buxton housing project in Mombasa, ii) Kenol-Marua Road, iii) Western By Pass, and, iv) Pangani housing project, • Increased transactions, reopening, and expansion activities in the hospitality sector by firms and hotels such as JW Marriott Hotel, Pride Inn hotels, and private equity firm Actis Limited, among many others • Local and international retailers such as Optica Limited, Naivas and QuickMart supermarkets aggressively taking up space previously occupied by troubled retailers such as Tuskys and Nakumatt supermarkets, and, • Increased foreign investor appetite for Kenya's property market particularly the retail, hospitality, and, industrial sectors
Market Outlook	• Our outlook for the Kenya retail market remains ***NEUTRAL*** with factors such as the e-commerce strategy, limited availability of land and financial constraints expected to impede performance of the sector. However, the rapid infrastructure developments by government, foreign and local retailers aggressively taking up retail spaces, positive demographics of the country , and rapid foreign investments in other sectors of Real Estate are expected to cushion the overall performance of the sector

Introduction to Real Estate in Kenya–GDP Contribution

Real Estate and construction sectors contributed 15.9% to GDP in FY’2022, a 0.1% point down from the 16.0% that was registered in FY’2021

Cytonn Report: Real Estate and Construction Sectors Contribution to GDP in Comparison with Other Sectors (FY'2019-FY'2022)



- Real Estate and construction sectors contributed 15.9% to GDP in FY’2022, a 0.1% point down from the 16.0% that was registered in FY’2021, attributable to decreased property transaction volumes in the market, coupled with; i) rising construction costs on the back of elevated inflation pressures, with the average construction cost so far in 2023 coming at Kshs 41,600 per SQM, a 20.1% increase from Kshs 34,650 per SQM in 2022, and, (ii) delays in processing construction permits owing to backlogs in registry systems, leading to an overall decrease in construction activities.

2. Kenya Retail Sector summary

Executive Summary

Kenyan retail sector performance showed continuous resilience, with the average rental yield coming in at 7.5% in 2023

- We conducted research on 9 nodes within the Nairobi metropolitan Area (NMA), as well as other key urban cities in Kenya which include Nakuru, Kisumu, Eldoret, Mombasa, and the Mount Kenya Region
- The report highlights the 2023 Kenyan retail market performance based on rental rates, occupancies and rental yields, in addition to also identifying the investment opportunities and outlook for the sector
- Kenyan retail sector performance showed continuous resilience, with the average rental yield coming in at 7.5% in 2023.
- The average rent per SQFT realized a seven year CAGR of (2.4%) to Kshs 130 in the period under review, from Kshs 155 that was recorded in FY'2016 as a result of increased supply of retail spaces, leading landlords to offer rent discounts to attract and retain clients while also addressing the surplus space. The situation was exacerbated during the active 2-year period of the COVID-19 pandemic and the 2017 and 2022 electioneering periods
- The average occupancy rate also declined by 3.5% points to 79.4% in 2022, from 82.9% that was recorded in 2016, mainly attributed to exit of local and foreign retailers in the market that had occupied large spaces for their businesses and addition of new malls into the market during the period consequently increasing the oversupply of the retail spaces in the sector and further weighed down the overall absorption rate
- In terms of performance per region, the Nairobi Metropolitan Area (NMA) was the best performing region with an average rental yield of 8.2% in 2023, 0.3% points higher than the 7.9% that was recorded in 2022. The performance was driven by the 0.9% increase in rental charges and 1.8% points improvement in average occupancy rates which came in at Kshs 177 per SQFT and 79.2%, respectively in 2022, from Kshs 175 per SQFT and 77.4%, respectively, in 2022

Kenya Retail Performance Summary

The average occupancy rate increased by 2.1% points, reaching 79.4% in 2023 compared to 77.3% in 2022. attributable to rapid expansion of both local and foreign retailers

All Values in Kshs Unless Stated Otherwise

Cytonn Report: Kenya's Retail Performance Summary-2023									
Item	2016	2017	2018	2019	2020	2021	2022	2023	Δ Y/Y 2022/2023
Asking rents (Kshs/SQFT)	155	141	132	118	115	118	122	130	7.1%
Average Occupancy (%)	82.9%	80.2%	86.0%	77.3%	76.6%	78.4%	77.3%	79.4%	2.1% points
Average Rental Yields	8.7%	8.3%	8.6%	7.0%	6.7%	6.8%	6.8%	7.5%	0.7% points

- Kenyan retail sector performance on overall remained stable, with the average rental yield coming in at 7.5% in 2023
- The average rent per SQFT increased by 7.1% to Kshs 130 in 2022 from Kshs 122 in 2021, amidst, i) an improved business environment in post COVID-19 era and post electioneering period that resulted to increased transaction volumes, ii) upward revision of rental charges in most community and neighbourhood malls in towns outside NMA driven by heightened demand from retailers expanding their businesses into newly developing economic regions of the country, and, iii) addition of high end malls that attracted higher rental rates such as the Business Bay Square and Broadwalk Mall in Nairobi, Meru Greenwood Mall in Meru and Kilele Mall in Murang'a
- The average occupancy rate increased by 2.1% points, reaching 79.4% in 2023 compared to 77.3% in 2022. attributable to rapid expansion of both local and foreign retailers, such as Simbisa brands, Carrefour, Naivas, and Quickmatt. tapped into newer market opportunities and occupied spaces previously occupied by troubled retailers like Nakumatt and Tuskys

Kenya Retail Performance Summary Cont.

We expect to see increased market activity driven by continuous foreign investor confidence in the Kenyan retail market, coupled with the expansion efforts by local retailers such as Naivas

Value Area	Summary	Effect
Supply	• Nairobi, Kisumu, Uasin Gishu and Nakuru are the most oversupplied retail markets by 3.0 mn SQFT, 0.2 mn SQFT, 0.95 mn SQFT, and 0.94 mn SQFT, respectively, and also expected to increase further especially in Nairobi with the additional spaces such as the GTC Shopping Mall, Beacon Mall among others	• We expect developers to shift focus into less supplied regions with higher demand such as Kiambu and Mount Kenya region
Returns	• Kenyan retail sector performance recorded a stable performance with the average rental yield coming in at 7.5% in 2023 • Nairobi was the best performing region with an average rental yield and occupancy rate of 8.2% and 79.2%, respectively	• We expect to see increased market activity driven by continuous foreign investor confidence in the Kenyan retail market, coupled with the expansion efforts by local retailers such as Naivas taking up space left by troubled retailers such as Tuskys, Nakumatt, Game, Choppies, and Shoprite
Opportunity & Outlook	• The opportunity remains in mid-tier counties which are undersupplied such as Kiambu County and Mt. Kenya region, having space demand 0.6 mn SQFT and 0.5 mn SQFT respectively	• Our outlook remains ***NEUTRAL*** with factors such as financial constraints expected to impede performance of the sector. However, factors such as rapid uptake of retail space by retailers is expected to cushion the sector's performance

We expect to see increased market activity driven by continuous foreign investors confidence in the Kenyan retail market such as Simbisa brand, KFC and Carrefour, coupled with the expansion efforts by local retailers such as Naivas, and QuickMart , as well as developers shifting focus into less supplied regions with higher demand such as Kiambu and Mount Kenya region

A. Factors Shaping the Retail Sector in Kenya

Factors Influencing Retail Space Supply in 2023

Rising cost of construction, limited access to credit to finance projects, and subdued consumer purchasing powers due to rising inflation rates weighed down retail space supply in 2023

Factor	Characteristics
Subdued Consumer Purchasing Power	• Retailers have encountered difficulties in maintaining sales amid restrained consumer spending. This is on the back of inflation which stood at 7.9% in June 2023, coupled by pressure on the Kenya Shilling, which has depreciated by 15.3% on a year-to-date basis against the dollar, adding to the 9.0% depreciation recorded in 2022
Construction costs	• Construction costs have been steadily rising, currently standing at an average of Kshs 41,600 per SQM in 2023, which is a 20.1% increase from Kshs 34,650 per SQM recorded in 2022. The increase is mainly on the back of inflationary pressure, discouraging optimal development activities in the sector
Access to credit	• Access to adequate credit has remained a challenge, given the increasing loan default rates in the property sector as financial institutions such as commercial banks continue to tighten their lending terms. According to the Central Bank of Kenya, the gross Non-Performing Loans (NPLs) in the Real Estate sector increased by 12.2% to Kshs 88.1 bn in Q1'2023, from Kshs 78.5 bn in Q1'2022,
Infrastructure	• Despite government's efforts to conclude various infrastructure projects in the country, there exists some areas with inadequate infrastructure services such as water, sewer, and, road networks thus hindering the optimum retail investments in the areas. However, we expect enhanced retail investments such as roads as the government continues with its aggressive efforts to initiate and implement infrastructure projects. This is expected to open various areas for retail investment opportunities
Oversupply	• There exists an oversupply of physical space, with approximately 3.3 mn SQFT in the NMA retail market, with the rest of the Kenyan retail market having an oversupply of approximately 2.1 mn SQFT, causing slowed uptake of retail spaces in the sector, and thereby leading developers to halt their plans awaiting the absorption of the existing spaces.
Land Costs	• High land prices particularly within Nairobi suburbs and commercial zones which is also scarce, continue to be a challenge for developers looking for development land • According to our Nairobi Metropolitan Area Land Report 2023, the average prices for land in the commercial zones of Nairobi came in at kshs 397.3 mn per acre in 2023, compared to the market average of Kshs 128.5 mn per acre • Developers therefore opt to base their projects in the satellite towns of Nairobi where there is available and affordable land averaging Kshs 15.4 mn per acre for un-serviced land and 18.3 per acre for serviced land against the market average of Kshs 126.8 mn per acre

Factors Influencing Demand in the Retail Sector in 2023

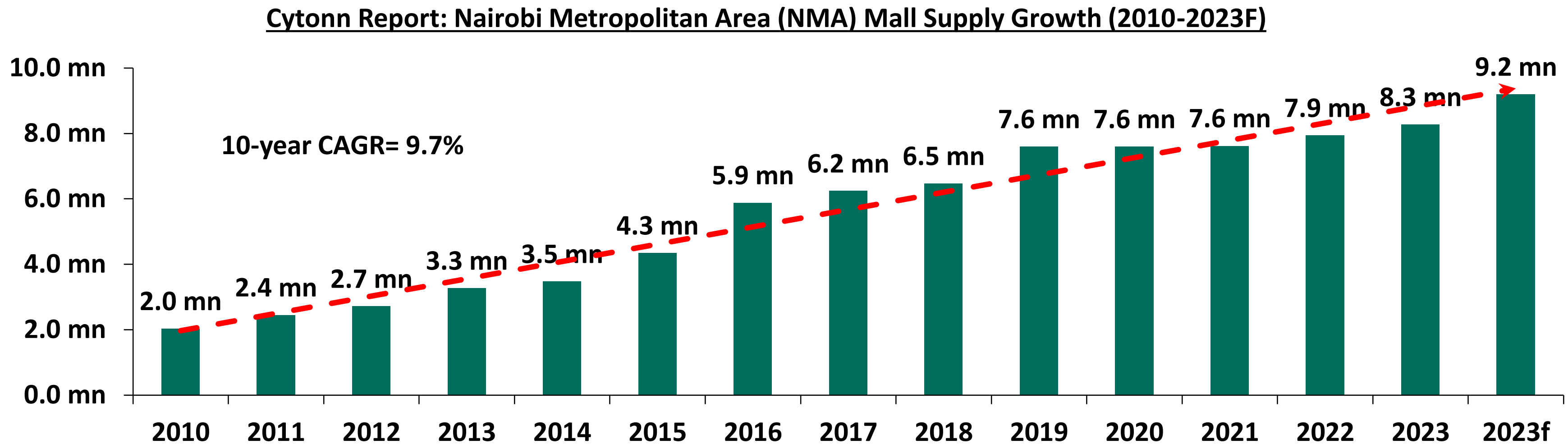
Positive demographics, improved infrastructure development activities, as well as consumer preference are some of the factors influencing the demand for retail spaces

Factor	Characteristics
Positive demographics	• The demand for goods and services has been steadily rising due to Kenya's relatively high urbanization and population growth rates of 3.7% p.a and 1.9% p.a, respectively, against the global average of 1.6% p.a and 0.9% p.a, respectively as at 2021
Accessibility	• The government's focus on infrastructural developments in road and railway projects has opened up areas for investments, thereby increasing growth and expansion of retailers to provide convenience to consumers in the improved regions
E - Commerce	• the COVID-19 pandemic prompted consumers to embrace online shopping as a protective measure. As a result, there has been a gradual yet noticeable increase in the demand for physical retail spaces. These spaces are now being upgraded into convenience stores, storage facilities, or showrooms with the primary purpose of displaying products extensively sold on retailers' online platforms to cater for the needs of digital clients
Sustained Foreign Investor Appetite	• Kenya's reputation as a regional investments hub has continued to attract multinational companies and retailers to the country, further increasing the demand for retail space. In light of this; i) Eat'N'Go Limited announced plans to open 100 new stores in Kenya, amidst its expansion drive to open stores in various parts of Africa, and, ii) ChicKing, an international fast food chain, in partnership with M/s Crispy Limited, a local franchise, announced plans to open 30 new outlets in Kenya, over the next five years
Availability of prime Retail Spaces	• Retailers such as Naivas, QuickMart and Carrefour, among others, have continued an aggressive expansion drive to take up new and previously occupied spaces by troubled retailers such as Uchumi, Tuskys, and Nakumatt retail chains that left the market. This is as Kenya's formal retail penetration is still low, standing at approximately 30.0% according to the Nielsen Report 2018
Ease of Doing Busines	• The ease of doing business in Kenya has significantly improved, leading to enhanced investor confidence. According to the World Bank, Kenya's ranking in terms of ease of doing business was 56 in 2019, a notable improvement compared to its position at 113 five years prior. The graph below shows Kenya's ranking performance between 2015 and 2019

B. Nairobi Metropolitan Area (NMA) Retail Supply

Nairobi Metropolitan Area (NMA) Retail Supply – Growth

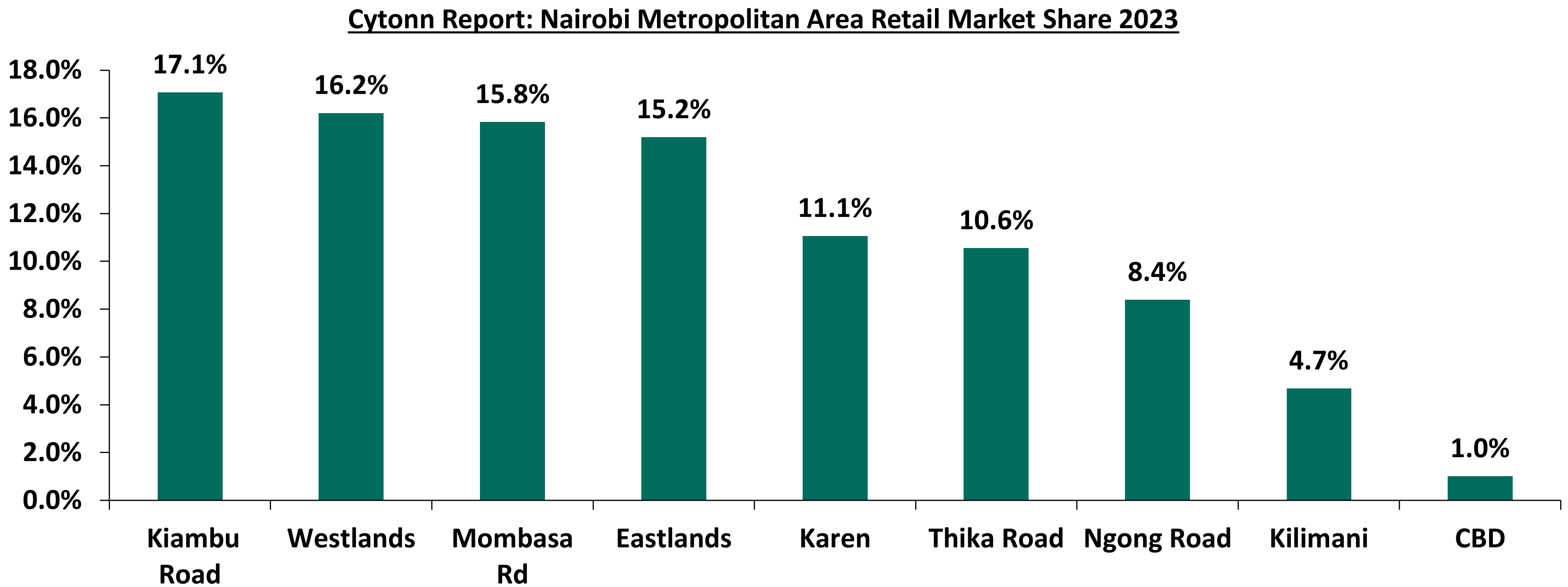
Nairobi Metropolitan Area (NMA) retail sector currently has a mall space supply of 8.3 mn SQFT



- Nairobi Metropolitan Area (NMA) retail sector currently has a mall space supply of 8.3 mn, with a 10-year CAGR of 9.7%
- The growth over time has been mainly driven by addition of malls such as the Imaara Mall along Mombasa Raod, Business Bay Square (BBS) mall in Eastlands, and Broadwalk Mall in Parklands, all within Nairobi and many more. This is addition to Nairobi's recognition as a regional hub worldwide thus promoting entry of foreign retailers into the country such as Carrefour, Giordano, Kentucky Fried Chicken (KFC), Eat'N'Go Limited, Java, ChicKing, and Simbisa brands, creating demand for more quality retail spaces for their business operations
- We project that by the end of 2023, the retail space supply will have grown to approximately 9.2 mn SQFT, with the expected retail space addition of Britam Mall in Kilimani, the Beacon Mall Global Trade Centre Shopping Mall in Westlands, ParkPlace Avenue in Parklands, The Cove in Lavington, Lana Plaza in Kileleshwa, Crystal Rivers Mall in Mavoko among others

NMA Retail Space Supply – Current Distribution by Nodes

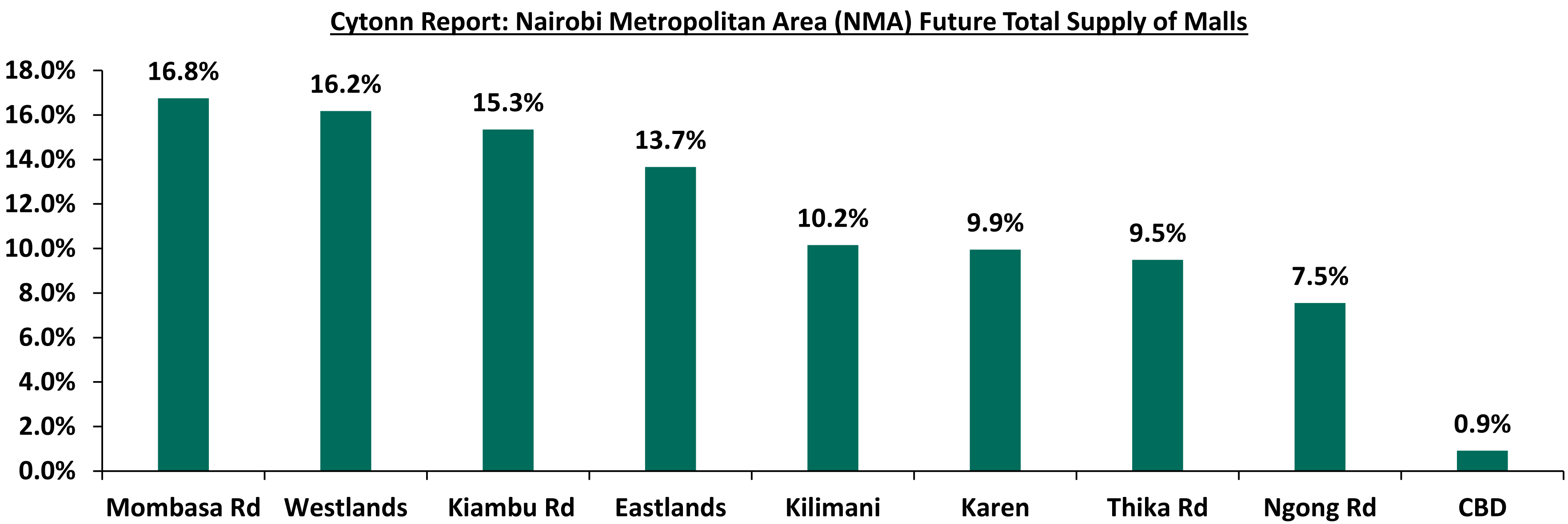
Kiambu Road recorded the highest market share of retail space of 17.1% in 2023



- Kiambu Road recorded the highest market share of retail space of 17.1% in 2023 mainly attributed to presence of the highest number of shopping malls in the region with bigger built up areas compared to other nodes. Notably, Kiambu Road boasts the largest mall in Eastern and Central Africa, covering an impressive area of approximately 62,000 SQFT
- Nairobi Central Business District (CBD) still maintains the lowest market share recording of 1.0% in 2023 attributed to the lack of development land in the area

NMA Expected Distribution of Retail Space Supply in 2023

We expect Mombasa Road to have the highest retail space supply in the Nairobi Metropolitan Area (NMA) with a market share of 16.8%, upon the official opening of Crystal Rivers Mall



- We expect Mombasa Road to have the highest retail space supply in the Nairobi Metropolitan Area (NMA) with a market share of 16.8%, upon the official opening of Crystal Rivers Mall with an approximate area of 21,500 SQM
- Kilimani is also expected to record an increase in market share to 10.2% from the current 4.7% market share attributed to the expected development of Beacon Mall (28,500 SQM) in Upperhill, The Cove (4,645 SQM) in Lavington, Lana Plaza (4,645 SQM) in Kileleshwa, and Britam Mall (13,000 SQM) in Kilimani
- Completion of ParkPlace Avenue in Parklands and official opening of GTC Shopping centre will add approximately 2,193 SQM and 11,520 SQM respectively of mall space in Westlands but with stagnant market share impact

3. Retail sector performance summary in 2022

Nairobi Metropolitan Area Retail Sector Nodes

The retail nodes included in our research are within Nairobi, Kiambu, Kajiado, and Machakos Counties forming the Nairobi Metropolitan Area (NMA)

- Our research sample includes the following;

i. Kiambu Road includes Limuru Road

ii. Kilimani includes Kilimani, Kileleshwa & Lavington and their environs,

iii. Ngong & Lang'ata Road covers area between Community, Lang'ata Road up to Dagoretti Corner

iv. Westlands includes Parklands and Mountain View

v. Thika Road and Mombasa road

A. Performance by Nodes Nairobi Metropolitan Area

Nairobi Metropolitan Area Retail Sector Nodes 2023

Kilimani, Karen, and Westlands were the best performing retail nodes recording yields of 9.8%, 9.4%, and 8.7%, respectively

All Values in Kshs Unless Stated Otherwise									
Cytonn Report: Nairobi Metropolitan area (NMA) 2023 Retail Performance									
Area	**Rent (Kshs)/SQFT 2023**	**Occupancy % 2023**	**Rental Yield 2023**	**Rent Kshs/SQFT 2022**	**Occupancy 2022**	**Rental Yield 2022**	**Δ in Rental Rates**	**Δ in Occupancy (% points)**	**Δ in Rental Yield (% points)**
Kilimani	190	84.7%	**10.1%**	187	83.8%	**9.8%**	**2.0%**	**0.9%**	**0.3%**
Karen	217	82.4%	**9.7%**	216	80.2%	**9.4%**	**0.5%**	**2.2%**	**0.3%**
Westlands	216	77.6%	**9.1%**	214	75.7%	**8.7%**	**1.0%**	**1.9%**	**0.4%**
Kiambu road	202	74.0%	**8.7%**	202	72.8%	**8.6%**	**0.0%**	**1.2%**	**0.1%**
Ngong Road	170	81.0%	**7.8%**	168	80.5%	**7.7%**	**1.0%**	**0.5%**	**0.1%**
Mombasa road	156	79.9%	**7.5%**	154	78.9%	**7.4%**	**1.1%**	**1.0%**	**0.1%**
Thika Road	165	80.7%	**7.5%**	165	78.7%	**7.3%**	**0.0%**	**2.0%**	**0.2%**
Satellite towns	138	78.8%	**6.8%**	134	72.2%	**6.2%**	**2.5%**	**6.6%**	**0.6%**
Eastlands	128	75.6%	**6.0%**	131	73.0%	**5.9%**	**(2.8%)**	**2.6%**	**0.1%**
Average	**177**	**79.2%**	**8.2%**	**175**	**77.4%**	**7.9%**	**0.9%**	**1.8%**	**0.3%**

- The NMA retail market recorded an average rental yield of 8.2% in 2022, 0.3% points higher than the 7.9% that was recorded in 2022. The performance was driven by 0.9% and 1.8% points increase in rental and occupancy rates respectively, which came in at Kshs 173 per SQFT and 75.9%, respectively in 2023, from Kshs 168 per SQFT and 75.8%, respectively, in 2022
- Kilimani, Karen, and Westlands were the best performing retail nodes recording yields of 9.8%, 9.4%, and 8.7%, respectively mainly attributed to the presence of quality retail spaces fetching prime rents and yields such as the Hub, Galleria Mall, Westgate Mall, and, Yaya Centre among many others

NMA Retail Performance by Nodes 2023

Kilimani was the best performing node with an average rental yield of 10.1% in 2023, 0.3% points higher than 9.8% recorded in 2022

Kilimani

- Kilimani was the best performing node with an average rental yield of 10.1% in 2023, 0.3% points higher than 9.8% recorded in 2022 and 1.9% higher than the market average rental yields at 8.2%. This was due to the improved rental rates by 2.0% to Kshs 190 per SQFT in 2023 from Kshs 187 per SQFT in 2022. Additionally, there was improved demand for spaces from retailers such as Quickmart Supermarket which opened its 57th outlet along Mandera Road in April 2023, among others, thus leading to the occupancy rates coming in at 84.7% in 2023, 0.9% points higher than the 83.8% recorded in 2022

Karen

- Karen was the second best performing submarket within the NMA recording an average rental yield of 9.7% in 2023, driven by a 0.5% increase in the average asking rent which came in at Kshs 217 per SQFT from Kshs 216 per SQFT resulting from the upward revision of rental charges by landlords. Additionally, there was improved demand for high end, greener retail spaces by foreign retailers thus leading to the occupancy rates coming in at 82.4% in 2023, 2.0% points higher than the 80.2% recorded in 2022

Westlands

- Westlands recorded an average rental yield of 9.1% against the market average of 8.2% mainly attributed to the presence of high quality shopping malls such as the Westgate, and Malls among others which in turn fetch high rents. In light of this, Westlands recorded a 1.0% increase in average rental charges to Kshs 216 per SQFT in 2023 from Kshs 214 per SQFT in 2022. Continuous increase in demand for newer malls such as GTC shopping centre resulted to a 1.9% points increase in occupancy rates to 9.1% in 2023 from 8.7% recorded in 2022

NMA Retail Performance by Nodes 2023

Kiambu Road which is inclusive of the Limuru Road, recorded average rental yield of 8.7% in 2023, 0.1% points higher than 8.6% recorded in 2022

Kiambu Road

- Kiambu Road which is inclusive of the Limuru Road, recorded average rental yield of 8.7% in 2023, 0.1% points higher than 8.6% recorded in 2022. This marginal increase was attributed to the overall improvement in occupancy rates by 1.2% points to 74.0% in 2023 from 72.8% recorded in 2022 as the rental charges remained stagnant at Kshs 202 per SQFT

Ngong and Lang'ata Roads

- Ngong and Lang'ata Roads recorded increases in the average rental yield by 0.1% points to 7.8% in 2023 from 7.7% recorded in 2022, following a 1.0% increase in rental charges to Kshs 170 per SQFT in 2023 from Kshs 170 per SQFT in 2022. Additional, the region witnessed a 0.5% points growth in occupancy rates to 81.0% in 2023 from 80.5% recorded in 2022

Mombasa Road

- Mombasa Road realized an increase in the overall rental yield to 7.5% in 2023 from the 7.4% that was recorded in 2022, following the completion of the Nairobi Expressway in 2022 which continues to enhance the appearance and accessibility of the area, while also driving its rental charges by 1.1% to Kshs 156 per SQFT in 2023 from Kshs 154 per SQFT in 2022 and occupancy rates in an upward trajectory
- Occupancy rates also increased by 1.0% points to 79.9% in 2023 from 78.9% in 2022 attributable to increased demand for spaces in Signature mall, the newly opened Imaara Mall, and the upcoming Crystal Rivers by local and foreign retailers such as the Smbisa Brand, Naivas, Optica, PrideInn hotels and many more

NMA Retail Performance by Nodes 2023

Eastlands continued to register the least average rental yield of 6.0%, 2.2% points lower than the market average rental yield of 8.2%

Thika Road

- Thika Road recorded an increase in the average rental yield by a marginal 0.2% points to 7.5% in 2023, from 7.3% in 2022 attributed to the overall improvement in average occupancy rates by 2.0% points to 80.7 in 2023 from 78.7% recorded in 2023 with the performance weigh down by a stagnant average rental charges which was at Kshs 165 per SQFT

Satellite towns:

- Satellite towns recorded an average rental yield 6.8% in 2023, 0.6% points higher than the 6.2% market average. This was mainly attributed to a higher increase of 2.5% in average rental charges to Kshs 138 per SQFT from Kshs 134 per SQFT and 6.6% points increase in average occupancy rates to 78.8% in 2023 from 72.2% in 2022 amid expansion of retailers to newer opportunities and markets in these towns

Eastlands

- Eastlands continued to register the least average rental yield of 6.0%, 2.2% points lower than the market average rental yield of 8.2% due to; i) lower average rents of Kshs 128 per SQFT, as compared to the market average of Kshs 177 per SQFT, ii) poor quality infrastructure which is unsustainable for the retail spaces and hindering sufficient accessibility, iii) heavy presence of informal retail spaces that quickly adapt to market trends and service stations with value added amenities offering opportunities for better quality retail spaces, one-stop-shop approach, convenience and cheaper rates for price sensitive clients increasingly cause stiffer competition, and, iv) relatively lower demand shown by a low average occupancy rate of 75.6%, compared to the market average of 79.2%

B. Retail Performance by Regions

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Performance by Regions

Nairobi was the best performing region with average rental yields coming in at 8.2% in 2023, 0.7% points higher than the market average of 7.5%

All values in Kshs unless stated otherwise

Cytonn Report: Summary of Retail Performance in Key Urban Cities in Kenya 2022/2023									
Region	Rent 2023	Occupancy Rate 2023	Rental yield 2023	Rent 2022	Occupancy Rate 2022	Rental yield 2022	ΔY/Y in Rental Rates	ΔY/Y in Occupancy Rate	ΔY/Y in Rental Yield
Nairobi	177	79.2%	8.2%	173	75.9%	7.8%	2.3%	3.3%	0.4%
Nakuru	79	80.5%	7.9%	73	81.3%	7.4%	8.6%	(0.8%)	0.5%
Mombasa	127	82.6%	7.8%	110	84.0%	7.0%	15.5%	(1.4%)	0.8%
Kisumu	107	79.7%	7.0%	108	79.7%	7.0%	(0.4%)	0.0%	0.0%
Eldoret	132	86.2%	6.7%	132	86.1%	6.6%	0.0%	0.1%	0.1%
Mount Kenya	161	68.3%	7.8%	138	56.7%	5.3%	16.3%	11.7%	2.4%
Average	**130**	**79.4%**	**7.5%**	**122**	**77.3%**	**6.8%**	**7.1%**	**2.2%**	**0.7%**

- Key urban cities in Kenya recorded increased average rental yield by 0.7% points to 7.5% in 2023 from 6.8% recorded in 2022 attributable to; i) increase in average occupancy rates by 2.2% points to 79.4% in 2023 from 77.3% in 2022, and, ii) 7.1% growth in average rental rates to Kshs 130 per SQFT in 2023 from Kshs 122 per SQFT in 2022
- Nairobi was the best performing region with average rental yields coming in at 8.2% in 2023, 0.7% points higher than the market average of 7.5%, driven by; i) the increased average rental charges which came in at Kshs 177 per SQFT from Kshs 173 per SQFT, and, ii) increased demand for high quality retail spaces thus increasing the average occupancy rates to 79.2% in 2023 from 75.9% recorded in 2022
- Eldoret recorded the least average rental yields coming in at 6.7% against the market average of 7.5% in 2023 and 0.1% points increase from 6.6% recorded in 2022, due to the unchanged rental rates which remained at Kshs 132 per SQFT and a very marginal increase in average occupancy rates by 0.1% points to 86.2% in 2023 from 86.1% recorded in 2022

C. Retail 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)	Number 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 5, neighborhood malls came in at 40 and community malls at 34

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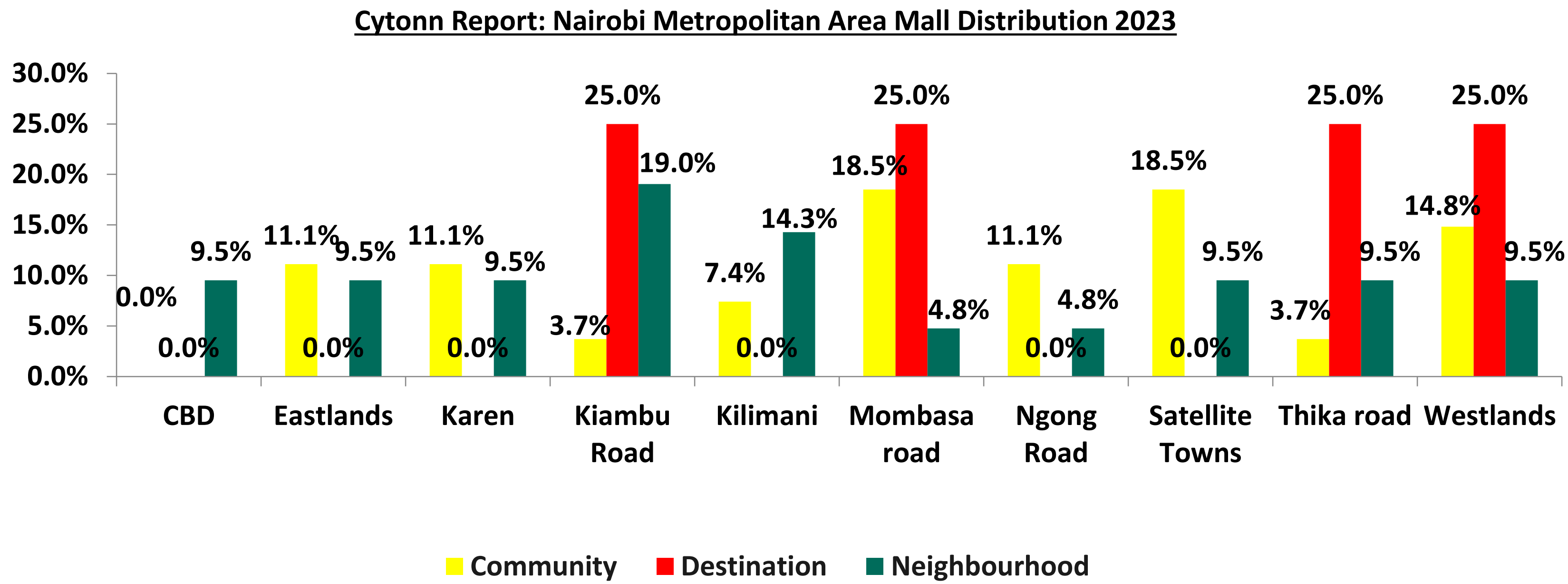
Cytonn Report: Mall Classification				
Neighborhood		**Community**		**Destination**
Crossroads	Imani Shopping Mall	WestSide Mall	Mwembe Mall	Meru GreenWood
Milele Mall Ngong	Buffalo Mall	Galleria	Mtwapa Mall	Garden city
Maasai Mall Rongai	Paradise Mall	The Hub	City Mall	Sarit Center
The Well	Khetia Hse	Golden Life Mall	Village Market	Two Rivers mall
Sasa Mall	Highland Mall	Waterfront	Diamond Plaza	Next Gen Mall
Adlife Plaza	Eldo Centre	Zion Mall	Kilele Mall - Kenol	
Hazina	West End	Lavington Curve	Crystal Rivers Mall	
Lavington mall	Tufffoam	Rupa Mall	Ananas	
Unicity Mall	Mega Plaza	Valley arcade	GTC Mall	
Yaya center	Nyali Plaza	United Mall	Mountain view mall	
Mountain mall	Nyali Centre	Capital center	Westgate	
Prestige plaza	Nanyuki mall	Gateway mall	South Field Mall	
Shujaa mall	Cedar Mall	highway mall	GreenSpan Donholm	
Lunga lunga mall		Mega City	Kiambu Mall Kiambu	
K- mall Buruburu		Imaara Mall	TRM	
The mall		Signature Mall	The Point Buruburu	
Sky Mall		Lake Basin Mall	Green house	
Ciata City mall		Airport Mall,	Junction	
Ridgeways mall		Changamwe	Spur mall	
Rosslyn Riviera		Likoni Mall	T-Mall	
New Muthaiga Mall			Juja City Mall	

Performance of NMA Malls by class

Community malls comprised the majority of the malls within NMA, with Mombasa Road, satellite towns recording the largest market share at 18.5%,



- Community malls comprised the majority of the malls within the Nairobi Metropolitan Area (NMA), with Mombasa Road, satellite towns recording the largest market share at 18.5%, whereas Kiambu Road recorded the lowest market share of 3.7%
- Destination malls were the least in number with Kiambu Road, Mombasa Road, Thika Road and Westlands sharing an equal market share of 25.0%
- Kiambu Road composed of the highest market share of neighbourhood malls at 19.0%

Performance by Class

Destination malls were the best performing recording average rental yields of 11.5% 3.4% points higher than the market average of 8.1%

All values in Kshs Unless stated Otherwise			
Cytonn Report: Nairobi Metropolitan Area Retail Performance by Class 2023			
Type	**Average Rental Charge**	**Average Occupancy Rate**	**Average Rental Yield**
Destination	284	83.6%	**11.5%**
Community	178	81.2%	**8.4%**
Neighbourhood	153	76.2%	**7.2%**
Grand Total	**177**	**79.2%**	**8.2%**

- On performance by class, destination malls were the best performing recording average rental yields of 11.5% 3.4% points higher than the market average of 8.1%, attributable to the premium rents that the quality malls fetch averaging at Kshs 283 per SQFT, compared to the market average of Kshs 173 per SQFT. Moreover, they recorded the highest occupancy rates of 82.6% against the average 75.9% in the NMA due to their limited supply and increased demand
- Community malls recorded an average rental yield of 8.4%, 0.3% points higher than the market average of 8.1%, with average occupancy and rental rates coming in at 81.2% and Kshs 178 per SQFT, respectively against a market average of Kshs 177 per SQFT and 79.2%, respectively as a result of an improved demand
- Neighborhood malls recorded the lowest average rental yield at 7.2% against the market average of 8.2%. This was mainly attributed to the 13.7% lower average rental rates Kshs 153 per SQFT compared to the market average of Kshs 177 per SQFT, coupled with 3.0% points lower average occupancy rate which came in at 76.2% against the market average of 79.2% in 2023

Performance by Regions

Thika Road offers the best returns for Destination malls at 12.2% due to the high rents, and with average occupancy rates of 90.0%

All values in Kshs Unless stated Otherwise

Cytonn Report: Nairobi Metropolitan Area (NMA) Retail Perfomance 2023									
	Community			Destination			Neighbourhood		
Area	Average of Rents	Average occupancy rates	Average rental yield	Average of average rent	Average of occupancy	Average of rental yield	Average of average rent	Average of occupancy	Average of rental yield
CBD									
Eastlands	140	79.8%	6.7%				109	69.3%	4.8%
Karen	254	89.8%	11.5%				160	71.3%	7.0%
Kiambu Road	235	80.0%	11.3%	275	85.0%	11.7%	176	69.7%	7.4%
Kilimani	180	84.0%	9.6%	0	0.0%		198	85.2%	10.4%
Mombasa road	152	81.8%	7.6%	225	75.0%	10.1%	108	75.0%	4.8%
Ngong Road	158	82.2%	7.2%	0	0.0%		208	77.5%	9.6%
Satellite Towns	122	72.4%	5.9%	0	0.0%		128	78.5%	6.1%
Thika road	250	100.0%	12.0%	340	90.0%	12.2%	110	84.5%	6.3%
Westlands	236	76.5%	9.7%	295	84.5%	12.0%	138	76.5%	6.3%
Grand Total	**178**	**80.8%**	**8.3%**	**284**	**83.6%**	**11.5%**	**153**	**76.2%**	**7.2%**

- Thika Road offers the best returns for Destination malls at 12.2% due to the high rents, and with average occupancy rates of 90.0%
- Thika Road also offered the highest average rental yield for community malls at 12.0% driven by the high demand for the retail spaces in the area as a result of adequate infrastructure amenities boosting investments in the area, coupled with the presence of high middle income earners with adequate purchasing power, and,
- Kilimani offers the highest average yield for neighborhood malls at 10.4% attributed to the presence of a high middle income earning class fueling demand for quality services and purchase of goods in quality spaces

Performance by node and class-Key Urban centers

Community malls in Nairobi offer the highest rental yields of 8.0% against the market average of 7.8% as a result of an improved demand

All values in Kshs Unless stated Otherwise

Cytonn Report: Kenya Retail Performance in Classes									
	Community Mall			Destination Mall			Neighbourhood Mall		
Region	Average Rental Charges 2023	Average Occupancy Rate 2023	Average Rental Yield 2023	Average Rental Charges 2023	Average occupancy Rate 2023	Average Rental Yield 2023	Average Rental Charges 2023	Average occupancy Rate 2023	Average Rental Yield 2023
Kajiado							128	78.5%	6.1%
Kiambu	112	72.5%	5.6%						
Kisumu	102	74.3%	6.8%						
Mombasa	124	80.3%	7.5%						
Mt Kenya	135	90.0%	9.1%	200	35.0%	5.3%			
Nairobi	191	82.7%	8.9%	284	83.6%	11.5%	155	75.9%	7.3%
Nakuru	93	78.5%	8.3%						
Uasin Gishu	120	92.5%	6.5%						
Machakos	165	72.0%	7.1%						
Grand Total	**157**	**80.9%**	**8.0%**	**267**	**73.9%**	**10.2%**	**153**	**76.2%**	**7.2%**

- Destination malls recorded the highest average rental yield of 10.2% driven by the prime rental rates they attract at Kshs 267 per SQFT
- Community malls in Nairobi offer the highest rental yields of 8.0% against the market average of 7.8% as a result of an improved demand
- Neighborhood malls in Nairobi have the highest yields at 7.3%, and average occupancy rates of 75.9% and average rental charges of Kshs 155, as consumers move towards convenience shopping at residential neighborhood malls

4. Retail Market Opportunity

Retail Space opportunity-Methodology

In order to identify the retail market gap for investment opportunity, we worked out the retail space demand for various urban regions in Kenya

- In order to identify the retail market gap for investment opportunity, we worked out the retail space demand for various urban regions in Kenya, to enable developers be aware of the undersupplied areas and the oversupplied areas. The analysis was based on the retail spaces available as well as the ones in pipeline against the existing demand by the population available per region. By this, we identified the net space uptake per person in SQM, the shopping population, and current retail market occupancy rates. In addition to this, we used the average uptake in Kilimani as a guideline to calculate the net space uptake for the various regions:

i. Total Demand/ Gross Uptake- This measures the total retail space required by a population in a particular region hence calculated by multiplying the net space uptake per person by the total shopping population,

ii. Net Demand/ Uptake- This is a measure of the gross uptake which is not inclusive of the occupancy rates of malls in particular regions, and is calculated by multiplying the gross uptake by respective market occupancy rates, and,

iii. Supply- This is the summation of the existing malls as well as the ones in pipeline. To get the over/undersupply (gap) in the market, the supply is subtracted from the demand/net uptake

- Also, the key assumptions used in the analysis include:

i. 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,

ii. 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

Nairobi, Kisumu, Uasin Gishu and Nakuru are the most oversupplied retail markets by 3.0 mn SQFT, 0.2 mn SQFT, 0.95 mn SQFT, and 0.94 mn SQFT, respectively,

Cytonn Report: Demand Analysis 2023										
Region	2019	Urban Population	Urban population 2019	Shopping People	Net Space Uptake per pax in SQM (Based on Uptake per pax in Kilimani)	Occupancy (2 year Average)	Gross Space Uptake per Pax SQFT (Required Space Kilimani)	Net Uptake SQFT (Space Required) for each market	Current supply (SQFT)	GAP at current market performance (SQFT)
Kiambu	2.1	60%	1.3	0.7	1.9	72.5%	2.1	1.5	0.9	0.6
Mt Kenya	2.8	38%	1.1	0.6	1.5	68.3%	1.7	1.2	0.4	0.5
Mombasa	1.3	100%	1.3	0.8	1.9	82.6%	2.1	1.8	1.4	0.2
Kajiado	1.1	41%	0.5	0.3	0.7	78.5%	0.7	0.6	0.3	0.2
Machakos	1.3	52%	0.7	0.4	1.0	75.8%	1.1	0.8	0.3	0.1
Nakuru	2.2	45%	1.0	0.6	1.4	80.5%	1.6	1.3	0.6	(0.1)
Uasin Gishu	1.3	44%	0.6	0.3	0.8	86.2%	0.9	0.8	0.4	(0.1)
Kisumu	1.2	50%	0.6	0.3	0.9	79.7%	1.0	0.8	1.0	(0.2)
Nairobi	4.6	100%	4.6	2.7	6.7	80.3%	7.4	5.9	8.3	(3.3)
Total	**18.0**		**11.6**	**6.7**	**16.8**	**79.4%**	**18.6**	**14.6**	**12.8**	**(2.1)**

- Kenya retail sector and the NMA realized a 4.5% decline and 8.7% increase in the market gap to 2.1 mn and 3.3 mn per SQFT when compared to the 2.2 mn and 3.0 mn SQFT recorded in 2022. This is attributed to increase in demand for existing retail spaces and reduced growth in number of malls in the pipeline in other towns and significant increase in number of malls and those in the pipeline in NMA.
- Nairobi, Kisumu, Uasin Gishu and Nakuru are the most oversupplied retail markets by 3.3 mn SQFT, 0.2 mn SQFT, 0.95 mn SQFT, and 0.94 mn SQFT, respectively, with average occupancy rates of 80.3%, 79.7%, 86.2% and 80.5%, respectively.

Retail Space Opportunity Kenya

We analyzed the various urban regions in Kenya in order to determine the investment opportunity based in rental yields, the retail spaces required, and the household purchasing power

We analyzed the various urban regions in Kenya in order to determine the investment opportunity within the real estate retail market of the country. This was based on three metrics which include the rental yields, the retail spaces required, and the household purchasing power, with allocations of 30.0%, 30.0% and 40.0% weights, respectively:

i. **Rental Yield-** This is a measure of the value the profit that an investor generates from an investment as a percentage of its value hence the higher the better. The weighted score for rental yields was 30.0%, and the area with the highest yield was ranked with the highest score of 9 whereas the area with lower yields was given the lowest score of 1,

ii. **Household Expenditure-** This measures the consumption expenditure of the target population hence the higher the better as well. The weighted score for this was at 40.0% and the area with the highest expenditure was given the highest score at 9, and the lowest given the lowest score at 1, and,

iii. **Retail Space Demand-** This measures the amount of retail space required by a particular region hence the higher the better as it increases occupancy rates of the available developments. 30.0% was the allocated weight for this and the area with the highest demand was given the highest score at 9 as well whilst the area with the lowest demand was allocated the lowest score at 1

Retail Market Opportunity

Mombasa, Nairobi, Mount Kenya, Kiambu, Nakuru and Kisumu offer the best investment opportunities to retail mall developers

- **Based on our analysis, Mombasa, Nairobi, Mount Kenya, Kiambu, Nakuru, and, Kisumu, offer the best investment opportunities to retail mall developers having achieved a higher weighted score of 7.4, 6.6, 6.2, 5.8, 5.2, and, 4.2, respectively**
- The table below shows the retail space investment opportunity in Kenya;

Cytonn Report: Retail Space Opportunity 2023										
	2022					2023				
	Retail Yield Score	Retail Space Score	Household expenditure (per adult) score			Retail Yield Score	Retail Space Score	Household expenditure (per adult) score		
Region/Weight	30%	30%	40%	Weighted score	2022 Rank	30%	30%	40%	Weighted score	2023 Rank
Mombasa	5	7	8	6.8	1	7	7	8	7.4	1
Nairobi	9	1	9	6.6	2	9	1	9	6.6	2
Mt Kenya	1	9	5	5.0	6	6	8	5	6.2	3
Kiambu	1	8	7	5.5	3	1	9	7	5.8	4
Nakuru	8	4	4	5.2	4	8	4	4	5.2	5
Kisumu	7	2	6	5.1	5	4	2	6	4.2	6
Machakos	5	5	3	4.2	7	5	5	3	4.2	6
Kajiado	3	6	2	3.5	8	2	6	2	3.2	8
Uasin Gishu	4	3	1	2.5	9	3	3	1	2.2	9

5. Outlook

Retail Sector Outlook

Nairobi, Kisumu, Uasin Gishu and Nakuru still remain the most oversupplied retail markets by 3.3 mn SQFT, 0.2 mn SQFT, 0.1 mn SQFT, and 0.1 mn SQFT, respectively

Cytonn Report: Kenya Retail Sector Outlook 2023				
	Sentiment 2022	Sentiment 2023	2022 Outlook	2023 Outlook
Retail Space Supply	Nairobi, Kisumu, Uasin Gishu and Nakuru remain the most oversupplied retail markets by 3.0 mn SQFT, 0.2 mn SQFT, 0.12 mn SQFT, and 0.1 mn SQFT, respectively, whereas areas such as Kiambu and Mt Kenya regions are both under supplied by 0.5 mn SQFT. We expect the supply to further increase particularly in Nairobi with the addition of malls such as Ojijo Properties	Nairobi, Kisumu, Uasin Gishu and Nakuru still remain the most oversupplied retail markets by 3.3 mn SQFT, 0.2 mn SQFT, 0.1 mn SQFT, and 0.1 mn SQFT, respectively, whereas areas such as Kiambu, Mt Kenya, Mombasa, and Kajiado regions are under supplied by 0.6 mn, 0.5 mn, 0.2 mn, 0.2 mn, and 0.1 mn SQFT respectively. Going forward, we expect to see investors and developers shifting their focus to these regions Notably, major retail developments delivered into the market in 2023 include, Business Bay Square (BBS) mall in Eastleigh, delivering approximately 31,000 SQM in gross area. We expect the supply to further increase particularly within the NMA, with the addition of an estimated 42,977 SQM through malls such Global Trade Center (GTC), Crystal Rivers in Machakos, The Cove in Lavington, Lana Plaza in Kileleshwa, Park Place Avenue in Parklands and Beacon mall in Upperhill. Other notable developments expected to be delivered into the market outside of the NMA include Promenade mall in Nyali and Nyali Bazaar in Mombasa	Positive	Neutral

Retail Sector Outlook

Kiambu, Mt Kenya, Mombasa, and Kajiado regions are under supplied by 0.6 mn, 0.5 mn, 0.2 mn, 0.2 mn, and 0.1 mn SQFT respectively

	Sentiment 2022	Sentiment 2023	2022 Outlook	2023 Outlook
Retail Space Supply		However notwithstanding, we anticipate a decline in the supply of malls in Kenya going forward as emphasis shifts towards convenience centers which are rapidly growing in popularity, owing to the convenience they offer. This is as they are situated closer to residential neighborhoods		
Retail Space Demand	We expect the aggressive expansion by local and international retailers to cushion the overall demand and uptake for spaces in the sector. However, factors such as e-commerce which is still being adopted by some retailers, is expected to weigh down the optimum uptake of physical retail space in the market	We expect the demand for retail space to be fueled by the continued aggressive expansion drive by both local and international retailers such as Naivas, Quickmart, Chandarana and Carrefour. This will assist cushion the overall demand and bolster uptake of spaces in the sector. However, factors such as e-commerce stifling the demand for physical retail space, and the existing oversupply of retail space in the NMA and Kenyan retail sectors (excluding NMA) at approximately 3.3 mn and 2.1 mn SQFT respectively, are expected to weigh down the optimum uptake of physical retail space in the market	Neutral	Neutral

Retail Sector Outlook

Our outlook for the Kenya retail market remains NEUTRAL, and we expect to see increased market activity particularly in retail nodes within NMA

Retail Market Performance	Kenyan retail sector performance on overall remained stable, with the average rental yield coming in at 6.8% in 2022, unchanged from what was recorded in 2021. However, the average rent per SQFT increased by 3.5% to Kshs 122, whereas the average occupancy rate declined slightly by 1.1% points to 77.3% Nairobi Metropolitan Area was the best performing region with an average rental yield of 7.8% in 2022, respectively in 2022 We expect to see improved performance driven by increasing foreign investor confidence in the Kenyan retail market, coupled with the aggressive expansion by local and international retailers such as Naivas, Simbisa Brands, Eat'N'Go, and, Quickmart among many others. However, factors such as online shopping strategy and oversupply of spaces continue to be major challenges hindering the optimum performance of the sector	Kenyan retail sector performance on overall improved, with the average rental yield coming in at 7.5% in 2023, 0.7% points increase from 6.8% recorded in 2022. Similarly, the average rent per SQFT increased by 7.1% to Kshs 130 from Kshs 122 recorded in 2022, whereas the average occupancy rate also increased by 2.1% points to 79.4% from 77.3% in 2022. Nairobi Metropolitan Area was the best performing region with an average rental yield of 8.2% in 2022, respectively in 2022 We expect to see increased market activity supported by; i) ongoing expansion drive by local and international retailers such as Naivas, Quickmart, Carrefour in sustained efforts to establish market dominance, and capitalize on the low formal retail penetration in Kenya, ii) growth and continued entry of multinational retailers in the country such as Simbisa brands, ChicKing, Java House, Chicken Cottage among others, and, iii) increasing foreign investors' confidence in the Kenyan retail market	Neutral	Neutral

Our outlook for the Kenya retail market remains NEUTRAL supported by factors such as i) growth and expansion efforts by both local and international retailers, ii) increased infrastructure development enhancing accessibility in satellite towns, and iii) positive demographics supporting demand for space. However; i) the continuous oversupply of retail space in the NMA and Kenyan retail sectors (excluding NMA) at approximately 3.3 mn and 2.1 mn SQFT respectively, ii) market exits by major retailers such as Game Stores, Shoprite, Choppies, and iii) the rapid growth of e-commerce in the retail landscape, further projected to grow at a 6.7% CAGR (2023-2027) will hinder the optimum performance of the sector by limiting demand and uptake of spaces

Thank You!

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