Kenya Real Estate Retail Sector Report 2021

Cytonn

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1. Overview of Real Estate in Kenya

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Introduction to Real Estate in Kenya

Real estate performance is expected to be driven by the increased housing and infrastructure activities by government, positive demographics, increased uptake of retail space, and legal reforms

Factor	Characteristics
Macro-economic Contribution	• Real Estate and construction sectors contributed 16.3% to GDP in FY'2020, 0.3% points up from 16.0% registered in Q3'2020, signifying improved development activities in the sectors as a result of the lowered restrictions and lockdowns pertaining to the Covid-19 containment measures • We therefore expect the sectors to continue registering more development activities through government's and private sector's focus and support on real estate activities, coupled with the 0.2% improved FY'2021/22 budget allocation to the real estate related sectors to Kshs 222.4 bn, from Kshs 218.0 bn allocated for the FY'2020/21
Returns	• In H1'2021, the real estate sector recorded increased activities following the reopening of the economy which saw an improved business environment • The residential sector recorded improvements on both average q/q and y/y performances with average total returns at 5.5%, a 0.8% points y/y increase from 4.7% of total average returns recorded in FY'2020, and a 0.4% q/q increase from 5.1% recorded in Q1'2021. The commercial office sector recorded 0.1% and 1.9% points decline in the average rental yields and occupancy rates to 6.9% and 76.3% in H1'2021, from 7.0% and 77.7%, respectively in FY'2020. The retail sector performance in H1'2021 recorded a slight improvement of 0.1% in the rental yield to 7.6% from 7.5% in FY'2020. The land sector record an overall annualized capital appreciation of 1.6%
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) Nairobi Expressway, iii) Western By Pass and, iv) Pangani housing project, • Local and international retailers aggressively taking up space previously occupied by troubled retailers such as Tuskys, • The ongoing revamp of the e-permit system by NMS to facilitate easier and faster approvals of development plans, which in return will increase the value of building plan approvals in the country upon completion
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, retailers aggressively taking up retail spaces, positive demographics and the reopening of the economy is expected to cushion the sector's performance

Introduction to Real Estate in Kenya –Contribution to GDP

Real Estate and construction sectors contributed 16.3% to GDP in FY'2020, 0.3% points up from 16.0% registered in Q3'2020




Sector	Q1'2020	Q2'2020	Q3'2020	FY'2020
Agriculture	26.0 %	25.7 %	19.7 %	23.0 %
Manufacturing	9.3 %	9.9 %	9.5%	7.6 %
Wholesale & Retail Trade	6.9 %	7.3 %	8.7 %	8.1 %
Hospitality & Tourism	1.3 %	0.2 %	0.6 %	0.7 %
Real Estate & Construction	13.0 %	15.1 %	16.0 %	16.3 %

Source: KNBS

2. Kenya Retail Sector summary

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Executive Summary

Kenyan retail sector performance recorded a 0.1% and 1.8% increase in average rental yields and occupancy rates, respectively to 6.8% and 78.4% in 2021

- 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 2021 Kenyan retail market performance based on rental rates, occupancies and average rental yields, thereby also identify investment opportunities and outlook for the sector
- Kenyan retail sector performance recorded a 0.1% increase in the average rental yields to 6.8% in 2021, from 6.7% in 2020. Average occupancy rates and rental rates also realized an increase of 1.8% and 2.2% points, respectively, to 78.4% and Kshs 117 per SQFT in 2021 from 76.6% and Kshs 115 per SQFT in 2020, respectively, mainly attributed to an improved business environment as well as local and international retailers aggressively taking up new and previously occupied spaces by troubled retailers thus cushioning the overall performance of the retail market
- In the NMA, the retail market recorded average rental yields of 7.5% similar to 2020, with occupancy rates coming in at 75.8%, a 0.7% increase from the 75.2% realized in 2020 due to the increased demand for spaces. Rental rates however continued to remain subdued at Kshs 168 per SQFT in 2021 when compared to the Kshs 169 per SQFT recorded in 2020 as landlords continue to give incentives such as lowered rents to attract and retain new tenants
- Mount Kenya was the best performing region with average rental yields and occupancy rates coming in at 7.9% and 81.7%, respectively, against a market average of 6.8% and 78.4%, as a result of improved rental rates to Kshs 128 per SQFT from Kshs 125 per SQFT in 2020, and increased demand for retail spaces
- The opportunity remains in mid-tier counties which are undersupplied such as Kiambu County and Mt Kenya region, with space demand of 0.8 mn SQFT and 0.7 mn SQFT, respectively

Kenya Retail Performance Summary

The Kenyan retail sector performance recorded a 0.1% increase in the average rental yields to 6.8% in 2021, from 6.7% in 2020

(All values in Kshs unless stated otherwise)

Kenya's Retail Performance Summary-2021							
Item	2016	2017	2018	2019	2020	2021	Δ Y/Y 2021/2020
Asking rents (Kshs/SQFT)	155	141	132	118	115	118	**2.2%**
Average Occupancy (%)	82.9%	80.2%	86.0%	77.3%	76.6%	78.4%	**1.8%**
Average Rental Yields	**8.70%**	**8.30%**	**8.60%**	**7.00%**	**6.7%**	**6.8%**	**0.1%**

- In 2021, the Kenyan retail sector performance recorded a 0.1% increase in the average rental yields to 6.8% in 2021, from 6.7% in 2020
- Average occupancy rates and rental rates also realized an increase of 1.8% points and 2.2% points, respectively, to 78.4% and Kshs 118 per SQFT in 2021 from 76.6% and Kshs 115 per SQFT in 2020, respectively
- The increase in performance is mainly attributed to the reopening of the economy which boosted the business environment, coupled with local and international retailers such as Giordano, Carrefour, Optica Limited and Naivas aggressively taking up new retail spaces as well as spaces previously occupied by troubled retailers such as Tuskys thus cushioning the overall performance of the retail market

Kenya Retail Performance Summary Cont.

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

Value Area	Summary	Effect
Supply	• Urban cities such as Nairobi, Kisumu, Uasin Gishu and Nakuru continue to remain oversupplied by 3.0 mn, 0.3 mn, 0.1 mn and 0.1 mn SQFT of space, respectively, and also expected to increase further with the additional spaces such as the Imaara mall in Nairobi	• 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 0.1% increase in the average rental yields to 6.8% in 2021, from 6.7% in 2020 • Mount Kenya was the best performing region with average rental yields and occupancy rates coming in at 7.9% and 81.7%, 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 0.8 mn SQFT and 0.7 mn SQFT, respectively	• Our outlook is NEUTRAL with factors such as financial constraints expected to impede performance of the sector. However, factors such as rapid infrastructure developments and retailers aggressively taking up retail spaces is expected to cushion the sector's performance

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, as well as developers to shift 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 Supply of the Retail Sector in 2021

Scarcity of land, inadequate credit access, oversupply, and inadequate infrastructure are some of the factors influencing the supply of retail spaces in Kenya

Factor	Characteristics
Availability Land	• Scarcity of land within Nairobi coupled with their high prices as some areas such as Upper Hill having land prices averaging at Kshs 480.0 mn against the market average of Kshs 127.0 mn, thereby limiting development of retail projects • Developers therefore opt to base their projects in the satellite towns of Nairobi where there is available land and at lower prices averaging at Kshs 15.5 mn against the market average of Kshs 127.0 mn
Access to credit	• Constrained access to credit by retailers such as the small and medium sized enterprises due to the high risk of default in payment, limited income to finance the credit loans, as well as the longer transaction timelines • According to KNBS, Financial activities sub sector grew by 4.2 per cent in 2020 compared to 6.2 per cent growth in 2019, with the decline being attributed to the tough economic environment amidst the awakening of the pandemic in 2020 • We however expect the access to credit to soften due to the reopening of the economy boosting the business environment and minimize the defaults of the loan repayments
Infrastructure	• Inadequate infrastructure roads in various parts hindering access to retail stores, as well as minimizing investments in the affected areas • With government's continued focus to initiate and implement infrastructure projects, we expect that this will aid ease access to various areas as well as open them for retail investment opportunities
Oversupply	• Urban cities such as Nairobi, Kisumu, Uasin Gishu and Nakuru continue to remain oversupplied by 3.0 mn, 0.3 mn, 0.1 mn and 0.1 mn SQFT of space, respectively, thereby causing developers to halt their plans awaiting the absorption of the existing spaces • We expect developers to shift focus into less supplied regions with higher demand such as Kiambu and Mount Kenya region at 0.8 mn SQFT and 0.7 mn SQFT, respectively

Factors Influencing Demand of the Retail Sector in 2021

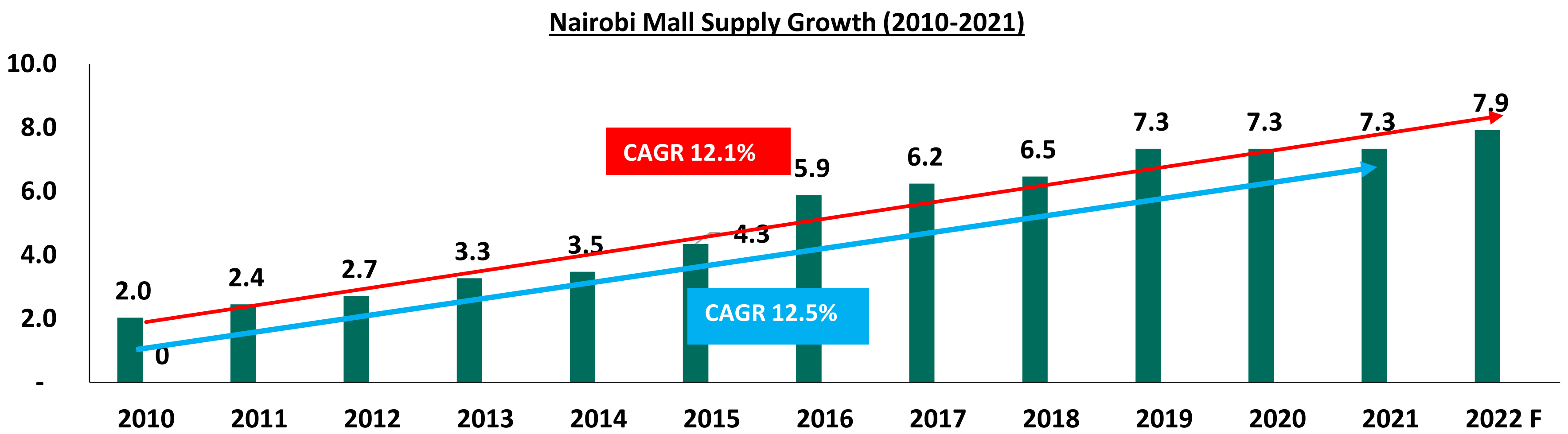
Positive demographics, improved infrastructure development activities, as well as consumer preference are some of the factors influencing the demand for retail spaces in Kenya

Factor	Characteristics
Positive demographics	• Kenya's fast population and urbanization growth rates which are currently at 2.3% and 4.3% against the global average of 1.1% and 2.1%, respectively, is a key factor driving the demand for retail spaces as a result of increased demand for goods and services in various parts of the country
Infrastructure Developments	• The continued focus of the government on the development of infrastructure roads such as the Nairobi Expressway and Western By Pass, which upon completion will enable ease of access to retail stores, open various parts of the country for investment opportunities as well as boost retail space prices. Some of the retail developments in the pipeline expected to be completed by the end of year include; i) City Mall Phase II project in Mombasa and Imaara Mall along Mombasa Road
Consumer Preference	• The online shopping strategy adopted by consumers to cushion themselves against the pandemic and are still making it their preference coupled with the e-commerce strategy still being embraced by some retailers, thereby causing a slow but rising demand for physical retail spaces
Recognition of Kenya as a Regional Hub	• Kenya has attracted many international organizations and retailers into the country such as Kentucky Fried Chicken (KFC) and Giordano, thus the continued demand for retail space enhanced in the country
Expansion of local and international retailers	• The aggressive expansion of both local and international retailers such as Giordano which opened its 3rd store at Two Rivers Mall in January 2021 , Carrefour and Naivas taking up new as well as spaces previously occupied by troubled retailers such as Tuskys and Nakumatt supermarkets, which in return cushions the sector against occupancy rates
Affordability of Retail Spaces	• Certain urban cities in the country such as Kisumu and Nakuru have attracted retail investments as a result of their affordable rents, having recorded rental rates of Kshs 101 and Kshs 59 per SQFT, respectively against the market average of Kshs 118 per SQFT in 2021

B. Nairobi Metropolitan Area (NMA) Retail Supply

Nairobi Metropolitan Area (NMA) Retail Supply – Growth

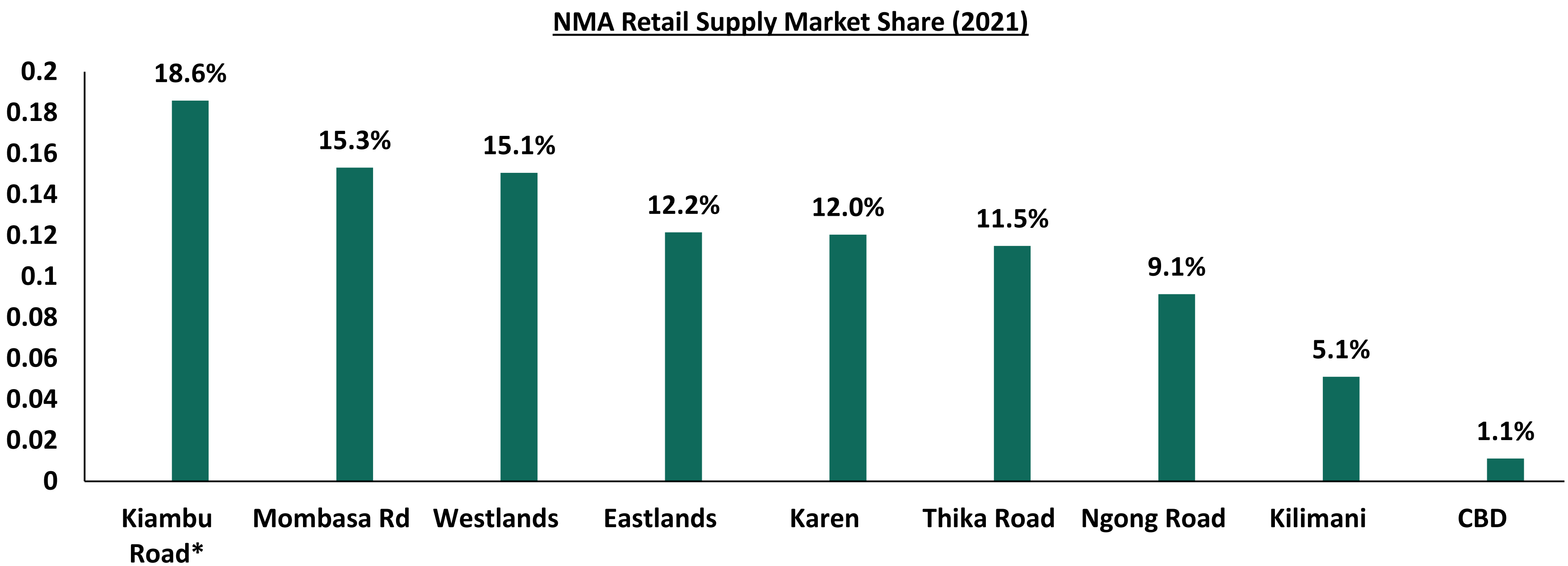
Nairobi Metropolitan Area (NMA) retail sector currently has a mall space supply of 7.3 mn SQFT



- Nairobi Metropolitan Area (NMA) retail sector currently has a mall space supply of 7.3 mn with an 11-year CAGR of 12.5%
- 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 the end of 2022, the retail space supply will have grown to over 7.9 mn SQFT, with the expected retail space addition of Britam Mall in Kilimani, the Beacon Mall which is expected in Nairobi CBD area, and the Imaara Mall along Mombasa road
- The retail supply remained flat in 2021 due to the current retail space oversupply in Nairobi Metropolitan Area at approximately 3.0 mn SQFT

NMA Retail Space Supply – Current Distribution by Nodes

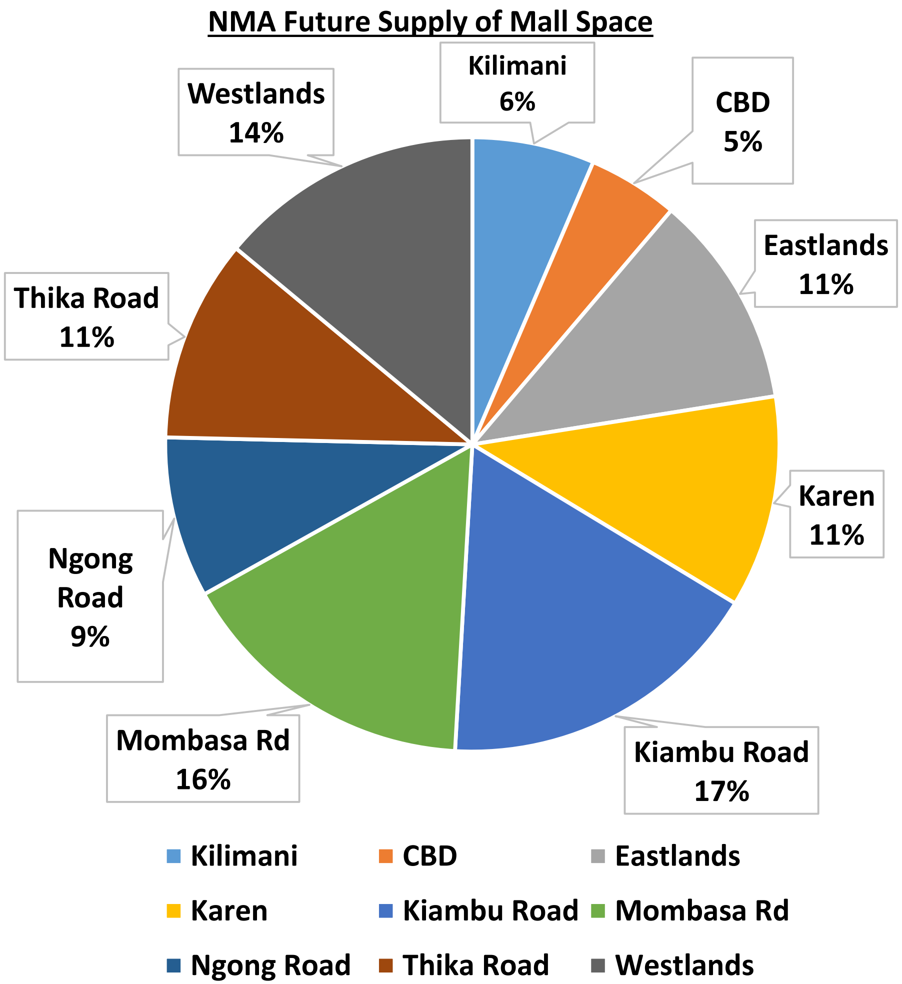
Kiambu Road recorded the highest market share in retail spaces recording 18.6%



- 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 2022

Kiambu Road and Mombasa Road are expected to have the highest retail space supply in the Nairobi Metropolitan Area (NMA) with a market share of 17.2% and 16.0%, respectively



- We expect Kiambu Road and Mombasa Road to have the highest retail space supply in the Nairobi Metropolitan Area (NMA) with a market share of 17.2% and 16.0%, respectively, attributed to the availability of destination malls and the additional Imaara mall in Mombasa road
- 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 6.0% from 5.1%
- The completion of Imaara Mall along Mombasa road is expected to add approximately 146,066 SQFT thereby taking Mombasa road market share to 16.0% from 15.3%

3. Retail sector performance summary in 2020

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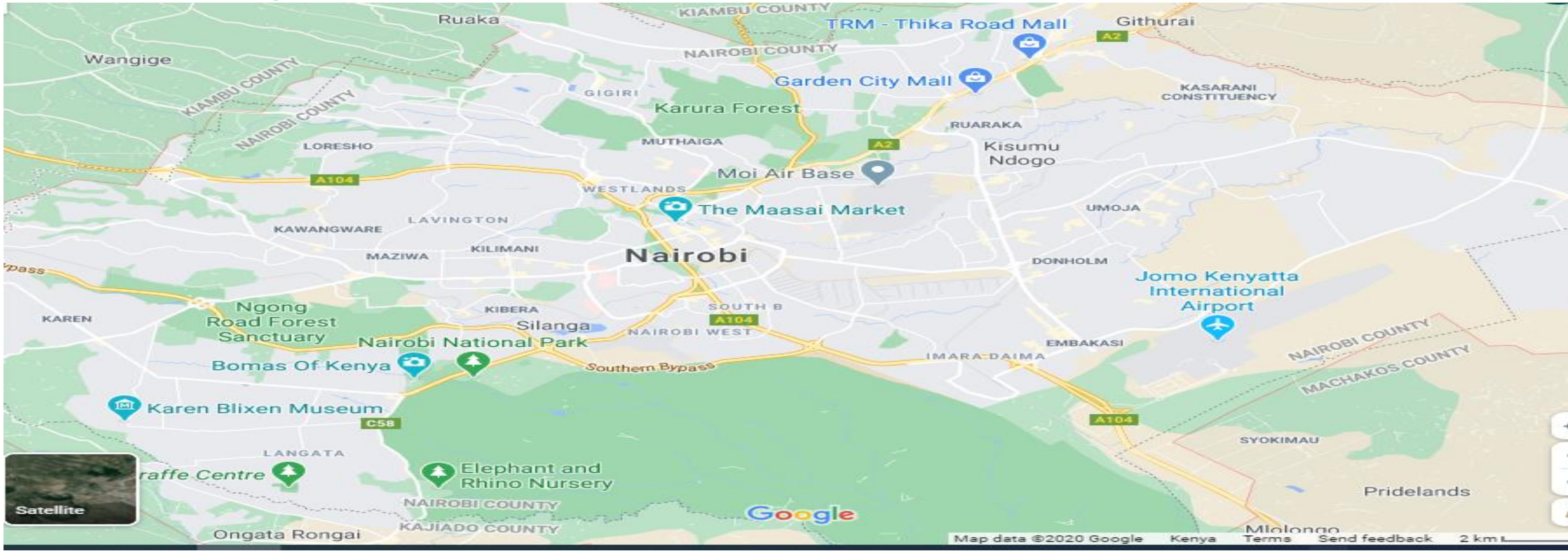
Nairobi Metropolitan Area Retail Sector Nodes

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



- Our research sample includes the following;

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

Westlands and Karen were the best performing retail nodes recording yields of 9.7% and 9.4%, respectively

All values in Kshs unless stated otherwise

Nairobi Metropolitan area (NMA) 2021 Retail Performance									
Area	Rent/SQFT 2021	Occupancy % 2021	Rental Yield 2021	Rent Kshs/SQFT 2020	Occupancy 2020	Rental Yield 2020	2021 Δ in Rental Rates	2021 Δ in Occupancy (% points)	2021 Δ in Rental Yield (% points)
Westlands	209	80.4%	**9.7%**	209	81.5%	**9.9%**	(0.1%)	(1.1%)	**(0.1%)**
Karen	214	80.8%	**9.4%**	216.5	81.0%	**9.8%**	(1.4%)	(0.2%)	**(0.4%)**
Kilimani	172	83.6%	**9.0%**	171	82.5%	**8.5%**	0.6%	1.1%	**0.5%**
Ngong Road	175	78.0%	**7.8%**	178	80.3%	**8.2%**	(1.8%)	(2.3%)	**(0.4%)**
Kiambu road	178	70.4%	**7.2%**	176	67.5%	**6.9%**	0.7%	2.9%	**0.2%**
Thika Road	158	74.2%	**6.7%**	158	70.5%	**6.3%**	0.3%	3.7%	**0.4%**
Satellite towns	138	72.2%	**6.1%**	133	73.0%	**5.8%**	3.6%	(0.8%)	**0.3%**
Mombasa road	136	70.5%	**6.0%**	140	70.0%	**5.9%**	(2.6%)	0.5%	**0.1%**
Eastlands	135	72.5%	**5.9%**	137	70.2%	**6.1%**	(1.5%)	2.3%	**(0.2%)**
Average	**168**	**75.8%**	**7.5%**	**169**	**75.2%**	**7.5%**	**(0.2%)**	**0.6%**	**0.0%**

- The NMA retail market recorded average rental yields of 7.5% similar to 2020, with occupancy rates coming in at 75.8%, a 0.6% increase from the 75.2% realized in 2020 due to the increased demand for spaces. Rental rates however continued to remain subdued at Kshs 168 per SQFT in 2021 when compared to the Kshs 169 per SQFT recorded in 2020 as landlords continue to give incentives such as lowered rents to attract and retain new tenants
- Westlands and Karen were the best performing nodes with average rental yields of 9.7% and 9.4%, respectively against the market average of 7.5%, mainly attributed to higher rental rates that they fetch and their relatively high occupancies

Performance by Nodes

Westlands, Karen were the best performing nodes recording yields of 9.7% and 9.4%, respectively

Westlands

- Westlands was the best performing submarket within the Nairobi Metropolitan area recording average yields and occupancy rates of 9.7% and 80.4% against a market average of 7.5% and 75.5%, respectively in 2021. However when compared to 2020, the occupancy and rental rates declined by 1.1% and 0.1%, respectively as a result of the relatively high competition from neighboring areas such as Ruaka

Karen

- Karen was the second best performing retail node recording average rental yields of 9.4% mainly attributed to the undersupply of prime retail spaces. The occupancies rates came in at 80.8% which is a 0.2% decline from the 81.0% realized in 2020

Kilimani

- Kilimani recoded an improvement of 0.5% in its average rental yields to 9.0% in 2021 from 8.5% recorded in 2020 due to the improved average rental rates by 0.6% points to Kshs 172 per SQFT in 2021 from Kshs 171 per SQFT in 2020. As a result of improved demand for spaces, the occupancy rates came in at 83.6% in 2021 from 82.5% realized in 2021

Ngong road and Langata road

- Ngong and Langata roads recorded declines in average rental yields by 0.4% points from 8.2% in 2020 to 7.8% in 2021. Average rental and occupancy rates also realized a decline by 1.8% and 2.3%, respectively to Kshs 175 per SQFT and 78.0% in 2021 from Kshs 178 per SQFT and 80.3%, respectively in 2020. We however expect that the infrastructure developments like the dualing of the ngong road will promote accessibility and improvement in performance

Kiambu Road

Performance by Nodes

Eastlands ranked last with declines in average rental yields by 0.2% points from 6.1% in 2020 to 5.9% in 2021

- Kiambu road recorded a 0.2% points increase in average rental yield to 7.2%. The rental rates increased by 0.7% to Kshs 178 per SQFT from 176 SQFT in 2020, while the occupancies increased by 2.9% points from 67.5% to 70.4% in 2021

Thika Road

- Thika road recorded increase in average rental yields by 0.4% points from 6.3% in 2020 to 6.7% in 2021 as a result of improved rents by 0.3% points to Kshs 158 per SQFT. The occupancy rates improved as well by 3.7% points to 74.2% due to affordability of the rents which came in at Kshs 158 per SQFT against a market average of Kshs 168 per SQFT

Satellite towns:

- Satellite towns recorded an improvement in the average rental yields and rates by 0.3% and 3.6% points to 6.1% and Kshs 138 per SQFT in 2021, respectively, due to a population growth thereby opening up satellite towns for investments. Average Occupancy rates however declined by 0.8% points to 72.2% in 2021 from 73.0% in 2020

Mombasa Road

- Mombasa road recorded an increase in average rental yields by 0.1% points from 5.9% in 2020 to 6.0% in 2021. However, average rental rates declined by 1.5% to Kshs 136 per SQFT from Kshs 140 per SQFT in 2020 as a result of traffic snarl-ups caused by the ongoing construction of the Nairobi Expressway

Eastlands

- Eastlands ranked last, recording declines in the average rental yields by 0.2% points from 6.1% in 2020 to 5.9% in 2021. The rental rates also declined by 1.5% from Kshs 137 Per SQFT to Kshs 135 per SQFT attributed to the high competition from informal retail centers. However, the average occupancies increased by 0.5% points to 75.8% in 2021 from 70.2%

B. Performance by Regions

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Performance by Regions

Mount Kenya was the best performing region with average rental yields and occupancy rates coming in at 7.9% and 81.7%, respectively

All values in Kshs unless stated otherwise

Summary of Retail Performance in Key Urban Cities in Kenya 2021								
Region	Rent 2021	Occupancy Rate 2021	Rental yield 2021	Rent 2020	Occupancy Rate 2020	Rental yield 2020	Change in Occupancy Y/Y	Change in Yield Y/Y
Mount Kenya	128	81.7%	**7.9%**	125	78.0%	**7.7%**	3.7%	**0.1%**
Nairobi	168	75.8%	**7.5%**	169	74.5%	**7.5%**	1.3%	**0.0%**
Mombasa	119	77.6%	**6.8%**	114	76.3%	**6.6%**	1.4%	**0.2%**
Kisumu	101	74.6%	**6.4%**	97	74.0%	**6.3%**	0.6%	**0.1%**
Eldoret	131	80.8%	**6.3%**	130	80.2%	**5.9%**	0.6%	**0.4%**
Nakuru	59	80.0%	**6.1%**	58	76.6%	**5.9%**	3.4%	**0.2%**
Average	**118**	**78.4%**	**6.8%**	**115**	**76.6%**	**6.7%**	**1.8%**	**0.1%**

- The Kenyan retail market recorded increased average rental yields by 0.1% points to 6.8% in 2021 from 6.7% recorded in 2020, with the average occupancy and rental rates realizing improvements as well by 1.8% points and 2.2% points to 78.4% and Kshs 118 per SQFT, respectively in 2021 from 76.6% and Kshs 115 per SQFT in 2020, respectively
- Mount Kenya was the best performing region with average rental yields and occupancy rates coming in at 7.9% and 81.7%, respectively, against a market average of 6.8% and 78.4%, as a result of improved rental rates to Kshs 128 per SQFT from Kshs 125 per SQFT in 2020, and increased demand for retail spaces
- Nakuru ranked last with average rental yields coming in at 6.1% against the market average of 6.8% in 2021. However, this is a 0.2% improvement when compared to the 5.9% recorded in 2020, due to the increased rental rates to Kshs 59 per SQFT from Kshs 58 per SQFT in 2020

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

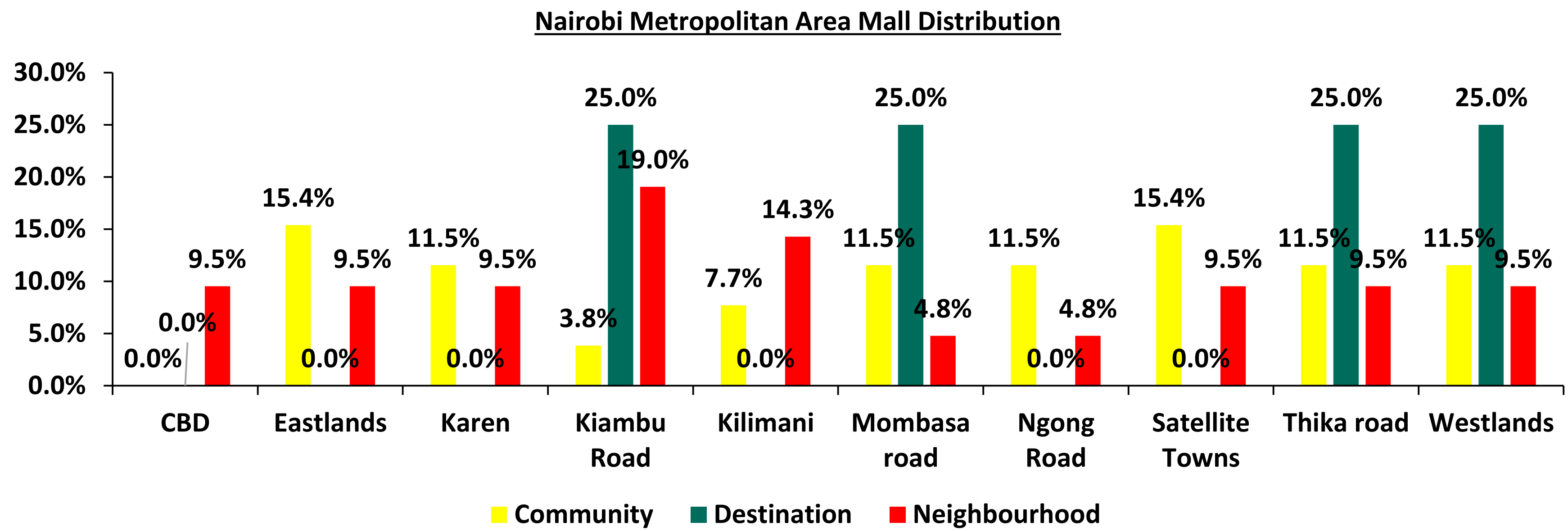
Based on our research findings, destination malls composed of the least number at 4, neighborhood at 47 and community malls at 40

- 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	
Highland 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

Neighborhood malls comprised the majority of the malls within the Nairobi Metropolitan Area (NMA) at 23, with Kiambu Road recording the largest market share at 19.0%



- Neighborhood malls comprised the majority of the malls within the Nairobi Metropolitan Area (NMA) at 23, with Kiambu Road recording the largest market share at 19.0% and Mombasa road recording the lowest market share of 4.8%
- Destination malls were the least in number with Kiambu Road, Mombasa Road, Thika Road and Westlands sharing an equal market share of 25.0%
- Eastlands and Satellite towns composed of the highest market share of community malls at 15.4%

Performance by Regions

Destination malls were the best performing mall typologies with average rental yields of 10.3%

All values in Kshs unless stated otherwise

Retail Market Performance in Nairobi by Class 2021			
Class	**Average of rent**	**Average of occupancy**	Average of rental yields
Destination	257	81.7%	**10.3%**
Community	169	77.2%	**7.8%**
Neighborhood	151	72.8%	**6.7%**
Grand Average	**169**	**75.9%**	**7.6%**

- On performance by class, destination malls were the best performing recording average rental yields of 10.3%, On performance by class, destination malls were the best performing recording average rental yields of 10.3%, attributable to high rental charges averaging at Kshs 257 per SQFT, 34.2% points higher than the market average of Kshs 169, 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. Moreover, they recorded the highest occupancy rates of 81.7% against the average 75.9% in the NMA due to their limited supply and increased demand
- Community malls recorded an average rental yield of 7.8%, 0.2% higher than the market average of 7.6%, with occupancy and rental rates coming in at 77.2% and Kshs 169 per SQFT, respectively against a market average of 75.9% and 7.6%, respectively as a result of an improved demand
- Neighborhood malls recorded the lowest average rental yields averaging at 6.7% against the market average of 7.6%, attributed to lower rental rates averaging Kshs 151 per SQFT compared to the market average of Kshs 169 per SQFT. Average occupancy rates came in at 72.8% against the market average of 75.9% as a result of a slow but rising demand for physical retail spaces

Performance by Regions

Karen offers highest yields for community and neighborhood malls at 9.8% and 8.7%, respectively

All values in Kshs Unless stated Otherwise

Nairobi Metropolitan area (NMA) 2021 Retail Performance						
	Neighborhood		Community		Destination	
Area	Occupancy	Rental yield	Occupancy	Rental yield	Occupancy	Rental yield
Westlands	70.0%	8.4%	80.7%	9.5%	90.0%	11.8%
Karen	75.5%	8.7%	84.3%	9.8%		
Kilimani	82.7%	8.6%	85.0%	9.4%		
Ngong Road	80.0%	8.4%	77.3%	7.6%		
Kiambu Road	69.0%	5.8%	70.0%	8.0%	75.0%	10.3%
Thika road	72.5%	5.0%	73.3%	7.1%	80.0%	8.8%
Satellite Towns	69.0%	5.6%	73.8%	6.4%		
Mombasa road	60.0%	4.9%	74.0%	6.2%		
Eastlands	65.0%	3.5%	75.0%	6.7%		
Grand Average	**72.8%**	**6.7%**	**77.2%**	**7.8%**	**81.7%**	**10.3%**

- Westlands offers the best returns for Destination malls at 11.8%, with average occupancy rates of 90.0%, 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 average rental yields for both community and neighborhood malls at 9.8% and 8.7%, respectively, attributed to favorable infrastructure and the area hosting upper and middle income earners

Performance by node and class-Key Urban centers

Destination malls are only located within Nairobi, offering the highest yields of 10.3% with occupancy rates of 81.7%

All values in Kshs Unless stated Otherwise

Kenya Retail Performance 2021						
	Neighborhood		Community		Destination	
Row Labels	Average of occupancy	Average of rental yield	Average of occupancy	Average of rental yield	Average of occupancy	Average of rental yield
Mt Kenya	85.0%	8.1%	75.0%	7.3%		
Nairobi	72.8%	6.7%	77.2%	7.8%	81.7%	10.3%
Mombasa	77.5%	8.4%	77.7%	5.8%		
Kisumu	70.0%	5.9%	77.7%	6.7%		
Eldoret	75.0%	6.2%	86.7%	6.4%		
Nakuru	82.5%	6.4%	77.5%	5.8%		
Grand Total	**74.8%**	**6.8%**	**78.0%**	**7.3%**	**81.7%**	**10.3%**

- Destination malls are only located within Nairobi, offering the highest average yields of 10.3% with occupancy rates of 81.7%. 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 Nairobi offer the highest average rental yields of 7.8% against the market average of 7.3% as a result of an improved demand
- Neighborhood malls in Mount Kenya regions have the highest average yields at 8.1%, and average occupancy rates of 85.0%, 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, hence also 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

Based on our demand analysis, Nairobi, Kisumu, Uasin Gishu and Nakuru are the most oversupplied retail markets by 3.0 mn SQFT, 0.3 mn SQFT, 0.14 mn SQFT, and 0.1 mn SQFT, respectively

Demand Analysis 2021										
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 (Required Space Kilimani)	Net Uptake (Space Required) for each market	Current supply	GAP at current market performance
Kiambu	2.1	60%	1.3	0.7	1.9	81.7%	2.1	1.7	0.9	0.8
Mt Kenya	2.8	38%	1.1	0.6	1.5	81.7%	1.7	1.4	0.4	0.7
Kajiado	1.1	41%	0.5	0.3	0.7	75.8%	0.7	0.6	0.36	0.2
Machakos	1.3	52%	0.7	0.4	1.0	75.8%	1.1	0.9	0.3	0.1
Mombasa	1.3	100%	1.3	0.8	1.9	77.6%	2.1	1.7	1.4	0.1
Nakuru	2.2	45%	1.0	0.6	1.4	80.0%	1.6	1.3	0.6	(0.1)
Uasin Gishu	1.3	44%	0.6	0.3	0.8	80.8%	0.9	0.7	0.4	(0.1)
Kisumu	1.2	50%	0.6	0.3	0.9	74.6%	1.0	0.7	1.0	(0.3)
Nairobi	4.6	100%	4.6	2.7	6.7	75.8%	7.4	5.6	7.3	(3.0)
Total	**18.0**		**11.6**	**6.7**	**16.8**		**18.6**	**14.5**	**12.6**	**(1.7)**
The Kenya retail sector and the NMA realized a 15.0% and 3.2% decline in the market gap to 1.7mn and 3.0 mn per SQFT when compared to the 2.0 mn and 3.1 mn SQFT recorded in 2020, attributed to an increase in demand for retail spaces										

- Based on our demand analysis, Nairobi, Kisumu, Uasin Gishu and Nakuru are the most oversupplied retail markets by 3.0 mn SQFT, 0.3 mn SQFT, 0.14 mn SQFT, and 0.1 mn SQFT, respectively, with occupancies of 75.8%, 74.6%, 80.8% and 80.0%, respectively

Retail Space Opportunity Kenya

We analyzed the various urban regions in Kenya in order to determine the investment opportunity based in average 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 average 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 average 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 and Kiambu offer the best investment opportunities to retail mall developers

- Based on our analysis, Mombasa and Kiambu offer the best investment opportunities to retail space developers having achieved a higher weighted score of 7.4 and 7.3, respectively
- Uasin Gishu ranked the lowest 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 2021					
Region/Weight	Retail Yield Score	Retail Space Score	Household expenditure (per adult) score		
	30%	30%	40%	Weighted score	Rank
Mombasa	9	5	8	7.4	1
Kiambu	7	8	7	7.3	2
Mt kenya	7	9	5	6.8	3
Nairobi	4	1	9	5.1	4
Machakos	4	6	3	4.2	5
Kajiado	4	7	2	4.1	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

Urban cities such as Nairobi and Kisumu continue to remain oversupplied while areas such as Kiambu and Mt Kenya are under supplied by 0.8 mn SQFT 0.7 mn SQFT, respectively

Kenya Retail Sector Outlook 2021				
	Sentiment 2020	Sentiment 2021	2020 Outlook	2021 Outlook
Retail Space Supply	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	Nairobi, Kisumu, Uasin Gishu and Nakuru are the most oversupplied areas by 3.0 mn, 0.3 mn, 0.1 mn and 0.1 mn SQFT of space, respectively while areas such as Kiambu and Mt Kenya regions are under supplied by 0.8 mn and 0.7 mn SQFT, respectively	Neutral	Neutral
Retail Space Demand	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	Performance of cities such as Nairobi, Kisumu, Uasin Gishu and Nakuru continues to be affected by the slow absorption rates of the retail spaces due to the existing demand that doesn't match the higher supply, that is also expected to increase with the additional spaces such as the Imaara mall along Mombasa road, Britam Mall in Kilimani, and the Beacon Mall in Nairobi CBD	Neutral	Neutral

Retail Sector Outlook

Our outlook for the Kenya retail market remains **NEUTRAL** and we expect to witness increased expansion activities and development activity in Satellite towns, Kiambu and the Mount Kenya regions

Retail Market Performance	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	Kenyan retail sector performance recorded a 0.1% increase in the average rental yields to 6.8% in 2021, from 6.7% in 2020. Average occupancy rates and rental rates also realized an increase of 1.8% points and 2.2% points, respectively, to 78.4% and Kshs 117.8 per SQFT in 2021 Mount Kenya and Nairobi were the best performing regions with the average rental yields coming in at 7.9% and 7.5%, respectively against the market average of 6.8% We expect to see increased market activity with the expansion efforts by local and international retailers such as Naivas and Carrefour taking up space left by troubled retailers such as Tuskys. The existing oversupply is however expected to weigh down the performance of the Kenyan retail market	Neutral	Neutral
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, retailers aggressively taking up retail spaces, positive demographics and the reopening of the economy is expected to cushion the sector's performance***			

Thank You!

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