

### **Kilimani Investment Opportunity**

In Q1'2016, we released a research note on Kilimani, named the [Kilimani Research Report](#). According to the research note, Kilimani offered an attractive investment opportunity for Mixed Use Developments, composed of residential apartments, offices, retail, serviced apartments and hotel, recording 6.3%, 9.7%, 7.5%, 7.0% and 7.7% rental yields, respectively. In line with this performance, on 28<sup>th</sup> September, last year, we launched [Cytonn Towers](#), an iconic Mixed-Use Development on a 4-acre land parcel in Kilimani, which will be built to embody world class standards in destination real estate and is expected to be Nairobi's premier business, retail, entertainment, hospitality and residential address when complete. In this note we thus update the 2016 research note with findings from a research conducted in June 2017. We aim to identify any changes in the market from the time of our previous research, and to provide an actionable investment recommendation. The research note focuses on residential, commercial office and retail real estate themes. We will evaluate the performance of the market based on rental yields, price appreciation, total returns and annualized uptake. We will start with overview of Kilimani, market performance and a conclusion on the investment opportunity in the area

#### **Overview of Kilimani**

Kilimani is a prime residential and commercial area located approximately 4Kms West of Nairobi CBD. It prides itself in a rich mix of culture with residents of both local and foreign descent. This has made the area a strategic home to a host of international schools such as the French, Japanese and Swedish Language Schools. Kilimani also offers a unique blend of upper-mid income maisonettes, modern apartments and office blocks, which mainly house NGO's and foreign embassies, and is accentuated by proximity to major shopping centres like Yaya Centre, Prestige Plaza and Adams arcade.

Kilimani is well endowed with both infrastructure and amenities given its proximity to the CBD and is a high-density upper middle-income neighbourhood. The water supply and sewerage are from Nairobi Water and Sewerage Company (NAWASCO). The area is served by a number of main roads including: Argwings Kodhek Road, Ngong Road (currently being upgraded to dual carriage), Ring Road Kilimani, Dennis Pritt Road and Lenana Road.

The main factors driving real estate in Kilimani are:

1. **Relaxation of Zoning Regulations** - Due to relaxed zoning regulations allowing for higher densities, Kilimani has transformed over time to one of the commercial zones in Nairobi accounting for 22.3% of the total office stock in Nairobi hence attracting both local and international companies. This therefore creates demand for both retail and residential units for the diplomats,
2. **Proximity to CBD and Good Infrastructure** – This makes Kilimani accessible from CBD and other key nodes such as Lavington, Westlands and its environs. The area is also connected to mains sewer, mains water and mains power,
3. **International Organisations** - The presence of the international organisations, NGO's and foreign embassies, such as International Committee of the Red Cross (ICRC), Care International, Plan International Kenya, among others, attracts foreigners who create a market for the hospitality sector, that is serviced apartments and hotels,
4. **High Returns** – Real estate in Kilimani has a high return with average rental yields of 8.8% and price appreciation of 10.5% p.a, leading to a total return of 19.3%. For instance, the land prices in the

area recorded an average 6-year CAGR of 22.5% between 2011 and 2017, thus making it an ideal place for investors seeking high returns on the Real Estate market

### Kilimani Market Performance

In June 2017, our market research focussed on;

1. **Plinth Area** - Research on the size of the units found in the market allows us to gauge the current offering, and put into consideration the home buyer's preferences for sizes of houses,
2. **Prices** - Research on prices will be used in comparison of our products against the market prices,
3. **Rental Rates** - Research on rental income allows us to inform potential investors on the current rental rates in other developments and also inform the investors on the prospective rental yield they can gain from investing in Kilimani,
4. **Annual Uptake** - This allows the investor to appreciate the rate at which available homes are sold over a specific period of time. This helps him/her gauge on whether it is profitable to invest in a given area.

The key themes covered are;

#### 1. Residential Sector

The research findings were as follows;

<i>All values in Kshs, unless stated otherwise</i>										
Kilimani 1- Bedroom Units Performance Summary										
Project	Location	Plinth Area (SQM)	Current Price Kshs	Current Price per SQM	Monthly Rent Kshs	Annual Uptake	Annual Sales	Price App.	Rental Yield	Total return
Junction Gardens	Kilimani	150	8.5Mn	56,667	80,000	100.0%	1	23.2%	11.3%	34.5%
Junction Suites	Ngong' Rd	40	3.8Mn	92,759	35,000	43.0%	6		11.2%	
Silverstone Apartments	Kilimani	87	12.0Mn	137,931	80,000	44.0%	40	6.9%	8.0%	14.9%
Kayahwe Rd. Apartments		80	11.5Mn	145,370	50,000	29.0%	14	5.7%	3.8%	9.5%
<b>Average</b>		<b>89</b>	<b>8.9Mn</b>	<b>108,182</b>	<b>61,250</b>	<b>54.0%</b>	<b>20</b>	<b>11.9%</b>	<b>8.6%</b>	<b>19.6%</b>
<b>High</b>							<b>40</b>	<b>23.2%</b>	<b>11.3%</b>	<b>34.5%</b>
<ul style="list-style-type: none"> <li>• With an average price of Kshs 8.9mn and average rent of Kshs 61,250 1-bedroom apartments generate an average total return of 19.6% p.a, higher than 1 and 2 bedrooms at 17.1% and 13.7% respectively due to higher price margins</li> <li>• Junction Gardens recorded the highest appreciation in the market as a result of a market price correction at resale price. Key to note is that it was a single unit in the development</li> <li>• Kayahwe Rd. apartments however recorded low price appreciation and rental yield of 5.7% and 3.8% respectively due to low demand as the development lacks modern amenities such as a gym provided by other developers</li> </ul>										

Source: Cytonn Research June 2017

*All values in Kshs, unless stated otherwise*

Kilimani 2- Bedroom Units Performance Summary										
Project	Location	Plinth Area (SQM)	Current Price Kshs	Current Price per SQM	Monthly Rent Kshs	Annual Uptake	Annual Uptake	Price App.	Rental Yield	Total returns
Silverstone Apartments	Hurlingham	122	15.0Mn	122,951	100,000	71%	37	16.7%	8.0%	24.7%
Skyview Apartments	Ring Rd	124	22.0Mn	177,419	75,000	14%	3.4	17.5%	3.9%	21.4%
Junction Gardens	Kilimani	150	18.0Mn	120,000	90,000	17%	1	12.5%	6.0%	18.5%
Shiloh apartments (DSQ)	Menelik Rd Kindaruma	180	22.5Mn	125,000	100,000	50%	12	11.9%	5.1%	17.0%
Century Gardens	Rd	110	14.6Mn	132,727	70,000	13%		8.2%	5.8%	14.0%
Kose heights	Hurlingham	125	14.0Mn	111,643	80,000			6.4%	6.7%	13.1%
Sevens Position Apartments	Ngong Road	79	9.5Mn	119,696	60,000	50%	12	3.8%	7.3%	11.1%
<b>Average</b>		<b>127</b>	<b>16.5Mn</b>	<b>129,919</b>	<b>82,143</b>	<b>35.8%</b>	<b>13</b>	<b>11.0%</b>	<b>6.1%</b>	<b>17.1%</b>
<b>High</b>							<b>37</b>	<b>17.5%</b>	<b>8.0%</b>	<b>24.7%</b>

- With an average price of Kshs 16.5mn and average rent of Kshs 82,143, 2-bedroom apartments generate an average total return of 17.1%
- Apartments in easily accessible areas and prime amenities such as Silverstone Apartments and Skyview Apartments record higher returns with average total returns of 24.7% and 21.4% respectively

Source: Cytonn Research June 2017

*All values in Kshs, unless stated otherwise*

Kilimani 3- Bedroom Units Performance Summary										
Project	Location	Plinth Area (SQM)	Current Price Kshs	Current Price per SQM	Monthly Rent Kshs	Annual Uptake	Annual Uptake	Price App.	Rental Yield	Total returns
Rose Park	Rose Ave	166	20.0Mn	120,482	80,000	40.0%	7	12.0%	4.3%	16.3%
Trident Heights	Kilimani	180	25.0Mn	138,839	120,000			9.0%	5.8%	14.8%
Lobelia Court	George Padmore	118	27.0Mn	228,814	120,000	10.0%	6	9.0%	5.1%	14.1%
Skyview-park Apartments	Ring Rd	220	24.0Mn	109,091	100,000	16.0%	3	10.0%	3.1%	13.1%
Century Gardens	Kindaruma Rd	180	20.0Mn	111,111	100,000			7.0%	6.0%	13.0%
Exeter Rose	Rose Ave	180	20.0Mn	110,833	90,000	18.0%	5	7.0%	5.4%	12.4%

Junction											
Gardens	Kilimani	160	27.0Mn	168,750	110,000	33.0%	8	7.0%	4.9%	11.9%	
<b>Average</b>		<b>172</b>	<b>23.3Mn</b>	<b>141,131</b>	<b>102,857</b>	<b>23.4%</b>		<b>8.7%</b>	<b>4.9%</b>	<b>13.7%</b>	
<b>High</b>								<b>12.0%</b>	<b>6.0%</b>	<b>16.3%</b>	
<ul style="list-style-type: none"> <li>With an average price of Kshs 23.3mn and average rent of Kshs 102,857, 3-bedroom apartments generate an average total return of 13.7% lower than 1 and 2 bedrooms at 19.6% and 17.1% respectively due to price stability as a result of increasing supply</li> <li>Rose Park, Trident Heights and Lobelia Court recorded the highest total returns attributable to accessibility and the quality amenities such as swimming pool, gym and video intercom provided</li> </ul>											

Source: Cytonn Research June 2017

## 2. Commercial Properties

### i. Commercial office sector

All values in Kshs, unless stated otherwise					
Commercial Office Performance in Kilimani June 2017					
Name of Property	Price Per SQFT in Kshs	Rent Per SQFT Per Month Kshs	Occupancy Rate	Rental Yields	
Office Avenue 5	14,000	140	95.0%	11.4%	
Commodore office Suites	12,500	120	97.0%	11.2%	
The Atrium	14,000	130	100.0%	11.1%	
Morning Side Park	15,000	130	95.0%	9.9%	
Royal Square	16,000	145	90.0%	9.8%	
Jadala Place	13,500	120	90.0%	9.6%	
A.C.S Plaza	14,000	125	90.0%	9.6%	
Saachi Plaza	14,000	110	90.0%	8.5%	
The Priory	14,000	105	90.0%	8.1%	
Galana Plaza	14,000	90	90.0%	6.9%	
Kose Heights	14,000	120	60.0%	6.2%	
<b>Average</b>	<b>14,091</b>	<b>121</b>	<b>89.7%</b>	<b>9.3%</b>	
<ul style="list-style-type: none"> <li>With an average rent of Kshs 121, commercial offices in Kilimani record on average a rental yield of 9.3% at 89.7% occupancy rates supported by the increased demand for office due to increase in SME's in the market such as AfriBusiness LLP</li> <li>Galana Plaza and Kose Heights recorded low rental yields attributed to low rental charges and low occupancy rates due to poor location along Arwing Kodhek road affected by poor traffic management</li> </ul>					

Source: Cytonn Research June 2017

### ii. Retail sector

All values in Kshs, unless stated otherwise
Retail Performance in Kilimani June 2017

Row Labels	Average Rent per SQFT			
	Size (SQFT)	per Month Kshs	Occupancy Rate	Rental Yield
Yaya center	123,515	195	90.0%	11.6%
Lavington mall	86,080	215	80.0%	11.4%
Junction	279,760	240	70.0%	11.4%
Valley arcade	130,680	150	100.0%	9.9%
Adlife Plaza	70,000	164	78.0%	8.4%
<b>Average</b>	<b>138,007</b>	<b>193</b>	<b>83.6%</b>	<b>10.5%</b>

- With an average rent of Kshs 193, commercial malls in Kilimani record on average a rental yield of 10.5% at 83.6% occupancy rates higher than the retail sector market average at a rental yield of 9.6% and 80.3% occupancy rates. This is attributable to the area's dominance by aged malls and its being an upper middle-income neighbourhood
- Yaya Center, Lavington mall and Junction, recorded higher rental yields attributed to higher rental charges due to the premium charged for the amenities provided

Source: Cytonn Research June 2017

### Research Summary

*all values in Kshs, unless stated otherwise*

Residential Apartments Kilimani Performance Summary										
Unit	Plinth Area (SQM)	Monthly Rent Kshs	Average Price 2016 Kshs	Rent per SQM 2017	Price per SQM 2017	Annual Uptake	Rental Yield	Price App.	Total Return	
1 Bed	89	61,250.0	8.9Mn	688	108,182.0	54.0%	8.6%	11.9%	19.6%	
2 Bed	127	82,142.9	16.5Mn	646	129,919.4	35.8%	6.1%	11.0%	17.1%	
3 Bed	172	102,857.1	23.3Mn	598	141,131.4	23.4%	4.9%	8.7%	13.7%	
<b>Average</b>				<b>644</b>	<b>126,410.9</b>	<b>37.7%</b>	<b>6.5%</b>	<b>10.5%</b>	<b>16.8%</b>	

- With an average price per sqm of Kshs 126,410.9 and average rent per sqm of Kshs 644, apartments in Kilimani generate an average rental yield of 6.5% higher than the average residential sector yield at 6.2% attributable to increasing demand driven by increase in upper middle-income earners
- 1 bedroom recorded the highest total returns of 19.6% due to higher occupancy rates and rental charges of 688 per SM, while 3 bedrooms recorded the least at 13.7% due to low price appreciation attributable to 3-bedroom price stability as a result of increasing supply

Source: Cytonn Research June 2017

*all values in Kshs, unless stated otherwise*

Commercial Properties Kilimani Performance Summary					
Typology	Average Rent per SQFT Per Month Kshs 2017	Occupancy Rate 2017	Rental yield 2016	Rental Yield 2017	Change in Rental yields
Retail	192.8	83.6%	10.6%	10.5%	-0.1%
Office	121.4	89.7%	9.5%	9.3%	-0.2%

Average	156.9	86.7%	10.1%	9.9%	-0.2%
<ul style="list-style-type: none"> <li>• With an average rent of Kshs 156.9, commercial properties in Kilimani record on average a rental yield of 9.9% at 86.7% occupancy rates</li> <li>• The performance of commercial properties in Kilimani softened with rental yields, declining by 0.2% points due to reduced economic activities as a result of the electioneering period</li> </ul>					

Source: Cytonn Research June 2017

**Conclusion**

The Kilimani market performance remained relatively stable despite the political headwinds that have affected the Kenyan real estate market. Kilimani thus presents an attractive investment opportunity, with rental yields of 6.5% in residential, 9.3% in commercial, 10.5% in retail , capital appreciation of 22.5% and a total potential return of 31.3%. For details on our project in Kilimani, see the link [Cytonn Towers](#)