



Mombasa Real Estate Investment Opportunity

August 2018



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I. Introduction to Cytonn Investments

What We Stand For



Our Mission

We deliver innovative & differentiated financial solutions that speak to our clients' needs



Our Vision

To be Africa's leading investment manager by consistently exceeding clients' expectations



Our Values

People

Passionate and self-driven people who thrive in a team context

Excellence

Delivering the best at all times

Client Focus

Putting clients' interest first at all times

Entrepreneurship


Using innovation and creativity to deliver differentiated financial solutions

Accountability

We take both corporate and personal responsibility for our actions

Integrity

Doing the right things



**Strategy is
straightforward –
just pick a general
direction and
implement like hell**

— Jack Welch

About Us

Cytonn Investments Management Plc is an alternative investment manager with presence in East Africa, Finland and the US. We provide investors with exposure to the high growth East Africa region. Our investors include global and local institutional investors, individual high net-worth investors and the diaspora. We also service retail investors through our Cytonn Co-operative

82 bn

Over Kshs. 82 billion worth of projects under mandate

8

Eight offices across 3 continents

500

Over 500 staff members

10

10 investment ready projects

A unique franchise differentiated by:

Independence & Investor Focus

Focused on serving the interest of clients, which is best done on an independent platform to minimize conflicts of interest

Alternative Investments

Specialized focus on alternative assets - Real Estate, Private Equity, and Structured Solutions

Strong Alignment

Every staff member is an owner in the firm. When clients do well, the firm does well; and when the firm does well, staff do well

Committed Partners

Strong global and local partnerships in financing, land and development affiliate

Why We Exist

Africa presents an attractive investment opportunity for investors seeking attractive and long-term returns. Despite the alternative markets in Africa having high and stable returns, only a few institutional players serve the market. Cytonn is focused on delivering higher returns in the alternative markets, while providing the best client service and always protecting our clients' interests.

WE SERVE FOUR MAIN CLIENTS SEGMENTS:

- High Net-worth Individuals through Cytonn Private Wealth
- East Africans in the Diaspora through Cytonn Diaspora
- Global and Local Institutional clients

WE INVEST OUR CLIENT FUNDS IN:

- Real Estate
- Private Equity
- Fixed Income Structured Solutions
- Equities Structured Solutions



Our Business

Where We Operate



Our Business Lines

Investments

Alternative investment manager focused on private equity and real estate

RealEstate

We develop institutional grade real estate projects for investors

Diaspora

We connect East Africans in the diaspora to attractive investment opportunities in the region

Technology

We deliver world-class financial technology solutions

Our Solutions

To unearth the attractive opportunity that exists in alternative markets in Africa, we offer differentiated investment solutions in four main areas:

HIGH YIELD SOLUTIONS

Our expertise in the alternative markets enables us to offer investors high yielding investments. Our robust credit analysis coupled with our quick dealing capabilities, our extensive research coverage and our innovative structuring helps to ensure consistent and above market returns to investors.

REAL ESTATE INVESTMENT SOLUTIONS

Our comprehensive real estate capabilities enable us to find, evaluate, structure and deliver world-class real estate investment products to our investors in the East African region. Our capabilities include fundraising, market research and acquisition, concept design, project management and agency and facility management.

PRIVATE REGULAR INVESTMENT SOLUTIONS









Attractive returns in the alternative segments have typically been accessible to institutional and high net-worth investors. Our regular investment solutions provide access to the alternative investments to members of the Cytonn Co-operative.

PRIVATE EQUITY

We seek to unearth value by identifying potential companies and growing them through capital provision, partnering with management to drive strategy and institutionalizing their processes. Our areas of focus are Financial Services, Education, Renewable Energy and Technology Sectors.

Our Products

We serve three main types of clients namely, high net-worth individuals, institutions and retail, each with diverse needs. Below are the suitability criteria for the various products.

	INSTITUTIONAL CLIENTS	HIGH NET WORTH INDIVIDUALS (HNWI)	RETAIL CLIENTS
Cash Management Solutions			
Regular Investment Plan <ul style="list-style-type: none">• Education Investment Plan• Regular Investment Solution• Land Investment Plan			
Real Estate Development <ul style="list-style-type: none">• Real Estate Developments• Sharpland			

Our People



If you could get all the people in an organization rowing the same direction, you could dominate any industry, in any market, against any competition, at any time.

— **Patrick Lencioni**



We are focused on one agenda:

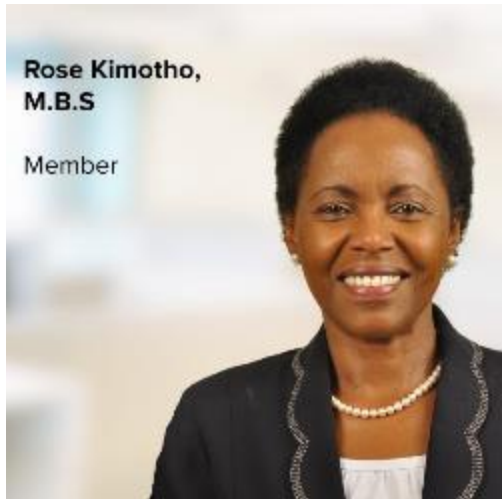
THE CLIENT

Board of Directors

To ensure that we remain focused on the clients' interests, we have put in place proper governance structures. We have a board of directors consisting of 11 members from diverse backgrounds, each bringing in unique skill-sets to the firm.



Board of Directors, Continued ...



Governance Committees

We have four main board committees to ensure all of Cytonn's functions are done in a fair and transparent manner:

Investments and Strategy Committee

The committee oversees and provides strategic investment direction, including the implementation and monitoring process. The members are:-

- James Maina (Chair)
- Antti-Jussi Ahveninen, MSc
- Madhav Bhalla, LLB
- Edwin H. Dande, MBA
- Elizabeth Nkukuu, CFA

Audit, Risk and Compliance Committee

The committee establishes and oversees risk and compliance, including the implementation and monitoring process. The members are:-

- Madhav Bhalla, LLB (Chair)
- Nasser Olwero, Mphil
- Madhav Bhandari, MBA
- Patricia N. Wanjama, CPS

Governance, Human Resources and Compensation Committee

The committee establishes, oversees and implements governance structure, human resource policies and firm wide compensations. The members are:-

- Antti-Jussi Ahveninen, MSc (Chair)
- Prof. Daniel Mugendi Njiru, PhD
- Michael Bristow, MSc (Chair)
- Edwin H. Dande, MBA

Technology and Innovation Committee

The committee establishes, oversees and implements technical expertise and innovative processes as a driver towards competitiveness. The members are:-

- Nasser Olwero, Mphil (Chair)
- Michael Bristow, MSc
- Patricia N. Wanjama, CPS

II. Overview of Real Estate in Kenya

Introduction to Real Estate in Kenya

Real estate sector expected to continue growing on the back of improved macroeconomic conditions, sustainable high returns, and a changing operational landscape as developers strive to satisfy the huge housing deficit

Macro-Economic Contribution

- The real estate sector expanded by 6.8% in Q1'2018, 0.7% points higher than in the Q1'2017 growth of 6.1% (KNBS), attributable to a recovery of the macroeconomic environment from the effects of the 2017 electioneering period
- A relatively stable political environment, as well as favourable macroeconomic conditions leading to sustained GDP Growth, averaging above 5.0% over the last 5 years and a stable exchange rate have led to positive development in the sector

High Returns

- Real estate has consistently out performed other asset classes in the last 5 years, generating returns of on average 24.3% p.a, compared to an average of 13.2% p.a for overall asset classes
- Land prices have grown with a 6 year CAGR of 17.4%, with real estate recording an average rental yield of 8.2% in H1'2018 that is 9.7% in retail, 9.3% in commercial office, and 5.5% in the residential sector

Recent Developments

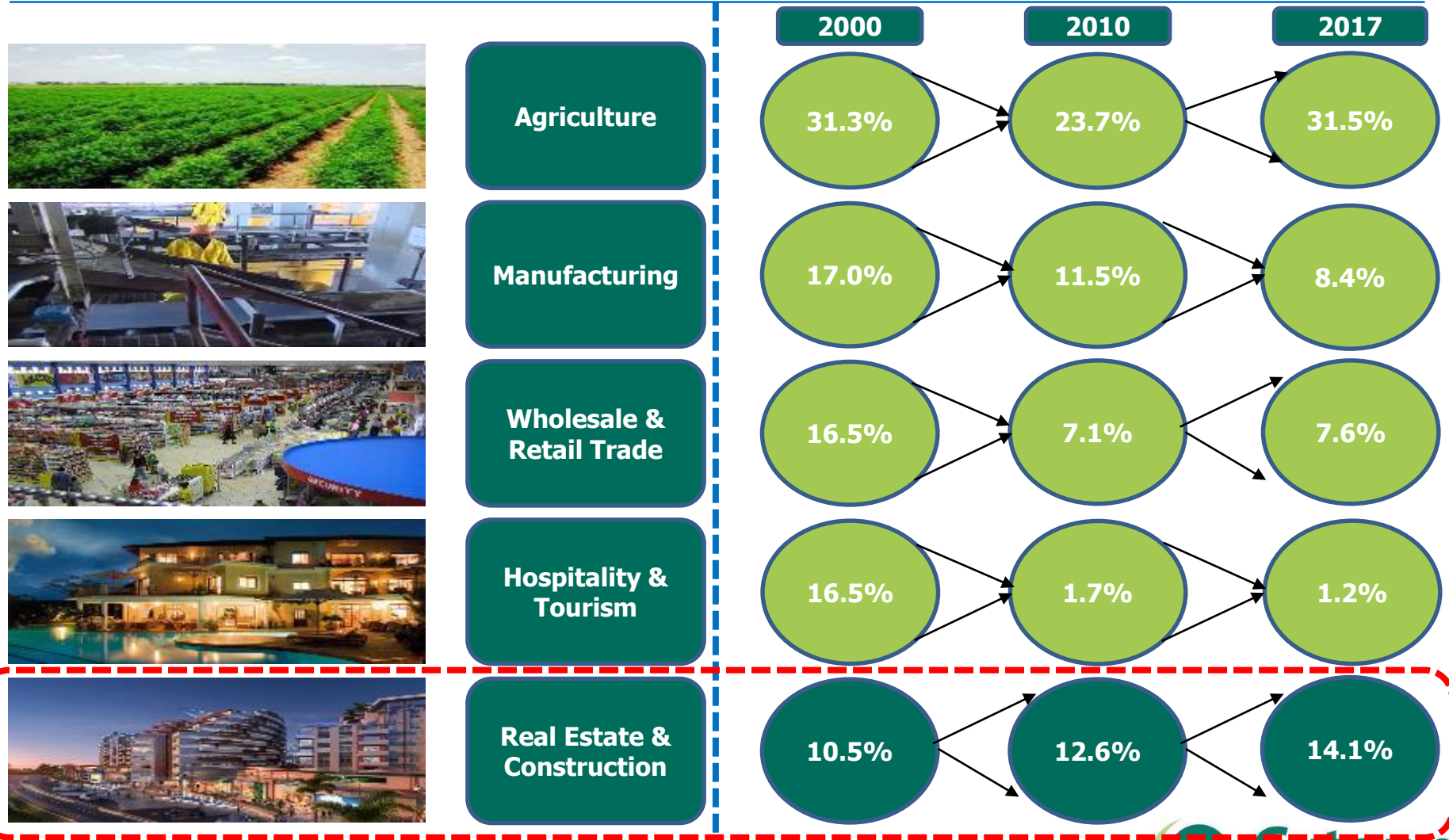
- The real estate sector has witnessed the entry of institutional as well as international players. For instance, in H1'2018, UK based Mace acquired YMR and Turner and Townsend acquired a majority stake in MML Kenya
- Government initiatives such as: the digitization of the land ministry, the scrapping off of the land search fees and inclusion of affordable housing as part of the Big Four Pillars of focus for the next 5-years are likely to boost real estate development

Market Outlook

- We expect continued growth of the sector boosted by improved macroeconomic conditions, sustainable high returns, and a changing operational landscape as developers strive to address the huge housing deficit
- Key challenges include: high land and infrastructure development costs, high finance costs and inadequate sources of funding

Introduction to Real Estate in Kenya – RE Contribution to GDP

Real Estate and construction sectors contribution to GDP has been on a rising trend from 10.5% in 2000 to 12.6% in 2010 to 14.1% as at 2017



Source: KNBS

I. Introduction

Introduction

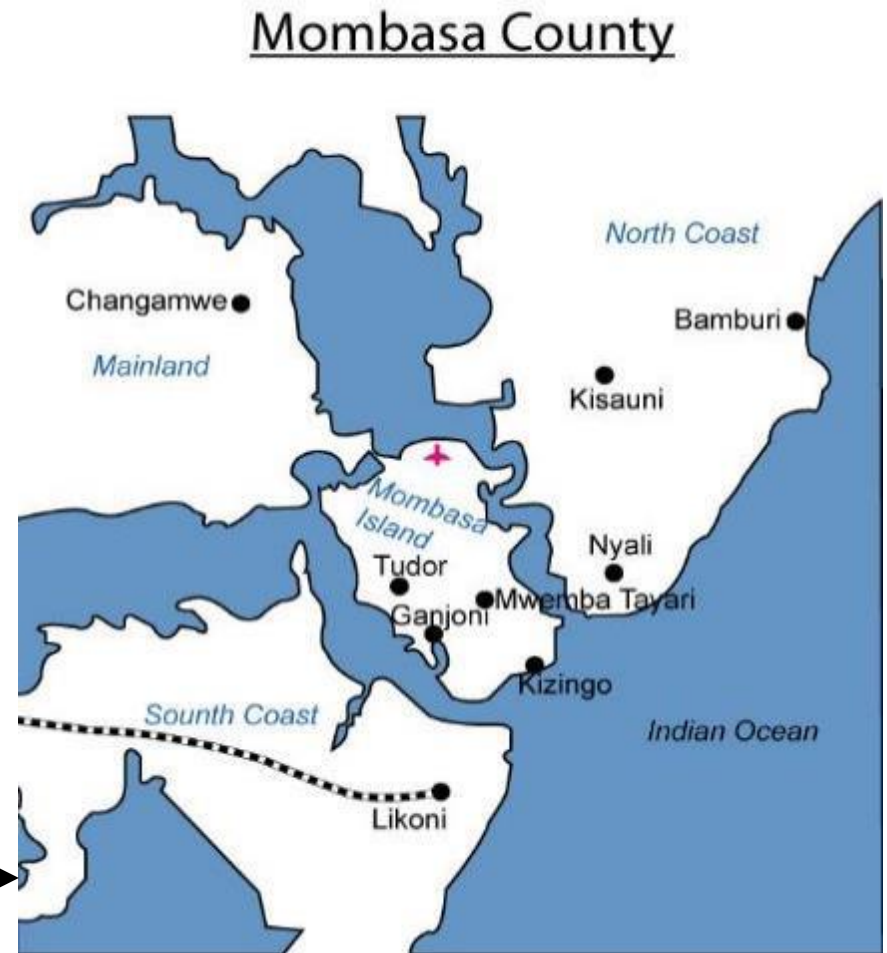
The research focuses on residential and commercial sectors in Mombasa - Kenya

- This study aims to provide insight into the Mombasa's real estate market, specifically for residential development, commercial and Land sector as well as the market overview of the area
- The objective of this study is to carry out a market survey of the residential developments, commercial sector and land sector in the subject area and provide an opinion of the following;
 - Market selling price
 - Current market rentals
 - Comment on amenities and facilities Management
 - Comment on market trends and provide the appropriate recommendations
- The survey was based on information supplied to us by;
 - Professional experience in real estate matters in Cytonn Real Estate
 - Observations and various comparable properties
 - Interviews with real estate practitioners in the area
- We have analyzed the data we collected and presented in the form of:
 - Tables
 - Photographs
 - Qualitative data as narrative
- We have used the analyzed data to draw up conclusions and recommendations on the best use investments in this market

II. Introduction to Mombasa

Introduction to Mombasa: Country Profile

Mombasa is the smallest county in Kenya measuring 229.9 SQKm

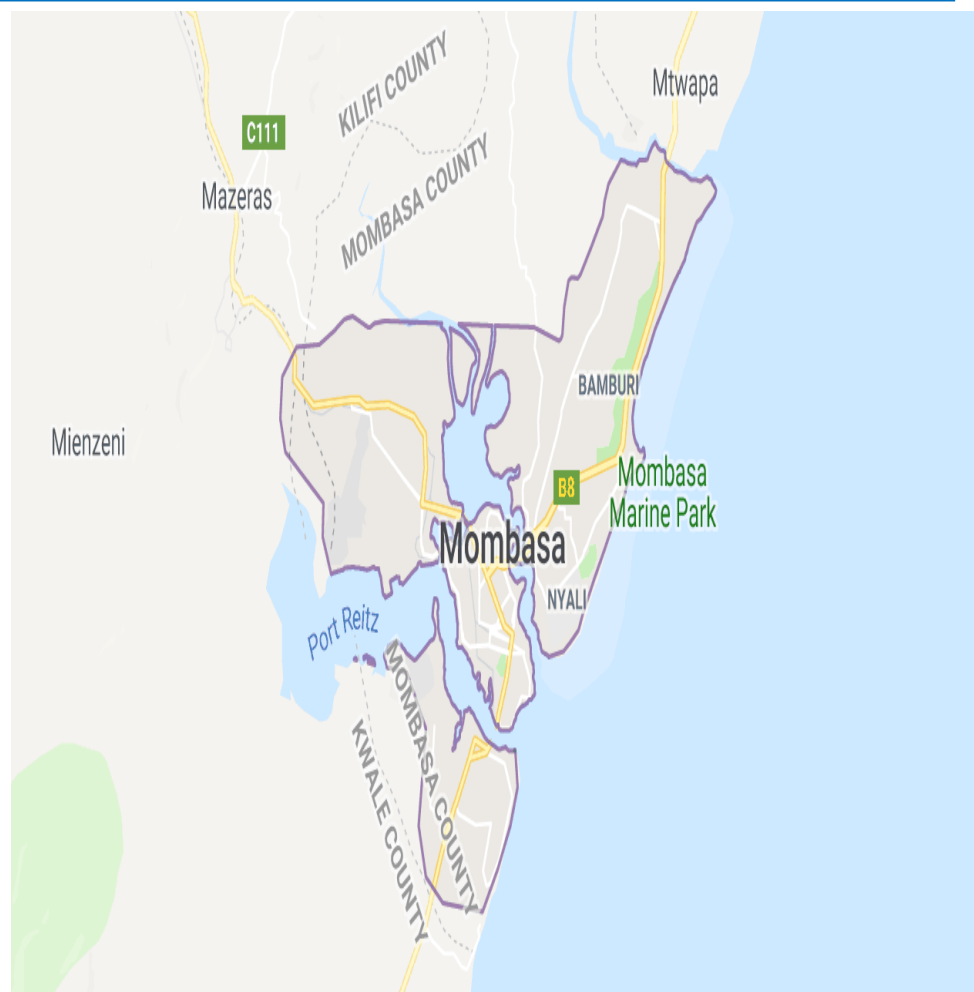


Introduction to Mombasa: Country Profile

The county is located South Eastern of Kenya, measuring 229.9 SQKM

County Demographics & Systems

County Headquarters:	Mombasa
Sub-counties in Mombasa;	Mvita, Nyali, Kisauni, Jomvu, Chagamwe, Likoni
Current Governor:	H.E Ali Hassan joho
Population:	1.3 mn
Popn. Growth Rate:	3.9%
Total Dependency Ratio:	53.9%
Literacy:	41.0%
Language:	Swahili, English
Mainstay	Maritime Business
GDP Per Capita (2015)	USD 935
Religious Groups:	Muslim, Hindu, Christian
County size:	229.9SQKm
Neighboring Counties:	Kilifi, kwale



III. Overview of Real Estate in Mombasa

Factors Driving Real Estate in Mombasa

Mombasa's Real Estate sector is boosted by ongoing infrastructural development, strong economic growth, tourist activity, and a positive demographic dividend

Factor	Details
Positive Demographic Dividend	<ul style="list-style-type: none">As at 2017, Mombasa's population was estimated at 1.3 mn persons, from the 938,500 recorded in 2009. This translates to an 8-year CAGR of 3.9%, which is 1.3% points higher than the national average population growth of 2.6% p.a. according to the World BankAdditionally, Mombasa being the second largest city in Kenya after Nairobi, attracts a significant portion of rural to urban migrants, especially those in search of employment. The increasing population has subsequently increased demand for residential units, commercial offices, retail centers and land to serve the needs of the residents. According to the County's department of housing, Mombasa has an estimated total housing deficit of 380,000 units
Infrastructural Development	<ul style="list-style-type: none">The ongoing Mombasa West Integrated Urban Roads Network Project which includes projects such as the Port Reitz Road, Dongo Kundu Bypass, as well as the completed Standard Gauge Railway are bound to open up new areas for development in the county, thus pushing land and property prices upThe infrastructural improvements are also set to boost accessibility and reduce traffic snarl ups, thus setting the region up for a position to attract more investments, including real estate
Tourism Sector	<ul style="list-style-type: none">Mombasa is recognized as one of the major tourist attraction areas in Kenya, partly due to its rich cultural heritage and also its proximity to the Indian Ocean. The tourist activities have resulted in a vibrant economy boosting the retail sector and the hotel industry, as well as the demand for luxury residential homes especially by long-stay visitors
Strong Economic Growth	<ul style="list-style-type: none">According to a 2015 World Bank study, Mombasa ranked the 9th in Kenya in terms of GDP Per Capita among all counties recording an average GDP Per Capita of USD 935, 34.7% higher than the national average of USD 694. This is expected to grow further given the rebound in tourism sector and the infrastructural developments that are aimed at enhancing trade in the county's sea and airports

Challenges Facing Real Estate in Mombasa

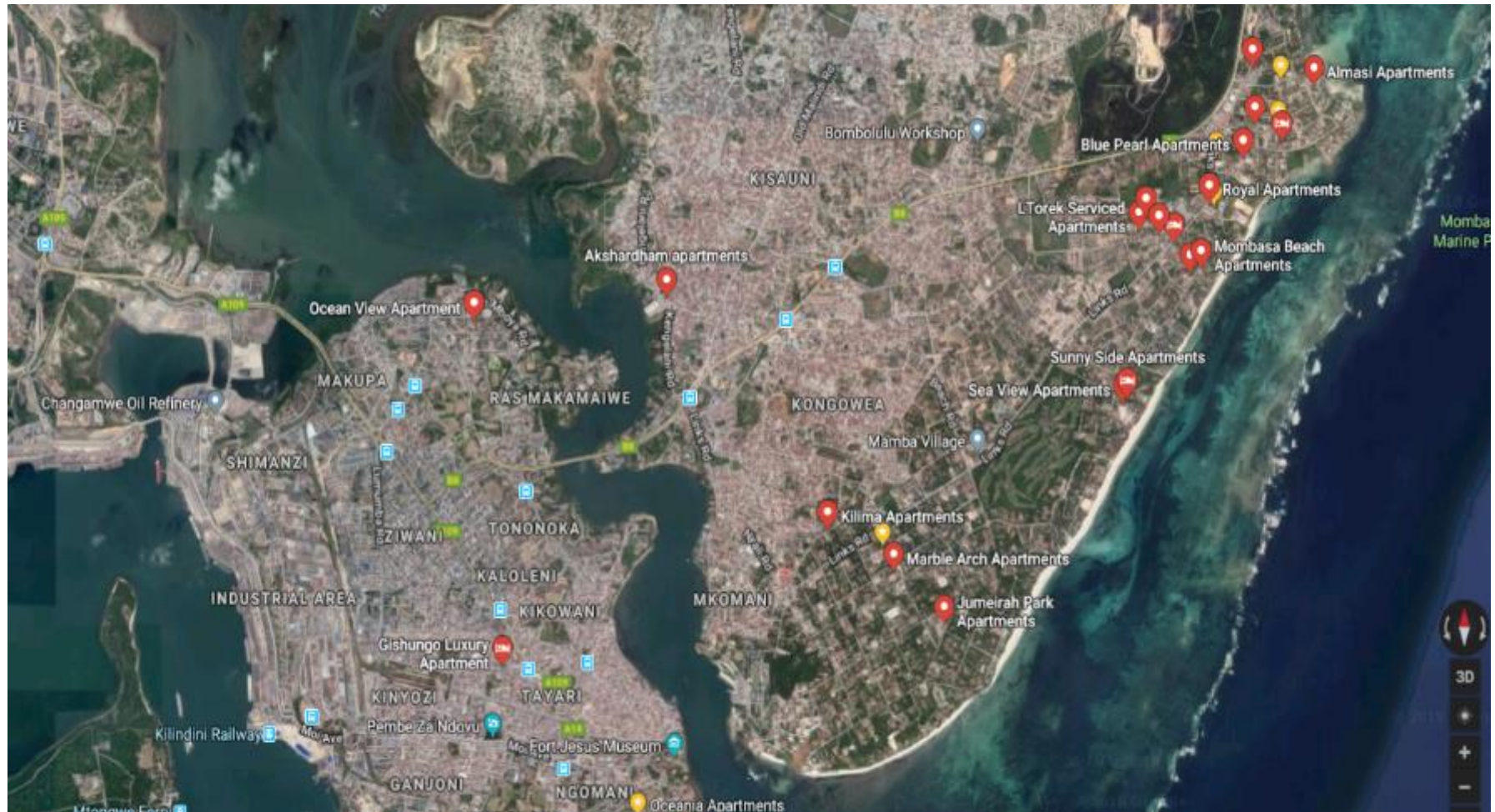
The key challenge facing Mombasa's real estate sector are perceived insecurity, insufficient infrastructure, lack of spatial planning, and inadequate supply of development land at affordable rates

Factor	Details
Insecurity	<ul style="list-style-type: none">The county has been prone to terrorist-related threats, stemming from the 2015 attacks that were caused by international terrorist groups such as Al Shabaab, resulting to the number of international arrivals through the Moi International Airport declining by a 6-year CAGR of 10.0% to 1.2 mn in 2015 from 1.8 mn in 2011This has resulted in potential investors holding off investment in the region - despite the rebound in the number of arrivals in 2016 and H1'2017 which is an indicator of the region's return to calm - and this has generally had a negative impact on the business environment
Insufficient Infrastructure	<ul style="list-style-type: none">Despite the new infrastructural developments, Mombasa County still struggles with inadequate infrastructure which inhibits the growth of the business environment. For instance, the narrow Nyali Bridge and roads have rendered the city center and its environs unattractive for commercial real estate due to the perennial traffic snarl-ups, whereas the insufficient capacity of the Likoni Ferries affects Mombasa South's tourism industry due to the long delays caused at the crossing channelIn addition, insufficient access to water services and sewerage systems in majority of the residential estates impedes real estate investments in certain areas such as Likoni and Tudor
Outdated County Spatial Planning	<ul style="list-style-type: none">Mombasa lacks an updated and proper spatial plan to meet the needs of the fast growing population with the last planning policy having been drawn in 1971 and having expired in 2000. This has resulted in unplanned development, transport challenges especially within Mombasa town with constant traffic jams, drainage issues resulting in flooding in areas such as Mzizima and Kaloleni, poor waste management practices and consequently poor living conditions especially for low income households
Inadequate Supply of Affordable Development Land	<ul style="list-style-type: none">According to our research, average land prices in areas such as Nyali, Kizingo, Port Reitz, and Shanzu areas, have grown by a 2-year CAGR of 12.6% to an average of Kshs 115.4 mn as at 2018, from an average of Kshs 109.4 mn in 2016 making it more difficult to provide affordable housing for the low income population.This is attributable to insufficient development land to cater for the huge demand, especially with a population density of 5,532 persons per SQKM, in comparison to the national 83 persons per SQKM

IV. Residential

Location of Comparables

The comparables are spread across Mombasa Area with investment grade developments being concentrated in Nyali, Shanzu, Kizingo, Mtwapa, Bamburi, and Tudor regions



Source : Google Earth

2016/2018 Residential Performance Summary

The residential sector's performance softened recording a decline of total returns by a cumulative 0.7% in 2016/2018; price appreciation gained by 0.7% points to an average of 2.1% in 2018 from 1.6% in 2016

Typology	Average Rental Yields 2018	Average Price Appreciation 2018	Average Total Returns 2018	Average Rental Yield 2016	Average Price Appreciation 2016	Average Total Returns 2016	Annualized Changes Rental Yield (Points)	Annualized Changes Price Appreciation (Points)	Annualized Changes Total Returns (Points)
1 BR	5.1%	1.3%	6.4%	8.0%	2.3%	10.3%	(1.5%)	(0.5%)	(2.0%)
2 BR	4.9%	2.4%	7.3%	6.0%	(4.1%)	1.9%	(0.6%)	3.3%	2.7%
3 BR	4.8%	2.3%	7.1%	6.0%	3.5%	9.5%	(0.6%)	(0.6%)	(1.2%)
4 BR	5.6%	2.4%	8.0%	5.2%	4.5%	9.7%	0.2%	(1.1%)	(0.8%)
Average	5.1%	2.1%	7.2%	6.3%	1.6%	7.9%	(0.6%)	0.3%	(0.3%)

- The residential sector's performance softened between 2016 and 2018, with total returns to investors declining annually by 0.3% points on average, annually
- Average rental yields declined by 0.6% points, annually over the period with 2018 recording an average of 5.1%, 1.2% points lower than the 6.3% recorded in 2016,
- However, capital appreciation gained marginally by 0.3% points on average annually. This was mainly due to the 2-bedroom units which recorded average capital appreciation of 2.4% in 2018, a notable gain of 6.5% points from the depreciation recorded in 2016 of 4.1%

II. Comparables and Analysis

A. Lower Mid-End

Performance Summary: Lower Mid-End

Lower mid-end units in Mombasa recorded average returns of 6.7%, with rental yield and price appreciation of 5.2% and 1.7%, respectively.

Typology	Size (SQM)	Price (2018)	Average Price Per SQM	Average Rent Per SQM	Average Occupancy Rate	Average Annualized Uptake	Average Rental Yield	Average Price Appreciation	Average Total Returns
Studio	42	2.4 mn	57,416	355		8.3%	6.2%	0.3%	6.5%
1-BR	68	3.6 mn	54,312	279		14.6%	4.9%	1.4%	6.3%
2-BR	88	7.1 mn	89,220	379	89.6%	26.4%	4.8%	2.6%	7.4%
3-BR	114	9.7 mn	90,348	409	92.8%	29.5%	5.3%	1.9%	7.2%
Average	78	5.7 mn	72,824	355	91.2%	19.7%	5.2%	1.5%	6.7%

- 2-bedroom units recorded the highest average total returns of 7.4%, compared to the market average of 6.7%. This is attributable to a high demand especially from investors seeking rental income
- In terms of market uptake, 2-bedroom and 3-bedroom units have the highest annual uptake at 26.4% and 29.5%, respectively. This is due to the fact that they are more popular especially with the low income earning families

B. Upper Mid-End

Performance Summary: Upper Mid-End

Overall, upper mid-end units in Mombasa recorded average returns of 7.9% with rental yield and price appreciation coming in at 5.6% and 2.3%, respectively

Typology	Size (SQM)	Price (2018)	Average Price Per SQM	Average Rent Per SQM	Average Occupancy	Average Annualized Uptake	Average Rental Yield	Average Price Appreciation	Average Total Returns
1 BR	74	8.1 mn	111,310	658	76.8%	16.0%	5.4%	1.3%	6.7%
2 BR	92	14.3 mn	138,181	650	92.9%	17.8%	5.0%	2.3%	7.1%
3 BR	177	18.8 mn	116,071	598	77.5%	23.8%	5.2%	2.6%	7.8%
4 BR	261	24.3 mn	95,232	547	83.3%	23.3%	6.3%	3.5%	9.8%
Average	151	16.4 mn	115,199	621	82.6%	19.6%	5.6%	2.3%	7.9%

- Overall, the upper mid-end Units in Mombasa recorded average total returns of 7.9% with rental yields of 5.6% and price appreciation at 2.3%
- 4 -bedroom units recorded the highest returns to investors within the segment, recording average total returns of 9.8% with price appreciation and rental yield coming in at 3.5% and 6.3%, respectively
- 3 and 4-bedroom units also exhibited the highest annual uptake rates with 23.8% and 23.3%, respectively indicating demand for spacious units in the region

C. High – End

Analysis: High-End

High-End units recorded average total returns of 4.1% with rental yield and price appreciation of 2.7% and 1.4%, respectively

Typology	Size(SQM)	Price (2018)	Average Price Per SQM	Average Rent Per SQM	Average Occupancy	Average Annualized Uptake	Average Rental Yield	Average Price Appreciation	Average Total Returns
3 BR	345	54.7 mn	188,602	645	43.9%	10.8%	1.8%	1.7%	3.5%
4 BR (Kizingo)	273	45.7 mn	173,504	757	92.9%	22.8%	4.9%	2.4%	7.3%
4 BR (Nyali)	460	70.0 mn	152,952	371	50.0%	6.3%	1.5%	0.0%	1.5%
Average	340	55.1 mn	171,686	591	62.2%	13.3%	2.7%	1.4%	4.1%

- The high-end market recorded average total returns of 4.1% with rental yields coming in at 2.7% which is relatively low compared to the overall market average of 5.1%, attributable to the high-end market's high rental rates that dissuade occupancy
- 3-bedroom units recorded returns of 3.5% with rental yield and price appreciation of 1.8% and 1.7%, respectively
- 4-bedroom units in Kizingo performed better than their 4-bedroom units in Nyali with average returns of 7.2% thus drawing investor demand due to their relatively low average absolute price of Kshs 45.7m in comparison to Nyali's average of Kshs 70.0m

III. Comparative Analysis

Performance Summary: Typology

Apartments in Mombasa attained returns of 7.2% with rental yield and price appreciation 5.1% and 2.1%, respectively

Typology	Average Price Per SQM	Average Rent Per SQM	Average Occupancy	Average Uptake	Average Annualized Uptake	Average Rental Yield	Average Price Appreciation 2018	Average Total Returns
Studio	57,416	355		16.7%	8.3%	6.2%	0.3%	6.5%
1 BR	77,111	431	76.8%	70.0%	15.3%	5.1%	1.3%	6.4%
2 BR	106,884	492	91.0%	87.8%	22.2%	4.9%	2.4%	7.3%
3 BR	117,072	553	76.7%	72.8%	23.7%	4.8%	2.3%	7.1%
4 BR	130,326	621	83.7%	88.2%	21.8%	5.5%	2.5%	8.0%
Average	97,762	490	82.0%	67.1%	18.3%	5.1%	2.1%	7.2%

- Overall, the residential market in Mombasa recorded average returns of 7.2%, with average rental yields of 5.1%, and capital appreciation of 2.1%
- 4-bedroom units recorded the highest returns of 8.0%, with rental yield and price appreciation of 5.5% and 2.5%, respectively. This is due to the fact that individuals, especially of Asian descent, in the area have big families hence prefer large spaces thus driving occupancy and uptake
- 2-bedroom recorded second highest returns of 7.3% an a high occupancy of 91.0% attributable to the fact that investors prefer them for Airbnb accommodation or short stay, evidenced by the relatively high occupancy rates of 91.0%, on average in comparison to the market average of 82.0%

Performance Summary: Class

Upper Mid-End units in the area performed best with average returns of 7.9% followed by lower mid-end sector with 6.7%

Segment	Average Price Per SQM	Average Rent Per SQM	Average Occupancy	Average Annualized Uptake	Average Rental Yield	Average Price Appreciation	Average Total Returns
Upper Mid-End	114,714	621	82.6%	19.6%	5.6%	2.3%	7.9%
Lower Mid-End	72,184	355	89.2%	19.7%	5.2%	1.5%	6.7%
High-End	174,102	637	62.2%	15.3%	2.7%	1.4%	4.1%

- The upper mid-end segment recorded the highest average total returns to investors of 7.9%. The performance is largely boosted by demand from the constantly growing middle class in the region particularly from the Asian families, evidenced by the relatively occupancy rates of 82.6%, in comparison to the high-end market average of 62.2%
- High-end units on the other hand, recorded the lowest performance with 4.1% returns on average, and a relatively low annual uptake of 15.3%, owing to their high price per SQM of Kshs 174,102 as compared to the market average of Kshs 120,333 with the relatively low occupancy rates of 62.2% on average in comparison to the low and upper mid-end markets with 89.2% and 81.1%, respectively, affecting the rental yields realized by investors

V. Commercial Real Estate

A.Offices

Office Sector Overview

The office sector in Mombasa recorded a relatively low performance with average occupancy rates of 65.8% and average rental yields of 5.1%

- The office sector in Mombasa recorded a relatively low performance with average occupancy rates of 65.8% and average rental yields of 5.1% indicating subdued performance of the sector. This is attributable to the region's association with terrorist activities which is a barrier to investment. Insufficient infrastructure has also made it hard to conduct business in the region thus preventing the maturity of the office sector
- As a result, developers have had to reduce asking rents in order to compete for clientele. Additionally, in order to cure for potential vacancies, developers are continually investing in mixed use developments, mainly residential with an office complex in order to ensure they recoup their investment
- However, the sector has a potential for growth in the future, due to the ongoing developments in the region such as infrastructural improvements, devolved government's emphasis on investment in sectors such as manufacturing and the maritime business, and the national economic growth which has a spill over effect as companies expand to the nation's leading cities such as Mombasa. This is bound to improve demand for office space
- Our outlook for the sector is however negative, and thus an investor would have to conduct thorough demand analysis before investing in the sector

Offices Performance Summary

Asking rental rates for office sector plummeted by an annualized rate of 12.6% between 2016 and 2018

Factor	2018	2016	Annualized Change
Average Price per SQFT (Kshs)	12,833.3	12,833.3	0.0%
Average Rent Per SQFT (Kshs)	75.7	99.0	(12.6%)
Average Occupancy Rate	65.8%	64.0%	0.9%
Average Uptakes	20.0%	18.0%	1.0%
Average Rental Yields	5.1%	5.9%	(0.4%)

- Average selling price for office space remained flat with to a slow marginal increase rate in office space uptake by 2.0% in the last 2 years
- Asking rental rates however declined deeply by an annualized rate of 12.6% to an average of Kshs 75.7 in 2018, from Kshs 99.0 in 2016. This is as developers various office buildings as developers sought to raise occupancy rates within the poorly performing market and also a rise of Grade C developments that are charging lower rents of Kshs 61.3 per SQFT, on average

Offices Performance Summary

Mixed-use developments recorded the highest returns with average rental yields of 7.4%

Class	Average Current Price Per SQFT (Kshs)	Average Asking Rent Per SQFT (Kshs)	Service Charge (Kshs)	Average Occupancy Rate	Average Rental Yield 2018
Grade B	15,000	79	20	71.7%	6.3%
Grade C		61	19	59.1%	3.2%
MUD	11,750	108	14	64.4%	7.4%
Average	12,833.3	75.7	18.0	65.8%	5.1%

- The office sector in Mombasa recorded a relatively subdued performance with average rental yields of 5.1% in 2018, a 0.5% points decline from 5.6% recorded in 2016
- This is attributable to a decline in rental rates which came in at Kshs 75.7 per SQFT in 2018, a compounded annual drop of 12.6% from the Kshs 99.0 per SQFT recorded in 2016.
- Mixed use developments recorded better returns with average rental yields of 7.4% compared to the market average of 5.1%, attributable to their relatively high rental rates with an average of Kshs 108 per SQFT compared to the market average of Kshs 75.7 per SQFT, as they are mostly located in exclusive high-end or upper mid-end residential areas thus target high-end clientele
- Grade C offices recorded the lowest returns with average rental yields of 3.2% attributable to a low demand for such due to their tendency to lack sufficient amenities, especially parking spaces as majority of them are located within the CBD thus limiting land for parking and quality space
- Grade B offices are mostly in good locations, along major routes such as Links road, and are few in supply hence record relatively high in occupancy rates with an average of 71.7%, 5.9% points higher than the market average of 65.8%

B. Retail Sector

Retail sector in Mombasa

The retail sector recorded average occupancy rates of 96.3%; an 14.3% increase from 82.0% in 2016

- The retail sector in Mombasa recorded an improvement in performance average occupancy rates increasing by 7.2% on average annually, from 2016 to 2018. This growth has been spurred by a positive demographic dividend mainly a growing middle class, a rebound in the tourism sector, and local retailers that are keen on expanding their national footprint such as Tuskys, and Naivas, pushing demand and thus asking rents up
- In terms of returns, albeit the sector recorded relatively low rental yields, of 8.3%, in comparison to Nairobi's and Kisumu's 9.7% and 9.9%, the sector recorded relatively high occupancy rates at 96.3%, on average. This is due to Mombasa's low rents which averaged at Kshs 103.7 per SQFT, compared to Kisumu with Kshs 148 and Nairobi with Kshs 190
- International retailers are, however, increasingly showing interest for the region with notable retailers that are planning on expanding to the region including LC Waikiki, Dominos Pizza, Coldstone, and Shoprite
- In terms of mall space, Mombasa has the second highest mall space in Kenya with 1.4mn SQFT, after Nairobi, which has 6.5mn SQFT. New malls in the region include Mwembe Mall with Airport Mall in the pipeline set to be operational within the year

Retail Performance Summary

Neighbourhood malls recorded better average occupancy rates of 97.9%

Factor	2018	2016	Annualized Change
Average Rent Per SQFT (Kshs)	103.7	116.0	(5.5%)
Average Occupancy Rate	96.3%	82.0%	7.2% points
Average Rental Yields	8.3%	8.9%	(0.3%)

Source: Cytonn Research

- In comparison with 2016, the average asking rents for the retail sector declined by 5.5% annually, as investors sought to attract clientele especially with the exit of various banks from the malls, and Nakumatt which was an anchor tenant in key malls such as City Mall, Nyali Plaza and Likoni Complex
- Occupancy rates increased by a cumulative of 14.3% between the two years from 82.0% as at 2016 to 96.3% in 2018, driven by affordable rental rates, as well as the continued expansion of local retailers such as Naivas

Source: Cytonn Research

Retail Performance Summary

The retail sector recorded average occupancy rates of 96.3%

Class	Average Rent Per SQFT (Kshs)	Service Charge (Kshs)	Occupancy Rate	Rental Yield 2018
Community	143.3	16.0	87.5%	9.4%
Neighborhood	93.8	21.0	97.9%	7.5%
Average	103.7	18.5	96.3%	8.3%

- Average rental yields for the retail sector in Mombasa came in at 8.3%, a compounded annual drop of 0.3% points from 2016 which recorded average rental yield of 8.9%
- This is as a result of a decline in rental rates to an average of Kshs 103.7 as of 2018, from an average of Kshs 116.0 in 2016, especially as Nakumatt exited malls such as City Mall and Nyali Plaza, and also the downsizing of financial banks, which led to rise in vacancy rates
- Neighborhood malls recorded high occupancy rates of 97.9% on average, compared to the market average of 96.3%. This is attributable to their affordability with the average rents per SQFT for neighborhood malls coming at Kshs 93.8, compared to community malls' Kshs 143.3 per SQFT while the amenities are similar
- Community malls, however, recorded higher returns with average rental yields of 9.4%, 1.1% points higher than the market average of 8.3%, owing to their high rental rates

VI. Land

Land in Mombasa

The average price per acre in for development land in Nyali, Kizingo, Bamburi, Shanzu, and Port Reitz is Kshs 115.4 mn

- The county experiences shortage of development land owing to the fact that it is the smallest county in Kenya with only 229.9SQKM, amidst a rapid population growth, creating pressure and thus, demand for land
- The average price per acre in Mombasa is Kshs 115.4 mn, a 2-year CAGR of 12.6% from Kshs 109.4 mn per acre in 2016. Fast developing areas such as Kizingo and Nyali, recorded the highest price per acre at Kshs 244.6 mn and Kshs 134.0 mn, respectively. Areas close to the Likoni Harbor also exhibit high demand for land hence the high prices in Kizingo. In areas such as Port Reitz, land prices have appreciated by an average of 16.5% to an average price per acre of Kshs 146.4 mn from an average of Kshs 100.0 mn in 2016, attributable to the ongoing expansion of road networks in the area such as the dualling of the Port Reitz Road
- Ongoing infrastructural improvements such as the Mombasa West Integrated Urban Roads Network Project, the planned Mombasa Gate Bridge, and the recently launched SGR, have also contributed in boosting land prices as they open up areas for investment. Additionally, the ability to densify in areas such as Kizingo, Tudor and Nyali has led to high land prices as developers are able to maximize their investment
- Additionally, the demand for housing has led to high land prices as developers are able to maximize their investment by densifying the developments

Land Prices in Mombasa

Kizingo, Nyali have the highest asking land prices with Kshs 244.6 mn, and Kshs 134.0 mn, respectively

Location	Size	Size (SQM)	Price (Kshs)	Price Per SQM	2018 Price per Acre (Kshs)
Shanzu	0.3	1000	14.0mn	14,000	56.0mn
	0.3	1000	16.0mn	16,000	64.0mn
	15.0	60000	1125.0mn	18,750	75.0mn
	1.0	4000	50.0mn	12,500	50.0mn
Average				13,583	61.3mn
Bamburi	0.1	526	4.3mn	8,175	32.7mn
	0.1	500	5.0mn	10,000	40.0mn
	1.0	4,000	65.0mn	16,250	65.0mn
Average				11,475	45.9mn
Nyali	3.0	12,000	300.0mn	25,000	100.0mn
	1.0	4,000	150.0mn	37,500	150.0mn
	0.3	1,000	34.0mn	34,000	136.0mn
	2.0	8,000	300.0mn	37,500	150.0mn
Average				33,500	134.0mn
Kizingo	2.5	10,000	900.0mn	90,000	
	0.8	3,200	220.0mn	68,750	275.0mn
	0.7	2800	150.0mn	53,571	214.3mn
Average				70,774	244.6mn
Port Reitz	1	4,000	80.0mn	20,000	80.0mn
	6.5	26,000	1300.0mn	50,000	200.0mn
	2.2	8,800	350.0mn	39,773	159.1mn
Average				36,591	146.4mn
Mombasa Average				31,012	115.4mn

VII. Conclusion

Real Estate Performance Summary

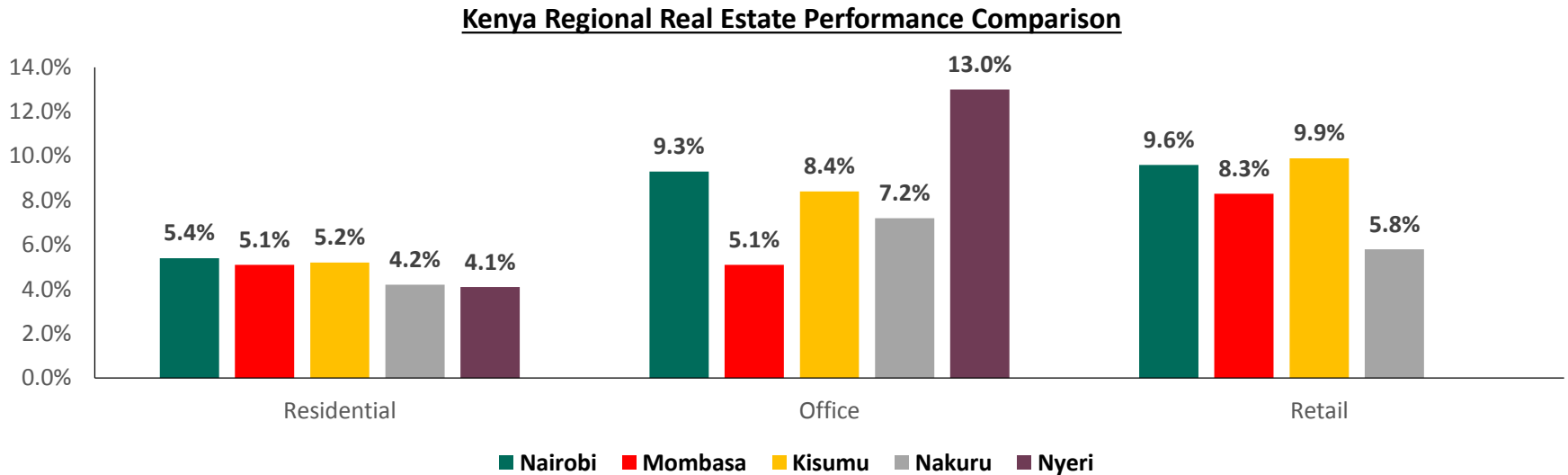
The average rental yields for Mombasa market is 6.2% and average capital appreciation of 7.2%

Sector	Average Occupancy Rates 2018	Average Rental Yields 2018	Average Capital Appreciation
Residential	82.0%	5.3%	1.8%
Office	65.8%	5.1%	
Retail	96.3%	8.3%	
Land			12.6%
Average	81.4%	6.2%	7.2%

- The real estate sector in Mombasa registered average rental yields and capital appreciation of 6.2% and 7.2%, respectively
- The retail sector recorded the highest rental yields of 8.3%, in comparison to other themes such residential and office which attained average rental yields of 5.3% and 5.1%, respectively.
- The retail sector also has the highest average occupancy rates of 96.3%, on average, thus sustaining the rental yields,
- On the other hand, capital appreciation for development land across areas like Nyali, Shanzu, Kizingo, and Port Reitz came in at a 2-year CAGR of 12.6%

Kenya Regional Performance Summary

Mombasa recorded average rental yields of 5.1%, 5.1%, and 8.3%, for residential, office and retail sectors, respectively



- In the residential sector, Mombasa recorded average rental yields of 5.1%, higher than Nakuru's 4.2% and Nyeri's 4.1%; and lower than Nairobi and Kisumu which recorded 5.2%, and 5.4%, respectively
- In the office sector, Mombasa recorded the least yields of 5.1%, compared to Nakuru, Kisumu, Nyeri and Nairobi with 7.2%, 8.4%, 13.0% and 9.3%, respectively
- In the retail sector, the sector recorded average rental yields of 8.3%; higher than Nakuru's 5.8%, albeit lower than Nairobi's 9.6%, and Kisumu with 9.9%

Source: Cytonn Research

Summary and Recommendation

Out of the four themes, two have a neutral outlook, i.e. residential and retail sectors, while Office sector has a negative outlook with the land sector having a positive outlook, and thus our outlook for the region is neutral

Theme	Performance (2016)	Performance (2018)	Investment Opportunity	Outlook
Residential	Average rental yields came in at 6.3%, with average capital appreciation 1.6%, thus average total returns of 7.9%	Apartments in Mombasa attained returns of 7.2%, with average rental yields and price appreciation of 5.1% and 2.1%, respectively	The highest returns to investors are in the upper mid-end segment for 3& 4-bedroom apartments especially within upcoming areas such as Kizingo and Tudor. However, investors should carry out thorough research to determine demand as some areas could be saturated	↔
Commercial Office	2016 recorded average occupancy rates of 64.0% with rental yields of 5.9%	The occupancy rates came in at 65.8% on average, with rental yields of 5.1%	The office sector is set to continue on a decline due to reluctance of investors to relocate to the region, and the local population's limited ability to occupy investment grade office developments	↓
Retail	The market recorded average occupancy rates of 82.0%, with average rental yields of 8.9%	The occupancy rates came in at 96.3% on average, with rental yields of 8.3%	Malls in Mombasa are more concentrated in one area, i.e. Nyali and its close environs. Thus, the opportunity is in select residential areas that are have no mall space	↔
Land	Average price per acre for development land was Kshs 109.4 mn	Average price per acre for development land is Kshs 115.4 mn; a 2-year CAGR of 12.6%, driven by the ongoing infrastructural developments	Site and service schemes in areas earmarked for infrastructural developments especially the Mombasa West Integrated Urban Roads Network Project	↑

Q&A