Nairobi Metropolitan 2020 Residential Report

"A Buyer's Market Amidst A Global Crisis"

Cytonn

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Table of Contents

I. Overview of Real Estate in Kenya

Overview of Real Estate in Kenya

Our outlook for the sector remains neutral, constrained by a weak macroeconomic environment due to the COVID-19 crisis

Factor	Characteristics	Sentiment
Macro-economic Contribution	• The real estate sector grew by 5.3%, 1.2% points higher than 4.1% in 2018. This served as an indicator of the sector's recovery despite a sluggish growth for the overall economy which grew by 5.4% down from 6.3% in 2018 • In 2020, we expect the sector's growth rate to come under pressure on account of the ongoing crisis which has disrupted the sector in terms of sales as well as construction activities due to measures imposed by the government to spread the pandemic's spread as well as the ensuing tough financial environment	**Neutral**
High Returns	• As of 2019, average five-year returns for the real estate sector stood at 13.1% higher than the five-year bond, 91-day T-bills, and NASI averaging at 12.5%, 8.5% and 2.0%, respectively • We expect the sector to continue outperforming traditional asset classes and to continue attracting investors due to its low correlation to other assets, profitability and relatively low volatility	**Positive**
New Players	• The sector continues to attract more of institutional and international players with an absolute development capability. The focus on the affordable housing initiative, is expected to continue attracting international players, and development financial institutions once global lockdowns are lifted • In search for better margins, we also expect to see more joint venture deals and public-private partnerships at a time when access to financing remains a key challenge	**Positive**
Market Outlook	• Our outlook for the sector remains neutral due to the subdued macroeconomic environment and thus, waning demand. Additionally, the sector also continues to be constrained limited access to financing for both developers and off takers. However, we do expect the market to pick once the economy recovers and effective demand resurfaces, and once the government , through the KMRC, improves the mortgage market • The real estate sector has pockets of value especially housing for lower-middle to low-income earners in the residential sector, serviced apartments, and Mixed-Use Developments (MUDs)	**Neutral**

Introduction to Real Estate in Kenya –Contribution to GDP

Real Estate and construction sectors contribution to GDP remained at 12.5% in 2019, the same as the previous year

	Sector	2010	2013	2016	2019
	**Agriculture**	24.8 %	26.4 %	31.1 %	34.1 %
	**Manufacturing**	11.3 %	10.5 %	9.3 %	7.5 %
	**Wholesale & Retail Trade**	7.7 %	8.0 %	7.2 %	7.6 %
	**Hospitality & Tourism**	1.7 %	1.2 %	0.7 %	0.7 %
	**Real Estate & Construction**	12.8 %	12.4 %	12.7 %	12.5 %

Source: KNBS

2. Nairobi Metropolitan Residential Report

Executive Summary

Average annual returns improved marginally in FY’20 to 5.0% compared to 4.7% last year on account of a vibrant rental market

- To gauge residential performance in FY’20, we carried out research in 31 areas within the Nairobi Metropolitan Area (NMA). According to the research, average annual returns improved marginally in FY’20 to 5.0% compared to 4.7% last year on account of a vibrant rental market
- However, price appreciation remained subdued averaging at (0.1%) compared to 0.3% in FY’19 and we expect this to continue in light on the ongoing Coronavirus pandemic
- Rental yields in 2019/20 improved by 0.7% points, coming in at 5.0%, on average, from 4.3% in 2019/18, attributable to reduced supply in the face of a tough economic environment
- On housing demand, majority of the demand remains in the lower mid-end and low income segments which account for 63.1% of the salaried Kenyans according to KNBS data. However, actual demand is expected to remain weak due to economic uncertainties with disposable incomes coming under pressure. In terms of supply, 2020 is expected to see reduced construction activities owing to the ongoing COVID-19 impact on the global economy and the subsequent effect on real estate fundamentals such as supply chain disruptions, reduced revenue collections coupled by insufficient access to credit. However, we have seen various developers seek alternative measures such as real estate investment trusts and bonds to meet their funding requirements. We expect to continue seeing this trend going forward
- On the best areas to invest, Runda Mumwe and Ruiru present the best opportunity for detached units development driven by relatively high returns of 5.5% and 5.8%, respectively, in comparison to the detached market average of 4.6%, and relatively higher uptake of 24.1% and 20.6%, respectively
- Westlands and Ruaka are the best opportunity for apartments also driven by uptake, 23.9% and 22.6%, respectively, coupled by solid fundamentals such as good infrastructure and presence of amenities, thus appealing to homebuyers
- We expect developers to scale back on supply in the high-end and upper mid-end sectors given the existing supply against waning demand with developers shifting focus to differentiated and modern-day concepts such as mixed-use developments, especially in the upper mid-end markets, as well as niche markets in the lower mid-end and low-end segments, which have the highest uptake, thus potential for better returns.

Residential performance improved in FY'20 posting average total returns of 5.0% from 4.7% in FY'19

Value Area	Summary	Effect
Demand & Supply	• According to KNBS, the number of Kenyans earning Kshs 50,000 and below decreased in 2019 to 63.1% from 74.5%, indicating the growth of the middle class. We expect the demand for housing to therefore continue rising in the middle and lower income segments • Supply is expected to remain suppressed in 2020 considering the ongoing pandemic	• The government's affordable housing initiative is expected to take a back seat as public funds are channelled towards COVID-19 containment • With household disposable incomes coming under pressure, demand for affordable housing is expected to soar • We expect private drivers to tap into this niche
Returns	• Prices appreciation remained subdued averaging at (0.1%) in FY'20 compared to 0.3% in FY'19 • However, rental yields improved significantly averaging 5.0% from 4.7% the previous year, indicating a rebounding in the sector	• We expect investors to focus on the rental yields as property prices are likely to increase once the economy regains momentum
Opportunity & Outlook	• Investment opportunity for detached units is in areas such as Ruiru and Runda Mumwe driven by presence of relatively high returns and uptake as well as availability for development class land • Investment opportunity for apartments is in areas such as Westlands and Ruaka driven by uptake, returns as well as good infrastructure	• We expect to see investors shifting focus to differentiated concepts such as mixed-Use developments which yield better returns • We also expect investment in areas offering the highest uptake, and affordable land for development particularly in satellite towns where infrastructural developments are ongoing

We expect the residential sector to remain resilient with activity picking up pace as the economy regains momentum in Q3'2020. The market will have pent up demand, and due to the dented incomes, developers are expected to focus on low-cost housing in the lower mid-end segment as well as modern-day concepts such as live-work-play controlled communities for the upper mid-end markets

A. Introduction

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Key Factors **Affecting** Residential Demand in 2020

In 2020, demand is expected to remain muted owing to slowdown in economic activities and decline in disposable incomes

Factor	Characteristics
Housing Deficit	• The need for affordable has continued to soar considering the current economic downturn which has seen increased unemployment and the subsequent drop in disposable incomes. Additionally, the government's Affordable Housing initiative continues to lag behind expectations despite the growing housing deficit in Kenya which is estimated at 2.0 mn units
Demographics	• According to the 2019 census data, Kenya currently has a population of 47.6 mn persons, growing at 2.2% p.a. which is 1.0% higher than the global average. Additionally, Kenya's urban population continues to grow rapidly accounting for 31.1% of the total population and estimated to grow by 4.3% p.a. according to the World Bank. This demographic trend is expected to continue supporting housing demand in urban areas, exacerbating the current housing deficit estimated at 2.0 mn units
Access to Credit	• The repeal of the interest cap regime in November 2019 was expected to enhance market liquidity and thereby stimulate sectors such as real estate which are capital intensive • Additionally, the Kenya Mortgage Refinancing Company is slated to begin refinancing mortgage portfolios in Q3'2020 and with this, we expect homebuyers to have access to affordable credit for home-buying
Purchasing Power	• According to the KNBS Economic Survey 2020, average earnings grew by 2.3% in 2019 compared to 3.2% in 2018, attributable to relatively high inflation rates • In 2020, individual earnings are expected to remain on a downward trajectory thus, suppressing household incomes due to the decline in economic activities and the subsequent decline in disposable incomes hence lower purchasing power among consumers

Key Factors **Affecting** Residential Supply in 2020

Supply chain disruptions, high development costs and high costs of financing to affect the pace of new residential supply

Factor	Characteristics
COVID-19 Impact	• The COVID-19 pandemic has seen real estate revenue collections drop significantly due to decline in economic activities and the subsequent decline in disposable incomes, thereby affecting developers' ability to continue with ongoing projects • Additionally, the global lockdown and partial national lockdowns in Kenya means developers are increasingly finding it difficult to access construction materials
Development Costs	• According to Centre for Affordable Housing Finance in Africa, Kenya remains as one the countries with the highest constructions costs in Africa at Kshs 51,064 per SQM on average, compared to countries like Nigeria and South Africa with Kshs 43,264 and Kshs 30,245, respectively • This is largely attributable to relatively high land costs, which as per the Cytonn Land Report 2020 grew by 1.8% in 2019 with Nairobi averaging at Kshs 206.3 mn per acre
Access to Credit	• With increase in non-performing loans and increased economic uncertainty, we expect developers to continue experiencing barriers to adequate financial access, which is expected to affect housing supply in 2020 • We, therefore, expect to see developers opting for alternative sources of finance such as Real Estate Investment Trusts, the bond market, and more partnerships with foreign investment institutions seeking to enter the market, and local pension funds seeking to diversify their investments with their growing portfolio of assets under management

Recent Developments

The government has continued to introduce a host of measures to provide a shot in the arm for the real estate sector

- The government has continued to introduce a host of measures to provide a shot in the arm for the real estate sector. In light of this, the following are the recent policy reforms in Kenya with an impact on the residential sector

Regulation

a) **Financial Act 2020:** (i) The Finance Act increases the amount of rental income that qualifies for Residential Rental Income (RRI) Tax to income between Kshs 288,000 and Kshs 15 mn per annum. Previously, this was applicable where the annual rental income is between Kshs 144,000 and Kshs 10 mn and (ii) The Act repealed section 22C of the Income Tax Act thereby abolishing the Registered Home Ownership Savings (HOSP) schemes in Kenya

b) **Tax (Amendment) Act 2020:** The Act saw the amendment of Section 38 of the Retirement Benefits Act (1997) to allow access of retirement benefits for purposes of purchase of a residential house. In the draft RBA regulations, the amount used shall be the lower of either 40% of the savings, Kshs 7.0 mn or the purchase price the house

c) **National Housing Fund Regulations:** Following the president's directive in November 2019 to make NHDF contributions voluntary rather than mandatory, the Cabinet Secretary for Housing this year drafted the new NHDF regulations which are aimed at guiding the institutions full operationalization

d) **Financial Act 2019:** The Act introduced a couple of reforms: (i) Inclusion of Fund Managers or Investment Banks registered under the Capital Markets Act as approved institutions which can hold deposits of a Home Ownership and Savings Plan (HOSP), (ii) Stamp duty exemption on the transfer of a house constructed under the affordable housing scheme from the developer to the National Housing Corporation, and, (iii) Exemption of goods supplied for the direct and exclusive use in the construction of houses under the affordable housing scheme (AHS) from Value Added Tax (VAT)

Recent Developments

The Kenya Affordable Housing Project continued to gain momentum albeit at a slow pace

Kenya Affordable Housing Project

The Affordable Housing continued to gain momentum in 2019/20. Key activities were:

Projects	Regulation
➢ United Kingdom Climate Investment (UKCI), a joint venture between the Green Investment Group, a UK-based specialist developer and investor of green infrastructure, and the United Kingdom Government's Department for Business, pledged to invest GBP 30.0 mn (Kshs 3.9 bn) towards affordable green housing in Kenya ➢ Phase I of the Park Road Affordable Housing Project was completed and handed over to the government for public allocation, paving way for phase II which was set to for completion in June 2020(this is still ongoing as of July 2020). The County Government of Nairobi also commenced works on the Pangani Regeneration Project ➢ H.E President Uhuru Kenyatta signed into law the Supplementary Appropriation Bill No. 2 of 2019, which allocated Kshs 7.0 bn towards the affordable housing agenda. This was a 66.7% increment from the Kshs 10.5 bn allocated in Kenya National Budget 2019/20, in support of the affordable housing initiative	➢ In a bid to ensure the full implementation of the National Housing Development Fund (NHDF), the President officially directed the National Treasury to revise the legal requirement for mandatory contributions of the National Housing Development Fund Levy and make it voluntary, with immediate effect ➢ The government's aim of improving the mortgage market also took shape as the Central Bank of Kenya finally gazetted the Mortgage Refinancing Companies regulations. However, KMRC is yet to begin operations as of July 2020

B. Residential Market Performance

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Market Performance Summary

We conducted research in 31 sub-markets and categorized them into High End, Upper Middle and Lower Middle segments

- We conducted market research in 31 sub-markets in Nairobi Metropolitan area to determine returns measured by rental yields and price appreciation
- In our submarket analysis, we classified the various suburbs in the Nairobi Metropolitan Area into three segments
    i. **High End Segment** – Consists of prime suburbs in Nairobi, such as Karen, Runda and Kitisuru. Most of these zones have been zones for low rise residential developments only and are characterized by palatial villas and bungalows on half acre parcels

    ii. **Upper Middle Income Segment** – Consists of suburbs such as Kilimani, Lavington, Kileleshwa, Loresho and Ridgeways among others. The population in these zones are middle class but with higher incomes than the average characterization of middle class. They are zones for both high rise and low density houses.

    iii. **Lower Middle Income Segment** – Consists of suburbs in Nairobi habited by middle class such as Donholm, Komarock, Kahawa West as well as Satellite Towns such as Ngong, Rongai and Juja

- We analysed detached units and apartments separately;

    i. **Detached units** refers to stand-alone houses such as townhouses, maisonettes and bungalows

    ii. **Apartments** refers to a self-contained housing units occupying part of a building, also called flats

Market Performance Summary

Average total returns improved marginally in FY'20 averaging at 5.0%, 0.3% higher than FY'19 with 4.7% on account of improved yields

Segment	Average Rental Yield FY'20	Average Y/Y Price Appreciation FY'20	Average Total Returns FY'20	Average Rental Yield FY'19	Average Y/Y Price Appreciation FY'19	Average Total Returns 2018/2019	Change in Rental Yield	Change in Y/Y Price Appreciation	Change in Total Returns
High End	4.2%	0.0%	4.2%	3.7%	0.1%	3.8%	0.5%	(0.1%)	0.4%
Upper Mid-End	4.6%	0.9%	5.6%	4.1%	0.1%	4.2%	0.5%	0.8%	1.4%
Lower Mid-End	4.6%	(0.5%)	4.1%	3.9%	0.4%	4.3%	0.7%	(0.9%)	(0.2%)
Detached Average	**4.5%**	**0.1%**	**4.6%**	**3.9%**	**0.2%**	**4.1%**	**0.6%**	**(0.1%)**	**0.5%**
Upper Mid-End	5.4%	(0.7%)	4.6%	5.0%	0.4%	5.3%	0.4%	(1.1%)	(0.7%)
Lower Mid-End	5.8%	0.1%	5.9%	4.8%	0.4%	5.3%	1.0%	(0.3%)	0.6%
Satellite Towns	5.4%	(0.1%)	5.3%	4.5%	0.6%	5.1%	0.9%	(0.7%)	0.2%
Apartments Average	**5.5%**	**(0.2%)**	**5.3%**	**4.8%**	**0.5%**	**5.2%**	**0.8%**	**(0.7%)**	**0.0%**
Residential Market Average	**5.0%**	**(0.1%)**	**5.0%**	**4.3%**	**0.3%**	**4.7%**	**0.7%**	**(0.4%)**	**0.3%**

- Average total returns improved marginally in FY'20 averaging at 5.0%, 0.3% higher than FY'19 with 4.7%. This was on account of improved yields an indicator of faster growth for the rental market amidst subdued rise in prices
- The upper mid-end market for detached units recorded the highest positive change in total returns at 1.4% indicating growth in demand in the segment
- Notable decline in asking prices was notable in the lower mid-end market for detached units and upper mid-end apartments market at (0.5%) and (0.7%), respectively indicating decline in effective demand
- Apartments, however, registered attractive rental yields averaging 5.5% owing to an increase in asking rents driven by a growing working population in the region as well as increased value-add in residential developments

I. Detached Units Performance

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Detached Units: High-End

Prices appreciation in the high-end market remained flat on average with select markets, namely Runda and Karen appreciating by 0.7% and 0.3%, respectively

Area	Average Price per SQM	Average Rent per SQM	Average Occupancy	Average Annual Uptake	Average Rental Yield	Average Y/Y Price Appreciation	Annual Total Returns
Runda	206,185	836	89.1%	17.6%	4.3%	0.7%	5.0%
Rosslyn	172,556	830	85.7%	14.0%	4.7%	(0.1%)	4.7%
Karen	192,070	756	83.7%	17.2%	4.1%	0.3%	4.4%
Kitisuru	213,247	751	85.4%	18.2%	4.4%	0.0%	4.4%
Lower Kabete	140,159	508	67.3%	15.6%	3.7%	(1.2%)	2.5%
Average	**184,843**	**736**	**82.3%**	**16.5%**	**4.2%**	**0.0%**	**4.2%**

- The high-end market recorded subdued performance with returns averaging 4.2% compared to the overall residential market average of 5.0%
- This is largely due to subdued price growth as Rosslyn and Lower Kabete recorded negative averages of (0.1%) and (1.2%), respectively, attributable to decline in asking prices as developers attempt to sell off old stock as well as competition from other high-end markets such as Kitisuru and Runda
- Runda and Karen posted a positive price growth y/y at 0.7% and 0.3%, respectively, attributable to the area’s general appeal to high-end clientele owing to relatively good infrastructure, and presence of amenities

Detached Units: Upper Mid-End

The upper mid-end market recorded a relatively impressive annual price appreciation at 0.9% compared to other detached markets, testament to the relatively high demand from the middle class

Area	Average Price per SQM	Average Rent per SQM	Average Occupancy	Average Annual Uptake	Average Rental Yield	Average Y/Y Price Appreciation	Total Returns
Ridgeways	143,915	682	90.0%	17.8%	5.5%	3.0%	8.5%
South C	120,061	556	94.9%	18.6%	5.2%	0.6%	5.8%
Langata	144,991	659	87.4%	17.8%	4.9%	0.9%	5.8%
Lavington	179,656	720	80.2%	18.8%	4.0%	1.6%	5.6%
Runda Mumwe	153,811	716	85.5%	24.1%	4.8%	0.7%	5.5%
Loresho	141,194	554	95.8%	14.6%	4.5%	(0.3%)	4.2%
Redhill	100,864	323	88.8%	12.6%	3.4%	0.1%	3.5%
Average	**140,642**	**601**	**88.9%**	**17.7%**	**4.6%**	**0.9%**	**5.6%**

- The upper mid-end market recorded a relatively impressive annual price appreciation at 0.9% compared to other detached markets, testament to the relatively high demand from the middle class
- Ridgeways and South C markets recorded the highest returns. This was largely due to relatively high rental yields while Ridgeways recorded the highest price appreciation at 3.0% supported by the low supply of standalone units in the area hence low developer competition, good infrastructure such as the Northern Bypass and proximity to the high-end areas of Runda and Muthaiga
- Asking prices in Loresho declined attributable to increased densification of the area in addition to competition from other middle class neighborhoods with more amenities such as Lavington and Runda Mumwe

Detached Units: Lower Mid-End

The lower mid-end sector recorded subdued performance as areas such as Ngong, Athi River and Syokimau recorded decline in asking prices

Area	Average Price per SQM	Average Rent per SQM	Average Occupancy	Average Annual Uptake	Average Rental Yield	Average Y/Y Price Appreciation	Total Returns
Ruiru	86,160	392	67.3%	20.6%	5.5%	0.3%	5.8%
Kitengela	67,720	318	88.3%	17.7%	5.2%	0.0%	5.2%
Thika	65,160	336	82.3%	13.4%	4.0%	0.0%	4.0%
Juja	52,156	248	90.1%	17.1%	3.8%	0.0%	3.8%
Syokimau	70,827	276	79.8%	16.7%	4.8%	(1.1%)	3.7%
Athi River	82,118	334	94.5%	18.2%	4.7%	(1.2%)	3.5%
Ngong	62,247	317	83.5%	14.4%	3.9%	(1.1%)	2.7%
Average	**69,484**	**317**	**83.7%**	**17.5%**	**4.6%**	**(0.5%)**	**4.1%**

- The lower mid-end market recorded subdued performance with price appreciation averaging (0.5%). This is due to decline in asking prices especially in areas such as Ngong, Athi River and Syokimau owing to increased supply amidst minimal uptake. The lack of insufficient infrastructure in areas such as Ngong also continues to hinder price growth
- Ruiru recorded a positive price growth at 0.3% as well as attractive rental yields averaging 5.5% in comparison to the lower mid-end market average of 4.6%. The performance was driven by (i) relatively good infrastructure – the area is served by the Northern bypass, Eastern bypass and the Thika Superhighway, and has ongoing projects such as the upgrading of the Ruiru-Githunguri Roads, in addition to proximity to key commercial nodes, thus boosting demand from homebuyers

II. Apartments Performance

Apartments: Upper Mid-End

Rental yields remained attractive in the upper mid-end segment averaging at 5.4% amidst subdued price appreciation

Area	Average Price per SQM	Average Rent per SQM	Average Occupancy	Average Annual Uptake	Average Rental Yield	Average Y/Y Price Appreciation	Total Returns
Westlands	129,667	688	89.6%	23.9%	5.2%	1.6%	6.8%
Parklands	114,031	611	95.7%	17.1%	5.8%	0.3%	6.1%
Loresho	113,336	550	90.8%	13.9%	5.2%	0.0%	5.2%
Kilimani	112,523	623	88.3%	20.0%	5.8%	(2.7%)	3.1%
Kileleshwa	110,909	578	75.3%	17.6%	5.0%	(3.0%)	2.0%
Average	**116,093**	**610**	**87.9%**	**18.5%**	**5.4%**	**(0.7%)**	**4.6%**

- The upper mid-end segment for apartments recorded a mixed performance with an average price appreciation of (0.7%) as markets like Kileleshwa and Kilimani continued to experience a price correction. This is attributable to increased supply in the markets thus leading to downward pressure on prices amidst heightened competition among developers
- Westlands and Parklands continued to perform well recording average price appreciation of 1.6% and 0.3%, respectively, attributable their appeal to foreigners and high-end homebuyers due to presence of amenities, good infrastructure, and vibrant commercial activities
- Notably, the upper mid-end markets recorded attractive rental yields averaging at 5.4% compared to the overall residential market at 5.0% driven by demand from expatriates and the growing upper middle income earners in Kenya. The segment's performance is also boosted by the concept of serviced and furnished apartments which continues to gain traction in the upper mid-end markets

Apartments: Lower Mid-End Suburbs

Apartments in lower mid-end suburbs recorded the highest total annual returns at 5.9% driven by demand from the growing middle class in Nairobi

Area	Average Price per SQM	Average Rent per SQM	Average Occupancy	Average Annual Uptake	Average Rental Yield	Average Y/Y Price Appreciation	Total Returns
Dagoretti	101,335	676	87.0%	21.9%	6.2%	3.1%	9.3%
South C	110,644	589	96.9%	22.7%	6.0%	0.1%	6.1%
Langata	98,863	515	94.5%	21.3%	5.6%	0.5%	6.1%
Donholm	70,718	403	89.6%	16.3%	5.3%	0.0%	5.3%
Upper Kabete	88,582	530	76.1%	23.2%	6.0%	(0.7%)	5.2%
Ngong Road	96,546	568	76.2%	23.3%	5.3%	(0.6%)	4.7%
Kahawa West	69,885	403	85.6%	13.3%	5.9%	(1.4%)	4.5%
Average	**90,939**	**526**	**86.6%**	**20.3%**	**5.8%**	**0.1%**	**5.9%**

- Apartments in lower mid-end suburbs recorded the highest total annual returns at 5.9% driven by demand from the growing middle class in Nairobi evidenced by the relatively high occupancy rates, which came in at 86.6% compared to the overall residential market average of 5.0%
- Dagoretti recorded the highest price appreciation at 3.1%. This was due to increase in asking prices especially in projects previously selling off-plan units. The area appeals to investors due to attractive rental yields, which averaged at 6.2% boosted by demand from working population in surrounding commercial nodes such as Kilimani, Upperhill and Westlands
- Kahawa West recorded the highest decline in asking prices as the areas continues to lose in appeal due to increased densification and lack of sufficient infrastructure

Apartments: Lower Mid-End Satellite Towns

Apartments in Satellite Towns recorded a slight decline in price appreciation which averaged at (0.1%) owing to decline in asking prices in areas such as kikuyu and Syokimau amidst reduced uptake

Area	Average Price per SQM	Average Rent per SQM	Average Occupancy	Average Annual Uptake	Average Rental Yield	Average Y/Y Price Appreciation	Total Returns
Thindigua	111,444	555	88.2%	22.0%	5.9%	2.0%	7.9%
Athi River	58,444	332	87.4%	16.6%	6.1%	0.0%	6.1%
Ruaka	101,279	520	89.5%	22.6%	5.5%	0.1%	5.6%
Kitengela	61,789	325	82.7%	19.4%	5.1%	0.0%	5.1%
Syokimau	68,827	377	84.6%	18.2%	5.7%	(0.8%)	5.0%
Ruiru	88,674	475	74.5%	19.7%	4.6%	0.0%	4.6%
Kikuyu	82,376	400	83.3%	18.2%	5.0%	(1.7%)	3.3%
Average	**81,833**	**426**	**84.3%**	**19.5%**	**5.4%**	**(0.1%)**	**5.3%**

- On average, apartments in Satellite Towns recorded a slight decline in price appreciation which came in at (0.1%) owing to decline in asking prices in areas such as kikuyu and Syokimau amidst reduced uptake
- Thindigua recorded the highest annual total returns at 7.9% supported by a relatively high price appreciation which came in at 2.0%. This is due to continued demand from Nairobi's working population driven by the area's proximity to the CBD, increased availability of amenities along Kiambu Road as well as infrastructural upgrades
- Ruaka recorded the highest average occupancy rate and annual uptake at 89.5% and 22.65, respectively. The area continues to be boosted by high demand from the working population in nodes such as CBD, Limuru Road and Westlands, driven by presence of amenities such as Two Rivers and the Village Market, security due to proximity to the UN Blue Zone as well as relatively good infrastructure
- Kikuyu recorded a price appreciation of (1.7%) due to price discounts from developers with competition increasing from other satellite towns such as Ruaka and Thindigua which are closer to the CBD

Market Performance Summary

Average occupancy rates increased to 85.6% in 2019/20 compared to 82.1% last year, an indicator of demand catching up with available supply

Segment	Typology	Average Price Per SQM	Average Rent Per SQM	Average Annual Uptake	Average Occupancy	Average Rental Yield 2020	Average Y/Y Price Appreciation 2020	Average Total Returns 2020
High-End	Detached	184,843	736	16.5%	82.3%	4.2%	0.0%	4.2%
Upper Mid-End	Detached	140,642	601	17.7%	88.9%	4.6%	0.9%	5.6%
Lower Mid-End	Detached	69,484	317	17.5%	83.7%	4.6%	(0.5%)	4.1%
Upper Mid-End	Apartments	116,093	610	18.5%	87.9%	5.4%	(0.7%)	4.6%
Lower Mid-End	Apartments	90,939	526	20.3%	86.6%	5.8%	0.1%	5.9%
Satellite Towns	Apartments	81,833	426	19.5%	84.3%	5.4%	(0.1%)	5.3%
Residential Market Average		**113,972**	**536**	**18.3%**	**85.6%**	**5.0%**	**(0.1%)**	**5.0%**

- The residential market recorded improved performance in 2019/20 with average total returns of 5.0% from 4.7% the previous financial year. However, price appreciation remained subdued averaging at (0.1%) amidst a tough economic environment and decline in disposable income
- Notably, occupancy rates increased to 85.6% compared to 82.1% last year, an indicator of demand catching up with available supply
- The sector offers pockets of value especially in areas with low supply and high demand. Thus investors ought to conduct market research to identify the niches in the market

C. Residential Market Investment Opportunity

Residential Market Opportunity

Metrics such as uptake, returns, infrastructure and distance from key business nodes have been used to determine the best areas to invest

- Whereas the overall market performance has declined, there exists an opportunity in some sub-markets. To identify the developer's investment opportunity in the sector and single out the specific suburbs that would be best to invest in, we used the following metrics;
  - i. **Annual Uptake-** This refers to how fast developments sell on average per annum, the higher/ faster the sales rate, the higher the points allotted
  - ii. **Average returns-** This is the sum of the rental yield and price appreciation for each suburb. The higher the return the more points allotted
  - iii. **Amenities** – areas with a regional mall in close proximity among other social amenities scored high with areas that lack a mall scoring low
  - iv. **Distance from Main Business Nodes-** This is to establish the commute distance for majority of the working population, where we assumed Nairobi Central Business District as the common node
  - v. **State of infrastructure -** Here we looked at bits of infrastructure that affect real estate heavily, that is, roads and sewer systems. For the purpose of the ranking, for detached properties, we used the status of the roads only, while the following factors were used to rank the state of the infrastructure for high rise areas;
    - a. **Good**-Access mainly through tarmac Roads and sewered
    - b. **Average**- Access mainly through tarmac roads but not sewered
    - c. **Poor-** Access mainly through earth roads and not sewered

Residential Market Opportunity

Areas have been allocated points from 1 to 3, with 3 being the highest points

- The following shows the points allocated for each metric
- Areas have been allotted points from 1 to 3, with 3 being the highest points. The higher the points, the better an area is for investment

Residential Market Opportunity			
Annual Uptake	**Below 17%**	**17.1% - 21%%**	**>21%**
Points	1	2	3
Average Returns	**<4%**	**4-5.5%**	**>5.6%**
Points	1	2	3
Availability of Amenities	**None**	**Proximity to or Upcoming mall**	**High (Neighborhood and/or Regional malls available)**
Points	1	2	3
Infrastructure	**Poor**	**Average**	**Good**
Points	1	2	3
Distance from Main Business Nodes	**>28 km**	**15km-28km**	**Within 14km radius of NRB CBD**
Points	1	2	3

Residential Market Opportunity: Supply

Runda Mumwe and Ruiru present the best opportunity for detached units development driven by returns and relatively higher uptake

Weight:	10.0%	10.0%	30.0%	35.0%	15.0%		
Location	**Amenities**	**Infrastructure**	**Annual Uptake**	**Average Returns**	**Availability of Develoment Land**	**Total Points**	**Rank**
Ruiru	2.0	3.0	3.0	3.0	3.0	2.9	1
Runda Mumwe	3.0	2.0	3.0	3.0	2.0	2.8	2
Runda	3.0	2.0	3.0	3.0	2.0	2.8	2
South C	2.0	1.0	3.0	3.0	1.0	2.4	4
Karen	3.0	3.0	2.0	2.0	3.0	2.4	5
Kitengela	1.0	1.0	2.0	3.0	3.0	2.3	6
Athi River	1.0	1.0	3.0	2.0	3.0	2.3	7
Kitisuru	1.0	2.0	3.0	2.0	2.0	2.2	8
Langata	2.0	2.0	3.0	2.0	1.0	2.2	9
Rosslyn	3.0	1.0	3.0	2.0	1.0	2.2	9
Syokimau/Mlolongo	2.0	2.0	2.0	1.0	3.0	1.8	11
Juja	2.0	1.0	2.0	1.0	3.0	1.7	12
Lavington	2.0	1.0	3.0	1.0	1.0	1.7	13
Loresho	1.0	2.0	1.0	2.0	2.0	1.6	14
Lower Kabete	1.0	2.0	2.0	1.0	1.0	1.4	15

- For detached units, we allotted the highest points to returns and uptake at 35% and 30%, respectively. For an investor to recoup their investment in detached units, the most important factor would be how fast they can sell
- The lowest weighting was allotted to amenities, availability of development land, and infrastructure
- Runda Mumwe and Ruiru continue to offer the best opportunity for detached units development driven by returns, relatively higher uptake and presence of good infrastructure

Residential Market Opportunity: Supply

Ruaka and Westlands therefore are the best opportunity for residential development driven by uptake, good infrastructure and market returns

Location	Distance from Main Business Node	Supply	Amenities (Malls & Recreation)	Infrastructure	Uptake	Returns	Availability of Development Class Land	Total Points	Rank
Weight:	5%	10%	10%	15%	25%	30%	5%		
Ruaka	2.0	2.0	3.0	3.0	3.0	3.0	2.0	2.8	1
Westlands	3.0	1.0	3.0	3.0	3.0	3.0	1.0	2.7	2
Thindigua	3.0	2.0	2.0	2.0	3.0	3.0	2.0	2.6	3
Langata	3.0	1.0	2.0	2.0	3.0	3.0	1.0	2.5	4
Ngong Road	2.0	1.0	2.0	3.0	3.0	2.0	1.0	2.3	5
South B/C	3.0	1.0	1.0	1.0	3.0	3.0	1.0	2.2	6
Parklands	3.0	1.0	2.0	2.0	2.0	3.0	1.0	2.2	6
Upper Kabete	2.0	2.0	2.0	2.0	3.0	2.0	1.0	2.2	6
Dagoretti	2.0	1.0	1.0	1.0	3.0	3.0	1.0	2.2	9
Ruiru	1.0	2.0	2.0	3.0	2.0	2.0	3.0	2.2	9
Kilimani	3.0	1.0	3.0	3.0	2.0	1.0	2.0	1.9	11
Syokimau	1.0	1.0	2.0	2.0	2.0	2.0	2.0	1.9	12
Kikuyu	2.0	2.0	1.0	3.0	2.0	1.0	3.0	1.8	13
Loresho	3.0	3.0	1.0	2.0	1.0	2.0	2.0	1.8	13
Kitengela	1.0	1.0	2.0	1.0	2.0	2.0	3.0	1.8	15

- For apartments we allotted the highest weighting to returns, uptake, and infrastructure at 30%, 25% and 15%, respectively. This is because for the investors and buyers, these are the most important factors to consider when investing
- We allotted the lowest weighting to distance from the CBD, and availability of development at 5%. This is because low land supply is not a limitation to apartments performance. Increase of plot ratios enables investors get value for higher priced land
- Ruaka and Westlands as they scored highest in terms of average returns, annual uptake and infrastructure, therefore are the best opportunity for residential development

D. Conclusion

Residential Report Conclusion

Of the key metrics we use to measure performance, one is positive and three are neutral, thus our outlook for the residential sector remains neutral

Measure	FY'20 Experience and Outlook Going Forward	2019 Outlook	2020 Outlook
Demand	• According to KNBS, the number of Kenyans earning Kshs 50,000 and below decreased in 2019 to 63.1% from 74.5%, affirming the growth of the middle class. However, despite the improvement, the majority of the housing deficit continues to be in the lower mid-end and low income segments. In light of the ongoing economic crisis, we expect the demand for housing to therefore continue rising in the middle and lower income segments as COVID-19 erodes the previous year's economic growth	Positive	Positive
Credit	• Despite an expected increase in overall credit to the private sector after the repeal of the interest rate capping and the subsequent reduction of the Central Bank Rate to 7.0% in response to the ongoing Coronavirus Pandemic, we expect the lending institutions to remain cautious on account of the current economic uncertainty and thus, household debt is expected to remain weak	Neutral	Neutral
Infrastructure	• With the infrastructure budget allocation dropping by 60.4% in the 2020/21 budget to Kshs 172.4 bn, from Kshs 435.1 bn in 2019/2020 as the government grapples with the economic effects of the COVID-19 pandemic, we expect the government to focus only on the essential infrastructure • However, Nairobi Metropolitan Area is expected to remain a key priority due to its status as a regional hub	Positive	Neutral
Performance	• Average annual returns improved marginally to 5.0% compared to 4.7% last year on account of a vibrant rental market. However, price appreciation remained subdued averaging at (0.1%) compared to 0.3% in FY'19, and this is expected to continue as investors and homebuyers adopt a wait and see attitude in light of the current economic uncertainty • The sector's performance is nonetheless expected to stabilize once the economy recovers and housing demand resurfaces	Neutral	Neutral

For the key metrics that have been used to determine the performance of the sector, one is positive, that is, demand, and three are neutral that is, infrastructure, access to credit and performance. Thus, our outlook for the sector is neutral. For apartments, the best opportunity is investment in areas such as Ruaka and Kilimani driven by returns, uptake as well as state of infrastructure and amenities; For detached units, the best opportunity is in areas such as Runda Mumwe and Ruiru, driven by uptake and the current performance in terms of returns to investors

Appendix

Ongoing Infrastructure Projects

Nairobi Metropolitan Area continues to account for majority of Kenya's infrastructure projects

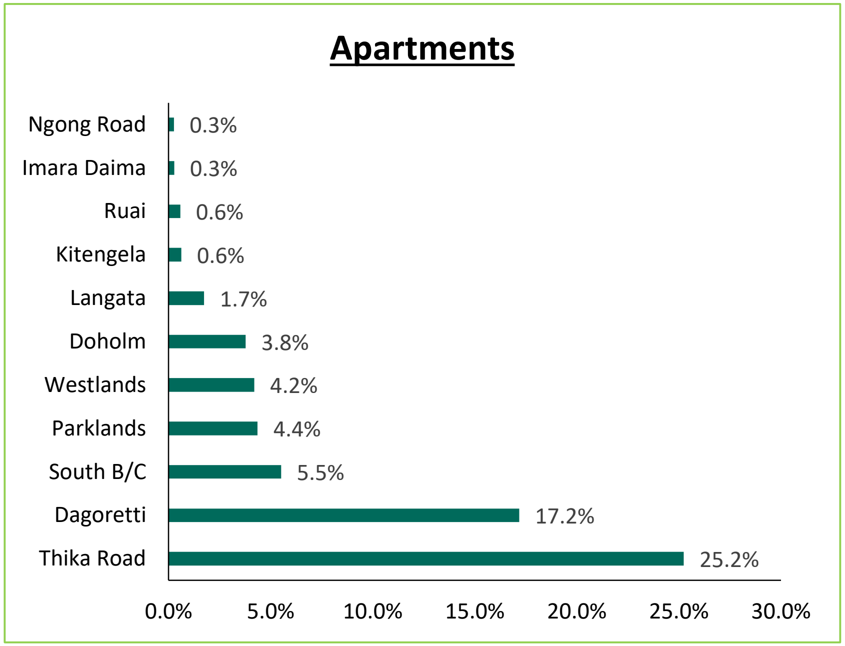
Infrastructure Initiative	Plan	Coverage	Timeline
Nairobi JKIA–James Gichuru Road Expressway	Development of a 4-lane dual cexpressway of Class A standard between Jomo Kenyatta International Airport (JKIA) and James Gichuru Road	18.6 km	Westlands, Lavington and surrounding areas
Nairobi – Nakuru- Mau Summit Highway	Widening of 175 km of the A8 highway between Rironi and Mau Summit to become a 4 Lane dual carriageway; (ii) Strengthening of 57.8 km of the A8-South highway between Rironi and Naivasha; and (iii) Operation and maintenance of 12.43 km of the A8 highway between Gitaru and Rironi.	175km	Kikuyu, Sigona, Rironi
Road Annuity Programme	Rehabilitation of the 71.5 km roads to augment the existing roads from Bomas to Magadi; Bomas to Ruiru via Dagoretti and other link roads	71.5 km	Karen, Rongai, Dagoretti, Ruiru
Road Annuity Programme	Construction and rehabilitation of a total 65.5 km comprising of Kamiti-Roysambu-Kasarani-Mwiki Roads, James Gichuru-Thika By-pass, Kajiado By-pass, Komarock road	65.5 km	Ruiru, Kahawa West, Upper Kabete, Komarock
Nairobi- Mombasa Dual Carriageway	upgrading, capacity expansion	485km	Syokimau, Athi River, and surrounding areas
Kiambu-Ruaka water supply and sewerage project	Construction of 60km of trunk and reticulation Kiambu network; Construction of 35Km trunk and reticulation sewers with Ruaka area; Construction of 20km water distribution network.		Ruaka, Thindigua, Kiambu areas

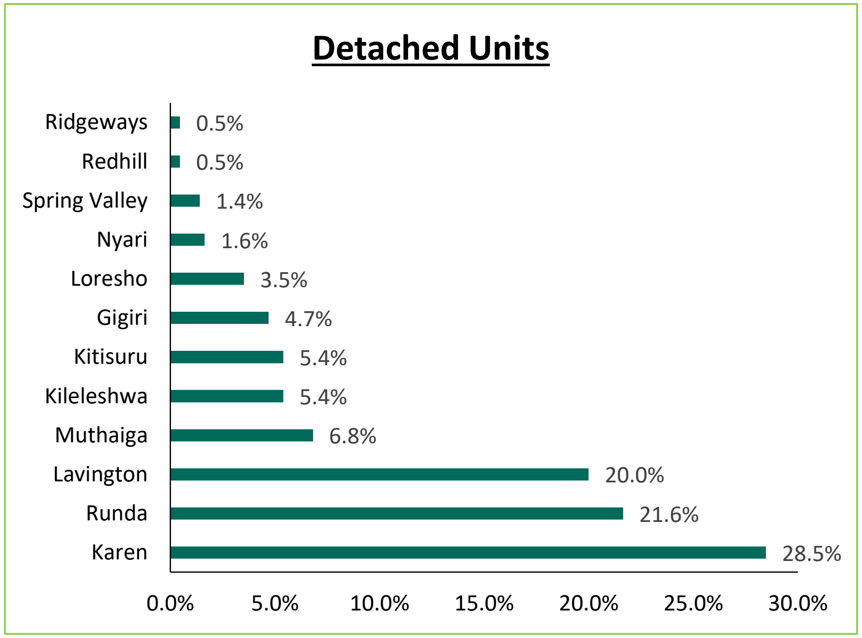
Source: PPP Unit, Athi River Water and Services Board

- Areas like Westlands, Ruiru, Kikuyu and Ruaka are set to receive some of the biggest infrastructural upgrades in the near term

Incoming Supply

Apartments and detached units accounted for 93.2% and 6.8% of the approvals, respectively, an indicator of the increased demand for high-rise units



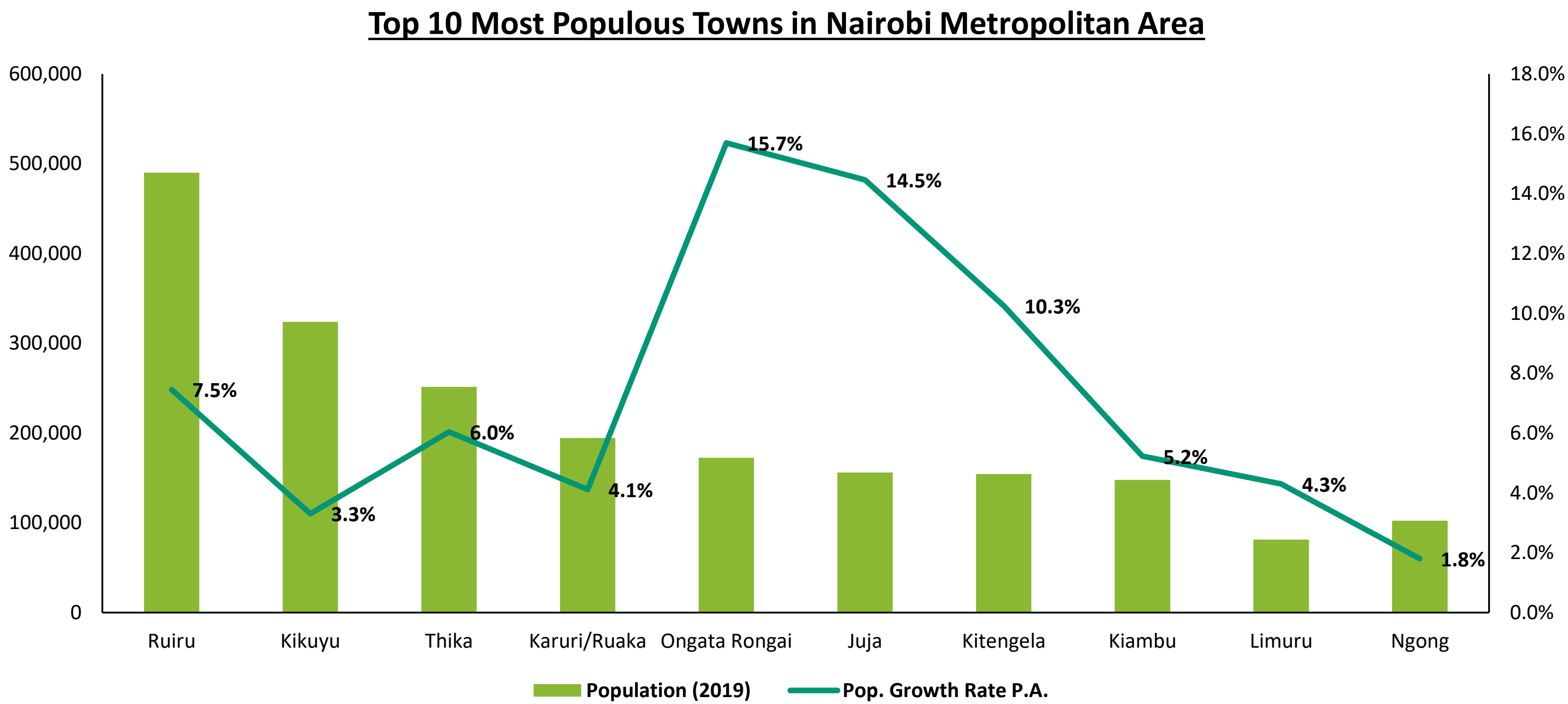


Source: NCC

- According to data from the Nairobi City Council, developers sought approval for a total of 6,344 units in 2019. Notably, apartments and detached units made up for 93.2% and 6.8% of the approvals, respectively, an indicator of the increased demand for high-rise units and the subsequent developer interest due to the relatively higher returns in high-rise projects
- Thika Road and Naivasha Road accounted for majority of the apartment approvals for apartments with 25.2% and 17.2%, respectively while Karen and Runda had the highest approvals for detached units at 28.5% and 21.6%, respectively

Fastest Growing Towns

Population growth in the ten most populated areas in Nairobi metropolis averaged at 7.3% per annum



Source: KNBS 2019 Census

- Ruiru and Kikuyu are the most populated areas in Nairobi metropolitan Area after Nairobi City
- Rongai and Juja recorded the highest 10-year CAGR at 15.7% and 14.5%, respectively

Thank You!

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