Nairobi Metropolitan Area Commercial Office Report – 2023
"Persisting Tenant's Market"

Cytonn

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I. Overview of Real Estate in Kenya

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Introduction to Real Estate in Kenya

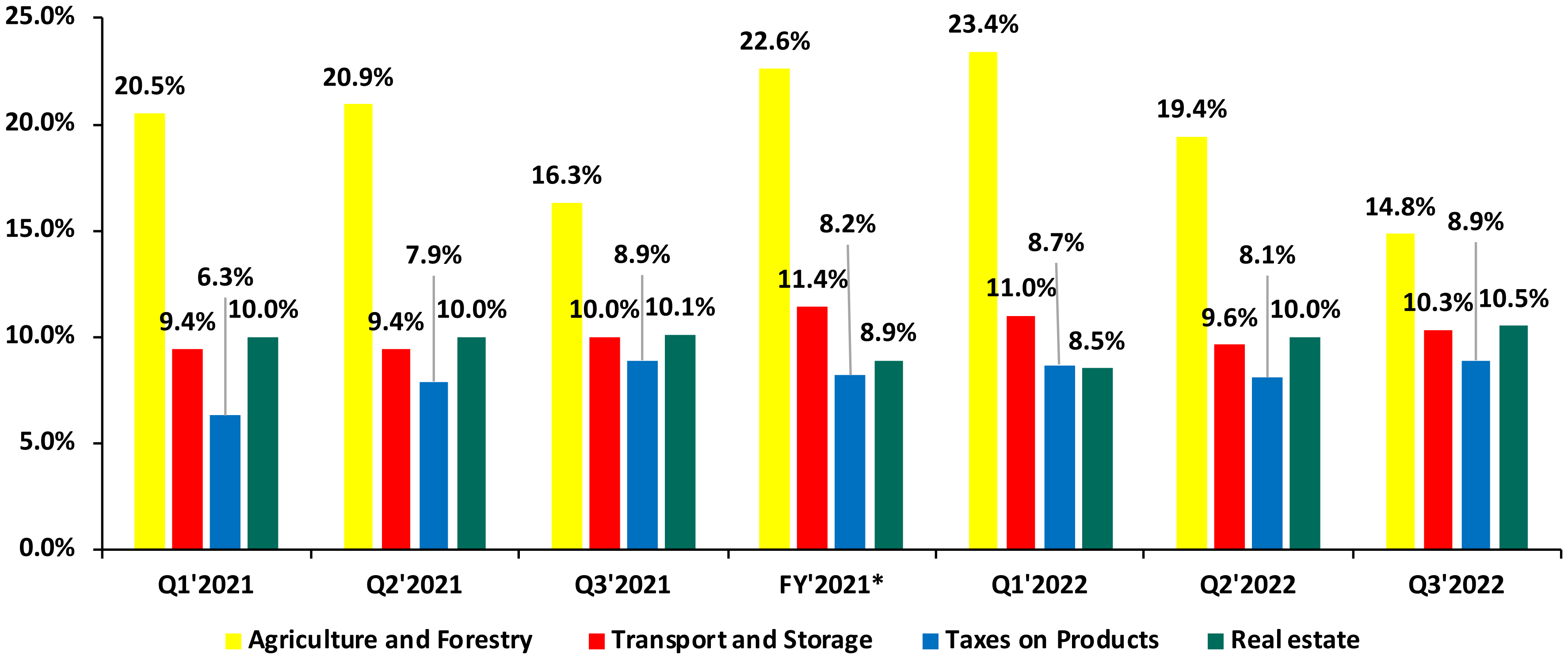
The Real Estate Sector in Q3'2022 grew by 5.1%, 0.2% points slower than the 7.1% growth recorded in Q3'2021 when the economy was recovering from the impacts of COVID-19 pandemic

Factor	Characteristics
Macro-economic Contribution	• In 2022, the general Real Estate sector witnessed considerable growth in activity in terms of property transactions and development activities. Property selling and rental prices also continued to soar, driven by continued inflationary pressures on the back of supply chain disruptions, and a weakened shilling against the United States dollar that saw a rise in costs of construction materials. Consequently, the Real Estate Sector in Q3'2022 grew by 5.1%, 0.2% points slower than the 7.1% growth recorded in Q3'2021 when the economy was recovering from the impacts of COVID-19 pandemic
Recent Developments	• The year 2022 saw considerable increase in office supply, with the addition of 6 new office developments that released up to 0.6 mn SQFT of space into the commercial office market. The developments included; The Piano (136,167 SQFT), Principal Place (119,000 SQFT) and The Rock (100,000 SQFT) in Westlands, Trade and development Bank (TDB) Tower (90,000 SQFT) in Kilimani, The Cube (77,876 SQFT) in Riverside, and Karen Green (67,700 SQFT) in Lang'ata
Real Estate Market outlook	• The overall outlook for the Real Estate sector is **NEUTRAL**, and its performance will be supported by; i) infrastructural development, ii) government and private sector focus on affordable housing, iii) focus on mortgage financing through the KMRC, iv) improved investor confidence amid recovery of the hospitality sector, v) aggressive expansion by both local and international retailers in a bid to maintain market dominance, and, vi) Kenya's positive demographics driving housing demand. • However, factors such as increased construction costs on the back of inflation, constrained financing to developers with increased underdeveloped capital markets, oversupply in select sectors and low investor appetite in Real Estate Investments Trusts (REITs) are expected to subdue the performance of the sector

Introduction to Real Estate in Kenya - GDP Contribution

The Real Estate and Construction sector contributed 10.5% to GDP in Q3’2022, coming only second to the Agriculture and Forestry sector that contributed 14.8%,

Cytonn Report: Real Estate & Construction Contribution to GDP in Comparison to Other Economic Sectors



- The Real Estate and Construction sector contributed 10.5% to GDP in Q3’2022, coming only second to the Agriculture and Forestry sector that contributed 14.8%, attributable to increased construction and expansion activities in the market

Source: KNBS

II. Nairobi Metropolitan Area Commercial Office Report

A. Introduction

Executive Summary

The Commercial Office sector realized an improvement with the average rental yield coming in at 7.6% from 7.3% recorded in FY'2021, due to improved occupancy and rental rates of 1.8% and 2.1% respectively

- We carried out research on 9 nodes within the Nairobi Metropolitan Area (NMA), with an aim of determining the performance and supply of office spaces The 9 nodes are; Gigiri, Kilimani, Upperhill, Nairobi CBD, Karen, Parklands, Westlands, Thika Road, and, Mombasa Road
- In FY'2022, the commercial office sector recorded an improvement in performance with the average rental yield coming in at 7.6% from 7.3% recorded in FY'2021, due to improved occupancy and rental rates of 1.8% and 2.1% respectively
- In terms of sub markets performance, Gigiri was the best performing node in FY'2022 realizing an average rental yield of 8.7%, 1.1% points above the market average of 7.6%. Westlands and Karen were the second-best performing nodes, both registering average rental yields of 8.3%
- Grade B office spaces realized the highest rental yields at 7.8%. This was attributable to their increased preference by tenants evidenced by a 3.4% increase in occupancy rates, which was mainly as a result of their relatively affordable rental rates compared to Grade A offices and better technical services in comparison to Grade C office spaces
- The NMA commercial office sector recorded an office space oversupply of 5.8 mn SQFT in 2022, a 13.4% decline from the 6.7 mn SQFT realized in 2021. This was attributed to increased demand of physical office spaces as most businesses reverted back to full office operations while other organisations continued to adopt the hybrid work policy from the work from home policy, driven by continued economic recovery and a peaceful post-electioneering period
- We have a **NEUTRAL** outlook for the commercial office sector theme in Nairobi Metropolitan Area (NMA) mainly due to the 5.8 mn SQFT oversupply of space with reduction in incoming new supply at 0.3 mn SQFT. However, with most firms and business fully embarking to working from the office amidst the improved economic environment in post COVID-19 and post-electioneering periods, we expect that this will cushion the performance of the sector
- Investment opportunity lies in Gigiri, Westlands and Karen supported by relatively lower supply of office spaces, and high returns of 8.7%, 8.3%, and 8.3%, respectively, compared to the market average of 7.6%, as at FY'2022. The remarkable performance was as a result of the presence of quality office spaces attracting high-end clients with ability to pay premium rental rates

NMA Commercial Office Report – Overview of the sector

The investment opportunity lies in Gigiri, Westlands and Karen supported by relatively lower supply of office spaces, and high returns of 8.7%, 8.3%, and 8.3%, respectively

Value Area	Summary	Effect on The Office Market
Oversupply	• The NMA commercial office sector recorded an office space oversupply of 5.8 mn SQFT in 2022, a 13.4% decline from the 6.7 mn SQFT realized in 2021 • This was attributed to increased demand of physical office spaces as most businesses reverted back to full office operations while other organisations continued to adopt the hybrid work policy from the work from home policy, driven by continued economic recovery and a peaceful post-electioneering period	• The average occupancy rates increased by 1.8% points to 79.4%, from 77.6% recorded in 2021 promoting the decline in the current oversupply
Returns	• In 2022, the commercial office market in the Nairobi Metropolitan Area (NMA) experienced notable growth in overall sector activities compared to 2021, driven by growth in demand for office space and further expansion activities by developers. In addition, the desire for convenience allowed the co-working office theme to gain more traction, more developments offering serviced offices	• The average rental yields came in at 7.6%, 0.3% points higher than the 7.3% recorded in 2021
Opportunity & Outlook	• We have a **NEUTRAL** outlook for the commercial office sector theme in the NMA mainly due to the 5.8 mn SQFT oversupply of space with reduction in incoming new supply at 0.3 mn SQFT. However, with most firms and business fully embarking to working from the office amidst the improved economic environment in post COVID-19 and post-electioneering periods, we expect that this will cushion the performance of the sector • Investment opportunity lies in Gigiri, Westlands and Karen supported by relatively lower supply of office spaces, and high returns of 8.7%, 8.3%, and 8.3%, respectively, compared to the market average of 7.6%, as at FY'2022	• We expect the occupancy rates to improve mainly attributed to resumption of working from office policies by most companies and reduced developments expected to enter the market in 2023 as compared to 2022. We these factors, we expect will potentially boost absorption rates by 10.0% to 1.1 mn SQFT in 2023

Key Factors Driving Office Market in Kenya

The year 2022 was characterized by increased business operations, which attracted more investors into the market, further driving demand for commercial office spaces

Factor	Characteristics
Continued business reopening	• 2022 was characterized by increased business operations following continued post COVID-19 recovery which drove demand for commercial office spaces. This resulted in a slight increase in overall occupancy rates for the sector and an improvement in rental yields, prompting the construction of new office buildings and the renovation of existing ones to meet the rising demand,
Serviced Offices/Co-working Spaces	• Serviced offices and co-working spaces are gaining popularity in Kenya due to their convenience and flexibility, making them attractive to both tenants and investors. These types of spaces offer an affordable and flexible option for entrepreneurs and small businesses that do not want to commit to long-term leases
Growing Demand for Grade A and Green Spaces	• Growing investor knowledge and the entry of multinational corporations (MNCs) into Kenya have led to a growing demand for high quality, Grade A office space and attention to sustainability in the office market. This is because many MNCs favour developments that provide well-furnished and equipped work environments, which integrate Environmental, Social, and Governance (ESG) features such as green technology
Nairobi's Recognized Position as a Regional Hub	• Nairobi remains an attractive investment location within the region for MNCs. For instance, in February 2023, Commonwealth Enterprise and Investment Council (CWEIC), an international business organization, opened its regional office in Nairobi, Kenya, to serve as East Africa's business hub. This indicates the potential for Nairobi's commercial office sector to attract investments compared to other cities in the region, thereby bolstering performance of the sector
Popularity of Green Offices	• Kenya has a relatively high urbanization at 3.7%, 2.1% points higher than the global average of 1.6% according to the World Bank as of 2021. This rapid urbanization is driving demand for office spaces as more people move into urban areas, seeking job opportunities and better living conditions. The trend is expected to continue as the government continues to implement policies that promote urbanization and investment in infrastructure

Challenges Affecting Office Sector

The supply of office space in Nairobi Metropolitan Area exceeds the current demand, resulting in an oversupply of 5.8 mn SQFT in 2022, which has led to prolonged vacancy rates

Challenge	Characteristics
Oversupply of Office Space	• The supply of office space in Nairobi Metropolitan Area exceeds the current demand, resulting in an oversupply of 5.8 mn SQFT in 2022. This oversupply has led to prolonged vacancy rates, prompting developers to halt construction plans for new developments until the excess office space in the market is absorbed
Remote/ Hybrid Working Model	• The adoption of remote or hybrid working models by some companies has negatively impacted the overall occupancy rates of office spaces and the returns for landlords. However, it is worth noting that a shift from full remote working to a hybrid model by some companies will improve the sector's office occupancy rates
Financial Constraints	• Developers face financial constraints due to difficulties accessing credit loans as banks have tightened their loan lending terms and request more collateral due to increasing default rates, evidenced by gross Non-Performing Loans (NPLs) in the Real Estate sector increasing by 9.2% to Kshs 75.6 bn in Q3'2022 from Kshs 69.2 bn recorded in Q3'2021. This is further aggravated by the rising costs of construction costs, averaging Kshs 5,210 in 2022, a 5.0% increase from Kshs 4,960 recorded in 2021, attributable to price increase of key construction materials such as cement, steel, paint, aluminium and PVC

Highlights in the Commercial Office Sector

The market saw the opening of new 6 office buildings that released up to 0.6 mn SQFT of space

Highlight	Details
New Developments	• The year 2022 saw considerable increase in office supply, with the addition of 6 new office developments that released up to 0.6 mn SQFT of space into the commercial office market. The developments included; i. The Piano (136,167 SQFT), Principal Place (119,000 SQFT) and The Rock (100,000 SQFT) in Westlands, Trade and development Bank (TDB) Tower (90,000 SQFT) in Kilimani, The Cube (77,876 SQFT) in Riverside, and Karen Green (67,700 SQFT) in Lang'ata, and, ii. Nairobi Garage (12,000 SQFT) in the CBD iii. Kofisi Square (50,000 SQFT) in Riverside • Additionally, some of the expansion activities witnessed in the sector include; i. CCI Group of companies took up approximately 60.0% of the 270,000 SQFT space at Garden City Business Park along Thika Road ii. Jubilee Holdings purchased Coca-Cola East Africa's former head office located in Upper Hill, Nairobi, at a cost of Kshs 1.1 bn

Source: Knight Frank, Cytonn Research

B. Commercial Office Supply in Nairobi

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Commercial Office Space Supply-Nairobi

The NMA commercial market supply increased by 0.6 mn SQFT in 2022

Cytonn Report: Nairobi Metropolitan Area Commercial Office Space Supply						
Major Commercial Office Completions in 2022				Major Incoming Commercial Office Space Supply in 2023		
#	Development	Location	Size (SQFT)	Development	Location	Size (SQFT)
1	The Piano	Westlands	136,167	CCI Global HQ	Tatu City	233,168
2	Principal Place	Westlands	119,000	Curzon	Lavington	60,000
3	The Rock	Westlands	100,000			
4	TDB Tower	Kilimani	90,000			
5	The Cube	Riverside	77,876			
6	Karen Green	Lang'ata	67,700			
Total			**590,743**			**293,168**

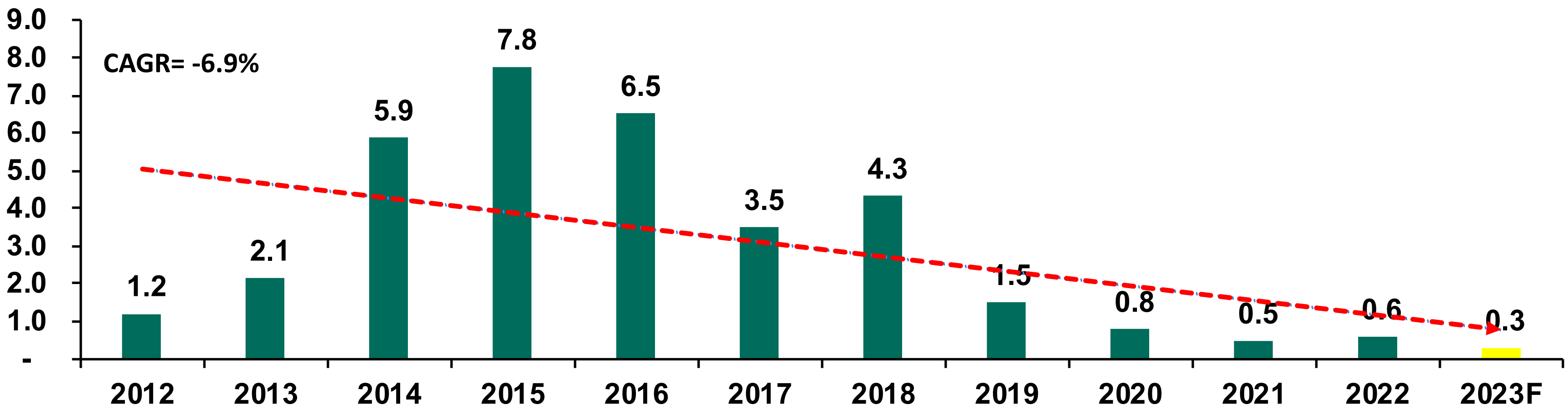
Source: Knight Frank, Cytonn Research

- The year 2022 saw considerable increase in office supply, with the addition of 6 new office developments that released up to 0.6 mn SQFT of space into the commercial office market
- This was attributed to increased demand of physical office spaces as most businesses reverted back to full office operations while other organisations continued to adopt the hybrid work policy from the work from home policy, driven by continued economic recovery and a peaceful post-electioneering period.

Commercial Office Space Supply - Nairobi Continued…

The office supply in the NMA realized a 10 year CAGR decline of 6.9% from 1.2 mn in 2012 to 0.3 mn in 2022

Cytonn Report: Commercial Office Space Supply Overtime (Mn SQFT)



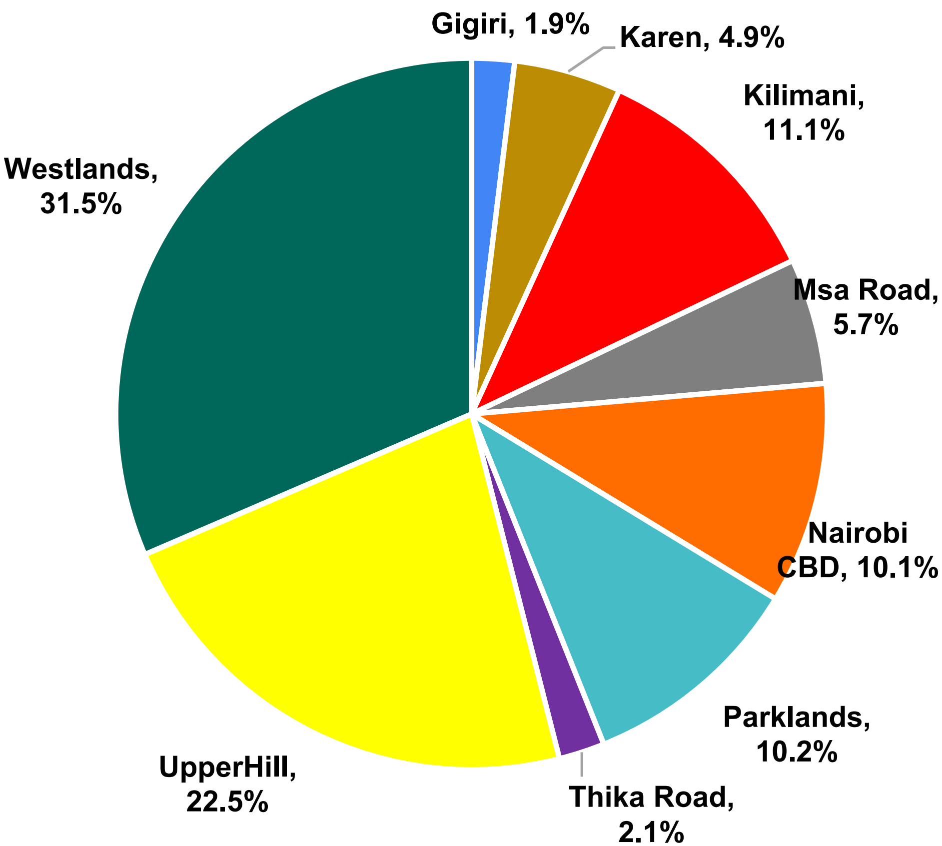
Source: Cytonn Research

- An average of 0.3 mn SQFT of space is in the pipeline slated to enter the market in 2023, which includes; Curzon in Lavington and CCI Global's Headquarters located in Tatu City
- During 2022, the growth in demand for office space prompted the new developments to be absorbed faster, even as 0.6 mn SQFT of office space was released into the market, 20.0% higher than the 0.5 mn SQFT supplied in 2021. This is anticipated to further cushion the sector as less office developments are expected to be completed in 2023 compared to 2022, further reducing the oversupply of office space in the market

Commercial Office Space Supply – Market Share

Westlands and Upperhill had the highest office supply with market shares of 31.5% & 22.5%, respectively

Cytonn Report: Office Market Share Supply 2022



Source: Cytonn Research 2022

- Westlands, Upperhill and Kilimani had the largest supply of Nairobi office space in 2022, with market shares of 31.5%, 22.5% and 11.1%, respectively
- On the side, Thika Road and Gigiri had the lowest supply with a market share of 2.1% and 1.9% respectively
- Westlands and Upperhill have grown as business nodes as firms move away from the CBD due to traffic congestion and in search of better quality space, hence the high supply
- Westlands and Kilimani recorded completions of new office buildings in 2022

C. Commercial Office Market Performance

Commercial Office Market Performance Summary

The commercial office sector realized a 0.3% improvement in its overall performance in 2022, with the average rental yields coming in at 7.6% compared to 7.3% recorded in 2021

(All Values in Kshs Unless Stated Otherwise)									
Cytonn Report: Commercial Office Performance Over Time									
Year	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**y/y Δ 2022**
Occupancy (%)	89.0%	88.0%	82.6%	83.8%	80.3%	77.7%	77.6%	**79.4%**	**1.8%**
Asking Rents (Kshs/SQFT)	97	97	101	101	96	93	94	**96**	**2.1%**
Average Prices (Kshs/SQFT)	12,776	12,031	12,649	12,407	12,638	12,280	12,106	**12,223**	**1.0%**
Node Average Rental Yields (%)	**8.1%**	**8.5%**	**7.9%**	**8.3%**	**7.5%**	**7.0%**	**7.3%**	**7.6%**	**0.3%**

Source: Cytonn Research

- The commercial office sector realized a 0.3% improvement in its overall performance in 2022, with the average rental yields coming in at 7.6%, compared to 7.3% recorded in 2021. Average asking rents per SQFT in the NMA increased by 2.1% to Kshs 96 from Kshs 94 per SQFT. Additionally, occupancy rates increased by 1.8% points to 79.4%, which is the highest recorded since the start of the COVID-19 pandemic in 2020, surpassing 77.6% achieved in 2021

- The improvement in sector performance can be attributed to several factors, including: i) slow but steady rise in demand for physical spaces as more firms resumed full operations, ii) increased supply of high-quality Grade A office spaces, such as Karen Green and Global Trade Centre (GTC) Office, which attract higher rents, iii) the adoption of expansion strategies by companies such as Call Centre International (CCI) Group boosting occupancy rates, and iv) a stabilizing and improved business environment following the resumption of economic activities after the COVID-19 period and the peaceful conclusion of the August 2022 general elections

i. Performance by Nodes

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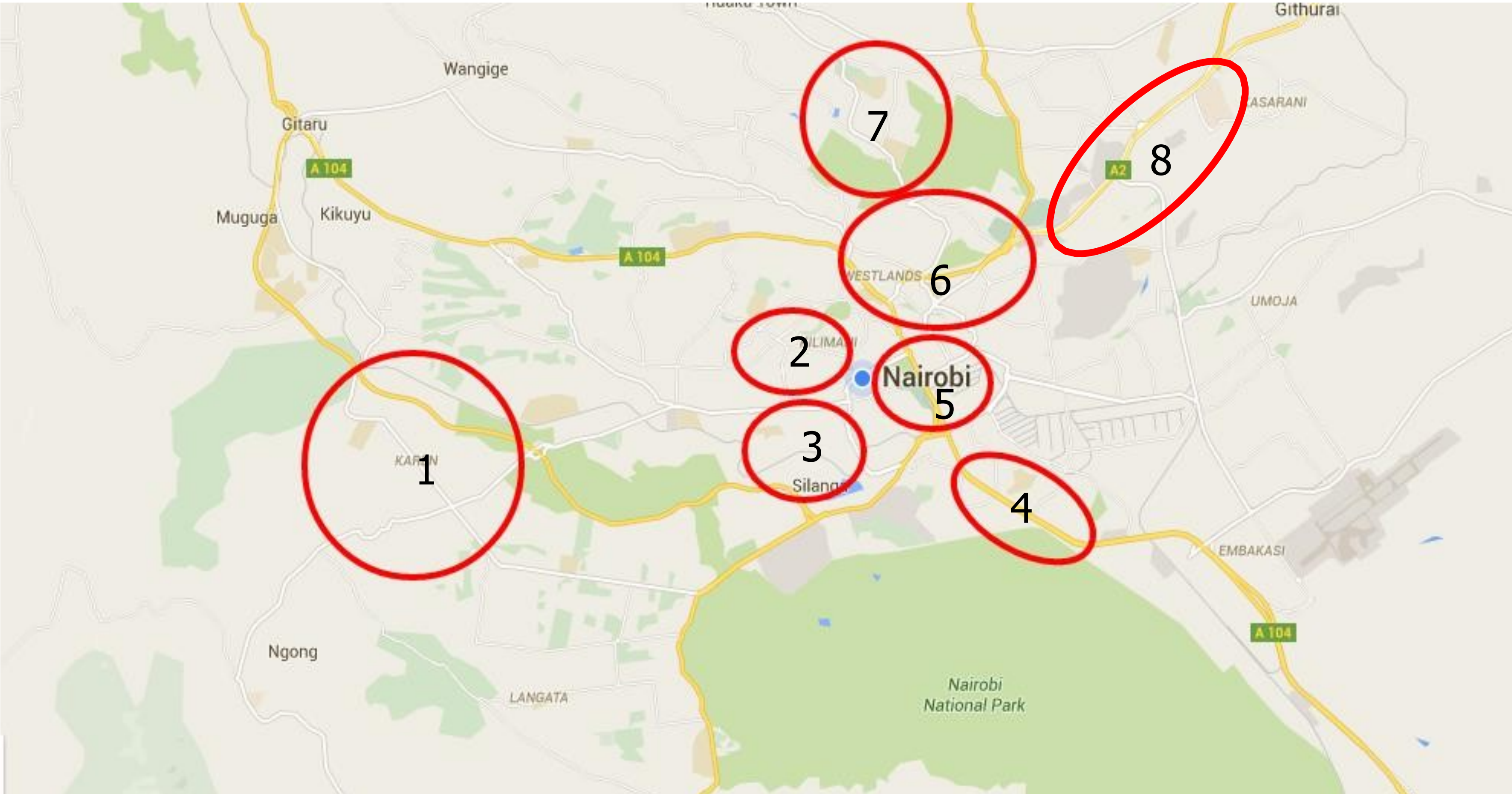
Major Commercial Office Nodes in the Nairobi Metropolitan Area

The key nodes of focus are in Karen, Kilimani, Upperhill, Westlands, Msa Rd, Nairobi CBD, Parklands, Thika Road and Gigiri



- ***Key: 1. Karen 2. Kilimani 3. Upper Hill 4. Mombasa Road 5. CBD 6. Westlands & Parklands 7. Gigiri 8. Thika Road***

Nairobi Office Sub-Market Performance

Gigiri was the best performing node in 2022 realizing an average rental yield of 8.7%, 1.1% points above the market average of 7.6%

(All values in Kshs unless stated otherwise)

Cytonn Report: Nairobi Metropolitan Area Commercial Office Market Performance FY'2022											
Area	Price/SQFT FY 2021	Rent/SQFT FY 2021	Occupancy FY 2021(%)	Rental Yields FY 2021(%)	Price Kshs/ SQFT FY 2022	Rent Kshs/ SQFT FY 2022	Occupancy FY 2022(%)	Rental Yield FY 2022(%)	Δ in Rent	Δ in Occupancy	Δ in Rental Yields
Gigiri	13,500	119	81.3%	8.6%	13,500	118	81.6%	8.7%	(0.8%)	0.3%	0.1%
Westlands	11,972	104	75.5%	8.1%	12,032	108	76.4%	8.3%	3.8%	0.9%	0.2%
Karen	13,325	106	83.0%	7.7%	13,431	111	82.9%	8.3%	4.7%	(0.1%)	0.6%
Kilimani	12,364	91	79.8%	7.1%	12,260	92	84.1%	7.7%	1.1%	4.3%	0.6%
Upperhill	11,336	91	80.1%	7.6%	11,662	91	81.5%	7.7%	0.0%	1.4%	0.1%
Parklands	11,787	82	82.8%	6.8%	11,971	83	85.2%	7.3%	1.2%	2.4%	0.5%
Nairobi CBD	12,409	94	78.0%	7.0%	12,586	96	76.5%	7.1%	2.1%	(1.5%)	0.1%
Thika Road	12,571	79	76.3%	5.7%	12,571	79	80.1%	6.0%	0.0%	3.8%	0.3%
Mombasa Road	11,250	73	64.2%	5.1%	11,325	71	66.9%	5.1%	(2.7%)	2.7%	0.0%
Average	**12,106**	**94**	**77.6%**	**7.3%**	**12,223**	**96**	**79.4%**	**7.6%**	**2.1%**	**1.8%**	**0.3%**

Source: Cytonn Research

- Gigiri was the best performing node in FY'2022 realizing an average rental yield of 8.7%, 1.1% points above the market average of 7.6%. Westlands and Karen were the second-best performing nodes, both registering average rental yields of 8.3%

Nairobi Office Sub-Market Performance, Continued…

Mombasa Road was the least performing node in FY’2022 with an average rental yield of 5.1%, 2.5% points lower than the market average of 7.6%

- The main factors contributing to the high demand for premium office spaces and attractive investment opportunities in these areas include: i) significant concentration of top-quality office buildings commanding premium rental rates and yields, ii) the availability of sufficient infrastructure and amenities that enhance the value of investments, and iii) the presence of multinational corporations, international organizations, and embassies in these locations driving up demand for quality office spaces, and,
- Conversely, Mombasa Road was the least performing node in FY’2022 with an average rental yield of 5.1%, 2.5% points lower than the market average of 7.6%.
- This we attributed to; i) the predominance of lower quality office buildings that command lower average rental rates at Kshs 73 per SQFT, ii) its reputation as an industrial zone, making it less appealing to office-based businesses, and, iii) stiff competition from other sub-markets.

Nairobi Office Market Performance, Continued…

Westlands and Karen were the second best performing nodes in 2022 after Gigiri, both registering average rental yields of 8.3%

Gigiri

- Gigiri was the best performing node in 2022 with an average rental yield at 8.7%, 1.1% points higher than the market average 7.6%. The performance also represented a 0.1% points increase from the 8.6% recorded in 2021. The improvement in performance was mainly attributed to the availability of high quality grade offices commanding higher rental prices, presence of Multinational Corporations (MNCs) and organizations creating demand for higher quality office spaces, and availability of good infrastructure and amenities in the area such as the Limuru Road enhancing accessibility

Westlands & Karen

- Westlands and Karen both recorded average rental yields of 8.3% in 2022, a 0.2% and 0.6% points increase for Westlands and Karen, respectively, from the 8.1% and 7.7% recorded in 2021
- Occupancy rates in Westlands realized a 0.9% points increase in 2022 to 76.4% from 75.5% in 2021. Occupancy rates in Karen however, reduced slightly by 0.1% to 82.9% in 2022 from 83.0% realized in 2021. This can be attributed to a reduction in rent by property managers, a move meant to attract and retain new and existing tenants. Notwithstanding, average rents per SQFT in Karen stand at Kshs 106, higher than Westlands and the rest seven nodes, with an exception of Gigiri at Kshs 119 per SQFT
- Similarly to Gigiri, the remarkable performance was mainly driven by; i) significant concentration of high quality offices attracting premium rates, ii) presence of adequate infrastructure fueling demand for office spaces, iii) close proximity to Nairobi's CBD which is convenient, and, iv) serene environment which is conducive and appealing for office environment

Nairobi Office Market Performance, Continued…

Parklands recorded an average rental yield of 7.3% in 2021, 0.5% points higher than 6.8% recorded in 2021

Parklands

- Parklands recorded an average rental yield of 7.3% in 2021, 0.5% points higher than 6.8% recorded in 2021. The average occupancy rates increased by 2.4% to 85.2% from 82.8% in 2021. Average rents stand at Kshs 83, a 1.2% from Kshs 82 in 2021. Parklands is growing in popularity as an office hub, and is catching up to its neighboring Westlands area

Kilimani

- Kilimani recorded average rental yields of 7.7% in 2022, a 0.6% points increase from the 7.1% recoded in 2021. Kilimani average occupancy and rental rates in 2022 stood at 84.1% and Kshs 92 per SQFT. The commercial office market in Kilimani is majorly influenced by; i) its proximity to CBD and centrality in location which make it easily accessible from many areas in Nairobi, which is convenient, ii) good infrastructure linking Kilimani to multiple Nairobi surburbs, and, ii) the presence of various government embassies making it ideal and attractive for office investments, such as the Nigerian, Chinese, Ethiopian, and Zambian Embassies, among others

Upperhill

- Upperhill recorded a 0.1% points increase in the average rental yields which came in at 7.7% in 2022, from the 7.6% recorded in 2021. Notably, no major office developments were delivered into the Upperhill market in 2022, which in turn caused occupancy rates to stabilize by 1.4%, to 81.5% from 80.1%. Oppositely, rental prices remained relatively unchanged from 2021 at Kshs 91 per SQFT

Nairobi Office Market Performance, Continued…

Occupancy rates in Nairobi CBD realized a 1.5% correction to 76.5%, from 78.0% recorded in 2021

Nairobi CBD

- The Nairobi CBD recorded an average rental yield of 0.1% in 2022, attributed to a 2.1% points increase in rental rates to Kshs 96 from Kshs 94. However, occupancy rates realized a 1.5% correction to 76.5%, from 78.0% in 2021. This we attributed to the declining popularity of office spaces in the CBD owing to congestion, traffic snarl ups, noise pollution and low volumes of high quality grade offices, which are increasingly being demanded by most firms and organizations. Despite the 2.1% increase in rental prices in 2022, average rental rates were still affordable compared to most nodes, and similar to the market average at Kshs 96 per SQFT

Thika Road

- Over the last four years, Thika Road has established itself as an upcoming office zone offering quality grade B offices. As such, the node recorded a 0.3% points increase in performance recording rental yields of 6.0% in 2022 from 5.7% in 2021. Average asking rents remained relatively unchanged from 2021 at Kshs 79 per SQFT, with occupancy rates increasing by 3.8% to 80.1% from 76.3%

Mombasa Road

- Mombasa Road was the least performing node in FY'2022 with an average rental yield of 5.1%, 2.5% points lower than the market average of 7.6% attributed to; i) the predominance of lower quality office buildings that command lower average rental rates at Kshs 73 per SQFT, ii) its reputation as an industrial zone, making it less appealing to office-based businesses, and, iii) stiff competition from other sub-markets

ii. Performance by Grades

Classification of Offices in Nairobi

Major categories of commercial office buildings in Kenya

- Commercial office buildings are categorized into three main classes based on the quality and sizes of office spaces as follows:

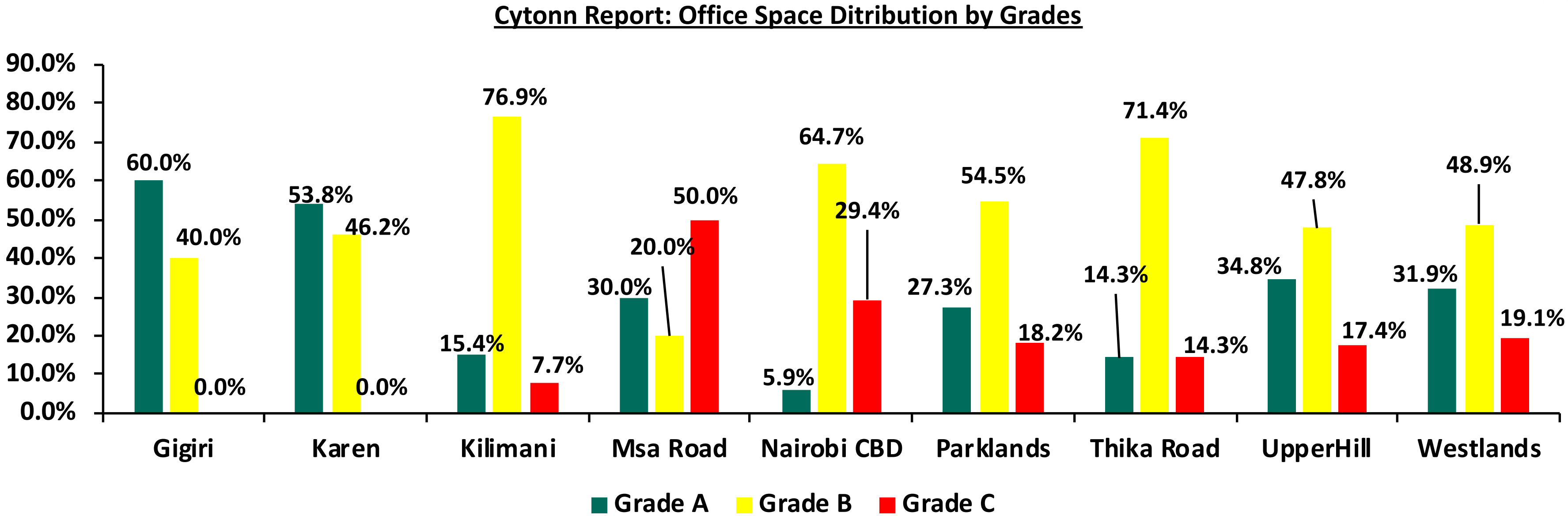
i. **Grade A:** These are high quality office buildings characterized by their adequate amenities, facilities, and finishes. They therefore fetch higher rental rates and yields compared to other office types. Also these office building sizes range from 100,001 - 300,000 SQFT,

ii. **Grade B:** These office buildings have their sizes ranging between 50,000 to 100,000 SQFT. They have good amenities and services, however not as good as Grade A offices, hence charge moderate rental rates, and,

iii. **Grade C:** These buildings are usually old, hence their lack of adequate services and facilities. Usually, they charge rents below the average market rate

Distribution of Various Classes Offices

Grade B offices accounted for the largest share of office space in the NMA at 54.1%



Source: Cytonn Research

- According to our office grade distribution analysis, Grade B offices constituted the majority of office spaces in the Nairobi Metropolitan Area in 2022, accounting for a current market share of 54.1%. However, notwithstanding, this marks a slight drop of 1.9% points from the 56.0% recorded in 2021, which can be attributed to the rise in the completion of Grade A offices, such as Principal Place, The Piano and The Cube in Westlands. Notably, the supply of Grade A office spaces increased by 3.7% to 28.2% from 24.7%
- In the nodal analysis, Gigiri, Karen, and Upperhill had the highest proportion of Grade A offices constituting 60.0%, 53.8% and 34.8% of their total office inventory

Distribution of Various Classes Offices, Continued…

Mombasa Road accounted for the largest share of Grade C office space in the NMA at 50.0%

- In contrast, Kilimani had the highest percentage of Grade B offices at 76.9%. However, this was a 4.9% points decline from 81.8% recorded in 2021
- This was attributable to a 6.3% points increase in the overall supply of Grade A offices in Kilimani, brought about by completions such as the TDB Towers which injected an additional 90,000 SQFT of Grade A office space into the Kilimani market
- For Grade C offices, Mombasa Road accounted for a majority of the office spaces with a current market share of 50.0%, remaining relatively unchanged from 2021
- In terms of concentration, Mombasa Road had the highest mix of office types, having recorded 30.0%, 20.0%, and 50.0% of Grade A, Grade B, and Grade C office spaces respectively

Distribution of Various Classes Offices

Grade B office spaces had the highest rental yields in 2022 at 7.8%

(All Values in Kshs Unless Stated Otherwise)											
Cytonn Report: Commercial Office Performance Based On Grades 2022											
Office Grade	**Price 2021 Kshs/SQFT**	**Rent 2021 Kshs/ SQFT**	**Occupancy 2021**	**Rental Yield 2021**	**Price 2022 Kshs/SQFT**	**Rent 2022 Kshs/SQFT**	**Occupancy 2022**	**Rental Yield 2022**	**Δ Rent y/y**	**Δ Occupancy y/y**	**Δ Rental Yield y/y**
Grade A	12,674	99	79.4%	**7.5%**	13,040	104	79.0%	**7.7%**	**5.1%**	**(0.4%)**	**0.2%**
Grade B	12,340	97	78.2%	**7.5%**	12,292	97	81.6%	**7.8%**	**(0.0%)**	**3.4%**	**0.3%**
Grade C	10,839	82	74.3%	**6.6%**	10,867	83	73.2%	**6.7%**	**1.2%**	**(1.1%)**	**0.1%**

Source: Cytonn Research

- Grade B office spaces realized the highest rental yields at 7.8%. This was attributable to their increased preference by tenants evidenced by a 3.4% increase in occupancy rates, which was mainly as a result of their relatively affordable rental rates compared to Grade A offices and better technical services in comparison to Grade C office spaces,
- Grade A offices recorded the highest Year-on-Year (y/y) increase in rental rates by 5.1% in 2022 to Kshs 104 per SQFT from Kshs 99 per SQFT realized in 2021 attributed to their high quality spaces fetching higher rents, and increased demand by multinational firms and organizations, and,
- Grade C offices realized a slight increase in average rental yields by 0.1% points to 6.7% from 6.6% attributable to a 1.2% increase in average rental rates to Kshs 83 per SQFT from Kshs 82 per SQFT recorded in 2021. However, the increase was countered by a 1.1% points decline in average occupancy rates which is attributable to reduced demand by tenants, opting for Grade B offices which offer high quality office space with ample amenities such as parking

Distribution of Various Classes Offices

Grade B offices in Gigiri had higher rental yields in 2022 at 9.2%, compared to Grade A offices at 8.4%

- Strikingly, despite Grade A offices charging higher rental rates at 104 per SQFT compared to average rental rates of Grade B offices which stood at Kshs 97 per SQFT, Grade B offices in Gigiri had higher yields at 9.2%, compared to 8.4% recorded by Grade A offices
- This was attributed to lower average selling prices chargeable per SQM for Grade B offices in Gigiri which came it at Kshs 13,000, compared to Kshs 14,000 per SQM for Grade A offices, since the yield is a factor of average rental rates, occupancies and selling prices
- As such, higher selling prices for Grade A offices resulted in slightly lower yields in comparison to Grade B offices even though all other factors for Grade A offices were higher than Grade B offices.

iii. Performance by Nodes & Grades

Cytonn

Performance by Nodes and Grades

For Grade B spaces, Gigiri and Westlands offered the highest rental yields of 9.2% and 8.4% respectively

(All Values in Kshs Unless Stated Otherwise)

Cytonn Report: Commercial Office Performance in 2022 by Nodes and Grades						
	Grade A		Grade B		Grade C	
Location	Average of Occupancy (%)	Average of Rental Yield	Average of Occupancy (%)	Average of Rental Yield	Average of Occupancy (%)	Average of Rental Yield
Gigiri	**82.0%**	**8.4%**	**81.0%**	**9.2%**	-	-
Westlands	74.7%	7.9%	**77.0%**	**8.4%**	**77.2%**	**8.4%**
Karen	**83.1%**	**8.3%**	82.7%	8.2%	-	-
Parklands	83.2%	7.7%	83.0%	8.0%	72.3%	6.7%
Kilimani	73.5%	6.7%	86.9%	8.0%	70.0%	5.8%
Nairobi CBD	-	-	85.1%	7.1%	**85.6%**	**7.6%**
UpperHill	79.1%	7.6%	80.5%	7.1%	65.1%	6.0%
Msa Road	73.0%	5.3%	67.5%	6.5%	63.0%	4.5%
Thika Road	90.0%	7.4%	80.0%	5.9%	71.0%	5.2%

Source: Cytonn Research

- In 2022, Grade A offices in Gigiri and Karen realized the most substantial average rental yields coming in at 8.4% and 8.3% respectively. This was attributable to; i) their strategic locations attracting high-end clientele which has enabled charging premium rates, ii) adequate amenities and infrastructure servicing the areas thus enhancing accessibility, and, iii) serene environment providing great locations for offices away from the bustle of the city centre. On the other hand, Grade B offices in Gigiri and Westlands had the highest rental yields of 9.2% and 8.4% respectively. Similarly, Grade C offices in Westlands and Nairobi CBD had the best returns with average rental yields coming in at 8.4% and 7.6%, respectively

iv. Serviced Offices Performance

Cytonn

Serviced Offices Performance

Serviced offices realized a 2.0% y/y rental growth to Kshs 190 per SQFT in 2022, from Kshs 183 per SQFT recorded in 2021

(All values in Kshs Unless Stated Otherwise)

Cytonn Report: Nairobi Metropolitan Area Serviced Office Performance						
Location	Revenue Per SQFT 2021		Revenue Per SQFT 2022		Serviced Offices Revenue growth (%)	Unserviced Offices Revenue growth (%)
	Serviced Offices	Un-serviced Offices	Serviced Offices	Un-serviced Offices		
Westlands	212	104	220	108	3.8%	3.5%
Karen	192	106	199	111	3.5%	4.3%
Parklands	169	91	171	91	1.3%	(0.2%)
Gigiri	-	119	210	118	-	(0.8%)
Upperhill	235	94	243	97	3.1%	3.1%
Kilimani	194	91	199	92	2.4%	1.1%
Nairobi CBD	164	82	168	83	2.1%	1.7%
Msa Rd	-	73	-	71	-	(2.4%)
Thika Rd	112	79	110	79	(2.3%)	(0.5%)
Average	**183**	**93**	**190**	**94**	**2.0%**	**1.1%**

Source: Cytonn Research

- In 2022, serviced offices realized a 2.0% Year-on-Year (y/y) growth in rental revenues, with average rental rates increasing to Kshs 190 per SQFT, from Kshs 183 per SQFT recorded in 2021. In comparison, unserviced offices revenues increased by 1.1%, with average rental rates increasing to Kshs 94 per SQFT in 2022, from Kshs 93 per SQFT realized in 2021
- Notably, serviced offices in Westlands and Karen recorded the highest rent appreciations of 3.8% and 3.5%, respectively, significantly higher than the market average of 2.0%

Serviced Offices Performance, Continued…

Kofisi Africa and Nairobi Garage both opened brand new co-working space office outlets in 2022

- The improvement in performance in these locations is due to; i) the presence of quality infrastructure enhancing accessibility, ii) higher demand for serviced offices supported by the presence of a high-end clientele and international firms with changing preferences, diversified themes and articulate designs which demand world-class standards, iii) high quality facilities attracting prime rents, and, iv) serene office locations which appeal to clients moving away from the city hustle

Co-working Spaces

- Notably, in 2022, there was a growing trend in the establishment of niche centric office spaces in Kenya, most especially co-working spaces. In support of this, Nairobi Garage, a leading provider of flexible working spaces in Nairobi opened a 12,000 SQFT outlet in the Central Business District (CBD) along Mama Ngina street
- This move by the co-working space provider increased its number of outlets to five, with locations in Westlands, Spring Valley, Kilimani and Karen
- Furthermore, Kofisi Africa, a leading pan African provider of flexible and bespoke workplaces, opened a new branch dubbed 'Kofisi Square' located in Riverside, Nairobi

Serviced Offices Performance, Continued…

Kofisi Africa has locations across six countries in Africa

- The new 50,000 SQFT Kofisi Africa's outlet located in Riverside is its sixth branch in Nairobi, with branches in Karen, Riverside and Westlands. In addition to the Nairobi locations, Kofisi Africa also has branches in Nigeria, Ghana, Dar-es-Salaam, Johannesburg and Cairo
- We expect to see an increase in the development of more co-working spaces, as the sector currently only constitutes less than 3.0% of the total available office stock. The table below highlights major co-working office spaces released into the market in 2022;

Cytonn Report: Notable Co-working Space Office Developments delivered in 2022				
#	Space provider	Office Name	Location	Size (SQFT)
1	Nairobi Garage	Nairobi Garage CBD	CBD, Nairobi	12,000
2	Kofisi Africa	Kofisi Square	Riverside	50,000
	Total			**62,000**

Source: Cytonn Research, Knight Frank

D. Office Space Opportunity

Cytonn

Office Space Opportunity – Methodology

Gap Analysis was used to estimate over/undersupply situation in the market, where supply is subtracted from demand, and if a positive, the market is undersupplied, with a negative indicating an oversupply

- Gap analysis is a tool that measures the under or oversupply situation of an office market using demand and supply dynamics
- To gauge the supply situation in Nairobi, we used the **Gap Analysis** technique
- **Demand** is calculated by adding up net absorption (space taken up in a market in a year) by the space required to replenish depreciated office stock
- **Supply** is calculated by summing up the completed office stock in a given year and the vacant stock from the previous year
- To get the over/undersupply in the market, the supply is subtracted from the demand
- If it is a positive figure then the market has an under supply that is demand is more than supply and if it is a negative figure then the market has an oversupply that is supply is more than demand
- **Based on building plan approvals data, in 2022, the market had a supply of 7.6 mn SQFT against a demand of (1.8) mn SQFT resulting in an oversupply of 5.8 mn SQFT assuming a 2 year lag between building approvals and completion of construction**

Office Space Opportunity

In 2022, the commercial office sector had an oversupply of 5.8 mn SQFT

Cytonn Report: Nairobi Metropolitan Area Office Space Analysis												
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023 F
Stock (Mn SQFT)	7.7	9.7	15.4	22.9	28.9	31.8	35.5	36.3	36.4	36.8	37.4	37.1
Completions (Mn SQFT)	1.2	2.1	5.9	7.8	6.5	3.5	4.3	1.5	0.8	0.5	0.6	0.3
Vacancy Rate (%)	9.0%	10.0%	10.0%	11.0%	12.0%	16.8%	16.7%	19.5%	22.3%	22.1%	20.6%	19.7%
Vacant Stock (Mn SQFT)	0.7	1.0	1.5	2.5	3.5	5.3	5.9	7.1	8.1	8.1	7.7	7.3
Occupied Stock (Mn SQFT)	7.1	8.8	13.9	20.3	25.4	26.5	29.6	29.2	28.3	28.7	29.7	29.8
Net Absorption	1.0	1.7	5.1	6.5	5.1	1.0	3.1	(0.4)	(1.0)	0.4	1.0	1.1
Demand	1.1	1.9	5.3	6.8	5.6	1.6	3.7	0.4	(0.2)	1.2	1.8	1.9
Available Supply, AS(T)	1.7	2.6	6.5	8.8	8.4	6.3	9.0	6.7	7.1	7.9	7.6	7.7
Gap, GAP(T)	**(0.5)**	**(0.8)**	**(1.2)**	**(2.1)**	**(2.9)**	**(4.7)**	**(5.2)**	**(6.3)**	**(7.3)**	**(6.7)**	**(5.8)**	**(5.8)**

Source: KNBS, NCG Completions data, Cytonn Research

Office Space Opportunity

Some zones still have relatively low supply and high returns, such as Gigiri with a market share of 2.1% and a rental yield of 8.7% thus offering a good investment opportunity

Concept/Market Niche	Characteristics
Mixed-Use Developments	• Mixed-Use Development (MUD) refers to a Real Estate development containing more than one Real Estate theme • In 2022, they had attractive returns with average rental yields of up to 7.4%. Such developments will increase the occupancy rates of a building due to their convenience and hence the greater returns to investors
Serviced Offices	• In 2022, serviced offices realized a 2.0% Year-on-Year (y/y) growth in rental revenues, with average rental rates increasing to Kshs 190 per SQFT, from Kshs 183 recorded in 2021. In comparison, unserviced offices revenues increased by 1.1%, with average rental rates increasing to Kshs 94 in 2022, from Kshs 93 per SQFT realized in 2021
Low Supply Zones	• Despite the oversupply in the market, some zones still have relatively low supply and high returns such as Gigiri with a market share of 1.9% and a rental yield of 8.7% thus offering a good investment opportunity
New Markets	• Gigiri was the best performing node in FY'2022 realizing an average rental yield of 8.7%, 1.1% points above the market average of 7.6%. Westlands and Karen were the second-best performing nodes, both registering average rental yields of 8.3% • In terms of nodal analysis, Gigiri, Karen, and Upperhill have the highest proportion of Grade A offices constituting 60.0%, 53.8% and 34.8% of their total office inventory • Undersupplied zones such as Thika Road and Gigiri that currently have market shares of 2.1% and 1.9%

E. Office Market Conclusion and Outlook

Office Market Conclusion and Outlook

Our overall outlook for the Commercial Office sector is Neutral, with a current oversupply of 5.8 mn SQFT, in the Nairobi Metropolitan Area (NMA)

Cytonn Report: Nairobi Commercial Office Outlook				
Measure	**2021 Sentiment**	**2022 Sentiment and 2023 Outlook**	**2022 Review**	**2023 Outlook**
Supply	The sector recorded an oversupply of 6.7 mn SQFT of office space in 2021, an 8.3% decrease from the 7.3 mn SQFT realized in 2020 in NMA. This was due to increased demand of physical office spaces as some firms resumed full operations and others adjusted to hybrid model of working both in physical offices and at home. The incoming supply in 2021 came at 0.5 mn SQFT, 37.5% lower than the 0.8 mn SQFT recorded in 2020	The oversupply of commercial office space decreased by 13.4% to approximately 5.8 mn SQFT in 2022 from approximately 6.7 mn SQFT in 2021, attributed to increased demand for office spaces which in turn increased the occupancy rates by 1.8% points to 79.4% in 2022 from 77.6% in 2021 at the back of continuous recovery of economy in post-COVID-19 period. This is as most businesses reverted to full operations and use of physical spaces. The incoming supply in 2022 came at 0.6 mn SQFT 20.0% higher than the 0.5 mn SQFT recorded in 2021 We expect the office space oversupply to remain unchanged at approximately 5.8 mn SQFT in 2023, attributable to an expected reduction in vacancy rates by 0.9% to 19.7% from 20.6% in 2022, and increase in occupied stock by 0.3% to 29.8 mn SQFT from 29.7 mn SQFT in 2022 even though there will be an expected new supply of 0.3 mn SQFT in the market	Neutral	Neutral
Demand	There was an increased demand for office spaces, evidenced by the 0.1% increase in the average occupancy rates which came in at 77.6% in 2021, from the 77.7% recorded in 2020. This was mainly attributed to full resumptions of operations of corporate organisations and businesses after the lifting of COVID-19 containment measures. Additionally, the absorption of office spaces increased to 0.4 mn SQFT in 2021 from (1.0) mn SQFT recorded in 2020	There was an increased demand for office spaces in the NMA, evidenced by the 1.8% increase in the average occupancy rates which came in at 79.4% in 2022 from 77.6% recorded in 2021. This was mainly as a result of a slow but rising demand for physical space on the back of various firms resuming full operations, coupled with the expansion strategy by various firms and rising trend in serviced office spaces. In addition to this, the absorption of office spaces increased by 150.0% to 1.0 mn SQFT in 2022 from 0.4 mn SQFT recorded in 2021 attributed to further increase of occupation of physical unserviced and serviced spaces at the back of full operations of businesses We expect the occupancy rates to improve mainly attributed to resumption of working from office policies by most companies and reduced developments expected to enter the market in 2023 as compared to 2022. With these factors, we expect potential boost in absorption rates by 10.0% to 1.1 mn SQFT in 2023	Positive	Positive

Office Market Conclusion and Outlook

We expect sector performance to slightly record a positive increase in rental yields by 0.1% points to 7.7% in 2023 in the Nairobi Metropolitan Area (NMA)

Cytonn Report: Nairobi Commercial Office Outlook				
Measure	**2021 Sentiment**	**2022 Sentiment and 2023 Outlook**	**2022 Review**	**2023 Outlook**
Office Market Performance	The commercial office sector performance realized a slight improvement in its overall performance in FY'2021, with the average rental yields coming in at 7.3%, 0.3% points higher than 2020 which recorded 7.0%. The average occupancy rates also increased by 0.1% to 77.6%, from 77.7% recorded in 2020. The improvement in performance was mainly driven by an improved business environment following the lifting of the COVID-19 containment measures, as well as some businesses resuming full operations hence boosting the occupancy rates. However, the 6.7 mn SQFT oversupply in office spaces weighed down the performance of the sector in 2021 due to uncertainty occasioned by incoming general elections which slowed down business operations by most organisations	The average rental yield improved by 0.3% points to 7.6% in FY'2022 from 7.3% recorded in FY'2021, due to improved occupancy and rental rates. Average asking rents per SQFT in the NMA increased by 2.1% to Kshs 96 per SQFT from Kshs 94, owing to increased supply of Grade A offices fetching higher rents such as Karen Green and Global Trade Centre (GTC) Office Tower, among others. The overall occupancy rates increased by 1.8% points to 79.4% from 77.6% as a result of a slow but rising demand for physical space on the back of various firms resuming full operations, coupled with the expansion strategy by various firms such as Nairobi Garage and Call Centre International (CCI) Group We expect sector performance to slightly record a positive increase in rental yields by 0.1% points to 7.7% in 2023 attributable to: i) increased trend in serviced office spaces, ii) slow but rising expansion in the sector after the peaceful general elections in 2022 and continuous traction of the economy towards pre-COVID-19 levels, and, iii) reduced developments in the pipeline which we expect will help curb the oversupply challenge and improving the absorption rates of available and fewer incoming spaces We expect that this will boost occupancy rates and asking rents thereby improving average rental yields. However, the expected oversupply of office spaces at 5.8 mn SQFT in the NMA is expected to weigh down optimum performance of the sector by crippling the overall demand for physical space	Neutral	Neutral

- Investment opportunity lies in Gigiri, Westlands, and Karen supported by relatively low supply of office spaces, and high returns of 8.7%, 8.3%, and 8.3%, respectively, compared to the market average of 7.6%, as at FY'2022

Cytonn