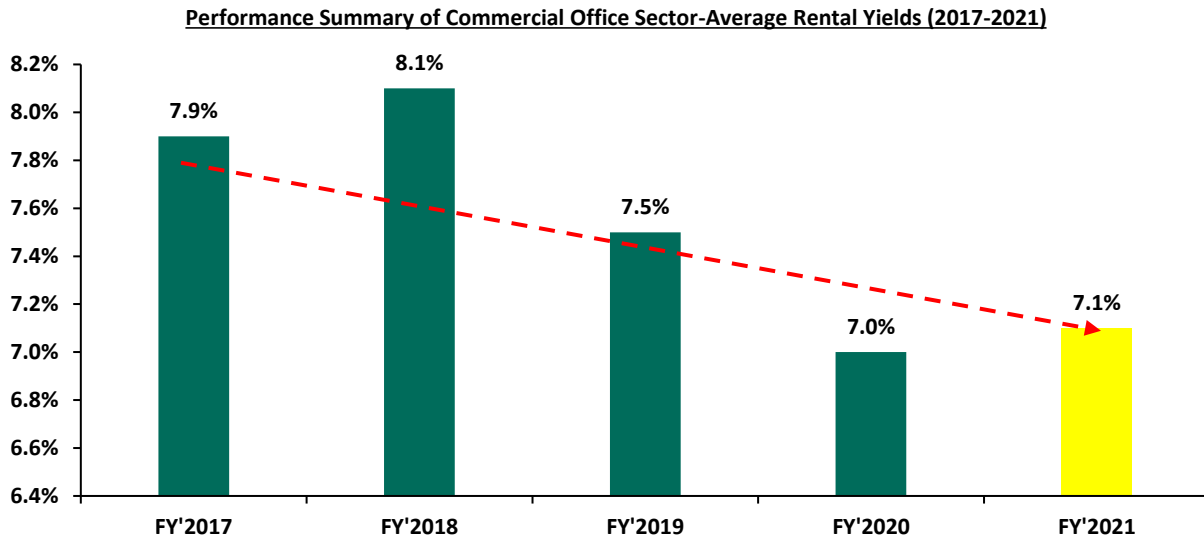


Commercial Office Sector FY'2021 Markets Review Note

Gigiri was the best performing node in FY'2021 recording an average rental yield of 8.6%, which is 1.5% points higher than the market average of 7.1%

The commercial office sector realized a slight improvement in its overall performance in FY'2021, with the average rental yields coming in at 7.1%, 0.1 % points higher than the 7.0% recorded in 2020. This was attributed to an improved business environment following the lifting of the COVID-19 containment measures. Key to note is that in as much as this is an increase, it's still lower than the yields recorded in the pre-pandemic era. The table below shows a five-year performance summary of commercial office sector for the average rental yields;



Source: Cytton Research

The average occupancy rates increased by 0.2% to 77.9%, from 77.7% recorded in 2020, following the full resumption of operations by some businesses during the period. The average asking rents however remained flat at Kshs 93 per SQFT, as some landlords still offer discounts in order to retain and attract new clients. The table below highlights the performance of the Nairobi Metropolitan Area (NMA) Commercial Office sector over time:

All values in Kshs Unless Stated Otherwise									
Nairobi Metropolitan Area (NMA) Commercial Office Returns since 2020									
	Q1' 2020	H1' 2020	Q3' 2020	FY' 2020	Q1'2021	H1'2021	Q3' 2021	FY'2021	Δ FY'2020/FY '2021
Occupancy %	81.7%	80.0%	79.9%	77.7%	76.3%	75.8%	77.3%	77.9%	0.2%
Asking Rents (Kshs/SQFT)	97	95	94	93	92	93	93	93	0.0%
Average Prices (Kshs/SQFT)	12,535	12,516	12,479	12,280	12228	12224	12,211	12,279	0.0%
Average Rental Yields (%)	7.8%	7.3%	7.2%	7.0%	6.8%	6.9%	6.9%	7.1%	0.1%

Source: Cytton Research 2021

In terms of the sub markets performance, Gigiri was the best performing node in 2021 with average rental yields coming in at 8.6%, 1.5% points higher than the market average of 7.1%. This was mainly attributed to

the availability of top quality grade A and B offices charging premium rental prices, and availability of adequate infrastructure and amenities in the area such as the Limuru Road.

On the other hand, Mombasa Road was the worst performing node with average rental yields at 5.1% in 2021, 2.0% points lower than the market average of 7.1%. This was attributed to; i) the low average rents at Kshs 73.0 per SQFT which is lower than the market average of Kshs 93 per SQFT, ii) zoning regulations as Mombasa Road is mainly considered an industrial area thus making it unattractive to business firms, and iii) current traffic snarl-ups caused by the ongoing Nairobi Expressway project thus making the area unattractive. However, this is a temporary situation as we expect the area to record improved performance upon the completion of the project.

The table below shows the Nairobi Metropolitan Area (NMA) sub-market performance;

<i>(All values in Kshs unless stated otherwise)</i>											
NMA Commercial Office Submarket Performance FY'2021											
Area	Price /SQFT (Kshs) FY'2020	Rent /SQFT (Kshs) FY'2020	Occupancy FY'2020	Rental Yields FY'2020	Price Kshs/ SQFT FY 2021	Rent Kshs /SQFT FY 2021	Occupancy FY 2021(%)	Rental Yield (%) FY 2021	Δ in Rent	Δ in Occupancy (% points)	Δ in Rental Yields (% points)
Gigiri	13,400	116	82.5%	8.5%	13,500	119	81.3%	8.6%	2.3%	(1.2%)	0.1%
Westlands	11,975	104	74.4%	7.8%	11,972	104	75.5%	8.1%	0.4%	1.1%	0.3%
Karen	13,567	106	83.6%	7.8%	13,325	106	83.0%	7.7%	(0.4%)	(0.6%)	(0.1%)
Parklands	10,958	93	79.9%	7.6%	11,336	91	80.1%	7.6%	(1.4%)	0.2%	0.0%
Kilimani	12,233	93	79.1%	6.8%	12,364	91	79.8%	7.1%	(1.5%)	0.7%	0.3%
Upperhill	12,684	92	78.5%	6.9%	12,409	94	78.0%	7.0%	2.2%	(0.5%)	0.2%
Nairobi CBD	11,889	82	82.4%	6.8%	11,787	82	82.8%	6.8%	(0.7%)	0.4%	0.0%
Thika Road	12,500	80	76.1%	5.8%	12,571	79	76.3%	5.7%	(1.8%)	0.2%	(0.1%)
Mombasa road	11,313	73	63.0%	4.8%	11,250	73	64.2%	5.1%	0.6%	1.2%	0.3%
Average	12,280	93	77.7%	7.0%	12,279	93	77.9%	7.1%	0.0%	0.2%	0.1%

Source: Cytonn research

Our outlook for the NMA commercial office sector is NEUTRAL attributed to 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 existing oversupply at 7.3 mn SQFT, coupled with the remote working strategy still being embraced by some firms thus crippling demand for physical spaces, is expected to weigh down performance of the sector.

For more information, please see our [Cytonn Annual Markets Review 2021](#).