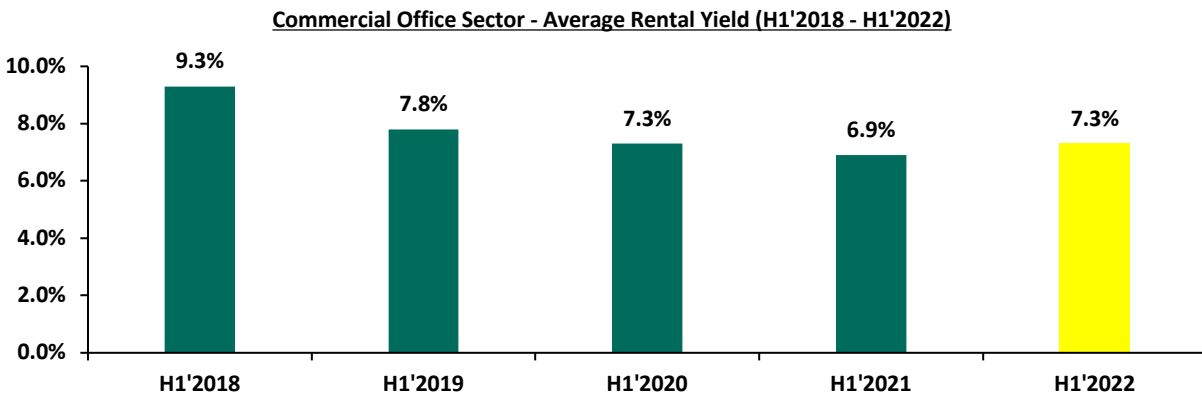


Commercial Office Sector H1'2022 Markets Review Note

Gigiri, Westlands and Karen record the highest rental yields in the Nairobi Metropolitan Area in H1'2022

In H1'2022, the average rental yield for office spaces in the Nairobi Metropolitan Area (NMA) slightly increased by 0.02% points to 7.35%, from 7.33% in FY'2021. This was mainly driven by a 1.1% increase in the average rent per SQFT to Kshs 95 in the period under review, from Kshs 94 per SQFT in FY'2021. The average occupancy came in at 77.9%, a 0.3% increase from 77.6% that was realized in FY'2021, attributed to businesses resuming operations. However, on a q/q basis the average occupancy remained the same at 77.9%, signifying mild activities in the sector. The average selling price per SQFT increased by 0.3% to Kshs 12,142 in H1'2022, from Kshs 12,106 in FY'2021, as a result of the increased construction costs.

The graph below shows a five-year performance summary of commercial office sector for the average rental yields in the first half year performances;



Source: Cytonn Research

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							
Year	Q1'2021	H1'2021	Q3'2021	FY'2021	Q1'2022	H1'2022	Δ FY'2021/Q1'2022
Occupancy %	76.3%	75.8%	79.9%	77.6%	77.9%	77.9%	0.3%
Asking Rents (Kshs) /SQFT	92	93	94	94	94	95	1.1%
Average Prices (Kshs) /SQFT	12,228	12,224	12,479	12,106	12,113	12,142	0.3%
Average Rental Yields (%)	6.8%	6.9%	7.2%	7.33%	7.3%	7.35%	0.02%

Source: Cytonn Research 2022

Gigiri, Westlands and Karen recorded the highest rental yields of 8.6% 8.1% and 7.9%, respectively, in H1'2022 compared to the market average of 7.3%. Their performance was mainly driven by the presence of high-quality office spaces that generate prime rents. On the other hand, Mombasa Road recorded the least average rental yield of 5.1%. This was driven by the low rental rates that the office spaces in the area attracted, which

averaged at Kshs 73 per SQFT in H1'2022, 23.2% lower than the market average of Kshs 95 per SQFT. The table below shows the Nairobi Metropolitan Area (NMA) sub-market performance:

(All values in Kshs Unless Stated Otherwise)

Nairobi Metropolitan Area Commercial Office Submarket Performance H1'2022											
Area	Price (Kshs) /SQFT FY'2021	Rent (Kshs) /SQFT FY'2021	Occupancy (%) FY'2021	Rental Yield (%) FY'2021	Price (Kshs) /SQFT H1'2022	Rent Kshs/ SQFT H1'2022	Occupancy (%) H1'2022	Rental Yield (%) H1'2022	Δ in Rent	Δ in Occupancy (% points)	Δ in Rental Yields (% points)
Gigiri	13,500	119	81.3%	8.6%	13,500	118	81.0%	8.6%	(0.8%)	(0.3%)	0.0%
Westlands	11,972	104	75.5%	8.1%	11,853	105	74.6%	8.1%	0.8%	(0.9%)	0.0%
Karen	13,325	106	83.0%	7.7%	12,385	107	83.0%	7.9%	1.0%	0.0%	0.2%
Parklands	11,336	91	80.1%	7.6%	11,662	90	82.8%	7.6%	(0.6%)	2.7%	0.0%
Kilimani	12,364	91	79.8%	7.1%	12,385	90	80.2%	7.1%	(0.2%)	0.4%	0.0%
Upperhill	12,409	94	78.0%	7.0%	12,409	94	76.2%	6.9%	0.0%	(1.8%)	(0.1%)
Nairobi CBD	11,787	82	82.8%	6.8%	11,812	82	83.9%	6.9%	0.0%	1.1%	0.1%
Thika Road	12,571	79	76.3%	5.7%	12,571	78	77.6%	5.7%	(1.9%)	1.3%	0.0%
Mombasa Road	11,250	73	64.2%	5.1%	11,225	73	65.0%	5.1%	0.0%	0.8%	0.0%
Average	12,106	94	77.6%	7.33%	12,142	95	77.9%	7.35%	1.1%	0.3%	0.02%

Source: Cytonn Research 2022

We have a NEUTRAL outlook (but leaning towards the negative) for the NMA commercial office sector whose performance continues to stagnate as a result of; i) the existing oversupply of space at 6.7 mn SQFT thus weighing down the optimum performance of the sector, ii) slow uptake of office spaces fueled by some firms still embracing remote working strategy, and, iii) high cost of living resulting from the high construction costs. Investment opportunity lies in Gigiri, Westlands, Karen, Parklands, and, Kilimani which offer relatively high returns compared to the market averages.

For more information, please see our [Cytonn H1'2022 Markets Review](#).