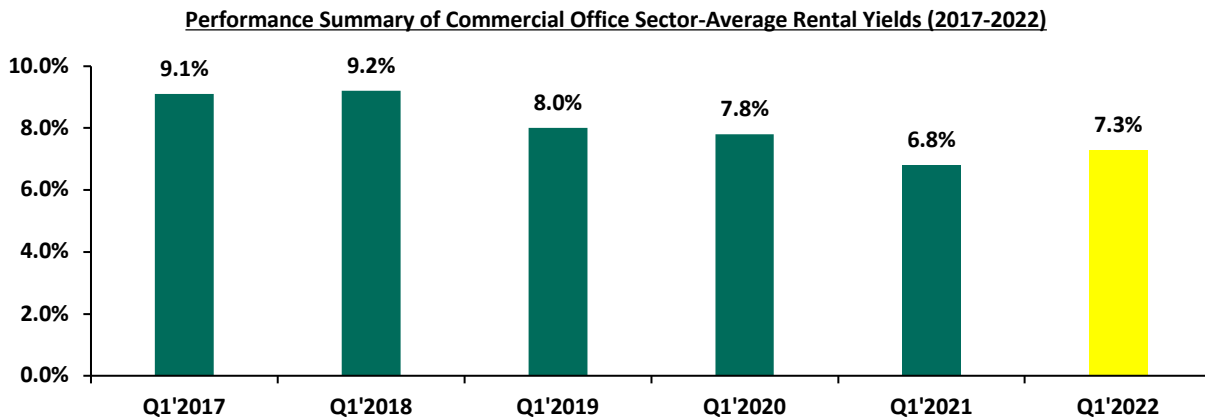


Commercial Office Sector Q1'2022 Markets Review Note

Gigiri and Westlands were the best performing nodes in Q1'2022 with average rental yields of 8.8% and 8.1%, respectively, compared to the market average of 7.3%

In Q1'2022, the commercial office sector retained its average rental yields and asking rents at 7.3% and Kshs 94 per SQFT, respectively. The overall occupancy rates increased by 0.3% points to 77.9% in Q1'2022, from 77.6% recorded in FY'2021, due to an increased demand for office spaces, as various firms resume full operations at the beginning of the year as well. The average selling prices increased as well by 0.2% to Kshs 12,113 per SQFT in Q1'2022 from Kshs 12,106 per SQFT in FY'2021, due to increased construction costs. According to Kenya National Bureau of Statistics' (KNBS) [Construction Input Price Indices](#), construction cost indices increased by 1.6% to 106.1 in Q4'2021, from the 104.4 that was realized in Q1'2021.

The table below shows a six-year performance summary of commercial office sector for the average rental yields in the first quarters;



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 2021-Q1'2022						
Year	Q1'2021	H1'2021	Q3'2021	FY'2021	Q1'2022	Δ FY'2021/Q1'2022
Occupancy %	76.3%	75.8%	79.9%	77.6%	77.9%	0.3%
Asking Rents (Kshs) /SQFT	92	93	94	94	94	0.0%
Average Prices (Kshs) /SQFT	12,228	12,224	12,479	12,106	12,113	0.2%
Average Rental Yields (%)	6.8%	6.9%	7.2%	7.3%	7.3%	0.0%

Source: Cytonn Research 2022

Gigiri and Westlands were the best performing submarkets in Q1'2022 with average rental yields of 8.8% and 8.1%, respectively, which is 1.5% points and 0.8% points higher than the market average of 7.35, respectively. This was attributed to their superior locations, availability of high quality office spaces attracting prime rental

prices, and, relatively good infrastructure. On the other hand, Mombasa Road recorded the least average rental yields at 5.1%, 2.2% points lower than the market average of 7.3%, due to the unattractiveness of the area since it's mainly popular as an industrial area as opposed to an office hub coupled with traffic snarl-ups emanating from the ongoing construction activities of the Nairobi Express Way. 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 Q1'2022											
Area	Price (Kshs) /SQFT FY'2021	Rent (Kshs) /SQFT FY'2021	Occupancy (%) FY'2021	Rental Yield (%) FY'2021	Price (Kshs) /SQFT Q1'2022	Rent Kshs/SQFT Q1'2022	Occupancy (%) Q1'2022	Rental Yield (%) Q1'2022	Δ in Rent	Δ in Occupancy (% points)	Δ in Rental Yields (% points)
Gigiri	13,500	119	81.3%	8.6%	13,500	118	83.3%	8.8%	(1.1%)	2.0%	0.2%
Westlands	11,972	104	75.5%	8.1%	11,846	105	74.5%	8.1%	0.7%	(0.9%)	0.0%
Karen	13,325	106	83.0%	7.7%	13,325	107	82.8%	7.8%	0.9%	(0.2%)	0.1%
Parklands	11,336	91	80.1%	7.6%	11,562	91	82.8%	7.7%	0.0%	2.7%	0.1%
Kilimani	12,364	91	79.8%	7.1%	12,440	91	80.2%	7.1%	0.0%	0.4%	0.0%
Upperhill	12,409	94	78.0%	7.0%	12,409	94	76.1%	6.9%	0.0%	(1.9%)	(0.1%)
Nairobi CBD	11,787	82	82.8%	6.8%	11,863	82	83.8%	6.9%	0.0%	1.0%	0.1%
Thika Road	12,571	79	76.3%	5.7%	12,571	78	77.6%	5.7%	(1.4%)	1.3%	0.0%
Mombasa Road	11,250	73	64.2%	5.1%	11,250	73	64.6%	5.1%	0.0%	0.4%	0.2%
Average	12,106	94	77.6%	7.3%	12,113	94	77.9%	7.3%	0.0%	0.3%	0.0%

Source: Cytonn Research 2022

We have a NEUTRAL outlook for the NMA commercial office sector whose performance is expected to be boosted by an increase in uptake of space as various firms embark on full operations. However, the existing oversupply of space at 6.7 mn SQFT, coupled with the stagnating rental rates, is expected to weigh down performance of the sector. Investment opportunity lies in Gigiri, Westlands, and Karen which offer relatively high returns compared to the market averages.

For more information, please see our [Cytonn Q1'2022 Markets Review](#).