

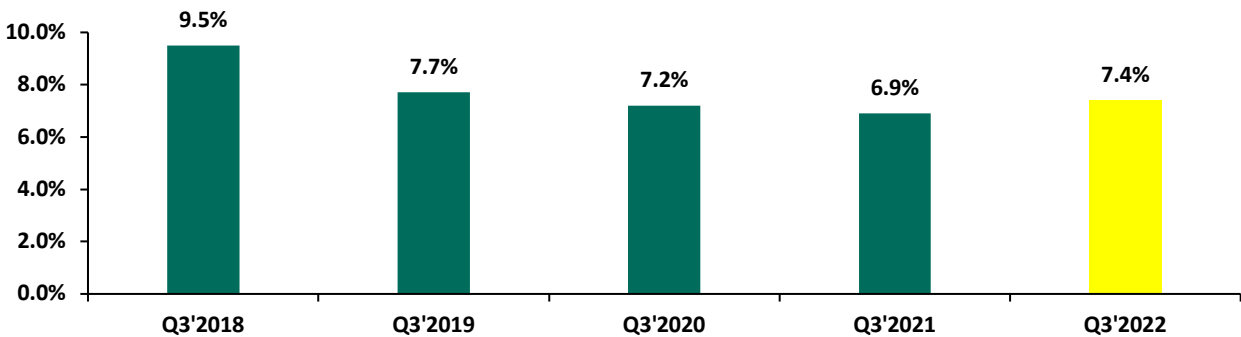
Commercial Office Sector Q3'2022 Markets Review Note

Gigiri, Westlands and Karen recorded the highest rental yields in the Nairobi Metropolitan Area in Q3'2022

In Q3'2022 the NMA commercial office sector realized a slight increase in the average rental yield of 0.1% points to 7.4% in Q3'2022, from 7.3% that was recorded in FY'2021. This was mainly driven by a 1.7% increase in the average rent per SQFT to Kshs 95, owing to the addition of prime office spaces. Similarly, the average occupancy slightly improved by 0.6% points to 78.2%, from 77.6% realized in FY'2021, attributed to the resumption and expansion of various firms such as CCI Group and Nairobi Garage, among others. Additionally, the average selling prices per SQFT increased by 0.3% to Kshs 12,221, from Kshs 12,106 in FY'2021, attributed to the increasing costs of construction materials.

The graph below shows a five-year rental yield performance summary of the commercial office sector;

Cytonn Research: Commercial Office Sector- Average Rental Yield



Source: Cytonn Research

The table below highlights the performance of the Nairobi Metropolitan Area (NMA) Commercial Office sector since the beginning of 2021:

(All values in Kshs unless stated otherwise)

Cytonn Report: Nairobi Metropolitan Area (NMA) Commercial Office Returns Over Time								
Year	Q1'2021	H1'2021	Q3'2021	FY'2021	Q1'2022	H1'2022	Q3'2022	Δ FY'2021/Q3'2022
Occupancy %	76.3%	75.8%	79.9%	77.6%	77.9%	77.9%	78.2%	0.6%
Asking Rents (Kshs/SQFT)	92	93	94	94	94	95	95	1.7%
Average Prices (Kshs/SQFT)	12,228	12,224	12,479	12,106	12,113	12,142	12,221	0.3%
Average Rental Yields (%)	6.8%	6.9%	7.20%	7.3%	7.3%	7.4%	7.4%	0.1%

Source: Cytonn Research 2022

Gigiri, Westlands and Karen recorded the highest rental yields of 8.6% 8.2% and 8.0%, respectively, in Q3'2022 compared to the market average of 7.4%. Their performance was mainly driven by the presence of high-quality office spaces that generate prime rents. On the other hand, Mombasa Road registered the lowest rental yield of 5.1%. This was driven by the low rents that the office spaces in the area attracts, which came in at Kshs 73 per SQFT in Q3'2022, 24.0% 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)

Cytonn Report: Nairobi Metropolitan Area Commercial Office Submarket Performance Q3'2022									
Area	Price/SQ FT Q3'2022	Rent/SQ FT Q3'2022	Occupancy Q3'2022	Rental Yield Q3'2022	Price Kshs/SQFT FY 2021	Rent Kshs/SQ FT FY 2021	Occupancy FY 2021(%)	Rental Yield FY 2021(%)	Δ in Rental Yields (% points)
Gigiri	13,500	118	81.0%	8.6%	13,500	119	81.3%	8.6%	0.0%
Westlands	12,032	107	75.7%	8.2%	11,972	104	75.5%	8.1%	0.1%
Karen	13,431	107	83.0%	8.0%	13,325	106	83.0%	7.7%	0.3%
Parklands	11,662	91	81.0%	7.6%	11,336	91	80.1%	7.6%	0.0%
Kilimani	12,260	92	80.8%	7.4%	12,364	91	79.8%	7.1%	0.3%
Nairobi CBD	11,971	82	84.4%	7.1%	11,787	82	82.8%	6.8%	0.3%
Upperhill	12,586	96	75.2%	6.9%	12,409	94	78.0%	7.0%	(0.1%)
Thika Road	12,571	77	77.9%	6.6%	12,571	79	76.3%	5.7%	0.9%
Mombasa Road	11,325	73	65.5%	5.1%	11,250	73	64.2%	5.1%	0.0%
Average	12,221	95	78.2%	7.4%	12,106	94	77.6%	7.3%	0.1%

Source: Cytonn Research 2022

We have a NEUTRAL outlook for the NMA commercial office sector whose optimum performance continues to be weighed down by the existing oversupply of space in the market. However, we expect the performance to be cushioned by the slow rising demand and uptake for space, coupled with the decline in the number of incoming developments in the pipeline that will allow for uptake of space for the existing developments. Investment opportunities lie in Gigiri, Westlands, and Karen which offer relatively higher returns compared to the market averages.

For more information, please see our [Cytonn Q3'2022 Markets Review](#).