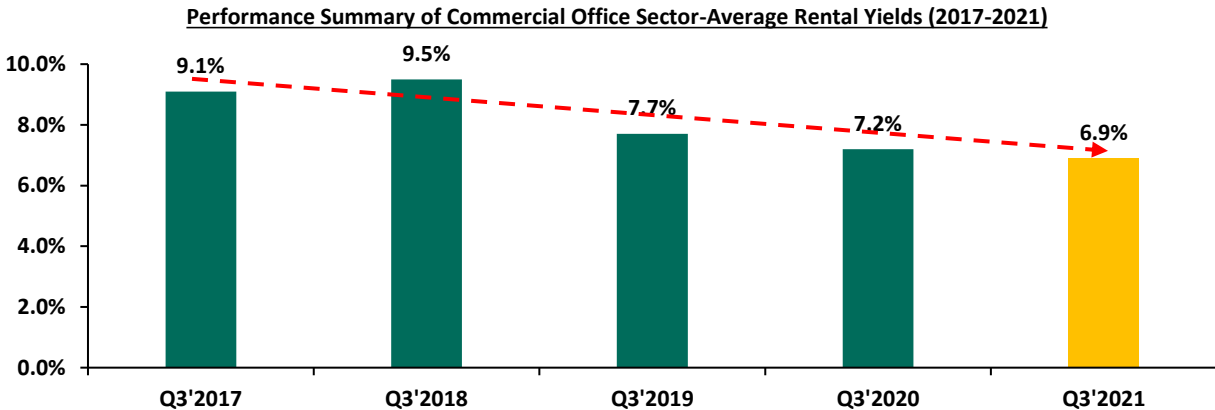


Commercial Office Sector Q3'2021 Markets Review Note

Gigiri and Westlands were the best performing submarkets in Q3'2021 recording average rental yields of 8.4% and 7.9%, respectively against a market average of 6.9%

In Q3'2021, the Nairobi Metropolitan Area (NMA) commercial office sector recorded average rental yields of 6.9%, representing a 0.1% points decline from 7.0% recorded in FY'2020, and 0.3% y/y decline from 7.2% recorded in Q3'2020. This was mainly attributed to the subdued rental rates which came in at Kshs 92.7 per SQFT in Q3'2021, a 0.4% and 1.6% decline compared to the Kshs 93.1 and Kshs 94 per SQFT recorded in FY'2020 and Q3'2020, respectively.

The table below shows a five-year performance summary of commercial office sector for the average rental yields;



Source: Cytonn Research

The average occupancy rates also realized a decline of 0.4% to 77.3% in Q3'2021 compared to the 77.7% recorded in FY'2020 attributable to the low but rising demand for physical office spaces which is as a result of businesses continuing to embrace the working from home strategy and may make it as permanent measure, coupled with the 7.3 mn SQFT office space oversupply as at 2020 hence developers halting their construction plans as they await absorption of the existing spaces. The average asking prices per SQFT also recorded a decline of 0.6% to Kshs 12,211 from Kshs 12,280 in FY'2020 attributed to landlords giving concessions with the aim of attracting tenants and corporate firms to take up commercial spaces with the aim of remaining competitive in the wake of declining demands.

The table below highlights the performance of the Nairobi Metropolitan Area Commercial Office sector over time:

<i>All Values in Kshs unless stated otherwise</i>								
Nairobi Metropolitan Area (NMA) Commercial Office Returns Over Time								
Year	Q1'2020	H1'2020	Q3' 2020	FY'2020	Q1'2021	H1'2021	Q3'2021	Δ FY'2020/ Q3'2021
Occupancy %	81.7%	80.0%	79.9%	77.7%	76.3%	75.8%	77.3%	(0.4%) Points
Asking Rents (Kshs/SQFT)	96.7	95.1	94.2	93.1	92.0	92.8	92.7	(0.4%)
Average Prices (Kshs/SQFT)	12,535	12,516	12,479	12,280	12,228	12,224	12,211	(0.6%)

Average Rental Yields (%)	7.8%	7.3%	7.2%	7.0%	6.8%	6.9%	6.9%	(0.1%) Points
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Source: Cytonn Research 2021

Gigiri and Westlands were the best performing submarkets in Q3'2021 recording average rental yields of 8.4% and 7.9%, respectively, representing 1.5% and 1.0% points higher than the market average of 6.9%, respectively. This was attributed to their superior locations which recorded prime rental rates at Kshs 116 and Kshs 104 per SQFT, respectively against a market average of Kshs 93, due to the good infrastructure within the areas promoting accessibility, the availability of top quality grade A and B offices, and availability of amenities in the surrounding areas.

Mombasa road recorded the lowest rental yields of 4.7% against the market average of 6.9% due to the low average rental rates of Kshs 71 per SQFT against the market's average at Kshs 93 per SQFT. This was mainly attributed to the zoning regulations as Mombasa Road is mainly considered as an industrial area hence minimal investor appetite for its commercial office sector, and, low quality office spaces and traffic snarl-ups affecting accessibility which has been worsened by the ongoing construction activities.

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 Q3'2021											
Area	Price (Kshs) /SQFT Q3'2021	Rent (Kshs) /SQFT Q3'2021	Occupancy (%) Q3'2021	Rental Yields (%) Q3'2021	Price Kshs/SQFT FY 2020	Rent Kshs/SQ FT FY 2020	Occupancy FY 2020(%)	Rental Yield (%) FY 2020	Δ in Rent	Δ in Occupancy (% points)	Δ in Rental Yields (% points)
Gigiri	13,375	116	81.3%	8.4%	13,400	116	82.5%	8.5%	0.2%	(1.3%)	(0.1%)
Westlands	12,038	104	75.6%	7.9%	11,975	104	74.4%	7.8%	0.5%	1.2%	0.1%
Parklands	10,963	94	79.1%	7.9%	10,958	93	79.9%	7.6%	1.1%	(0.8%)	0.3%
Karen	13,325	104	84.8%	7.5%	13,567	106	83.6%	7.8%	(1.8%)	1.3%	(0.3%)
Kilimani	12,293	92	79.8%	7.1%	12,233	93	79.1%	6.8%	(0.7%)	0.7%	0.3%
Upperhill	12,432	93	77.1%	6.7%	12,684	92	78.5%	6.9%	0.9%	(1.3%)	(0.2%)
Nairobi CBD	11,720	81	80.5%	6.7%	11,889	82	82.4%	6.8%	(1.6%)	(1.9%)	(0.1%)
Thika Road	12,500	79	76.7%	5.6%	12,500	80	76.1%	5.8%	(0.9%)	0.5%	(0.2%)
Mombasa Road	11,250	71	61.3%	4.7%	11,313	73	63.0%	4.8%	(2.7%)	(1.8%)	(0.2%)
Average	12,211	93	77.3%	6.9%	12,280	93	77.7%	7.0%	(0.5%)	(0.4%)	(0.1%)

Source: Cytonn Research 2021

We retain a NEGATIVE outlook for NMA's commercial office sector whose performance continues to be majorly affected by the existing oversupply at 7.3 mn SQFT, coupled with the working from home strategy which is still being embraced by various firms that may make it a permanent strategy thereby affecting demand.

For more information, please see our [Cytonn Q3'2021 Markets Review](#).