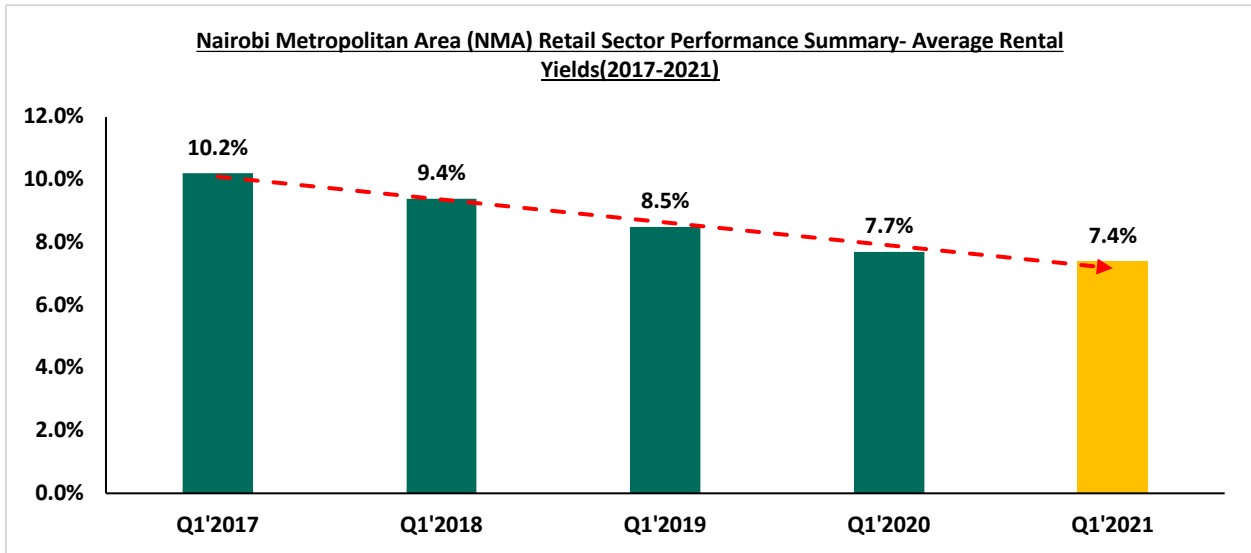


**Nairobi Metropolitan Area (NMA) Retail Sector Q1'2021 Markets Review Note**

**Westlands and Karen were the best performing submarkets in Q1'2021 both recording an average rental yield of 10.1% compared to a market average of 7.4%**

**I. Retail Sector**

The retail sector performance in Q1'2020 recorded a decline of 0.1% points to 7.4% from 7.5% recorded in FY'2020. The average occupancies dropped by 0.2% points from 75.2% in FY'2020 to 75.0% in Q1'2021, the average monthly rents declined by 1.6 % to Kshs 166 per SQFT in Q1'2021 from Kshs 169 per SQFT in FY'2020. The general decline in performance of the sector is attributed to; i) exit by some retailers, both local and international to cushion themselves against the pandemic, ii) constrained spending power among consumers resulting from a tough financial environment, iii) declining occupancy rates due to the reduced demand for physical retail spaces as a result of the shifting focus to e-commerce by some retailers, iv) current oversupply in the retail sector of 2.0 mn SQFT in the Kenyan retail market and 3.1 mn SQFT in the NMA Metropolitan Area. However, some of the factors that continue to cushion the performance of the sector include: i) continued improvement of infrastructure opening up areas for investment, ii) relatively high population growth rate, and, iii) investor confidence due to the ease of doing business in Kenya, having been ranked position #56 by World Bank in the ease of doing business.



Source: Cytton Research

The performance of the retail sector in Nairobi over time is as shown below:

*(All values in Kshs unless stated otherwise)*

Summary of performance overtime						
Item	Q1'2020	H1'2020	Q3'2020	FY'2020	Q1'2021	Δ Q1'2021
Average Asking Rents (Kshs/SQFT)	173	170	169	169	166	(1.6%)
Average Occupancy (%)	76.3%	74.0%	74.2%	75.2%	75.0%	(0.2%) points
Average Rental Yields (%)	7.7%	7.4%	7.4%	7.5%	7.4%	(0.1%) points

Source: Cytton Research 2021

In terms of the sub markets analysis, Westlands and Karen were the best performing nodes recording average rental yields of 10.1% compared to the overall market average of 7.4%. The performance is attributed to presence of affluent residents who have a high consumer purchasing power with the areas hosting high end income earners, the ease of access to the areas, and, relatively high occupancy rates of above 81.0% against the market average of 74.9%.

Eastlands recorded the lowest yields of 5.5%, 1.9% points lower than the average market rates of 7.4%, the performance is attributed to low rental charges of Kshs 132 per SQFT against a market average of Kshs 167 Per SQFT, competition from informal retail spaces, and constrained consumer purchasing power.

The table below shows the submarket performance in the Nairobi Metropolitan Area (NMA):

*(All values in Kshs unless stated otherwise)*

Nairobi Metropolitan Area Retail Market Performance Q1'2021									
Area	Rent (Kshs) /SQFT Q1'2021	Occupancy% Q1'2021	Rental Yield Q1'2021	Rent (Kshs) /SQFT FY' 2020	Occupancy FY' 2020	Rental Yield FY' 2020	Q1' 2021 Δ in Rental Rates	Q1' 2021 Δ in Occupancy (% points)	Q1' 2021Δ in Rental Yield (% points)
Westlands	205	84.5%	10.1%	209	81.5%	9.9%	(2.0%)	3.0%	0.2%
Karen	219	82.6%	10.1%	217	81.0%	9.8%	1.1%	1.6%	0.3%
Kilimani	173	83.8%	8.7%	171	82.5%	8.5%	0.9%	1.3%	0.2%
Ngong Road	178	75.0%	7.6%	178	80.3%	8.2%	(0.4%)	(5.3%)	(0.5%)
Kiambu road	163	70.8%	6.7%	176	67.5%	6.9%	(8.1%)	3.3%	(0.2%)
Mombasa road	139	73.0%	6.0%	140	70.0%	5.9%	(0.7%)	3.0%	0.1%
Satelite towns	138	72.4%	6.0%	133	73.0%	5.8%	4.0%	(0.6%)	0.2%
Thika Road	148	66.8%	5.6%	158	70.5%	6.3%	(6.2%)	(3.7%)	(0.7%)
Eastlands	132	66.0%	5.5%	137	70.2%	6.1%	(3.5%)	(4.2%)	(0.5%)
<b>Average</b>	<b>166</b>	<b>75.0%</b>	<b>7.4%</b>	<b>169</b>	<b>75.2%</b>	<b>7.5%</b>	<b>(1.6%)</b>	<b>(0.2%)</b>	<b>(0.1%)</b>

Source: Cytonn Research 2021

*We retain a NEUTRAL outlook for the retail sector with the performance expected to be affected by factors such as shift towards e-commerce reducing need for physical retail spaces, ii) reduced purchasing power among consumers amid a tough economic environment, iii) reduced rental rates as landlords offer rental concessions and discounts to retain tenants. However, the performance of the retail sector is expected to be cushioned by, i) expansion by local and international retailers, ii) improving infrastructure opening up areas for investment, positive demographics, and iii) investor confidence due to the ease of doing business in Kenya, having been ranked position #56 by World Bank.*

For more information, please see our [Cytonn Q1'2021 Markets Review](#).