

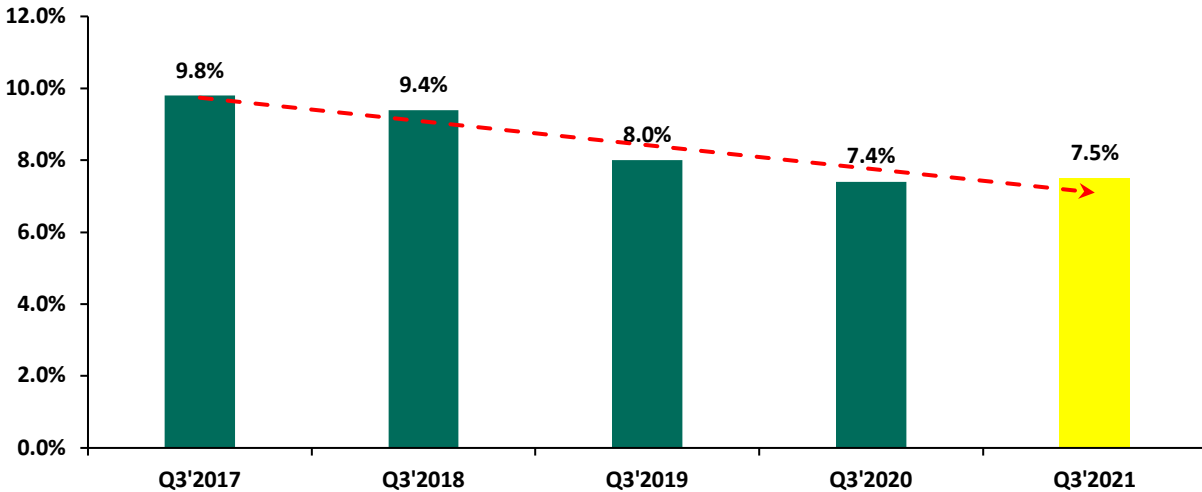
Nairobi Metropolitan Area (NMA) Retail Sector Q3'2021 Markets Review Note

Westlands and Karen were the best performing nodes within the Nairobi Metropolitan Area with average rental yields of 9.7% and 9.4%, respectively compared to the market average of 7.5%

In Q3'2021, the Nairobi Metropolitan Area (NMA) retail market recorded an average rental yield of 7.5%, similar to FY'2020. The average occupancy rates came in at 75.8%, a 0.6% increase from the 75.2% realized in FY'2020, attributed to; i) increased demand for retail spaces evidenced by retailers such as Naivas, Carrefour and QuickMart aggressively taking up new spaces and other spaces previously occupied by troubled retailers, ii) infrastructural developments opening up areas for retail investments, and iii) positive demographics with Kenya's high urbanization and population growth rates at 4.0% p.a and 2.3% p.a, against the global average of 1.9% p.a and 1.1% p.a, respectively according to World Bank.

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

Nairobi Metropolitan Area (NMA) Retail Sector Performance-Average Rental Yields (2017-2021)



Source: Cytonn Research

Rental rates remained low at Kshs 168 per SQFT in Q3'2021 compared to Kshs 169 per SQFT recorded in FY'2020 as a result of landlords offering lower rental rates to attract new tenants as well as retain existing ones, and the growing e-commerce thereby causing reduced demand for physical retail spaces.

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

Summary of Retail Sector Performance Over Time									
Item	FY' 2019	Q1'2020	H1' 2020	Q3' 2020	FY' 2020	Q1' 2021	H1' 2021	Q3' 2021	Δ FY' 2020
Average Asking Rents (Kshs/SQFT)	176	173	170	169	169	166	168	168	(0.5)
Average Occupancy (%)	75.9%	76.3%	74.0%	74.2%	75.2%	75.0%	75.8%	75.8%	0.7% (Points)
Average Rental Yields	7.8%	7.7%	7.4%	7.4%	7.5%	7.4%	7.5%	7.5%	0.0% (Points)

Source: Cytonn Research 2021

In terms of the sub markets performance, Westlands and Karen were the best performing nodes with average rental yields of 9.7% and 9.4% respectively, which is 2.2% and 1.9% points higher than the market average of 7.5%. This was mainly attributed to the higher average rental and occupancy rates which came in at Kshs 209

per SQFT and 80.4%, respectively in Westlands, and Kshs 214 per SQFT and 80.8%, respectively in Karen against the market average of Kshs 168 per SQFT and 75.8%, respectively. The performance is also attributed to the presence of affluent citizens who are mostly high income earners with high consumer purchasing power coupled with the presence of adequate amenities and infrastructure in the areas.

Eastlands ranked last, recording declines in the average rental yields by 0.2% points from 6.1% in 2020 to 5.9% in 2021 due to the low rental rates which declined by 1.5% from Kshs 137 per SQFT to Kshs 135 per SQFT against a market average of 168. The occupancy rates came in at 72.5%, 1.3% points lower than the market average of 75.8% as a result of the relatively high competition from the existing informal retail centers and stores. The table below shows the submarket performance of nodes in the Nairobi Metropolitan Area (NMA):

<i>All Values in Kshs unless stated otherwise</i>									
Nairobi Metropolitan Area (NMA) Q3'2021 Retail Performance									
Area	Rent (Kshs)/SQFT Q3' 2021	Occupancy % Q3' 2021	Rental Yield Q3' 2021	Rent Kshs/SQFT FY' 2020	Occupancy FY' 2020	Rental Yield FY' 2020	2021 Δ in Rental Rates	2021 Δ in Occupancy (% points)	2021 Δ in Rental Yield (% points)
Westlands	209	80.4%	9.7%	209	81.5%	9.9%	(0.1%)	(1.1%)	(0.1%)
Karen	214	80.8%	9.4%	217	81.0%	9.8%	(1.4%)	(0.2%)	(0.4%)
Kilimani	172	83.6%	9.0%	171	82.5%	8.5%	0.6%	1.1%	0.5%
Ngong Road	175	78.0%	7.8%	178	80.3%	8.2%	(1.8%)	(2.3%)	(0.4%)
Kiambu road	178	70.4%	7.2%	176	67.5%	6.9%	0.7%	2.9%	0.2%
Thika Road	158	74.2%	6.7%	158	70.5%	6.3%	0.3%	3.7%	0.4%
Satellite towns	138	72.2%	6.1%	133	73.0%	5.8%	3.6%	(0.8%)	0.3%
Mombasa road	136	70.5%	6.0%	140	70.0%	5.9%	(2.6%)	0.5%	0.1%
Eastlands	135	72.5%	5.9%	137	70.2%	6.1%	(1.5%)	2.3%	(0.2%)
Average	168	75.8%	7.5%	169	75.2%	7.5%	(0.2%)	0.7%	0.0%

Source: Cytonn Research 2021

Our outlook for the retail sector is NEUTRAL due to factors such as oversupply at 1.7 mn SQFT in the Kenyan retail sector and 3.0 mn SQFT in the NMA retail sector, online shopping and e-commerce strategy still being embraced, and, financial constraints still impeding performance of the sector. However, factors like increasing infrastructure developments opening areas for investments, rapid expansion moves by retailers such as Naivas, and positive demographics, are expected to cushion the performance of the market.

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