Nairobi Metropolitan Area Residential Report 2022

"Improved Property Prices to Shape Market Recovery"

Cytonn

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I. Overview of Real Estate in Kenya

Overview of Real Estate in Kenya

Our outlook for the Real Estate sector is NEUTRAL due to limited access to financing for development activities despite the recovering economy boosting Real Estate activities

Factor	Characteristics	Sentiment
Macro-economic Contribution	• Kenya's Real Estate and construction contribution to GDP came in at 15.9% in at 2021, a 0.4% points decline from 16.3% in 2020 attributed to the effects of the tough economic environment caused by the pandemic. However, the Real Estate sector GDP growth came in at 6.7% in 2021, a 2.6% points increase from 4.1% in 2020. This was attributed to resumption of economic activities that boosted Real Estate transactions • We expect the sector's contribution to GDP to improve going forward supported by investor confidence and increase in activities across different themes. Focus on development projects such as affordable housing and infrastructure is expected to enhance performance of the construction sector. The increased budgetary allocation for key themes in the Real Estate sector at Kshs 256.0 bn in FY'2022/23 compared to 222.4 bn in FY'2021/22 will also boost activities	**Neutral**
Returns	• Compared to traditional forms of asset classes, Real Estate maintains relatively stable returns which are boosted by price appreciation that occurs over time as well as the demand surrounding Real Estate developments • We expect the sector to continue outperforming traditional asset classes and to continue attracting investors due to its low correlation to other assets, profitability and relatively low volatility to the market trends	**Positive**
New Players	• With Kenya being ranked #56 out of 190 in the ease of doing business ranking according to World Bank, this has attracted institutional and international players who have entered the property markets and supported development activities. The growing trend towards alternative financing for Real Estate development such as joint venture deals and public-private partnerships (PPPs), is also expected to continue attracting international players, and development financial institutions following the ease of lockdowns amid a global pandemic	Positive
Market Outlook	• Our outlook for the sector is **NEUTRAL** due to financial institutions tightening lending standards hence limited access to financing for development activities, despite the improved construction activities witnessed. We expect the sector's performance to improve supported by increased infrastructure developments which is still the main focus for the government in the FY'2022/23 Budget with an allocation of 212.5 bn, as this will boost property prices	Neutral

Introduction to Real Estate in Kenya –Contribution to GDP

Real Estate and construction sectors contribution to GDP decreased to 15.9% in 2021 from 16.3% in 2020

Sector	2018	2019	2020	2021
Agriculture	20.3%	20.9%	22.6%	22.4%
Manufacturing	8.4%	7.9%	7.6%	7.2%
Wholesale & Retail Trade	8.2%	8.2%	8.1%	7.9%
Hospitality & Tourism	1.1%	1.2%	0.7%	1.0%
Real Estate & Construction	15.2%	15.2%	16.3%	15.9%

2. Nairobi Metropolitan Area Residential Report

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Executive Summary

Total returns in the residential sector registered a 0.3% points increase to 5.8% in 2022 from 5.5% in 2021 attributed to an uptick in house prices and rental rates

- To gauge residential performance in 2022, we carried research in 32 nodes within the Nairobi Metropolitan Area (NMA)
- According to the research, the residential sector recorded improved performance with average total returns registering a 0.3 increase to 5.8% in FY'22, from 5.5% recorded in FY'201. The average y/y price appreciation in the residential market came in at 0.9%, 0.3% points higher compared to a price appreciation of 0.3% recorded in FY'21
- The average rental yields recorded a 0.2% points decline to 4.8% in FY'21 from 5.0% in FY'20, due to reduced rental rates as landlords hoped to attract and retain amidst a tough financial environment
- On housing demand and supply, Nairobi Metropolitan Area has an estimated housing deficit of over 2.0 mn units growing by 200,000 units p.a, attributed to the improving population growth rate which is currently at 2.3% when compared to the global rate of 1.1%, hence cannot be sustained by the limited supply
- The investment opportunity for detached units lies in Ruiru, Rosslyn, Juja and Redhill, which posted the highest average y/y returns at 7.8%, 7.5%, 6.7% and 6.4% respectively, against the detached market average of 5.6%, attributed to high rental yields
- The investment opportunity for apartments lies in Thindigua, Ruaka, Waiyaki Way, and Kikuyu which recorded the highest average y/y total returns of 7.5%, 7.4%, 7.3% and, 7.3% respectively, against the apartments market average of 6.0%, attributed to continued demand evidenced by the relatively high average rental yield of 5.4% and price appreciation of 0.7%
- We expect increased development activities in the residential sector due to the economy recovering from Covid-19, with the government having allocated Housing, Urban Development and Public Works a total of Kshs 21.8 bn in FY'2021/22, a 33.9% increase from Kshs 16.2 bn allocated in FY'2020/21, with affordable housing receiving Kshs 8.2 bn while the Kenya Mortgage Refinance Company (KMRC) received Kshs 3.5 bn, aimed at offering affordable mortgage facilities

NMA Residential Report – "*Improved Property Prices to Shape Market Recovery'*"

Residential average total returns registered a 0.3% points increase to 5.8% in FY'22 from 5.5% recorded in FY'21

Value Area	Summary	Effect
Demand & Supply	• Nairobi Metropolitan Area has an estimated housing deficit over 2.0mn and the government's initiative of delivering approximately 50,000 units every year still yet to be realized Demand and supply improved slightly in FY'21 however performance is still impeded by high construction costs, inadequate supply of development land, and inadequate infrastructure	• The government's affordable housing initiative continues to take shape with the projects gaining popularity in other counties such as Mombasa, Nakuru, Kisumu and Kakamega • The private sector continues to be committed in complementing the government effort in delivering housing units
Returns	• Rental yields improved averaging at 4.9% in FY'22 compared to 4.8% in FY'21 • House prices improved significantly with average y/y price appreciation coming in at 0.9% from a price appreciation of 0.6% the previous year	• We expect more improvement following improved property transactions and infrastructural development which are expected to boost property prices and hence better returns
Opportunity & Outlook	• Investment opportunity for detached units lies in Ruiru, Rosslyn, Juja, and Redhill which posted average y/y returns at 6.6% and 6.5% for the subsequent three respectively, against the market average of 7.8%, 7.5%, 6.7%, and 6.4% while for apartments opportunity lies in Thindigua, Ruaka, Waiyaki Way, and Kikuyu and, Ruaka which recorded average y/y returns of 7.5%, 7.4%, 7.3% and, 7.3% respectively	• We expect increased developments in the undersupplied areas such as in satellite towns which continue to offer affordability in terms of rental and house prices, to low and middle-income earners

We expect increased development activities in the residential sector due to the economy recovering from Covid-19 effects, with the government having allocated Housing, Urban Development and Public Works a total of Kshs 27.7 bn, a 27.1% increase from Kshs 21.8 bn allocated in FY'2021/22, and Kshs 4.6 bn to the Kenya Mortgage Refinance Company (KMRC), in a bid to improve mortgage availability to Kenyans

A. Introduction

Factors Affecting Residential Demand in 2022

In 2022, demand is expected to slightly decrease following the tough economic environment amid an election year causing reduced property transactions

Factor	Characteristics
Housing Deficit	• There still exists a housing deficit of more than 2.0 mn units with the government's initiative of delivering approximately 50,000 units every year still yet to be realized. With the current tough economic time, affordable housing continues to attract demand as people seek to own homes at a time when the country has seen increased unemployment and the subsequent drop in disposable incomes
Demographics	• Kenya's population and urbanization is growing at 2.3% and 4.0% respectively against the global average which is at 1.1% and 1.9% respectively according to World Bank. This is a key factor in driving the demand for Real Estate products and services, hence also cushion the current housing deficit which is at 2.0 mn units growing by 200,000 p.a • We expect the positive demographics to cushion the declined demand for Real Estate properties in the long run
Access to Credit	• The high mortgage interest rate at 11.3% and high transaction costs, has made it difficult for low and middle income earners to afford mortgages. The government increased the KMRC allocation to Kshs 4.6 bn for FY'2022/23, from Kshs 3.5 bn in FY'2021/2022 to enhance its capital and provide affordable loans, we expect this to boost funding for Primary Mortgage Lenders (PMLs) for onward lending to homebuyers
Purchasing Power	• The economy has been on a recovery path from the effects of COVID-19 in 2021 by registering 7.5% growth in 2021 compared to 0.3% contraction in 2020. The growth was attributable to lifting of COVID-19 containment measures according to KNBS. However, unemployment rate increased to 5.7% in 2021 from 5.4% in 2020 affecting the purchasing power in 2021 • However, with the economy recovering, we expect improvement of performance of the developments and uptake of Real Estate products and services for the rest of the year

Factors Affecting Residential Supply in 2022

Inadequate infrastructure, high development costs, and constrained access to credit is expected to affect residential supply in 2022

Factor	Characteristics
Infrastructure	• Inadequate and poor infrastructure in different regions of the country limit development activities due to lack of accessibility hence supply limited as well. The insufficient drainage and sewerage systems in some areas also discourage developers due to the expected high development costs of projects • However with government's aggressiveness to implement infrastructure projects will open up areas to Real Estate developments with some of the projects expected to bring about increased supply being the Nairobi Expressway, Standard Gauge Railway project, and Western By Pass among many others
Development Costs	• Development costs remain high subject to high land and financing costs. According to Cytonn Land Report 2021, average land price per acre within Nairobi Suburbs is currently at Kshs 404.6 mn, in comparison to the Satellite Town's average of Kshs 15.7 mn, thus makes it hard for developers to undertake projects without sufficient financial resources. Additionally, construction costs average at between Kshs 33,450 and Kshs 72,400 in 2022, representing a 5.3% increase from 2021
Access to Credit	• With the high mortgage non-performing loans to gross mortgage ratio of 11.3%, the resultant impact is that most of the lenders will pull back or cease new lending to Real Estate backed loans due to the risk of default in payment, therefore we expect developers to seek alternative sources of financing such as Real Estate Investment Trusts and bonds • However alternative solutions such as the Real Estate joint ventures, Real Estate Investment Trusts (REITs), Public Private Partnerships (PPPs) among others are expected to cushion the limited finance challenge hence sustain supply

Recent Developments

The government has continued to introduce a host of measures to improve transactions in the Real Estate sector

- The government has continued to initiate and implement statutes and regulations to better the performance of the Real Estate sector with some of the reviews in line with the residential sector performance include;

Regulation

a) **National Property Rating Legislation Review;** The government of Kenya announced plans to review property rates after every five years as contained in the proposed National Rating Bill, 2021, to ensure the government does not lose out on the current capital appreciations of public land in October 2021

b) **The Public Private Partnerships (PPP) Bill 2021;** President Uhuru Kenyatta signed the Public Private Partnerships (PPP) Bill 2021 into law in December 2021. The Act aims to address the shortcomings of the PPP Act 2013 by including a streamlined project processes with clear timelines, expanded procurement options and robust processes for privately initiated investment proposal

c) **The Landlord and Tenant Bill of 2021;** The Landlord and Tenant Bill of 2021 was tabled to the Senate for consideration having been passed by the National Assembly in April 2022. The Bill aims to consolidate the laws relating to renting of business and residential premises, regulating the relationship between the landlord and tenant in order to promote stability in the rental sector, and, establish tribunals to provide for the adjudication of disputes

d) **FY'2022/23 Budget Statement;** The State Department of Transport was allocated Kshs 1.4 bn in FY'2022/23 from Kshs 1.0 bn in FY'2021/22, representing a 37.4% increase. Infrastructure, was allocated Kshs 212.5 bn in the FY'2022/23 to support construction of roads and bridges as well as the rehabilitation and maintenance of roads, which is a 4.9% increase from Kshs 202.5 bn allocated in FY'2021/22

Recent Developments

In FY'2021/22 focus on the affordable housing initiative and infrastructural development continued to take shape shape the performance of the Real Estate sector

- The recovery of the Kenyan economy has seen increased Real Estate property transactions and a boost of investor confidence. Some of the key developments that have continued to shape the performance of the Real Estate sector include;

a) Continued focus on Affordable Housing by both the government and the private sector, for instance, in January 2022, the State Department of Housing and Urban Development partnered with Seascan Development Limited to construct 4,900 affordable housing units in a project dubbed Mowlem Estate in Nairobi's Dandora area

b) Efforts by the government to provide affordable mortgages through the Kenya Mortgage Refinance Company aiming to increase home ownership. The firm rolled out a Kshs 10.5 bn Medium-Term Note (MTN) bond programme in January 2022, which recorded an oversubscription of 478.6% in the first tranche that aimed to raise Kshs 1.4 bn

c) Improved infrastructure opening up areas for investment such as the Nairobi Expressway, and Nairobi Western Bypass projects, among many others

B. Residential Market Performance

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Market Performance Summary

We conducted research in 35 sub-markets and categorized them into High End, Upper Middle and Lower Middle segments

- We conducted research in 35 various sub-markets in the Nairobi Metropolitan Area (NMA) to determine uptakes through selling, occupancy rates through renting and total returns by summing up price appreciations and rental yields
- We covered both apartments and detached units differently with detached units referring to stand-alone houses such as townhouses, mansionettes and bungalows, and apartments referring to a self-contained housing units occupying part of a building, also called flats
- In our sub-markets analysis, we classified the various node areas in the Nairobi Metropolitan Area into three segments:

  i. **High End Income Segment** – Consists of prime suburbs in Nairobi, such as Karen, Runda and Rosslyn. Most of these areas have zones for low rise residential developments only and are characterized by palatial villas and bungalows

  ii. **Upper Middle Income Segment –** Consists of suburbs such as Parklands, Westlands, Upperhill, Loresho, Ridgeways among others. The population in these zones are majorly upper middle class with higher incomes than the average characterization of middle class. They are zones for both high rise and low density houses

  iii. **Lower Middle Income Segment –** Consists of suburbs habited by middle class such as Donholm, Komarock and Imara Daima as well as Satellite Towns such as Ngong, Rongai and Juja

Market Performance Summary

Average total returns improved in FY’2021/22 averaging at 5.8%, 0.3% higher than FY'2020/21 which recorded 5.0%, on account of improved price appreciation

Residential Market Performance Summary: FY’2021/22-FY’2020/21 Comparison									
Segment	Average of Rental Yield FY'2021/22	Average of Price Appreciation FY'2021/22	Total Returns FY'2021/22	Average of Rental Yield FY'2020/21	Average of Price Appreciation FY'2020/21	Average of Total Returns FY'2020/21	y/y change in Rental Yield (% Points)	y/y change in Price Appreciation (% Points)	y/y change in Total Returns (% Points)
High End	4.0%	1.5%	5.5%	3.6%	1.0%	4.6%	0.4%	0.5%	0.9%
Upper Mid-End	4.5%	0.9%	5.5%	4.5%	0.6%	5.0%	0.0%	0.3%	0.5%
Satellite Towns	5.0%	0.8%	5.8%	4.1%	0.7%	4.8%	0.9%	0.1%	1.0%
Detached Average	**4.5%**	**1.1%**	**5.6%**	**4.1%**	**0.8%**	**4.8%**	**0.4%**	**0.3%**	**0.8%**
Upper Mid-End	5.3%	0.3%	5.6%	5.2%	0.0%	5.2%	0.1%	0.3%	0.4%
Lower Mid-End	5.4%	0.3%	5.8%	5.0%	0.2%	5.3%	0.4%	0.1%	0.5%
Satellite Towns	5.3%	1.4%	6.7%	5.4%	0.0%	5.5%	(0.1%)	1.3%	1.2%
Apartments Average	**5.4%**	**0.7%**	**6.0%**	**5.2%**	**0.1%**	**5.3%**	**0.1%**	**0.6%**	**0.7%**
Residential Market Average	**4.9%**	**0.9%**	**5.8%**	**4.6%**	**0.4%**	**5.0%**	**0.3%**	**0.5%**	**0.7%**

- Average total returns improved in FY’2021/22 to 5.8%, a 0.3% points increase from 5.5% recorded in FY'2020/21
- Residential average y/y price appreciation came in at 0.9%, 0.5% points higher compared to a price appreciation of 0.4% recorded in FY'2020/21
- The average rental yield recorded a 0.3% points increase to 4.9% from 4.6% in FY'2020/21 due to increased rental rates supported by improved property prices

I. Detached Units Performance

Detached Units: High-End

Average price appreciation came in at 1.5%, with Rosslyn being the best performing node with an average total return of 7.5%

FY'2021/22 Market Performance: High End								
Area	Average of Price per SQM	Average of Rent per SQM	Average of Occupancy	Average of Uptake	Average of Annual Uptake	Average of Rental Yield	Average of Price Appreciation	Total Returns
Rosslyn	182,441	803	88.4%	98.1%	14.5%	4.7%	2.8%	**7.5%**
Karen	185,270	693	86.0%	92.2%	12.8%	3.7%	2.0%	**5.7%**
Kitisuru	227,272	757	93.4%	87.6%	12.3%	4.2%	1.2%	**5.4%**
Lower Kabete	152,061	458	98.8%	89.3%	13.4%	3.6%	1.2%	**4.8%**
Runda	211,728	746	93.5%	96.3%	10.0%	4.1%	0.3%	**4.4%**
Average	**191,754**	**691**	**92.0%**	**92.7%**	**12.6%**	**4.0%**	**1.5%**	**5.5%**

- Detached units in the high end areas offered an average rental yield of 4.0% and price appreciation of 1.5% bringing the total returns to 5.5% with Rosslyn offering the highest returns at 7.5% while Runda offered the lowest return at 4.4%. Rosslyn continues to remain a preference to high income earners due to its proximity to malls as Two Rivers Mall, Rosslyn Riviera Mall, and, Village market, amenities such Rosslyn Academy and infrastructure such as the Northern bypass
- Runda recorded the lowest average y/y price appreciation of 0.3% attributed to the relatively low uptake which came in at 10.0%, 3.2% points lower than the high-end market average of 12.6% attributed to reduced demand for units in the area. However, this was an improvement compared to a price correction of 1.6% which it realized in the same period in 2021

Detached Units: Upper Mid-End

The average price appreciation for detached units in the upper mid-end segment came in at 0.9%, with Redhill recording the highest average price appreciation at 1.7%

FY'2021/22 Market Performance: Upper Mid-End								
Area	Average of Price per SQM	Average of Rent per SQM	Average of Occupancy	Average of Uptake	Average of Annual Uptake	Average of Rental Yield	Average of Price Appreciation	Total Returns
Redhill & Sigona	99,491	462	88.9%	96.2%	14.4%	4.7%	1.7%	**6.4%**
Ridgeways	167,607	778	82.2%	87.4%	12.8%	5.0%	1.1%	**6.1%**
Runda Mumwe	152,592	743	89.1%	89.7%	12.4%	5.1%	0.6%	**5.7%**
South B/C	110,313	410	89.5%	88.5%	12.8%	4.2%	1.1%	**5.3%**
Loresho	168,134	713	80.5%	83.1%	13.2%	4.9%	0.3%	**5.2%**
Langata	139,714	401	92.6%	89.4%	10.0%	3.8%	1.0%	**4.8%**
Lavington	187,753	632	91.2%	90.9%	12.7%	4.0%	0.5%	**4.5%**
Average	**146,515**	**591**	**87.7%**	**89.3%**	**12.6%**	**4.5%**	**0.9%**	**5.4%**

- The upper mid-end segment recorded an average total return of 5.4% with a rental yield of 4.5% and 0.9% y/y price appreciation
- Redhill remained the best performing node in the segment with an average total return of 6.4% attributed to the relatively high average rental yield and y/y price appreciation which came in at 4.7% and 1.7% respectively, 0.2% points and 0.8%points higher than the segments market average of 4.5% and 0.9%, respectively
- Lavington was the least performing node in the segment with an average total return of 4.5%, 0.9% points lower than the segment's market average of 5.4%

Detached Units: Lower Mid-End

Detached units in the lower mid-end segment performed the best recording an average total return of 5.8% with Ruiru and Juja being the highest with 7.8% and 6.7% respectively

FY'2021/22 Market Performance: Lower Mid-End								
Area	Average of Price per SQM	Average of Rent per SQM	Average of Occupancy	Average of Uptake	Average of Annual Uptake	Average of Rental Yield	Average of Price Appreciation	Total Returns
Ruiru	66,949	345	85.4%	82.0%	18.6%	5.9%	1.9%	**7.8%**
Juja	71,548	305	86.3%	80.9%	16.8%	5.5%	1.2%	**6.7%**
Kitengela	64,659	294	85.3%	79.9%	12.3%	4.9%	1.4%	**6.3%**
Ngong	59,840	348	89.2%	94.9%	12.3%	6.5%	(0.2%)	**6.3%**
Syokimau/Mlolongo	74,096	328	86.6%	90.1%	18.2%	4.5%	1.5%	**6.0%**
Athi River	84,693	352	86.6%	93.5%	13.1%	4.3%	1.6%	**5.9%**
Rongai	80,521	277	95.4%	95.4%	16.4%	4.0%	1.1%	**5.1%**
Thika	62,315	301	82.3%	86.3%	13.5%	5.3%	(0.5%)	**4.8%**
Donholm & Komarock	92,706	409	92.5%	99.5%	13.3%	4.3%	(1.0%)	**3.3%**
Average	**73,037**	**329**	**87.7%**	**89.2%**	**15.0%**	**5.0%**	**0.8%**	**5.8%**

- Detached units in the lower mid-end segment performed the best recording an average total return of 5.8% with Ruiru and Juja being the highest with 7.8% and 6.7% respectively attributed to their relatively high rental yield averaging 5.9% and 5.5%, respectively and y/y price appreciation which came in at 1.9% and 1.2% respectively, 1.1% and 0.4% points higher than the segment's market average of 0.8%
- Ruiru's performance is attributed to being one of the fastest growing satellite towns in that are commercially attractive hence attracting residents

II. Apartments Performance

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Apartments: Upper Mid-End

Rental yields remained attractive in the upper mid-end segment averaging at 5.3% compared to the overall residential market at 4.9%

FY'2021/22 Market Performance: Upper Mid-End								
Area	Average of Price per SQM	Average of Rent per SQM	Average of Occupancy	Average of Uptake	Average of Annual Uptake	Average of Rental Yield	Average of Price Appreciation	Total Returns
Westlands	146,211	848	83.8%	87.2%	24.9%	5.9%	0.1%	**6.0%**
Kileleshwa	126,053	675	83.4%	87.7%	15.0%	5.5%	0.4%	**5.9%**
Kilimani	104,371	667	84.2%	92.5%	22.0%	5.8%	0.1%	**5.9%**
Loresho	122,101	543	87.8%	97.2%	10.4%	4.7%	1.2%	**5.9%**
Parklands	120,858	595	82.8%	90.2%	13.7%	4.8%	1.0%	**5.8%**
Upperhill	135,167	770	80.5%	88.7%	11.1%	5.1%	(1.1%)	**4.0%**
Average	**125,794**	**683**	**83.8%**	**90.6%**	**16.2%**	**5.3%**	**0.3%**	**5.6%**

- The upper mid-end segment recorded an average total return of 5.6% with a relatively high average rental yield of 5.3% and price appreciation of 0.3% with most markets recording price appreciations attributed to improved property transactions by the growing middle class.
- Westlands was the best performing node with an average total return of 6.0% attributed to its relatively high rental yield of 5.9%, 0.6% points higher than the market average of 5.3%. The recent completion of the Nairobi Expressway, presence of amenities, and vibrant commercial activities continues to support uptick in rental rates
- Upper hill was the least performing node with a price correction of 1.1% which brought its average total return to 4.0%, 1.6% points lower than the segment's market average of 5.6%

Apartments: Lower Mid-End Suburbs

Apartments in the lower mid-end suburbs recorded an average total return of 5.7% with an average y/y average price appreciation of 0.3%.

FY'2021/22 Market Performance: Lower Mid-End Suburbs								
Area	**Average of Price per SQM**	**Average of Rent per SQM**	**Average of Occupancy**	**Average of Uptake**	**Average of Annual Uptake**	**Average of Rental Yield**	**Average of Price Appreciation**	**Total Returns**
Waiyaki Way	88,518	537	84.1%	86.6%	18.3%	6.2%	1.1%	**7.3%**
South C	117,736	723	82.3%	79.6%	18.2%	6.1%	0.4%	**6.5%**
Imara Daima	80,559	421	87.3%	89.6%	12.9%	5.2%	1.2%	**6.4%**
Dagoretti	85,017	572	88.1%	81.2%	14.4%	5.9%	0.1%	**5.9%**
Donholm & Komarock	77,683	394	93.1%	93.9%	12.5%	5.8%	0.1%	**5.9%**
Race Course/Lenana	99,676	633	81.9%	93.6%	19.9%	5.9%	(0.1%)	**5.8%**
Kahawa West	74,409	314	88.8%	92.5%	10.7%	5.2%	0.6%	**5.7%**
South B	105,460	463	82.4%	95.2%	14.9%	4.2%	0.2%	**4.4%**
Langata	114,887	537	81.2%	88.1%	13.0%	4.5%	(0.6%)	**4.0%**
Average	**93,772**	**510**	**85.5%**	**88.9%**	**15.0%**	**5.4%**	**0.3%**	**5.7%**

- Apartments in lower mid-end suburbs recorded an average total return of 5.7% with an average y/y average price appreciation of 0.3%. This was a decline in performance compared to a total return of 6.2% in a similar period in 2021 attributed to a 0.6% points decline in price appreciation from 0.9% in 2021
- Waiyaki way was the best performing node with an average total return of 7.3%, and the highest price appreciation at 1.1% attributed to the completion of Nairobi Expressway which boosting rental rates that brought the average rental yield to 6.2%

Apartments: Lower Mid-End Satellite Towns

Satellite towns registered the highest average total returns in the apartments market, coming in at 6.7% driven by demand for renting units in satellite towns due to their affordability

FY'2021/22 Market Performance: Lower Mid-End Satellite Towns								
Area	**Average of Price per SQM**	**Average of Rent per SQM**	**Average of Occupancy**	**Average of Uptake**	**Average of Annual Uptake**	**Average of Rental Yield**	**Average of Price Appreciation**	**Total Returns**
Thindigua	100,679	499	87.2%	78.1%	17.5%	5.4%	2.2%	**7.5%**
Ruaka	108,906	551	81.0%	85.0%	22.0%	5.2%	2.2%	**7.4%**
Kikuyu	82,246	489	71.5%	84.5%	14.9%	5.2%	2.1%	**7.3%**
Ngong	60,737	360	78.0%	81.6%	11.5%	5.6%	1.6%	**7.2%**
Ruiru	89,850	493	84.3%	85.9%	17.3%	5.6%	1.4%	**7.0%**
Athi River	61,317	335	83.3%	93.7%	13.7%	5.5%	1.2%	**6.7%**
Syokimau	68,552	332	87.4%	89.8%	12.1%	5.0%	1.6%	**6.6%**
Rongai	96,990	311	88.8%	75.1%	12.1%	5.8%	(0.1%)	**5.7%**
Kitengela	60,108	278	82.7%	96.3%	10.1%	4.9%	0.1%	**5.0%**
Average	**81,043**	**405**	**82.7%**	**85.6%**	**14.6%**	**5.3%**	**1.4%**	**6.7%**

- Satellite Towns recorded the highest average total return at 6.7% attributed to the relatively high average y/y price appreciation of 1.4% with a rental yield of 5.6%. Demand for units in the segment continued to be driven by relative affordability of housing units and preference of rental rates in Satellite towns
- Thindigua was the best performing node with an average total return od 7.5% attributed to its relatively high average rental yield of 5.4% and an average price appreciation of 2.2%, 0.8% points higher than the segment’s market average of 1.4%. Rongai was the only node that recorded a price correction of 0.1% while Kitengela recorded the least performance with an average total return of 5.0%

Market Performance Summary

The market performance recorded improvement with the average total return for the residential market coming in at 5.8% attributed to improved property prices

Residential Performance Summary FY'2021/22								
Segment	Typology	Average Price Per SQM	Average Rent Per SQM	Average Occupancy	Average Annual Uptake	Average Rental Yield	Average Y/Y Price Appreciation	Average Total Returns
High-End	Detached	191,754	691	92.0%	12.6%	4.0%	1.5%	**5.5%**
Upper Mid-End	Detached	146,515	591	87.7%	12.6%	4.5%	0.9%	**5.4%**
Lower Mid-End	Detached	73,037	329	87.7%	15.0%	5.0%	0.8%	**5.8%**
Upper Mid-End	Apartments	125,794	683	83.8%	16.2%	5.3%	0.3%	**5.6%**
Lower Mid-End	Apartments	93,772	510	85.5%	15.0%	5.4%	0.3%	**5.7%**
Satellite Towns	Apartments	81,043	405	82.7%	14.6%	5.3%	1.4%	**6.7%**
Residential Market Average		**118,652**	**535**	**86.6%**	**14.3%**	**4.9%**	**0.9%**	**5.8%**

- Average total returns improved in FY' 2021/22 to 5.8%, a 0.3% points increase from 5.5% recorded in FY'2020/21, and can be attributed to residential average y/y price appreciation, which came in at 0.9%, 0.3% points higher compared to a price appreciation of 0.6% recorded in FY'2020/21
- Rental rates recorded improvement bringing the average rental yield to 4.9%, 0.1% points higher than 4.8% recorded in a similar period last year. However, uptake of units recorded a decline coming in at 14.3%, a 1.2% points lower than 15.1% recorded last year attributed to preference of renting than buying units with the tough economic environment affecting buyers purchasing power
- However, the average price per SQM came in at Kshs 118,652, 0.7% higher than the average Kshs 117,865, recorded in FY'2020/21 due to an uptick of house prices as sellers aimed to cash in on the increased property transactions

D. Conclusion and Outlook

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Conclusion and Outlook

Of the key metrics we use to measure performance, our outlook for housing demand is positive while for access to funding we have a negative outlook

Factor	Outlook going forward	2021 Outlook	2022 Outlook
Housing Demand	• Demand for affordable housing continues to remain high with the annual demand at more than 200,000 units, and is expected to cumulatively grow to 2.0 mn units with the government yet to realize delivery of 50,000 units every year despite the growing urbanization and population rates estimated at 4.0% p.a and 2.3% p.a. respectively, against the global average of 1.8% p.a and 1.0% p.a • We therefore expect housing demand to keep rising especially in the lower and middle income areas as the government lags behind in the affordable housing program under the Big 4 Agenda	Positive	Positive
Access to Funding	• The government increased the CBR rate to 7.5% in May 2022 from 7.0% since March 2020 which is expected to increase the cost of borrowing for developers thus constraining residential supply • The number of mortgages advanced by banks declined in 2021 with mortgage loan accounts coming in at 26,723 from 26.971 in 2020 attributed to tight lending standards following high default rates. We expect cautious lending to continue amidst the tough economic times with Non Performing Loans to gross mortgage ratio of 11.6% being attributed to lesser loans to be granted • Despite the government supporting affordable housing through mortgage financing by the Kenya Mortgage Refining Company (KMRC), budgetary allocation reduced to 8.7 bn in FY'2022/23 from Kshs 13.9 bn in FY'2021/22. Over reliance on bank funding for Real Estate development still remains a challenge with funding through banks being 99.0% while 1.0% is through capital markets. There is a growing trend towards alternative financing for development especially through Public-Private Partnerships (PPPs)	Neutral	Negative

Conclusion and Outlook

Of the key metrics we use to measure performance, our outlook for infrastructure is positive while for performance we retain a neutral outlook

Factor	Outlook going forward	2021 Outlook	2022 Outlook
Infrastructure	• Infrastructural developments remain one of the key drivers of residential developments by boosting price appreciations and increase in rental yields • The government has reiterated its commitment to infrastructural developments having boosted its budgetary allocations in FY'2022/23 to Kshs 212.5 bn from Kshs 182.5 bn in the last financial year • Numerous infrastructure projects are ongoing including the Northern and Westen Bypasses, LAPPSET project, and Nairobi Commuter Rail project among others, while others such as the 27-km Nairobi Express Way running from Westlands to Jomo Kenyatta International Airport (JKIA), and the the first three births of the t Northern Bypass and the LAPPSET project are complete	**Positive**	**Positive**
Performance	• In terms of performance, the sector recorded improved performance with average total returns averaging at 5.8%, 0.3% points higher than 5.5% recorded in FY'2020/21, and can be attributed to y/y price appreciation, which came in at 0.9%, 0.3% points lower compared to a price appreciation of 0.6% recorded in FY'2020/21	**Neutral**	**Neutral**
Market Outlook & Investment Opportunity	• **With a positive outlook on housing demand and infrastructure, neutral outlook on performance and negative outlook on access to funding, our overall outlook for the sector is NEUTRAL. For apartments, the best opportunity is investment in areas such as Thindigua, Ruaka, Waiyaki Way, and Kikuyu driven by returns, appreciation as well as state of infrastructure and amenities; for detached units, the best investment opportunity is in areas such as Ruiru, Rosslyn, Juja and Redhill, driven by uptake and the current performance in terms of returns to investors. For more information, see the full report.**		

Thank You!

For More Information, please see below our contact details:

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