Nairobi Metropolitan Area Residential Report 2021

"Market Performance in the Wake of a Recovering Economy"

Cytonn

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I. Overview of Real Estate in Kenya

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Overview of Real Estate in Kenya

Our outlook for the 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	• As at Q3'2020, the real estate and construction sector registered a 0.9% points increase in contribution to GDP to 16.0% when compared to 15.1% in Q2'2020. This was attributed to favourable operating environment following the gradual reopening of the economy after relaxation of Covid-19 imposed restrictions and lockdowns, hence leading to increased liquidity which boosted investor confidence • We expect the sector's contribution to GDP to improve going forward following the government and private sector aggressiveness in encouraging real estate activities with a budgetary allocation of Kshs 222.4 bn for key themes in the real estate sector	**Neutral**
Returns	• Unlike traditional investments whose returns fluctuate with market performance, real estate returns have minimal variance and as the value increases over time, they provide a source of stable and consistent returns • 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	**Positive**
New Players	• The sector continues to attract more of institutional and international players with an absolute development capability. The focus on the affordable housing initiative, is expected to continue attracting international players, and development financial institutions once global lockdowns are lifted • In search for better margins, we also expect to see more joint venture deals and public-private partnerships at a time when access to financing remains a key challenge	Positive
Market Outlook	• Our outlook for the sector is neutral due to limited access to financing for development activities despite the improved construction activities witnessed. We expect the sector's performance to improve supported by the government and private sector aggressiveness in implementing housing initiative programs, the planned Kshs 30.0 mn Nairobi County e-Development Permit System upgrade expected to be done by June 2022, aiming to offer faster and efficient construction approvals in Nairobi, and improved accessibility to mortgages	Neutral

Introduction to Real Estate in Kenya –Contribution to GDP

Real Estate and construction sectors contribution to GDP increased to 16.0% in Q3’2020 from 15.1% in Q2’2020

Sector	2019	Q1’2020	Q2’2020	Q3’2020
Agriculture	18.3%	26.0%	25.7%	19.7%
Manufacturing	9.7%	9.3%	9.9%	9.5%
Wholesale & Retail Trade	8.8%	6.9%	7.3%	8.7%
Hospitality & Tourism	1.3%	1.3%	0.2%	0.6%
Real Estate & Construction	14.4%	13.0%	15.1%	16.0%

Source: KNBS

2. Nairobi Metropolitan Area Residential Report

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Executive Summary

Total returns in the residential sector registered a 0.5% points increase to 5.5% in FY'21 from 5.0% in FY'20 attributed to an uptick in house prices in the wake of a recovering economy

- To gauge residential performance in 2021, 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 0.5 increase to 5.5% in FY'21, from 5.0% recorded in FY'20. The average y/y price appreciation in the residential market came in at 0.6%, 0.7% points higher compared to a price correction of 0.1% recorded in FY'20
- 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 2.2% 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, Kitisuru, Redhill, and Syokimau which posted the highest average y/y returns at 6.6% and 6.5% each for the subsequent three respectively, against the detached market average of 5.4%, attributed to high rental yields
- The investment opportunity for apartments lies in Waiyaki Way, Parklands and, Ruaka which recorded the highest average y/y total returns of 8.1%, 7.6% and, 7.5% respectively, against the apartments market average of 5.5%, attributed to continued demand evidenced by the relatively high average rental yield and price appreciation
- 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 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 – "*Market Performance in the Wake of a Recovering Economy*"

Residential average total returns registered a 0.5% points increase to 5.5% in FY'21 from 5.0% recorded in FY'20

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 the Covid-19 pandemic effects which still affects purchasing and spending power of people	• The government's affordable housing initiative continues to take shape with the projects gaining popularity in other counties such as Mombasa, Nakuru and Kakamega • The private sector continues to be committed in complementing the government effort in delivering housing units
Returns	• Rental yields remained suppressed averaging at 4.8% in FY'21 compared to 5.0% in FY'20 • However, house prices improved significantly with average y/y price appreciation coming in at 0.6% from a price correction of 0.1% the previous year	• We expect improved development activities in the sector with the improving economy expected to boost property prices and hence better returns
Opportunity & Outlook	• Investment opportunity for detached units lies in Ruiru, Kitisuru, Redhill, and Syokimau which posted average y/y returns at 6.6% and 6.5% for the subsequent three respectively, against the market average of 5.4% while for apartments opportunity lies in Waiyaki Way, Parklands and, Ruaka which recorded average y/y returns of 8.1%, 7.6% and, 7.5% respectively, against the market average of 5.6%	• We expect increased developments in the undersupplied areas such as in satellite towns which offer 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 21.8 bn, a 33.9% increase from Kshs 16.2 bn allocated in FY'2020/21, and Kshs 8.2 bn to the Kenya Mortgage Refinance Company (KMRC), in a bid to improve mortgage availability to Kenyans

A. Introduction

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Factors Affecting Residential Demand in 2021

In 2021, demand is expected to slightly increase especially in affordable housing units supported by positive demographics and need to own affordable homes

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 fast population and urbanization growth which is currently at 2.2% and 4.0% against the global average which is at 1.1% and 1.9% respectively 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, with the economy already picking up from the effects of the pandemic
Access to Credit	• The high mortgage interest rate currently at 12.0% and high transaction costs, has made it difficult for low and middle income earners to afford mortgages. However, with the government having allocated Kshs 3.5 bn for FY'2021/22 to Kenya Mortgage Refinance Company (KMRC) to enhance its capital and provide affordable loans, we expect improvement in performance in the mortgage lending and uptake rate
Purchasing Power	• As a result of the tough economic condition brought about by the Covid-19 pandemic, Kenya's real GDP shrank to -1.1% in Q3'2020 from 5.8% registered in Q3'2019 according to KNBS. Moreover, unemployment rate increased by 26.4% points to 7.2% in Q3'2020 from 5.3% in Q3'2019 with approximately 2.0 mn people having lost their job resulting to declined consumer purchasing power as people limit their spending • With the economy picking up from the effects of the pandemic, 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 2021

Inadequate infrastructure, high development costs, and constrained access to credit is expected to affect residential supply in 2021

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 currently underway including 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 2020, average land price per acre within Nairobi Suburbs is currently at Kshs 419.0 mn, in comparison to the Satellite Town's average of Kshs 25.0 mn, thus makes it hard for developers to undertake projects without sufficient financial resources
Access to Credit	• With the increase in non-performing loans, 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 real estate joint ventures, Real Estate Investment Trusts (REITs), Public Private Partnerships (PPPs) among others is 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 including;

Regulation

a) **National property rating legislation;** The Kenya's National Treasury announced plans to draft a national property rating legislation to replace the outdated Valuation for Rating Act of 1956 and the Rating Act of 1963 in January 2021. The agency sought to overhaul the 1956 property valuation laws in a bid to determine new land rates and ensure inclusion of more property owners into the tax bracket

b) **The Landlord and Tenant Bill of 2021** was tabled in Parliament with the aim of consolidating the laws relating to the renting of business and residential premises and regulating the relationship between the landlord and tenant in order to promote stability in the rental sector, in March 2021

c) **New Draft Valuation Roll;** Nairobi's City Hall announced plans to conduct public participation into the New Draft Valuation Roll, on 16th June 2021 in the 17 sub-counties in Nairobi, to pave way for its roll-out, since being tabled before the Nairobi County Assembly February 2021

d) **FY'2021/22 Budget Statement;** Housing, Urban Development and Public Works were allocated a total of Kshs 21.8 bn, a 33.9% increase from FY'2020/21 with Kenya Mortgage Refinance Company (KMRC) receiving Kshs 3.5 bn to enhance company's capital and lending to primary mortgage lenders

Recent Developments

In FY'2020/21 focus on the affordable housing initiative continued to take shape

- Despite the pandemic, the government and other private developers were aggressive in implementing select projects hence major developments made in FY'2020/21 under the affordable housing initiative include;

a) The Kenyan national government made available the first 488 completed units of its ongoing Park Road affordable housing project in Nairobi in November 2020 to the public, with the sale having taken a one-week period. Additionally, the government commenced the allocation of the first block of 160 units at the Pangani Estate renewal project in 2020

b) The government started allocation of the first block of 160 units at the Pangani Estate renewal project. The tenants are expected to move into the houses in February, becoming the first owners of the ongoing Kshs 5.0 bn project

c) Kenya Mortgage and Refinance Company (KMRC), a Treasury backed lender, announced plans to lend approximately Kshs 37.2 bn to Kenyans earning a maximum of Kshs 150,000 per month and seeking to purchase affordable housing units. The lending began in September with mortgag loans capped at Kshs 4.0 mn for those seeking residence within the Nairobi Metropolitan Area (NMA) which also covers Kiambu, Machakos and Kajiado and at Kshs 3.0 mn for all other areas outside the NMA

d) In the FY'2021/21 Budget, the Kenya Mortgage Refinance Company (KMRC) receiving Kshs 3.5 bn to enhance company's capital and lending to primary mortgage lenders while construction of affordable housing units, urban housing units and Kenya Informal Settlement Improvement Phase II, received an allocation of Kshs 8.2 bn, Kshs 0.7 bn, and Kshs 3.5 bn, respectively

B. Residential Market Performance

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Market Performance Summary

We conducted research in 32 sub-markets and categorized them into High End, Upper Middle and Lower Middle segments

- We conducted research in 32 various sub-markets in the Nairobi Metropolitan Area (NMA) to determine uptakes through selling, occupancies 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 but 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'21 averaging at 5.0%, 0.5% higher than FY'20 which recorded 5.0%, on account of improved price appreciation

Residential Market Performance Summary: FY'21/FY'20 Comparison									
Segment	Average of Rental Yield FY'2021	Average of Y/Y Price Appreciation FY'2021	Total Returns FY'2021	Average Rental Yield FT'2020	Average of Price Appreciation FY'2020	Average of Total Returns FY'2020	Change in Rental Yield	Change in Y/Y Price Appreciation	Change in Returns
High End	3.7%	1.1%	4.8%	4.2%	0.0%	4.2%	0.5%	1.1%	0.6%
Upper Mid-End	4.6%	1.2%	5.8%	4.6%	0.9%	5.6%	0.0%	0.3%	0.2%
Satellite Towns	4.3%	1.1%	5.5%	4.6%	(0.5%)	4.1%	(0.3%)	1.6%	1.4%
Detached Average	**4.2%**	**1.1%**	**5.4%**	**4.5%**	**0.1%**	**4.6%**	**(0.3%)**	**(0.1%)**	**0.8%**
Upper Mid-End	5.3%	0.3%	5.7%	5.4%	(0.7%)	4.6%	(0.1%)	1.0%	1.1%
Suburbs	5.3%	0.9%	6.2%	5.8%	0.1%	5.9%	(0.5%)	0.8%	0.3%
Satellite Towns	5.6%	(0.9%)	4.7%	5.4%	(0.1%)	5.3%	0.2%	(0.8%)	(0.6%)
Apartments Average	**5.4%**	**0.1%**	**5.5%**	**5.5%**	**(0.2%)**	**5.3%**	**(0.1%)**	**0.3%**	**0.2%**
Residential Market Average	**4.8%**	**0.6%**	**5.5%**	**5.0%**	**(0.1%)**	**5.0%**	**(0.2%)**	**0.7%**	**0.5%**

- Average total returns improved in FY'21 to 5.5%, a 0.5% points increase from 5.0% recorded in FY'20
- Residential average y/y price appreciation came in at 0.6%, 0.7% points higher compared to a price correction of 0.1% recorded in FY'20
- The average rental yields recorded a 0.2% points decline to 4.8% from 5.0% last year, due to reduced rental rates as landlords hoped to attract and retain amidst a tough financial environment

I. Detached Units Performance

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Detached Units: High-End

Average price appreciation came in at 1.1%, with Runda being the only market to record a price correction of 1.6%

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	Annual Total Returns
Kitisuru	203,113	615	92.5%	90.3%	15.0%	3.8%	2.7%	6.5%
Rosslyn	179,040	744	85.9%	95.2%	12.1%	4.4%	1.1%	5.5%
Lower Kabete	154,600	434	81.3%	84.5%	16.0%	2.8%	2.5%	5.2%
Karen	190,730	730	82.8%	89.3%	14.4%	3.8%	0.8%	4.5%
Runda	237,567	756	90.5%	94.2%	10.4%	3.7%	(1.6%)	2.1%
Average	**193,010**	**656**	**86.6%**	**90.7%**	**13.6%**	**3.7%**	**1.1%**	**4.8%**

- Detached units in the high end areas offered an average rental yield of 3.7% and price appreciation of 1.1% bringing the total returns to 4.8% with Kitisuru offering the highest returns at 6.5% while Runda offered the lowest return at 2.1%. Kitisuru and Rosslyn continue to remain a preference to high income earners due to their proximity to malls as Two Rivers Mall and Village market, amenities such Rosslyn Academy and infrastructure such as the northern bypass
- Runda was the only node that recorded an average y/y price correction of 1.6% attributed to the relatively low uptake which came in at 10.4%, 3.2% points lower than the high-end market average of 13.6% attributed to reduced demand of unts in the area

Detached Units: Upper Mid-End

The average price appreciation for detached units in the upper mid-end segment came in at 1.2%, with Runda Mumwe recording the highest average price appreciation at 2.0%

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	Annual Total Returns
Redhill & Sigona	97,843	446	90.9%	90.9%	15.4%	5.2%	1.3%	6.5%
Ridgeways	152,100	775	84.5%	86.2%	13.4%	5.2%	1.2%	6.3%
Runda Mumwe	152,949	635	85.2%	80.1%	14.1%	4.3%	2.0%	6.3%
Loresho	148,543	673	87.8%	82.0%	10.7%	4.8%	1.5%	6.3%
South B/C	127,298	537	94.4%	88.7%	14.0%	4.8%	1.2%	6.0%
Langata	163,120	555	85.9%	92.9%	10.0%	3.9%	0.8%	4.8%
Lavington	158,686	647	86.1%	82.5%	12.9%	4.4%	0.3%	4.7%
Average	**142,934**	**610**	**87.8%**	**86.2%**	**12.9%**	**4.6%**	**1.2%**	**5.8%**

- The upper mid-end segment was the best performing segment in the detached market, with an average total return of 5.8% attributed to the high rental yield of 4.6% and 1.2% y/y price appreciation
- Redhill was the best performing node in the segment with an average total return of 6.5% attributed to the relatively high average rental yield which came in at 5.2%, 0.6 % points higher than the segments market average of 4.6%
- Runda Mumwe recorded the highest price appreciation at 2.0%, attributed to its location, in close proximity to high-end areas such as Runda with demand from the upper class evidenced by the relatively annual uptake at 14.1%, 1.2% points higher than the segments market average of 12.9%

Detached Units: Lower Mid-End

Detached units in the lower mid-end segment recorded an average total return of 5.5% with Ruiru and Athi River recording the highest and lowest returns respectively

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	Annual Total Returns
Ruiru	79,138	332	83.9%	83.5%	24.9%	5.0%	1.6%	6.6%
Syokimau/Mlolongo	75,406	367	75.7%	85.1%	16.8%	4.4%	2.1%	6.5%
Juja	64,500	328	79.6%	88.4%	14.9%	4.6%	1.0%	5.6%
Rongai	86,541	233	83.1%	75.9%	13.4%	2.9%	2.2%	5.1%
Kitengela	68,730	301	92.0%	88.6%	15.5%	4.7%	0.4%	5.1%
Ngong	58,982	283	84.5%	86.5%	12.7%	5.0%	(0.2%)	4.9%
Athi River	83,321	313	83.4%	94.1%	15.7%	3.8%	0.7%	4.4%
Average	**73,803**	**308**	**83.2%**	**86.0%**	**16.3%**	**4.3%**	**1.1%**	**5.5%**

- Detached units in the lower mid-end areas recorded an average total return of 5.5% with Ruiru and Syokimau being the highest with 6.6% and 6.5% respectively attributed to their relatively high rental yield averaging 5.0% and 4.4%, respectively and y/y price appreciation which came in at 1.6% and 2.1%respectively, 0.5% and 1.0% points higher than the segment's market average of 1.1%, respectively
- 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 4.8%

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 Y/Y Price Appreciation	Annual Total Returns
Parklands	117,472	689	84.8%	83.2%	14.7%	5.6%	2.0%	7.6%
Westlands	144,289	757	80.6%	77.3%	17.7%	4.9%	2.0%	6.9%
Kilimani	103,745	577	87.6%	90.0%	23.0%	5.9%	(0.2%)	5.7%
Upperhill	139,414	883	80.3%	79.0%	10.1%	5.3%	0.4%	5.7%
Kileleshwa	121,559	646	86.4%	83.9%	16.3%	5.4%	(0.6%)	4.7%
Loresho	120,877	552	89.4%	85.3%	10.0%	4.9%	(1.6%)	3.3%
Average	**124,559**	**684**	**84.90%**	**83.10%**	**15.3%**	**5.3%**	**0.3%**	**5.7%**

- The upper mid-end segment recorded a mixed performance with an average price appreciation of 0.7% as markets like Kileleshwa, Kilimani and Loresho experienced price corrections. This is attributable to continued increased supply in the markets thus leading to downward pressure on prices amidst heightened competition among developers
- Parklands and Westlands continued to perform well, each recording an average y/y price appreciation of 2.0% attributable their appeal to foreigners and high-end homebuyers due to presence of amenities, good infrastructure, and vibrant commercial activities
- Notably, the upper mid-end markets recorded attractive rental yields averaging at 5.3% compared to the overall residential market at 4.8% driven by demand from the growing middle class

Apartments: Lower Mid-End Suburbs

Apartments in the lower mid-end suburbs offered the highest returns at 6.2%, with Waiyaki Way recording the highest returns at 8.1% followed by Dagoretti at 7.4%

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 Y/Y Price Appreciation	Annual Total Returns
Waiyaki Way	87,563	520	78.8%	77.9%	21.7%	5.6%	2.5%	8.1%
Dagoretti	87,565	514	86.7%	89.7%	17.4%	6.3%	1.1%	7.4%
South C	113,751	598	86.3%	64.1%	14.1%	5.9%	1.2%	7.1%
Kahawa West	74,871	350	78.2%	87.0%	10.6%	5.0%	1.7%	6.7%
Donholm & Komarock	80,520	399	85.2%	87.8%	13.3%	5.3%	1.1%	6.4%
South B	104,973	445	74.3%	84.9%	17.5%	4.0%	2.3%	6.3%
Race Course/Lenana	102,973	622	79.3%	82.3%	22.0%	5.8%	(0.3%)	5.5%
Imara Daima	83,040	406	83.9%	83.1%	13.0%	5.2%	(0.1%)	5.0%
Langata	125,241	545	88.2%	82.2%	14.2%	4.7%	(1.3%)	3.4%
Average	**95,611**	**489**	**82.3%**	**82.1%**	**16.0%**	**5.3%**	**0.9%**	**6.2%**

- Apartments in lower mid-end suburbs recorded the highest y/y average price appreciation compared to the upper mid-end segment and satellite towns, coming in at 0.9% driven by demand from the growing middle class in Nairobi
- Waiyaki way was the best performing node with an average total return of 8.1%, and the highest price appreciation at 2.5% attributed to the construction of Nairobi Expressway which boosted property prices in the area
- Dagoretti offered the best average rental yield at 6.3% in this segment, indicating the areas demand for renting especially by Nairobi's working in surrounding commercial nodes such as Kilimani, Upperhill, and Westlands

Apartments: Lower Mid-End Satellite Towns

Satellite towns registered the highest average rental yield in the apartments market, coming in at 5.6% driven by demand for renting units in satellite towns due to their affordability

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 Y/Y Price Appreciation	Total Returns
Ruaka	105,663	514	63.7%	76.0%	19.0%	5.5%	2.0%	7.5%
Kikuyu	80,766	529	79.6%	79.4%	17.6%	6.4%	0.3%	6.7%
Thindigua	108,551	537	79.3%	79.4%	12.8%	4.9%	1.2%	6.0%
Syokimau	67,967	345	79.0%	77.6%	12.0%	5.2%	(2.2%)	6.0%
Ngong	58,015	306	81.4%	72.3%	11.8%	5.3%	0.7%	5.9%
Kitengela	59,488	284	90.0%	82.8%	10.0%	5.1%	(2.8%)	5.5%
Athi River	59,145	290	97.2%	96.9%	12.6%	5.7%	(1.2%)	4.5%
Ruiru	86,904	528	86.4%	85.8%	23.8%	6.1%	(1.8%)	4.3%
Rongai	68,982	363	87.3%	94.2%	28.6%	6.3%	(3.9%)	2.4%
Average	**77,272**	**411**	**82.7%**	**82.7%**	**16.5%**	**5.6%**	**(0.9%)**	**4.7%**

- In Satellite Towns, apartments recorded the highest average rental yield at 5.6% driven by demand for renting units in satellite towns due to their affordability. This had a downturn on apartment prices which recorded a 0.8% points decline in average y/y price appreciation which posted a price correction of 0.9% attributed to residents opting to rent than to buy hence sellers had to adjust their prices downwards to attract buyers
- Ruaka recorded the highest annual total returns at 7.5% supported by a relatively high price appreciation which came in at 2.0%. This is due to continued demand in the area driven by the area's proximity to upper markets such as Runda and proximity to social amenities

Market Performance Summary

Market uptake remained subdued coming in at 15.1% on average, 3.2% points lower than 18.3% recorded last year, indicating reduced demand for residential units

Residential Performance Summary FY'21								
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	193,010	656	86.6%	13.6%	3.7%	1.1%	4.8%
Upper Mid-End	Detached	142,934	610	87.8%	12.9%	4.6%	1.2%	5.8%
Lower Mid-End	Detached	73,803	308	83.2%	16.3%	4.3%	1.1%	5.5%
Upper Mid-End	Apartments	124,559	684	84.9%	15.3%	5.3%	0.3%	5.7%
Lower Mid-End	Apartments	95,611	489	82.3%	16.0%	5.3%	0.9%	6.2%
Satellite Towns	Apartments	77,272	411	82.7%	16.5%	5.6%	(0.9%)	4.7%
Residential Market Average		**117,865**	**526**	**84.6%**	**15.1%**	**4.8%**	**0.6%**	**5.5%**

- Average total returns improved in FY'21 to 5.5%, a 0.5% points increase from 5.0% recorded in FY'20, and can be attributed to residential average y/y price appreciation, which came in at 0.6%, 0.7% points higher compared to a price correction of 0.1% recorded in FY'20
- Market uptake remained subdued coming in at 15.1% on average, 3.2% points lower than 18.3% recorded last year, indicating reduced demand for residential units attributed to constrained purchasing power. However, the average price per SQM came in at Kshs 117,865, 3.4% higher than FY'20 average of Kshs 113,972, due to an uptick of house prices as sellers aimed to cash in on the improving business environment when the economy reopened
- Average rental yields recorded a 0.2% points decline to 4.8% from 5.0% last year, due to reduced rental rates as landlords hoped to attract and retain amidst a tough financial environment

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 neutral outlook

Factor	Outlook going forward	2020 Outlook	2021 Outlook
Housing Demand	• Demand for affordable housing continues to remain high with the annual demand at 200,000 units according to National Housing Corporation, 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 2.2% p.a respectively • 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 has made major steps in providing credit for affordable housing through maintaining the CBR rate at 7.0% which is expected to reduce the cost of borrowing and increase the percentage of affordable housing through mortgage financing. The government is also supporting the Kenya Mortgage Refining Company (KMRC) through budgetary allocations towards improved mortgage lending • The private sector has also put in tremendous efforts to provide affordable housing financing to their clients below markets rates and with flexible repayment plans, and longer repayment periods. • We however expect cautious lending due the increase in the number of non-performing loans in the sector, which are expected to continue rising amidst the tough economic times • The use of Pension balances for home ownership is going to help people be able to pay part of the their house prices with pension hence increasing demand	**Neutral**	**Neutral**

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	2020 Outlook	2021 Outlook
Infrastructure	• Infrastructural developments remain one of the key drivers of residential developments as investors look to position themselves in areas where growth and development is live in order to enjoy the price appreciations and increase in rental yields • The government has reiterated its commitment to infrastructural developments having boosted its budgetary allocations in FY'2021/22 to Kshs 182.5 bn from Kshs 181.4 bn in the last financial year • Notable ongoing projects include the 27-km Nairobi Express Way running from Westlands to Jomo Kenyatta International Airport (JKIA), the Northern Bypass and the LAPPSET project	**Neutral**	**Positive**
Performance	• In terms of performance, the sector recorded improved performance with average total returns averaging at 5.5%, 0.5% points higher than 5.0% recorded in FY'20, and can be attributed to y/y price appreciation, which came in at 0.6% • We expect improvement in performance of rental rates and house prices following increased activities in the real estate sector despite the tough economic times	**Neutral**	**Neutral**
Market Outlook & Investment Opportunity	• **Our outlook for the sector is NEUTRAL. For apartments, the best opportunity is investment in areas such as Waiyaki Way, Parklands, Ruaka and Westlands 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, Kitisuru and Redhill, driven by uptake and the current performance in terms of returns to investors. For more information, see the full report.**		

Thank You!

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For more information or any further clarification required, kindly contact the research team at rdo@cytonn.com

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