Nairobi Metropolitan Area Residential Report 2023

“Resilient Market with Steady Growth Potential”

Cytonn

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I. Overview of Real Estate in Kenya

Overview of Real Estate in Kenya

Kenya's Real Estate and construction contribution to GDP declined by 0.1% points to 15.9% in FY'2022, from 16.0% in FY'2021

Factor	Characteristics	Sentiment
Macro-economic Contribution	• Kenya's Real Estate and construction contribution to GDP came in at 15.9% in 2022, a 0.1% points decline from 16.0% in 2021 attributed to: i) the rising costs of construction materials hindering investments., ii) the completion of major development projects in the country such as the Nairobi Expressway, Eastern Bypass, and, iii) the government's decision to cut back on infrastructure expenditure in FY'2022/23 by 21.4% to Kshs 174.0 bn, from the Kshs 221.3 bn previously allocated which slowed down activities in the construction sector. Moreover, the Real Estate sector GDP growth came in at 4.5% in 2022, a 2.2% points decrease from 6.7% in 2021. This was attributed to increased cost of construction materials which hampered optimum investments, and reduced investor confidence as most investors, for the most part of the year adopted a 'wait-and-see' approach in anticipation of the August 2022 general elections • We expect the sector's contribution to GDP to improve going forward supported by improved investor confidence following the peaceful conclusion of the general elections, and increased activities across different themes. The construction sector's performance is anticipated to improve supported by focus on development projects, under the affordable housing initiative and completion of ongoing infrastructure projects • However, inflationary pressures still persist as a result of supply chain bottlenecks worsened by the Russia-Ukraine war, contributing to the increased costs of construction materials. We expect this will hamper optimum investments in the Real Estate and construction sectors	**Neutral**
Returns	• Compared to traditional forms of asset classes, Real Estate maintains relatively stable returns at 7.1% which are boosted by price appreciation that occurs over time, and increased demand for Real Estate facilitated by Kenya's positive demographics • We expect the sector to continue outperforming traditional asset classes and to continue attracting investors due to its and relatively low volatility to the market trends	**Positive**

Overview of Real Estate in Kenya - cont.’

Our outlook for the Real Estate sector is **NEUTRAL** due to constrained access to financing limiting development activities, despite expected increased activities in the Real Estate and Construction sectors

Factor	Characteristics	Sentiment
New Players	• With Kenya being ranked #56 out of 190, as at 2019, in the ease of doing business ranking according to World Bank, this has attracted institutional and international players who continue to enter the property markets supporting development activities. The most recent international entrants include JP Morgan Chase & Co., an American investment bank, and United Nations Office for Project Services (UNOPS) • Additionally, increasing traction towards alternative financing models for Real Estate development such as joint venture deals and Public-Private Partnerships (PPPs), are expected to continue attracting international players to the country	**Positive**
Market Outlook	• Our outlook for the sector is **NEUTRAL** due to lenders tightening their lending requirements and demanding more collateral from developers as a result of elevated credit risk, thereby limiting financing for development activities, • However, we expect the sector’s performance to improve supported by emphasis on affordable housing fetching Kshs 27.7 bn in budgetary allocation in FY’2022/23, and completion of ongoing infrastructure developments which will in turn open up new areas for investments and increase property values, • On the other hand we expect that the 4.4% reduction in government’s allocation for Infrastructure, Energy, and Information and Technology (ICT) for the FY’2023/24 to Kshs 398.2 bn, from Kshs 416.4 bn, will weigh down on the optimum performance of the sector	**Neutral**

Introduction to Real Estate in Kenya - GDP Contribution

The Real Estate and Construction sectors' contribution to GDP decreased to 15.9% in 2022 from 16.0% recorded in 2021

	2019	2020	2021	2022
Agriculture	18.6%	19.5%	18.1%	17.1%
Manufacturing	8.7%	8.7%	8.6%	8.5%
Wholesale & Retail Trade	8.3%	8.3%	8.4%	8.3%
Hospitality & Tourism	1.2%	0.6%	0.9%	1.0%
Real Estate & Construction	15.2%	16.1%	16.0%	15.9%

2. Nairobi Metropolitan Area Residential Report

Executive Summary

The average y/y price appreciation in the residential market came in at 1.1% in FY'2022/23, 0.2% points higher compared to a price appreciation of 0.9% recorded in FY'2021/22

- To gauge residential performance in 2023, we carried research in 35 nodes within the Nairobi Metropolitan Area (NMA)
- According to the research, the residential sector recorded improved performance with average total returns registering a 0.4% increase to 6.2% in FY'2022/23, from 5.8% recorded in FY'2021/22. The average y/y price appreciation in the residential market came in at 1.1%, 0.2%-points higher compared to a price appreciation of 0.9% recorded in FY'2021/22
- The average rental yields recorded a 0.2% points increase to 5.1% in FY'2022/23 from 4.9% in FY'2021/22, due to increased rental rates as landlords increased asking rents with increased costs of development through the period
- The improvement in performance was largely driven by: i) infrastructural development, ii) government and private sector focus on affordable housing, and iii) focus on mortgage financing through the KMRC. However, various challenges such as constrained access to financing to developers, and rising construction costs due to inflationary pressures hampered the sector's optimal performance
- Kenya has an 80.0% annual housing deficit, as only about 50,000 new houses are delivered each year against a demand for 250,000 units per year hence the demand outstripping supply at an average of 200,000 houses every year
- Detached units registered an average total return of 5.8% y/y while apartments recorded an average total return of 6.5% y/y. Detached units in Ruiru, Juja, and, Ngong, recorded the highest average y/y returns at 7.8%, 6.9%, and 6.6%, respectively, while apartments in Ruaka, Waiyaki Way, and, Ruiru, recorded the highest average y/y total returns of 7.5%, 7.4%, and, 7.4% respectively
- We expect reduced purchasing power among buyers amid the tough economic environment brought about by inflationary pressures on the back of a weakened shilling against the dollar is expected to further hamper the purchasing power of buyers. This is as prices of essential items continue to soar, thereby leading to slow uptakes of residential units consequently affecting the residential performance. However, we expect the growing middle class to pivot demand for residential units

NMA Residential Report – "Resilient Market with Steady Growth Potential"

Residential average total returns registered a 0.4% points increase to 6.2% in FY'2022/23 from 5.8% recorded in FY'2021/22

Value Area	Summary	Effect
Demand & Supply	• Kenya has relatively high urbanization and population growth rates which will continue to provide sustained demand for more housing units in the country. The government has made efforts to increase the supply of housing through availing land to county governments for the construction of affordable housing units	• Currently, the AHP pipeline boasts about 25 affordable housing projects, with an estimated 47,787 housing units by the government and • 50,225 housing units by the private sector under construction. This is as 200,000 housing units are targeted to be delivered per year
Returns	• Residential average total returns registered a 0.4% points increase to 6.2% in FY'2022/23 from 5.8% recorded in FY'2021/22 • Rental yields improved averaging at 5.1% in FY'2022/23 compared to 4.9% in FY'2021/22	• We expect more improvement improved performance following development of infrastructure serving to open up areas for development and easy access for residency which are expected to boost property prices and hence better returns
Opportunity & Outlook	• Investment opportunity for detached units lies in areas such as Ruiru, Juja, and Ngong, while for apartments, investment opportunity lies in Ruaka, Waiyaki Way, and Ruiru driven by the current performance in terms of returns to investors	• We expect investors to focus on satellite towns due to high total returns for detached houses, which came in at 6.0% in FY'2022/23, 0.2% points higher than the detached market average of 5.8%. Apartments in satellite towns recorded an average return of 6.9%, 0.7% points higher than the apartments market average of 6.2%

The reduced purchasing power among buyers amid the tough economic environment brought about by inflationary pressures on the back of a weakened shilling against the dollar is expected to further hamper the purchasing power of buyers. This is as prices of essential items continue to soar, thereby leading to slow uptakes of residential units consequently affecting the residential performance. However, we expect the growing middle class to pivot demand for residential units

A. Introduction

Cytonn

Factors Affecting Residential Demand in 2023

We expect Kenya's positive demographic will continue to drive up the demand for Real Estate developments

Factor	Characteristics
Housing Deficit	• According to Kenya National Bureau of Statistics (KNBS), the Kenyan housing market still faces an acute housing shortage of more than 2.0 mn units. Additionally, the Center for Affordable Housing Finance Africa (CAHF) estimates the housing deficit in Kenya stood at 80.0%, as at the end of 2022, given that only about 50,000 new houses are delivered each year against a demand for 250,000 • The government through the AHP has purposed to narrow this gap, and as such, affordable housing continues to attract more demand propelled by the increasing entry of private sector players through Public Private Partnerships (PPPs)
Demographics	• Kenya continues to witness positive demographics as evidenced by Kenya's relatively high urbanization and population growth rates of 3.7% p.a and 1.9% p.a, respectively, against the global averages of 1.6% p.a and 0.9% p.a, respectively, as at 2021. As such, the demand for Real Estate development in the country continue to increase
Access to Credit	• High mortgage interest rates currently at 11.3% and high transaction costs, have made it difficult for low- and middle-income earners to afford mortgages • However, we anticipate the increased collaborations between sector players and the KMRC, will aid remedy the situation. Low interest rates of from 9.5%, will improve performance of mortgage lending by making home loans more accessible and consequently increase uptake rates in the country

Factors Affecting Residential Supply in 2023

Constrained access to financing, rising construction costs, and inadequate infrastructure expected to affect residential supply in 2023

Factor	Characteristics
Constrained Access to Financing	• As a result of elevated credit risk in the Real Estate sector which is evidenced by the 7.5% increase in gross Non-Performing Loans (NPLs) to Kshs 80.3 bn in Q4'2022 from Kshs 74.7 bn recorded during Q4'2021, lenders continue to tighten their lending requirements and demand more collateral from developers • This we expect will hamper investments by limiting developers access to funding thereby slowing down development projects
Rising construction costs	• Construction costs have remained high averaging at Kshs 5,210 per SQFT in 2022, a 5.0% increase from Kshs 4,960 per SQFT recorded in 2021, attributable to price increase of key construction materials such as cement, steel, paint, aluminium and PVC • The increase is mainly attributed to persisted inflationary pressures on the back of supply chain disruptions as a result of the Russia-Ukraine war. As such, we expect this will continue to impede development activities in the sector
Inadequate Infrastructure	• Inadequate and substandard infrastructure in many regions of the country will continue to impede development operations due to lack of accessibility, limiting supply. Additionally, inadequate drainage and sewerage infrastructure in some places will continue to hinder developers, due to the anticipated additional development costs of projects • Additionally, we expect the government's decision to cut back the government's decision to cut back on infrastructure expenditure until stalled projects are completed will slow down development of infrastructure across the country, thus further limiting supply

Recent Developments

The government has continued to introduce a host of measures to improve transactions in the Real Estate sector in FY'2022/2023

- In FY'2022/23, the government announced the following regulations, policies, measures, and proposals affecting the residential sector namely:

a) Mortgage Plan: President William Ruto floated a mortgage plan that will allow tenants to own homes under the social housing tenant purchase scheme, and, affordable housing initiative, through monthly rental payments

b) Retirement and Benefits Act review: The Retirement Benefits Authority (RBA) announced plans to have pension managers publish data on the number of Kenyans who use their retirement savings to purchase homes by January 2023

c) Stamp duty Act amendment: President William Ruto announced plans to exempt all first-time home buyers from paying stamp duty. This comes two years after the Stamp Duty Act was amended in 2020 to allow exemptions for first time home buyers of only approved affordable housing units by the government

d) Draft Valuation Roll 2019: Nairobi City Hall issued a notice on the increment of land rates to 0.115% of the current value of undeveloped land in Nairobi County based on the 2019 Draft Valuation roll, from 1st January 2023,

e) The Finance Act 2022: The Finance Act 2022 became effective as of 1 January 2023, with the Capital Gains Tax (CGT) chargeable on net gains upon transfer of property tripling to 15.0%, from the 5.0% previously chargeable.

f) The Finance Bill 2023: The Kenya National Treasury presented the Finance Bill 2023 to Parliament with an introduction of a new amendment in Section 31 of the Employment Act, The amendment recommends a 3.0% deduction on the basic salaries of both public and private sector employees who qualify for the low-cost housing scheme. This deduction will be matched with another 3.0% from their respective employers, and the total deduction will not exceed Kshs 5,000. The contribution will be directed to the National Housing Development Fund

Recent Developments – cont.

In FY2022/2023, we continue to see aggressive focus on the affordable housing initiative and infrastructural development, and increased funding for homebuyers seeking mortgages

- We continue to see increased focus on the Affordable Housing Programme (AHP) by the National and County governments and the private sector. Currently, the AHP pipeline boasts about 25 affordable housing projects, with an estimated 47,787 housing units by the government and 50,225 housing units by the private sector under construction. This is as 200,000 housing units are targeted to be delivered per year
- Regarding provision of finances for the demand side of residential units, the government continues to increase its effort to provide affordable mortgages through the Kenya Mortgage Refinance Company (KMRC). This is aimed at making home ownership more accessible to Kenyans by providing long-term, low-interest home loans to potential home buyers. In 2022, KMRC refinanced 1,948 mortgage loans valued at Kshs 6.8 bn, representing a 278.0% increase from 574 home loans valued at Kshs 1.3 bn disbursed in 2021
- Additionally, we continue to notice increased diversified residential projects such as Master-planned Communities, Lifestyle living, Conservancy Living Developments and many more. Such projects are expected to be more vibrant and attractive not only locally but to also international markets. Investors and buyers will benefit from the increased diversification in the sector thus discerning appetite for luxurious amenities, conservation-minded and eco-friendly developments cropping up in satellite towns. The availability of affordable development land in these areas, coupled with limited supply within Nairobi City and in other major urban centers countrywide, will draw more high-end buyers and investors in the regions and promote further development

B. Residential Market Performance

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 Kitisuru. The majority of these areas have been designated for low-rise residential construction and are distinguished by their large, luxurious 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 in Nairobi habited by middle class such as Ruiru, Kikuyu, Ruaka, Dagoretti, Upper Kabete (Uthiru and parts of Mountain View), and Ngong Road (Race Course, Lenana, Corner), among others

Market Performance Summary

Average total returns improved in FY'2022/23 averaging at 6.2%, 0.4% higher than FY'2021/22 which recorded 5.8%, on account of improved price appreciation

Cytonn Report: Residential Market Performance Summary: FY'2022/23 - FY'2021/22 Comparison									
Segment	**Average of Rental Yield FY'2022/23**	**Average of Price Appreciation FY'2022/23**	**Average of Total Returns FY'2022/23**	**Average of Rental Yield FY'2021/22**	**Average of Price Appreciation FY'2021/22**	**Average of Total Returns FY'2021/22**	**y/y change in Rental Yield (% Points)**	**y/y change in Price Appreciation (% Points)**	**y/y change in Total Returns (% Points)**
High End	4.4%	**1.3%**	**5.7%**	4.1%	**1.5%**	**5.6%**	0.4%	(0.2%)	0.2%
Upper Middle	4.5%	**1.1%**	**5.6%**	4.5%	**0.9%**	**5.4%**	0.0%	0.2%	0.2%
Lower Middle	5.0%	**1.0%**	**6.0%**	5.0%	**0.8%**	**5.8%**	0.0%	0.2%	0.2%
Detached Average	**4.7%**	**1.1%**	**5.8%**	**4.5%**	**1.1%**	**5.6%**	**0.2%**	**0.0%**	**0.2%**
Upper Mid-End	5.4%	**0.5%**	**5.9%**	5.3%	**0.3%**	**5.6%**	0.1%	0.2%	0.3%
Lower Mid-End Suburbs	5.4%	**1.0%**	**6.4%**	5.4%	**0.4%**	**5.8%**	0.0%	0.6%	0.6%
Lower Mid-End Satellite Towns	5.5%	**1.4%**	**6.8%**	5.4%	**1.3%**	**6.7%**	0.1%	0.1%	0.1%
Apartments Average	**5.5%**	**1.0%**	**6.5%**	**5.3%**	**0.7%**	**6.0%**	**0.2%**	**0.3%**	**0.5%**
Residential Market Average	**5.1%**	**1.1%**	**6.2%**	**4.9%**	**0.9%**	**5.8%**	**0.2%**	**0.2%**	**0.4%**

- Average total returns improved in FY'2022/23 to 6.2%, a 0.4%-points increase from 5.8% recorded in FY'2021/22
- Residential average y/y price appreciation came in at 1.1%, 0.2% points higher compared to a price appreciation of 0.9% recorded in FY'2021/22. The average rental yield recorded a 0.2%-points increase to 5.1% from 4.9% in FY'2021/22 due to increased rental rates supported by improved property prices

I. Detached Units Performance

Detached Units: High-End

Average price appreciation came in at 1.3%, with Rosslyn being the best performing node with an average total return of 6.5%

Cytonn Report: High End Market Performance FY'2022/23 – FY'2021/22								
Area	**Average of Occupancy FY'2022/23**	**Average of Annual Uptake FY'2022/23**	**Average of Rental Yield FY'2022/23**	**Average of Price Appreciation FY'2022/23**	**Average of Total Returns FY'2022/23**	**Average of Rental Yield FY'2021/22**	**Average of Price Appreciation FY'2021/22**	**Average of Total Returns FY'2021/22**
Rosslyn	90.0%	15.0%	5.0%	**1.5%**	**6.5%**	4.7%	**2.8%**	**7.5%**
Kitisuru	96.0%	11.8%	4.8%	**1.6%**	**6.4%**	4.2%	**1.2%**	**5.4%**
Karen	83.3%	12.7%	3.8%	**1.7%**	**5.5%**	3.7%	**2.0%**	**5.7%**
Runda	96.8%	10.1%	4.6%	**0.7%**	**5.3%**	4.1%	**0.3%**	**4.4%**
Lower Kabete	95.3%	13.1%	3.9%	**1.1%**	**5.0%**	3.6%	**1.2%**	**4.8%**
Average	**92.3%**	**12.5%**	**4.4%**	**1.3%**	**5.7%**	**4.1%**	**1.5%**	**5.6%**

- Detached units in the high end areas offered an average rental yield of 4.4% and price appreciation of 1.3% bringing the total returns to 5.7%, with Rosslyn offering the highest returns at 6.5% while Lower Kabete offered the lowest total return at 5.0%. 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 0.7% attributed to the relatively low uptake which came in at 10.1%, 2.4% points lower than the high-end detached market average of 12.5% attributed to reduced demand for units within in the area. However, the appreciation recorded a 0.4% improvement from 0.3% recorded in FY'2021/22

Detached Units: Upper Middle

The average price appreciation for detached units in the upper mid-end segment came in at 1.1%, with Redhill recording the highest total return to investors at 6.4%

Cytonn Report: Upper Middle Market Performance FY'2022/23 – FY'2021/22								
Area	Average of Occupancy FY'2022/23	Average of Annual Uptake FY'2022/23	Average of Rental Yield FY'2022/23	Average of Price Appreciation FY'2022/23	Average of Total Returns FY'2022/23	Average of Rental Yield FY'2021/22	Average of Price Appreciation FY'2021/22	Average of Total Returns FY'2021/22
Redhill & Sigona	84.6%	14.4%	4.9%	**1.5%**	**6.4%**	4.7%	**1.7%**	**6.4%**
Ridgeways	76.1%	12.8%	4.7%	**1.6%**	**6.3%**	5.0%	**1.1%**	**6.1%**
Runda Mumwe	90.8%	13.6%	5.2%	**0.8%**	**6.0%**	5.1%	**0.6%**	**5.7%**
Loresho	80.7%	14.2%	4.8%	**1.1%**	**5.9%**	4.9%	**0.3%**	**5.2%**
South B/C	88.5%	12.6%	4.3%	**1.3%**	**5.6%**	4.2%	**1.1%**	**5.3%**
Lavington	87.0%	12.7%	4.0%	**0.6%**	**4.6%**	4.0%	**0.5%**	**4.5%**
Langata	88.8%	10.7%	3.8%	**0.7%**	**4.5%**	3.8%	**1.0%**	**4.8%**
Average	**85.2%**	**13.0%**	**4.5%**	**1.1%**	**5.6%**	**4.5%**	**0.9%**	**5.4%**

- The upper middle segment recorded an average total return of 5.6% with a rental yield of 4.5% and 1.1% y/y price appreciation in FY'2022/23
- Redhill and Sigona 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 4.9% and 1.5% respectively, 0.4% points and 0.4%-points higher than the upper middle segment market average of 4.5% and 1.1%, respectively
- Langata was the least performing node in the segment with an average total return of 4.5%, 1.1%-points lower than the segment's market average of 5.6%

Detached Units: Lower Mid-End

Detached units in the lower mid-end segment performed the best recording an average total return of 6.0% with Ruiru and Juja being the highest with 7.8% and 6.9% respectively

Cytonn Report: Lower Middle Market Performance FY'2022/23 – FY'2021/22								
Area	Average of Occupancy FY'2022/23	Average of Annual Uptake FY'2022/23	Average of Rental Yield FY'2022/23	Average of Price Appreciation FY'2022/23	Average of Total Returns FY'2022/23	Average of Rental Yield FY'2021/22	Average of Price Appreciation FY'2021/22	Average of Total Returns FY'2021/22
Ruiru	87.3%	18.2%	6.2%	**1.6%**	**7.8%**	5.9%	**1.9%**	**7.8%**
Juja	81.4%	18.2%	5.7%	**1.2%**	**6.9%**	5.5%	**1.2%**	**6.7%**
Ngong	93.6%	12.4%	6.2%	**0.4%**	**6.6%**	6.5%	**(0.2%)**	**6.3%**
Kitengela	76.7%	13.7%	4.9%	**1.4%**	**6.3%**	4.9%	**1.4%**	**6.3%**
Syokimau/Mlolongo	91.3%	18.3%	4.4%	**1.5%**	**5.9%**	4.5%	**1.5%**	**6.0%**
Athi River	86.2%	13.4%	4.3%	**1.1%**	**5.4%**	4.3%	**1.6%**	**5.9%**
Rongai	98.8%	16.7%	4.1%	**1.2%**	**5.3%**	4.0%	**1.1%**	**5.1%**
Thika	83.3%	13.7%	5.0%	**0.2%**	**5.2%**	5.3%	**(0.5%)**	**4.8%**
Donholm & Komarock	85.0%	13.1%	4.5%	**0.3%**	**4.8%**	4.3%	**(1.0%)**	**3.3%**
Average	**87.1%**	**15.3%**	**5.0%**	**1.0%**	**6.0%**	**5.0%**	**0.8%**	**5.8%**

- Detached units in the lower middle segment performed the best recording an average total return of 6.0% with Ruiru and Juja being the highest with 7.8% and 6.9% respectively attributed to their relatively high rental yield averaging 6.2% and 5.7%, respectively and y/y price appreciation which came in at 1.6% and 1.2% respectively, 0.6% and 0.2% points higher than the lower middle segment's market average of 1.0%
- Ruiru and Juja's performance is attributed to being some of the fastest growing satellite towns that are commercially attractive hence attracting residents making them attractive for investment

II. Apartments Performance

Apartments: Upper Mid-End

Rental yields remained attractive in the upper mid-end segment averaging at 5.4% with the price appreciation coming at 0.5%

Cytonn Report: Upper Mid-End Market Performance FY'2022/23 – FY'2021/22								
Area	Average of Occupancy FY'2022/23	Average of Annual Uptake FY'2022/23	Average of Rental Yield FY'2022/23	Average of Price Appreciation FY'2022/23	Average of Total Returns FY'2022/23	Average of Rental Yield FY'2021/22	Average of Price Appreciation FY'2021/22	Average of Total Returns FY'2021/22
Westlands	83.1%	24.5%	5.9%	**0.5%**	**6.4%**	5.9%	**0.1%**	**6.0%**
Kilimani	84.4%	21.1%	5.8%	**0.2%**	**6.0%**	5.5%	**0.4%**	**5.9%**
Kileleshwa	85.0%	14.8%	5.5%	**0.3%**	**5.8%**	5.5%	**0.4%**	**5.9%**
Loresho	88.0%	10.4%	4.7%	**1.1%**	**5.8%**	4.7%	**1.2%**	**5.9%**
Upperhill	81.5%	10.6%	5.0%	**0.7%**	**5.7%**	5.1%	**(1.1%)**	**4.0%**
Parklands	83.8%	13.6%	5.2%	**0.4%**	**5.6%**	4.8%	**1.0%**	**5.8%**
Average	**84.3%**	**15.8%**	**5.4%**	**0.5%**	**5.9%**	**5.3%**	**0.3%**	**5.6%**

- The upper mid-end segment recorded an average total return of 5.9% with a relatively high average rental yield of 5.4% and price appreciation of 0.5% 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 6.4% attributed to its relatively high rental yield of 5.9%, 0.5% points higher than the upper mid-end market average of 5.4%. The subsequent completion of the Nairobi Expressway, presence of amenities, and vibrant commercial activities continues to support uptick in rental rates
- Parklands was the lowest performing node with a price appreciation of 0.4% which brought its average total return to 5.6%, 0.3% points lower than upper mid-end the segment's market average of 5.9%

Apartments: Lower Mid-End Suburbs

Apartments in the lower mid-end suburbs recorded an average total return of 6.4% with an average y/y average price appreciation of 1.0%

Cytonn Report: Lower Mid-End Suburbs Market Performance FY'2022/23 – FY'2021/22								
Area	**Average of Occupancy FY'2022/23**	**Average of Annual Uptake FY'2022/23**	**Average of Rental Yield FY'2022/23**	**Average of Price Appreciation FY'2022/23**	**Average of Total Returns FY'2022/23**	**Average of Rental Yield FY'2021/22**	**Average of Price Appreciation FY'2021/22**	**Average of Total Returns FY'2021/22**
Waiyaki Way	83.8%	21.2%	6.3%	**1.1%**	**7.4%**	6.2%	**1.1%**	**7.3%**
South C	83.8%	17.0%	6.2%	**0.9%**	**7.1%**	6.1%	**0.4%**	**6.5%**
Imara Daima	86.1%	11.7%	5.3%	**1.5%**	**6.8%**	5.2%	**1.2%**	**6.4%**
Dagoretti	88.6%	14.9%	5.8%	**0.8%**	**6.6%**	5.9%	**0.1%**	**6.0%**
Donholm & Komarock	92.1%	12.9%	5.7%	**0.6%**	**6.3%**	5.8%	**0.1%**	**5.9%**
Kahawa West	89.0%	9.8%	5.0%	**1.2%**	**6.2%**	5.2%	**0.6%**	**5.8%**
Race Course/Lenana	81.4%	19.1%	5.5%	**0.4%**	**5.9%**	5.9%	**(0.1%)**	**5.8%**
Langata	82.0%	12.4%	4.4%	**1.5%**	**5.9%**	4.5%	**(0.6%)**	**3.9%**
South B	85.9%	15.4%	4.4%	**1.3%**	**5.7%**	4.2%	**0.2%**	**4.4%**
Average	**85.9%**	**14.9%**	**5.4%**	**1.0%**	**6.4%**	**5.4%**	**0.4%**	**5.8%**

- Apartments in lower mid-end suburbs recorded an average total return of 6.4% with an average y/y average price appreciation of 1.0%. This was an increase in performance compared to a total return of 5.8% in FY'2021/22 attributed to a 0.6% points increase in price appreciation from 0.4% in FY'2021/22
- Waiyaki way was the best performing node with an average total return of 7.4%, attributed to the completion of Nairobi Expressway and it's proximity to more well-off neighborhoods which has driven up property transactions that brought the average rental yield to 6.3%

Apartments: Lower Mid-End Satellite Towns

Satellite towns registered the highest average total returns in the apartments market, coming in at 6.8% driven by demand for renting units in satellite towns due to their affordability

Cytonn Report: Lower Mid-End Satellite Towns Market Performance FY'2022/23 – FY'2021/22								
Area	Average of Occupancy FY'2022/23	Average of Annual Uptake FY'2022/23	Average of Rental Yield FY'2022/23	Average of Price Appreciation FY'2022/23	Average of Total Returns FY'2022/23	Average of Rental Yield FY'2021/22	Average of Price Appreciation FY'2021/22	Average of Total Returns FY'2021/22
Ruaka	78.6%	22.3%	5.2%	**2.3%**	**7.5%**	5.2%	**2.2%**	**7.4%**
Ruiru	87.0%	17.1%	5.8%	**1.6%**	**7.4%**	5.6%	**1.4%**	**7.0%**
Ngong	83.1%	14.0%	5.5%	**1.7%**	**7.2%**	5.6%	**1.6%**	**7.2%**
Kikuyu	82.8%	17.6%	5.0%	**2.0%**	**7.0%**	5.2%	**2.1%**	**7.3%**
Athi River	86.8%	16.0%	5.6%	**1.3%**	**6.9%**	5.5%	**1.2%**	**6.7%**
Syokimau	85.5%	12.0%	5.3%	**1.4%**	**6.7%**	5.0%	**1.6%**	**6.6%**
Thindigua	90.0%	21.1%	5.4%	**1.1%**	**6.5%**	5.4%	**2.2%**	**7.6%**
Rongai	89.2%	16.8%	6.0%	**0.3%**	**6.3%**	5.8%	**(0.1%)**	**5.7%**
Kitengela	85.9%	10.3%	5.3%	**0.7%**	**6.0%**	4.9%	**0.1%**	**5.0%**
Average	**85.4%**	**16.4%**	**5.5%**	**1.4%**	**6.8%**	**5.4%**	**1.3%**	**6.7%**

- Satellite towns recorded the highest average total return at 6.8% attributed to the relatively high average y/y price appreciation of 1.4% with a rental yield of 5.5%. Demand for units in the segment continued to be driven by relative affordability of housing units and preference of rental rates in Satellite towns
- Ruaka was the best performing node with an average total return od 7.5% attributed to its relatively high average price appreciation of 2.3%, 0.9% points higher than the segment's market average of 1.4%. Kitengela recorded the lowest performance with an average total return of 6.0%, 0.8%-points lower than the satellite towns average of 6.8%

D. Conclusion and Outlook

Conclusion and Outlook

Of the key metrics we used to measure performance, our outlook for housing demand is positive while we have a negative outlook for purchasing power

Factor	FY'2022/23 Experience and Outlook Going Forward	2022 Outlook	2023 Outlook
Housing Demand	• Kenya has relatively high urbanization and population growth rates averaging 3.7% and 1.9% compared to the global averages of 1.6% and 0.9%, respectively, according to the World Bank as of 2021. This will continue to provide sustained demand for more housing units in the country • The Centre for Affordable Housing Finance Africa (CAHF) estimates that Kenya has an 80.0% annual housing deficit, as only about 50,000 new houses are delivered each year against a demand for 250,000 units per year hence the demand outstripping supply at an average of 200,000 houses supplied every year	**Positive**	**Positive**
Infrastructure	• In 2023, the government is prioritizing the completion of previously stalled projects and avoiding initiation of new expensive projects amid the current regime's promised spending cuts. Consequently, we expect the sourcing of funding for infrastructure projects in the country to further shift to alternative financing strategies such as; Public-Private Partnerships (PPPs), issuing of infrastructure bonds, joint ventures, and, grants and concessional loans from more foreign organizations, in order for the government to fast-track the infrastructural development that is critical in growing the Kenyan economy	**Positive**	**Negative**
Purchasing Power	• The reduced purchasing power among buyers amid the tough economic environment brought about by inflationary pressures on the back of a weakened shilling against the dollar is expected to further hamper the purchasing power of buyers. This is as prices of essential items continue to soar, thereby leading to slow uptakes of residential units consequently affecting the residential performance. However, we expect the growing middle class to pivot demand for residential units	**Negative**	**Negative**

Conclusion and Outlook

Our general market outlook for the residential sector in 2023 is **NEUTRAL**

Factor	FY'2022/23 Experience and Outlook Going Forward	2022 Outlook	2023 Outlook
Access to credit	• The provision of affordable mortgage loans through Kenya Mortgage Refinance Company (KMRC), is expected to gradually grow the local mortgage market and increase home ownership • Currently, KMRC is the sole institution licensed to carry out Mortgage Liquidity Facility (MLF) activities in Kenya, which include provision of long-term funds to Primary Mortgage Lenders (PMLs) such as banks, microfinance institutions and SACCOs • In 2022, KMRC refinanced 1,948 mortgage loans valued at Kshs 6.8 bn, which was a 278.0% increase from 574 home loans disbursed in 2021 valued at Kshs 1.3 bn. Despite the increase, the numbers remain low at 7.3% of the total number of mortgage loans which stood at 26,723 accounts valued at Kshs 245.1 bn as at 2021. The graph below shows the number of mortgage loan accounts in Kenya	Negative	Neutral
Performance	• The residential sector recorded an improvement in investor returns to 6.2% in FY'2022/23, from 5.8% in FY'2021/22 owing to increased selling prices and rents which came in at Kshs 119,609 and Kshs 540, respectively, from Kshs 118,652 and Kshs 535, respectively, recorded in FY'2021/22 • We expect investors to focus on lower satellite towns which offer relatively affordable land and relatively high total returns for detached houses, which came in at 6.0% in FY'2022/23, 0.2% points higher than the detached market average of 5.8%. Apartments in satellite towns recorded an average return of 6.9%, 0.7% points higher than the apartments market average of 6.2%	Neutral	Neutral
Market Outlook & Investment Opportunity	• **Given the positive outlook on demand, a negative outlook on purchasing power, and neutral outlooks on infrastructure, access to credit, and performance, our general market outlook for the residential sector in 2023 is NEUTRAL. For detached units, investment opportunity lies in areas such as Ruiru, Juja, and Ngong, while for apartments, investment opportunity lies in Ruaka, Waiyaki Way, and Ruiru driven by the current performance in terms of returns to investors**		

Thank You!

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