Infrastructure Developments Boost Returns in the Nairobi Metropolitan Area's (NMA) Residential Sector

For detached units, the top markets were Ruiru and Ngong with total average returns at 8.2% and 8.0%, respectively. For apartments, the top markets were Rongai and Waiyaki Way with a total average return at 8.8% and 8.6%, respectively.

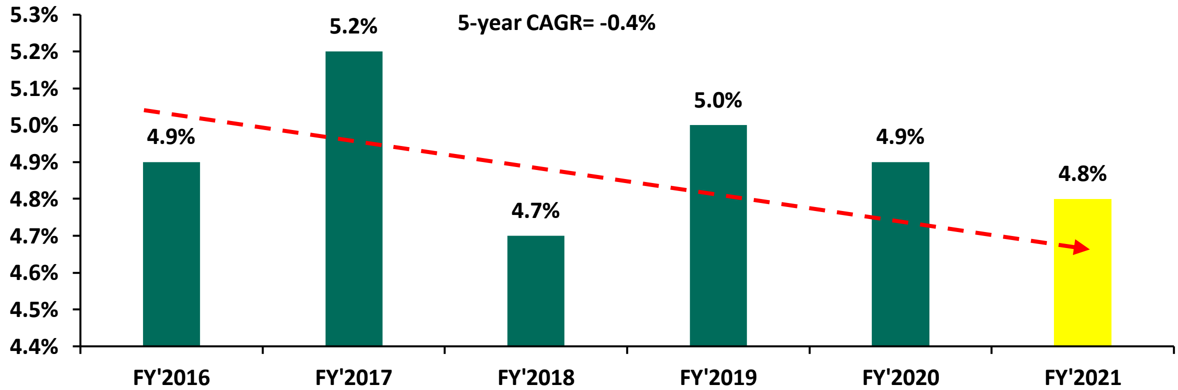
In 2021, various development activities lined up in the residential sector as the Real Estate market continued to record increased activities as a result of improved investor confidence. According to the October 2021 Leading Economic Indicators Report, the quantity of cement consumed increased by 29.1% in the three months to September to 885,312, from 686,024 metric tonnes recorded in June 2021, partly attributable to the increase in housing developments in the country such as Pangani and River Estate affordable housing developments. Additionally, aggregate value of building plan approvals in the Nairobi City County increased by 5,125.8% to Kshs 14.9 bn in September, from Kshs 0.3 bn recorded in August 2021.

In terms of performance, the residential sector improved, with the average total return to investors at 6.1%, a 1.4% points increase from the 4.7% recorded in FY'2020. On a q/q basis, the average total returns improved by 0.6% points from the 5.5% recorded in Q3'2021. The improvement is attributable to the improved investor confidence in the residential market due to less uncertainties in the Real Estate market compared to 2020.

Rental yields averaged at 4.8%, a 0.1% drop from 4.9% recorded in FY'2020, an indication of the reduced ability to raise rents as the economy remains weak and spending power remains constrained. However, prices appreciated by 1.5% points to 1.3%, from a 0.2% price correction recorded in FY'2020, majorly attributable to increased infrastructural projects in the Nairobi Metropolitan Area (NMA) such as the Nairobi Express Way, the Western Bypass, the conversion of the Eastern Bypass into a dual-carriage way among other projects. This has led to increase in property demand in these areas as investors seek to enter at the current lower prices before the projects are completed.

The graph below shows performance summary of average residential rental yields from 2016-2021;

Performance Summary: Average Rental Yield (2016-2021)



Source: Cytonn Research

A. Detached Units

In FY'2021, detached units recorded an improvement in performance with average total returns to investors coming in at 5.6%, a 1.4% points y/y increase from the 4.2% recorded in FY'2020. On a q/q basis, the total returns represented a 0.8% points increase from the 4.8% recorded in Q3'2021.

The table below shows the summary of rental yields, price appreciation and total returns for 2020 and 2021;

Summary of Detached Units Returns to Investors in 2020 and 2021

Segment	Average of Rental Yield FY'2021	Average of Price Appreciation FY'2021	Total Returns FY'2021	Average of Rental Yield FY'2020	Average of Price Appreciation FY'2020	Average of Total Returns FY'2020	y/y change in Rental Yield (% Points)	y/y change in Price Appreciation (% Points)	y/y change in Total Returns (% Points)
Detached Units									
High End	3.9%	1.0%	**4.9%**	3.8%	0.6%	**4.4%**	**0.1%**	**0.4%**	**0.5%**
Upper Mid-End	4.2%	1.8%	**6.0%**	4.5%	(0.3%)	**4.2%**	**(0.3%)**	**2.1%**	**1.8%**
Satellite Towns	4.7%	1.1%	**5.8%**	3.9%	0.1%	**4.0%**	**0.8%**	**1.0%**	**1.8%**
Detached Units Average	**4.3%**	**1.3%**	**5.6%**	**4.1%**	**0.1%**	**4.2%**	**0.2%**	**1.2%**	**1.4%**

Source: Cytonn Research

The best performing segment was the upper mid-end with total returns at 6.0% higher than the 5.8% and 4.9% recorded in the lower mid-end and high-end segments, respectively. Overall, Ruiru and Ngong were the best performing nodes, with an average total returns of 8.2% and 8.0%, respectively, attributable to availability of large parcels of land for detached units. The performance can also be attributed to key infrastructure developments with Ruiru being served by the Thika Superhighway and linked to the Eastern Bypass as well, while Ngong is served by Ngong Road whose Phase III upgrade is currently ongoing.

All values in Kshs unless stated otherwise

Summary of Detached Units Performance – FY'2021								
Area	**Average of Price per SQM FY'2021**	**Average of Rent per SQM FY'2021**	**Average of Occupancy FY'2021**	**Average of Uptake FY'2021**	**Average of Annual Uptake FY'2021**	**Average of Rental Yield FY'2021**	**Average of Price Appreciation FY'2021**	**Total Returns**
High-End								
Rosslyn	183,162	819	87.6%	94.4%	16.6%	4.7%	**2.0%**	**6.7%**
Lower Kabete	148,394	386	92.4%	80.1%	15.0%	2.9%	**2.5%**	**5.4%**
Kitisuru	245,741	736	91.4%	90.3%	15.5%	3.6%	**1.3%**	**4.9%**
Karen	179,672	678	87.0%	85.7%	14.0%	3.8%	**0.1%**	**3.9%**
Runda	211,606	789	91.0%	90.0%	10.2%	4.4%	**(1.0%)**	**3.4%**
Average	**193,715**	**682**	**89.9%**	**88.1%**	**14.3%**	**3.9%**	**1.0%**	**4.9%**
Upper Mid-End								
Redhill & Sigona	99,472	442	94.9%	87.6%	16.1%	4.9%	**2.1%**	**7.0%**
Runda Mumwe	151,663	604	86.3%	81.9%	14.4%	4.3%	**2.5%**	**6.8%**
South B/C	104,685	334	91.4%	78.5%	13.4%	3.6%	**3.2%**	**6.8%**
Langata	118,919	282	89.4%	78.1%	10.7%	3.5%	**3.1%**	**6.6%**
Ridgeways	168,291	761	83.3%	77.0%	13.6%	4.7%	**0.9%**	**5.6%**
Lavington	188,427	576	88.4%	82.2%	13.6%	3.6%	**1.2%**	**4.8%**
Loresho	165,765	719	73.2%	71.3%	15.2%	4.7%	**(0.5%)**	**4.2%**
Average	**142,460**	**531**	**86.7%**	**79.5%**	**13.9%**	**4.2%**	**1.8%**	**6.0%**
Lower Mid-End								
Ruiru	66,080	302	83.7%	70.6%	21.3%	5.3%	**2.9%**	**8.2%**
Ngong	62,988	337	88.7%	89.7%	13.6%	6.3%	**1.7%**	**8.0%**
Kitengela	61,067	274	89.2%	72.2%	12.2%	4.8%	**2.4%**	**7.2%**

Syokimau/Mlolongo	75,599	311	87.8%	85.8%	22.0%	4.2%	**2.9%**	**7.1%**
Juja	70,579	266	83.8%	70.5%	19.5%	4.7%	**1.7%**	**6.4%**
Rongai	79,685	251	93.5%	87.1%	18.7%	3.7%	**1.7%**	**5.4%**
Thika	62,776	302	79.1%	78.2%	15.1%	5.0%	**0.2%**	**5.2%**
Athi River	82,893	313	85.1%	91.9%	15.2%	3.9%	**(0.4%)**	**3.5%**
Donholm & Komarock	86,935	372	91.6%	98.0%	15.2%	4.0%	**(3.0%)**	**1.0%**
Average	**72,067**	**303**	**86.9%**	**82.7%**	**17.0%**	**4.7%**	**1.1%**	**5.8%**

Source: Cytonn Research 2021

B. Apartments

Apartments recorded a significant improvement in performance with the average total returns coming in at 6.7%, a 1.5% points y/y increase from the 5.2% recorded in FY'2020. This was attributable to a 5.3% average rental yield and an average y/y price appreciation of 1.4%. On a q/q basis, the average total return increased by 0.6% from the 6.1% recorded in Q3'2021.

Summary of Apartments' Returns to Investors in 2020 and 2021									
Segment	**Average of Rental Yield FY'2021**	**Average of Price Appreciation FY'2021**	**Total Returns FY'2021**	**Average of Rental Yield FY'2020**	**Average of Price Appreciation FY'2020**	**Average of Total Returns FY'2020**	**y/y change in Rental Yield (% Points)**	**y/y change in Price Appreciation (% Points)**	**y/y change in Total Returns (% Points)**
Apartments									
Upper Mid-End	5.4%	0.3%	**5.7%**	5.2%	0.0%	**5.2%**	**0.2%**	**0.3%**	**0.5%**
Lower Mid-End	5.2%	1.9%	**7.1%**	5.8%	(0.9%)	**4.9%**	**(0.6%)**	**2.8%**	**2.1%**
Satellite Towns	5.3%	2.0%	**7.3%**	6.0%	(0.6%)	**5.4%**	**(0.7%)**	**1.9%**	**2.0%**
Apartments Average	**5.3%**	**1.4%**	**6.7%**	**5.7%**	**(0.5%)**	**5.2%**	**(0.3%)**	**1.9%**	**1.5%**

Source: Cytonn Research, 2021

The lower mid-end satellite towns were the best performing segment with an average total return of 7.3%. The lower mid-end suburbs and upper mid-end areas recorded average total returns of 7.1% and 5.7%, respectively. This performance was attributable to increased returns in the major satellite town nodes where infrastructure developments are currently ongoing. These include Syokimau and Athi River which are touchpoints to the Nairobi Express Way, Ruaka and Kikuyu linked by the ongoing Western Bypass, Ruiru where the conversion of the Eastern Bypass into dual carriage way ends, and Ngong served by Ngong Road whose Phase III upgrade is currently on course. The demand in this areas has been increasing as investor and renters rush to secure residential spaces in these areas before the completion of the mega infrastructure project.

All values in Kshs unless stated otherwise									
Summary of Residential Apartments Performance – FY'2021									
Area	**Average of Price per SQM FY'2021**	**Average of Rent per SQM FY'2021**	**Average of Occupancy FY'2021**	**Average of Uptake 2021**	**Average of Annual Uptake FY'2021**	**Average of Rental Yield FY'2021**	**Average of Price Appreciation**	**Total Returns**
Upper Mid-End								
Kileleshwa	127,623	728	89.1%	80.7%	17.6%	6.2%	**1.3%**	**7.5%**
Upperhill	144,437	813	81.3%	92.0%	14.8%	5.7%	**1.8%**	**7.5%**
Westlands	127,816	657	87.4%	86.6%	24.4%	5.1%	**1.5%**	**6.6%**

Kilimani	98,280	534	87.1%	93.5%	22.9%	6.1%	(0.6%)	5.5%
Parklands	111,152	559	88.0%	87.3%	16.1%	4.8%	(0.7%)	4.1%
Loresho	119,712	514	90.7%	89.6%	10.5%	4.7%	(1.7%)	3.0%
Average	**121,504**	**634**	**87.3%**	**88.3%**	**17.7%**	**5.4%**	**0.3%**	**5.7%**
Lower Mid-End Suburbs								
Waiyaki Way	87,231	526	86.8%	83.9%	27.4%	6.3%	2.3%	8.6%
South C	119,410	699	79.5%	67.0%	19.6%	6.1%	2.4%	8.5%
Dagoretti	87,342	560	91.9%	95.7%	20.9%	6.0%	2.4%	8.4%
Donholm & Komarock	84,741	422	86.1%	89.9%	13.4%	5.5%	2.5%	8.0%
Imara Daima	85,331	391	87.4%	87.7%	14.8%	5.0%	2.1%	7.1%
Langata	105,837	472	90.0%	87.6%	13.9%	4.9%	1.7%	6.6%
Kahawa West	71,509	345	80.0%	90.1%	12.2%	4.8%	1.7%	6.5%
Race Course/Lenana	105,524	618	87.2%	90.3%	25.6%	6.1%	0.2%	6.3%
South B	101,565	451	82.4%	95.2%	17.8%	4.1%	1.9%	6.0%
Lower Kabete	253,452	504	83.7%	85.7%	20.1%	3.0%	1.7%	4.7%
Average	**110,194**	**499**	**85.5%**	**87.3%**	**18.6%**	**5.2%**	**1.9%**	**7.1%**
Lower Mid-End Satellite Towns								
Rongai	60,003	347	86.3%	74.3%	16.1%	6.2%	2.6%	8.8%
Ruaka	107,375	588	91.9%	81.7%	20.2%	5.6%	2.9%	8.5%
Ruiru	89,260	493	84.3%	85.9%	21.9%	5.6%	2.2%	7.8%
Syokimau	72,318	330	89.9%	83.5%	12.7%	5.3%	1.9%	7.2%
Ngong	63,446	346	73.7%	76.3%	12.5%	5.0%	2.1%	7.1%
Kikuyu	80,656	464	69.9%	79.6%	17.6%	4.9%	2.1%	7.0%
Thindigua	96,294	491	84.0%	92.9%	14.9%	5.2%	1.4%	6.6%
Athi River	63,416	288	91.9%	91.8%	13.7%	5.2%	1.4%	6.6%
Kitengela	60,435	261	93.2%	84.0%	10.1%	5.0%	1.6%	6.6%
Average	**77,023**	**401**	**85.0%**	**83.3%**	**15.5%**	**5.3%**	**2.0%**	**7.3%**

Source: Cytonn Research 2021

Our Outlook for the residential sector is NEUTRAL supported by the continued construction of affordable housing projects and diversified sources of finance to fund both affordable housing and mortgages. However, we expect the sluggishness of the affordable housing initiative and the low penetration of mortgages in the country to continue impeding the performance of the sector. For detached units, investment opportunity lies in areas such as Ruiru and Ngong while for apartments, investment opportunity lies in Rongai and Waiyaki Way.

For more information, please see our Cytonn Annual Markets Review 2021.