

Increased Property Transactions Boosts Performance of the Residential Sector in Q1'2022

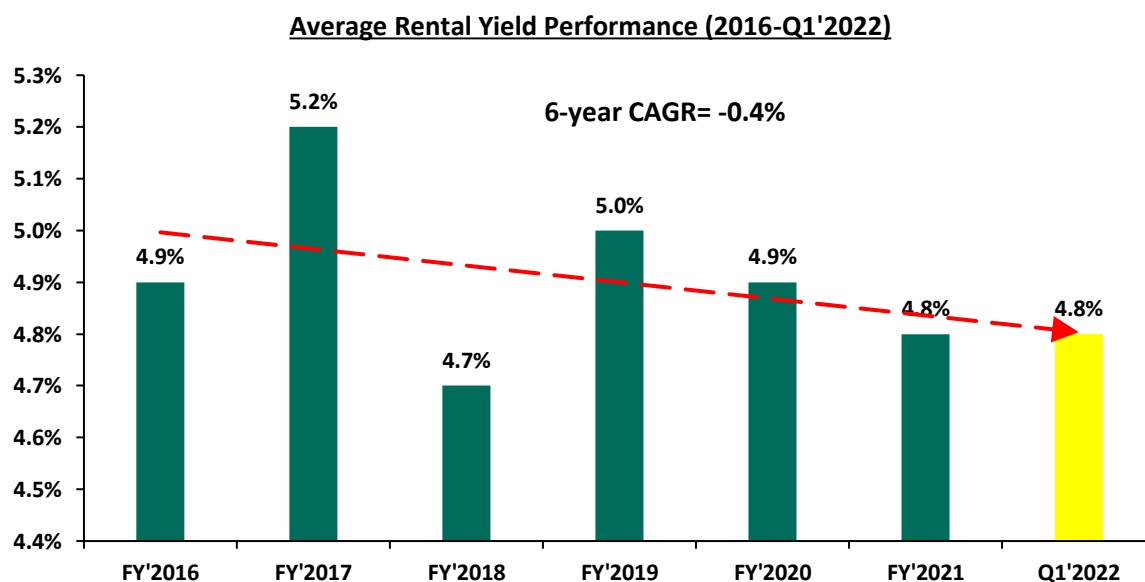
The Residential Sector recorded an average y/y total returns of 5.7% in Q1'2022, a 0.6% points increase from 5.1% recorded in Q1'2021. For detached units, the top markets were Redhill, Syokimau and Ngong. For apartments, the top markets were Waiyaki Way, Westlands and Ruaka.

In Q1'2022, the residential sector recorded improved performance compared to a similar period in 2021, supported by;

- i. Continued focus on Affordable Housing by both the government and the private sector, for instance, 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,
- ii. 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,
- iii. Improved infrastructure opening up areas for investment Such as the Nairobi Expressway, and Nairobi Western Bypass projects, among many others, and,
- iv. Positive demographics evidenced by Kenya's relatively high urbanization and population growth rates of 4.0% p.a and 2.3% p.a, respectively, against the global average of 1.8% p.a and 1.0% p.a, respectively, as at 2020, driving increased demand for developments.

In terms of performance, the residential sector recorded an improvement in performance on a YoY basis with average y/y total returns to investors coming in at 5.7%, a 0.6% points increase from 5.1% recorded in Q1'2021. However, on a q/q basis this was a 0.4% points decline from the 6.1% average total return in FY'2021. Prices in all segments saw an uptick with an overall average price appreciation of 0.9% in the residential market with the average rental yield recording a 0.2% points y/y increase to 4.8% from 4.6% recorded in Q1'2021, attributed to improvement in rental rates amid an improved economy.

The graph below shows performance summary of average residential rental yields from 2016-Q1'2022;



Source: Cytton Research 2022

A. Detached Units Performance

In Q1'2022, detached units recorded an improvement in performance with average total returns to investors coming in at 5.4%, a 0.6% points y/y increase from the 4.8% recorded in Q1'2021. This was attributed to investor confidence in the market, that saw transactional volumes pick amid recovery in the

Real Estate market. On a q/q basis, the total returns represented a 0.2% points decline from the 5.6% recorded in FY'2021. The table below shows the summary of rental yields, price appreciation and total returns for Q1'2022 and Q1'2021;

Detached Units Performance Summary									
Segment	Average of Rental Yield Q1'2022	Average of Price Appreciation Q1'2022	Total Returns Q1'2022	Average of Rental Yield Q1'2021	Average of Price Appreciation Q1'2021	Average of Total Returns Q1'2021	y/y change in Rental Yield (% Points)	y/y change in Price Appreciation (% Points)	y/y change in Total Returns (% Points)
High End	3.9%	1.3%	5.2%	3.6%	1.0%	4.6%	0.3%	0.3%	0.6%
Upper Mid-End	4.2%	1.1%	5.3%	4.5%	0.6%	5.0%	(0.3%)	0.5%	0.3%
Satellite Towns	4.5%	1.3%	5.8%	4.1%	0.7%	4.8%	0.4%	0.6%	1.0%
Detached Units Average	4.2%	1.2%	5.4%	4.1%	0.8%	4.8%	0.1%	0.4%	0.6%

Source: Cytonn Research 2022

Satellite Towns were the best performing segment with an average y/y total return of 5.8%, with Syokimau and Ngong offering the highest average y/y total returns at 6.7%. The best performing node was Redhill recording the highest average y/y total returns at 7.2%, followed by Syokimau and Ngong, and finally Athi River whose average y/y total return came in at 6.6%. Rongai and Langata recorded the lowest returns at 4.2%.

Detached Units Performance – Q1'2022								
Row Labels	Average of Price per SQM Q1'2022	Average of Rent per SQM Q1'2022	Average of Occupancy Q1'2022	Average of Uptake Q1'2022	Average of Annual Uptake Q1'2022	Average of Rental Yield Q1'2022	Average of Price Appreciation Q1'2022	Total Returns
High-End								
Rosslyn	188,415	819	85.9%	94.4%	13.6%	4.7%	1.8%	6.5%
Kitisuru	227,272	736	92.0%	91.2%	12.5%	4.2%	1.4%	5.6%
Runda	211,728	789	91.0%	95.4%	10.0%	4.1%	1.1%	5.2%
Karen	185,270	686	85.3%	88.1%	12.3%	3.5%	0.8%	4.3%
Lower Kabete	156,352	422	81.9%	80.1%	12.1%	3.1%	1.2%	4.3%
Average	193,807	691	87.2%	89.8%	12.1%	3.9%	1.3%	5.2%
Upper Mid-End								
Redhill & Sigona	100,476	442	90.0%	88.6%	13.7%	4.3%	2.9%	7.2%
Ridgeways	167,607	761	84.0%	77.9%	11.8%	5.3%	1.1%	6.4%
Lavington	163,505	576	86.0%	82.7%	11.6%	4.0%	1.4%	5.4%
Loresho	168,277	719	74.3%	72.9%	12.7%	4.7%	0.3%	5.0%
South B/C	104,789	338	81.7%	78.5%	11.4%	3.2%	1.4%	4.6%
Runda Mumwe	151,208	604	85.3%	82.1%	11.3%	4.3%	0.2%	4.5%
Langata	137,432	282	88.6%	88.9%	10.1%	3.5%	0.7%	4.2%
Average	141,899	532	84.3%	81.7%	11.8%	4.2%	1.1%	5.3%
Lower Mid-End								
Syokimau/Mlolongo	73,436	311	79.1%	85.8%	17.0%	3.8%	2.9%	6.7%
Ngong	59,840	337	85.3%	89.7%	11.6%	5.1%	1.6%	6.7%
Athi River	84,577	313	86.5%	91.9%	12.9%	3.9%	2.7%	6.6%

Ruiru	65,251	302	83.8%	71.3%	16.0%	5.0%	1.5%	6.5%
Kitengela	67,478	274	92.0%	73.8%	11.4%	4.9%	1.1%	6.0%
Thika	63,581	302	79.8%	79.0%	12.3%	5.0%	1.0%	6.0%
Donholm & Komarock	92,706	389	93.9%	98.0%	13.1%	4.9%	(1.0%)	3.9%
Juja	71,242	266	75.1%	71.4%	14.3%	4.5%	1.2%	5.6%
Rongai	80,521	251	81.1%	87.5%	15.5%	3.3%	0.9%	4.2%
Average	73,119	305	84.1%	83.2%	13.8%	4.5%	1.2%	5.7%

Source: Cyttonn Research 2022

B. Apartments Performance

Apartments recorded a significant improvement in performance with the average total returns coming in at 6.0%, a 0.7% points y/y increase from the 5.3% recorded in Q1'2021. This was attributable to a 5.4% average rental yield and an average y/y price appreciation of 0.6%. On a q/q basis, the average total return declined by 0.7% from the 6.7% recorded in FY'2021. The table below shows the summary of apartments' rental yields, price appreciation and total returns for Q1'2022 and Q1'2021;

Apartments Performance Summary									
Segment	Average of Rental Yield Q1'2022	Average of Price Appreciation Q1'2022	Total Returns Q1'2022	Average of Rental Yield Q1'2021	Average of Price Appreciation Q1'2021	Average of Total Returns Q1'2021	y/y change in Rental Yield (% Points)	y/y change in Price Appreciation (% Points)	y/y change in Total Returns (% Points)
Upper Mid-End	5.6%	0.5%	6.1%	5.2%	0.0%	5.2%	0.4%	0.5%	0.9%
Lower Mid-End	5.2%	0.6%	5.8%	5.0%	0.2%	5.3%	0.2%	0.4%	0.5%
Satellite Towns	5.4%	0.9%	6.3%	5.4%	0.0%	5.5%	0.0%	0.9%	0.8%
Apartments Average	5.4%	0.6%	6.0%	5.2%	0.1%	5.3%	0.2%	0.5%	0.7%

Source: Cyttonn Research 2022

Satellite towns continued to be the best performing segment with average y/y total returns coming in at 6.3% attributed to the relatively high rental yield averaging at 5.4% and an average y/y price appreciation of 0.9%. The best performing nodes in terms of returns were Waiyaki Way, Westlands, Imara Daima, and Ruaka which recorded an average y/y total returns of 8.4%, 8.1%, 7.6%, and 7.5%, respectively attributed to relatively high rental yields coupled with resilience of house prices in the areas. Donholm and Kikuyu were the worst performing nodes which recorded average y/y total returns of 4.2% each.

Apartments Performance – Q1'2022								
Area	Average of Price per SQM Q1'2022	Average of Rent per SQM Q1'2022	Average of Occupancy Q1'2022	Average of Uptake 2021	Average of Annual Uptake Q1'2022	Average of Rental Yield Q1'2022	Average of Price Appreciation Q1'2022	Total Returns
Upper Mid-End								
Westlands	148,981	872	87.4%	86.6%	43.8%	6.5%	1.6%	8.1%
Upperhill	136,249	813	81.3%	92.0%	14.8%	5.7%	1.0%	6.7%
Kileleshwa	125,270	671	87.5%	82.8%	14.0%	5.8%	0.7%	6.5%
Kilimani	104,503	534	87.1%	93.5%	18.2%	6.2%	(0.6%)	5.6%
Loresho	120,762	514	90.7%	94.0%	10.0%	4.6%	0.1%	4.7%
Parklands	119,893	559	88.0%	87.3%	13.4%	4.8%	0.0%	4.8%
Average	125,943	660	87.0%	89.4%	19.0%	5.6%	0.5%	6.1%

Lower Mid-End Suburbs								
Waiyaki Way	88,082	526	86.8%	83.9%	22.7%	6.3%	2.1%	8.4%
Imara Daima	81,101	409	86.3%	87.7%	12.6%	4.9%	2.7%	7.6%
South C	116,853	699	82.8%	73.9%	23.8%	6.1%	1.3%	7.4%
Langata	114,267	472	90.0%	87.6%	11.8%	4.9%	0.8%	5.7%
Race Course/Lenana	99,563	618	87.2%	90.3%	19.1%	6.1%	(0.9%)	5.2%
Dagoretti	85,064	560	92.0%	95.7%	16.9%	6.2%	(1.1%)	5.1%
South B	105,102	451	82.4%	95.2%	17.8%	4.2%	0.5%	4.7%
Lower Kabete	287,481	504	83.7%	85.7%	16.0%	2.9%	1.7%	4.6%
Kahawa West	73,354	313	80.0%	90.1%	10.4%	5.0%	(0.4%)	4.6%
Donholm & Komarock	79,853	406	86.6%	89.9%	11.6%	5.3%	(1.1%)	4.2%
Average	113,072	496	85.8%	88.0%	16.3%	5.2%	0.6%	5.8%
Lower Mid-End Satellite Towns								
Ruaka	103,584	559	91.9%	84.6%	20.7%	5.6%	1.9%	7.5%
Syokimau	69,135	330	89.9%	83.5%	12.7%	5.4%	1.5%	6.9%
Kitengela	60,665	261	93.2%	96.4%	10.1%	5.0%	1.9%	6.9%
Athi River	59,994	306	89.0%	90.9%	13.3%	5.4%	1.4%	6.8%
Rongai	100,449	347	86.3%	74.3%	12.8%	6.2%	0.5%	6.7%
Ngong	59,206	346	73.7%	76.3%	10.7%	5.3%	0.9%	6.2%
Thindigua	99,367	475	83.6%	83.4%	24.2%	5.0%	1.2%	6.2%
Ruiru	89,094	493	84.3%	85.9%	21.9%	5.7%	(0.4%)	5.3%
Kikuyu	80,659	464	69.9%	79.6%	14.0%	4.9%	(0.7%)	4.2%
Average	80,239	398	84.6%	83.9%	15.6%	5.4%	0.9%	6.3%

Source: Cytonn Research 2022

Our outlook on the Residential sector is NEUTRAL as we expect the sector to record increased activities following focus on affordable housing, efforts by the government to avail relatively cheaper mortgage facilities to encourage home ownership. However, the sector's performance continues to be weighed down by factors such as; i) low mortgage uptake, ii) sluggishness in the delivery of government affordable houses, iii) increase in construction materials leading to slowdown of developments, and, iv) reduced disposable income amongst Kenyans in the midst of tough economic times. For detached units, investment opportunity lies in areas such as Redhill, Syokimau, Ngong and Rosslyn while for apartments, investment opportunity lies in Waiyaki Way, Westlands, and Ruaka.

For more information, please see our [Cytonn Q1'2022 Markets Review](#).