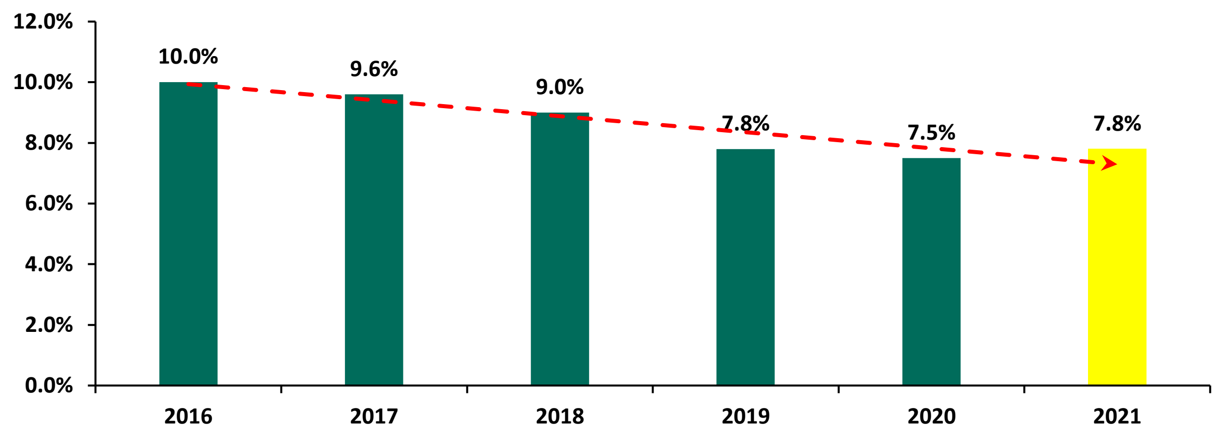
## Retail Sector FY’2021 Markets Review Note

### Westlands was the Best Performing Node Recording an Average Rental Yield of 10.0%, 2.2% Points Higher Than the Market Average of 7.8%

In FY’2021, the Retail sector recorded a 0.3% points increase in average rental yields to 7.8%, from 7.5% in 2020. The improvement in performance was due to; i) an improved business environment following the lifting of the COVID-19 containment measures, ii) aggressive expansion by local and international retailers such as Naivas and Carrefour, iii) increased infrastructure developments hence promoting accessibility to retail centers, iv) availability of prime retail space left by troubled retailers, and, v) positive demographics facilitating demand for spaces, goods and services. The table below shows a six-year performance summary for the retail sector average rental yields;

**Nairobi Metropolitan Area (NMA) Retail Sector Performance-Average Rental Yields (2016-2021)**




*Source: Cytonn Research*

The average rents and occupancies also increased by 0.6% and 1.6% points to Kshs 170 per SQFT and 76.8%, respectively, in FY’2021, from Kshs 169 per SQFT and 75.2%, respectively in FY’2020, as a result of the rapid expansion by local and international retailers. The table below shows the performance of the retail sector in Nairobi over time;

**Summary of Retail Sector Performance Since 2020**

| Item | Q1'2020 | H1'2020 | Q3'2020 | FY'2020 | Q1'2021 | H1'2021 | Q3'2021 | FY'2021 | Y/Y 2021 Δ |
|---|---|---|---|---|---|---|---|---|---|
| Average Asking Rents (Kshs/SQFT) | 173 | 170 | 169 | 169 | 166 | 169 | 168 | 170 | 0.6% |
| Average Occupancy (%) | 76.3% | 74.0% | 74.2% | 75.2% | 75.0% | 75.70% | 75.8% | 76.8% | 1.6% |
| Average Rental Yields | 7.7% | 7.4% | 7.4% | 7.5% | 7.4% | 7.60% | 7.5% | 7.8% | 0.3% |

*Source: Cytonn Research 2021*

In terms of the sub markets analysis, Westlands was the best performing node recording average rental yields of 10.0%, 2.2% points higher than the market average of 7.8%. The remarkable performance was mainly attributed to; i) relatively high monthly rents at Kshs 213 per SQFT compared to the market average of Kshs 170 per SQFT, ii) adequate amenities and infrastructure servicing the areas, and, iii) relatively high demand evidenced by their high occupancy rates at 78.8%, compared to the market average of 76.8%.

Eastlands ranked last with average rental yields of 5.6%, 2.2% points lower than the market average of 7.8% as a result of; i) the lower rents at Kshs 133 per SQFT compared to market average of Kshs 170 per SQFT, ii) presence of informal retail spaces causing stiff competition to the formal spaces, and, iii) inadequate infrastructure to service the retail spaces. The table below shows the submarket performance of nodes in the Nairobi Metropolitan Area (NMA):

***(All values in Kshs unless stated otherwise)***

**Nairobi Metropolitan Area Retail Market Performance FY'2021**

| Area | Rent Kshs /SQFT FY'2020 | Occupancy% FY'2020 | Rental Yield FY'2020 | Rent Kshs /SQFT FY'2021 | Occupancy% FY'2021 | Rental Yield FY'2021 | FY' 2021 Δ in Rental Rates | FY' 2021 Δ in Occupancy (% points) | FY' 2021 Δ in Rental Yield (% points) |
|---|---|---|---|---|---|---|---|---|---|
| Westlands | 209 | 81.5% | **9.9%** | 213 | 78.8% | **10.0%** | **2.0%** | **(2.7%)** | **0.1%** |
| Karen | 217 | 81.0% | **9.8%** | 202 | 84.0% | **9.8%** | **(7.6%)** | **3.0%** | **0.0%** |
| Kilimani | 171 | 82.5% | **8.5%** | 183 | 86.0% | **9.8%** | **6.6%** | **3.5%** | **1.3%** |
| Ngong Road | 178 | 80.3% | **8.2%** | 171 | 79.0% | **7.7%** | **(4.2%)** | **(1.3%)** | **(0.5%)** |
| Kiambu road | 176 | 67.5% | **6.9%** | 180 | 74.2% | **7.7%** | **2.2%** | **6.7%** | **0.8%** |
| Mombasa road | 140 | 70.0% | **5.9%** | 148 | 75.0% | **6.8%** | **5.5%** | **5.0%** | **0.9%** |
| Thika Road | 158 | 70.5% | **6.3%** | 161 | 74.0% | **6.7%** | **1.8%** | **3.5%** | **0.4%** |
| Satellite towns | 133 | 73.0% | **5.8%** | 142 | 69.0% | **6.2%** | **6.4%** | **(4.0%)** | **0.4%** |
| Eastlands | 137 | 70.2% | **6.1%** | 133 | 71.6% | **5.6%** | **(3.4%)** | **1.4%** | **(0.5%)** |
| **Average** | **169** | **75.2%** | **7.5%** | **170** | **76.8%** | **7.8%** | **0.6%** | **1.6%** | **0.3%** |

*Source: Cytonn Research 2021*

***We have a NEUTRAL outlook on the Retail sector's performance with the performance expected to be driven by the rapid expansion by retailers, infrastructure road and railway projects boosting accessibility, and positive demographics facilitating demand. However, the performance is expected to be impeded by; i) oversupply at 1.7 mn SQFT in the Kenyan retail sector and 3.0 mn SQFT in the NMA retail sector, ii) growing popularity of e-commerce which continues to affect occupier demand, and, iii) financial constraints hindering developments***.

For more information, please see our Real Estate Annual Markets Review 2021 Note.