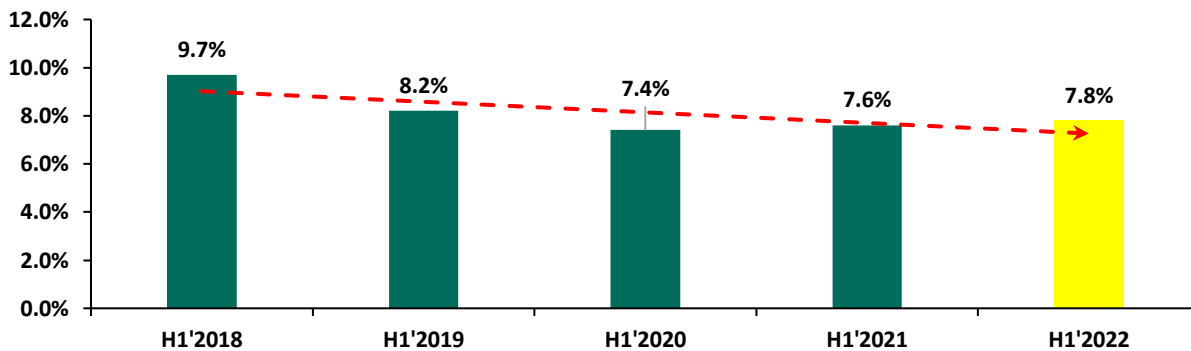


Nairobi Metropolitan Area (NMA) Retail Sector H1'2022 Markets Review Note

Kilimani, Westlands, and, Karen were the best performing nodes with average rental yields of 9.7%, 9.0% and 8.9%, respectively, compared to the overall market average of 7.8%

In H1'2022, the average rental yield for retail spaces in the Nairobi Metropolitan Area (NMA) remained the same at 7.8%, when compared to FY'2021 performance. The average rental rates increased by 0.6% to Kshs 173 per SQFT, from the Kshs 169 per SQFT that was recorded in FY'2021, driven by an increase in quality retail spaces such as the GTC Shopping Mall in Westlands. Average occupancy rates however declined by 0.8% points to 75.9% in H1'2022, from 77.2% realized in FY'2021. This was as a result of the excess supply of retail spaces which is currently at 3.0 mn SQFT, thus in turn straining the optimum occupancy rates. The table below shows a five-year performance summary for the retail sector average rental yields;

Performance Summary of Retail Sector Average Rental Yields (2018 - 2022)



Source: Cytonn Research

The performance of the retail sector in the Nairobi Metropolitan Area over time is as shown below:

<i>(All values in Kshs unless stated otherwise)</i>							
Summary of performance overtime							
Item	Q1'2021	H1'2021	Q3'2021	FY'2021	Q1'2022	H1'2022	Rental Yield Change FY'2021/H1'2022
Average Asking Rents (Kshs/SQFT)	166	177	177	169	170	173	0.6%
Average Occupancy (%)	75.0%	77.96%	78.0%	76.7%	77.2%	75.9%	(0.8) points
Average Rental Yields (%)	7.4%	8.1%	8.1%	7.8%	7.9%	7.8%	(0.0%) points

Source: Cytonn Research 2022

Kilimani, Westlands, and, Karen were the best performing nodes with average rental yields of 9.7%, 9.0% and 8.9%, respectively, compared to the overall market average of 7.8%. The remarkable performance was driven by; i) the presence of quality retail spaces which offered prime rents and yields, ii) their superior locations with affluent residents having a high purchasing power, and, iii) adequate infrastructure opening up areas for investments. Retail spaces in Eastlands recorded the lowest yields at 5.9%, 1.9% points lower than the market average of 7.8%, as a result of a low average rental charge of Kshs 133 per SQFT against a market average of Kshs 173 Per SQFT, coupled with a stiff competition from informal retail spaces. The table below shows the submarket performance in the Nairobi Metropolitan Area (NMA):

(All values in Kshs unless stated otherwise)

Nairobi Metropolitan Area Retail Market Performance H1'2022

Area	Average Rent (Kshs) /SQFT FY'2021	Average Occupancy % FY'2021	Average Rental Yield FY'2021	Average Rent (Kshs) /SQFT H1'2022	Average Occupancy % H1'2022	Average Rental Yield H1'2022	H1' 2022 Δ in Rental Rates	H1' 2022 Δ in Occupancy (% points)	H1' 2022 Δ in Rental Yield (% points)
Kilimani	183	86.0%	9.8%	182	85.0%	9.7%	(0.5%)	(1.0%)	(0.1%)
Westlands	213	78.8%	10.0%	215	72.9%	9.0%	0.8%	(5.9%)	(1.0%)
Karen	202	84.0%	9.8%	205	78.6%	8.9%	1.7%	(5.4%)	(0.9%)
Kiambu road	180	74.2%	7.7%	187	73.3%	8.1%	3.8%	(0.9%)	0.3%
Ngong Road	171	79.0%	7.7%	169	78.0%	7.5%	(0.9%)	(1.0%)	(0.3%)
Thika Road	161	74.0%	6.7%	165	74.8%	7.3%	2.5%	0.8%	0.6%
Mombasa road	148	75.0%	6.8%	150	78.5%	7.3%	1.2%	3.5%	0.5%
Satellite towns	142	69.0%	6.2%	138	70.7%	6.0%	(3.0%)	1.7%	(0.2%)
Eastlands	133	71.6%	5.6%	133	74.2%	5.9%	0.0%	2.6%	0.3%
Average	170	76.8%	7.8%	173	75.9%	7.8%	0.6%	(0.6%)	0.0%

Source: Cytonn Research 2022

NMA's retail sector performance continues to be highly driven by; i) the rapid expansion drive by local and international retailers, ii) positive demographics, and, iii) increased foreign investments in the country as a result of Kenya being recognized as a regional hub. However, factors such as e-commerce, coupled with the existing oversupply of retail spaces in the market by 3.0 mn SQFT in the Nairobi Metropolitan Area, is expected to weigh down the overall performance of the sector, thus we retain a NEUTRAL outlook for the sector's performance. Investment opportunity lies in Karen, Kilimani, and, Westlands which offer relatively high returns compared to the market averages.

Key Market Developments in H1'2022

- i. French private equity firm Amethis, and the International Finance Cooperation (IFC) consortium, sold an estimated 30.0% stake in Naivas supermarket to IBL Group of Mauritius and other investors, for an undisclosed amount. From the 30.0% sale transaction by IFC and Amethis, IBL Group purchased the largest the stake thus becoming its largest investment worldwide, and the first in East Africa. For more information, see our [Cytonn weekly #25/2022](#).
- ii. Naivas Supermarket opened 5 new outlets in various parts of the country including Nakuru, Nairobi, and, Kiambu Counties, among others,
- iii. QuickMart Supermarket opened 4 new outlets in various parts of the country such as Nairobi and Kissi Counties, among others,
- iv. Eat'N'Go Limited, an international fast-food chain, opened a new outlet in Westlands Square, Nairobi, bringing its total operating outlets in Nairobi to 9. This is addition to the retailer having announced plans to open 100 new stores in Kenya in March 2022, beginning with Nanyuki, Kisumu, Eldoret, and Nakuru towns. For more information, see [Cytonn Weekly #14/2022](#),

- v. ChicKing, an international fast-food chain, in partnership with M/s Crispy Limited, a local franchise, announced plans to open 30 new outlets in Kenya, over the next five years. For more information, see [Cytonn Weekly #19/2022](#),
- vi. Optica Limited, a local eye-wear retailer, opened two new outlets at Rubis Business Block in Kitengela, and in Argwing's Arcade in Kilimani, in May 2022. This brought the retailer's total number of operating outlets countrywide to 62. For more information, please see [Cytonn Weekly #20/2022](#),
- vii. Chicken Cottage, a UK fast-food chain announced a partnership deal with Express Kitchen, a subsidiary of AAH Limited to open 50 outlets at Hass Petroleum's service stations in Kenya, Rwanda, Tanzania and Uganda this year. For more information, see [Cytonn Weekly #06/2022](#), and,
- viii. Chandarana Foodplus Supermarket, a local retail chain, announced plans to open 4 outlets in Riverside, Thigiri, and General Mathenge in Westlands, and 1 will be located in an undisclosed mall outside Nairobi. For more information, see [Cytonn Weekly #06/2022](#).

For more information, please see our [Cytonn H1'2022 Markets Review report](#).