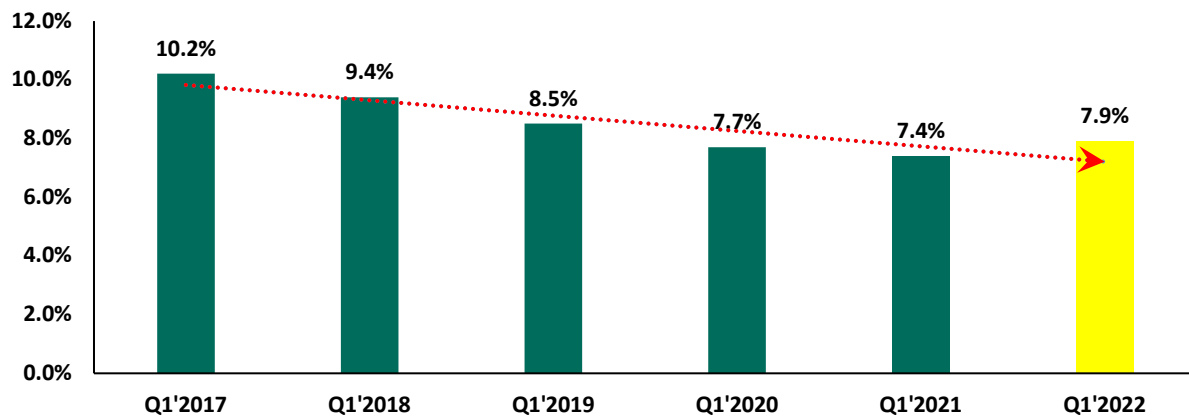


Nairobi Metropolitan Area (NMA) Retail Sector Q1'2022 Markets Review Note

Karen, Kilimani and Westlands were the best performing nodes recording average rental yields of 10.0%, 9.9% and 9.5%, respectively, compared to the overall market average of 7.9%

The retail sector performance in Q1'2022 realized a 0.1% points increase in the overall rental yields to 7.9% from the 7.8% that was recorded in FY'2021. The improvement in performance was as a result of; i) continuous expansion by local and international retailers, ii) positive demographics driving demand for goods, retail spaces and services, iii) recognition of Nairobi as a regional hub resulting to increased foreign investments in the country from retailers such as Chicken Cottage, and, iv) infrastructure developments driving retail investments in various parts of the country. The table below shows a six-year performance summary for the retail sector average rental yields;

Retail Sector Performance Summary - Average Rental Yields (2017-2022)



Source: Cytonn Research

The average rents and occupancies increased as well by 0.1% and 0.5% points, respectively, to Kshs 170 per SQFT and 77.2% in Q1'2022, from Kshs 169 per SQFT and 76.7%, respectively, in FY'2021. The performance of the retail sector in the Nairobi Metropolitan Area over time is as shown below:

(All values in Kshs unless stated otherwise)

Summary of performance overtime						
Item	Q1'2021	H1'2021	Q3'2021	FY'2021	Q1'2022	Rental Yield Change FY'2021/Q1'2022
Average Asking Rents (Kshs/SQFT)	166	177	177	169	170	0.1%
Average Occupancy (%)	75.0%	78.0%	78.0%	76.7%	77.2%	0.5% points
Average Rental Yields (%)	7.4%	8.1%	8.1%	7.8%	7.9%	0.1% points

Source: Cytonn Research 2022

In terms of the sub markets analysis, Karen, Kilimani and Westlands were the best performing nodes recording average rental yields of 10.0%, 9.9% and 9.5%, respectively, compared to the overall market average of 7.9%. This was mainly attributed to; i) presence of quality retail spaces fetching prime rents and yields such as Galleria, Sarit, and Yaya Centre Malls, among others, ii) presence of affluent residents with a high consumer purchasing power as the areas host high end income earners, and, iii) adequate infrastructure supporting accessibility ,and, enhancing investments. Key to note is that Westlands realized a sharp decline of 4.0% in its

overall occupancy rates as a result of additional retail space from new developments such as the Global Trade Centre worth 91,419 SQFT.

Eastlands recorded the lowest rental yields at 5.8%, 2.1% points lower than the average market rates of 7.9%, as a result of low rental charges at Kshs 131 per SQFT against a market average of Kshs 170 Per SQFT, coupled with a stiff competition from informal retail spaces. However, key to note is that the performance is an increase from the 5.6% average yields that was realized in FY'2021, due to increased occupancy rates, which came in at 73.0% in Q1'2022, a 1.4% point's increase from 71.6% recorded in FY'2021.

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 Q1'2022									
Area	Rent (Kshs) /SQFT FY'2021	Occupancy % FY'2021	Rental Yield FY'2021	Rent (Kshs) /SQFT Q1'2022	Occupancy % Q1'2022	Rental Yield Q1'2022	Q1' 2022 Δ in Rental Rates	Q1' 2022 Δ in Occupancy (% points)	Q1' 2022 Δ in Rental Yield (% points)
Karen	202	84.0%	9.8%	200	85.0%	10.0%	(1.5%)	0.8%	0.2%
Kilimani	183	86.0%	9.8%	183	86.8%	9.9%	0.0%	0.8%	0.1%
Westlands	213	78.8%	10.0%	214	72.9%	9.5%	4.5%	(4.0%)	(0.4%)
Ngong Road	171	79.0%	7.7%	164	81.0%	8.3%	2.1%	2.0%	0.6%
Kiambu road	180	75.6%	7.9%	179	77.6%	8.1%	(2.1%)	1.7%	0.2%
Mombasa road	148	75.0%	6.8%	146	78.6%	7.0%	(0.7%)	3.0%	0.2%
Thika Road	161	74.0%	6.7%	156	74.2%	6.6%	(2.2%)	0.2%	0.0%
Satellite towns	142	69.0%	6.2%	145	70.8%	6.2%	1.0%	1.5%	0.0%
Eastlands	133	71.6%	5.6%	131	73.0%	5.8%	(0.6%)	1.4%	0.2%
Average	169	76.7%	7.8%	170	77.2%	7.9%	0.1%	0.8%	0.1%

Source: Cytonn Research 2022

We retain a NEUTRAL outlook for the retail sector with the performance expected to be mainly supported by the rapid expansion drive by local and international retailers, ii) positive demographics, and, and, iii) increased foreign investments in the country as a result of Kenya being recognized as a regional hub. However, e-commerce still being adopted by some retailers, coupled with the existing oversupply of retail spaces in the market by 3.0 mn SQFT, is expected to weigh down the overall performance of the sector. Investment opportunity lies in Karen, Kilimani, and, Westlands which offer relatively high returns compared to the market averages.

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