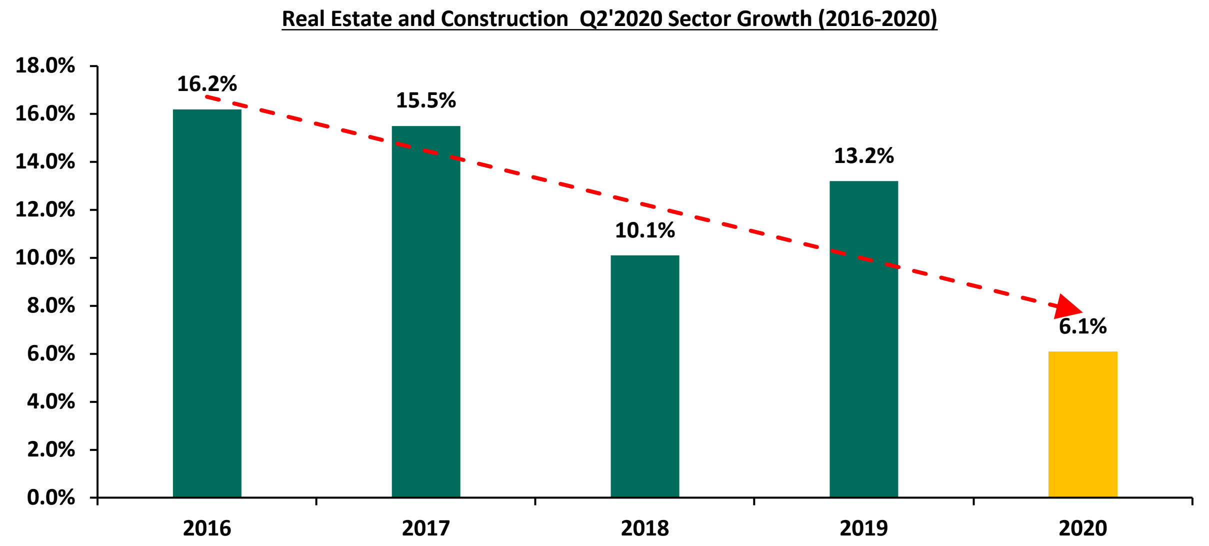
Real Estate Annual Markets Review Note 2020

In 2020, the real estate sector recorded moderate activities with a general decline in transactions attributed to the tough economic environment in the wake of the Covid-19 pandemic that had adverse effects on the real estate sector. The effects of the pandemic were mainly felt in the sector from Q2'2020 with the real estate and construction recording a 7.1% points decline in growth in Q2'2020, coming in at 6.1% compared to 13.2% growth recorded in Q2'2019, according to KNBS Quarterly Gross Domestic Product Report - Q2'2020.

The chart below shows the sectors' five-year growth;



Source: Kenya National Bureau of Statistics

The dismal growth in Q2'2020 was mainly attributable to;

i. Constrained financing to developers due to the increased perceived risk levels,
ii. Business restructuring with some firms downsizing hence reducing occupancies and overall rental yields, and,
iii. Travel restrictions, attributed to the COVID-19 pandemic that led to a near cessation of international flights in a bid to minimize the spread of the virus which mainly affected the performance of the hospitality sector.

Despite the sluggish growth, performance of the real estate sector was cushioned by;

i. Positive demographics with Kenya's high urbanization and population growth rates currently standing at 4.0% and 2.2%, compared to the global averages of 1.9% and 1.1%, respectively,
ii. Continued launch of affordable housing projects,
iii. Improved access to mortgage loans especially through the Kenya Mortgage Refinancing Company (KMRC),
iv. Improved infrastructure opening up areas for investment, and,
v. Easing of travel restrictions as well the government's post-COVID stimulus packages boosting the hospitality sector.

In terms of performance, residential, commercial office, retail, mixed-use developments and serviced apartments sectors registered average rental yields of 4.7%, 7.0%, 7.5%, 7.1%, and 4.0%, respectively, resulting to an average rental yield for the real estate market of 6.1%, 0.9% points lower compared to 7.0% recorded in 2019. Existing properties recorded a (0.2%) price correction thus the resultant average total returns came in at 5.9%, a 3.1% points decline from 9.0% recorded in 2019. The decline is attributed to subdued performance across all sectors due to reduced sale and rental rates in a bid to attract and retain tenants amid a tough economic environment, as well as oversupply of approximately 6.3 mn SQFT of office space and 3.1 msn SQFT of retail space in the wake of reduced demand for physical space in the two sectors.

Annual Real Estate Returns Summary Table, for Existing Properties					
	2017	2018	2019	2020	Y/Y Change (% Points)
Average Rental Yield	7.6%	7.4%	7.0%	6.1%	(0.9%)
Average Capital Appreciation	6.5%	3.8%	2.0%	(0.2%)	(2.2%)
Total	**14.1%**	**11.2%**	**9.0%**	**5.9%**	**(3.1%)**
• ***In 2020, average rental yields in the real estate sector came in at 6.1%, bringing the average total returns to 5.9%, a 3.1% points decline from 9.0% recorded in 2019***					

Source: Cytonn Research 2020

Residential: In 2020, the residential sector recorded a decline in performance with average total returns coming in at 4.7%, a 1.4% points decline from 6.1% recorded in 2019. Rental yields recorded a 0.1% points marginal drop to 4.9% while average annual uptake stagnated at 19.3%. Apartments continued to perform better than detached units, recording average total returns of 5.2% in comparison to the detached units average of 4.2%;

Commercial Office: The commercial office sector recorded an average rental yield and occupancy rate of 7.0%, and 77.7%, respectively, 0.5% points and 2.6% points lower than the 7.5% and 80.3% recorded in 2019, respectively. This was attributed to reduced demand of commercial spaces brought about by the ongoing COVID-19 pandemic as businesses restructured their operations hence scaled down while other organizations adopted the work from home strategies thus led to reduced demand for physical office spaces;

Retail: The retail sector recorded a 0.3% decline in rental yields to 7.5% in 2020 from 7.8% in 2019.This was attributed to exit by some local and international retailers, shift in focus to e-commerce by some retailers, reduced consumer spending attributed to the tough economic environment, and, the current existing oversupply in the retail sector of 2.0 mn SQFT in the Kenyan retail market and 3.1 mn SQFT in the Nairobi Metropolitan Area;

Mixed-Use Developments (MUDs): Mixed-Use Developments performed better than their respective single-use themes in 2020, recording average rental yields of 7.1%, 0.3% points higher than the respective single use retail, commercial office and residential themes with 6.8%. retail, offices and residential spaces in MUDs recorded rental yields of 7.8%, 7.3% and 6.2%, respectively, compared to the single-use average of 7.5%, 7.2%, and 5.6%, respectively;

Hospitality: Serviced apartments recorded subdued performance in 2020 with the average rental yields declining by 3.6% points to 4.0% in 2020 from 7.6% in 2019, attributed to the COVID-19 pandemic which resulted in reduced demand for hospitality facilities and services given the overreliance on tourism and Meetings, Incentives, Conferences, and Exhibitions (MICE);

Land: The Nairobi Metropolitan Area land sector remained resilient in 2020 despite the tough economic environment evidenced by a 2.3% annual capital appreciation and 10.7% 9-year CAGR, indicating that investors still consider land a good investment asset in the long term. Asking land prices within satellite towns outperformed asking land prices in Nairobi suburbs recording an average annual capital appreciation of 5.4% and 0.2%, respectively, attributable to affordability of the former amid reduced disposable income amid economic slowdown, availability of land in bulk and the improving infrastructure opening up areas for development;

Listed Real Estate: The Fahari I-REIT closed the year 2020 at Kshs 5.6 per unit share, trading at an average of Kshs 6.7 during the year compared to Kshs 8.9 in 2019. On a Year-to- date basis, the REIT recorded a 41.7% loss of value from Kshs 9.6 recorded in January 2020, and a 72.0% drop from its initial price of Kshs 20.0 as at November 2015.

I. Residential Sector

There were numerous development activities lined up in 2020 on the residential front, however, some projects faced delayed launch while others could not kick off in the wake of the global Covid-19 pandemic that paralyzed operations such as building approvals by the National Lands Commission and obtaining of imported building materials, among other challenges.

The table below is a summary of some of the notable development projects that were launched and those that are ongoing;

Development Activity 2020						
Name of project	**Developer**	**Category**	**Number of Units**	**Location**	**Pricing**	**Status**
Rama Heights	Rama Homes	Upper Mid-End	50	South C	3 bed: Kshs 13.5 mn 4 bed: Kshs 15.5 mn	Launched
Orchard Park	Liason Homes	Lower Mid-End	32	Nyeri	3 bed: Kshs 4.9 mn	Launched
Heritage Estate	Mizizi Africa Homes	Lower Mid-End	18	Juja	3 bed: Kshs 3.8 mn	Launched
Loft Residences	Centum Real Estate	High-End	56	Gigiri Area	4 bed (Upper floors): Kshs 40.0 mn 4 bed (Lower floors): Kshs 42.5 mn	Launched
265 Elmer One Apartments	Centum Real Estate	Lower Mid-End	268	Kasarani	(Prices to rage from Kshs 1.9 mn) Studio 1 bed 1 bed(loft) 2 bed	Launched
Rosslyn Ridge Residences	Gateway Real Estate	High-End	90	Rosslyn	Undisclosed	Launched
The Alma (Phase 3)	Cytonn Real Estate	Lower Mid-End	120	Ruaka	1 bed: Kshs 7.5 mn 2 bed: Kshs 10.9 mn 3 bed (Standard): Kshs 14.8 mn 3 bed (Premium): Kshs 15.8 mn	Ongoing
Riverbank Apartments	Centum Real Estate	Upper Mid-End	160	Two Rivers	1 bed: Kshs 14.0 mn 2 bed: Kshs 20.0 mn 3 bed: Kshs 26.5 mn	Ongoing
Cascadia Apartments	Centum Real Estate	Upper Mid-End	400	Two Rivers	1 bed: Kshs 8.5 mn 2 bed: Kshs 12.3 mn 3 bed: Kshs 14.4 mn – Kshs 24.5 mn	Ongoing

On the affordable housing front;

i. The Kenyan national government floated to the public, the first lot of 488 completed units at its Park Road low-cost housing project in Nairobi, which have so far been inspected and handed over to the government, with the sale having taken a one-week period. For more information see, Cytonn Weekly #03/2020 and Cytonn Monthly-November 2020,

ii. In the FY'2020/21 National Budget, the affordable housing sector was allocated Kshs 6.9 bn, a 34.3% reduction from the Kshs 10.5 bn allocated in 2019/2020. For more, see Cytonn Weekly #24/2020,
iii. Kenya Mortgage and Refinance Company (KMRC), a Treasury backed lender, announced plans to lend approximately Kshs 37.2 bn to Kenyans earning a maximum of Kshs 150,000 per month and seeking to purchase affordable housing units. The lending began in September with mortgage loans capped at Kshs 4.0 mn for those seeking residence within the Nairobi Metropolitan Area (NMA) which also covers Kiambu, Machakos and Kajiado and at Kshs 3.0 mn for all other areas outside the NMA. For more information, see Cytonn Weekly #38/2020,
iv. The government started allocation of the first block of 160 units at the Pangani Estate renewal project. The tenants are expected to move into the houses in February, becoming the first owners of the ongoing Kshs 5.0 bn project. For more information, see Cytonn Weekly #38/2020, and, Cytonn Monthly-November 2020.

We expect the affordable housing projects to continue taking shape in 2021 in order to address the huge housing deficit in Kenya which is estimated by the National Housing Corporation (NHC) to be 2.0 mn housing units and growing annually by 200,000 units.

In terms of performance, the residential sector recorded a decline in performance in 2020 with average total returns coming in at 4.7%, a 1.4% points decline from 6.1% recorded in 2019. Rental yields recorded a 0.1% points marginal drop to 4.9% as a results of reduced rental rates amid a tough economic environment while average annual uptake stagnated at 19.3%, as buyers held on to money amid market uncertainty. Apartments performed better than detached units, recording average total returns of 5.2% in comparison to the detached average of 4.2%. The better performance is attributed to the higher rental yield averaging 5.7% in comparison to 4.1% for the detached units. However, in terms of prices, apartments recorded higher price decline compared to detached units owing to slow uptakes as potential buyers faced liquidity pressures amid reduced disposable income.

A. Detached Units

Detached units recorded a decline in performance in 2020 compared to 2019 with average returns to investors coming in at 4.2%, a 1.1% points drop from 5.3% recorded in 2019. This was attributed to reduced house prices in the wake of market uncertainty amid the Covid-19 pandemic that saw low transactional volumes hence reduced uptakes with the average annual uptake coming in at 16.9%, a 1.8% points decline from 18.7% recorded in 2019.

The best performing segment was the high-end segment offering average total returns of 4.6% with Rosslyn offering the highest returns at 6.3% attributed to a relatively high rental yield averaging 4.6%, as the area is a diplomatic blue zone with demand for housing from expatriates and is well endowed with sufficient infrastructure and amenities hence the high occupancy rate standing at 91.7%. Karen submarket recorded a decline in returns attributable to reduced occupancy rate from 82.5% in FY'2019 to 79.5% in 2020 which had a downturn on rental yields, coupled with reduced house prices to attract buyers with the decline in price appreciation in Karen coming in at 1.3%.

Ridgeways and Ruiru were the best performing nodes in the upper and lower mid-end segments, respectively, with total returns of 6.1% and 6.0%, respectively. Overall, Rongai was the worst performing node in detached units with total returns of 1.0%, owing to relatively low rental rates per SQM at Kshs 200 in comparison to the detached market average of Kshs 541 thus a resultant low rental yield averaging 2.0%.

(All Values in Kshs unless stated otherwise)								
Detached Units Performance FY'2020								
Area	**Average Price per SQM FY'2020**	**Average Rent per SQM FY'2020**	**Average Occupancy FY'2020**	**Average Uptake FY'2020**	**Average Annual Uptake FY'2020**	**Average Rental Yield FY'2020**	**Average Y/Y Price Appreciation FY'2020**	**Total Returns FY'2020**

High-End								
Rosslyn	184,111	795	86.2%	91.7%	13.9%	4.6%	1.7%	6.3%
Kitisuru	215,355	731	89.1%	88.1%	18.5%	3.9%	1.9%	5.8%
Lower Kabete	145,465	539	75.7%	81.4%	27.3%	3.6%	0.1%	3.7%
Runda	242,923	829	84.2%	93.7%	10.5%	3.5%	0.7%	4.2%
Karen	189,764	705	79.5%	88.2%	16.2%	3.4%	(1.3%)	2.1%
Average	**195,524**	**720**	**82.9%**	**88.6%**	**17.3%**	**3.8%**	**0.6%**	**4.4%**
Upper Mid-End								
Ridgeways	144,026	742	83.0%	85.0%	14.5%	5.2%	0.9%	6.1%
South B/C	122,383	450	97.7%	99.6%	19.0%	4.2%	0.8%	5.1%
Redhill & Sigona	102,813	474	76.2%	87.2%	20.7%	4.5%	0.5%	5.0%
Loresho	140,756	627	98.0%	91.0%	13.9%	5.2%	(0.4%)	4.9%
Runda Mumwe	138,829	729	79.9%	80.6%	18.1%	4.3%	(0.2%)	4.0%
Lavington	154,038	556	81.8%	79.4%	16.8%	4.1%	(1.9%)	2.2%
Langata	144,975	603	87.4%	95.7%	12.3%	4.2%	(2.3%)	1.9%
Average	**135,403**	**597**	**86.3%**	**88.4%**	**16.5%**	**4.5%**	**(0.3%)**	**4.2%**
Lower Mid-End								
Ruiru	79,666	303	86.2%	90.5%	22.0%	3.8%	2.2%	6.0%
Syokimau/Mlolongo	71,836	287	75.3%	74.7%	15.9%	4.2%	1.5%	5.7%
Ngong	62,178	290	78.2%	80.2%	15.5%	3.9%	1.1%	5.1%
Athi River	83,758	330	84.4%	96.8%	19.3%	4.1%	0.6%	4.7%
Thika	68,889	240	80.4%	78.0%	10.5%	3.2%	1.4%	4.6%
Juja	69,734	404	83.6%	92.6%	18.1%	4.6%	(0.9%)	3.7%
Kitengela	70,435	324	93.2%	87.1%	18.0%	5.0%	(1.7%)	3.3%
Donholm & Komarock	90,901	380	84.8%	88.4%	18.7%	4.3%	(2.5%)	1.8%
Rongai	83,094	200	70.0%	70.0%	15.0%	2.0%	(1.0%)	1.0%
Average	**75,610**	**306**	**81.8%**	**84.2%**	**17.0%**	**3.9%**	**0.1%**	**4.0%**

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B. Apartments Performance

Apartments registered subdued performance with average total returns of 5.2% in 2020, a 1.6% points decline from 6.8% recorded in 2019. Satellite towns were the best performing segment with an average total returns of 5.5% attributed to the relatively high rental yield averaging 6.1% as more people opted to rent in areas such as Thindigua, which was the best performing node in terms of rental yield averaging 8.2%, followed by Kitengela at 6.7%. The growing popularity of housing in satellite towns is attributable to growing focus on affordable housing options among buyers amid reduced disposable income.

Kilimani was the best performing node in the upper mid-end segment posting average total returns of 6.2%, owing to the high rental yield averaging 6.0%, attributed to the improved rental rates following gradual recovery of the economy that led to increased occupancy rates averaging 89.0%. The lower mid-end segment registered the lowest returns to investors averaging 4.9%, however, areas such as South C, Langata, and Dagoretti South offered above average returns at 5.8%, 5.4% and 5.3%, respectively.

Prices in the upper mid-end segment remained flat while those in the lower mid-end segment declined thus an overall 0.5% price correction, attributable to the tough economic environment that necessitated sellers to drop house prices in a bid woo buyers into purchasing units.

(All Values in Kshs unless stated otherwise)								
Apartments Performance FY'2020								
Area	**Average Price Per SQM FY'2020**	**Average Rent per SQM FY'2020**	**Average Occupancy FY'2020**	**Average Uptake FY'2020**	**Average Annual Uptake FY'2020**	**Average Rental Yield FY'2020**	**Average Y/Y Price Appreciation FY'2020**	**Total Returns FY'2020**
Upper Mid-End								
Kilimani	108,696	818	89.0%	90.4%	34.0%	6.0%	0.2%	6.2%
Kileleshwa	124,057	637	84.3%	83.4%	20.4%	5.2%	0.6%	5.8%
Westlands	145,479	783	78.5%	83.0%	26.4%	5.3%	0.2%	5.5%
Parklands	115,793	677	83.4%	84.1%	16.7%	5.5%	(0.4%)	5.1%
Loresho	117,016	560	89.7%	89.0%	11.4%	5.2%	(0.4%)	4.8%
Upperhill	130,608	710	77.0%	78.3%	13.0%	4.2%	(0.1%)	4.0%
Average	**123,608**	**697**	**83.7%**	**84.7%**	**20.3%**	**5.2%**	**0.0%**	**5.2%**
Lower Mid-End: Suburbs								
South C	114,104	675	96.8%	69.8%	26.8%	6.4%	(0.6%)	5.8%
Langata	111,770	473	91.3%	80.2%	17.8%	4.4%	1.0%	5.4%
Dagoretti South	87,382	601	85.4%	87.3%	25.0%	7.1%	(1.8%)	5.3%
Donholm & Komarock	72,518	396	84.8%	87.7%	15.9%	5.7%	(1.3%)	4.4%
South B	99,442	520	88.5%	82.2%	20.8%	5.6%	(1.3%)	4.3%
Waiyaki Way	86,642	515	81.8%	74.9%	27.2%	5.7%	(1.6%)	4.1%
Average	95,310	530	88.1%	80.4%	22.3%	5.8%	(0.9%)	4.9%
Lower Mid-End: Satellite Towns								
Thindigua	99,718	541	83.9%	84.4%	19.7%	8.2%	(0.7%)	7.5%
Syokimau	68,835	361	83.4%	79.3%	16.8%	5.1%	1.8%	6.9%
Kitengela	59,488	361	90.0%	81.1%	11.2%	6.7%	(1.3%)	5.4%
Rongai	60,908	339	90.2%	94.2%	46.1%	6.1%	(0.7%)	5.4%
Ruiru	88,691	517	75.8%	77.6%	28.6%	5.2%	0.1%	5.3%
Athi River	57,748	340	83.1%	88.2%	14.7%	6.1%	(1.1%)	4.9%
Ngong	61,131	278	88.0%	84.7%	13.4%	6.2%	(1.4%)	4.8%
Ruaka	99,957	510	92.0%	86.8%	25.8%	5.2%	(0.6%)	4.7%
Kikuyu	80,208	430	85.8%	90.3%	26.7%	5.6%	(1.5%)	4.1%
Average	**75,187**	**408**	**85.8%**	**85.2%**	**22.5%**	**6.0%**	**(0.6%)**	**5.5%**

Cytonn Research 2020

Our outlook for the residential sector is **NEUTRAL** supported by the continued launch of affordable housing projects, and, operationalization of the Kenya Mortgage and Refinance Company (KMRC) to provide the much needed mortgage facilities aimed at increasing home ownership. However, we expect the tough economic environment to continue affecting transaction volumes. For detached units, investment opportunity lies in areas such as Rosslyn, Ridgeways and Ruiru while for apartments, investment opportunity lies in satellite towns such as Thindigua and Syokimau, as well as the upper mid-end segment in areas such as Kilimani.

II. Commercial Office Sector

The commercial office sector recorded an average rental yield and occupancy rate of 7.0%, and 77.7%, 0.5% points and 2.6% point's lower than the 7.5% and 80.3% recorded in 2019, respectively. The decline in the rental yields and occupancy rates is attributable to reduced demand of commercial spaces brought about by the ongoing COVID-19 pandemic as some businesses restructured their operations hence scaled down while other organizations adopted work from home strategies thus led to reduced demand for physical office spaces. The asking rents also declined by 3.2% to an average of Kshs 93 per SQFT in 2020 from Kshs 96 per SQFT in 2019 while the average asking price declined by 2.9% to Kshs 12,280 per SQFT in 2020 from Kshs 12,638 per SQFT in 2019. The decline in rates is attributable to discounts or concessions offered by landlords in a bid to cushion their clients amid a tough financial environment.

The table below highlights the performance of the Nairobi Metropolitan Area (NMA) Commercial Office sector over time:

(All values in Kshs unless stated otherwise)

Nairobi Metropolitan Area (NMA) Commercial Office Returns Over Time									
Year	**Q1' 2019**	**H1' 2019**	**Q3' 2019**	**FY' 2019**	**Q1'2020**	**H1"2020**	**Q3' 2020**	**FY'2020**	**Δ FY'2019/FY '2020**
Occupancy %	82.4%	81.0%	80.5%	**80.3%**	81.7%	80.0%	79.9%	**77.7%**	**(2.6%) points**
Asking Rents (Kshs/SQFT)	100	97	96	**96**	97	95	94	**93**	**(3.2%)**
Average Prices (Kshs/SQFT)	12,574	12,637	12,638	**12,638**	12,535	12,516	12,479	**12,280**	**(2.9%)**
Average Rental Yields (%)	8.0%	7.8%	7.7%	**7.5%**	7.8%	7.3%	7.2%	**7.0%**	**(0.5%) points**

- *The commercial office sector has seen major declines in the occupancy rates, asking prices, asking rents and average rental yields attributable to reduced uptake and demand for commercial spaces, and pressure on landlords to reduce the rental charges to attract clients and maintain the existing clients, additionally, the existing oversupply of commercial spaces of 6.3 mn SQFT as at 2019 has also affected the performance of the sector.*

Source: Cytonn Research 2020

Gigiri, was the best performing submarket in 2020 recording a rental yield of 8.5%, 1.5% higher than the average rental yield of 7.0% within the Nairobi Metropolitan Area. The performance of Gigiri is attributed to availability of high quality office spaces charging premium rental prices, relatively good infrastructure with the area being served with Limuru Road, and, the relatively low supply of space within the submarket.

Mombasa Road was the worst performing area recording 4.8% average rental yield, 0.7% points lower than 5.5% in 2019, attributed to the low asking price of Kshs 72.9 per SQFT which is lower than the market average asking rent of Kshs 93.1 Per SQFT, traffic congestion and, zoning regulations as Mombasa Road is mainly an industrial area thus making it unattractive to business firms.

The table below shows the Nairobi Metropolitan Area (NMA) sub-market performance;

(All values in Kshs unless stated otherwise)

NMA Commercial Office Submarket Performance FY'2020											
Area	**Price /SQFT (Kshs) FY'2020**	**Rent /SQFT (Kshs) FY'2020**	**Occupancy FY'2020**	**Rental Yields FY'2020**	**Price Kshs/ SQFT FY 2019**	**Rent Kshs /SQFT FY 2019**	**Occupancy FY 2019(%)**	**Rental Yield (%) FY 2019**	**Δ in Rent**	**Δ in Occupancy (% points)**	**Δ in Rental Yields (% points)**
Gigiri	13,400	116	82.5%	**8.5%**	13833	117	80.4%	**9.20%**	(0.9%)	2.1%	**(0.7%)**

Westlands	11,975	104	74.4%	7.8%	12,370	104	80.3%	8.30%	(0.3%)	(5.9%)	(0.5%)
Karen	13,567	106	83.6%	7.8%	13665	111	85.3%	8.30%	(4.6%)	(1.7%)	(0.5%)
Parklands	10,958	93	79.9%	7.6%	12369	97	83.1%	8.20%	(4.9%)	(3.2%)	(0.6%)
UpperHill	12,684	92	78.5%	6.9%	12397	98	80.0%	7.50%	(6.3%)	(1.5%)	(0.6%)
Kilimani	12,233	93	79.1%	6.8%	12680	91	80.9%	7.10%	1.6%)	(1.8%)	(0.3%)
Nairobi CBD	11,889	82	82.4%	6.8%	12425	89	85.6%	7.10%	(8.3%)	(3.2%)	(0.3%)
Thika Road	12,500	80	76.1%	5.8%	12600	84	80.4%	6.30%	(5.0%)	(4.3%)	(0.5%)
Mombasa road	11,313	73	63.0%	4.8%	11400	73	66.5%	5.50%	(0.2%)	(3.5%)	(0.7%)
Average	**12,280**	**93**	**77.7%**	**7.0%**	**12,638**	**96**	**80.3%**	**7.5%**	**(3.2%)**	**(2.6%)**	**(0.5%)**

Source: Cytonn research

Our outlook for the NMA commercial office sector is **NEGATIVE** attributed to the reduced demand for commercial spaces brought about by the COVID-19 pandemic amid the tough economic environment as some firms downsize due to financial constrains while others embrace the working from home strategy. The asking prices and rents are also expected to decline as landlords continue giving discounts and concessions to attract and retain clients. Currently the best areas for investments in commercial spaces are Gigiri, Westlands, and, Karen with relatively high returns compared to the market averages in addition to availability of high quality spaces suitable for the high-end and middle income clients.

III. Retail Sector

The retail sector performance recorded a 0.3% decline in rental yields to 7.5% in 2020 from 7.8% in 2019. The average occupancy dropped by 0.7% points from 75.9% in 2019 to 75.2% in 2020, while the average monthly rent rates declined by 4.1% to Kshs 169 per SQFT from Kshs 176 per SQFT in FY'2019. The general decline of performance in 2020 is as a result of; i) exit by some retailers, both local and international to cushion themselves against the pandemic, ii) reduced demand for physical retail spaces as a result of the shifting focus to e-commerce by some retailers, iii) reduced consumer spending attributed to the tough economic environment, and, iv) the current existing oversupply in the retail sector of 2.0 mn SQFT in the Kenyan retail market and 3.1 mn SQFT in the NMA Metropolitan Area.

The table below shows the performance of the retail sector in the Nairobi metropolitan Area over time;

(All values in Kshs unless stated otherwise)

Summary of NMA Retail Sector Performance Over Time

Item	Q1' 2019	H1' 2019	Q3' 2019	FY' 2019	Q1'2020	H1'2020	Q3'2020	FY'2020	Δ FY'2020
Average Asking Rents (Kshs/SQFT)	174	170	167	176	173	170	169	169	(4.1%)
Average Occupancy (%)	76.8%	75.6%	74.5%	75.9%	76.3%	74.0%	74.20%	75.2%	(0.7%) Points
Average Rental Yields	8.5%	8.2%	8.0%	7.8%	7.7%	7.4%	7.4%	7.5%	(0.3%) points

- ***The performance of the NMA retail sector softened recording declines in average rents by 4.1% to Kshs 169 per SQFT in 2020 from Kshs 175.6 per SQFT in 2019***
- ***The average occupancy rates also decreased by 0.7% points to 75.16% in 2020 from 75.9% in 2019***

Source: Cytonn Research 2020

In terms of the sub markets analysis, Westlands and Karen were the best performing nodes recording average rental yields of 9.9% and 9.8%, respectively, compared to the overall market average of 7.5%. The performance is attributed to presence of affluent residents who have a high consumer purchasing power with the areas hosting high end income earners, the ease of access to the areas, and, relatively high occupancy rates of above 81.0% against the market average of 75.2%.

Satellite Towns recorded the lowest yields of 5.8%, 1.7% points lower than the average market rates, the performance is attributed to low rental charges of Kshs 133 per SQFT against a market average of Kshs 169 Per SQFT, constrained consumer spending power and competition from informal retail spaces.

(All values in Kshs unless stated otherwise)									
Nairobi Metropolitan Area Retail Market Performance FY'2020									
Area	**Rent Kshs /SQFT FY'2020**	**Occupancy% FY'2020**	**Rental Yield FY'2020**	**Rent Kshs/SQFT FY' 2019**	**Occupancy FY' 2019**	**Rental Yield FY' 2019**	**FY' 2020 Δ in Rental Rates**	**FY' 2020 Δ in Occupancy (% points)**	**FY' 2020 Δ in Rental Yield (% points)**
Westlands	209	81.5%	**9.9%**	215	82.8%	**10.3%**	(2.8%)	(1.3%)	**(0.4%)**
Karen	217	81.0%	**9.8%**	222	80.0%	**9.5%**	(2.5%)	1.0%	**0.3%**
Kilimani	171	82.5%	**8.5%**	167	87.4%	**8.8%**	2.3%	(4.9%)	**(0.3%)**
Ngong Road	178	80.3%	**8.2%**	181	80.5%	**8.3%**	(1.6%)	(0.3%)	**(0.1%)**
Kiambu road	176	67.5%	**6.9%**	180	67.6%	**7.2%**	(2.1%)	(0.1%)	**(0.3%)**
Thika Road	158	70.5%	**6.3%**	173	72.8%	**7.1%**	(9.8%)	(2.3%)	**(0.8%)**
Eastlands	137	70.2%	**6.1%**	150	71.7%	**6.8%**	(9.8%)	(1.5%)	**(0.7%)**
Mombasa road	140	70.0%	**5.9%**	156	66.8%	**6.3%**	(11.6%)	3.2%	**(0.4%)**
Satellite towns	133	73.0%	**5.8%**	136	73.3%	**5.9%**	(2.6%)	(0.3%)	**(0.1%)**
Average	**169**	**75.2%**	**7.5%**	**176**	**75.9%**	**7.8%**	**(4.5%)**	**(0.7%)**	**(0.3%)**

Source: Cytonn research 2020

Notable highlights during the year see our previous reports Cytonn Q1' Markets Review, H1'2020 Markets Review, and, Cytonn Q3'2020 Market Review. For Q4'2020;

I. Big Square, a local fast-food retail chain, opened its second branch outside Nairobi, in Eldoret at Rupa's Mall, bringing the total number of stores operated by the retail chain to 12. For more information, please see Cytonn Weekly #41,
II. Naivas Supermarket opened several braches among them; Rongai Branch, Lifestyle Mall Branch in Nairobi CBD, Hazina Towers, and, Ananas Mall in Thika town bringing the total number of outlets 69 with 8 outlets opened during the year thus completing the series of outlets they had initially announced that will be opened earlier this year. For more information, see Cytonn Weekly #51/2020 , Cytonn Weekly #48/2020, and, Cytonn Weekly #42,
III. QuickMart, local retail chain, opened an outlet in Nanyuki Mall situated in Nanyuki town, bringing the total number of Quickmart's outlets to 35, with 6 outlets opened in 2020. For more analysis, see Cytonn Weekly #46/2020,
IV. Tuskys Supermarket a local retail chain, shut down five of its branches namely; Tuskys Magic branch in Nakuru Town, Tuskys Pioneer on Moi Avenue Street in Nairobi, Adams Arcade branch on Ngong Road and the Kitengela branch, Tuskys Shiloah Kakamega Branch. The retailer also announced plans to close down half of its branches, in an attempt to stabilize operations amid financial woes. For more analysis, see Cytonn Weekly #45/2020, Cytonn Weekly #47/2020, Cytonn Monthly-October 2020, and, Cytonn Weekly #43, and,
V. Carrefour Supermarket, opened its first outlet in Mombasa County at City Mall in Nyali, bringing its total number of operational outlets to 9 countrywide. For more information, see Cytonn Monthly-November 2020,

The table below shows the summary of the number of stores of the key local and international retail supermarket chains in Kenya as at December 2020;

Main Local and International Retail Supermarket Chains						
Name of Retailer	Initial number of branches	Number of branches opened in 2020	Closed branches	Current number of Branches	Branches expected to be opened / closed	Projected total number of branches
Naivas Supermarket	61	8	0	69	0	69
Tuskys	64	2	14	52	27	25
QuickMart	29	6	0	35	0	35
Chandarana Foodplus	19	1	0	20	0	20
Carrefour	7	1	0	8	3	11
Uchumi	37	0	33	4	0	4
Game Stores	2	1	0	3	0	3
Choppies	15	0	13	2	0	2
Shoprite	4	0	2	2	0	2
Nakumatt	65	0	65	0	0	0
Total	**303**	**19**	**127**	**194**	**31**	**171**

Source: Online Research

We have a **NEUTRAL** outlook for the Kenyan retail sector with factors such as; i) reduced demand for physical space due to shifting focus to online shopping, ii) reduced purchasing power among consumers amid a tough economic environment, iii) reduced rental rates as landlords offer rental concessions to retain tenants and exit by some local retailers such as Tuskys, affecting the performance of the sector. However continued expansion by local and international retail chains is expected to cushion the performance of the retail sector supported by; i) continued improvement of infrastructure opening up areas for investment, ii) relatively high population growth rate, iii) investor confidence due to the ease of doing business in Kenya, having been ranked position #56 by World Bank in the ease of doing business, and, iv) the growing middle class with increased purchasing power.

IV. Mixed-Use Developments (MUDs)

In 2020, Mixed-Use Developments recorded average rental yields of 7.1%, 0.3% points higher than the respective single use retail, commercial office and residential themes with 6.8%. retail, offices and residential spaces in MUDs recorded rental yields of 7.8%, 7.3% and 6.2%, respectively, compared to the single-use average of 7.5%, 7.2%, and 5.6%, respectively. The relatively better performance by MUDs is attributed to the prime locations, mostly serving the high and growing middle class supported by the concept's convenience as it incorporates working, shopping and living spaces.

Westlands was the best performing node recording an average MUD yield of 8.5% with the retail, office and residential spaces recording rental yields of 9.8%, 8.2% and 7.0%, respectively, 2.0%, 0.9% and 0.8% points higher than the sector averages of 7.8%, 7.3% and 6.2%, respectively. The performance was driven by the prime office and retail spaces, in addition to Westlands being a prime commercial node with high demand for commercial and residential space supported by the improved infrastructure; i.e., construction of the Nairobi Expressway along Waiyaki Way which will increase business activities in the area.

Eastlands was the worst performing node recording an average rental yield of 5.5% attributed to low rental charges attributable to unavailability of quality space and relatively high competition from informal Mixed-Use Developments.

The table below shows the performance of Mixed-Use Developments by node in 2020:

(All values in Kshs Unless stated otherwise)

Nairobi Metropolitan Area Mixed-Use Developments Market Performance by Nodes 2020													
	Retail Performance				Office Performance				Residential Performance				
Location	Price/SQFT	Rent/SQFT	Occupancy (%)	Rental Yield (%)	Price/SQFT	Rent/SQFT	Occupancy %)	Rental Yield (%)	Price/SQM	Rent/SQM	Annual Uptake %	Rental Yield %	Average MUD yield
Westlands	15,833	178	70.8%	9.8%	12,667	117	73.3%	8.2%	211,525	1,226	24.5%	7.0%	8.5%
Limuru Rd	23,900	223	85.0%	9.5%	13,500	130	65.0%	7.5%	147,496	1,166	20.0%		7.3%
Karen	23,333	143	88.5%	6.7%	13,200	123	80.0%	9.0%					7.3%
Kilimani	17,400	143	75.0%	7.5%	13,250	108	68.8%	6.6%					7.2%
UpperHill	15,485	120	65.0%	6.0%	12,500	107	65.0%	6.7%					6.6%
Msa Rd	20,000	150	70.0%	6.3%	13,000	100	70.0%	6.5%	157,440	874	14.3%	6.7%	6.5%
Thika Rd	26,250	200	85.0%	8.5%	13,750	105	64.0%	5.9%	143,803	705	22.5%	5.9%	6.4%
Eastlands	20,000	110	80.0%	5.3%	12,000	100	55.0%	5.5%	72,072	333	18.0%	5.6%	5.5%
Average	**18,857**	**157**	**75.7%**	**7.8%**	**12,957**	**112**	**69.9%**	**7.3%**	**146,023**	**835**	**20.3%**	**6.2%**	**7.1%**

- *Westlands was the best performing node recording an average MUD yield of 8.5% with the retail, office and residential spaces recording rental yields of 9.8%, 8.2% and 7.0%, respectively, 2.0%, 0.9% and 0.8% points higher than the sector averages of 7.8%,7.3% and 6.2%, respectively*
- *Thika Road and Eastlands were the worst performing areas recording yields of 6.4% and 5.5%, respectively attributed to low rental charges as a result of competition from informal Mixed-Use Developments*

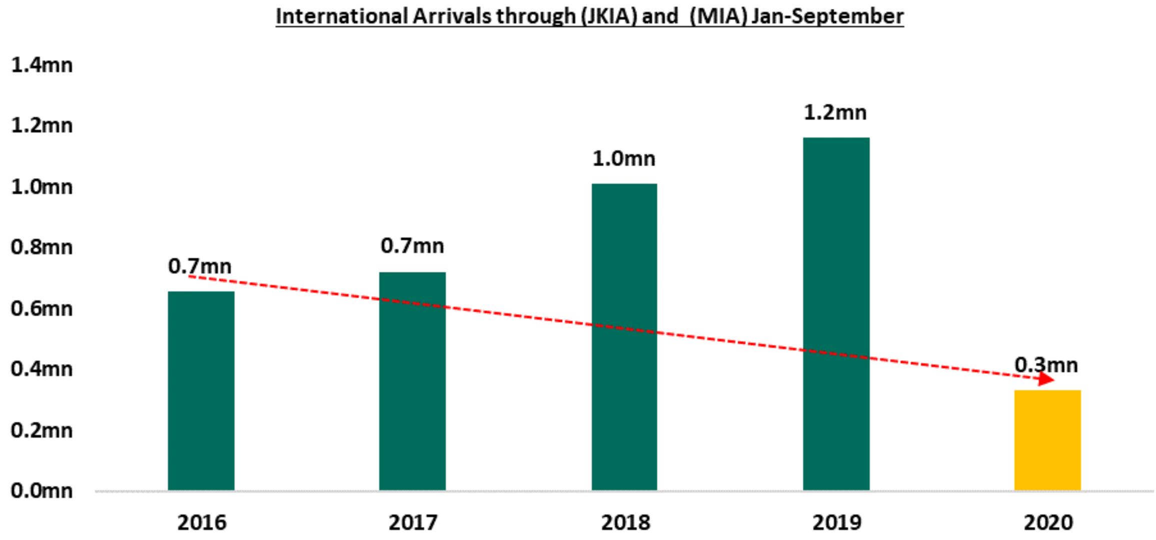
Source: Cytonn Research 2020

The outlook for Mixed-Use Developments (MUDs) is **NEUTRAL** supported by the relatively high returns offered by the residential spaces amid subdued performance of the retail and office themes mainly constrained by oversupply 0f 3.1 mn SQFT and 6.3mn SQFT of retail and office spaces, respectively, within the Nairobi Metropolitan Area. The investment opportunity within the Nairobi Metropolitan Area lies in areas with relatively high returns such as Westlands which recorded an average MUD rental yield of 8.5%, and, Limuru Road and Karen recording average MUD yields of 7.3% each.

V. Hospitality Sector

During the year, the hospitality sector recorded subdued performance attributed to the COVID-19 pandemic which resulted in reduced demand for hospitality facilities and services given the overreliance on tourism and MICE. The sector's contribution to GDP through accommodation and food services declined by 83.3% during the second quarter of 2020 compared to an expansion of 12.1% during the same period in 2019, according to the KNBS Quarterly Gross Domestic Product Report -Q2'2020, attributed to reduced number of tourist arrivals as the government issued a travel ban on international flights into and outside the country and the restriction of movement in select cities within the country. The total number of international arrivals through Jomo Kenyatta International Airport (JKIA) and Moi International Airport (MIA) recorded a 71.5% decline from 1.2 mn persons between January to September 2019 to 0.3 mn during the same period in 2020. However, this was an increase from 13,919 persons in August 2020 to 20,164 persons in September 2020 according to the Kenya National Bureau of Statistics (KNBS), Leading Economic Indicators - September 2020, indicating the gradual recovery of the tourism sector as the economy is gradually opening up.

The graph below shows the international arrivals through JKIA and MIA between Jan-September



In terms of developments, 106-room Emara Hotel Ole Sereni located along Mombasa Road came into the market this year as a key accommodation facility targeting visitors landing through the Jomo Kenyatta International Airport. Hyatt, a US-based hospitality chain announced plans to build a 225-room facility in Nairobi along Mombasa road, marking the brand's entry into the Kenya hospitality market. Additionally, Accor Hotels announced that they would continue with their expansion plans in Kenya and the African region despite the COVID-19 pandemic affecting the sector. The entry and expansion plans by the various brands signals investor confidence in the Kenya's hospitality industry despite being one of the hardest hit by the COVID-19 pandemic.

In terms of performance, we tracked the performance of serviced apartments in 7 nodes in the Nairobi Metropolitan area. According to the Nairobi Metropolitan Area Serviced Apartments Report, serviced apartments recorded subdued performance in 2020 with the average rental yields declining by 3.6% points to 4.0% in 2020 from 7.6% in 2019. The decline in performance is attributed to the COVID-19 pandemic which has brought about reduced demand for services offered in the hospitality industry due to decline in the number of tourist arrivals and the tough economic environment. The occupancy rates also declined by 31.3% points to 48.0% from 79.4% while the monthly charges per SQM declined by 14.9% from Kshs 2,806 to Kshs 2,448 as facilities offer discounts to attract and maintain clients amid a tough economic environment.

The table below shows market performance summary;

(All values in Kshs Unless Stated Otherwise)									
NMA Serviced Apartments performance 2020									
Node	**Occupancy 2019**	**Occupancy 2020**	**Occupancy rates Δ**	**Monthly Charge per SQM (Kshs) 2019**	**Monthly Charge per SQM (Kshs) 2020**	**% Change of Monthly Charges**	**Rental Yield 2019**	**Rental Yield 2020**	**Δ in Rental Yield**
Westlands& Parklands	80.8%	49.4%	**(31.4%)**	3,884	3,578	**(8.6%)**	10.8%	**6.1%**	**(4.7%)**
Kilimani	80.0%	48.4%	**(31.6%)**	3,353	2,783	**(20.5%)**	9.5%	**4.8%**	**(4.7%)**
Limuru Road	88.2%	51.4%	**(36.8%)**	3,430	2,839	**(20.8%)**	9.4%	**4.5%**	**(4.8%)**
Kileleshwa& Lavington	82.4%	48.1%	**(34.3%)**	2,845	2,553	**(11.4%)**	8.2%	**4.3%**	**(3.9%)**
UpperHill	67.8%	48.9%	**(18.9%)**	2,577	2,121	**(21.5%)**	6.0%	**3.6%**	**(2.4%)**
Nairobi CBD	72.0%	42.1%	**(29.9%)**	2,230	2,122	**(5.1%)**	5.1%	**2.9%**	**(2.2%)**
Thika Road	84.4%	48.1%	**(36.3%)**	1,321	1,138	**(16.1%)**	4.0%	**2.0%**	**(2.0%)**
Average	**79.4%**	**48.0%**	**(31.3%)**	**2,806**	**2,448**	**(14.9%)**	**7.6%**	**4.0%**	**(3.6%)**

Source: Cytonn Research 2020

- Westlands/parklands was the best performing serviced apartment node recording an average rental yield of 6.1% compared to the market average of 4.0%. The submarket recorded a decline in rental charges by 8.6% compared to an overall decline of 14.9%, the performance of Westlands is attributed to a growing preference of the area given its the proximity to business nodes such as Kilimani, Westlands and the Nairobi CBD, availability of high quality serviced apartments, ease of accessibility, and proximity to most international organizations.
- Thika Road (Muthaiga North, Mirema and Garden Estate) recorded the lowest rental yield at 2.0%, and this we attribute to the relatively low charge rates for apartments within the area, given its unpopularity, due to lack of modern and quality serviced apartments in the area, the significant distance from main commercial zones, in addition to security concerns as the area is not mapped within the United Nations (UN) Blue Zone.
- Investment opportunity lies in Westlands/Parklands, and Kilimani which recorded average rental yields of 6.1% and 4.8%, respectively against a market average of 4.0% attributed to availability of quality serviced apartments, ease of accessibility to the areas, and, close proximity to business nodes hosting international organizations.

Other notable highlights of the hospitality sector include;

- The government of the United States of America, through the United States Agency for International Development (USAID), announced plans to inject approximately Kshs 750.0 mn into Kenya's tourism sector in support of the tourism recovery efforts. For more information, please see Cytonn Weekly #41/2020,

- Kenya was voted as Africa's leading tourist destination in the World Travel Awards, supported by the epic savannah landscapes, wildlife, beaches and lakes among other tourist attraction centres. Kenyatta International Conference Centre (KICC) was voted as Africa's leading meeting and conference centre, Fairmont Mount Kenya grabbed the title of Africa's leading hotel, while the Aberdare Country Club was voted Africa's leading Green Hotel. Additionally, Kenya Airways was ranked as Africa's leading Airline-business classes and Africa's leading Airline-economy class. For more information, see Cytonn Weekly #46/2020,
- Sarova Group of Hotels and Resorts announced that it has ventured into the restaurant business to cushion itself against the effects of the pandemic which has hurt its operation with some of the worst hit outlets being Nairobi's Sarova Stanley and Sarova Panafric due to their reliance on hotel and room services. For more information, please see Cytonn Weekly #51/2020,
- Serena Group of hotels reopened its beach resort after eight and a half months of closure on 15th of December with the intention to take advantage of the expected growing demand for accommodation facilities at the coast during the December holiday season. For more information, please see Cytonn Weekly #51/2020,
- Radisson Blu, an international hotel chain announced that it has halted the operations of its Nairobi UpperHill branch as bookings remain low due to the COVID-19 Pandemic. For more information, please see Cytonn Weekly #51/2020, and,
- During the month of November, the United States (US) government issued a travel advisory to Kenya, citing an increase in the number of COVID-19 cases. For more analysis, please see Cytonn Monthly-November 2020.

Our outlook of the hospitality sector is **NEUTRAL**. Despite the sector being the hardest hit by the COVID-19 pandemic, it has begun to gradually recover supported by financial aid from government through the Post-Corona Hospitality Sector Recovery Stimulus by the Ministry of Tourism through the Tourism Finance Corporation (TFC) and other international agencies, repackaging of the tourism sector to appeal to domestic tourists and relaxation of travel advisories. We expect this to fuel resumption of activities and resultant improved performance in the medium term.

VI. Land Sector

The Nairobi Metropolitan Area land sector remained resilient in 2020 despite the tough economic environment evidenced by a 2.3% annual capital appreciation and 10.7% 9-year CAGR, indicating that investors still consider land a good investment asset in the long term. Asking land prices within satellite towns outperformed asking land prices in Nairobi suburbs recording an average annual capital appreciation of 5.4% and 0.2%, respectively, attributable to affordability of the former amid reduced disposable income amid economic slowdown, availability of land in bulk and the improving infrastructure opening up areas for development.

The table below shows the summary of the NMA land performance;

All values in Kshs unless stated otherwise

NMA Land Performance Trend							
Location	***Price in 2011**	***Price in 2017**	***Price in 2018**	***Price in 2019**	***Price in 2020**	**9 Year CAGR**	**Annual Capital Appreciation 2019/'20**
Unserviced land- Satellite Towns	9.0 mn	20.4 mn	22.7 mn	24.9 mn	26.8 mn	12.9%	**7.1%**
Serviced land- Satellite Towns	6.0 mn	14.4 mn	14.3 mn	14.3 mn	14.8 mn	10.6%	**3.8%**
Nairobi Suburbs - Low Rise Residential Areas	56.0 mn	82.4 mn	89.4 mn	91.6 mn	93.8 mn	5.9%	**3.2%**
Nairobi Suburbs - High Rise residential Areas	46.0 mn	134.6 mn	135.0 mn	137.5 mn	135.7 mn	12.8%	**1.2%**
Nairobi Suburbs - Commercial Areas	156.0 mn	429.8 mn	447.3 mn	428.5 mn	413.0 mn	11.4%	**(3.8%)**
Average	**54.6 mn**	**144.5 mn**	**155.4 mn**	**139.4 mn**	**136.8 mn**	**10.7%**	**2.3%**

Performance per Node

- Asking land prices for unserviced land in satellite towns recorded an annualized capital appreciation of 7.1% supported by high demand for development land fuelled by; i) continued focus on affordable housing, ii) affordability in comparison to Nairobi's suburbs, and ii) improving infrastructure such as sewerage systems and roads such as Waiyaki Way.

All values is Kshs unless stated otherwise

Satellite Towns- Unserviced Land					
Location	**FY'2017**	**FY'2018**	**FY'2019**	**FY'2020**	**Annualized Capital Appreciatio**
Limuru	16.7 mn	17.1 mn	17.4 mn	19.3 mn	10.8
Ongata Rongai	9.9 mn	11.4 mn	12.1 mn	13.3 mn	9.7
Ruaka	77.1 mn	89.7 mn	89.8 mn	97.3 mn	8.4
Juja	9.6 mn	10.1 mn	10.8 mn	11.5 mn	6.6
Athi River	4.1 mn	3.7 mn	4.2 mn	4.5 mn	6.5
Utawala	11.0 mn	12.9 mn	15.1 mn	15.1 mn	0.5
Average	**21.4 mn**	**24.1 mn**	**24.9 mn**	**26.8 mn**	**7.1**

- *Asking land prices in Limuru recorded the highest annualized capital appreciation at 10.8% supported by the improving infrastructur with the ongoing dualling of Waiyaki Way which is expected to enhance ease of access into the area, and availability of relatively affordable land in bulk*

Source: Cytonn Research 2020

- Asking land prices of serviced land in satellite towns recorded an annualized capital appreciation of 3.8%, with Thika being ranked the highest attributed to the increased demand for land in the area from developers looking to cater for the mid-income and student population housing as a result of the push for individuals to move to satellite towns where housing is relatively affordable, in addition to the mushrooming tertiary institutions. Ruai recorded a price correction, attributed to a slowdown in demand for land attributed to the recent demolitions of homes in a bid to reclaim land allegedly owned by the state-run Nairobi City Water and Sewerage Company (NSWSC)

All values is Kshs unless stated otherwise					
Satellite Towns- Serviced Land					
Location	FY'2017	FY'2018	FY'2019	FY'2020	Annualized Capital Appreciation
Thika	9.2 mn	10.0 mn	9.5 mn	10.8 mn	13.5%
Athi River	12.9 mn	12.9 mn	13.1 mn	14.6 mn	11.1%
Syokimau-Mlolongo	12.1 mn	12.1 mn	13.9 mn	15.1 mn	9.1%
Ruiru	19.7 mn	20.6 mn	20.9 mn	22.2 mn	6.4%
Ongata Rongai	19.1 mn	16.7 mn	16.4 mn	15.0 mn	(8.3%)
Ruai	13.1 mn	13.6 mn	12.3 mn	11.2 mn	(9.1%)
Average	**14.4 mn**	**14.3 mn**	**14.3 mn**	**14.8 mn**	**3.8%**

Source: Cytonn Research

- Asking land prices in low rise residential areas recorded an annualized capital appreciation of 3.2% attributed to relatively high demand for land as it is relatively affordable at approximately Kshs 93.8 mn per acre as compared to the high-rise nodes, selling at Kshs 135.7 mn per acre on average. Additionally, family units are attracted to these areas as they are sparsely populated, thus offering exclusivity and privacy. Ridgeways recorded the highest annualized capital appreciation of 8.7%, attributable to growing demand for development land supported by relaxation of zoning regulations in parts of the submarket, and the relatively good infrastructure allowing ease of access in and out of the area

All values is Kshs unless stated otherwise					
Nairobi Suburbs- Low Rise Residential Areas					
Location	FY'2017	FY'2018	FY'2019	FY'2020	Annualized Capital Appreciation
Ridgeways	68.0 mn	71.6 mn	76.7 mn	83.3 mn	8.7%
Kitisuru	70.0 mn	77.3 mn	78.3 mn	81.8 mn	4.4%
Runda	67.8 mn	77.1 mn	75.7 mn	78.7 mn	4.0%
Karen	51.6 mn	56.9 mn	58.7 mn	58.9 mn	0.3%
Spring Valley	154.4 mn	164.0 mn	168.8 mn	166.3 mn	(1.5%)
Average	**82.4 mn**	**89.4 mn**	**91.6 mn**	**93.8 mn**	**3.2%**

Source: Cytonn Research 2020

- Asking land prices in high rise residential areas recorded a 1.2% annualized capital appreciation with Kasarani being ranked highest at 8.1% attributable to continued demand for land supported by affordability with the asking land prices averaging at Kshs 79.7 mn compared to the node's average of Kshs 135.7 mn, in addition to developers looking to cater for the expanding middle-income population. Kileleshwa recorded a (4.2%) price correction attributable to dwindling demand for land as investors seek more affordable options with an acre within the submarket averaging at Kshs 291.9 mn

All values is Kshs unless stated otherwise					
Nairobi Suburbs- High Rise Residential Areas					
Location	FY'2017	FY'2018	FY'2019	FY'2020	Annualized Capital Appreciation
Kasarani	63.6 mn	64.7 mn	73.8 mn	79.7 mn	8.1%
Embakasi	70.4 mn	68.8 mn	69.0 mn	71.6 mn	3.8%
Dagoretti	98.8 mn	100.0 mn	102.4 mn	99.4 mn	(2.9%)
Kileleshwa	305.5 mn	306.5 mn	304.8 mn	291.9 mn	(4.2%)

Average	**134.6 mn**	**135.0 mn**	**137.5 mn**	**135.7 mn**	**1.2%**

Source: Cytonn Research

- Asking land prices in commercial zones recorded an overall price correction of (3.8%) following reduced demand for development land attributed to the existing oversupply of commercial office and retail spaces which stand at 6.3 mn SQFT and 3.1 mn SQFT, respectively, as at 2020, in addition to the relatively high asking land prices of Kshs 413.0 mn per acre on average thus developers are not able to achieve favorable returns from the investments

All values is Kshs unless stated otherwise

Nairobi Suburbs- Commercial Zones					
Location	**FY'2017**	**FY'2018**	**FY'2019**	**FY'2020**	**Annualized Capital Appreciation**
Kilimani	350.0 mn	387.3 mn	392.2 mn	393.5 mn	0.3%
Upper Hill	535.0 mn	507.0 mn	507.2 mn	501.6 mn	(1.1%)
Westlands	473.7 mn	499.1 mn	474.3 mn	443.9 mn	(6.4%)
Riverside	360.6 mn	395.8 mn	340.5 mn	312.8 mn	(8.1%)
Average	**429.8 mn**	**447.3 mn**	**428.5 mn**	**413.0 mn**	**(3.8%)**

Source: Cytonn Research

Other major highlights in the sector during the year;

i. In October, the Nairobi Metropolitan Services (NMS), announced unveiling of the new property valuation system that will determine the land rates in Nairobi County based on the market conditions, market value and rates. For more information please see Cytonn Weekly #41/2020, and,
i. In December, the Ministry of Lands announced that it will be overseeing the development of a National Land Valuation index that is intended at guiding the process of land valuations within the country. The process will involve collection of data and undertaking of inspections of land parcels located in various counties. For more analysis, see Cytonn Weekly#52/2020.

We have a **POSITIVE** outlook for the land sector with the performance being cushioned by; (i) the growing demand for development land especially in the satellite towns as developers strive to drive the government's Big Four government agenda on the provision of affordable housing, (ii) improving infrastructure, and (iii) demand for development land by the growing middle-income population.

VII. Statutory Review

In 2020, various statutory reforms were made to facilitate home ownership and simplify land and property transactions, and we expect the changes to impact the real estate sector positively. Notable highlights during the year see our previous reports Cytonn Q1' Markets Review, H1'2020 Markets Review, and, Cytonn Q3'2020 Market Review. For Q4'2020;

i. The president of Kenya, Uhuru Kenyatta signed into law the Sectional Properties Act 2019, and, the Statute Law (Miscellaneous Amendments) 2020 bill.
    - The new Sectional Properties Act, 2019 which repeals the Sectional Properties Act of 1987, provides for the division of buildings into units to be owned by individual proprietors and common property to be owned by proprietors of the units as tenants in common and to provide for the use and management of the units and common property and for connected purposes
    - The Statute Law (Miscellaneous Amendments) 2020 Act on the other hand includes; Amendment of the Housing Act (Cap.117) to remove the mandatory nature of contributions to the National Housing Development Fund, and, Amendment of The Kenya Roads Board Act 1999 (No.7 of 1999) to include a minimum number of days the board can hold every year at 4 days in a year hence departing from the current provision where the board is required to hold meetings every month For more information, see Cytonn Weekly #51/2020.

VIII. Infrastructure Sector

Notable highlights for the infrastructure sector during the year see our previous reports Cytonn Q1' Markets Review, H1'2020 Markets Review, and, Cytonn Q3'2020 Market Review. For Q4'2020;

I. The Kenyan government through the Kenya Rural Roads Authority, a state corporation within the State Department of Infrastructure, commenced the tarmacking of the first 7.0 km of Juja Farm Road in Kiambu County at a cost of Kshs 3.9 bn. The road is part of Kshs 30.0 bn Mau Mau roads that are being constructed in Murang'a, Nyeri and Kiambu Counties and set for completion in six months starting November. For more information, see Cytonn Weekly #45/2020, and,

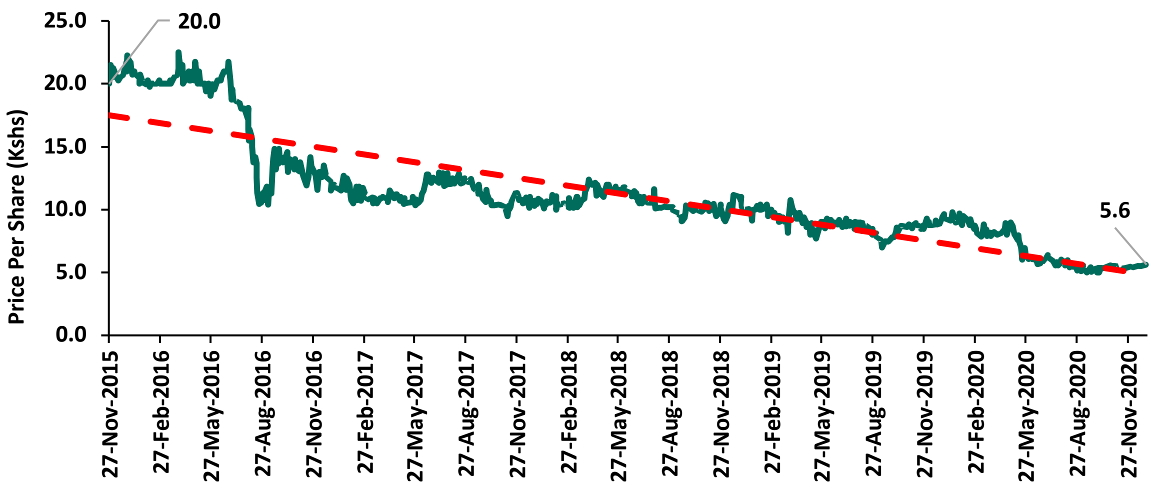
II. Kenya Urban Roads Authority (KURA), announced plans to construct two elevated carriage ways in the Nairobi Central Business District (CBD). The Kshs 2.9 bn project which has been assigned to China Road and Bridge Corporation will take shape after the completion of the Nairobi Expressway which is currently under construction by the Kenya National Highways Authority (KENHA), and is expected to be completed by 2023. For more information, see Cytonn Weekly #48/2020.

Despite the reduced budget allocation for the infrastructure sector with funds being redirected to dealing with the COVID-19 pandemic, the government continues to implement select projects and we expect this to open up areas for developments upon their completion thus boosting the real estate sector.

IX. Listed Real Estate

The Fahari I-REIT closed the year 2020 at Kshs 5.6 per share, trading at an average of Kshs 6.7 during the year compared to Kshs 8.9 in 2019. On a Year-to- date basis, the REIT recorded a 41.7% loss of value from Kshs 9.6 recorded in January 2020, and a 72.0% drop from its initial price of Kshs 20.0 as at November 2015. The REIT market continues to perform poorly attributable to; i) the subdued performance of the real estate market, ii) insufficient institutional grade real estate assets, iii) lack of investor appetite in the instrument, and iv) negative investor sentiments.

Fahari I-REIT Performance (November 2015- December 2020)



During the year, Acorn holdings, a real estate developer, announced plans to establish a D-REIT and an I-REIT in the next 3 years with an expected Internal Rate of Return of 18.0%. In line with the same, in November 2020, Acorn Investment Management Limited, a subsidiary of Acorn Holdings, was licensed as a REIT Manager by the Capital Markets Authority (CMA). This was followed by the Authority's approval on the issuance of The Development Real Estate Investment Trust (D-REIT) and Investment Real Estate Investment Trust (I-REIT) in December the same year. The fund size for the two REITS is estimated at Kshs 4.0 bn for the D-REIT and Kshs 4.1 bn for the I-REIT in the initial fundraising. In their campaign, Acorn sought for investors to invest a total of 24.0% equity on the development of student accommodation D-REIT, and up to 67.0% in the I-REIT. By October, the firm had secured Kshs 1.0 bn equity investment from one of its anchor investor, InfraCo, a private infrastructure development group. The D-REIT is expected to finance the student hostels whereas the I-REIT will be used to acquire property for rental income.

The D-REIT market in Kenya has failed to take off despite the regulations having come into force in 2013. The Fusion Capital D-REIT, which was issued in 2016, failed due to low subscription rates; the Cytonn D-REIT faced delays in approvals given the high levels of capital required for a Corporate Trustee, of at least Kshs. 100m, leading the promoter to discontinue the effort. The poor performance of the D-REITs is attributed to several factors: (i) the high minimum investment amounts set at Kshs 5.0 mn that is over 100x the median income in Kenya, (ii) high minimum capital requirement for a trustee at Kshs 100.0 mn that reduces the pool of approved REIT Trustees, which is currently just three, namely; Housing Finance, Cooperative Bank and KCB Bank, and, (iii) lengthy approval process. Without addressing the two regulatory frameworks, DREITs will continue to be a mirage and there will be continued lack of capital to support housing development.

For more analysis see Cytonn Weekly#50/2020.

Other highlights in Listed Real Estate during the year were:

i. The Capital Markets Authority (CMA) and the Competition Authority of Kenya (CAK) made approval for the transfer of the Fahari I- REIT by Stanlib Kenya to ICEA Lion Asset Management, a local Kenyan fund manager. For more information, see Cytonn weekly #10/2020,
ii. In April, Stanlib Kenya Limited released the Fahari I-REIT- Audited Results FY'2019, according to which, the earning per unit recorded a 9.4% decline to 0.97 from 1.07, attributed to a 9.0% decline in net profits, to Kshs 175.2 mn from Kshs 193.5 mn mainly due to the reduction in fair value gain on revaluation of investment property compared to prior year on the back of a sluggish real estate sector with continued downward pressure on rental income especially in the retail sector. Please see the Fahari I-REIT FY'2019 Earnings Note for the analysis, and,
iii. In May, Fund manager, ICEA Lion Asset Management (ILAM) announced that it had completed a transaction with Stanlib Kenya Limited (SKL) that will see it acquire the latter's role of managing property fund Stanlib Fahari I-REIT, from South Africa based Liberty Holdings Ltd. For more information, see Cytonn Weekly #21/2020.

Our outlook for the REIT market is NEGATIVE due to the continued poor performance of the REIT market. However, we are of the view that for the REIT market to pick, some of the supportive framework that can be put in place include; i) broadening the pool of trustees by reducing the minimum capital requirement which currently stands at Kshs 100.0 mn, ii) Reducing the minimum investment amount for real state finance vehicles which is currently Kshs 5.0 mn, and, iii) removing the intense conflicts of interest between the governance of the Capital Markets Authority (CMA) and the fund structures so that there is more tolerance to constructive feedback.

We expect the real estate sector performance to record improvement in 2021 and register increased transactional volumes as affordable housing projects in the residential sector continue to take shape and incentives such as operationalization of the Kenya Mortgage and Refinance Company (KMRC) to provide relatively cheap mortgage facilities expected to facilitate increase in home ownership. Expansion of local and international retailers is expected to cushion the retail sector while the government's post-Covid stimulus package such setting aside funds for tourism recovery is expected to boost performance of the hospitality sector, coupled with improvement in infrastructure which will continue to open up areas for investment hence lead to appreciation in property prices. The sector will, however, continue to experience constraints such as oversupply of 6.3mn SQFT of office space 3.1mn SQFT of retail space and sluggish performance of the REIT market.