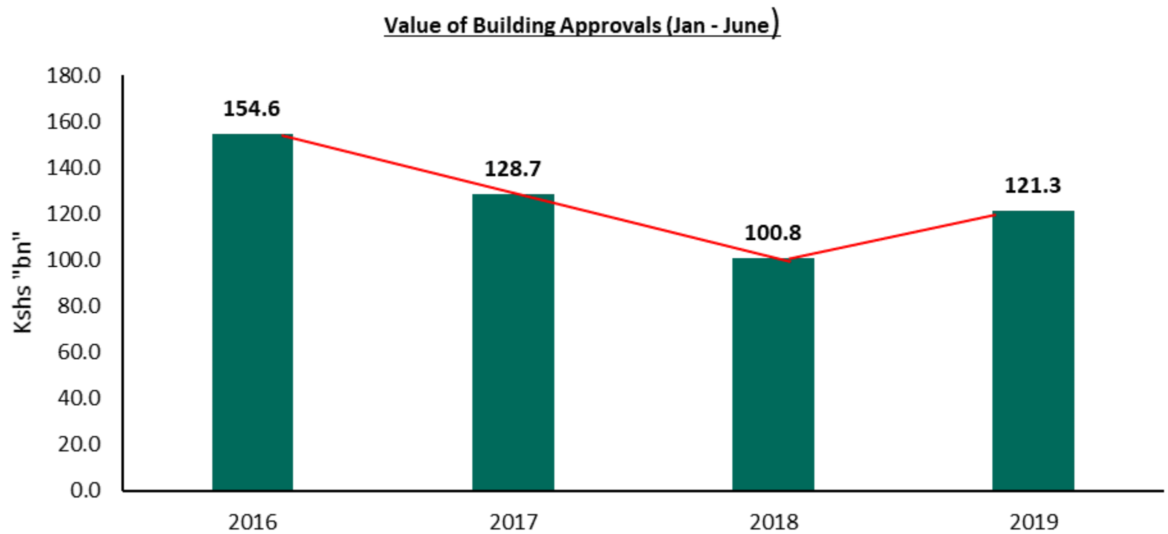
Real Estate Annual Markets Review Note 2019

In 2019, the real estate sector grew by 4.8% on average from Q1'2019 to Q3'2019, 0.3% points higher than the growth rate recorded over the same period in 2018, according to Kenya National Bureau of Statistics (KNBS) Quarterly Gross Domestic Product Report Q3'2019. The growth was supported by:

(i) Continued National Government support for the affordable housing initiative,
(ii) Increased entry of multinational corporations and retailers into the country,
(iii) Infrastructural improvements, boosting Nairobi's positioning as a regional hub,
(iv) Rapid population growth, which according to the KNBS Census Report 2019, came in at 2.2%, 1.0% points higher than the global average of 1.2%. This continued to create demand for more properties, and,
(v) Improving macroeconomic environment, with the country's GDP growing by 6.3% in 2018, 1.4% points higher than the 4.9% recorded in 2017 and expected to come in at 6.0% and 6.1% in 2019 and 2020, respectively as per the World Bank

In line with the growth, the sector also recorded a slight uptick in building activity with the Kenya National Bureau of Statistics Leading Economic Indicators December 2019 Report recording a 20.3% increase in the value of buildings approved during the first half of the year came in to Kshs 121.3 bn from Kshs 100.8 bn during the same period in 2018 as shown below:



Source: KNBS

However, the sector also continued to face certain constraints, mainly in the form of:

i. Continued delays in the processing of construction permits by some county governments, namely, Nairobi, Kisumu, Kiambu, and Mombasa. This was major setback for private developers as it resulted in prolonged project implementation timelines,
ii. Insufficient access to financing with private sector credit growth coming in at 5.2% in June 2019, compared to a 5-year (2013-2018) average of 14.0%, and,
iii. Oversupply in select sectors such as the commercial office and retail sectors with a surplus of 5.2 mn SQFT and 2.0 mn SQFT, respectively.

In terms of performance, the sector recorded rental yields of 7.5% in the commercial office, 7.8% in retail, 5.0% in residential, 7.3% in mixed use developments (MUDs), and 7.6% in serviced apartments, resulting to an average rental yield for the real estate market of 7.0%, 0.4% points lower compared to 7.4% recorded in 2018. Therefore, with a capital appreciation for existing properties at 2.0%, average total returns came in at 9.0%, a 2.2% points decline from 11.2% recorded in 2018. We attribute this to a decline in demand for property evidenced by the 3.4% decline in the residential sector annual uptake, and the current glut in office and retail sectors of 5.2 mn SQFT and 2.0 mn SQFT, respectively. However, it is important to note that development returns for investment grade real estate are still estimated to be approximately 20.0% to 25.0% p.a.

Annual Real Estate Returns Summary Table, for Existing Properties				
	2017	2018	2019	Y/Y Change (% Points)
Average Rental Yield	7.6%	7.4%	7.0%	(0.4%)
Average Capital Appreciation	6.5%	3.8%	2.0%	(1.8%)
Total	**14.1%**	**11.2%**	**9.0%**	**(2.2%)**

- *In 2019, average rental yields in the real estate sector came in at 7.0% whereas annual capital appreciation for existing properties came in at 2.0%. Thus, average total returns to investors came in at 9.0%, a 2.2% points decline from 11.2% recorded in 2018. We attribute this to a decline in demand for property evidenced by the 3.4% decline in the residential sector annual uptake, and the registered glut in office and retail spaces of 5.2 mn SQFT and 2.0 mn SQFT, respectively*

Source: Cytonn Research 2019

Residential: In 2019, the residential market recorded a 3.4% points drop in annual uptake, as more individuals continued to opt to rent amidst tough economic times. Average occupancy rates increased by 4.7% points resulting in a 0.3% points increase in average rental yields. Apartments performed better with average total returns to investors of 6.8% compared to detached units at 5.3%. Overall, apartments also recorded higher uptake and occupancy rates at 20.2% and 88.7%, in comparison to the residential market averages of 19.4% and 85.7%, respectively,

Commercial Office: The commercial office sector performance softened in 2019 recording a 0.6% points and 3.1% point's y/y decline in average rental yields and occupancy rates, to 7.5% and 80.2% in 2019, from 8.1% and 83.3%, respectively, in 2018. The subdued performance was largely driven by a decline in uptake of office space attributed to minimal growth in private sector credit, leading to downsizing or business closures especially for small and medium-sized enterprises (SMEs),

Retail: In 2019, the retail sector performance softened with yields declining by 1.2% points to 7.8% in 2019 from 9.0% in 2018 attributed to a tough economic environment that continued to affect consumer's spending power as well as the growing mall space glut following an introduction of 0.4 mn SQFT of retail space into the Nairobi Metropolitan Area (NMA) market, thus driving down rents and occupancy rates by 1.5% and 3.3% points, respectively,

Mixed-Use Developments (MUDs): In 2019, MUDs recorded average rental yields of 7.3%, outperforming single themes average of 6.9%. Commercial office and retail spaces in Mixed-Use Developments recorded average rental yields of 7.9% and 8.1%, respectively, 0.4% points and 0.3% points higher than the office and retail market average of 7.5% and 7.8% in 2019, respectively,

Hospitality: Serviced apartments recorded a slight improvement in performance in 2019 with the average rental yield coming in at 7.6%, which is 0.2% points higher than 7.4% recorded in 2018, attributable to increased demand for serviced apartments by both guests on business and leisure travels, thus triggering an increase in charge rates, as well as a stable political environment and improved security, making Nairobi an ideal destination for both business and holiday travelers,

Land: Land prices within the Nairobi Metropolitan Area recorded an 8-year CAGR of 11.9% and a 2.0% y/y price change in 2019 driven mainly by the growing demand for development land especially in satellite towns such as Ruiru and Syokimau as developers strive to drive the Kenyan Government's Big agenda on the provision of affordable housing as well as improving infrastructure with projects such as the expansion of Waiyaki Way and the dualling of the Northern by-pass,

Listed Real Estate: The Fahari I-REIT continued to drop in value closing the year 2019 at a unit price of Kshs 9.4, 6.9% lower than its opening price of Kshs 10.1. The instrument's value declined by 16.0% y/y trading at an average of Kshs 8.9 per share in comparison to Kshs 10.6 in 2018 with the poor performance largely attributable to lack of public knowledge subsequently leading to negative investor perception. For more analysis, see our recent REITs Topical

I. Residential Sector

Investors continued to cash in on the residential sector in a bid to address the huge housing backlog in Kenya, which is estimated to be 2.0 mn by the National housing Corporation (NHC) and growing annually by 0.2 mn. Some of the notable projects launched during the year include:

Development Activity in 2019						
Name of project	Developer	Category	Number of Units	Location	Pricing	Status
Habitat Heights	United Nations Habitat Society/ Singapura Developers	Lower Mid-End	8,888	Mavoko	1 BR: Kshs 3.5 mn 2 BR: Kshs 4.8 mn 3 BR: Kshs 5.8 mn	Launched
Mida Vida Homes/	Shapoorji Pallonji Real Estate (SPRE)/Actis	Upper Mid-End	208	Garden City mall, Thika Road	1 BR: Kshs 6.0 mn 2 BR: Kshs 9.0 mn 3 BR: Kshs 14.0 mn	Ongoing
Applewood	Cytonn real Estate	High-End	19	Karen Miotoni	Standard Villa: Kshs 135.0 mn Premium villa: Kshs 170.0 mn	Ongoing
Riverbank Apartments	Centum Real Estate	Upper Mid-End	160	Two Rivers, Limuru Road	1 BR: Kshs 16.0 mn 2 BR: Kshs 24.0 mn 3 BR: Kshs 30.0 mn	Ongoing
Greatwall Gardens Phase III	Athi River	Lower Mid-End	288	Athi River	3 BR: Kshs 2.9 mn(off plan)	Launched
The Alma Phase I	Cytonn Real Estate	Lower Mid-End	113	Ruaka Town	1 BR: Kshs 6.3 mn 2 BR: Kshs 9.9 mn 3 BR: Kshs 12.9 mn	Phase II ongoing
Wilma Towers	Vaal Real Estate	Upper Mid-End	227	Kilimani	1 BR: Kshs 4.9 mn 2 BR: Kshs 11.6 mn 3 BR: Kshs 14.6 mn	Ongoing
Tilisi	Tilisi developments Plc	Upper Mid-End	186	Rironi, Limuru	3 BR: Kshs 18.5 mn 4 BR: Kshs 20.0 mn 5 BR: Kshs 59.0 mn	Launched

Online sources

Affordable housing development activity by the government included:

i. The County Government of Nairobi commenced works on the Pangani Regeneration Project and completed the construction of Phase I of the Ngara Project. For more, see Cytonn Weekly #29/2019,
i. The County Government of Nakuru invited bids from local and international developers and financiers for the development of the Naivasha Affordable Housing Project (NAHP),
i. The Ministry of Transport, Infrastructure, Housing and Urban Development and the Nairobi City County Government unveiled plans for Nairobi's Eastlands Regeneration, set to run up to 2036 and will see approximately 177,139 units put up. For more, see Cytonn Weekly #41/2019, and,
ii. Nyeri County Government announced plans of developing its first affordable housing units, a public-private partnership project that will see sixty-four two-bedroom units put up at an estimated cost of Kshs 143.6 mn.

The initiative also gained momentum on the regulatory front with some of the notable reforms including:

i. The 2019/2020 National Budget allocation towards the affordable housing initiative was raised by 61.5% to Kshs 10.5 bn, from Kshs 6.5 bn in the previous 2018/2019 budget, indicating continued government support towards the actualization of the initiative,
ii. The National Treasury launched the Kenya Mortgage Refinancing Company (KMRC) after a successful mobilization of capital from key shareholders and international financial institutions. For more analysis, read our KMRC Topical,
i. The Government of Kenya announced the relaxation of affordable housing regulations to include high income-earners of Kshs 100,000 and above. For more information, please see Cytonn Weekly #04/2019,
iii. The Kenyan Government launched the bomayangu.go.ke portal to allow citizens to register and apply for affordable housing units online,
iv. President Uhuru Kenyatta also gave the directive to the National Treasury to make contributions to the National Housing Development Fund (NHDF) voluntary, and,
v. The government's aim of improving the mortgage market also took shape as the Central Bank of Kenya finally gazetted the Mortgage Refinancing Companies regulations, which are especially critical for the commencement of operations of the Kenya Mortgage Refinancing Company.

Amidst the affordability concerns in Kenya, we expect the affordable housing sector to continue shaping up, attracting local and international investments, boosting the overall residential market.

In terms of performance, the residential market recorded a 3.4% points drop in annual uptake, as more homebuyers opted for rental units amid tough economic environment. However, average occupancy rates increased by 4.7% points resulting in a 0.3% points increase in average rental yields. Apartments performed better with average total returns to investors of 6.8% compared to detached units with 5.3%. Apartments continued to be in high demand evidenced by average annual uptake and occupancy rates of 20.2% and 88.7%, respectively, in comparison to detached units with 18.7% and 82.6%, respectively.

A. Detached Units

Satellite towns were the best performing in the detached units' category with total returns to investors averaging at 6.6%. This is largely attributable to the continued provision of infrastructure in Satellite Towns, thus boosting their property prices as well as the growing demand for affordable units, leading to a relatively high price appreciation of 2.1% on average. Runda Mumwe and Athi River were the best performing nodes overall with average total returns to investors of 7.6% and 7.1%, respectively, evidenced by the relatively high uptake of 22.7% and 20.7% in comparison to the market average of 19.3% and average occupancy rates of 88.5% and 92.6%, respectively in comparison to the market average of 85.7%.

Lower Kabete and Lavington recorded the lowest returns at 2.8% and 2.6%, respectively, owing to a price depreciation of 1.1% in Lavington while Lower Kabete recorded a price stagnation. This is attributable to decline on demand in high-end properties amidst a tough economic environment.

(All Values in Kshs Unless Stated Otherwise)

Detached Units Performance 2019							
Area	Average of Price per SQM	Average of Rent per SQM	Average of Annual Uptake	Average of Occupancy	Average of Rental Yield	Average of Price Appreciation	Annual Total Returns
Top 5: High-End							
Runda	210,556.0	679.9	19.0%	89.9%	4.1%	2.2%	6.4%
Karen	180,521.9	658.1	21.0%	82.5%	3.5%	2.0%	5.5%
Kitisuru	215,454.9	905.2	21.8%	88.2%	5.2%	(0.9%)	4.3%

Roselyn	159,131.0	791.0	16.6%	86.2%	4.9%	(1.0%)	3.9%
Lower Kabete	155,868.8	412.5	16.4%	87.5%	2.8%	0.0%	2.8%
Average	**186,111.1**	**703.5**	**19.9%**	**85.9%**	**4.0%**	**1.0%**	**5.0%**
Top 5: Upper Mid-end							
Runda Mumwe	152,991.9	622.9	22.7%	88.5%	3.5%	4.1%	7.6%
Ridgeways	153,972.9	681.7	25.0%	75.6%	4.9%	0.0%	4.9%
Loresho	139,811.7	575.5	21.7%	83.9%	4.7%	(0.1%)	4.6%
Langata	181,453.3	668.3	11.7%	86.1%	4.1%	0.4%	4.5%
Lavington	152,222.2	681.3	21.9%	70.2%	3.7%	(1.1%)	2.6%
Average	**159,335.9**	**642.1**	**20.4%**	**80.6%**	**4.1%**	**1.5%**	**5.6%**
Top 5: Satellite Towns							
Athi River	111,205.1	390.5	20.7%	92.6%	5.3%	1.8%	7.1%
Kitengela	69,552.2	293.9	19.0%	74.8%	5.1%	1.9%	7.0%
Syokimau/Mlolongo	80,136.5	307.6	19.1%	73.7%	3.4%	3.5%	6.9%
Ruiru	83,836.0	424.7	15.5%	70.8%	4.3%	1.6%	5.9%
Ngong	75,980.1	316.7	17.8%	88.3%	4.2%	(0.3%)	3.9%
Average	**84,142.0**	**346.7**	**18.4%**	**80.0%**	**4.5%**	**2.1%**	**6.6%**

Source: Cytonn Research 2019

B. Apartments Performance

Lower mid-end suburbs registered the highest average total returns in the apartments market with 7.8% owing to relatively high rental yields averaging at 6.0%. This as areas such as Ngong Road and Langata continue to attract Nairobi's young and working class populations thus, recording relatively high occupancy rates. Kilimani recorded the largest price depreciation of 0.6% as developers offered price discounts in a bid to get rid of overstayed stock amidst heightened competition from new developments.

Apartments Performance 2019							
Area	**Average Price per SQM**	**Average Rent per SQM**	**Average Annual Uptake**	**Average Occupancy**	**Average Rental Yield**	**Average Price Appreciation**	**Annual Total Returns**
Top 5: Upper Mid-End Suburbs							
Parklands	111,477	592	17.9%	93.5%	5.6%	1.9%	7.5%
Kileleshwa	126,273	732	22.6%	90.0%	6.3%	0.8%	7.1%
Loresho	118,121	535	22.6%	93.0%	5.0%	1.5%	6.6%
Westlands	129,298	678	21.9%	77.4%	4.1%	0.2%	4.3%
Kilimani	112,505	614	20.8%	91.7%	5.8%	(0.6%)	5.2%
Average	**119,535**	**630**	**21.1%**	**89.1%**	**5.4%**	**0.8%**	**6.1%**
Top 5: Lower Mid-End Suburbs							
Riruta	98,721	571	23.7%	99.3%	7.6%	0.9%	8.5%
Langata	104,391	545	20.7%	93.4%	5.2%	2.8%	8.0%
Upper Kabete	82,255	491	17.7%	74.7%	5.5%	2.2%	7.7%
Ngong Road	100,808	592	17.3%	93.3%	6.0%	1.4%	7.4%

South B/C	91,531	542	20.5%	84.0%	5.8%	1.8%	7.6%
Average	**95,541**	**548**	**20.0%**	**88.9%**	**6.0%**	**1.8%**	**7.8%**
Top 5: Satellite Towns							
Thindigua	92,646	464	19.6%	92.0%	5.7%	2.5%	8.2%
Athi River	64,214	355	12.3%	91.3%	5.9%	1.8%	7.6%
Syokimau	63,618	332	21.2%	91.1%	5.8%	(0.2%)	5.6%
Ruaka	102,187	492	21.0%	86.3%	5.0%	0.9%	5.9%
Kitengela	67,079	361	23.8%	80.0%	5.2%	(0.2%)	5.3%
Average	**77,949**	**401**	**19.6%**	**88.2%**	**5.5%**	**1.0%**	**6.5%**

Source: Cytonn Research 2019

II. Commercial Office Sector

The commercial office sector performance softened in 2019 recording 0.6% points and 3.1% points' y/y decline in average rental yields and occupancy rates, to 7.5% and 80.2% in 2019, from 8.1% and 83.3%, respectively, in 2018. The subdued performance was largely driven by:

i. A decline in uptake of office space attributed to minimal growth in private sector credit, leading to downsizing or business closures especially for small and medium-sized enterprises (SMEs), and,
ii. An oversupply of 5.2 mn SQFT office space as at 2018, as per our NMA Commercial Office Report 2019, which has created a bargaining chip for potential tenants, forcing developers and landlords to reduce or maintain prices and rents in order to remain competitive and attract occupants to their office spaces.

The table below shows a summary of commercial office performance over time:

(all values in Kshs unless stated otherwise)

Summary of the NMA Commercial Office Performance 2015-2019							
Item	**FY'15**	**FY'16**	**FY'17**	**FY'18**	**FY'19**	**Δ Y/Y 2017/18**	**Δ Y/Y 2018/19**
Occupancy (%)	89.0%	88.0%	82.6%	83.3%	**80.2%**	0.7% points	**(3.1%) points**
Asking Rents (Kshs/Sqft)	97	103	101	101	**96**	(0.4%)	**(4.5%)**
Average Prices (Kshs/Sqft)	12,776	13,003	12,649	12,719	**12,638**	0.6%	**(0.6%)**
Average Rental Yields (%)	8.1%	8.4%	7.9%	8.1%	**7.5%**	0.2% points	**(0.6%) points**

- *The commercial office sector performance dropped, recording 0.6% points and 3.1% points y/y decline in average rental yields and occupancy rates, respectively, to 7.5% and 80.2% in 2019, from 8.1% and 83.3%, respectively, in 2018*

Source: Cytonn Research 2019

In the Nairobi Metropolitan Area (NMA) sub-market performance, Gigiri and Karen continue to record the highest returns with rental yields of 9.2% and 8.3%, respectively, compared to the 7.5% market average, attributed to increased demand for space by businesses and multinational companies, as a result of their superior locations, offering quality Grade A offices, which enable them to charge a premium on rental charges.

Thika Road and Mombasa Road recorded the lowest returns with average rental yields of 6.3% and 5.5%, respectively, 0.4% and 0.3% points decline from 6.7% and 5.8%, in 2018, respectively, attributed to low-quality office spaces and traffic snarl-ups that have made the areas generally unattractive to firms.

The table below compares the NMA sub-market performance in 2018 and 2019:

(All values in Kshs unless stated otherwise)

Nairobi Metropolitan Area (NMA) Commercial Office Sub-market Performance 2018-2019											
Location	Price/ SQFT FY 2019	Rent/SQFT FY 2019	Occupancy FY 2019 (%)	Rental Yield FY 2019	Price/ SQFT FY 2018	Rent/SQFT FY 2018	Occupancy FY 2018	Rental Yield FY 2018	Δ in Rent Y/Y	Δ in Occ. Y/Y (% points)	Δ in Rental Yields Y/Y (% points)
Gigiri	13833	116.6	80.4%	9.2%	13,833	122.6	85.0%	10.0%	(4.9%)	(4.6%)	(0.8%)
Karen	13665	111.1	85.3%	8.3%	13,666	118	88.6%	9.2%	(5.8%)	(3.3%)	(0.9%)
Westlands	12370	104.3	80.3%	8.3%	12,050	109.7	82.1%	9.0%	(5.0%)	(1.8%)	(0.7%)
Parklands	12369	97.4	82.4%	8.1%	12,494	102.1	86.0%	8.4%	(4.6%)	(3.6%)	(0.3%)
Upperhill	12397	98.5	80.0%	7.5%	12,560	99.8	84.0%	8.2%	(1.3%)	(4.0%)	(0.7%)
Kilimani	12680	91.1	80.9%	7.1%	13,525	98.9	88.3%	8.0%	(7.9%)	(7.4%)	(0.9%)
Nairobi CBD	12425	88.6	85.6%	7.1%	12,425	88.8	88.3%	7.6%	(0.3%)	(2.7%)	(0.5%)
Thika Road	12600	84.3	80.4%	6.3%	12,517	86.3	81.5%	6.7%	(2.3%)	(1.1%)	(0.4%)
Msa Road	11400	72.8	66.5%	5.5%	11,400	78.8	65.6%	5.8%	(7.6%)	0.9%	(0.3%)
Average	12,637.62	96.1	80.2%	7.5%	12,719	100.6	83.3%	8.1%	(4.4%)	(3.1%)	(0.6%)

- *Gigiri and Karen recorded the best returns with rental yields of 9.2% and 8.3%, respectively attributed to increased demand by businesses and multinational companies, as a result of their superior locations, offering quality Grade A offices, which enable them to charge a premium on rental charges*
- *Thika Road and Mombasa Road recorded the lowest returns with average rental yields of 6.3% and 5.5%, respectively, a 0.4% and 0.3% decline from 6.7% and 5.8%, in FY'2018, respectively, attributed to low-quality office space and traffic snarl-ups that have made the nodes generally unattractive to firms*

Source: Cytonn Research 2019

The main highlights in the sector included: (i) the launch of corporate serviced offices at Sanlam Tower, Waiyaki Way, Westlands by Workable Nairobi, a commercial serviced office provider. For more see Cytonn Weekly #23/2019 (ii) the opening of Park Medical Centre along 3rd Parklands Avenue in Parklands, and (iii) opening of business offices by multinational corporations: Cigna, a global health service company, MAC Mobile, a FMCG technology solutions company, Mauritius Commercial Bank (MCB) Group and Abbott, a US-based healthcare company at the UNON Complex in Gigiri, 3 Mzima Springs Road in Kileleshwa, Pramukh towers in Westlands, and Watermark Business Park in Karen, respectively.

Our outlook for the commercial office in the Nairobi Metropolitan Area (NMA) sector remains negative given the increased office space supply and expected stagnation in performance, and thus investment in the commercial office theme should be geared towards long-term gains when the market picks up. Nevertheless, investment opportunities still exist in zones with low supply and high returns such as Gigiri and in differentiated concepts such as serviced offices recording relatively high rental yields of up to 13.4%.

Retail Sector

In 2019, the retail performance softened with yields declining by 1.2% points to 7.8% in 2019 from 9.0% in FY'2018 attributed to:

i. An introduction of 0.4 mn SQFT of retail space into the Nairobi Metropolitan Area (NMA) market driving down rents and occupancy rates by 1.5% and 3.3% points, respectively. Some of the new retail spaces amongst others include The Well in Karen and the expansion of Sarit Centre in Westlands, and,
ii. Constrained spending power among consumers due to a tough financial environment.

The table below shows the performance summary of the retail market:

(All values in Kshs unless stated otherwise)

Summary of the NMA Retail Sector Performance 2016-2019						
Item	**2016**	**2017**	**2018**	**2019**	**Δ Y/Y 2018**	**Δ Y/Y 2019**
Average Asking Rents (Kshs/SQFT)	186.9	185.3	178.2	175.5	(3.8%)	**(1.5%)**
Average Occupancy (%)	89.3%	80.3%	79.8%	75.9%	(0.4%) points	**(4.0%) points**
Average Rental Yields	10.0%	9.6%	9.0%	7.8%	(0.6%) points	**(1.2%) points**

Source: Cytonn Research 2019

In the submarket analysis, Westlands and Karen were the best performing retail markets recording rental yields of 10.3% and 9.5%, respectively. This was driven by relatively higher rental rates as the areas are affluent neighbourhoods hosting middle – high-end income earners with high consumer purchasing power and thus investors are willing to pay higher rents for retail space in the area.

Satellites towns recorded the lowest rental yields at 6.0% attributed to low rents, which averaged at Kshs 136 per SQFT, 22.7% lower than the market average of Kshs 176 per SQFT as a result of competition from informal retail space.

The table below shows the Nairobi Metropolitan Area (NMA) retail submarket performance:

(All values in Kshs unless stated otherwise)

Nairobi Metropolitan Area (NMA) Retail Submarket Performance 2018-2019									
Location	**Rent Kshs/SQFT FY' 2019**	**Occupancy FY' 2019**	**Rental Yield FY' 2019**	**Rent Kshs/SQFT FY' 2018**	**Occupancy FY' 2018**	**Rental Yield FY' 2018**	**y/y Δ in Rental Rates**	**y/y Δ in Occupancy (% points)**	**y/y Δ in Rental Yield (% points)**
Westlands	215	82.8%	10.3%	219	82.2%	12.2%	(1.9%)	0.6%	(1.9%)
Karen	222	80.0%	9.5%	225	88.8%	11.0%	(1.6%)	(8.8%)	(1.5%)
Kilimani	167	87.4%	8.8%	167	97.0%	10.7%	(0.1%)	(9.6%)	(1.9%)
Ngong Road	181	80.5%	8.3%	175	88.8%	9.7%	3.6%	(8.3%)	(1.4%)
Kiambu Road	180	67.6%	7.2%	183	69.5%	8.1%	(1.9%)	(1.9%)	(0.9%)
Thika road	173	72.8%	7.1%	177	75.0%	8.3%	(2.0%)	(2.2%)	(1.2%)
Eastlands	150	71.7%	6.8%	153	64.8%	6.8%	(1.7%)	6.9%	0.0%
Mombasa road	156	66.8%	6.3%	162	72.4%	7.9%	(3.6%)	(5.6%)	(1.6%)
Satellite Towns	136	73.3%	5.9%	142	73.7%	6.7%	(4.4%)	(0.4%)	(0.8%)
Average	176	75.9%	7.8%	178	79.1%	9.0%	-1.5%	-3.3%	-1.2%

- *Satellites towns recorded the lowest rental yields at 6.0% attributed to low rents, which averaged at Kshs 136 per SQFT, 22.7% lower than the market average of Kshs 176 per SQFT driven by low rental charges as a result of competition from informal retail space*

Source: Cytonn Research 2019

The major highlights for the retail sector IN 2019 included:

i. South Africa retailer, Shoprite, opened three additional stores at the Garden City Mall along the Thika Superhighway, Waterfront Mall in Karen, and City Mall in Mombasa,
ii. Local retailer, Nakumatt, closed its remaining Kenyan branches including Prestige Mall, Nakumatt Mega and Megacity Mall in Kisumu,

iii. Choppies Supermarkets, announced plans to exit the Kenyan market, where it currently has 12 stores, following poor performance as a result of the growing competition in the sector from both international brands and the informal sector. For more, see Cytonn Weekly #36/2019

We remain upbeat that the retail sector's performance will remained cushioned by increased market activity driven by the entry of international retailers into the Kenyan market such as Shoprite and Game, and the expansion efforts by local retailers such as Naivas and Tuskys as they take advantage of the attractive rental rates.

III. Mixed-Use Developments (MUDs)

In 2019, commercial spaces i.e. office and retail in Mixed-Use Developments recorded average rental yields of 7.9% and 8.1%, respectively, 0.4% points and 0.3% points higher than the retail market average of 7.5% and 7.8% in 2019, respectively. The better performance of office and retail spaces in Mixed-Use Developments is attributed to the convenience of the spaces as one-stop centers for consumers living and working in the area.

Kilimani was the best performing MUD area recording average rental yields of 9.1% with the retail and office spaces recording rental yields of 9.6% and 8.4%, respectively, 1.2% points and 0.5% points higher than the sector average of 8.4% and 7.9%, respectively. The performance is driven by high occupancy rates in addition to premium rental rates charged as the area serves a prime commercial and affluent neighbourhood with areas such as Kileleshwa and Lavington, hosting a large portion of Nairobi's high-end and upper-middle-class population.

Mombasa Road and Eastlands were the worst performing areas recording rental yields of 5.7% and 5.5%, respectively attributed to low rental charges as a result of competition from informal Mixed-Use Developments.

The table below shows the Mixed-Use Developments performance in 2019:

(All Values in Kshs Unless Stated Otherwise)

NMA Mixed-Use Developments Market Performance by Nodes 2019

	Retail Performance				Office Performance				Residential Performance				
Location	Price/ SQFT	Rent/ SQFT	Occup. (%)	Rental Yield (%)	Price/ SQFT	Rent/ SQFT	Occup. (%)	Rental Yield (%)	Price/SQM	Rent/ SQM	Ann. Uptake %	Rental Yield %	Avg. MUD yield
Kilimani	17,702	172	82.6%	9.6%	13,770	126	74.8%	8.4%					9.1%
Limuru Rd	22,500	223	72.0%	8.6%	13,500	130	72.0%	8.3%	177,935	842	25.0%	5.7%	8.0%
Karen	23,333	163	85.0%	7.3%	13,380	137	86.0%	10.6%	215,983	821	26.7%	4.6%	8.2%
UpperHill	15,552	127	71.3%	7.0%	12,673	100	78.7%	7.4%					7.4%
Westlands	15,876	172	72.8%	9.6%	12,917	113	68.7%	7.1%	204,603	810	31.0%	4.8%	7.4%
Thika Rd	26,250	200	84.5%	8.3%	13,890	128	71.0%	8.0%	161,910	640	30.1%	4.8%	6.0%
Msa Rd	19,200	150	68.0%	6.4%	13,200	100	52.0%	4.7%	171,304	722	23.0%	5.1%	5.7%
Eastlands	20,000	132	72.0%	5.7%	12,000	100	68.0%	6.8%	81,717	350	20.0%	5.5%	5.5%
Average	**18,846**	**167**	**77.3%**	**8.4%**	**13,227**	**118**	**73.4%**	**7.9%**	**167,909**	**689**	**26.5%**	**5.0%**	**7.3%**

** Mixed-Use Developments in Kilimani and Upper Hill areas had no residential spaces*

- *Kilimani was the best performing node recording average rental yields of 9.1% with the retail and office spaces recording rental yields of 9.6% and 8.4%, respectively, 1.2% and 0.5% points higher than the sector average of 8.4% and 7.9%, respectively*
- *Mombasa Road and Eastlands were the worst performing areas recording rental yields of 5.7% and 5.5%, respectively attributed to low rental charges as a result of competition from informal Mixed-Use Developments*

Source: Cytonn Research 2019

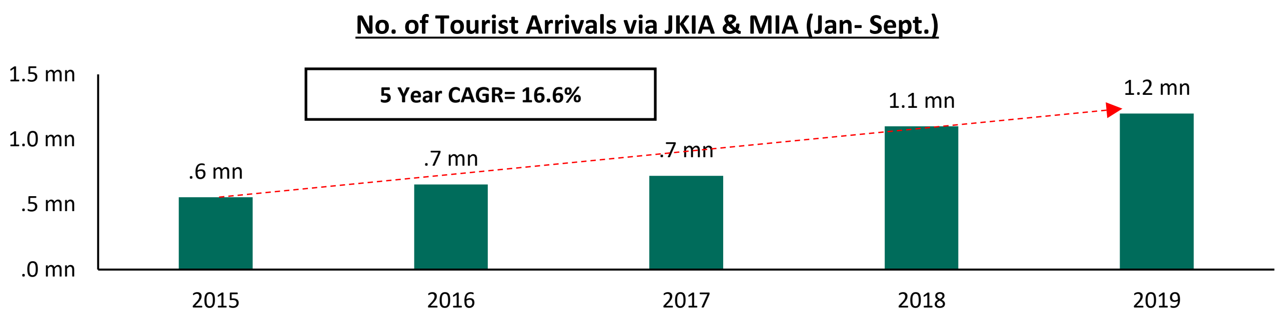
MUDs offer an attractive investment as the development provides diversified revenue streams for property owners and improves the overall return on investment. The investment opportunity for mixed-use developments lies in incorporating differentiated concepts such as serviced apartments and offices which

provide attractive returns of 7.6% and 13.4%, respectively, compared to the unserviced apartments and office performance of 5.1% and 7.9%, respectively, as at Q3'2019. For more information see Cytonn NMA Mixed-Use Developments (MUDs) Report 2019

V. Hospitality Sector

The hospitality sector recorded continued investor interest in 2019, fueled by the continued demand for hospitality facilities and services. According to the Leading Economic Indicators (LEI) September 2019, the total number of visitors arriving through Jomo Kenyatta (JKIA) and Moi International Airports (MIA) came in at 1.2 mn persons for the period between January and September 2019, 5.4% higher than 1.1 mn persons during the same period in 2018. We attribute the continued growth of the sector to the calm political environment and the improved security, which have continued to boost tourists' and investors' confidence in the country and thus, making it a preferred travel destination for both business and holiday travelers.

The graph below shows the growth of the number of tourist arrivals;



Source: Kenya National Bureau of Statistics

Given the continued growth, hoteliers continued to expand their brands and as a result, in 2019, the sector recorded significant hotel openings and acquisitions including:

Hospitality Facilities Opened in 2019				
Hospitality Facility Name	**Brand/Developer**	**Location**	**No. of Rooms**	**Month Opened**
Superior Hotel & Resort	Superior Hotels Limited	Naivasha Town	96	Jan-19
Radisson Blu Hotel & Residences	Radisson Group	Nairobi	122	Sep-19
Cysuites Apartment Hotel	Cytonn Investments	Westlands	40	Nov-19
Best Western Plus	Best Western	Westlands	101	Dec-19
Superior Homes	Elementaita Mountain Lodge	Nakuru	50	Dec-19
City Lodge Hotel	City Lodge	Limuru Road	171	Oct-19
Total			**580**	

Source: Cytonn Research

A few hotels also embarked on rebranding, aiming at leveraging on international brands and gaining competitive advantage in the wake of stiff competition in the sector:

Hotels Rebranded in 2019					
Name of Hotel	**Current Brand**	**Location**	**No of Hotel Rooms**	**Month Rebranded**	**Developer/Former Brand**
Sankara Hotel	Mariottt International	Westlands	179	May-19	-
Bluewaters Hotel	Mariottt International	Kisumu	125	Sep-19	Aleph Hospitality

Total	304

Source: Cytonn Research

In addition, in 2019, several hospitality brands announced plans to enter the Kenyan hospitality market as shown below:

Projects Introduced into the Pipeline					
Name of Hotel	**Brand**	**Location**	**No of rooms**	**Year of Completion**	**Status**
Shelly Beach Hotel	Concord Hotels	Mombasa	36	2020	Refurbishment is ongoing
Gallery Hotel Chain	Accor Group	Gigiri	105	2021	Planned
Sunset Paradise Holiday Homes	-	Kisumu	50	2021	Planned rehabilitation into a conference center
Sun Africa Serviced Apartments	Sun Africa Hotels Group	Hurlingham	20	Undisclosed	Planned
Undisclosed	Eighteen Seventy Lower Kabete Limited	Westlands	366	Undisclosed	Planned
Undisclosed	ACME Dream Limited	Embakasi	25	Undisclosed	Planned
Diani Beef Beach Hotel	-	Mombasa	114	Undisclosed	Planned expansion
Total			**716**		

Source: Cytonn Research

Other activities during the year include;

i. In October, the Tourism Cabinet Secretary, Hon. Najib Balala, inaugurated the National Convention Bureau. The main mandate of the bureau includes serving as the focal point of the Meetings, Incentives, Conventions, and Exhibitions (MICE) activities, as well as marketing and selling Kenya as a business events destination. See Cytonn Monthly October 2019,

ii. In terms of positive accolades, in October, seven Kenyan hotels received various awards at the World Luxury Hotel Awards 2019 in Finland, attesting to Kenya's competitiveness on the global stage in terms of international quality hospitality facilities, thus making it a top global tourist destination. For analysis, see Cytonn Weekly #43/2019,

iii. Superior Homes Kenya launched its Kshs 7.0 bn residential development dubbed "Pazuri" located on 105-acres at Vipingo Ridge in Kilifi County. The project will consist of 372 units of 2-bed, 3-bed bungalows, and 4-bed villas of 110 SQM, 163 SQM, and 220 SQM, respectively. The units will be priced at Kshs 11.9 mn, Kshs 14.9 mn, and Kshs 18.9 mn, respectively, translating to an average price of Kshs 95,695 per SQM. The prices are 20.3% lower than the upper mid-end residential average of Kshs 115,199 per SQM in neighboring Mombasa County. For more analysis, see Cytonn Weekly #46/2019,

iv. In December, Kenya Airports Authority revealed plans of revamping various airstrips in the coastal region including the Ukunda and improving parking aprons at the Malindi airport within the next three years. The expansion of Ukunda Airstrip, in particular, is aimed at enabling the accommodation of larger aircraft as local airlines expand to new international routes. We expect this to pave way for direct flights, thus a major boost to the Mombasa tourism sector. See Cytonn Weekly #50/2019 for more details,

v. In December, the government revealed plans of setting up a tourism center at the Kenyatta University in partnership with the Jamaican Government. The center, dubbed "Global Tourism Resilience and Crisis Management Centre", is set to help address challenges that affect the tourism sector. We expect that the center will play a key role in positioning Kenya as a leading hospitality hub globally, shielding the tourism sector's performance from the negative effects of travel bans which affect the hospitality sector's performance. See Cytonn Weekly #50,

vi. To boost flight operations and increase connectivity, various airlines operating in Kenya increased their flights frequency driven by increased tourist arrivals into the country, for both holiday and business.

This is likely to result in increased demand for accommodation and other hospitality services, and thus improved performance of the hospitality sector:

Flight Frequencies 2019			
Airline	**Route**	**Previous Flight Frequency per Week**	**New Flight Frequency per Week**
Jambo Jet	Nairobi- Kigali	0	7
Kenya Airways	Nairobi- Seychelles	0	7
Silverstone Air	Nairobi- Lodwar	0	7

Source: Cytonn Research

In terms of performance in 2019, we tracked the performance of serviced apartments in 7 nodes in the Nairobi Metropolitan area. From our research, serviced apartments recorded a slight improvement in performance in 2019 with the average rental yield coming in at 7.6%, which is 0.2% points higher than 7.4% recorded in 2018. We attribute this to the increased demand for serviced apartments by both guests on business and leisure travels, which has triggered an increase in charge rates. The improved performance has on overall been supported by the stable political environment and improved security, thus making Nairobi an ideal destination for both business and holiday travelers.

The table below shows the market performance summary:

All values in Kshs unless stated otherwise

Serviced Apartments Performance in 2019						
Node	**Occupancy 2018**	**Occupancy 2019**	**Monthly Charge per SM 2019**	**Rental Yield 2018**	**Rental Yield 2019**	**Rental Yield Δ (% Points)**
Westlands& Parklands	76.4%	80.8%	3,884	10.6%	10.8%	0.2%
Kilimani	86.0%	80.0%	3,353	10.9%	9.5%	(1.4%)
Limuru Road	84.4%	88.2%	3,430	9.7%	9.4%	(0.3%)
Kileleshwa& Lavington	82.9%	82.4%	2,869	7.8%	8.2%	0.4%
Upperhill	60.0%	67.8%	2,577	5.3%	6.0%	0.7%
Nairobi CBD	74.4%	72.0%	2,230	5.7%	5.1%	(0.5%)
Thika Road	90.0%	84.4%	1,321	4.4%	4.0%	(0.4%)
Msa Road	85.0%			5.0%		
Average	**79.9%**	**79.4%**	**2,806**	**7.4%**	**7.6%**	**0.2%**

- *Serviced apartments recorded an average rental yield of 7.6%, which is 0.2% points higher than 7.4% recorded in 2018, attributed to the increased demand for serviced apartments by both guests on business and leisure travels, which has triggered an increase in charge rates*

Source: Cytonn Research

- Westlands & Parklands was the best performing node, recording an average rental yield of 10.8%, 3.2% point higher than the 7.6% market average, attributed to the proximity to business nodes such as Kilimani, Nairobi CBD and Upperhill, availability of amenities such as the Westgate Mall and Sarit Centre, ease of accessibility and proximity to the main airports that is Jomo Kenyatta International Airport(JKIA) and Wilson Airport,
- Thika Road node (Muthaiga North, Mirema and Garden Estate) recorded the lowest rental yield at 4.0%. We attribute this 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 not being mapped within the UN Blue Zone thus not attractive to expatriates due to security concerns,
- The investment opportunity lies in Westlands and Parklands, and Kilimani, which have continued to be the best performing nodes with average rental yields of 10.8% and 9.5%, respectively.

We expect the hospitality sector to continue recording improved performance going forward driven by the improved security and political stability, increased air- travel and positive accolades boosting the

country's status as a preferred travel destination globally while promoting it as an attractive investment opportunity for international players.

VI. Land Sector

During the year, the land sector recorded increased activities as investors continued to take up development class land despite the tough economic environment. Land priced within the Nairobi Metropolitan Area recorded an 8- year CAGR of 11.9% and a 2.0% y/y asking price change in 2019. The land performance was positively driven mainly by; i) the growing demand for development land especially in the satellite towns such as Ruiru and Syokimau as developers strive to drive the government's Big Four government agenda on the provision of affordable housing, ii) improving infrastructure with projects such as the expansion of Waiyaki Way and the dualling of the Northern by-pass, and iii) reduced supply of development class land at affordable prices in areas close to the Nairobi CBD resulting in demand for development class land in satellite towns.

Land in satellite towns recorded the highest y/y capital appreciation at 7.5%, attributed to the increased demand for property driven by; i) the relatively low prices thus preferred for development and ii) the improved infrastructure such as the road network, for instance the expansion of Waiyaki Way and the dualling of the Northern by-pass which on completion is expected to open up areas such as Limuru and Ruaka for development. On the other hand, land in commercial areas recorded a 4.4% correction in asking land prices attributed to the decreased demand and a resultant decline in development activities in these nodes, attributed to the existing oversupply of 5.3 mn SQFT of office space and 2.0 mn of retail space.

The table below shows a summary of the performance of the theme in 2019:

All values in Kshs unless stated otherwise						
Summary of Performance 2019- Land Sector						
Nodes	***Price in 2011**	***Price in 2017**	***Price in 2018**	***Price in 2019**	**8 YR CAGR**	**Annual Capital appreciation**
Satellite Towns- Unserviced Land	9.0 mn	20.4 mn	22.7 mn	24.9 mn	13.6%	**7.5%**
Nairobi Suburbs - High rise Residential Areas	46.0 mn	134.6 mn	135.0 mn	137.5 mn	14.7%	**4.0%**
Nairobi Suburbs - Low Rise Residential Areas	56.0 mn	82.4 mn	89.4 mn	91.6 mn	6.4%	**2.5%**
Satellite Towns- Serviced Land	6.0 mn	14.4 mn	14.3 mn	14.3 mn	11.5%	**0.3%**
Nairobi Suburbs - Commercial Areas	156.0 mn	429.8 mn	447.3 mn	428.5 mn	13.5%	**(4.4%)**
Average	**54.6 mn**	**136.3 mn**	**141.7 mn**	**139.4 mn**	**11.9%**	**2.0%**

- *On overall, in 2019, asking land prices within the Nairobi Metropolitan Area grew by a 8- Year CAGR of 11.9% and recorded a 2.0% y/y capital appreciation attributed to the continued demand by both developers and investors*

Source: Cytonn Research

The key highlights on performance are as follows;

- Unserviced land in satellite towns such as Ruiru, Utawala and Juja, recorded a 13.6% 8- year CAGR and 7.5% annual capital appreciation in 2019 attributed to the relatively high demand for land in these areas attributed to the relatively high demand fueled by the affordable housing initiative which has been a key focus sector by both the government and private sector players. In addition, satellite towns act as Nairobi's dormitory with majority of the population moving away from the congested Central Business District,

- Land prices in high rise residential areas such as Kasarani, Kileleshwa and Embakasi, recorded an 8-year CAGR of 14.7%, and a 4.0% y/y capital appreciation in 2019, attributable to the high plot ratios allowing for densification of developments. This has thus resulted in high demand for land in these areas due to attractive returns on investment after development, proximity to amenities such as shopping malls and the Jomo Kenyatta International Airport(JKIA) and the good road network in the areas making them easily accessible,
- Land prices in low rise residential areas such as Kitisuru, Runda and Karen recorded a 6.4% 8-year CAGR and 2.5% y/y capital appreciation which is 8.3% and 1.5% points lower than that of high rise residential areas, respectively, attributed to the limiting plot ratios on land, thus reducing the return on investment for investors in these areas, and
- Serviced land in satellite towns recorded a 0.3% annual appreciation, 7.2% points lower than the 7.5% recorded by unserviced land prices, and we attribute this to decreased demand for site and service schemes as developers and investors prefer to buy unserviced plots and service instead of paying a premium for the services, facilities and amenities provided,
- Commercial zones recorded 4.4% y/y decline in asking prices in 2019, attributed to decreased development activities in commercial zones due to the existing oversupply of 5.2 mn SQFT of office space and 2.8 mn of retail space, as at 2018.

Other key highlights during the year;

i. In March, the Government of Kenya announced plans to incorporate block chain technology into the land's digitization process in a bid to end human interference in the Lands Ministry by helping track all land transactions in the country, thus leading to an efficient, transparent and fair system in a country where issues of land fraud have been rampant. For more information on this, see Cytonn Q1'2019 Market Review,
ii. The Lands Information Management System (LIMS) went live as from 1st April 2019. The move was aimed at shortening the lands registration process by 61-days, to 12-days, from 73-days required by the manual system, thus enhance time-saving, cost reduction and transparency in the registration of land and thus encourage property development. For more details, see our Cytonn Weekly 11/2019, and
iii. In July, Nairobi City Council announced that it would cap the new land rates at 1.0% of the current value of the plots as opposed to using the 1980 valuation, where property owners pay land rates at 25.0% of the unimproved site value. The specific rates will be based on the current value of undeveloped land and the new fees will be effective on January 2020. For more information, see our Cytonn Weekly #30/2019.

We retain a positive outlook for the land sector supported by: i) improving infrastructure that exposes areas for investment, ii) political calmness in the country, and iii) the continued focus on the Governments Big Four agenda on the provision of affordable housing.

VII. Statutory Reviews

In 2019, various statutory changes were introduced and we expected they will have a net positive impact on the real estate sector. They include;

i. The Finance Act 2019 was assented to by the President introducing policy and taxation measures for supporting the government's Big Four Agenda, mainly the provision of affordable housing. Some of the key amendments include:

For home buyers:

a) Inclusion of Fund Managers or Investment Banks registered under the Capital Markets Act as approved institutions which can hold deposits of a Home Ownership and Savings Plan (HOSP),
b) An exemption of stamp duty for the transfer of a house constructed under the affordable housing scheme,
c) Exemption from income tax of withdrawals from the National Housing Development Fund to purchase a house by a first time home owner and,
d) Exemption of the National Housing Development Fund from income Tax.

For developers:

e) Exemption of good supplied for the direct and exclusive use houses under the affordable housing scheme approved by the Cabinet Secretary for Finance from Value Added Tax (VAT),

Others:

f) Exemption of investee companies of a Real Estate Investment Trust (REIT) registered by the Commissioner of Domestic Taxes (the Commissioner) from income tax. For more information, see Cytonn Weekly#45/2019.

ii. President Uhuru Kenyatta assented the supplementary appropriation Bill 2019 paving way for the government to seek an Infrastructure bond to see to the completion of budgeted road works whose tenders have already been awarded thus facilitating completion of the projects within the stipulated timeframes,
iii. In August, The Physical and Land Use Planning Act, 2019 came into effect setting a new trajectory on matters planning and prescription of the most appropriate land use. These amendments include;
   a) Clear definitions of commercial and industrial use, and a schedule of developments that require development permission,
   b) Public participation in the preparation of a county physical and land use development plan,
   c) The requirement of development permission prior to being granted a license for the commercial or industrial use or occupation of any building, and
   d) Timelines with regard to commencement of a project after approval and completion of building works, set at three and five years, respectively. For more, see Cytonn Q3'2019 Markets Review, and
iv. During the year, the Central Bank of Kenya gazetted the Mortgage Refinancing Companies regulations, which are especially critical for the commencement of operations of the Kenya Mortgage Refinancing Company. For analysis, see Cytonn Weekly #34/2019, and the Kenya Mortgage Refinancing Company (KMRC) was established under the Companies Act and licensed by the CBK to provide long-term funding to primary mortgage lenders. For more information on the above see Cytonn Weekly #52.

VIII. Infrastructure Sector

According to Kenya National Bureau of Statistics Economic Survey 2019, government expenditure on roads decreased by 7.4%, to Kshs 104.8 bn in 2017/18, from Kshs 113.2 bn in 2016/17 following the realization of major projects such as the Phase 1 and 2A of the Standard Gauge Railway. Notable highlights from the sector included:

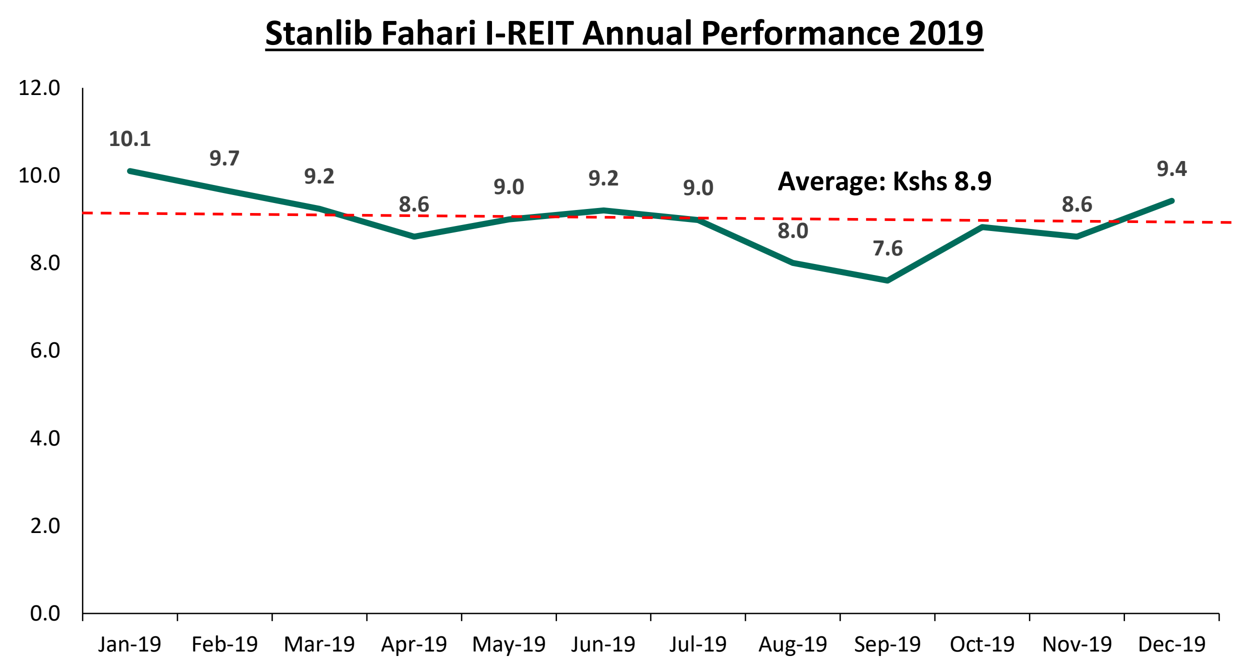
i. President Uhuru Kenyatta, launched Phase 2A of the Standard Gauge Railway (SGR) project, bringing to operationalization the rail between Nairobi and Suswa, Naivasha. For analysis, see Cytonn Weekly #42/2019,
i. Launching of the Jomo Kenyatta International Airport (JKIA) -Westlands Expressway, an 18.6-kilometer road project, which will start at JKIA and terminate at James Gichuru, along Waiyaki Way Road, in Westlands. For analysis, see Cytonn Weekly #42/2019,

ii. Completion of the newly constructed Outer Ring Interchange aimed at creating a seamless link to Thika Road, hence, easing traffic snarl ups on the two major roads. For analysis, see [Cytonn Weekly #47/2019,](Cytonn Weekly #47/2019)
iii. Unveiling of the Standard Gauge Railway Phase 2B which is set to connect Nakuru and Kisumu Counties,
iv. The launch of the construction of a 40-km 400kv power line which is set to power Konza City, as well as Kajiado, Makueni, and Machakos Counties. For analysis, see Cytonn Weekly #47/2019. and,
v. Construction of the 17.4 km Western Bypass by the China Road and Bridge Corporation commenced in April. The Kshs 17 bn project starts from Gitaru, linking to Southern Bypass and terminates at Ruaka, in Kiambu County.

With the Government of Kenya's economic transformation agenda, we expect to see more infrastructural projects being unveiled, which in turn will boost the real estate sector's performance and also lead to opening up of more areas for real estate development.

IX. Listed Real Estate

The Fahari I-REIT closed the year 2019 at a share price of Kshs 9.4, 6.9% lower than the year's opening price of Kshs 10.1. The REIT's value declined by 16.0% y/y trading at an average of Kshs 8.9 in 2019 in comparison to Kshs 10.6 in 2018. The poor performance is attributable to (i) opacity of the exact returns from the underlying assets, (ii) the negative sentiments currently engulfing the sector given the poor performance of Fahari and Fusion REIT (FRED), (iii) inadequate investor knowledge, and (iv) lack of institutional support for REITs. For more analysis, see our REITs Topical



Other highlights in Listed Real Estate during the year were:

i. ICEA Lion Asset Management, a Kenya based fund manager, signed an agreement to acquire Stanlib Kenya, a Kenya based fund manager as well, from South Africa based Liberty Holdings Ltd. For more, see Cytonn Weekly#45/2019
ii. In March, Stanlib Fahari I-REIT released their FY'2018 earnings, registering a 13.1% growth in earnings to Kshs 1.07 per unit from Kshs 0.95 per unit in FY'2017, attributable to a 10.9% growth in rental income to Kshs 309.8 mn from Kshs 279.4 mn in FY'2017. For a more comprehensive analysis on the REIT FY'2018 performance, see our Stanlib Fahari I-REIT Earnings Note - 2019,
iii. In April, Stanlib Fahari I-REIT announced plans to acquire more properties from pension firms and insurers who will be compensated in the form of units in the REIT. The proposed structure eliminates the need for the firm to raise large sums of new capital to buy more buildings, in addition to expanding the pool of income-generating buildings owned by the REIT and raising earnings for the expanded investor base,
iv. Nairobi Securities Exchange (NSE) admitted property development company, 'My Space Properties', under the Ibuka Incubator Programme, following successful vetting of the subject company. My Space Properties plans to officially list after the incubation, which will make it the second property developer to be listed in Kenya, after Home Afrika Limited, which went public on 15th July 2013, and,
v. In November 2019, the President assented the 2019 Finance Act, which exempted the income of REITs investee companies from income tax. Previously, only the income of REITs was exempt from corporation tax.

Our outlook for the REIT market remains negative due to the insufficient 3+market structures and poor market sentiment, however, attempts by key real estate industry players in the region such as East Africa Forum for Alternative Investments (EAFAI) and REITs Association of Kenya to improve the market sentiment on REITs and other alternative investments, government efforts to improve the regulatory structures and the need for capital by developers is expected to drive uptake of the REIT.

We expect the real estate sector performance to continue picking up in 2020 supported by increased infrastructural upgrades, vibrant tourism sector, increase in foreign investments, and the anticipated improvement in private sector credit growth. The sector's pockets of value remain in themes such as housing for lower-middle to low-income earners in Satellite Towns such as Ruiru, Athi River and Ruaka, and differentiated concepts that have continued to deliver above-market rental yields such as serviced offices and serviced apartments with 13.4% and 7.6%, respectively, as well as mixed-use developments where office and retail spaces recorded average rental yields of 7.9% and 8.1%, respectively, 0.4% points and 0.3% points higher than their respective market average of 7.5% and 7.8%.