Cytonn 2023 Markets Outlook Note - Real Estate

Executive Summary:

Residential sector: Our outlook for the Nairobi Metropolitan Area (NMA) residential sector is **NEUTRAL**. We expect the demand for housing to grow, boosted by infrastructural development and positive demographics in the country as the government and private sector continue focusing on affordable housing. However, the rising construction costs amid elevated inflationary pressures and low penetration of mortgages are expected to hamper optimum performance of the sector. For detached units, investment opportunity lies in areas such as Ruiru, Juja, and Ngong, while for apartments, investment opportunity lies in Ruaka, Waiyaki Way, and Ruiru, as the areas offer more attractive returns in terms of rental yield and capital appreciation;

Commercial Office Sector: Our overall outlook for the NMA commercial office sector is **NEUTRAL**. We expect sector performance to slightly improve attributable to: i) gaining traction in co-working spaces, ii) slow but rising expansion in the sector, and, iii) reduced developments in the pipeline which we expect will help curb the oversupply challenge by allowing room for the absorption of available and fewer incoming spaces. We expect that this will boost occupancy rates and asking rents thereby improving average rental yields. However, the existing oversupply of office spaces at 6.7 mn SQFT in the NMA is expected to weigh down optimum performance of the sector by crippling the overall demand for physical space. Investment opportunity lies in Gigiri, Westlands and Karen supported by relatively high returns with yields of 8.7%, 8.3% and 8.3% respectively, compared to the market average of 7.3%, as at FY'2022 as a result of; i) high concentration of top-notch office spaces fetching premium rental rates and attractive yields for investors, ii) availability of adequate infrastructure and amenities in the areas enhancing investments, and, iii) presence of international organizations, multinational companies and embassies within the areas which drive up demand for quality offices;

Retail Sector: We have a **NEUTRAL** outlook on the retail sector's performance which is expected to be driven by the continuous aggressive expansion by both local and foreign retailers taking up new and existing spaces, continuous developments of public infrastructure of roads and railway projects boosting accessibility in new areas for investments, and positive demographics facilitating increasing demand. However, the slow growth in the sector is expected to be facilitated by some negative factors such as; i) oversupply of retail space approximately at 3.0 mn SQFT in NMA and the rest of the Kenyan retail sector totaling to approximately 1.7 mn SQFT, ii) growing adoption of e-commerce by most retailers which continues to undermine occupier demand, and, iii) limited access to financing for developments, expansion and improvement in operations towards technological levels to enhance retailers' efficiency by small and medium-sized enterprises. Investment opportunities lies on Kilimani, Karen, and Westlands Relatively higher returns of 9.8%, 9.4%, and 8.7% respectively, compared to the market average of 7.9%, attributed to presence of high quality retail spaces fetching the high rents, coupled with the availability of quality infrastructure services;

Hospitality Sector: We have a **NEUTRAL** outlook for the sector as we expect the sector to continue registering improved performance moving forward in terms of overall hotels in operations, hotel bookings, and hotel occupancies. However, we anticipate factors such as; i) the recently issued travel advisory by the United Kingdom government through its Foreign and Commonwealth Office (FCO) on 20th December 2022, to have a negative impact on international arrivals, considering the UK is among top five tourist markets for Kenya, ii) the government's directive to indefinitely suspend hotel meetings, conferences and trainings, iii) difficulty in accessing finance as lenders demand more collateral to cushion themselves owing to elevated credit risk, iv) projected decline in the volumes of mergers and acquisitions within the hospitality industry due to increased associated costs, attributable to the increase in capital gains tax, v) existing inflationary pressures which have increased the cost of operations on the back of a depreciating currency, and, vi) the possible threat of a new wave of the COVID-19 pandemic to weigh down the optimum performance of the sector in 2023. The investment opportunity lies in Westlands, Kilimani and Kileleshwa/Lavington which recorded average rental yields of 9.3%, 7.2% and 6.6%, respectively against a market average of 6.2% in 2022. This attributed to proximity to the CBD, presence of high quality serviced apartments which attract premium rates, accessibility, and proximity to international organization offered by the apartments, all of which drive the demand for serviced apartments in the nodes;

Land Sector: We retain a **POSITIVE** outlook for the Nairobi Metropolitan Area land sector which continues to establish itself as a reliable investment opportunity, displaying great resilience even during times of economic hardship in the COVID-19 period, and a depreciating Kenyan currency. We anticipate that a number of factors will contribute to the sector's positive performance in 2023, including; i) a greater emphasis on Affordable Housing projects and private projects, ii) tax policies such as increased property rates in some counties which might provoke landowners and landlords to demand higher land prices and rents, in efforts to recover additional costs incurred from higher rates set to be charged, iii) positive population demographics, and, iv) rapid growth of satellite towns amid increased delivery of infrastructural developments which are improving accessibility, property prices and demand in the regions. The investment opportunity lies satellite towns; Juja, Utawala and Limuru for unserviced land, which recorded annualized capital appreciations of 16.6%, 14.8% and 13.4%, respectively, in FY'2022 compared to the market average of 11.1%. For serviced land, investment opportunity lies in Syokimau and Ruiru-Juja which recorded the highest annualized capital appreciations at 19.2% and 13.0%, respectively against the serviced average of 8.0%;

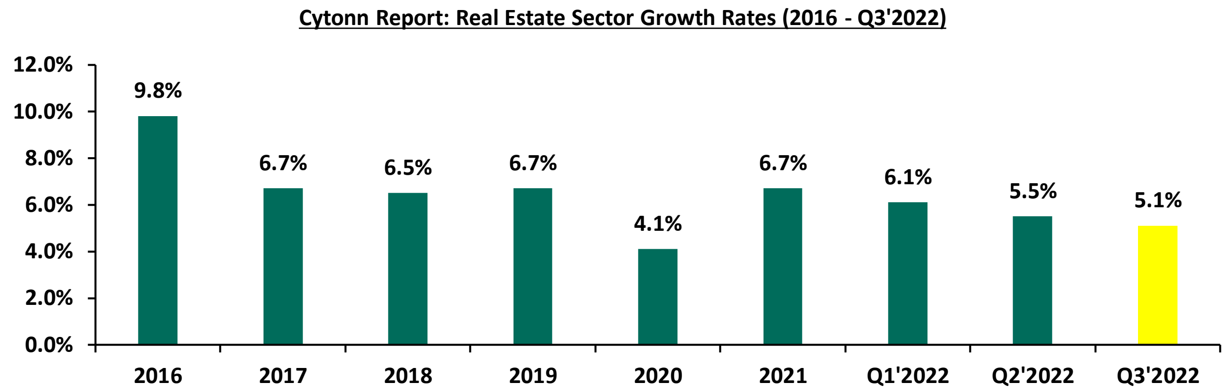
Infrastructure Sector: We have a **NEUTRAL** outlook for the infrastructure sector as we expect to continue seeing the launching, execution, and completion of more infrastructural developments in 2023 mainly supported by the government's aggressiveness to; i) initiate and implement projects, ii) increase its diplomacy and partnerships in development among neighbouring nations, and, iii) step up on competition for attracting regional and international investors against other countries in Eastern Africa like Tanzania through railway connections and ports infrastructure. However, according to the Draft 2023 Budget Policy Statement, the government's Infrastructure, Energy, and ICT allocations for the FY'2023/2024 are forecast to be Kshs 398.2 bn, representing a 4.4% decline from the Kshs 416.4 bn in FY'2022/2023. The decrease in spending will affect the government's ability to fund new infrastructure projects;

Listed Real Estate: We retain a **NEGATIVE** outlook for the REIT with some of the factors that will continue to hinder the optimal performance of the sector market include; i) inadequate investor knowledge of the instrument, ii) lengthy registration, licensing, and approval process, iii) high Minimum Investment Amounts Set at Kshs 5.0 mn, iv) insufficient Investment Knowledge and Awareness of the REITs Market, v) subdued performance in some Real Estate sectors with oversupply of spaces in Commercial Office Sector at 7.3 mn SQFT and Retail Sector at 3.0 mn SQFT in the NMA, vi) high minimum capital requirements for a trustee of Kshs 100.0 mn, and, vii) adverse conflicts of interests with trustees. Moving forward, with the admission of Vuka platform and LapTrust Imara I-REIT in the market, we expect the Capital Markets Authority to further streamline the capital markets framework and incorporate proposed policies and regulations suggested by stakeholders in the sector in 2022. This is to ensure eased operations of existing institutions, attract more local and foreign REIT institutions, and increase opportunities for more investors to play active roles in the sector;

Real Estate:

In 2022, the general Real Estate sector witnessed considerable growth in activity in terms of property transactions and development activities. Property selling and rental prices also continued to soar, driven by continued inflationary pressures on the back of supply chain disruptions, and a weakened shilling against the United States dollar that saw a rise in costs of construction materials. Consequently, the Real Estate Sector in Q3'2022 grew by 5.1%, 2.0% points slower than the 7.1% growth recorded in Q3'2021 when the economy was recovering from the impacts of COVID-19 pandemic, according to the Quarterly GDP Report Q3'2022 by the Kenya National Bureau of Statistics' (KNBS).

The graph below shows Real Estate sector growth rates from 2016 to Q3’2022;



Source: Kenya National Bureau of Statistics (KNBS)

In terms of performance in the Nairobi Metropolitan Area (NMA), the Residential, Commercial Office, Retail, Hospitality, and Mixed-Use Development sectors realized average rental yields of 5.1%, 7.6%, 7.9%, 6.2%, and 7.4%, respectively in FY’2022. This resulted to an overall rental yield of 6.8%, 0.3% points higher than the 6.5% recorded in FY’2021. The table below is a summary of thematic performance of average rental yields in FY’2022 compared to FY’2021;

Cytonn Report: Real Estate Thematic Average Rental Yields Y/Y Summary			
Theme	**Rental Yield FY’2021**	**Rental Yield FY’2022**	**Y/Y Change**
Residential	4.8%	5.1%	**0.3%**
Commercial Office	7.1%	7.6%	**0.5%**
Retail	7.8%	7.9%	**0.1%**
Hospitality	5.5%	6.2%	**0.7%**
Mixed-use Developments (MUDs)	7.2%	7.4%	**0.2%**
Grand Average	**6.5%**	**6.8%**	**0.4%**

Source: Cytonn Research

We had a **NEUTRAL** outlook for the Real Estate sector in 2022 supported by factors such as; i) continued launch and implementation of various infrastructure projects, ii) aggressive expansion efforts by retailers, iii) focus by the government and private sector to provide affordable housing, iv) provision of long-term, low-interest home loans to potential buyers by the Kenya Mortgage Refinance Company (KMRC), v) increased mergers and acquisitions in the hospitality sector, and, vi) positive demographics promoting demand for Real Estate developments. However, factors such as; i) prevailing inflationary pressure from local and external shocks, ii) limited credit access partly due to the rising non-performing loans in the property sector, iii) low absorption of physical space due to the continued oversupply in the commercial office and retail sectors, iv) uncoordinated land use due to lack of proper urban planning, and, v) subdued growth of the Real Estate Investment Trusts (REITs) market continued to impede the optimal performance of the sector. For a detailed review of the sector’s performance during 2022, see our Cytonn Annual Markets Review - 2022.

In 2023, we expect the **key drivers** of Real Estate to be as follows:

i. **Infrastructural development:** The government has continued to launch and implement various infrastructure projects, with an aim of improving the country’s economic status, as well as positioning Kenya as a regional hub. This is expected to enhance performance of the sector by opening up areas for Real Estate development,

ii. **Affordable housing initiative:** There has been an ongoing focus by the government and private sector to provide decent housing to Kenyans through the Affordable Housing Program (AHP). Currently, the AHP pipeline boasts about 30 affordable housing projects, with an estimated target of 200,000 units to be delivered per year,

iii. **Focus on mortgage financing:** The Kenya Mortgage Refinance Company (KMRC) has continued to advance its efforts to make home ownership more accessible to Kenyans by providing long-term, low-interest home loans to potential home buyers. To source funding, KMRC issued the first tranche of its Kshs 10.5 bn Medium Term Note (MTN) in February 2022, aiming to raise Kshs 1.4 bn, which recorded an oversubscription of 478.6%. This was attributable to the attractive returns offered by the bond of 12.5%, receiving bids worth Kshs 8.1 bn, of which KMRC only accepted bids worth Kshs 1.4. bn. The company intends to issue the subsequent tranches over the years, so as to expand its lending to Kenyan home buyers, which stood at Kshs 1.3 bn in 2021,

iv. **Recovery of the hospitality sector:** The hospitality sector has seen various mergers and acquisitions, signifying investor appetite and confidence in a bid to gain market dominance coupled by the recovery of the sector away from the pandemic lockdowns. Driven by the sector's gradual recovery away from the slowdown that was caused by pandemic lockdowns and travel restrictions, these expansionary efforts will continue to boost the performance of the sector,

v. **Aggressive expansion in the retail sector:** The sector has seen rapid expansion efforts by both local and international retailers such as Naivas, Carrefour and Quickmart, among others, in a bid to increase their share of the market and ensure dominance, as Kenya's formal retail penetration stands at approximately 30.0% according to the Nielsen Report, and,

vi. **Positive demographics:** Kenya has relatively high urbanization and population growth rates averaging 3.7% and 1.9% compared to the global averages of 1.6% and 0.9%, respectively, according to the World Bank as of 2021. This will continue to provide sustained demand for more housing units in the country.

Despite the above drivers, the sector is expected to be constrained by the following factors in 2023:

i. **Increasing construction costs:** Rising construction costs as a result of prolonged inflationary pressure and supply chain shortages continue to hamper optimum development activities in the Real Estate sector. Consequently, the consumption of cement declined by 14.7% to 2.2 mn metric tonnes in Q3'2022, from 2.6 mn metric tonnes realized in Q3'2021,

ii. **Constrained financing to developers:** Lenders continue to tighten their lending requirements and demand more collateral from developers as a result of the high credit risk in the real estate sector. This is evidenced by a 9.2% increase in gross non-performing loans in the sector to Kshs 75.6 bn in Q3'2022 from Kshs 69.2 bn recorded during the same period in 2021,

iii. **Underdeveloped capital markets**: It is difficult to develop pools of capital focused on projects, particularly in the private markets, to supplement government efforts in providing housing. Banks in Kenya are the primary source of funding for real estate developers, providing nearly 99.0% of funding as opposed to 40.0% in developed countries. This means that capital markets contribute only 0.1% of Real Estate development funding, compared to 60.0% in developed countries**,**

iv. **Uncoordinated development:** In many urban areas, a lack of urban planning has resulted in uncoordinated land use, with the proliferation of large, sprawling developments that are not connected to public transportation, water supply, and other services,

v. **Oversupply in select sectors:** The existing oversupply of physical space in select sectors, with approximately 6.7 mn SQFT in the NMA commercial office market, approximately 3.0 mn SQFT in the NMA retail market, with the rest of the Kenyan retail market having an oversupply of approximately 1.7 mn SQFT, continues to be a challenge for the Real Estate sector in the respective themes, and,

vi. **Subpar performance of listed Real Estate:** With just one REIT listed on the Nairobi Securities Exchange (NSE), the Kenyan REITs market has remained subdued. This is largely as a 'result of the large minimum capital requirements, prolonged approval process, scant investor knowledge, and only a few entities capable of incorporating REITs.

The table below summarizes our outlook on the various Real Estate themes and the possible impact on the business environment in 2023;

Thematic Performance Review and Outlook

Cytonn Report: Thematic Performance Review and Outlook			
Theme	**2022 Performance**	**2023 Outlook**	**Effect**
Residential Sector	• The NMA residential sector recorded improvement in performance in 2022 with the average total return to investors coming at 6.2%, a 0.1%-points increase from the 6.1% recorded in 2021, attributable to average rental yield of 5.1% and y/y appreciation of 1.1% in 2022 • Rental yields recorded an increase by 0.5% points to 4.7% in 2022 from the 4.3% recorded in 2021, majorly driven by increase in selling and rental prices to Kshs 137,970 and Kshs 549, respectively, from Kshs 136,031 and Kshs 505, respectively in 2021	• The demand for housing is expected to continue growing on the back of Kenya's attractive demographic profile. In addition, continued infrastructural development, the ongoing focus by the government and private sector to provide housing, and, the drive by the KMRC to avail affordable mortgage facilities to potential home buyers are expected to cushion the performance of the residential sector • However, we expect the prevailing inflationary pressures coupled with a weakened shilling, high construction costs, and the low penetration of mortgages in the country to continue impeding the performance of the sector • For detached units, investment opportunity lies in areas such as Ruiru, Juja, and Ngong, while for apartments, investment opportunity lies in Ruaka, Waiyaki Way, and Ruiru due to their remarkable returns driven by relatively high returns to investors	**Neutral**
Commercial Office Sector	• In FY'2022, the commercial office sector recorded an improvement with the general average rental yield coming in at 7.6% from 7.3% recorded in FY'2021, due to improved occupancy and rental rates of 1.8% and 2.1% respectively • The improvement in performance was mainly driven by increased supply of Grade A offices fetching higher rents such as Karen Green and Global Trade Centre (GTC) Office Tower, coupled with a slow but rising demand for physical space on the back of various firms such as Call Centre International (CCI) Group and Nairobi Garage expansion strategies and most businesses resuming full operations hence boosting occupancy rates	• We expect the yields to realize a slight improvement of 0.1% points attributed to the expected improvements in the overall occupancies and rental rates respectively, towards pre pandemic era levels. This we expect will be facilitated by i) gaining traction in co-working spaces, ii) slow but rising expansion in the sector, and, iii) reduced developments in the pipeline which we expect will help curb the oversupply challenge by allowing room for the absorption of available and fewer incoming spaces • Key to note, we expect yields increase in 2023 to be lower at 0.1% points compared to the 0.3% points increase realized in both 2021 and 2022, on the back of the sector recovering from COVID-19 disruptions during this period • However, we expect the overall performance to be subdued by the existing oversupply of office space in the NMA at 6.7 mn SQFT thereby crippling the overall demand for physical space • Investment opportunity lies in Gigiri, Westlands, and Karen which continue to record high returns at 8.6%, 8.1%, and, 7.7%, respectively, compared to the market average of 7.3%	**Neutral**
Retail Sector	• The sector recorded a 0.1% points increase in average rental yields to 7.9%, from 7.8% in 2020. Average rents and occupancies also increased by 2.4% and 0.8% points to Kshs 174 per SQFT and 76.8%, respectively • The improved performance was due to; i) an increased presence of quality retail spaces which attract high rents such as the Global Trade Centre (GTC) in Westlands, ii) aggressive expansion by local and international retailers, iii) increased infrastructure developments promoting	• We expect a slight increase in rental yields by 0.1% points as a result of increased rental charges of retail spaces and demand for existing supply amid the aggressive expansion by retailers taking up new and previously occupied spaces, infrastructure developments opening areas for investments, and positive demographics. However, oversupply of physical space, increased adoption of e-commerce, tougher economic environment for businesses, and presence of informal retail	**Neutral**

	accessibility to retail centres, and, iv) positive demographics facilitating demand for spaces, goods and services	spaces are expected to undermine the performance of the sector in turn affecting rental yields of the sector • Investment opportunity lies in areas such as Westlands, Karen and Kilimani which continue to record impressive returns. This is in addition to the undersupplied regions of the country such as Mount Kenya, western and the Coast	
Hospitality Sector	• In 2022, serviced apartments' year on year (y/y) performance improved, with occupancy rates increasing by 4.3% points to 65.8%, from 61.5% recorded in 2021. Monthly charges per SQM increased by 6.6% to Kshs 2,716 in 2022, from Kshs 2,549 recorded in 2021. Additionally, average rental yields increased by 0.7% points to 6.2% in 2022, from 5.5% recorded in 2021 • The sector's overall performance improved attributable to increasing number of hotels in operation, hotel bookings and bed occupancies during the year, in addition to aggressive local and international marketing of Kenya's tourism industry	• We expect the sector to be on an upward trajectory in following the ambitious international marketing of Kenya to key tourism markets, positive accolades, sustained sector recovery, anticipated increase in international arrivals, mass vaccinations, increased promotion of local tourism and improved security. However, newly issued travel advisory by the UK government, government's directive to indefinitely suspend hotel meetings, conferences and trainings, financing difficulties, projected reduced investments within the hospitality industry due to increased associated costs attributable to the increase in capital gains tax and existing inflationary pressures on the back of a depreciating currency to weigh down sector performance • Investment opportunity lies in Westlands, Kilimani and Kileleshwa/Lavington which recorded average rental yields of 9.3%, 7.2% and 6.6%, respectively against a market average of 6.2% in 2022. This attributed to proximity to the CBD, presence of high quality serviced apartments which attract premium rates, accessibility, and proximity to international organization which drive the demand for serviced apartments in the nodes	**Neutral**
Land Sector	• The Nairobi Metropolitan Area (NMA) land sector recorded an average annualized capital appreciation of 4.3% in FY'2022 • The overall asking prices for unserviced and serviced land in the satellite towns of the NMA recorded the highest average capital appreciations of 11.1% and 8.0%, which came in 6.8% and 3.7% points higher than the market average of 4.3% respectively • This was mainly attributed to an increased demand resulting from their affordability, having recorded average selling prices per acre at Kshs 16.5 mn, compared to the market average of Kshs 131.0 mn in FY'2022, and increased infrastructure developments enhancing accessibility to these areas	• In 2023, we expect the performance of the sector to remain positive, with an expected annual capital appreciation of 3.2%, supported by; i) the completion of major infrastructure projects, ii) rising demand for development land in satellite towns, iii) increasing demand for land on the back of Kenya's positive demographics, and, iv) tax policies such as increased property rates in some counties which might provoke landowners and landlords to demand higher land prices and rents, in efforts to recover additional costs incurred from higher rates set to be charged. • However, it is worth noting that various factors may impede optimum performance of the sector in 2023 including; i) increased Capital Gains Tax (CGT), ii) relatively high land costs in certain areas such as the NMA commercial zones, and, iii) lengthy land transaction processes discouraging investments • The investment opportunity lies satellite towns; Juja, Utawala and Limuru for unserviced land, which recorded annualized capital appreciations of 16.6%, 14.8% and 13.4%, respectively, in FY'2022 compared to the market average of 11.1%. For serviced land, investment opportunity lies in Syokimau and Ruiru-Juja which recorded the highest annualized capital appreciations at 19.2% and 13.0%, respectively against the serviced average of 8.0%	**Positive**
Infrastructure Sector	• The government continued to make considerable efforts in advancing infrastructural developments across the country amid focus on achieving the Vision 2030 and Big Four Agenda • However, there was a slight slowdown in the completion and commissioning of projects on the back of the • recently concluded election season, and change of government regime	• In 2023, we expect to continue seeing the launching, execution, and completion of more infrastructural developments mainly supported by the government's aggressiveness to; i) initiate and implement projects, ii) increase its diplomacy and partnerships in development among neighbouring nations, and, iii) step up on competition for attracting regional and international investors against other countries in Eastern Africa like Tanzania through railway connections and ports infrastructure	**Neutral**

	• In FY'2021/2022, the sector was allocated Kshs 182.5 bn, 0.61% higher than the 181.4 bn allocated in the 2020/2021 budget • Some of the key projects implemented in 2021 included; Dualling of Eastern, Western, and Northern Bypasses, and the Nairobi Express Way	• Some of the projects in the pipeline such as; LAPPSET project, Standard Gauge Railway Phase 2b (Navaisha-Kisumu line), Konza Technology City, Phase 3 and 4 of Kenol-Marua Road, Lamu-Garissa Road, Dongo-Kundu Special Economic Zone • However, according to the Draft 2023 Budget Policy Statement, the government's Infrastructure, Energy, and ICT allocations for the FY'2023/2024 are forecast to be Kshs 398.2 bn, representing a 4.4% decline from the Kshs 416.4 bn in FY'2022/2023. The decrease in spending will affect the government's ability to fund new infrastructure projects • Upon completion, the projects are expected to open up more areas for penetration of Real estate investments across all select sub-sectors, tapping into new opportunities and demand for properties, goods and services	
Listed Real Estate	• The Fahari I-REIT continued to underperform closing the year 2022 at Kshs 6.5 per share, representing a 67.4% decline on an Inception-to-Date (ITD) basis from its initial price of Kshs 20.0. The instrument traded at an average of Kshs 6.4 per share in 2022 compared to Kshs 6.5 per share in 2021 • The underperformance in the REIT market was 2 attributable to; i) oversupply in some Real Estate sectors such as commercial office and retail sectors, ii) general lack of knowledge and interest in the REITs, iii) high minimum investment amounts set at Kshs 5.0 mn • In the Unquoted Securities Platform, Acorn D-REIT and I-REIT closed the year 2022 trading at Kshs 23.8 and Kshs 20.9 per unit, respectively. The performance represented a 19.2% and 4.4% gain for the D-REIT and I-REIT, respectively, from the Kshs 20.0 inception price. The volumes traded for the D-REIT and I-REIT came in at 5.5 mn and 15.5 mn shares, respectively, with a turnover of Kshs 117.0 mn and Kshs 320.7 mn, respectively, since inception in February 2021	• The Acorn D-REIT and I-REIT opened the year 2023 trading at Kshs 23.9 and Kshs 20.9 per unit, respectively. Having opened the year with a trading price of Kshs 6.8 per share, we expect the Fahari I-REIT to continue trading at low prices due to various challenges such as general lack of knowledge and interest in the REITs market, only few entities capable of incorporating REITs, high capital requirements for Trustees, protracted processes required in order to establish REITs, and, high minimum investment amounts set at Kshs 5.0 mn • Moving forward, with the admission of Vuka platform and LapTrust Imara I-REIT in the market, we expect the Capital Markets Authority to further streamline the capital markets framework and incorporate proposed policies and regulations suggested by stakeholders in the sector in 2022	**Negative**

With 1 theme having a positive outlook, 5 neutral and 1 being negative, the general outlook for the sector therefore is NEUTRAL. The sector's performance will be supported by; i) infrastructural development, ii) government and private sector focus on affordable housing, iii) focus on mortgage financing through the KMRC, iv) improved investor confidence amid recovery of the hospitality sector, v) aggressive expansion by both local and international retailers in a bid to maintain market dominance, and, vi) Kenya's positive demographics driving housing demand. However, factors such as increased construction costs on the back of inflation, constrained financing to developers with increased underdeveloped capital markets, oversupply in select sectors and low of investor appetite in Real Estate Investments Trusts (REITs) are expected to continue impeding performance of the sector.

I. Residential Sector

Following a modest economic environment in 2022, we expect the sector to continue improving owing to capital appreciation, which led to a 0.1% points increase in returns to 6.2% in 2022, from 6.1% in recorded in 2021. During 2023, we expect the Kenyan market to continue its focus on affordable housing and completion of ongoing infrastructural developments. This is expected to open up areas for investment and help boost property prices, especially in locations with good accessibility, availability of key amenities such as shopping facilities and schools, and well as availability of affordable land for development. Low purchasing power is likely to lead to slow uptake and reduced occupancy rates in some markets which may limit significant changes in house prices and rental yields.

The table below summarizes the various factors that will affect the **demand side** of residential real estate;

Demand Side

Of the five factors we track, two are positive, one is negative, and two are neutral, thus our outlook for residential demand this year is NEUTRAL.

Cytonn Report: Residential Demand Outlook		
Metric	**2023 Outlook**	**Effect**
Demographics	• Kenya has relatively high urbanization and population growth rates averaging 3.7% and 1.9% compared to the global averages of 1.6% and 0.9%, respectively, according to the World Bank as of 2021. This will continue to provide sustained demand for more housing units in the country.	**Positive**
Infrastructure	• In 2023, we expect to see completion of various infrastructural activities thus opening up areas for investment, with the government having set aside Kshs 416.4 bn in FY'2022/23 for infrastructural development, an 8.6% increase from Kshs 383.3 bn allocation in FY'2021/22 according to the FY'2022/23 Budget Statement. With the ongoing construction of the Lamu Port-South Sudan-Ethiopia-Transport Corridor, Navaisha-Kisumu Standard Gauge Railway, Kenol-Marua Highway, Lamu-Garissa Highway, Dongo-Kundu Bypass, Eldoret Southern Bypass, Nairobi Railway Commuter Transport System, and Ngong-Suswa Highway, we expect increased investments thereby boosting residential sector activity	**Positive**
Investor Returns	• In 2022, the residential sector recorded an improvement in investor returns to 6.2%, from 6.1% in 2021 owing to increased selling prices and rents which came in at Kshs 119,609 and Kshs 540, respectively, from Kshs 119,494 and Kshs 508, respectively, recorded in 2021 • We expect investors to focus on lower satellite towns which offer relatively affordable land and relatively high total returns for detached houses, which came in at 6.0% in 2022, 0.2% points higher than the detached market average of 5.8%. Apartments in satellite towns recorded an average return of 6.9%, 0.7% points higher than the apartments market average of 6.2%	**Neutral**
Purchasing Power	• The reduced purchasing power among buyers amid the tough economic environment brought about by inflationary pressures on the back of a weakened shilling against the dollar is expected to further hamper the purchasing power of buyers. This is as prices of essential items continue to soar, thereby leading to slow uptakes of residential units consequently affecting the residential performance. However, we expect the growing middle class to pivot demand for residential units	**Negative**
Access to Credit	• The provision of affordable mortgage loans through Kenya Mortgage Refinance Company (KMRC), is expected to drive growth of the local mortgage market and increase home ownership • The approval of bond programs by the capital markets, such as the KMRC's Medium Term Note (MTN) program which aimed to raise a total of Kshs 1.4 bn in the first tranche, and received bids worth Kshs 8.1 bn, recording an oversubscription of 478.6% is expected to boost the sector • However, it is not clear to the public how KMRC will sustain the lower borrowing rates once it exhausts the funding that was contributed by the original shareholders. A 20-year government bond currently costs about 14.0% whereas KMRC's last corporate bond raised in the market cost 12.5% in 2022, hence deeming clarity on how KMRC can sustainably fund mortgages at 9.0% with its cost of capital at 12.5%	**Neutral**

Supply Side

The table below summarizes the various factors that will influence the **supply side** of residential Real Estate in 2023. Of the five factors that we expect to shape residential supply, one is negative, two are neutral, and two are positive, and thus, our outlook is NEUTRAL.

Cytonn Report: Residential Supply Outlook

Metric	2023 Outlook	Effect
Developer Returns	• In 2022, the residential market recorded a 0.1% marginal drop in uptake averaging 14.7% from 16.2% in 2021, and a capital appreciation of 1.1%. Average occupancy rate declined to 86.7% in 2022 from 86.9% recorded in 2021, while the average rental yields recorded a 0.3% marginal increase from 4.8% recorded in 2021 to 5.1% realized in 2022 • We also note that the satellite town submarkets recorded relatively high returns of up to 6.9%. Developers in 2023 are likely to invest in satellite towns that offer relatively high returns. However, they may exercise a conservative approach in 2023 due to increasing construction costs	**Neutral**
Access to Financing	• Developers face difficulty in the access of funding owing to Kenya's under developed capital markets given that there exists only one listed REIT in the country since inception of the investment regime in 2013. Due to this, most property developers rely on conventional sources of funding such as banks which make up 99.0%, compared to other developed countries at 60.0% • Given that bank lending rates continue rising, we expect developers in 2023 going forward to look towards alternative financing options such as off-plan development pre-sales, equity financing, Public-Private Partnerships (PPPs). These will supplement to solutions such as the National Housing Development Fund (NHDF) in a bid to answer the government's call to reduce the housing deficit though affordable housing	**Neutral**
Development Costs	• Rising cost of construction costs to developers on the back of inflationary pressure are expected to further subdue optimum construction activities in 2023. The Construction Sector grew by 4.3% in the third quarter of 2022, 2.4% points lower than the 6.7% growth recorded in Q3'2021. The performance was also a 1.5% points q/q decline, from the 5.8% growth recorded in Q2'2022. The trend is expected to continue in 2023 thereby subduing the residential sector	**Negative**
Infrastructure	• According to the Draft 2023 Budget Policy Statement, the government's infrastructure, energy, and ICT allocations for the FY'2023/2024 are forecast to be Kshs 398.2 bn, representing a 4.4% decrease from the FY'2022/2023. This reduction in spending is a result of the current government placing importance on finishing already stalled projects from the previous administration and being reluctant to start costly new initiatives. The decline in government spending may reduce construction of new roads, bridges, and other support services that are essential for the development of housing, thereby subduing the sector. However, we expect alternative solutions such as PPPs to allow the implementation of infrastructural projects thereby driving the sector	**Positive**
Government Incentives	• The government has made efforts to increase the supply of housing which is currently curtailed by a deficit of 2.0mn units. These include; i) availing land to county governments for the construction of affordable housing units, ii) exemption of VAT on importation and local purchase of goods for the construction of houses under the affordable housing scheme, iii) lower corporate tax rate to 15.0% for developers of over 100 units, iv) exemption from 4.0% (urban areas) and 2.0% (rural areas) stamp duty for first time buyers of houses under the affordable housing scheme, and, vi) tax relief of 15.0% of savings to drive contributions towards home ownership. These are expected to cushion the state incentive to provide affordable housing to Kenyans	**Positive**

Our outlook for the residential sector remains NEUTRAL. On the supply side, our outlook is neutral, as we expect the government and private sector's focus on affordable housing and improvement of infrastructure is expected to support supply of residential units especially in the lower mid-end segment which is undersupplied. On the demand side, our outlook is neutral, due to the expected tough economic environment with reduced consumer spending. Investment opportunities lie in areas that continue to exhibit growing demand from homebuyers such as satellite towns offering investors attractive returns and relatively high uptake rates.

II. Commercial Office Sector

In FY'2022, the commercial office sector recorded an improvement with the general average rental yield coming in at 7.6% from 7.3% recorded in FY'2021, due to improved occupancy and rental rates of 1.8% and 2.1% respectively. In 2023, owing to reduced developments in the pipeline, coupled with the slow but rising expansion in the sector attributable to most businesses resuming the work from home initiative or adopting the hybrid work policy, we expect that this will help curb the oversupply challenge by allowing room for the absorption of available and fewer incoming spaces. This we expect will boost occupancy rates and asking rents thereby improving average rental yields. However, the performance is expected to be weighed down by existing oversupply of office spaces at 6.7 mn SQFT in the NMA thereby crippling the overall demand for physical spaces. As such we expect the overall rental yields for the office sector in FY'2023 to slightly improve by 0.1% points to 7.7% from 7.6% recorded in FY'2021. The average rent, prices and occupancies are projected to be Kshs 98 per SQFT, Kshs 12,194 per SQFT and 80.3%, respectively, in FY'2023, from Kshs 96 per SQFT, Kshs 12,223 per SQFT and 79.4% in average rent, average prices and occupancy levels recorded in 2022, respectively. Additionally, we expect the Commercial Office Sector yields increase in 2023 to be lower at 0.1% compared to the 0.3% increase realized in both 2021 and 2022, on the back of the sector rebounding from COVID-19 disruptions during this period. Furthermore, based on the current tough micro-economic conditions being experienced, coupled with an existing oversupply, room for growth remains minimal.

The table below summarizes the commercial office performance from 2016 to 2022 and our forecast for 2023;

Cytonn Report: Summary of Commercial Office Returns in Nairobi Metropolitan Area (NMA) Over Time

Year	FY'16	FY'17	FY'18	FY'19	FY'20	FY'21	FY'22	Forecasted Annualized Change	2023F	Reason for Forecast	Outlook
Occupancy (%)	88.0%	82.6%	83.3%	80.2%	77.7%	77.6%	79.4%	**0.9% points**	**80.3%**	We expect the occupancy rates to improve slightly by 0.9% points mainly attributed to resumption of working from office policies by most companies and reduced developments expected to enter the market in 2023. This we expect will boost absorption rates, potentially increasing occupancy rates	**Positive**
Asking Rents (Kshs/Sqft)	103	101	101	96	93	94	96	**1.6%**	**98**	We forecast a 2.1% increase in asking rents in FY'2023 owing to an expected increased supply of prime offices fetching higher rents such as the CCI HQ in Tatu City scheduled to enter the market in Q4'2023, among other spaces such as GTC and Karen Green	**Positive**
Average Prices (Kshs/Sqft)	13,003	12,649	12,573	12,638	12,280	12,106	12,223	**(0.2%)**	**12,194**	Asking prices are expected to realize a 0.2% decline as a result of the gaining traction in co-working spaces which offer an alternative to buying office space, flexibility and cost effectiveness. Furthermore, forecasted prolonged tough economic conditions such as rising inflation may negatively affect demand for office space as businesses may decide to downsize in order to cut costs	**Negative**
Average Rental Yields (%)	8.4%	7.9%	8.1%	7.5%	7.0%	7.3%	7.6%	**0.1% Points**	**7.7%**	We expect the yields to realize a slight improvement of 0.1% points attributed to the expected improvements in the overall occupancies and rental rates	**Positive**

Source: Cytonn Research

From the above, our overall outlook for the NMA commercial office sector is NEUTRAL. We expect sector performance to slightly improve attributable to: i) gaining traction in co-working spaces, ii) slow but rising expansion in the sector, and, iii) reduced developments in the pipeline which we expect will help curb the

oversupply challenge by allowing room for the absorption of available and fewer incoming spaces. We expect that this will boost occupancy rates and asking rents thereby improving average rental yields. However, the existing oversupply of office spaces at 6.7 mn SQFT in the NMA is expected to weigh down optimum performance of the sector by crippling the overall demand for physical space.

III. Retail Sector

The Nairobi Metropolitan Area (NMA) Retail Real Estate sector realized a positive improvement in its overall performance in FY'2022, with the average rental yields coming in at 7.9%, 0.1% points higher than the 7.8% recorded in FY'2021. This was attributable to a 0.8% points increase in the average occupancy rates which came in at 77.6%, from 76.8% recorded in FY'2021. The average asking rents also increased by 2.4% to Kshs 174 in FY'2022 from Kshs 170 recorded in FY'2021, driven by an increased presence of quality retail spaces which attract high rents such as the Global Trade Centre (GTC) in Westlands.

We expect the retail sector to continue recording growth and expansion activities in 2023, attributed to:

i. Aggressive expansion by local and international retailers such as Naivas, Carrefour, Chicken Inn Artcaffe, Kentucky Fried Chicken, Java, QuickMart, and many more, and continually taking up new and previously occupied spaces by troubled retailers such as Uchumi, Tuskys, and Nakumatt retail chains. The aggressive nature of expansion is also accelerated by the need for the retailers to stay ahead of the stiff competition in the business environment, increase their share of the market and ensure market dominance, as Kenya's formal retail penetration stands at approximately 30.0% according to the Nielsen Report 2018,
ii. Vast infrastructure of road and railway developments opening areas for investments, improving accessibility to existing retail stores as well as increasing growth and expansion of small and medium startup retailers for enhanced convenience in the improved regions,
iii. Kenya's relatively high urbanization and population growth rates of 3.7% p.a and 1.9% p.a, respectively, against the global average of 1.6% p.a and 0.9% p.a, respectively in 2021, thus driving demand for services and spaces,
iv. Continuous recovery of the economy and expansion of businesses in the post-election season and Post-COVID-19 period, as a result of; i) total ban of health related restrictions and curfews, and, ii) government efforts in economy restructuring coupled with concessional financing assistance from multilateral organizations such as International Monetary Organization (IMF), International Finance Corporation (IFC), and the World Bank, and,
v. Overall improvement in the performance with the FY'2022 attaining a 0.1% increase in rental yields to 7.9% from 7.8% in FY'2021, and 1.1% higher than the overall market performance of all combined sectors which was at 6.8%.

Despite the above supporting factors, we expect the performance of the sector to be weighed down mainly by factors such as;

i. Increased popularity in online sales and adoption of E-commerce strategy by most retailers has proven to be cost effective and tapping a broader niche in the market thus contributing to reduced physical retail occupancy rates,
ii. Reduced funding in infrastructure limiting new developments and expansions in some parts of the country, contributing to low formal retail penetration which is currently at approximately 30.0% in the country,
iii. Limited access to financing attributed to banks tightening their purses in providing finances for development and expansion of retailers, and continuous underperformance of the capital market which undermines reliance by retailers for financing their operations. With regards to increasing MPC rates, loans borrowed from financial institutions for increasing inventories of businesses, expansion of

businesses by existing retailers and entry of new investors in the market will be more expensive to repay amid increasing interest rates,

iv. Existing oversupply at approximately 3.0 mn SQFT in the Nairobi Metropolitan Area (NMA) which is also enhanced by exiting of retailers from the market such as the Game,

v. Increased presence of informal retail market in most parts of the country which largely sort for cheaper, second hand, imported goods particularly from Asia, posing a threat to the formal retailers who may not be able to compete with the lower prices of these products. Additionally, presence of e-commerce in the market has posed considerable role in formalizing and optimizing the informal market sector. The informal retail traders have more direct access to fast-moving consumer goods (FMCGs) firms and their distributors, solving not only historic structural supply chain challenge but also the stock-outs of products too,

vi. Increased taxes on consumable goods and services, and property taxes by the current government will also be expected to have an impact on the retail market, especially when it comes to occupancy of retail spaces, rental charges and the attractiveness to investors, including foreign investors. When taxes on consumable goods and services and property taxes increase, prices charged by landlords in the retail market will likely increase as well, reducing the investment returns they can offer to investors. As a result, some investors may choose to reduce their exposure to Retail Real Estate, thus impacting occupancy and rental charges. In addition, the higher taxes could make such investments less attractive to foreign investors due to the lack of returns they can expect compared to other investment opportunities in other international markets.

As such, we expect the overall rental yields for the retail sector in FY'2023 to slightly improve by 0.1% points to 8.0% from 7.9% recorded in FY'2022. The average rent, supply, and occupancies are projected to be Kshs 177 per SQFT, 8.9 mn SQFT and 77.1%, respectively, in FY'2023, from Kshs 174 per SQFT, 8.2 mn SQFT and 77.6% in average rent, supply, and occupancy levels recorded in FY'2022, respectively.

The table below summarizes the retail performance from 2016 to 2022 and our forecast for 2023;

Cytonn Report: Nairobi Metropolitan Area (NMA) Retail Sector Performance 2016-2023F											
Item	**FY'16**	**FY'17**	**FY' 18**	**FY'19**	**FY'20**	**FY'21**	**FY'22**	**Forecasted Annualized Change**	**2023F**	**Reason for Forecast**	**Outlook**
Asking Rents (Kshs/SQFT)	187	185	178	176	169	170	174	**1.5%**	**177**	We expect asking rents to slightly increase by 1.5% mainly attributed to the improved business confidence by investors in the post-election period affecting demand for existing supply and hence cause a slight increase of the rental rates amidst continuous recovery of the economy towards pre-COVID-19 levels. Additionally, most prime retail spaces in Kilimani, Karen and Westlands fetching rents in dollars will continue to increase upon conversion to Kenyan currency due to the ongoing depreciating Kenyan shilling against the Dollar.	**Positive**
Supply in Nairobi (mn SQFT)	5.9	6.2	6.5	7.3	7.3	7.3	8.2	**8.1%**	**8.9**	We expect retail space supply to increase to 8.7 mn per SQFT in 2023 as result of major incoming developments such as the completion and ready for occupation of phase 1 of BBS Mall in Eastleigh Nairobi	**Positive**

										County and opening of Crystal Rivers Mall in Athi River Machakos County, among others.	
Occupancy (%)	89.3%	80.3%	79.8%	75.9%	75.2%	76.8%	77.6%	**(0.5%)Points**	**77.1 %**	The existing oversupply at 3.0 mn SQFT, increasing rental charges on retail properties, tougher economic environment attributed by upward adjustment of taxes on goods and businesses and MPC rates by current government coupled with increased popularity and adoption of e-commerce might cause businesses to downsize their spaces for operations or exercise a conservative approach in their expansion activities which will weigh down on occupation of physical spaces in the formal retail sector. However, on a positive side, we continue to expect expansion and new entries of more local and international retailers in the market amid increased operations and taking advantage of the gap existing in new regions, in turn affecting the occupier demand.	**Neutral**
Average Rental Yields	10.0%	9.6%	9.0%	7.8%	7.5%	7.8%	7.9%	**0.1% Points**	**8.0%**	We expect a slight increase in rental yields by 0.1% points as a result of increased rental charges of retail spaces and demand for existing supply amid the aggressive expansion by retailers taking up new and previously occupied spaces, infrastructure developments opening areas for investments, and positive demographics. However oversupply, increased adoption of e-commerce, tougher economic environment for businesses, and presence of informal retail spaces are expected to undermine the performance of the sector in turn affecting rental yields of the sector.	**Neutral**

Source: Cytonn Research

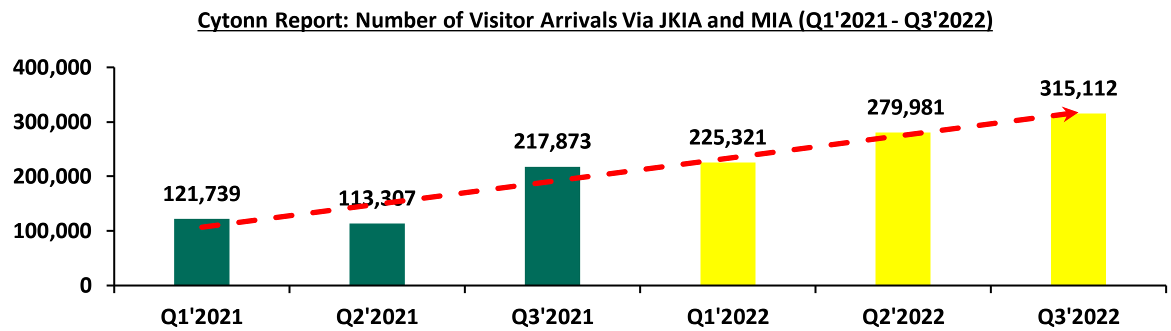
Overall, we have a NEUTRAL outlook on the retail sector's performance which is expected to be driven by the; i) continuous aggressive expansion by both local and foreign retailers taking up new and existing spaces, ii) progressive developments in public infrastructure of roads and railway projects boosting accessibility in new areas for investments, and, iii) positive demographics facilitating increasing demand. However, the slow growth in the sector is expected to be facilitated by some negative factors such as; i) existing oversupply at approximately 3.0 mn SQFT in NMA and the rest of the Kenyan retail sector totaling to approximately 1.7 mn SQFT, ii) growing adoption of e-commerce by most retailers which continues to undermine occupier demand, and, iii) limited access and expensive financing from financial institutions to cater for developments, expansion and improvement in operations towards technological levels by small and medium-sized enterprises to enhance their efficiency.

IV. Hospitality Sector

In 2022, the number of international tourist arrivals into the country, the number of hotels in operation, bed occupancies and hotel bookings all increased, demonstrating the sector's sustained progress towards its recovery path, and away from the adverse effects inflicted upon it by the COVID-19 pandemic, according to the Leading Economic Indicators (LEI) October 2022 report and Central Bank of Kenya. Overall, serviced apartments' year on year (y/y) performance improved, with occupancy rates increasing by 4.3% points to 65.8%, from 61.5% recorded in 2021. Monthly charges per SQM increased by 6.6% to Kshs 2,716 in 2022, from Kshs 2,549 recorded in 2021. Additionally, average rental yields increased by 0.7% points to 6.2% in 2022, from 5.5% recorded in 2021.

In addition to the above cushioning factors, we expect the sector's performance in 2023 to be further driven by:

i. **Intensive marketing of Kenya's tourism market which will improve Tourist Arrivals:** The Ministry of Tourism through its ambitious marketing plan has continued to showcase Kenya as a desirable tourist destination in the international markets through the Magical Kenya Platform in collaboration with the Kenya Tourism Board (KTB). Activities aimed at highlighting a wide variety of experiences on offer, and highlighting the wildlife, culture and adventure activities available are currently underway in Europe under the 'Real Deal Kenya' slogan and in other countries such as India. The marketing initiatives form a fundamental part of KTB's strategy meant to attract international tourists from abroad, as the sector regains its stability from the impact of COVID-19 pandemic. As such, international tourist arrivals into the country have continued to improve, evidenced by a 44.6% Year-on-Year (y/y) increase in the number of international arrivals through Jomo Kenyatta International Airport (JKIA) and Moi International Airport (MIA) in Q3'2022 to 315,112, from the 217,873 recorded in Q3'2021 according to the LEI October 2022 report,



Source: Kenya National Bureau of Statistics (KNBS)

ii. **Sustained Sector Recovery**: Owing to lifting of all travel restrictions and lockdowns which led to re-opening of the economy, the number of hotels in operations in 2022 increased. This is according to the MPC Hotels Survey July 2022 which highlighted that out of the 80 hotels sampled around the country, all 80 of them were operational in Q2'2022, up from 90.3% and 39.0% over the same period in 2021 and 2020, respectively. The survey established that normalcy in the level of operations in most hotels around the country had returned to pre-COVID-19 levels, signaling the continued recovery of the sector. In support of this, hotel chains such as Norfolk and Radisson Blu hotels which shut down their businesses temporarily in 2020, reopened and fully resumed operations in 2022,

iii. **Mass Vaccinations**: Increased rollout of COVID-19 vaccinations in the country and adherence to health guidelines issued by the Ministry of Health has greatly reduced the COVID-19 positivity rate in the country which stands at 2.9% as of 25th January 2023. This has boosted travel confidence of international visitor arrivals into the country. However, it is worth noting that the surge in cases in China might be cause for alarm of possible new infections in Kenya, considering the Ministry of Health's stance not to impose stringent travel restrictions on Chinese travelers. China's position as one of Kenya's main trading partners served as impetus for the decision, taking into consideration trade disruptions could cripple economic activities which are yet to recover from the ravages of the pandemic. A surge of new cases could mean re-imposition of lockdowns, travel restrictions and issuance of new travel advisories putting Kenya back on countries' Red List thereby impacting sector performance negatively through international arrivals,

iv. **Continued recognition of Kenya's hospitality Industry**: The Kenyan hospitality industry continues to soar even in the face of adversity as evidenced by the increased hospitality sector positive accolades bagged by several local and foreign hotels and brands based in Kenya under different categories such as the World Travel Awards, MICE Awards, Fodor Finest Hotels, among others. The accolades continue to position the country as a vibrant tourism market. In turn, we expect this will further boost investment confidence in the hospitality market as well as international visitor arrivals into the country,

v. **Hospitality Sector Support Events**: Increased leisure activities during festive seasons and sporting activities with the hosting of Annual Safari Rally competition until 2026 which is actively organized by the Ministry of Tourism, will continue to boost visitor arrivals, hotel bookings and the general performance of the hospitality industry,

vi. **Increased promotion of local tourism**: The domestic tourism market has proven to more resilient in light of the COVID-19 pandemic which saw international tourism reduce, owing to travel restrictions. With the advent of the pandemic, the hospitality sector experienced a paradigm shift towards increased promotion of local tourism, not only in Kenya but also globally. Tapping into the demand for domestic tourism offered the sector some respite. Sector players began employing measures such as price discounts in order to attract more local clientele as future travel uncertainties continued to cloud the international clientele. As a result of these aggressive marketing campaigns, the sector has continued to witness an increase in the number of local guests. According to the Monetary Policy Committee Hotels Survey July 2022, local tourists accounted for a significant portion of clientele population at 59.8% and 71.2% for accommodation and restaurant services respectively, up from 56.1% and 66.6% respectively during the same period in the pre COVID-19 era. Additionally, the Ministry of Tourism under its Tourism Strategy 2021-2025, highlights domestic tourism as one of the key nine initiatives it intends to promote under the program. We anticipate this trend will continue to persist supported by a growing middle class and young population who continue to show more interest in local tourism, and, aggressive marketing plans which will further promote sector performance. The government through the Ministry of Tourism is also on a mission in partnering with other East African nations under the East Africa Community (EAC) regional bloc to promote the tourism sector as a region so as to enhance the international clientele base and take advantage of newer markets and,

vii. **Improved security**: Kenya continues to enjoy a peaceful climate underpinned by political stability owing to a mature democracy and the peacefully concluded August 2022 polls, which reiterated great strides made by the Kenyan democracy. Additionally, there have been no news of reported terrorist attacks in the country recently, with security measures being heightened especially during festive seasons. This has continued to promote international tourism as tourists are assured of their safety thus boosting their confidence in Kenya as a travel destination. As such, we expect that improved security will be fundamental towards improving sector performance.

We have a NEUTRAL outlook for the sector as we expect the sector to continue registering improved performance moving forward in terms of overall hotels in operations, hotel bookings, and hotel occupancies. However, we anticipate factors such as; i) the recently issued travel advisory by the United Kingdom government through its Foreign and Commonwealth Office (FCO) on 20th December 2022, to have a negative impact on international arrivals, considering the UK is among top five tourist markets for Kenya, ii) the government's directive to indefinitely suspend hotel meetings, conferences and trainings, iii) difficulty in accessing finance as lenders demand more collateral to cushion themselves owing to elevated credit risk, iv) projected decline in the volumes of mergers and acquisitions within the hospitality industry due to increased associated costs, attributable to the increase in capital gains tax, and, v) existing inflationary pressures which

have increased the cost of operations on the back of a depreciating currency to weigh down the optimum performance of the sector in 2023.

V. Land

The Nairobi Metropolitan Area (NMA) land sector recorded an average annualized capital appreciation of 4.3% in FY'2022, which is 1.5% points higher than the 2.8% average appreciation recorded in FY'2021. Average asking prices per acre increased by 0.2% to Kshs 131.0 mn from Kshs 130.8 mn recorded in 2021. Un-serviced land in the satellite towns of the NMA recorded the highest average capital appreciation at 11.1%, 6.8% points higher than the 4.3% market average. This was mainly attributed to; i) better accessibility due to improved infrastructure, ii) increased demand for Real Estate facilitated by Kenya's high population and urbanization growth rates, iii) limited supply of land especially in urban areas, and, iv) the availability of amenities which increase desirability of areas, potentially increasing demand for land and consequently driving up land prices.

In 2023, we expect the performance of the sector to remain positive, with an expected annual capital appreciation of 3.2%. We expect the positive performance will be supported by;

i. **The Completion of Major Infrastructure Projects**: President William Ruto's government is focused on completing the construction of ongoing infrastructure projects in the country. Some of the major projects underway include the Standard Gauge Railway (SGR), Kenol Marua Road Phase 3 and 4, Dongo Kundu Bypass among others. These developments will unlock value for investors by opening up new areas for Real Estate development thereby driving up land prices,
ii. **Rising demand for development land in satellite towns**: High land prices coupled with limited supply of land within Nairobi have prompted investors to shift their investments to satellite towns owing to their affordability. Land in these areas is relatively affordable recording average selling prices per acre at Kshs 16.5 mn, compared to the market average of Kshs 131.0 mn in FY'2022. This has created demand for land in satellite towns which we expect will persist thus driving land prices up,
iii. **Increasing demand for land**: We anticipate an increase in demand for land facilitated by Kenya's positive demographics. According to the World Bank, population and urbanization growth rates in Kenya currently stand at 1.9% and 3.7%, p.a respectively, against the global averages of 0.9%, and 1.6% p.a respectively as at 2021, thus driving demand for land and Real Estate, and,
iv. **Tax Policies**: More County Governments are updating their valuation rolls which inform land rates payable in each county. For instance, Nairobi City County increased property rates chargeable to 0.115% of the Unimproved Site Value (USV) based on the 2019 Draft Valuation roll which became effective as of 1st January 2023. Furthermore, capitals gains tax chargeable on net gains upon the transfer of property or land increased to 15.0% from 5.0% previously chargeable as of 1st January 2023. We expect an increase in property taxes might provoke landowners and landlords to demand higher land prices and rents, in efforts to recover additional costs incurred from higher rates set to be charged.

However, it is worth noting that various factors may impede optimum performance of the sector in 2023 including;

i. **Increased Capital Gains Tax (CGT):** Effective 1st January 2023, Capital Gains Tax (CGT) chargeable on net gains upon transfer of property increased to 15.0% from the 5.0% previously chargeable stemming from the amendment of Section 34 (1) of the Income Tax Act. This amendment was facilitated by the passing of the Finance Act 2022 bill in June 2022, which was assented into law by President Uhuru Kenyatta. The hike in the tax is anticipated to elicit mixed performance in the land and property market. While the tax increase might prompt investors to increase land prices, there have been amplified concerns that the increase will dampen property transaction volumes. The threefold increase in CGT will lead to reduced incomes by persons selling land or property. As a result, many investors are likely to rethink their disposal transactions ultimately leading to a decline in property transaction volumes and consequent liquidity gaps in the market. Additionally, decline in land prices may be witnessed, more so for land priced close to the Kshs 3.0 mn mark, as investors may reduce prices in efforts to be exempted from paying capital gains tax in accordance to capital gains tax exemptions. In consideration of the above mentioned, the exact effect the increase in capital gains tax will have on land prices remains to be seen, and is therefore impossible to predict whether prices will increase or vice versa,

ii. Relatively high land costs in certain areas such as the NMA commercial zones, which recorded average prices at Kshs 403.4 mn per acre compared to the market average of Kshs 131.0 mn per acre, may impede optimum performance by discouraging investments in these areas. Alternatively, investors will opt to shift their investments to areas that offer lower land prices which translate to higher returns, and,

iii. Lengthy land transaction processes discouraging investments.

The summary of the previous performance of the theme and 2023 outlook is as outlined below;

All Prices in Kshs (mn) Unless Stated Otherwise								
Cytonn Report: Nairobi Metropolitan Area Land Performance Trend								
Location	**Price in 2017**	**Price in 2018**	**Price in 2019**	**Price in 2020**	**Price in 2021**	**Price in 2022**	**Forecasted 2023 Prices**	**Annual Capital Appreciation 2023F**
Unserviced land- Satellite Towns	20.4	22.7	24.9	12.7	13.5	15.1	16.1	**9.8%**
Serviced land- Satellite Towns	14.4	14.3	14.3	14.8	16.4	17.8	18.6	**4.2%**
Nairobi High End Suburbs- Low and High Rise Residential Areas	120.4	124.7	127.2	126.8	130.3	137.4	141.0	**2.6%**
Nairobi Middle End Suburbs- High Rise Residential Areas	77.6	77.8	81.7	83.6	83.0	80.9	81.5	**0.8%**
Nairobi Suburbs - Commercial Areas	429.8	447.3	428.5	413.0	410.8	403.4	398.3	**(1.3%)**
Average	**132.5**	**137.4**	**135.3**	**130.2**	**130.8**	**130.9**	**131.1**	**3.2%**

Source: Cytonn Research

The investment opportunity lies in Juja, Utawala, and Limuru for unserviced land, which recorded annualized capital appreciations of 16.6%, 14.8% and 13.4%, respectively. For serviced schemes, Syokimau and Ruiru-Juja recorded the highest annualized capital appreciations of 19.2% and 13.0%, respectively.

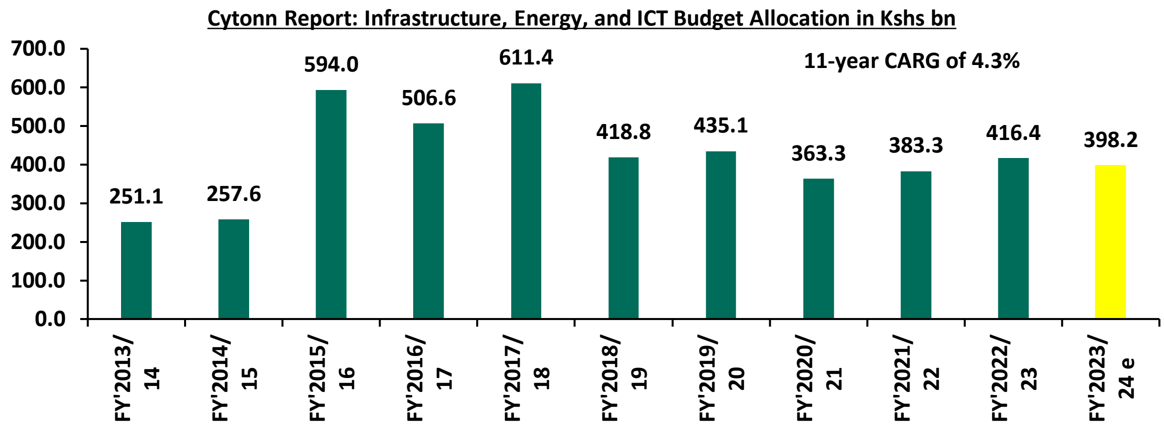
We retain a POSITIVE outlook for the Nairobi Metropolitan Area land sector which continues to establish itself as a reliable investment opportunity, displaying great resilience even during times of economic hardship in the COVID-19 period, and a depreciating Kenyan currency. We anticipate that a number of factors will contribute to the sector's positive performance in 2023, including; i) a greater emphasis on Affordable Housing projects and private projects, ii) tax policies, iii) positive population demographics, and, iv) rapid growth of satellite towns amid increased delivery of infrastructural developments which are improving accessibility, property prices and demand in the regions.

VI. Infrastructure Sector

Infrastructural development remains a top priority for the government, as it consistently accounts for the largest portion of development expenditure. In the FY'2022/2023, Infrastructure, Energy and Information and Technology (ICT) budget saw an increase of 8.6%, totaling Kshs 416.4 bn from Kshs 383.3 bn in FY'2021/2022. This increase aligns with the government's efforts to enhance critical infrastructure in the road, rail, energy, and water sectors, with the aim of improving transportation, lowering business costs, increasing access to amenities, and boosting Kenya's competitiveness on the global stage. The entry of the Democratic Republic of

Congo (DRC) into East African Community (EAC) in April 2022 has made the region more attractive to businesses. Key infrastructural nodes such as major road highways, oil pipelines and depots, airports and the port, have been targeted to be a boost for Kenya becoming an economic powerhouse in the region. The sector witnessed completion and commissioning of major projects such as; completion of Nairobi Expressway (25.0km), expansion of Ngong Road (20.7km), dualling of Eastern (27.5km), Western (15.3km), and Northern (31.0km) Bypasses, tarmarking of Juja Farm Road (7.0km) and Kiambu-Mang'u Thika Road (12.0km), expansion of Changamwe interchange, Makupa bridge and Mombasa-Kwa Jomvu-Mariakani Highway (41.7km), completion of phase two of the Second Container Terminal, and Kipevu Oil terminal at the Port of Mombasa, and many more.

The graph below illustrates infrastructure budget allocation from FY'2013/2014 to FY'2022/2023;



Source: National Treasury

The table below illustrates the sectors with the highest expenditure allocation over the past five fiscal years, further highlighting the importance placed on infrastructure developments;

Cytonn Report: Sectoral Budget Allocation of Total Expenditure for the Past Five Years (Kshs bn)							
Item	**FY'2018/2019**	**FY'2019/2020**	**FY'2020/2021**	**FY'2021/2022**	**FY'2022/2023**	**y/y Change**	**5-Year CAGR**
Interest Payments, pensions & Net Lending	493.0	553.3	586.5	718.3	869.3	21.0%	12.0%
Education	444.1	494.8	505.1	503.9	544.4	8.0%	4.2%
Infrastructure, Energy, and ICT	418.8	435.1	363.3	383.3	416.4	8.6%	(0.1%)
County shareable Revenue	314.0	310.0	316.5	370.0	370.0	0.0%	3.3%
Public Admin & Int. Relations	270.1	298.9	289.3	299.7	342.2	14.2%	4.8%

Source: Cytonn Research

According to the Draft 2023 Budget Policy Statement, the government's Infrastructure, Energy, and ICT allocation for the FY'2023/2024 is forecast to be Kshs 398.2 bn, representing a 4.4% decrease from Kshs 416.4 bnFY'2022/2023. This reduction in spending is a result of the current government placing importance on finishing already stalled projects from the previous administration and being reluctant to start costly new initiatives. This also takes into account the ongoing global inflationary pressures, the weakening of the Kenyan Shilling relative to the US Dollar, and the high energy and fuel costs, which have all had a negative effect on the economy. Additionally, President Ruto's decision to decrease funding for infrastructural development demonstrates a divergence from the former President Uhuru Kenyatta's focus on high-level infrastructure projects across the country during his last tenure such as the Mombasa-Naivasha Standard Gauge Railway, Nairobi Expressway, the completion of three berths at Lamu Port and the Kipevu Oil Jetty. This decision clearly places a different approach and emphasis on development in the current regime, with the government devoting its attention to mobilization of financing for the social development, digital transformation, creative industry growth, agriculture modernization and the enhancement of Micro, Small and Medium Enterprises (MSMEs).

Some of the major projects in the pipeline include; Lamu Port-South Sudan-Ethiopia-Transport (LAPSSET) Corridor, Standard Gauge Railway Phase 2b (Navaisha-Kisumu line), Konza Technology City, Phase 3 and 4 of Kenol-Marua Highway (36.0km), Lamu-Garissa Highway (263.0km), Dongo-Kundu Special Economic Zone, Dongo-Kundu Bypass (25.9km), Eldoret Southern Bypass(25.0km), Nairobi Railway Commuter Transport System, Ngong-Suswa Highway (70.0km) and expansion of Jomo Kenyatta International Airport terminus 1C and 1D and the Mombasa Port through reclamation of land from the Indian Ocean, and many more.

Upon completion, the select projects are expected to open up more areas for penetration of Real estate investments across all select sub-sectors, tapping into new opportunities and demand for properties, goods and services. Nonetheless, the government is still experiencing financial shortfall in its expenditure budget and hence financing some of these projects will be capital-intensive and at higher risks. Additionally, the government has been running out of the fiscal space and cannot impose more taxes on Kenyans with the existing Fuel Maintenance Levy for the maintenance of road currently imposed on motorists. Therefore, the government has been adopting various sources of financing the infrastructure budget such as;

i) **Public-Private Partnerships:** in a PPP model, the government provides support such as land and pay for the excavation of utilities such as electric poles and lines, fibre optics cables and sewer lines. On the other hand, the private investor designs, finances constructs, operates and maintains for a negotiated period of time at a certain fee imposed on those using the public infrastructure for instance the pay-to-use road tolls. A case example is the Nairobi Express Way launched in July 2022, where the China Roads and Bridges Corporation will collect toll fees for up to 27 years as it recovers its finances and interests. The Kenyan government enacted the PPPs Act in 2013 to focus of PPPs as instruments in addressing the major infrastructure funding gap in a time of constrained fiscal environment, rising public expenditure demands, and, competing development pressures from the national and devolved structures. Currently, Kenya's PPPs have 45 projects under implementation, six of which are road projects totaling 639.0 Km under the Roads Annuity and Tolling Programmes. Another 39 are electricity generation projects totaling 3,034 megawatts of installed capacity. According to the Draft 2023 Budget Policy Statement, PPP Directorate targets to consolidate Kshs 50.0 bn within the FY 2023/24, based on the current projects in the PPP pipeline and continue to partner with more local and foreign private firms like China Roads and Bridges Corporation in construction of Phase 2A of Standard Gauge Railway from Naivasha to Kisumu and many more projects,

ii) **Issuing of Infrastructure bonds**: The government through the National Treasury floated an infrastructure bond in 14th November 2022, IFB1/2022/14 valued at Kshs 60.0 bn aiming to complete select projects in the pipeline. The bond recorded an oversubscription of 53.0%, with the Central Bank of Kenya receiving bids worth Kshs 91.8 bn and accepted bids worth Kshs 75.6 bn, translating to an 82.3% acceptance rate. On 28th November 2022, a subsequent tap sale of Kshs 5.0 bn was offered and received bids worth Kshs 19.1 bn, which translated to an oversubscription rate of 282.7%. Both bonds were offered at a yield of 13.9%. The oversubscription of the bonds was mainly attributed to the tax free nature of the Infrastructure bonds and high market liquidity hence high investor appetite. On the other hand, a switch auction of three treasury bills issues No. 2494/091, 2454/182 and 2380/364, and T-Bond issue No. FXD1/2021/2 to an infrastructure bond issue No. IFB1/2022/6 received bids worth Kshs 52.9 bn against Kshs 87.8 bn being offered, thus translating to a subscription rate of 60.3%. On 14th December 2022, a subsequent tap sale of Kshs 20.0 bn was also offered and received bids worth Kshs 10.8 bn which represented an overall subscription rate of 54.1%. The coupon rate and weighted average yield of the bonds came in at 13.2%. The bonds were undersubscribed partly attributable to investor's preference for shorter dated papers as investors avoided the duration risk. The table below shows a summary breakdown of the performance of the Infrastructural bonds in FY'2022/2023;

Cytonn Report: Summary Breakdown of the Performance of Infrastructural Bonds FY'2022/2023									
Issue Date	Bond Auctioned	Effective Tenor to Maturity (Years)	Coupon	Amount Offered (Kshs bn)	Actual Amount Raised (Kshs bn)	Total Bids Received	Average Accepted Yield	Subscription Rate	Acceptance Rate
11/14/2022	IFB1/2022/14	14.0	13.9%	60.0	75.6	91.8	13.9%	153.1%	82.3%
11/28/2022	IFB1/2022/14-Tap Sale	14.0	13.9%	5.0	19.1	19.1	13.9%	382.7%	100.0%
12/5/2022	IFB1/2022/006	6.0	13.2%	87.8	49.1	52.9	13.2%	60.3%	92.8%
12/26/2022	IFB1/2022/006-Tap Sale	5.9	13.2%	20.0	10.8	10.8	13.2%	54.1%	100.0%
Average		**10.0**	**13.6%**	**43.2**	**38.7**	**43.7**	**13.6**	**162.6%**	**93.8%**

Source: Cytonn Research

iii) **Concessional loans from multilateral organizations** such as World Bank, International Monetary Fund (IMF), Japan International Cooperation Agency (JICA), Africa Development Bank Group (AfDBG), International Finance Corporation, Export-Import Bank of the United States (Ex-Im Bank) and many more. These international and regional financial institutions assess the fiscal and monetary status of the country and provide financial assistance on debt-stricken economic sectors. However, stringent measures are recommended to be followed and achieved as measures of ensuring no gaps or pitfalls impede the completion of the projects. Doing so effectively evaluates the projects' success in achieving the predetermined goals and objectives,

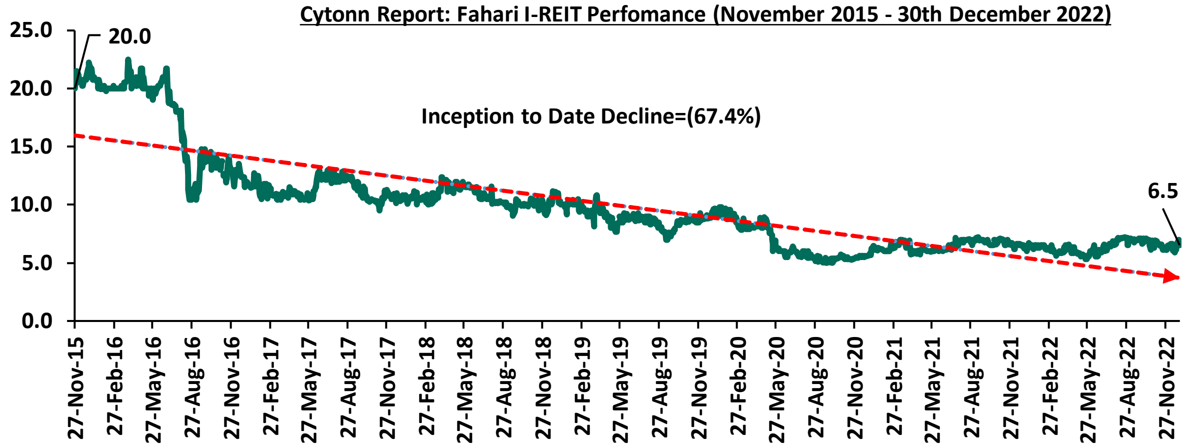
iv) **Grants and loans from foreign countries** like United States of America (Dualling of Nairobi-Mombasa and Nairobi-Nakuru Highways), United Kingdoms (Nairobi Railway City), South Korean (Konza Metropolis City), Chinese governments, and many more, and,

v) **Joint ventures with several parastatals and agencies**: the government is in joint venture with Kenya Ports Authority and JICA in construction of Dongo-Kundu Special Economic Zone which includes the Dongo-Kundu Bypass.

We expect to continue seeing the progress, execution, and completion of more infrastructural developments in 2023 mainly supported by the government's aggressiveness to; i) construct, commission, and implement more projects, ii) increase its diplomacy and partnerships in development among neighboring nations, and, iii) step up on competition for attracting regional and international investors against other countries in Eastern Africa like Tanzania through railway connections and ports infrastructure. Moreover, the expected completions in 2023 will be driven by the efforts of the current government to fast-track the accomplishment of key projects that stalled during the previous regime. However, the decrease in spending will affect the government's ability to fund new infrastructure projects, such as road and rail networks, power generation and distribution projects, ICT infrastructure, and telecommunications networks.

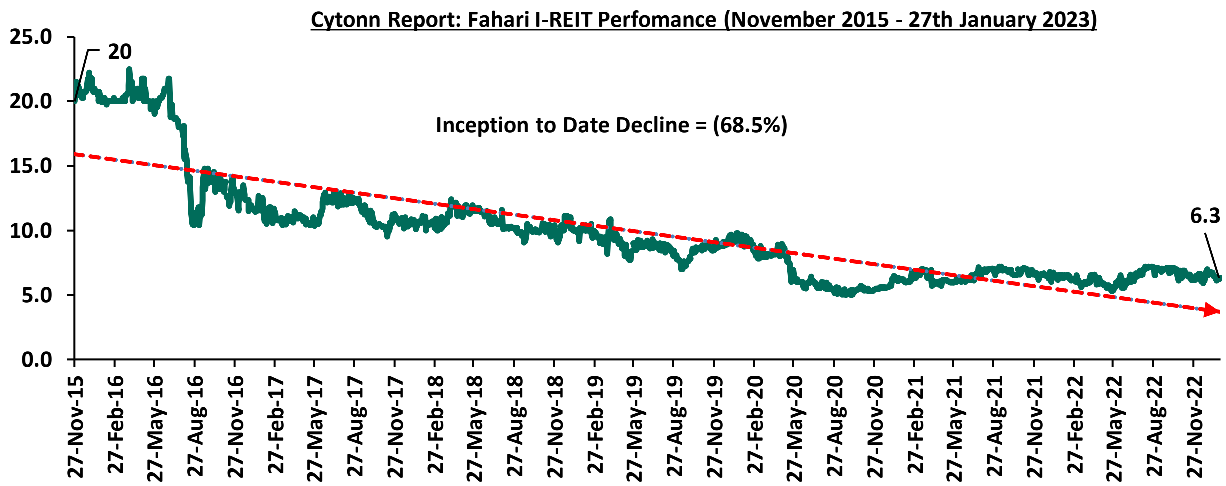
VII. Listed Real Estate

In Nairobi Securities Exchange, ILAM Fahari I-REIT closed 2022 trading at an average price of Kshs 6.5 per share, a 1.6% (Year-on-Year) gain from Kshs 6.4 per share recorded at the beginning of 2022. However, the performance represented a 67.4% Inception-to-Date (ITD) loss from the Kshs 20.0 inception price. The graph below shows Fahari I-REIT's performance from November 2015 to 30th December 2022;



Source: Cytonn Research

The Fahari I-REIT opened the year 2023 trading at an average price of Kshs 6.8 per share. As at 27th January 2023, the REIT traded at an average price of Kshs 6.3 per share. The performance represented a 0.9% decline from Kshs 6.4 per share recorded the previous week, taking it to a 7.1% Year-to-Date (YTD) decline from Kshs 6.8 per share recorded at the beginning of the year. In addition, the performance represented a 68.5% Inception-to-Date (ITD) loss from the Kshs 20.0 price. The dividend yield stood at 7.9%. The graph below shows Fahari I-REIT's performance from November 2015 to 27th January 2023;



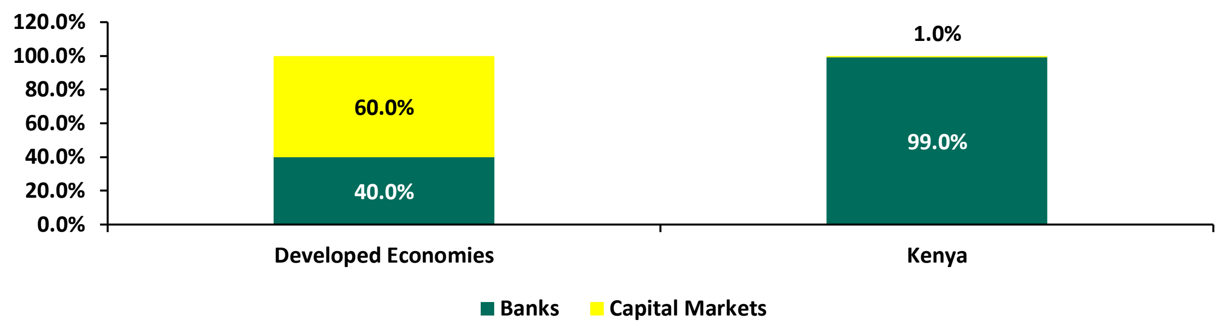
Source: Cytonn Research

In the Unquoted Securities Platform, Acorn D-REIT and I-REIT closed the year 2022 trading at Kshs 23.9 and Kshs 20.9 per unit, respectively, as at 30th December 2022. The performance represented a 19.4% and 4.4% gain for the D-REIT and I-REIT, respectively, from the Kshs 20.0 inception price. The volumes traded for the D-REIT and I-REIT came in at 6.5 mn and 15.5 mn shares, respectively, with a turnover of Kshs 141.3 mn and Kshs 320.7 mn, respectively, since its inception in February 2021.

The Acorn D-REIT and I-REIT opened the year 2023 trading at Kshs 23.9 and Kshs 20.9 per unit, respectively, as at 3rd January 2023. The performance represented a 19.4% and 4.4% gain for the D-REIT and I-REIT, respectively, from the Kshs 20.0 inception price. As at 13th January 2023, the REITs traded at Kshs 23.9 and Kshs 20.9 per unit, respectively, representing a 19.4% and 4.4% gain for the D-REIT and I-REIT, respectively, from the Kshs 20.0 inception price. The volumes traded for the D-REIT and I-REIT came in at 12.3 mn and 28.7 mn shares, respectively, with a turnover of Kshs 257.5 mn and Kshs 591.8 mn, respectively, since inception in February 2021.

We expect listed REIT to continue trading in low volumes in 2023 with the Fahari I-REIT having opened the year with a trading price of Kshs 6.8 per share. This comes at a time when only 4 REITs have been incorporated, with only ILAM Fahari I-REIT listed in the NSE. The underdeveloped capital markets in Kenya continues to fail to provide alternative means of financing Real Estate developments. Due to this, most property developers rely on conventional sources of funding such as banks, compared to other developed countries. The table below shows the comparison of development funding in Kenya against developed economies;

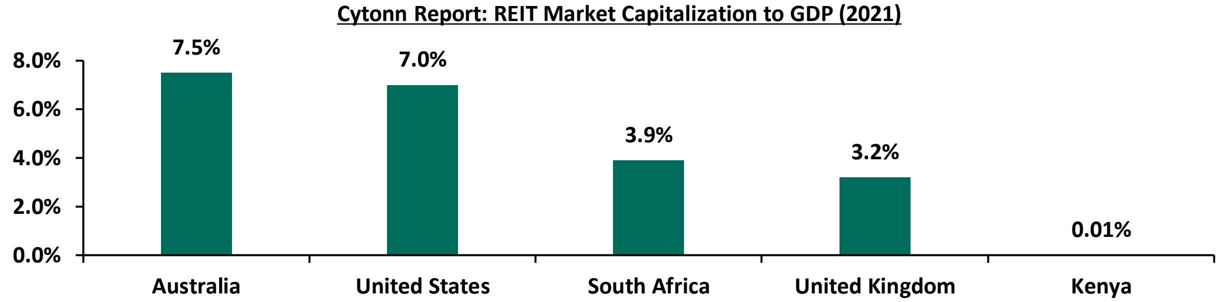
Cytonn Report: Bank and Capital Markets Funding in Kenya vs Developed Economies



Source: Cytonn Research

Consequently, Kenya's REIT Market Capitalization to GDP has remained significantly low at 0.01%, compared to other countries such as South Africa with 3.9%, as shown below;

Cytonn Report: REIT Market Capitalization to GDP (2021)



Source: Cytonn Research

However, we are of the view that the efforts being put by institutions such as Acorn to boost the REIT market with their Acorn I-REIT and D-REIT having being listed in the NSE Unquoted Securities Platform (USP) will continue to unlock growth opportunities in the Kenya Capital Markets. Additionally, the deployment of the Vuka Investment Platform on 29th December 2022 and approval for listing of LapTrust Imara I-REIT by the Capital Markets Authority (CMA) on 2nd November 2022 into the Kenyan REITs market is expected to provide more investors with the opportunity to invest in asset-backed units, thereby increasing liquidity in the market. However, Laptrust Imara I-REIT will restrict trading for the next three years to allow the REIT to build track record before allowing the units to trade freely. The REIT will therefore be listed under Main Investment Market, Restricted sub-segment on Nairobi Securities Exchange.

We retain a NEGATIVE outlook for the REIT with some of the factors that will* continue to hinder the optimal performance of the sector *market include; i) reduced investors' appetite in trading and investing in the market, ii) lengthy registration, licensing, and approval process, iii) high Minimum Investment Amounts Set

at Kshs 5.0 mn, iv) insufficient Investment Knowledge and Awareness of the REITs Market v) subdued performance in some Real Estate sectors with oversupply of spaces in Commercial Office Sector at 7.3 mn SQFT and Retail Sector at 3.0 mn SQFT in the NMA expected to affect performance of the instrument due to low rental yields, vi) high Minimum Capital Requirements for a Trustee of Kshs 100.0 mn, and, vii) adverse conflicts of interests with trustees.

THE KEY AREAS OF OPPORTUNITIES BY THEME IN REAL ESTATE SECTOR

Based on returns, factors such as supply, demand, infrastructure, land prices and availability of social amenities the following are the ideal areas for investment;

Cytonn Reort: The Key Areas of Opportunities by Theme in Real Estate Sector

Sector	Themes	Locations	FY'2022 Performance
Residential	High End (Detached)	Rosslyn and Kitisuru	Relatively high annual returns averaging 6.5%, and 6.4%, respectively, compared to the high-end market's average of 5.8%, while the average rental yields stood at 5.0% and 4.8%, respectively, compared to the market average of 4.4% and price appreciations averaging 1.5% and 1.6%, respectively
	Upper Middle (Detached)	Redhill/Sigona and Ridgeways	Relatively high annual returns averaging 6.4% for Redhill/Sigona and 6.3% for Ridgeways, compared to the Upper-Middle market's average of 5.6%, with price appreciations of 1.5% and 1.6%, respectively, compared to the market average capital appreciation of 1.1%
	Lower Middle (Detached)	Ruiru, Juja and Ngong	Relatively high annual returns for Ruiru at 7.8%, with Juja and Ruiru recording total returns of 6.9% and 6.5%, respectively, compared to the Lower-Middle market's average of 6.0% total returns to investors
	Upper Mid-End (Apartments)	Westlands and Kilimani	Relatively high annual returns averaging 6.4% and 6.0%, respectively in comparison to the Upper Mid-End market's average of 5.9% with relatively high rental yields averaging 5.9% and 5.8%, respectively, while price appreciation came in at 0.5% and 0.2%, respectively
	Lower Mid-End (Suburb Apartments)	Waiyaki Way and South C	Relatively high annual returns averaging 8.6% and 8.5%, respectively, compared to the market's average of 7.1% with relatively high rental yields averaging 6.3% and 6.1% , respectively, while price appreciation came in at 2.3% and 2.4%, respectively
	Lower Mid-End (Satellite Apartments	Ruaka, Ruiru, and Ngong	Relatively high annual returns averaging 7.5%, 7.4% and 7.2%, respectively, compared to the Lower Mid-End market's average of 6.9% with relatively high rental yields averaging 5.2%, 5.8% and 5.5%, respectively, while price appreciation came in at 2.3%, 1.6% and 1.7%, respectively
Commercial Office Sector	Grade A Offices	Gigiri, Westlands, and Karen	They offered high returns with average rental yields at 8.6%, 8.1%, and, 7.7%, respectively, compared to the market average of 7.3%, as a result of their superior locations characterized by Grade A spaces that attract high-end clients and offer premium rental rates
Retail Sector	Suburban Malls	Westlands, Karen, and Kilimani	Relatively higher returns of 9.8%, 9.4%, and 8.7% respectively, compared to the market average of 7.9%, attributed to presence

			of high quality retail spaces fetching the high rents, coupled with the availability of quality infrastructure services. Additional opportunity also lies in the undersupplied regions of the country such as Mount Kenya, Western and the Coast
Hospitality Sector	**Serviced Apartments**	**Westlands, Kilimani, and Kileleshwa/Lavington**	They recorded average rental yields of 9.3%, 7.2% and 6.6%, respectively against a market average of 6.2% in 2022. This attributed to proximity to the CBD, presence of high quality serviced apartments which attract premium rates, accessibility, and proximity to international organization which drive the demand for serviced apartments in the nodes
Land Sector	**Unserviced Land**	**Juja, Utawala, and Limuru**	Increased demand for development evidenced by their high capital appreciations of 16.6%, 14.8% and 13.4%, respectively, in FY'2022 compared to the market average of 11.1% and, increased infrastructure developments enhancing accessibility to areas
	Serviced Land	**Syokimau and Ruiru-Juja**	Relatively high demand for land for development having recorded capital appreciations of 19.2% and 13.0%, respectively against the serviced average of 8.0% driven by; i) adequate infrastructural developments serving the areas such as the Nairobi Expressway and Thika-Nairobi Superhighway

Source: Cytonn Research