Cytonn 2024 Markets Outlook Note - Real Estate

Executive Summary:

Residential sector: Our outlook for the Nairobi Metropolitan Area (NMA) residential sector is **NEUTRAL.** The demand for housing is expected to persist in 2024, driven by positive population demographics. Increased efforts by the government to implement its affordable housing agenda are expected to spur further growth in the sector. Additionally, expansion and development of infrastructural projects is set to boost the sector, as well as efforts by the government to avail low-cost loans to Kenyans through Kenya Mortgage Refinance Company (KMRC), which are poised to enhance homeownership. Conversely, we expect the sector to be weighed down by the prevailing tough economic environment such as the weakening Shilling, high inflation, the low penetration of mortgages, as well as soaring cost of construction. For detached units, investment opportunity lies in areas such as Ngong, Syokimau, and Athi River, while for apartments, investment opportunity lies in Waiyaki Way, Athi River and Thindigua due to their remarkable returns driven by relatively high returns to investors;

Commercial Office Sector: Our overall outlook for the NMA commercial office sector is **NEUTRAL**. We expect a slight increase in performance by 0.2% points, attributable to the expected increase in the overall rental rates. We expect the improved performance to be supported by; i) increased entry of multinational companies into the country, ii) Kenya's continued recognition as a regional business hub which continues to attract multinational companies expanding into the continent, iii) increasing number of start-ups, iv) gaining traction in co-working spaces, and, v) landlords growing preference for dollar-denominated rental prices, in efforts geared towards mitigating forex losses. However, we expect that an increased incoming supply compared to a similar period last year and the existing oversupply estimated at 5.8 mn SQFT in the Nairobi Metropolitan Area (NMA) will weigh down on the sector's performance by stifling absorption rates. Investment opportunity lies in Westlands, Gigiri, and Parklands, which continue to record high returns at 8.5%, 8.2%, and, 8.0%, respectively, compared to the market average of 7.7%;

Retail Sector: 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, sub-optimal 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 totalling 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 advanced technological levels geared at enhancing their efficiency by both small and medium-sized enterprises. Investment opportunities lie in Westlands, Karen, and Kilimani with relatively higher returns of 9.9%, 10.2%, and 9.5% respectively, compared to the market average of 8.3%, attributed to the presence of high-quality retail spaces fetching high rents, coupled with the availability of quality infrastructure services;

Hospitality Sector: We have a **POSITIVE** 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. The direct flights from Dubai to Mombasa by FlyDubai will create a new and convenient travel option for international tourists, potentially boosting the number of arrivals in Mombasa. Notably, there has been a substantial 31.7% Year-on-Year (y/y) surge in international arrivals through Jomo Kenyatta International Airport (JKIA) and Moi International Airport (MIA) in Q3'2023, reaching 451,441, as reported in the Leading Economic Indicators (LEI) October 2023 report, compared to 342,904 recorded in Q3'2022. The ease of access is likely to attract tourists seeking the vibrant tourism offerings in Kenya. However, we anticipate factors such as; i) the release of cautionary statements by governments like China and Canada in December 2023, advising their citizens against traveling to Kenya due to worries about terrorism threats, elevated crime rates, frequent power outages, and unsafe transport systems, is anticipated to compound challenges in the sector, ii) the weakening of Kenyan shilling against the US dollar, raising the prices of crucial inputs hence escalating operational costs, iii) difficulty in accessing finance as lenders demand more collateral to cushion themselves owing to elevated credit risk, and, 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 in January 2023. Prime investment prospects lie in Westlands, Limuru Road, and Kilimani, where average rental yields stood at 10.2%, 8.2%, and 7.7%, respectively, surpassing the market average of 6.8% in 2023. This is due to their proximity to the CBD, the existence of top-tier serviced apartments commanding premium rates, convenient accessibility, and their closeness to international organizations, fostering a robust demand for serviced apartments in these areas;

Land Sector: We retain a **POSITIVE** outlook for the land sector in the NMA which has consistently demonstrated its resilience, affirming its position as a reliable investment opportunity. We expect that the sector's performance will be driven by several key factors including; i) increased demand for land for development supported by positive population demographics, ii) ongoing government initiatives to streamline land transactions leading to a more efficient and accessible market, iii) notable increase in the initiation and completion of affordable housing projects owing to both government and private sector involvement, iv) tax policies, and, v) rapid expansion of satellite towns, coupled with substantial infrastructural developments resulting in higher property prices. The investment opportunity lies in Juja, Utawala, and Rongai for unserviced land, which recorded annualized capital appreciations of 12.3%, 11.6%, and 9.8% respectively compared to a market average of 8.8%. For serviced schemes, Ruiru-Juja, and Ruai recorded the highest annualized capital appreciations of 6.8% and 6.0%, respectively against the serviced average of 5.9%;

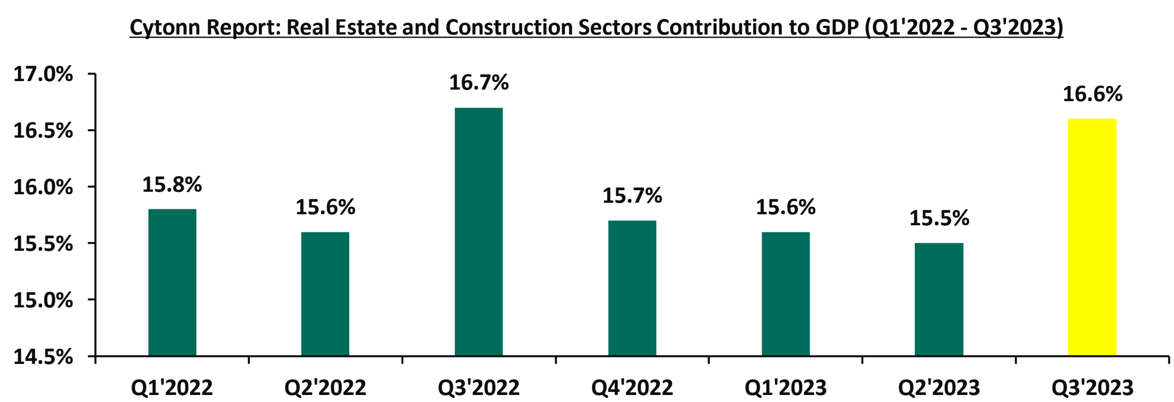
Infrastructure Sector: We have a **NEUTRAL** outlook for the sector as we expect to continue seeing the progress, execution, and completion of more infrastructural developments in 2024 mainly supported by the government's aggressiveness to; i) construct and rehabilitate roads, bridges, railways, airports, and affordable housing units, among others, ii) increase its diplomacy and partnerships in development among neighboring nations, and, iii) step up on the competition for attracting regional and international investors against other countries in Eastern Africa like Tanzania through railway connections and ports infrastructure. According to the Draft 2024 Budget Policy Statement, the government's Infrastructure, Energy, and ICT allocation for the FY'2024/2025 is forecasted to be Kshs 505.7 bn, representing an 8.0% increase from Kshs 468.2 bn FY'2023/2024. This increase is attributed to an extensive array of strategic programs and interventions. However, recent budgetary cuts to the state department for housing, and a general reduction in the country’s development expenditure will potentially hinder optimal performance of the sector. According to the Supplementary Budget FY’2023/24, allocation to the State Department of Roads was reduced by 8.3% to Kshs 230.1 bn from Kshs 250.8 bn. This was attributed to the redirection of funds to other key sectors such as education, as well as to address mounting costs over debt repayment, on the back of increasing debt obligations exacerbated by the continued depreciation of the Kenyan Shilling. The above indicates a shift in the government’s spending priorities, signaling reduced road expenditure in the FY’2023/24. We anticipate that Kenya’s infrastructure sector will witness a slowdown in the number of initiated and completed road construction and maintenance projects going forward;

Industrial Sector: We have a **POSITIVE** outlook on the industrial sector’s performance. We expect to witness sustained growth in the sector as investors continue to respond to the growing demand for industrial space. Data centres, cold rooms, growth in e-commerce, and rising demand for fast-moving consumer goods will drive growth in the industrial sector. In 2024, we expect heightened development activities in the sector with projects such as the Africa Data Centres’ (ADC) new facility scheduled for completion in the first quarter of 2024. This facility is set to deliver an additional 15 MW of IT load, expanding ADC's current infrastructure and addressing the increasing demand for digital services in East Africa. Moving forward, we expect the Kenyan industrial sector will continue on an upward trajectory supported by; i) rising demand for e-commerce warehouses in the retail sector, ii) the rising demand for space to store goods meant for delivery to clients across the country, as more people shift towards home delivery as a convenient and efficient way to purchase goods, iii) government's accelerated focus on exporting agricultural and horticultural products to the international market, with an aim to improve the quantity, quality, efficiency, and reliability of Kenya-farmed produce thereby increasing the country’s competitiveness, iv) Kenya’s continued recognition as a regional hub hence attracting investments, and, v) continued improvement in infrastructure through projects such as the Standard Gauge Railway (SGR), the Eastern and Northern Bypasses connecting Jomo Kenyatta International Airport (JKIA) and other regions in the Nairobi Metropolitan Area, among other key infrastructural improvements which we expect will increase the output of Special Economic Zones (SEZs) and Inland Container Depots (ICDs);

Listed Real Estate: We retain a **NEUTRAL** outlook for the Kenyan REIT sector leaning towards the negative. Some of the factors expected will continue hindering the optimal performance of the sector market include; i) low 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, and, vi) high Minimum capital requirements for a Trustee of Kshs 100.0 mn. However, we expect initiatives including; i) the proposed establishment of the Kenya National REIT (KNR), ii) business operational restructuring strategies employed by key industry players such as Fahari I-REIT geared towards achieving business and financial optimization as well as sustainability, and iii) the launch of the Vuka Investment Platform towards the end of 2022 will assist neutralize and mitigate the above challenges, thereby contributing to the overall enhancement of the sector's performance in the Kenyan Real Estate capital markets.

Real Estate

In 2023, the general Real Estate sector witnessed considerable growth in activity in terms of property transactions and development activities. Consequently, the sector’s activity contribution to Gross Domestic Product (GDP) grew by 5.4% to Kshs 785.9 bn in Q3’2023, from Kshs 743.4 bn recorded during the same period in 2022. In addition, the sector contributed 10.5% to the country’s GDP, a 0.5% increase from 10.0% recorded in Q2’2023. Cumulatively, the Real Estate and construction sectors contributed 16.6% to GDP, a 1.1% improvement from 15.5% in Q2’2023, evidencing their growing contribution to Kenya's economy. Additionally, the escalation of selling and rental prices persisted, propelled by ongoing inflationary pressures and a depreciated shilling against the United States dollar, leading to an increase in the costs of construction materials. The graph below highlights the Real Estate and Construction sectors’ contribution to GDP from Q1’2022 to Q3’2023;



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 5.5%, 7.7%, 8.3%, 6.8%, and 8.4%, respectively in FY'2023. This resulted to an overall rental yield of 7.3%, 0.5% points higher than the 6.8 % recorded in FY'2022. The table below is a summary of thematic performance of average rental yields in FY'2023 compared to FY'2022;

Cytonn Report: Real Estate Rental Yields in FY'2023 - FY/2022			
Theme	**Rental Yield FY'2022**	**Rental Yield FY'2023**	**y/y Change**
Residential	5.1%	**5.5%**	**0.4%**
Commercial Office	7.6%	**7.7%**	**0.1%**
Retail	7.9%	**8.3%**	**0.4%**
Hospitality	6.2%	**6.8%**	**0.6%**
Mixed-use Developments (MUDs)	7.4%	**8.4%**	**1.0%**
Grand Average	**6.8%**	**7.3%**	**0.5%**

Source: Cytonn Research

We had a **NEUTRAL** outlook for the overall Kenya Real Estate sector in 2023 supported by several factors such as; i) increased and consistently growing demand for Real Estate developments facilitated by the country's positive demographic profile, ii) government's continued focus on provision of affordable housing, iii) initiation and implementation of various infrastructural improvements opening up new areas for investment and boosting property prices, iv) renewed investor confidence in the hospitality sector as a result of continuous recovery, as evidenced by increased international arrivals, v) efforts by the government through the Kenya Mortgage Refinance Company (KMRC) to provide affordable home loans to buyers, vi) initiation and implementation of infrastructure projects, vi) aggressive expansion efforts by both local and international retailers, and, vii) continued recognition of Kenya as a regional business hub, attracting foreign investments. However, rising construction costs, existing oversupply of physical space in the commercial office and retail sectors, slow delivery of affordable housing projects, recently issued travel advisories by multiple governments, impacting tourism, the deteriorating business environment and, low investor appetite for REITs continued to hinder the optimum performance of the sector. For a detailed review of the sector's performance during 2023, see our Cytonn Annual Markets Review – 2023.

In 2024, we expect the key drivers of Real Estate to be as follows:

i. **Government's continued Focus on Affordable Housing:** The Kenyan government has continued to put its best foot forward towards delivering affordable housing to its citizens. Currently, the AHP pipeline boasts an estimated total of 838,876 housing units under construction by both the government and private sector. This is according to the Architectural Association of Kenya (AAK's) Status of the Built Environment Report 2023. In addition, the government is attempting to develop a pool of resources geared towards the provision of affordable housing through the re-introduction of the affordable housing levy, which the Affordable Housing Bill 2023 is seeking to regularize,
ii. **Infrastructural Development:** In general, infrastructure development continues to be a factor supporting the growth of the Real Estate sector through opening up areas for Real Estate investments. The government has continually prioritized infrastructural development in efforts aimed at positioning the country as a regional hub through the implementation of several key projects including, Makupa Bridge, Nairobi Expressway, Nairobi Western and Eastern Bypasses among others. Notable projects expected to be delivered in 2024 include phase two of the Dongo Kundu bypass project,
iii. **Provision of Affordable Mortgage Financing:** Kenya Mortgage Refinance Company (KMRC) has continued to drive the availability and affordability of home loans to Kenyans by providing single-digit

fixed rate, and long-term finance to Primary Mortgage Lenders (PMLs) such as banks and SACCOs. As at August 2023, KMRC had disbursed Kshs 7.2 bn to nine PMLs,

iv. **Aggressive Expansion pursued by Retailers:** The retail sector has continued to grow, with both local and international retailers such as Naivas, QuickMart and Carrefour pursuing aggressive expansion strategies in a bid to increase their dominance in the market, and replace distressed and exited retailers such as Choppies, Nakumatt, Tuskys, and Uchumi. Additionally, the continued entry and expansions witnessed by global retail brands into the country such as Adidas, Puma, Aldo, Micheal Kors among others is expected to further promote sector's performance,

v. **Continued Recognition of Kenya as a Regional Business Hub:** Kenya continues to enjoy recognition as a regional business hub. As a result, foreign entities have continued to open business operations in Kenya, boosting the demand for both commercial and residential Real Estate. Increased business activity has driven up demand for office space, apartments, and housing near business hubs, leading to development of new projects, increased property values, and job creation in the construction sector**,**

vi. **Positive Demographics:** With relatively high urbanization and population growth rates of 3.7% p.a and 1.9% p.a, respectively, against the global average of 1.5% p.a and 0.8% p.a, respectively, as at 2022, there is a sustained demand for more housing units in the country, and Real Estate in general,

vii. **Recovery of the Hospitality Sector: The** hospitality sector has seen resumed investor confidence evidenced by positive volumes in hotel mergers, expansions, and acquisitions. Furthermore, the number of international arrivals into the country registered a 28.7% year-to-year (y/y) increase to 1,238,330 persons as of October 2023, from 962,157 persons recorded during a similar period last year. Notably, the Hotel Chain Development Pipelines in Africa Report 2023 by W Hospitality Group highlights that 25 global hotel brands are considering opening new facilities in Kenya as of 2023. This translates to an additional 3,729 new hotel rooms ranking Kenya at position seven and among the top ten hotspots for upcoming luxury hotels, and,

viii. **Alternative Real Estate Markets:** The alternatives market, particularly the rising popularity of purpose-built student residences, health and data centers, and consular housing, presents a promising avenue for growth of the sector in 2024. In 2023, Grit Real Estate Income Group disclosed plans to invest in a hospital and data center in Kenya. Additionally, the firm expressed its dedication to constructing a Kshs 14.0 bn cutting-edge healthcare equipment production plant at Tatu City in collaboration with FullCare Medical Limited, an Asian medical equipment manufacturer. The project is expected to be completed by the end of 2024. These asset classes position the sector to remain resilient in a rapidly evolving economic and technological landscape.

Despite the above drivers, the sector's optimal performance is expected to be hampered by the following factors in 2024:

i. **Rising Construction Costs**: In 2023, construction costs increased by 27.0% to an average of Kshs 71,200 per SQM from an average of Kshs 56,075 per SQM recorded in 2022. The rise is primarily due to the hike in prices of key construction materials such as cement, steel, paint, aluminum, and PVC on the back of rising inflation. These higher costs are expected to impede development activities in the sector,

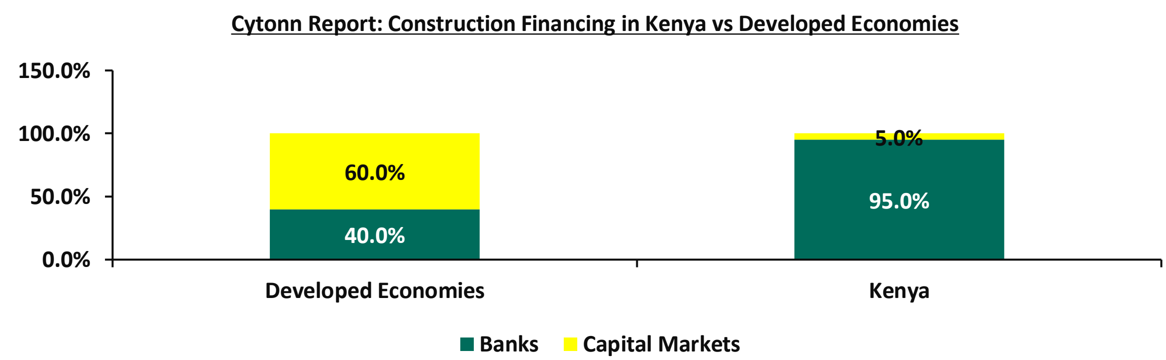
ii. **Existing oversupply of physical space in select sectors**: With approximately 5.8 mn SQFT in the NMA commercial office market, approximately 3.0 mn SQFT in the Nairobi Metropolitan Area (NMA) retail market, with the rest of the Kenyan retail market having an oversupply of approximately 1.7 mn SQFT. This has led to prolonged vacancy rates in the respective Real Estate sectoral themes,

iii. **Subdued REITs Market**: The REITs market in Kenya continues to be subdued owing to various challenges such as the large capital requirements of Kshs 100.0 mn for trustees which limits the role to banks, prolonged approval process for REITs, only a few entities capable of incorporating REITs, high minimum investment amounts set at Kshs 5.0 mn which discourage investments and lack of adequate knowledge of the financial asset class by investors, and,

iv. **Tough Micro-economic Conditions**: These include high inflation and rising interest rates which have led to eroded purchasing power and expensive borrowing respectively. This impacts the Real Estate sector negatively as developers enjoy less profit margins due to the inflated construction costs. Additionally, increased interest rates make borrowing more expensive, further dampening demand for mortgages and lending to developers,

v. **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 20.9% surge in gross Non-Performing Loans (NPLs) in the Real Estate sector, reaching Kshs 96.0 bn in Q2'2023, up from Kshs 79.4 bn recorded during the same period in 2022, and,

vi. **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 95.0% of funding as opposed to 40.0% in developed countries. This means that capital markets contribute only 5.0% of Real Estate development funding, compared to 60.0% in developed countries as shown below;



Source: World Bank, Capital Markets Authority

The table below summarizes our outlook on the various Real Estate themes and the possible impact on the business environment in 2024;

Thematic Performance Review and Outlook

Cytonn Report: Thematic Performance Review and Outlook			
Theme	**2023 Performance**	**2024 Outlook**	**Effect**
Residential Sector	• During FY'2023, the NMA residential sector recorded a slight downtrend in performance, with the average total returns to investors coming in at 6.1%, a 0.1%-point decline from 6.2% recorded in FY'2022. The performance was attributed to a decrease in the residential average y/y price appreciation which came in at 0.5% in FY'2023, 0.6%-points lower than the 1.1% appreciation recorded in FY'2022, driven by slowed property transactions during the year • On the other hand, the average rental yield came in at 5.5% in FY'2023, recording a 0.4%-points uptick from the 5.1% rental yield recorded in FY'2022. This was driven by an increase in the average rent per SQM by 10.9% to Kshs	• The demand for housing is expected to persist in 2024, driven by positive population demographics. Increased efforts by the government to implement its affordable housing agenda is expected to spur further growth in the sector. Additionally, expansion and development of infrastructural projects is set boost the sector, as well as efforts by the government to avail low cost loans to Kenyans through Kenya Mortgage Refinance Company (KMRC) which is poised to enhance homeownership • Conversely, we expect the sector to be weighed down by the prevailing tough economic environment such as weakening shilling, high inflation, the low penetration of mortgages, as well as soaring cost of construction	**Neutral**

	599, from Kshs 540 recorded in FY'2022, as landlords sought to cover increased expenses	• For detached units, investment opportunity lies in areas such as Ngong, Syokimau, and Athi River, while for apartments, investment opportunity lies in Waiyaki Way, Athi River and Thindigua due to their remarkable returns driven by relatively high returns to investors	
Commercial Office Sector	• In FY'2023, The average rental yield remained stable, registering 0.1% points increase to 7.7% in FY'2023 from 7.6% recorded in FY'2022, due to improved rental and occupancy rates. • The improvement in performance was mainly driven by; high number of Grade A offices which are highly preferred especially by multinational companies, high demand for quality offices by embassies, international organizations and multinational companies in these areas and availability of infrastructural capital such as Nairobi Expressway which has increased accessibility to areas such as Westlands.	• We expect a slight increase in performance by 0.2% points, attributable to the expected increase in the overall rental rates. We expect the improved performance to be supported by; i) increased entry of multinationals companies into the country, ii) Kenya's continued recognition as a regional business hub which continues to attract multinational companies expanding into the continent, iii) increasing number of start-ups, iv) gaining traction in co-working spaces and, v) landlords growing preference for dollar-denominated rental prices, in efforts geared towards mitigating forex losses. However, we expect that an increased incoming supply compared to a similar period last year and the existing oversupply estimated at 5.8 mn SQFT in the Nairobi Metropolitan Area (NMA) will weigh down on the sector's performance by stifling absorption rates • Investment opportunity lies in Westlands, Gigiri and Parklands, and which continue to record high returns at 8.5%, 8.2%, and, 8.0%, respectively, compared to the market average of 7.7%	**Neutral**
Retail Sector	• The sector recorded 0.4% points increase in average rental yields to 8.3%, from 7.9% in 2022. Average rents and occupancies also increased by 0.9% and 1.8% points to Kshs 177 per SQFT and 79.2%, 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 accessibility to retail centres, and, iv) positive demographics facilitating the demand for spaces, goods and services	• We expect a slight increase in rental yields by 0.3% points as a result of; i) increased rental charges of retail spaces and demand for existing supply amid the aggressive expansion by retailers taking up new and previously occupied spaces, ii) infrastructure developments opening areas for investments, and, iii) positive demographics. However, oversupply of physical space, increased adoption of e-commerce, and a tougher economic environment for businesses are expected to undermine the performance of the sector in turn affecting rental yields of the sector during the year • 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	**Neutral**
Hospitality Sector	• In 2023, serviced apartments' year-on-year (y/y) performance improved, with occupancy rates increasing by 0.5% points to 66.3%, from 65.8% recorded in 2022. Monthly charges per SQM increased by 10.9% to Kshs 3,045 in 2023, from Kshs 2,716 per SQM recorded in 2022. Additionally, average rental yields increased by 0.6% points to 6.8% in 2023, from 6.2% recorded in 2022 • 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 continue registering improved performance moving forward in terms of overall hotels in operation, hotel bookings, and hotel occupancies. The direct flights from Dubai to Mombasa by FlyDubai will create a new and convenient travel option for international tourists, potentially boosting the number of arrivals in Mombasa. Notably, there has been a substantial 31.7% Year-on-Year (y/y) surge in international arrivals through Jomo Kenyatta International Airport (JKIA) and Moi International Airport (MIA) in Q3'2023, reaching 451,441, as reported in the Leading Economic Indicators (LEI) October 2023 report, compared to 342,904 recorded in Q3'2022. The ease of access is likely to attract tourists seeking the vibrant tourism offerings in Kenya. However, we anticipate factors such as; i) the release of cautionary statements by governments like China and Canada in December 2023, advising their citizens against traveling to Kenya due to worries about terrorism threats, elevated crime rates, frequent power outages, and unsafe transport systems, is anticipated to compound challenges in the sector, ii) the weakening of Kenyan shilling against the US dollar, raising the prices of crucial inputs hence escalating operational costs, iii)	**Positive**

		difficulty in accessing finance as lenders demand more collateral to cushion themselves owing to elevated credit risk, and, 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 in January 2023 • Prime investment prospects lie in Westlands, Limuru Road, and Kilimani, where average rental yields stood at 10.2%, 8.2%, and 7.7%, respectively, surpassing the market average of 6.8% in 2023. This was due to their proximity to the CBD, the existence of top-tier serviced apartments commanding premium rates, convenient accessibility, and their closeness to international organizations, fostering a robust demand for serviced apartments in these areas	
Land Sector	• The Nairobi Metropolitan Area (NMA) land sector recorded an average annualized capital appreciation of 2.9% in FY'2023 • The overall asking prices for unserviced and serviced land in the satellite towns of the NMA recorded the highest average capital appreciations of 8.8% and 5.9%, which came in 5.9% and 3.0% points higher than the market average of 2.9% respectively • This was mainly attributed to an increased demand resulting from their affordability, having recorded average selling prices per acre at Kshs 16.4 mn and Kshs 18.9 mn compared to the market average of Kshs 128.6 mn in FY'2023. Moreover, infrastructure developments enhancing accessibility to these areas, availability of amenities and high concentration of learning institutions around and within the areas necessitating demand land for development of student housing particularly in Juja and Rongai contributes to the sustained demand for land in these areas	• In 2024, we expect the performance of the sector to remain positive, with an expected annual capital appreciation of 3.0%, fueled by anticipated high prices in satellite towns. We expect the positive performance will be supported by; i) the completion of major infrastructure projects, ii) rising demand for development land in satellite towns, and, a general increasing demand for land • However, we anticipate that the average selling prices for land in the NMA will continue to experience a slowdown and decline slightly to come in at Kshs 128.5 mn in FY'2024, from Kshs 128.6 mn recorded in FY'2023. We attribute this to factors such as increased uncertainty, eroded purchasing power, and a deteriorating business environment, which may impact demand and contribute to a moderation in land prices • Investment opportunity lies in Juja, Utawala, and Rongai for unserviced land, which recorded annualized capital appreciations of 12.3%, 11.6%, and 9.8% respectively compared to a market average of 8.8%. For serviced schemes, Ruiru-Juja, and Ruai recorded the highest annualized capital appreciations of 6.8% and 6.0%, respectively against the serviced average of 5.9%	**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 • In the FY'2023/2024, Infrastructure, Energy and Information and Technology (ICT) budget saw an increase of 12.4%, totaling Kshs 468.2 bn from Kshs 416.4 bn in FY'2022/2023 • Some of the key projects implemented in 2023 included; construction of new roads (3,805 km), construction of 73 bridges, repair of roads (240 km), revitalization of the Kisumu-Butere (69 km), Leseru-Kitale (65 km), and Gilgil-Nyahururu (78 km) rail branch lines	• In 2024, we expect to continue seeing the progress, and completion of more infrastructural developments in 2024 mainly supported by the government's aggressiveness to; i) construct and rehabilitate roads, bridges, railways, airports, and affordable housing units, among others, ii) increase its diplomacy and partnerships in development among neighbouring nations, and, iii) step up on the competition for attracting regional and international investors against other countries in Eastern Africa like Tanzania through railway connections and ports infrastructure • Some of the projects in the pipeline such as; Riruta – Lenana – Ngong Railway Line, phase I of Nairobi Railway City, the Meter Gauge Railway (MGR) Link from Mombasa SGR Terminus to Mombasa MGR Station, and the Railway Bridge across Makupa Causeway • According to the Draft 2024 Budget Policy Statement, the government's Infrastructure, Energy, and ICT allocation for the FY'2024/2025 is forecasted to be Kshs 505.7 bn, representing a 8.0% increase from Kshs 468.2 bn FY'2023/2024. This increase is attributed to an extensive array of strategic programs and interventions • Upon completion, the projects are expected to open up more areas for penetration of Real estate investments across all	**Neutral**

		select sub-sectors, tapping into new opportunities and demand for properties, goods and services • However, recent budgetary cuts to the state department for housing, and a general reduction in the country's development expenditure will potentially hinder optimal performance of the sector. According to the Supplementary Budget FY'2023/24, allocation to the State Department of Roads reduced by 8.3% to Kshs 230.1 bn from Kshs 250.8 bn. This was attributed to the redirection of funds to other key sectors such as education, as well as to address mounting costs over debt repayment, on the back of increasing debt obligations exacerbated by the continued depreciation of the Kenyan Shilling. The above indicate a shift in government's spending priorities, signaling reduced roads expenditure in the FY'2023/24. We anticipate that Kenya's infrastructure sector will witness a slowdown in the number of initiated and completed road construction and maintenance projects going forward	
Industrial Sector	• In 2023, the sector was on an upward trajectory, supported by rising demand for e-commerce warehouses in the retail sector as well as increased demand storage space for perishable goods. • Several players in the industry made significant investments in the sector including Perishable Movements Kenya Limited, Fresh Handing Kenya Limited, Improvon among others in setting up production factories and storage facilities. This was in efforts to localise sourcing of raw materials and production of goods, on the back of a depreciating local currency against major trading currencies which has drastically increased the costs of importing inputs	• We expect continued growth in the sector as investors continue to respond to the growing demand for industrial space. Data centers, cold rooms, growth in e-commerce and fast-moving consumer goods will drive growth in the industrial sector • In 2024. we expect heightened development activities in the sector with projects such as the Africa Data Centres' (ADC) new facility scheduled for completion in the first quarter of 2024. This facility is set to deliver an additional 15 MW of IT load, expanding ADC's current infrastructure and addressing the increasing demand for digital services in East Africa • We expect the Kenyan industrial sector will continue on an upward trajectory supported by; i) rising demand for e-commerce warehouses in the retail sector, ii) the rising demand for space to store goods meant for delivery to clients across the country, as more people shift towards home delivery as a convenient and efficient way to purchase goods, iii) government's accelerated focus on exporting agricultural and horticultural products to the international market, with an aim to improve the quantity, quality, efficiency, and reliability of Kenya-farmed produce thereby increasing the country's competitiveness, iv) Kenya's continued recognition as a regional hub hence attracting investments, and, v) continued improvement in infrastructure through projects such as the Standard Gauge Railway (SGR), the Eastern and Northern Bypasses connecting Jomo Kenyatta International Airport (JKIA) and other regions in the Nairobi Metropolitan Area, among other key infrastructural improvements which we expect will increase the output of Special Economic Zones (SEZs) and Inland Container Depots (ICDs)	**Positive**
Listed Real Estate	• In the Nairobi Securities Exchange, Fahari I-REIT continued to underperform closing the year 2023 at Kshs 6.3 per share, representing a 68.5% Inception-to-Date (ITD) loss from the Kshs 20.0 price • The underperformance of the Kenyan REIT sector is attributable to various factors such as; i) lack of sufficient investor awareness regarding the potential of REITs as an investment tool, ii) lengthy approval procedures for establishing REITs have hindered their formation and deployment in the market, iii) high minimum capital requirement of Kshs 100.0 mn for trustees which restricts	• Anticipatedly, the Kenyan REIT market is poised to experience minimal activity throughout 2024. ILAM Fahari I-REIT is planned for delisting from the Main Investment Market Segment of the Nairobi Securities Exchange (NSE) and subsequent quoting on the USP. This strategic move is part of the ongoing operational restructuring strategy employed by the REIT manager, ICEA Lion Asset Management. Consequently, Fahari I-REIT is set to join the Acorn REITs in trading on the USP. Notably, LAPTrust's Imara I-REIT continues to trade on the Main Investment Market of the NSE, under the Restricted Segment. It is important to highlight	**Neutral**

	the involvement of non-bank entities in the role of trustees, and, iv) steep minimum investment amount of Kshs 5.0 mn discourages potential investors from engaging in REITs. These factors have impeded the optimum performance of the sector • In the Unquoted Securities Platform, Acorn D-REIT and I-REIT traded at Kshs 25.3 and Kshs 21.7 per unit, respectively, as of 1st December 2023. The performance represented a 26.6% and 8.3% 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 30.7 mn shares, respectively, with a turnover of Kshs 257.5 mn and Kshs 633.8 mn, respectively, since inception in February 2021	that recent developments in the sector have limited investment in the asset class to high-net-worth individuals or professional investors capable of purchasing units worth Kshs 5.0 mn and above. This trend runs counter to the sector's primary goal of facilitating access to the capital markets to retail investors • In addition, we expect the sector will continue to lag behind in comparison to other African countries such as South Africa, attributable to several challenges facing the sector such as; i) lack of sufficient investor awareness regarding the potential of REITs as an investment tool, ii) lengthy approval procedures for establishing REITs have hindered their formation and deployment in the market, iii) high minimum capital requirement of Kshs 100.0 mn for trustees which restricts the involvement of non-bank entities in the role of trustees, and, iv) steep minimum investment amount of Kshs 5.0 mn discourages potential investors from engaging in REITs. • However, we expect initiatives including; i) the proposed establishment of the Kenya National REIT (KNR), ii) business operational restructuring strategies employed by key industry players such as Fahari I-REIT geared towards achieving business and financial optimization as well as sustainability, and iii) the launch of the Vuka Investment Platform towards the end of 2022 will assist neutralize and mitigate the above challenges, thereby contributing to the overall enhancement of the sector's performance in the Kenyan Real Estate capital markets	

With 3 themes having a positive outlook and 5 neutral, 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

During FY'2023, there was a slight decrease in average investor total returns by 0.1% to come in at 6.0%, from 6.1% realized in FY'2022. The residential average y/y price appreciation came in at 0.5% in FY'2023, 0.6%-points lower than the 1.1% appreciation recorded in FY'2022, driven by slowed property transactions during the year. This was attributable to the tough economic conditions witnessed in the country characterized by factors such as rising inflation and continued depreciation of the Kenyan currency which reduced the purchasing power of buyers hence slowing down transactions in the residential sector. In 2024, we expect the sector to remain stable, and mirror patterns witnessed in 2023. As such, as the business environment continues to deteriorate, we expect a potential drop in selling prices as property owners adapt to accommodate the diminishing purchasing powers of buyers.

Going forward, we expect the sector will register continued growth driven by the Affordable Housing Program (AHP) as government intensifies its efforts to ensure implementation of the initiative in a majority of the counties. We also expect the sector to be supported by the completion and expansion of various infrastructural projects which will lead to opening up of satellite areas, which were previously inaccessible consequently leading to increased property prices and values. Furthermore, infrastructural development and increased connectivity of key utilities such as water and electricity in these areas will likely boost property prices upwards. On the other hand, we expect the sector will be mainly weighed down by low purchasing power which may affect uptake and occupancy in several nodes, ultimately affecting rental yields and property prices.

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, one is positive, one is negative, and three are neutral, thus our outlook for residential demand this year is NEUTRAL.

Cytonn Report: Residential Demand Outlook		
Metric	**2024 Outlook**	**Effect**
Demographics	• According to World Bank Kenya has relatively high urbanization and population growth rates averaging 3.7% and 1.9% respectively, compared to the global averages of 1.5% and 0.8%, respectively, as of 2022. This will continue to provide sustained demand for more housing units in the country	**Positive**
Infrastructure	• The government aims at completing various infrastructural projects in the country including Riruta – Lenana – Ngong Railway Line, phase I of Nairobi Railway City, the Meter Gauge Railway (MGR) Link from Mombasa SGR Terminus to Mombasa MGR Station, and the Railway Bridge across Makupa Causeway • Going by the Draft 2024 Budget Policy Statement the government's Infrastructure, Energy, and ICT allocation for the FY'2024/2025 is forecasted to be Kshs 505.7 bn, representing a 8.0% increase from Kshs 468.2 bn FY'2023/2024 . With the ongoing construction projects such as Kenol-Marua Highway, Lamu-Garissa Highway, the sector is set to witness increased investments. However, recent budgetary cuts to the state department for housing, and a general reduction in the country's development expenditure will potentially hinder optimal performance of the sector	**Neutral**
Investor Returns	• Residential sector in 2023 recorded a slight decrease in average total returns to 6.1%, from 6.0% in 2022. This is linked to the decrease in price appreciation at 0.5% in FY'2023, 0.6%-points lower than the 1.1% appreciation recorded in FY'2022. Investors also increased their asking rents in order to hedge themselves against the tough economic times • We expect more investments in the lower mid-end Suburbs towns with average total returns of 6.1% performing better than detached units average of 5.8%. Apartments in Waiyaki Way, South C, and Imara Daima recorded the highest returns at 7.5%, 7.2%, and 7.0% respectively, higher than the market average of 6.3%	**Neutral**
Purchasing Power	• As the tough macro-economic environment persists evidenced by the continuous depreciation of the Kenyan Shilling against the United States dollar as well as select currencies, and inflation rises, buyer's purchasing power will continue to be weakened. This will weigh down the performance in the residential sector by hindering uptake	**Negative**
Access to Credit	• The government has continued to promote access to affordable credit through the Kenya Mortgage Refinance Company (KMRC) which has been crucial in providing Kenyans with low-cost loans increasing home ownership • However, lenders continue to ask for more collateral against loans advanced to the real estate sector due to the increase of Non-performing loans. In Q3'2023 the Non-Performing loans advanced to the real estate sector stood at Kshs 97.9 bn compared to Kshs 96.0.0 bn in Q2'2022, which is a 2.0% increase, developers are struggling to payback their loans	**Neutral**

Supply Side

The table below summarizes the various factors that will influence the **supply side** of residential Real Estate in 2024. Of the five factors that we expect to shape residential supply, one is negative, three are neutral, and one is positive, and thus our outlook is NEUTRAL.

Cytonn Report: Residential Supply Outlook

Metric	2024 Outlook	Effect
Developer Returns	• In 2023, the residential sector recorded a slight decrease in performance coming in at 6.1% from 6.2% recorded in 2022.The performance was attributed to a decrease in the residential average y/y price appreciation which came in at 0.5% in FY'2023, 0.6%-points lower than the 1.1% appreciation recorded in FY'2022. The average rental yield came in at 5.5% in FY'2023, recording a 0.4%-points uptick from the 5.1% rental yield recorded in FY'2022. This was driven by an increase in the average rent per SQM by 10.9% to Kshs 599, from Kshs 540 recorded in FY'2022 • Going forward, we expect developers will eye on lower-middle segment offering an average total return of 6.1% and 6.6% for detached and apartment units respectively. This is attributable to relatively higher average price appreciation of 0.8% for both, 0.3%-points higher than the detached market average appreciation of 0.5% • Conversely, developers' activities are expected to be hit by the soaring cost of constructions amid a rise in the prices of key construction materials	Neutral
Access to Financing	• Accessing funding remains a hurdle for developers in Kenya due to the underdeveloped capital markets. Since the inception of the investment regime in 2013, only one Real Estate Investments Trust (REIT) has been listed in the country. With regards to the above, we note that the REIT's manager has planned to delist it from the main investment market segment of the Nairobi Securities Exchange (NSE) during the year. Subsequently, Fahari I-REIT will be quoted on the Unquoted Securities Platform, joining the Acorn REITs. As a result, majority of developers heavily depend on traditional funding sources like banks which accounts for 95.0%, unlike 60.0% in developed countries • In 2024, we expect developers will continue to seek alternative financing options to fund their projects including equity financing, seeking for Public-Private Partnerships (PPPs), pushing for off-plan sales as conventional lending rates continue to increase	Neutral
Development Costs	• In 2024, developers will be hit by the rising cost of major construction materials such as cement and steel which registered a 27.7% increase in FY' 2023, majorly driven by depreciation of the Kenyan Shilling against major currencies such as the United States dollar as well as the prevailing inflationary pressures which saw the cost of construction rise to an average of Kshs 71,200 per SQM in 2023, from Kshs 56,075 per SQM in 2022	Negative
Infrastructure	• According to the Draft 2024 Budget Policy Statement, the government's Infrastructure, Energy, and ICT allocation for the FY'2024/2025 is forecasted to be Kshs 505.7 bn, representing a 8.0% increase from Kshs 468.2 bn FY'2023/2024. With the increased funding we expect the government to complete various infrastructural projects in the county and rehabilitation of rehabilitate roads, bridges, railways, airports, and affordable housing units, among others. • Infrastructural development will be a big boost in the residential sector, driving the cost of properties up as well as encouraging developers to commit their resources to development projects. Some of the projects in the pipeline such as; Riruta – Lenana – Ngong Railway Line, phase I of Nairobi Railway City, the Meter Gauge Railway (MGR) Link from Mombasa SGR Terminus to Mombasa MGR Station, and the Railway Bridge across Makupa Causeway • However, recent budgetary cuts to the state department for housing, and a general reduction in the country's development expenditure will potentially hinder optimal performance of the sector	Neutral
Government Incentives	• The government has made efforts to developers in a bid to reduce house deficit in the country, Some of the incentives initiated by the government includes; i) reduction of corporate tax for developers who build a minimum of 100 low cost units from 30.0% to 15.0% under affordable housing program, ii)) exemption of VAT on importation and local purchase of goods for the construction of houses under the affordable housing scheme, iii) forging for reforms in property registration in order to fast track approvals for developers in the affordable housing program, iv) increased efforts by the government to provide land to county governments for construction of affordable housing units, v) reduced tariffs on imported inputs for the construction of housing under the affordable housing scheme, (vi) VAT exemptions for construction inputs for affordable housing program, and, (vii) exemption from 4.0% (urban areas) and 2.0% (rural areas) stamp duty for first time buyers of houses under the affordable housing scheme • These incentives will go a long way in promoting home ownership as well solving housing deficits in the country	Positive

Our outlook remains neutral for the residential sector. On the supply side, our outlook is neutral as we expect the government to intensify its affordable housing activities country wide as it aims to deliver 250,000 units annually. We also expect the private sector to play a crucial rule in supplementing government efforts to bridge the housing deficit. In addition, infrastructural development will play a pivotal role in supporting the development of residential projects. On the demand side, our outlook remains neutral, owing to the tough macro-economic conditions currently being experienced in the country which has weakened buyers' purchasing power. 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. For detached units, investment opportunity lies in areas such as Ngong, Syokimau, and Athi River, while for apartments, investment opportunity lies in Waiyaki Way, Athi River and Thindigua due to their remarkable returns driven by relatively high returns to investors.

II. Commercial Office Sector

In FY'2023, in the Nairobi Metropolitan Area (NMA) commercial office sector, the average yields remained stable with a slight 0.1% increase to 7.7% from 7.6% recorded in FY'2022 due to improved occupancy and rental rates of 0.9% and 3.6% respectively. In 2024, we expect a decrease in occupancy rates, on the back of an increased incoming supply compared to a similar period last year. Moreover, the existing oversupply estimated at 5.8 mn SQFT in the Nairobi Metropolitan Area (NMA) is expected to further weigh down on the absorption rates. However, we expect occupancy levels to be boosted the increased entry of multinationals companies into the country, and increasing number of start-ups. Additionally, we anticipate asking rents will increase in line with landlords growing preference for dollar-denominated rental prices, in efforts geared towards mitigating forex losses.

We expect the overall rental yields for the commercial office sector to improve slightly by 0.2% points to 7.9% in FY'2024 from 7.7% recorded in FY'2023. The average rent, selling prices and occupancies are projected to be Kshs 106 per SQFT, Kshs 12,803 per SQFT and 79.2%, respectively in FY'2024, from Kshs 103 per SQFT, Kshs 12,673 per SQFT and 80.3% average rent, selling prices and occupancy levels recorded in 2023 respectively. The table below summarizes the commercial office performance from 2017 to 2023 and our forecast for 2024;

Cytonn Report: Summary of Commercial Office Returns in Nairobi Metropolitan Area (NMA) Over Time											
Year	**FY'17**	**FY'18**	**FY'19**	**FY'20**	**FY'21**	**FY'22**	**FY'23**	**Forecasted Annualized Change**	**2024F**	**Reason for Forecast**	**Outlook**
Occupancy (%)	82.6%	83.3%	80.2%	77.7%	77.6%	79.4%	80.3%	**1.1% points**	**79.2%**	We expect 1.1% points decrease in occupancy rates mainly attributable to an increased incoming supply compared to a similar period last year. Moreover, the existing oversupply estimated at 5.8 mn SQFT in the Nairobi Metropolitan Area (NMA) is expected to further weigh down on the absorption rates. However, we expect occupancy levels to be boosted marginally the entry of multinationals companies entering the country, and increasing number of start-ups	**Negative**
Asking Rents (Kshs/Sq ft)	101	101	96	93	94	96	103	**3.3%**	**106**	In FY'2024, we expect a 3.3% increase in asking rents attributed increased preference by landlords to prefer rent payment in US dollars, as well as expected increase in supply of prime	**Positive**

									offices fetching higher rents such as the Purple Tower, Bishop's Road and The Atrium in Westlands	
Average Prices (Kshs/Sq ft)	12,649	12,573	12,638	12,280	12,106	12,223	12,673	**1.0%**	**12,803**	Asking prices are expected to realize a 1.0% increase as construction prices continue to soar. However, the prevailing tough macro-economic conditions evidenced by factors such as sustained depreciation of the Kenyan shilling against major currencies and rising inflation may negatively affect demand for office space as businesses may decide to downsize in order to cut costs	**Neutral**
Average Rental Yields (%)	7.9%	8.1%	7.5%	7.0%	7.3%	7.6%	7.7%	**0.2% Points**	**7.9%**	We expect the yields to realize a slight improvement of 0.2% points attributed to the expected improvements in the overall rental rates. However, we expect the projected decline in occupancies to weigh down the sector's optimal performance	**Neutral**

Source: Cytonn Research

From the above, our overall outlook for the Nairobi Metropolitan Area commercial office sector is NEUTRAL. We expect the sector to remain stable with a slight improvement attributable to: i) increased entry of multinationals companies into the country, ii) Kenya's continued recognition as a regional business hub which continues to attract multinational companies expanding into the continent, iii) increasing number of start-ups, iv) gaining traction in co-working spaces and, v) landlords growing preference for dollar-denominated rental prices, in efforts geared towards mitigating forex losses . However, we expect that an increased incoming supply compared to a similar period last year and the existing oversupply estimated at 5.8 mn SQFT in the Nairobi Metropolitan Area (NMA) will weigh down on the sector's performance by stifling absorption rates.

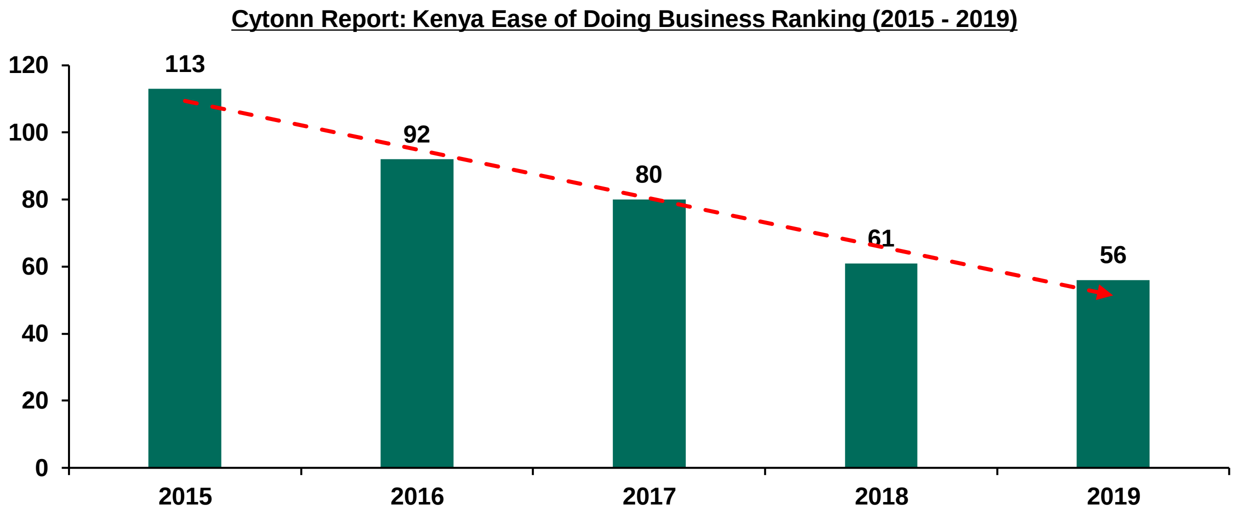
III. Retail Sector

The retail Real Estate sector in the Nairobi Metropolitan Area (NMA) exhibited positive performance improvements in FY'2023, witnessing an increase in average rental yields to 8.3%, marking a 0.4%-point increase compared to the 7.9% recorded in FY'2022. This improvement can be attributed to a notable 2.2%-point increase in average occupancy rates, to 79.8%, up from the 77.6% recorded in FY'2022. Additionally, average asking rents, rose by 4.6% to Kshs 182 in FY'2023 from Kshs 174 in FY'2022. This growth was primarily fueled by the expanded presence of high-quality retail spaces, including notable contributors such as the Global Trade Centre (GTC) in Westlands and BBS Mall in Eastleigh.

We expect the retail sector to continue recording growth and expansion activities in 2024, attributed to:

i. The retail sector is witnessing robust expansion efforts from both local and international players like Naivas, Carrefour, Chicken Inn, Artcaffe, Kentucky Fried Chicken, Java, QuickMart, and others. Simultaneously, there is a continuous trend of occupying new spaces and those previously held by troubled retailers such as Uchumi, Tuskys, and Nakumatt. The fervent pace of expansion is driven by the competitive nature of the business environment, with retailers aiming to stay ahead in the market, increase their market share, and establish dominance. This urgency is underscored by Kenya's formal retail penetration, estimated at around 30.0%,

ii. Extensive road and railway infrastructure developments are creating opportunities for investments, enhancing access to current retail outlets, and fostering the growth and expansion of small and medium startup retailers. This contributes to improved convenience in the upgraded 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 2022, thus driving demand for services and spaces upwards, and,
iv. Kenya’s notable enhancement in its business environment, resulting in increased investor confidence. According to the World Bank, Kenya's ease of doing business ranking improved from 113 in 2014 to 56 in 2019. The graph below illustrates Kenya's performance in terms of business ease from 2015 to 2019.



Source: World Bank

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

i. Challenges faced by retailers in obtaining financing linked to financial institutions tightening their lending practices, hindering the development and expansion plans of retailers. Additionally, the consistent underperformance of the capital market diminishes retailers' reliance on it for financing operations. The escalation of Monetary Policy Committee (MPC) rates further compounds the issue, making loans acquired from financial institutions for inventory expansion, business growth, and market entry more expensive to repay due to rising interest rates,
ii. The oversupply of physical space in the Nairobi Metropolitan Area (NMA) retail market, totaling around 3.3 mn SQFT. In the broader Kenyan retail market, there is an additional oversupply of approximately 2.1 mn SQFT. This surplus has resulted in a sluggish uptake of retail spaces within the sector, prompting developers to pause their projects as they await the absorption of the existing spaces,
iii. The consistently increasing costs associated with construction, reaching an average of Kshs 41,600 per SQM in 2023. This represents a notable surge of 20.1% from the Kshs 34,650 per SQM recorded in 2022. The escalation in costs is predominantly attributed to inflationary pressures, posing a deterrent to the sector's optimal development activities, and,
iv. The current administration's imposition of increased taxes on consumable goods, services, and property is anticipated to affect the retail market, particularly in terms of retail space occupancy, rental rates, and overall investor appeal, including that of foreign investors. With heightened taxes on consumables and property, landlords in the retail sector are likely to raise their rental prices, diminishing the investment returns available to investors. Consequently, some investors might opt to

reduce their involvement in Retail Real Estate, leading to impacts on both occupancy rates and rental charges. Moreover, the heightened taxes could render such investments less appealing to foreign investors, given the diminished returns compared to alternative investment opportunities in international markets.

As such, we expect the overall rental yields for the retail sector in FY'2024 to improve by 0.3% points to 8.6% from 8.3% recorded in FY'2023. The average rent, supply, and occupancies are projected to be Kshs 185 per SQFT, 8.6 mn SQFT and 80.2%, respectively in FY'2024, from Kshs 182 per SQFT, 8.3 mn SQFT and 79.3% in average rent, supply, and occupancy levels recorded in FY'2023 respectively.

The table below summarizes the retail performance from 2017 to 2022 and our forecast for 2024;

Cytonn Report: Nairobi Metropolitan Area (NMA) Retail Sector Performance 2017-2024F										
Item	**FY'17**	**FY' 18**	**FY'19**	**FY'20**	**FY'21**	**FY'22**	**FY'23**	**Forecasted Annualized Change**	**2024F**	**Reason for Forecast**	**Outlook**
Asking Rents (Kshs/SQFT)	185	178	176	169	170	174	**182**	**1.7%**	**185**	We expect asking rents to increase by 1.7% mainly driven by enhanced business confidence among investors, influencing demand for available retail spaces and consequently leading to higher rental rates. This is expected to coincide with the ongoing economic recovery, moving towards pre-COVID-19 levels. Furthermore, prime retail locations like Kilimani, Karen, and Westlands, where rents are quoted in dollars, are expected to observe continuous increases when converted to Kenyan currency, attributed to the persistent depreciation of the Kenyan shilling against the Dollar.	**Positive**
Supply in Nairobi (mn SQFT)	6.2	6.5	7.3	7.3	7.3	8.2	**8.3**	**3.1%**	**8.6**	We expect retail space supply to increase to 8.6 mn per SQFT in 2024 with the addition of an estimated 42,977 SQM through malls such as The Cove in Lavington, Lana Plaza in Kileleshwa, Park Place Avenue in Parklands and Beacon mall in Upperhill. Other notable developments expected to be delivered into the market outside of the NMA include Promenade mall in Nyali and Nyali Bazaar in Mombasa	**Positive**
Occupancy (%)	80.3%	79.8%	75.9%	75.2%	76.8%	77.6%	**79.3%**	**0.9% points**	**80.2 %**	The current oversupply of 3.0 mn SQFT, coupled with escalating rental charges on retail properties, a challenging economic environment marked by tax hikes on goods and businesses, and increased Monetary Policy Committee (MPC) rates implemented by the government, may prompt businesses to consider downsizing their operational spaces or adopting a more conservative approach to expansion. This is expected to exert	**Neutral**

										pressure on the occupancy of physical spaces within the formal retail sector. However, there remains a positive outlook with the anticipation of continued expansion and new entries by both local and international retailers. This optimism stems from the growing operations and the identification of opportunities in untapped regions, influencing occupier demand positively.	
Average Rental Yields	9.6%	9.0%	7.8%	7.5%	7.8%	7.9%	**8.3%**	**0.4% Points**	**8.6%**	We expect a slight increase in rental yields by 0.3% points as a result of increased rental charges of retail spaces and the aggressive expansion by retailers taking up new and previously occupied spaces. Furthermore, infrastructure developments opening areas for investments, and positive demographics are poised to support sector performance. 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

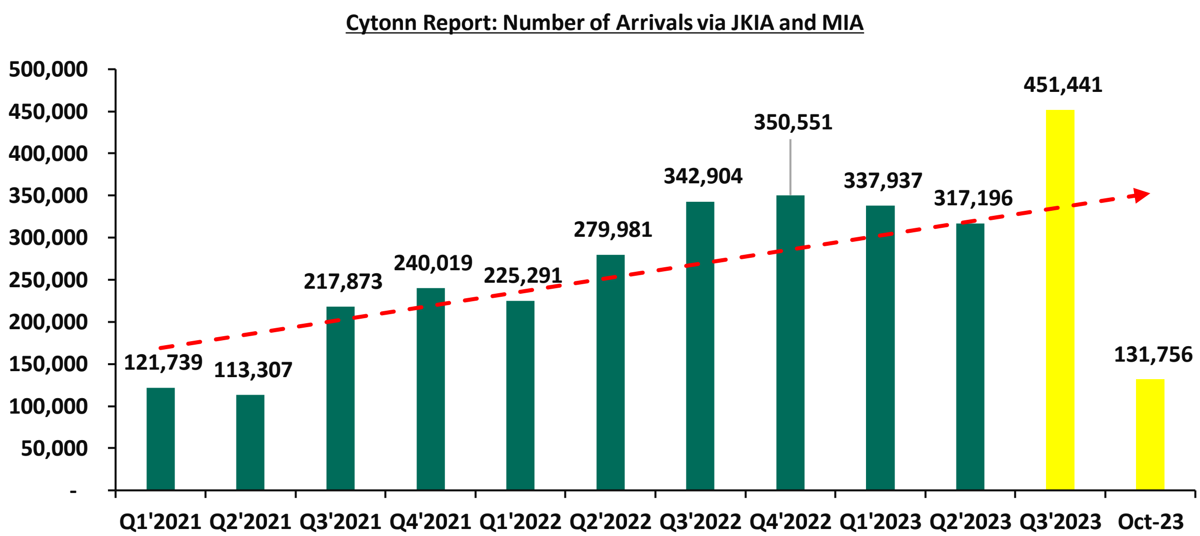
Overall, we have a NEUTRAL outlook on the retail sector's performance which is expected to be driven by; i) continuous aggressive expansion by both local and foreign retailers taking up new and existing spaces, ii) progressive developments in public infrastructure of roads and railway projects boosting 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, and improvement in operations towards technological levels by small and medium-sized enterprises to enhance their efficiency.

IV. Hospitality Sector

In 2023, the hospitality sector achieved notable advancements, as indicated by the Leading Economic Indicators (LEI) October 2023 report. The report highlighted an upswing in international tourist arrivals, the expansion of operational hotels, increased bed occupancies, and elevated hotel bookings. This positive trend underscored the sector's ongoing recovery from the challenges imposed by the COVID-19 pandemic. Specifically, serviced apartments exhibited improved year-on-year (y/y) performance, with a 0.5%-point rise in occupancy rates, reaching 66.3% compared to the 65.8% recorded in 2022. Moreover, there was a noteworthy 10.9% increase in monthly charges per square meter (SQM), reaching Kshs 3,045 in 2023, up from Kshs 2,716 in 2022. Additionally, average rental yields experienced a 0.6%-point upturn, reaching 6.8% in 2023, compared to the 6.2% recorded in the preceding year.

As we shift our focus to 2024, several factors are expected to influence the sector's trajectory including;

i. **Enhanced Promotion of Kenya's Tourism Sector to Boost Tourist Arrivals:** The Ministry of Tourism, in collaboration with the Kenya Tourism Board (KTB), is actively engaged in an ambitious marketing campaign aimed at presenting Kenya as an appealing tourist destination in global markets, leveraging platforms such as the Magical Kenya Platform. Ongoing initiatives, conducted in collaboration with international partners, focus on showcasing a diverse range of experiences, emphasizing wildlife, culture, and adventure activities. Presently, promotional activities are underway in Europe with the 'Real Deal Kenya' slogan, and similar efforts are being made in countries like India. This strategic marketing approach is integral to KTB's overall strategy to attract international tourists, aiding the sector's recovery from the lingering impact of the COVID-19 pandemic. Notably, there has been a substantial 31.7% Year-on-Year (y/y) surge in international arrivals through Jomo Kenyatta International Airport (JKIA) and Moi International Airport (MIA) in Q3'2023, reaching 451,441, as reported in the Leading Economic Indicators (LEI) October 2023 report, compared to 342,904 recorded in Q3'2022,



Source: Kenya National Bureau of Statistics (KNBS)

ii. **Collaborative Partnerships Fostering Tourism Growth**: The Kenya Tourism Board (KTB) recognizes the profound impact of alliances with the private sector, strategically leveraging joint initiatives to facilitate tourism expansion while minimizing direct expenditures. Building on the success of 2023, where the symbiotic relationship between KTB and the private sector significantly contributed to tourism growth, the collaborative efforts are poised to amplify marketing effectiveness and foster overall sector development in 2024. The inaugural Magical Kenya Loyalty Rewards Program, held alongside the East African Regional Travel Expo, epitomized the positive outcomes of collaboration. The ambitious goal of attracting 5.5 mn tourists in the next five years underscores the collective effort required from all stakeholders. The loyalty awards scheme and the recognition of partners in various categories, exemplifies KTB's commitment to fostering close ties with travel trade partners. With Kenya Airways securing the top spot, the program highlights the instrumental role of collaborative roadshows and joint efforts in boosting arrivals from key tourist source markets,

iii. **Persistent Acknowledgment of Kenya's Hospitality Sector**: Despite facing challenges, the Kenyan hospitality industry maintains an upward trajectory, evident in the growing acclaim received by numerous local and international hotels and brands situated in Kenya. These accolades span various categories, including the World Travel Awards and World Luxury Awards, among others. The consistent recognition serves to highlight the nation as a dynamic tourism hub, fostering increased confidence in hospitality market investments and contributing to a rise in international visitor arrivals to the country,

iv. **Hospitality Sector Support Events**: The hospitality industry is set to receive a positive impact from heightened leisure activities during festive seasons and sporting events, notably the Annual Safari Rally competition, which is slated to continue until 2026. Organized by the Ministry of Tourism, these events are expected to contribute to increased visitor arrivals, hotel bookings, and overall performance in the hospitality sector,

v. **Diverse and Enchanting Tourist Destinations**: Featuring a captivating array of attractions, including wildlife reserves, cultural heritage sites, and breathtaking landscapes such as Kenya's Lake System, Lake Turkana National Park, Mijikenda Kaya Forests, Mount Kenya National Park, Lamu Old Town, and Fort Jesus, these destinations continue to allure global travelers. The sector's outlook is positively influenced by ongoing preservation efforts and innovative experiential offerings that sustain the appeal of these attractions, making Kenya an attractive choice for visitors seeking authentic and immersive experiences, and,

vi. **Regional Expansion Drive by Market Players**: A surge in expansions within the hospitality sector becomes a driving force for market players in 2024, reflecting heightened investor confidence and a strategic pursuit of market dominance amid the recovery of both domestic and international travel. The preceding year, 2023, witnessed notable expansions by international hotel chains and renowned hospitality brands, including JW Marriott of the Bonvoy Global, Pan Pacific Hotels Group, and Miftah Concierge, venturing into the Kenyan market. The momentum continues with a promising development pipeline, featuring 25 new hotels throughout 2023—a noteworthy increase from the 24 established in 2022, as reported by the Hotel Chain Development Pipeline Africa 2023. These ambitious expansion initiatives are poised to provide crucial support to the sector's performance, underscoring the industry's resilience and growth prospects.

We have a POSITIVE 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. The direct flights from Dubai to Mombasa by FlyDubai will create a new and convenient travel option for international tourists, potentially boosting the number of arrivals in Mombasa. The ease of access is likely to attract tourists seeking the vibrant tourism offerings in Kenya. However, we anticipate factors such as; i) the release of cautionary statements by governments like China and Canada in December 2023, advising their citizens against traveling to Kenya due to worries about terrorism threats, elevated crime rates, frequent power outages, and unsafe transport systems, is anticipated to compound challenges in the sector, ii) the weakening of Kenyan shilling against the US dollar, raising the prices of crucial inputs hence escalating operational costs, iii) difficulty in accessing finance as lenders demand more collateral to cushion themselves owing to elevated credit risk, and, 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 in January 2023.

V. Land Sector

The Nairobi Metropolitan Area (NMA) land sector recorded an average annualized capital appreciation of 2.9% in FY’2023, which is 0.3% points lower than the 3.2% average appreciation recorded in FY’2022. Subsequently, the average selling prices for land in the Nairobi Metropolitan Area (NMA) in FY’2023 slowed down at Kshs 128.6 mn, from Kshs 130.2 mn recorded in FY’2022, attributable to uncertainty on future demand cycles given the economic slowdown and challenging micro-economic environment.

Despite the economic slowdown, the land market exhibited resilience amid challenging conditions, recording positive capital appreciation. This resilience was bolstered by various factors, including; i) Government's continued emphasis on infrastructural development such as roads, railways, water and sewer lines which has improved and opened up areas for investment, ultimately increasing property prices, ii) limited supply of land especially in urban areas which has contributed to exorbitant prices, iii) increased construction activities particularly in the residential sector fuelled by the government's affordable housing agenda boosting demand for land upwards, iv) positive demographics driving demand for land upwards, facilitated by high population and urbanization growth rates which are above the global averages, and, v) growth in popularity of satellite towns by investors and buyers which provide affordable land options in comparison to the suburbs and key commercial zones.

In 2024, we expect the performance of the sector to remain positive, with an expected annual capital appreciation of 3.0% fueled by anticipated high prices in satellite towns. We expect the positive performance will be supported by;

i. **Infrastructural Development**: Continued implementation and conclusion of vast infrastructure projects promoting accessibility and opening up areas for Real Estate investments. Recently concluded projects include; Nairobi Western Bypass, Dongo Kundu Phase one project in Kwale County, Nairobi Expressway, Makupa Bridge and Changamwe interchange projects in Mombasa County among others. Notable ongoing infrastructure projects include; dualing of the Eastern Bypass, Kenol-Sagana-Marua road project, James Gichuru-Rironi road, among many other projects,
ii. **Government Efforts to Streamline Land Transactions:** The government has demonstrated efforts to improve land transactions, facilitated by the launch and implementation of the National Land Information Management System (NLIMS), an online platform that was officially launched in 2021 to ensure efficient and streamlined land transaction processes. However, we note that the system has yet to be extended to other counties, and is presently operational exclusively within Nairobi County,
iii. **Investor demand for development land in satellite towns**: High land prices, coupled with limited supply of land within the city centre continue to discourage investors. This has consequently 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 17.7 mn, compared to the market average of Kshs 128.6 mn in FY'2023. This has created demand for land in satellite towns which we expect will persist thus driving land prices up, and,
iv. **Increasing demand for land**: We anticipate an increase in demand for land facilitated by Kenya's positive demographics. According to the World Bank, urbanization and population growth rates in Kenya currently stand at 3.7% p.a and 1.9% p.a, respectively, against the global average of 1.5% p.a and 0.8% p.a, respectively thus driving demand for land and Real Estate.

However, we anticipate that the average selling prices for land in the NMA will continue to experience a slowdown and decline slightly to come in at Kshs 128.5 mn in FY'2024, from Kshs 128.6 mn recorded in FY'2023. We attribute this to factors such as increased uncertainty, eroded purchasing power, and a deteriorating business environment, which may impact demand and contribute to a moderation in land prices. The summary of the previous performance of the theme and 2024 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**	**Price in 2023**	**Forecasted 2024 Prices**	**Annual Capital Appreciation 2024F**
Unserviced land- Satellite Towns	20.4	22.7	24.9	12.7	13.5	15.1	16.4	17.9	**8.9%**

Serviced land- Satellite Towns	14.4	14.3	14.3	14.8	16.4	17.8	18.9	19.8	**4.6%**
Nairobi High End Suburbs- Low- and High-Rise Residential Areas	120.4	124.7	127.2	126.8	130.3	137.4	134.7	137.2	**1.9%**
Nairobi Middle End Suburbs- High Rise Residential Areas	77.6	77.8	81.7	83.6	83.0	81.1	82.3	83.1	**1.0%**
Nairobi Suburbs - Commercial Areas	429.8	447.3	428.5	413.0	410.8	403.4	390.7	384.5	**(1.6%)**
Average	**132.5**	**137.4**	**135.3**	**130.2**	**130.8**	**130.9**	**128.6**	**128.5**	**3.0%**

Source: Cytonn Research

The investment opportunity lies in Juja, Utawala, and Rongai for unserviced land, which recorded annualized capital appreciations of 12.3%, 11.6% and 9.8% respectively compared to a market average of 8.8%. For serviced schemes, Ruiru-Juja, and Ruai recorded the highest annualized capital appreciations of 6.8% and 6.0%, respectively against the serviced average of 5.9%.

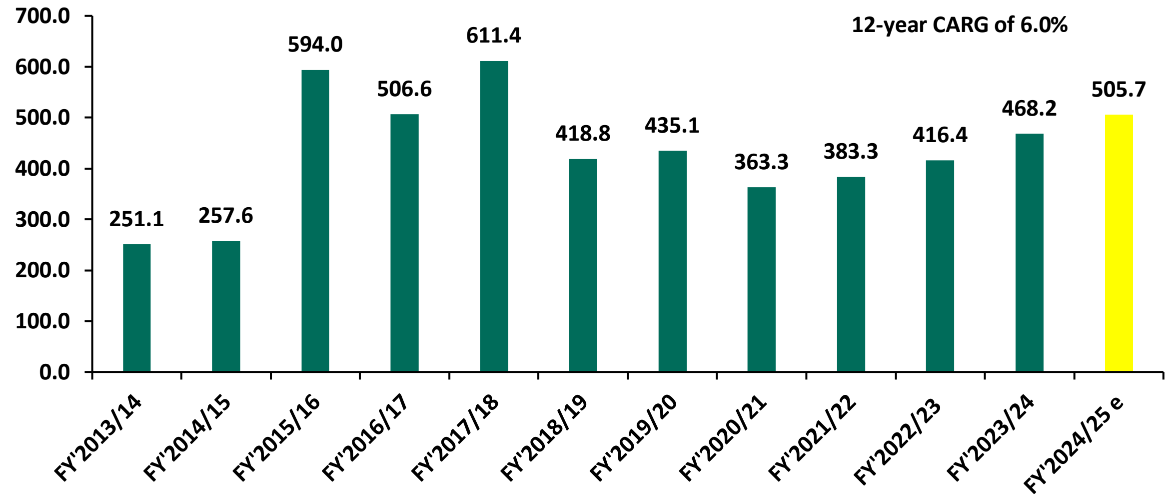
We retain a POSITIVE outlook for the land sector in the NMA which has consistently demonstrated its resilience affirming its position as a reliable investment opportunity. We expect that the sector's performance will be driven by several key factors including; i) increased demand for land for development supported by positive population demographics, ii) ongoing government initiatives to streamline land transactions leading to a more efficient and accessible market, iii) notable increase in the initiation and completion of affordable housing projects owing to both government and private sector involvement, iv) tax policies, and, v) rapid expansion of satellite towns, coupled with substantial infrastructural developments resulting in higher property prices.

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'2023/2024, Infrastructure, Energy and Information and Technology (ICT) budget saw an increase of 12.4%, totaling Kshs 468.2 bn from Kshs 416.4 bn in FY'2022/2023. This underscores the recognition of the capital-intensive nature of infrastructure projects and their direct impact on job creation and regional economic growth. 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, facilitating cross-border trade, regional integration, and boosting Kenya's competitiveness on the global stage. The sector witnessed completion and commissioning of major projects such as; the construction of new roads (3,805 km), construction of 73 bridges, repair of roads (240 km), maintenance and rehabilitation of roads (122,736 km); revitalization of the Kisumu-Butere (69 km), Leseru-Kitale (65 km), and Gilgil-Nyahururu (78 km) rail branch lines; and many more.

The graph below illustrates infrastructure budget allocation from FY'2013/2014 to FY'2024/2025;

Cytonn Report: Infrastructure budget allocation in Kshs bn



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 Financial Years (Kshs bn)							
Item	FY'2019/2020	FY'2020/2021	FY'2021/2022	FY'2022/2023	FY'2023/2024	y/y Change	5-Year CAGR
Interest Payments, pensions & Net Lending	553.3	586.5	718.3	867.8	986.2	13.6%	12.3%
Education	494.8	505.1	503.9	544.4	628.6	15.5%	4.9%
Infrastructure, Energy, and ICT	435.1	363.3	383.3	416.4	468.2	12.4%	1.5%
County shareable Revenue	310.0	316.5	370.0	399.6	385.4	(3.5%)	4.5%
Public Admin & Int. Relations	298.9	289.3	299.7	342.2	327.0	(4.4%)	1.8%

Source: Cytonn Research

According to the Draft 2024 Budget Policy Statement, the government's Infrastructure, Energy, and ICT allocation for the FY'2024/2025 is forecasted to be Kshs 505.7 bn, representing a 8.0% increase from Kshs 468.2 bn FY'2023/2024. This increase is attributed to an extensive array of strategic programs and interventions.

During this fiscal year 2024/2025 and the Medium-Term period, the sector plans to implement various initiatives to enhance infrastructure development and technological advancement. Key programs include the construction of 2,794 km of new roads, rehabilitation of 560 km of roads, maintenance of 137,544 km of existing roads and bridges, construction of 84 new bridges, and the training of 16,230 plant operators, contractors, and technicians. Additionally, the sector aims to complete various projects such as the Riruta – Lenana – Ngong Railway Line, phase I of Nairobi Railway City, the Meter Gauge Railway (MGR) Link from Mombasa SGR Terminus to Mombasa MGR Station, and the Railway Bridge across Makupa Causeway.
Other initiatives encompass housing construction, urban development projects, digital infrastructure expansion, electrification efforts, oil and gas potential exploration, and the provision of clean cooking gas to public learning institutions and low-income households. The comprehensive scope of these programs justifies the augmented budget allocation to drive transformative growth in the sector.

After their completion, the designated projects are anticipated to facilitate the expansion of real estate investments into previously untapped areas across various sub-sectors, creating fresh opportunities and generating demand for properties, goods, and services. However, the government is currently grappling with financial constraints in meeting its expenditure budget, making the financing of these projects both capital-intensive and fraught with higher risks. Furthermore, the government faces limitations in fiscal capacity, unable to impose additional taxes on the public, given the existing Fuel Maintenance Levy imposed on motorists for road upkeep. Consequently, the government has been exploring diverse funding sources to meet its infrastructure budget, including;

i) **Public-Private Partnerships:** In the Public-Private Partnership (PPP) model, the government provides support by offering resources such as land and covering the costs of excavating utilities such as electric poles and lines, fiber optics cables, and sewer lines. Conversely, the private investor takes on the responsibility of designing, financing, constructing, operating, and maintaining the infrastructure for a negotiated period, with users subject to a predetermined fee, such as tolls for pay-to-use roads. An illustrative case is the Nairobi Expressway, inaugurated in July 2022, where the China Roads and Bridges Corporation will collect toll fees over 27 years to recover its investments and interests. The Kenyan government enacted the PPPs Act in 2013, aiming to leverage PPPs as instruments to address significant infrastructure funding gaps amid fiscal constraints, growing public expenditure demands, and competing development priorities at both national and devolved levels. At present, the Public-Private Partnership (PPP) Directorate oversees a pipeline of 31 projects in various stages of the PPP project cycle, primarily in the procurement stage. The government foresees mobilizing Ksh 50 billion in the upcoming fiscal year 2024/2025 through these PPP pipeline projects, aligning with its strategic commitment to advancing infrastructure significantly through PPP frameworks. This collaborative effort with the private sector is geared towards facilitating project development in critical priority sectors, encompassing Water, Transport, Ports, Housing, Industrial parks, Renewable energy, Agriculture, ICT, Aviation, Hospitals, and more,

ii) **Issuing of Infrastructure bonds**: The utilization of infrastructure bonds has emerged as a significant financial strategy, offering substantial funding for infrastructure projects beyond the confines of annual budget allocations. In June 2023, the Central Bank of Kenya (CBK) introduced the IFB1/2023/07 infrastructure bond, aiming to raise Kshs 60.0 billion. The bond experienced a remarkable oversubscription rate of 367.5%, yielding 15.8%, or an equivalent of 18.6% on a tax-effected basis. Additionally, the recently issued IFB1/2023/6.5 infrastructure bond was oversubscribed by 177.8%, with the government accepting bids totaling Kshs 67.1 billion at a yield of 17.9%, equivalent to 21.1% on a tax-effected basis. Investors' heightened interest in these bonds can be attributed to the appealing feature of tax-exempt coupons, enhancing their allure and offering investors a valuable avenue for diversifying their portfolios. Beyond being a reliable funding source, these infrastructure bonds also signify investors' confidence in the government's dedication to infrastructure development. The funds generated from these bonds play a significant role in advancing both ongoing and upcoming infrastructure projects, contributing to overall economic growth and development., and,

iii) **Grants and loans from foreign countries and development partners:** These foreign countries include the 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. Additionally, Kenya persists in harnessing financial support from international development partners, a pivotal means of funding its infrastructure projects. These collaborations offer more than just financial assistance, encompassing technical expertise and knowledge transfer. Notably, the World Bank, exemplified by initiatives like the Kenya Urban Support Program (KUSP), plays a substantial role in advancing Kenya's urban infrastructure development. The government's adeptness in negotiating favorable financing terms and conditions with development partners facilitates the realization of projects that might pose financial challenges otherwise. By judiciously deploying grants, the government ensures the effective implementation of projects while alleviating the strain on the national budget, and,

iv) **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 also note that, according to the Supplementary Budget FY'2023/24, allocation to the State Department of Roads reduced by 8.3% to Kshs 230.1 bn from Kshs 250.8 bn. This was attributed to the redirection of funds to other key sectors such as education, as well as to address mounting costs over debt repayment, on the back of increasing debt obligations exacerbated by the continued depreciation of the Kenyan Shilling. The above indicates a shift in government's spending priorities, signaling reduced roads expenditure through a reduction in budgetary allocations to major capital expenditure road projects in the FY'2023/24. In support of this, various projects including the Nairobi-Mombasa Expressway and Rironi-Mau Summit Highway have been suspended valued at Kshs 320.0 bn and Kshs 160.0 bn respectively. Moving forward, we anticipate that due to the above, Kenya's infrastructure sector will witness a slowdown in the number of initiated and completed road construction and maintenance projects going forward. Furthermore, we expect the reduction in country's overall development budget by Kshs 41.9 bn to Kshs 765.7 bn from Kshs 807.6 bn will have a knock-on effect to the infrastructure sector.

Based on the above, we have a NEUTRAL outlook for the sector as we expect to continue seeing the progress, and completion of more infrastructural developments in 2024 mainly supported by the government's aggressiveness to; i) construct and rehabilitate roads, bridges, railways, airports, and affordable housing units, among others, 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. However, recent budgetary cuts to the state department for housing, and a general reduction in the country's development expenditure will potentially hinder optimal performance of the sector.

VII. Industrial Sector

Kenya made remarkable growth in the industrial real estate sector in 2023. Several international companies made significant investments in the sector, such as Perishable Movement Kenya Limited, Improvon and Fresh Handling Kenya Limited. A large number of investors in this sector aims a tapping on the opportunity provided by demand storage space for perishable goods and Fast-Moving Consumer Goods. Players such as Africa Logistics Properties have been steadfast in tapping opportunity presented by demand for quality grade A industrial and warehousing facilities marked by completion of the fourth phase of their Nairobi West Logistics Park in Tilisi, along Nairobi- Nakuru Highway. Notably, in Q1,2023 the sector recorded an occupancy rate of 80.0% signaling a growing demand for quality warehouses which will ultimately support growth in the sector.

Data centers and cold room have been a major driver in the industry. In recent years, there has been a growing demand for cold rooms in the country given that there are currently only 10 cold rooms in Nairobi. This under supply is set to increase demand as businesses activities continue to increase. Similarly, demand for data centers is on the rise and set to boost growth in the sector. As a result, Kenya has been highlighted as a potential for market for data centers among other African nations. Contemporary data centers serve as hubs that link on-site infrastructure to cloud based infrastructure, enabling visualization of networks, applications, and workloads across private and public clouds. In addition, investors in Kenya have adapted to growing demand for quality warehouses in Africa. In the last 5 years, developers have delivered more than 17,000 SQM of quality warehousing space.

In 2024, we expect increased investments and activities in the sector with major players in the industry such as Africa Data Centre's (ADC) announcing expansions. ADC is set to open a data center facility in the first quarter of 2024, when it is scheduled for completion. This facility is set to deliver an additional 15 MW of IT load, expand ADC's current infrastructure and addressing the increasing demand for digital services in East Africa. Additionally, developers such as Logistics Properties and Improve on plan to deliver over 4,000 SQM of space in the market by the end of the year.

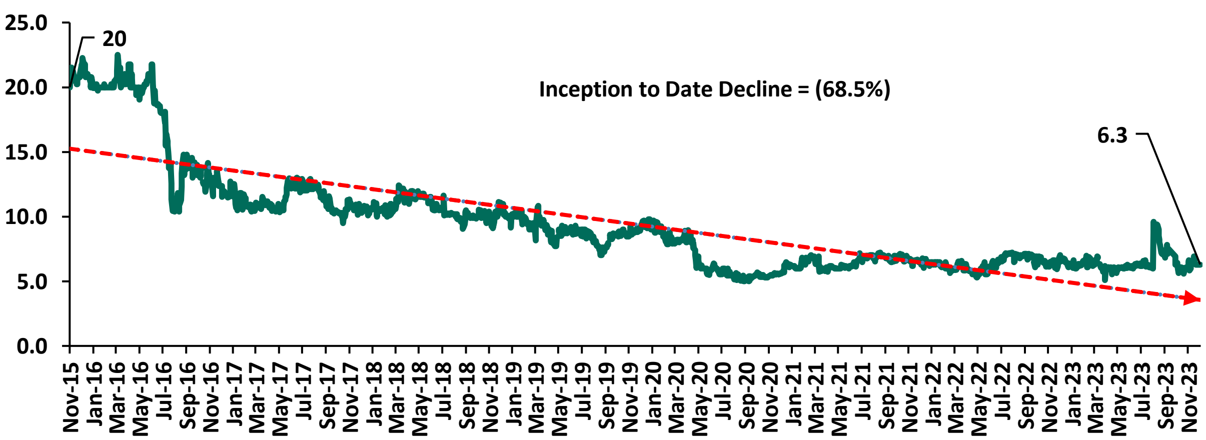
We expect the Kenyan industrial sector will continue on an upward trajectory supported by; i) rising demand for e-commerce warehouses in the retail sector, fuelled by the rising demand for space to store goods meant for delivery to clients across the country, as more people shift towards home delivery as a convenient and efficient way to purchase goods, ii) government's accelerated focus on exporting agricultural and horticultural products to the international market, with an aim to improve the quantity, quality, efficiency, and reliability of Kenya-farmed produce thereby increasing the country's competitiveness, iii) Kenya's continued recognition as a regional hub hence attracting investments, iv) increased demand for cold storage facilities for drugs and vaccines whose demand is driven by the Universal Health Coverage program by the government and accelerated campaign in provision of better and cheaper health services by private and Non-Governmental health organisations, and, v) continued improvement in infrastructure through projects such as the Standard Gauge Railway (SGR), the Eastern and Northern Bypasses connecting Jomo Kenyatta International Airport (JKIA) and other regions in the Nairobi Metropolitan Area, among other key infrastructural improvements which we expect will increase the output of Special Economic Zones and Inland Container Depots (ICDs).

VIII. Listed Real Estate

a. Listed Real Estate

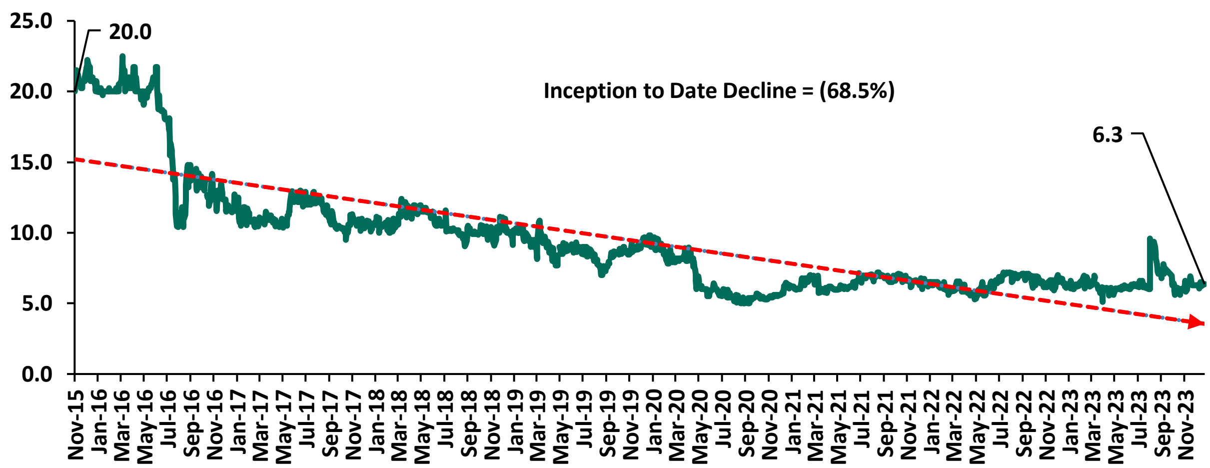
In the Nairobi Securities Exchange, ILAM Fahari I-REIT closed 2023 trading at an average price of Kshs 6.3 per share. The performance represented a 7.1% Year-to-Date (YTD) loss from Kshs 6.8 per share recorded on 3 January 2023, taking it to a 68.5% Inception-to-Date (ITD) loss from the Kshs 20.0 price. The graph below shows Fahari I-REIT's performance from November 2015 to 29th December 2023;

Cytonn Report: Fahari I-REIT Perfomance (November 2015 - 29th December 2023)



Fahari I-REIT opened the year 2024 trading at an average price of Kshs 6.3 per share recorded on 2nd January 2024. As at 26th January 2024, ILAM Fahari I-REIT closed the week trading at an average price of Kshs 6.3 per share. The performance represents a 0.9% decline from Kshs 6.4 per share recorded last week. On a Year-to-Date (YTD) basis, the performance remained relatively unchanged from the price recorded on 2nd January 2023. Additionally, the performance represents a 68.5% Inception-to-Date (ITD) loss from the Kshs 20.0 price. The dividend yield currently stands at 10.3%. The graph below shows Fahari I-REIT's performance from November 2015 to 26th January 2024;

Cytonn Report: Fahari I-REIT Perfomance (November 2015 - 26th January 2024)



Source: Cytonn Research

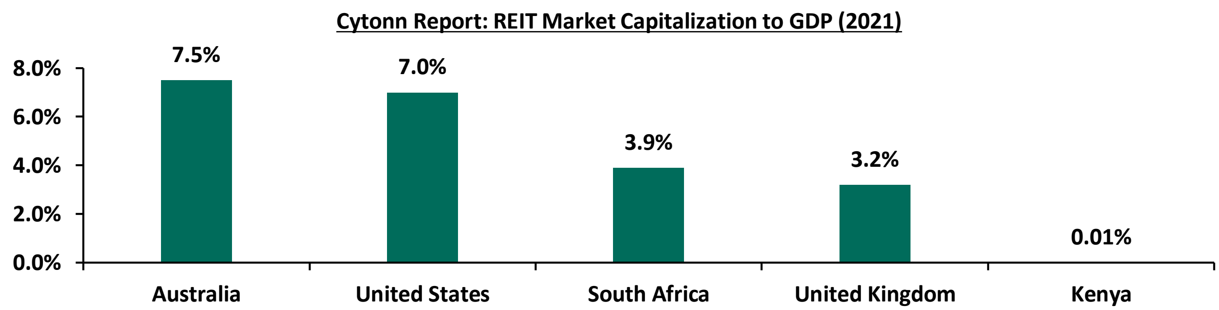
In the Unquoted Securities Platform (USP), Acorn D-REIT and I-REIT closed the year 2023 trading at Kshs 25.3 and Kshs 21.7 per unit, respectively, as of 1st December 2023. The performance represented a 26.6% and 8.3% gain for the D-REIT and I-REIT, respectively, from the Kshs 20.0 inception price. The volumes traded for the D-REIT and I-REIT came in at 12.3 mn and 30.7 mn shares, respectively, with a turnover of Kshs 257.5 mn and Kshs 633.8 mn, respectively, since inception in February 2021.

Acorn D-REIT and I-REIT opened the year 2024 trading at same unit prices recorded as at 1st December 2024. In the week ended 19th January 2024, the Kenyan USP market recorded market activity for the first time in 2024, to close at Kshs 24.4 and Kshs 21.7 per unit for the D-REIT and I-REIT respectively. The performance represented a 22.0% and 8.3% 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 30.7 mn shares, respectively, with a turnover of Kshs 257.5 mn and Kshs 633.8 mn, respectively, since inception in February 2021. As at 26th January 2024, Acorn D-REIT and I-REIT traded at Kshs 24.4 and Kshs 21.7 per unit respectively. The performance remains relatively unchanged from that realized on 19th January 2024.

Anticipatedly, the Kenyan REIT market is poised to experience minimal activity throughout 2024. ILAM Fahari I-REIT is planned for delisting from the Main Investment Market Segment of the Nairobi Securities Exchange (NSE) and subsequent quoting on the USP. This strategic move is part of the ongoing operational restructuring strategy employed by the REIT manager, ICEA Lion Asset Management. Consequently, Fahari I-REIT is set to join the Acorn REITs in trading on the USP. Notably, LAPTrust's Imara I-REIT continues to trade on the Main Investment Market of the NSE, under the Restricted Segment. It is important to highlight that recent developments in the sector have limited investment in the asset class to high-net-worth individuals or professional investors capable of purchasing units worth Kshs 5.0 million and above. This trend runs counter to the sector's primary goal of facilitating access to the capital markets to retail investors.

In addition, we expect the sector will continue to lag behind in comparison to other African countries such as South Africa, attributable to several challenges facing the sector such as; i) lack of sufficient investor awareness regarding the potential of REITs as an investment tool, ii) lengthy approval procedures for establishing REITs have hindered their formation and deployment in the market, iii) high minimum capital requirement of Kshs 100.0 mn for trustees which restricts the involvement of non-bank entities in the role of trustees, and, iv) steep minimum investment amount of Kshs 5.0 mn discourages potential investors from engaging in REITs. These factors have impeded the optimum performance of the sector. Notably, Fahari I-REIT's continues to trade below its Net Asset value per share of Kshs 18.7 and inception price.

The underdeveloped capital markets in Kenya has continually failed 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. As a result, 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;



Source: Cytonn Research

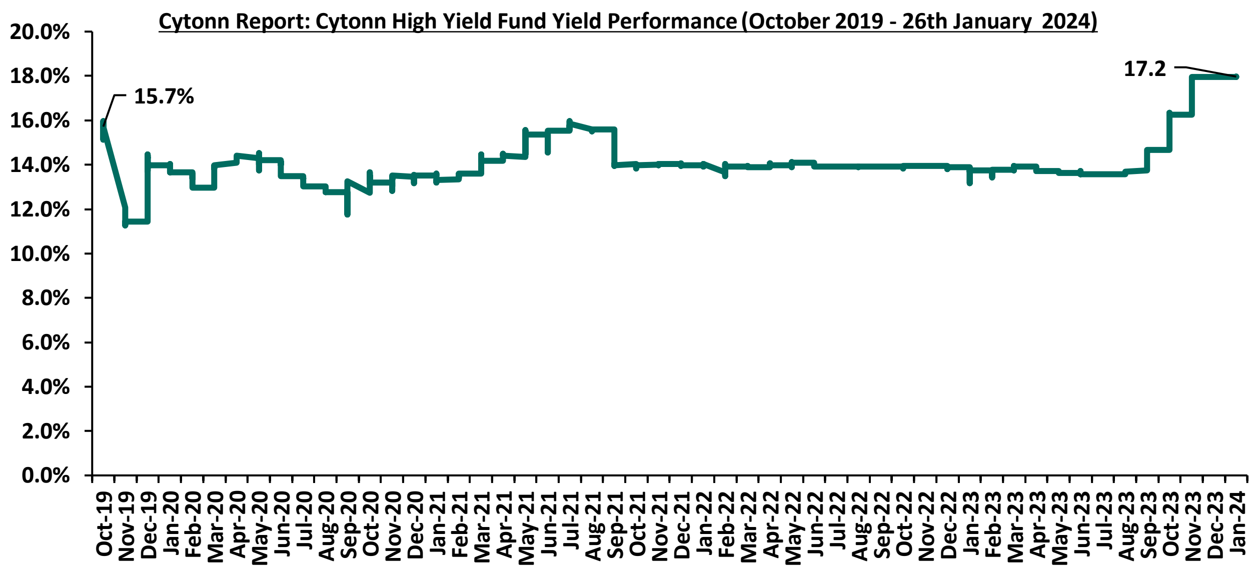
On the other hand, we expect initiatives including; i) the proposed establishment of the Kenya National REIT (KNR), ii) business operational restructuring strategies employed by key industry players such as Fahari I-REIT geared towards achieving business and financial optimization as well as sustainability, and iii) the launch of the Vuka Investment Platform towards the end of 2022 will assist neutralize and mitigate the above challenges, thereby contributing to the overall enhancement of the sector's performance in the Kenyan Real Estate capital markets. These initiatives, in addition to the existing REIT institutions, offer several advantages which include deepening liquidity in the Real Estate sector. As such, they act as a means of accessing additional sources of capital which can be used to finance Real Estate development, and contribute towards the provision of affordable housing.

Moving forward, we also expect the trend of strategic acquisitions to persist, with REITs actively seeking opportunities to broaden and diversify their portfolios, cater to evolving market demands and also set standards in promoting environmental sustainability such as execution of green bonds by Acorn holding. For more information on the REITs sector in Kenya, please see our Kenya's REITs H1'2023 report.

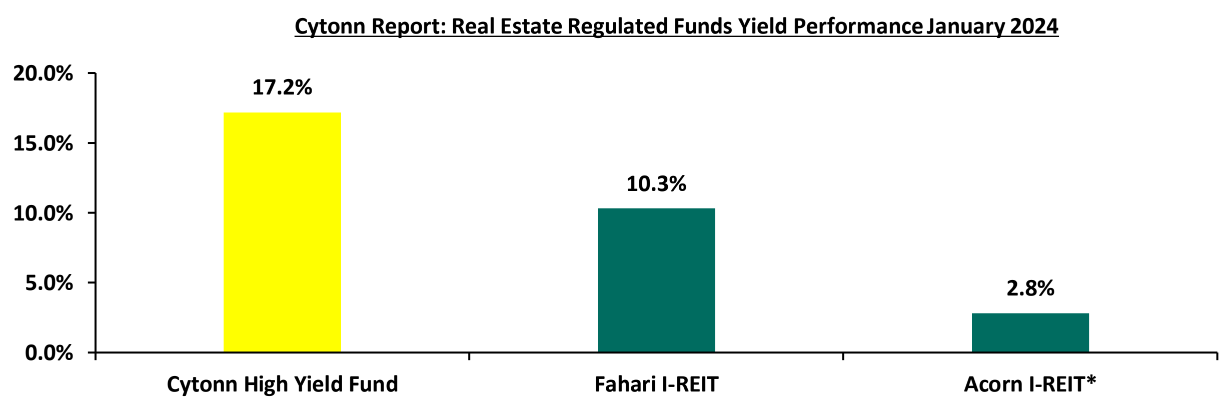
We retain a NEUTRAL outlook for the Kenyan REIT sector, leaning towards the negative. Some of the factors expected will continue hindering the optimal performance of the sector market include; i) low investors' appetite in trading and investing in the market, ii) lengthy registration, licensing, and 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, and, vi) high minimum capital requirements for a Trustee of Kshs 100.0 mn. However, we expect initiatives including; i) the proposed establishment of the Kenya National REIT (KNR), ii) business operational restructuring strategies employed by key industry players such as Fahari I-REIT geared towards achieving business and financial optimization as well as sustainability, and iii) the launch of the Vuka Investment Platform towards the end of 2022 will assist neutralize and mitigate the above challenges, thereby contributing to the overall enhancement of the sector's performance.in the Kenyan Real Estate capital markets.

b. **Cytonn High Yield Fund (CHYF)**

Cytonn High Yield Fund (CHYF) closed the week with an annualized yield of 17.2%, representing a 0.8% points decline from the 18.0% recorded the previous week. The performance represents a 0.8% points decrease from the 18.0% recorded on 1st January 2024, and 1.5% points Inception-to-Date (ITD) increase from the 15.7% yield. The graph below shows Cytonn High Yield Fund's performance from November 2019 to 26th January 2024;



Notably, the CHYF has outperformed other regulated Real Estate funds with an annualized yield of 17.2%, as compared to Fahari I-REIT and Acorn I-REIT with yields of 10.3%, and 2.8% respectively. As such, the higher yields offered by CHYF makes the fund one of the best alternative investment resource in the Real Estate sector. The graph below shows the yield performance of the Regulated Real Estate Funds;



**H1'2023*

Source: Cytonn Research

<u>THE KEY AREAS OF OPPORTUNITIES BY THEME IN REAL ESTATE SECTOR</u>

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 Report: The Key Areas of Opportunities by Theme in Real Estate Sector			
Sector	**Themes**	**Locations**	**FY'2023 Performance**
Residential	High End (Detached)	Karen and Kitisuru	Relatively high annual returns averaging 6.5%, and 6.2%, respectively, compared to the high-end market's average of 5.8%, while the average rental yields stood at 6.6% and 5.1%, respectively, compared to the market average of 5.4% and price appreciations averaging (0.1%) and 1.1%, respectively
	Upper Middle (Detached)	Redhill/Sigona and Ridgeways	Relatively high annual returns averaging 6.3% for Redhill/Sigona and 6.0% for Ridgeways, compared to the Upper-Middle market's average of 5.7%, with price appreciations of 0.9% and (0.2%), respectively, compared to the market average capital appreciation of 0.3%
	Lower Middle (Detached)	Ngong, Syokimau/Mlolongo and Athi River	Relatively high annual returns for Ngong at 7.3%, with Syokimau/Mlolongo and Athi River recording total returns of 7.1% and 6.7%, respectively, compared to the Lower-Middle market's average of 6.1% total returns to investors
	Upper Mid-End (Apartments)	Westlands and Kilimani	Relatively high annual returns averaging 6.5% and 6.2%, respectively in comparison to the Upper Mid-End market's average of 5.8% with relatively high rental yields averaging 5.7% and 5.8%, respectively, while price appreciation came in at 0.8% and 0.4%, respectively
	Lower Mid-End (Suburb Apartments)	Waiyaki Way and South C	Relatively high annual returns averaging 7.5% and 7.2%, respectively, compared to the market's average of 6.6% with relatively high rental yields averaging 5.7% and 5.8%, respectively, while price appreciation came in at 1.8% and 1.4%, respectively
	Lower Mid-End (Satellite Apartments	Athi River, Thingidua, and Ngong	Relatively high annual returns averaging 7.4%, 7.3% and 6.7%, respectively, compared to the Lower Mid-End market's average of 6.5% with relatively high rental yields averaging 5.9%, 5.5% and 5.8%, respectively, while price appreciation came in at 1.5%, 1.8% and 0.9%, respectively
Commercial Office Sector	Grade A Offices	Westlands, Gigiri, and Parklands	They offered high returns with average rental yields at 8.3%, 8.7%, and, 7.7%, respectively, compared to the market average of 7.6%, 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 9.9%, 10.2%, and 9.5% respectively, compared to the market average of 8.3%, 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, Limuru Road, and Kilimani	They recorded average rental yields of 10.2%, 8.2%, and 7.7%, respectively, surpassing the market average of 6.8% in 2023. 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, Rongai**	Increased demand for development evidenced by their high capital appreciations of 12.3%, 11.6% and 9.8% respectively compared to a market average of 8.8% and, increased infrastructure developments enhancing accessibility to areas, as well as their affordability
	Serviced Land	**Ruiru-Juja, Ruai**	Relatively high demand for land for development having recorded capital appreciations of 6.8% and 6.0%, respectively against the serviced average of 5.9% driven by adequate infrastructural developments serving the areas such as the Nairobi Expressway and Thika-Nairobi Superhighway and demand for development land for student housing

Source: Cytonn Research